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Focus: Speculative activity rising for many commodities: We revisit the speculative activity in commodities. Commodities continue to see a rise in the net length of non-commercial activity (as defined by CFTC data). This speculative activity is highly correlated with movements in the trade-weighted dollar.

- The base metals remain under pressure this morning, with yesterday's selling pressure spilling over into the morning session. Concerns over further monetary tightening measures from the Peoples Bank of China continue to weigh on sentiment, while fears over the potential impact that the bad weather in china may have on metals demand are also a factor.
- Gold is still failing at the \$1,135/37 level. There was again good arbitrage related gold selling in China this morning which, combined with the weaker euro, have pushed gold lower.
- Crude oil has come under a bit of pressure this morning, however overall the front month WTI contract is trading sideways around \$81.20 ahead of the US non-farm payroll data.

Commodity price data (7 January 2010)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,340	2,310	2,317	2,278	-75	-1.28%	2,307.00	4	-34.75
Copper	7,625	7,535	7,570	7,471	-125	-1.18%	7,594.00	7	-28.50
Lead	2,620	2,599	2,580	2,525	-80	-0.80%	2,591.00	9	-26.75
Nickel	18,775	18,455	18,500	18,050	-700	-1.70%	18,750.00	-205	-69.00
Tin	17,510	17,500	17,550	17,300	125	-0.06%	17,680.00	180	-71.00
Zinc	2,683	2,607	2,624	2,553	-111	-2.83%	2,634.50	17	-31.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	81.51	81.41	81.56	81.00	-0.10	-0.12%
NYMEX WTI	82.65	82.58	82.84	82.16	-0.08	-0.10%
ICE Gasoil	656.00	657.75	659.25	655.50	-2.50	-0.38%
API2 Q1'10	93.80	96.50	-	-	2.80	2.77%
EUA Dec10	12.45	12.60	-	-	0.15	0.24%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,130.75	1,130.25	1,135.40	1,118.25	1,132.50	-3.30	0/0.4
Silver	-	18.17	18.34	17.77	18.32	0.18	0.5/2.5
Platinum	1,542.00	1,548.00	1,556.00	1,522.00	1,550.00	0.00	3/5
Palladium	423.00	426.00	432.00	420.00	426.00	0.00	0/2

Sources: Standard Bank; LME; BBG



Focus: Speculative activity rising for many commodities

We revisit the recent speculative activity in commodities. Commodities as a whole continue to see a rise in the net length of non-commercial activity (as defined by CFTC data). This speculative activity is highly correlated with movements in the trade-weighted dollar.

We look at the cumulative net long non-commercial position for some futures contracts in the US (contracts included is soybean, wheat, corn, gold, silver, platinum, palladium, copper and WTI).

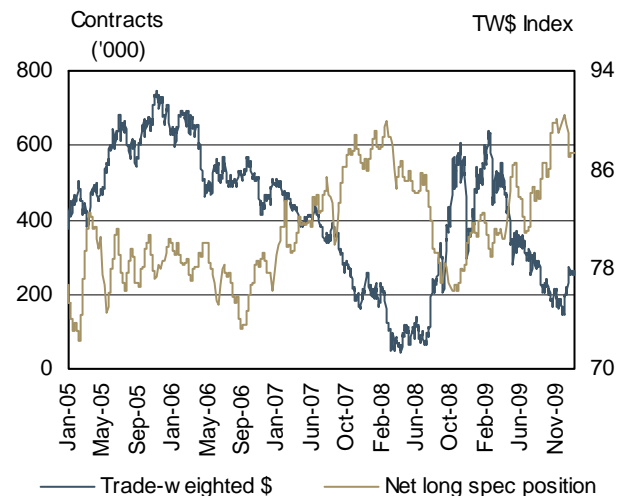
The current cumulative net speculative length for these contracts is at the same level as in May — June 2008, indicating large speculative activity in the commodities market. The only difference now is that some economies are showing signs of recovering. In May 2008, most economies were on the decline.

There is a clear correlation between dollar weakness and a rise in speculative length (especially since 2007). As a result, and should this trend continue, speculative length could last longer in an environment where the dollar weakens on a trade-weighted basis.

The crude oil market, the base metals and even the precious metals markets, remain well stocked in terms of inventories, while many benchmark commodity prices are well above the cost of production. With stockpiles high for many commodities, and with little pressure on margins, from a fundamental perspective, upside should be limited.

This could mean two things going forward: Firstly, commodities will remain partly a dollar play (and therefore remain highly cor-

Net non-commercial position for selected commodities



Sources: CFTC, Global markets Research

related with other financial assets such as equities). We say partly, because, while non-commercial trading activity is high, commercial trading activity remains the largest component in most commodity markets. Secondly, commodity prices could be subject to sizable corrections lower, as more speculative activity means greater volatility.

However, with the global economy starting to show signs of growth, and given low interest rates and ample available liquidity, we would opt to buy on large dips. We expect commodities to increasingly track growth variables rather than the dollar.

By Walter de Wet

Base metals

The base metals remain under pressure this morning, with yesterday's selling pressure spilling over into the morning session. Concerns over further monetary tightening measures from the Peoples Bank of China continue to weigh on sentiment, while fears over the potential impact that the bad weather in china may have on metals demand are also a factor.. Overall however, volumes are thinner this morning across much of the base metals complex, with the market looking towards this afternoon's US Nonfarm Payroll data (expected to show zero change).

Zinc has been the worst performing metal so far this morning, with a 50,000 mt increase in SHFE zinc stocks catching the market off-guard. That said, turnover has been pretty good so far with the price weakness also appearing to attract some buying interest rather than turning into a rout. On the LME, available zinc stocks fell by 2,375 mt today, due primarily to a 3,000 mt jump in cancelled warrants in Johor.

Copper has come under pressure overnight and into the morning, though the metal is attempting to dig its heels in around \$7490, with turnover building up after a slow start. On the physical side of things, premiums for spot copper in bonded warehouse in China remain firm and have been quoted around \$100-\$120, though shanghai physical copper is trading between a \$10 discount to flat to the SHFE January contract.

Aluminium has been very quiet this morning, with volumes on LME Select even lagging behind zinc. After some initial weakness, the metal is trading sideways into the afternoon in a narrow range, with the market apparently on hold until the payroll numbers.

By Leon Westgate

Precious metals

With uncertainty about non-farm payrolls numbers high, we expect little movement ahead of the data.

Gold is still failing at the \$1,135/37 level. There was again good arbitrage related gold selling in China this morning which, combined with the weaker euro, have pushed gold lower. We are seeing good buying interest in gold between \$1,120 and \$1,125. A break below \$1,120 may see gold test \$1,112.

With the weaker euro there was some profit-taking in both platinum and palladium. However both metals remain well supported ahead of the launch of the platinum and palladium ETF's in the US. This morning preliminary statistics from China indicated the country sold more than 13.5m vehicles in 2009 — 44% higher than the 2008 figure. It means that China's auto sales in December was just below 1.3m units — 74% higher than December 2008. We reported on Wednesday that auto sales are recovering strongly (refer to the Focus in Commodities Daily 6 January 2010). These figures confirm the recovery.

The dollar may strengthen on good non-farm payrolls data this afternoon. Should the data be much better-than-expected PGM is likely to benefit. However, gold and silver may push slightly lower. But we do not anticipate a large sell-off in gold.

By Walter de Wet

Energy

Crude oil has come under a bit of pressure this morning, however overall the front month WTI contract is trading sideways around \$81.20 ahead of the US non-farm payroll data. Both WTI and Brent continue to be dominated by technical signals, though the cold weather in the northern hemisphere is lending background support.

The outcome of the non-farm payroll figures and their impact on the wider global markets will be the key factor this afternoon in terms of dictating price direction, with the market likely to remain quiet until the data is announced.

Coal had a very strong day yesterday, with the nearby dates rallying strongly. API2 (CIF ARA) for January 2010 delivery closed \$3.10 higher cents lower at \$96.50, while API4(FOB) for January 2010 delivery closed \$4.00 higher at \$93.00. Coal continues to garner good support from the cold weather sweeping across the northern hemisphere, though prices have eased up a little this morning with the market taking a breather. That said, the cold weather is expected to continue well into next week and perhaps beyond, underpinning prices, while continuing strong demand from China and India also remains a feature of the market.

EUA OTC for December delivery closed at EUR12.60/mtCO₂.

By Leon Westgate

Base metals

Daily LME stock movement (mt)

Metal	Today	Yesterday	In	Out	One day change	YTD change (mt)	Cancelled warrants (mt)	Cancelled warrants (%)	Contract turnover
Aluminium	4,613,400	4,615,400	4,725	6,725	-2,000	-15,500	212,200	4.60	184,848
Copper	510,625	507,475	3,400	250	3,150	8,300	7,725	1.51	128,714
Lead	149,375	149,150	225	-	225	2,875	75	0.05	40,010
Nickel	158,982	158,814	234	66	168	972	930	0.58	35,578
Tin	26,910	26,860	100	50	50	145	525	1.95	6,589
Zinc	490,750	490,100	750	100	650	2,700	6,700	1.37	79,020

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	17,560	17,380	-450
Copper	61,200	60,510	-1,490
Zinc	21,380	21,055	-760

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Jan'10	-	-	-
Copper	Cu Jan'10	343	341.30	-1.40
Zinc				

ZAR metal prices (7 January 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,106	56,310	19,212	139,031	131,097	19,535	7.4150
3-month	17,418	56,817	19,597	139,158	131,957	19,658	7.5404

Energy

Energy futures pricing

	Price Change		Price Change		Price Change		Price Change		Price Change	
	1-month forward	2-month forward	3-month forward	6-month forward	1-year forward					
Sing Gasoil (\$/bbl)	88.21	0.92	89.46	0.10	90.17	-0.04	92.72	0.10	96.74	0.00
Gasoil 0.1% Rdam (\$/mt)	657.75	-2.50	665.00	-2.75	671.50	-2.50	689.00	-2.50	721.25	-3.00
NWE CIF jet (\$/mt)	724.20	-1.50	733.75	-1.25	741.63	-1.96	761.51	0.50	796.73	-1.00
Singapore Kero (\$/bbl)	90.54	-0.54	91.46	-0.45	92.07	-0.59	94.44	-0.26	99.19	-0.10
3.5% Rdam barges (\$/mt)	475.50	3.00	477.50	2.75	478.50	2.50	481.50	2.50	487.50	2.50
1% Fuel Oil FOB (\$/mt)	489.25	4.75	494.25	5.00	497.25	3.75	509.75	4.50	526.25	2.25
Sing FO 380 Cargo (\$/mt)	504.00	2.25	502.50	2.25	502.50	2.25	504.00	2.50	505.00	2.50
Sing FO180 Cargo (\$/mt)	510.50	2.50	508.25	2.50	507.00	2.50	509.00	2.50	505.00	2.50

Thermal coal	Q1-10		Q2-10		Q3-10		Cal 11		Cal 12	
API2 (CIF ARA)	96.50	2.80	96.75	2.80	97.65	2.30	104.80	1.10	110.90	0.70
API4 (FOB RBCT)	93.00	3.70	92.35	3.50	92.35	2.40	96.80	1.70	101.90	0.70

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.29167	0.29333	0.31500	0.38000	0.62000
Silver	0.58667	0.58667	0.59500	0.61167	0.62000
USD Libor	0.23125	0.24125	0.24938	0.41750	0.94813

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	53.62	1,112.59	1,110.18	1,070.43	1,000.11	1,116.00	1,142.00
Silver	55.22	17.51	17.41	17.17	15.48	17.85	18.40
Platinum	62.82	1,503.41	1,469.80	1,372.16	1,279.14	1,525.00	1,575.00
Palladium	68.39	410.55	389.51	338.62	291.78	420.00	433.00

Active Month Future	COMEX GLD Feb'10	COMEX SLV Mar'10	NYMEX PAL Mar'10	NYMEX PLAT Apr'10	DGCX GLD Feb'10	TOCOM GLD Dec'10	CBOT GLD Feb'10
Settlement	1,125.50	18.1600	427.00	1,559.40	1,125.40	3,375.00	1,125.40
Open Interest	514,030	125,183	23,223	33,731	1,609	128,341	2,840
Change in Open Interest	-6,387	208	156	-149	-65	290	182

Date: 8 January 2010

Sources: Standard Bank; LME; Bloomberg

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