

# Commodities

## Commodities: Daily



Investor confidence in PGM still lacking

9 January 2012

**Focus:** Despite investor concerns, we continue to look at platinum palladium from a cost-push perspective rather than demand-pull perspective. From this point of view, we feel that both platinum and palladium are currently too low. While it will be difficult for the metals to rally in the current liquidity-scarce environment, we believe that platinum should be at least \$100 higher (with a ZAR at 8.00 against the dollar) and that palladium should find good support around \$600.

- The base metals market is quiet, and volumes subdued. A strong dollar continues to be a drag on higher commodity prices in general, and we expect this to be the case at least until end of January.
- After better-than-expected non-farm payrolls data on Friday, interest in precious metals as a safe-haven subsided on bolstered confidence in the strength of the economy. However, this optimism has failed to translate into significant risk-taking in Asian trade early this morning, which saw precious metals win back some of Friday's losses. However, price gains failed to garner much momentum.
- Oil prices were mixed last Friday despite bullish US employment data and ongoing geopolitical tensions in the Middle East. WTI fell 25c/bbl, while Brent gained 32c/bbl. The physical market remains fairly tight.

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### Commodity price data (6 January 2012)

#### Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,047	2,069	2,069	2,035	22	1.07%	2,020.00	17	-22.25
Copper	7,560	7,580	7,627	7,480	20	0.26%	7,515.00	44	-10.75
Lead	2,015	1,959	2,023	1,955	-56	-2.78%	1,975.50	-40	-24.75
Nickel	18,700	18,750	18,924	18,490	50	0.27%	18,680.00	90	1.00
Tin	19,800	19,850	20,000	19,600	50	0.25%	19,750.00	335	-49.00
Zinc	1,845	1,853	1,861	1,826	8	0.43%	1,827.50	-8	-13.75

#### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	113.42	112.99	113.88	112.84	-0.07	-0.06%
NYMEX WTI	101.92	101.04	102.15	100.90	-0.52	-0.51%
ICE Gasoil	969.00	963.50	969.00	963.00	2.75	0.29%
API2 Q1'12	110.00	109.90	-	-	-0.10	-0.09%

#### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,621.00	1,616.50	1,631.10	1,609.50	1,616.30	-3.20	0.6/0.9
Silver	-	28.73	29.47	28.65	28.71	-0.59	-5.0/-3.0
Platinum	1,417.00	1,410.00	1,415.00	1,404.00	1,404.00	-6.00	1.5/3.5
Palladium	633.00	632.00	639.00	612.00	614.00	-24.00	0.0/1.0

Sources: Standard Bank; LME; BBG

## Focus: Investor confidence in PGM still lacking

Ending three weeks of decline (112.2k oz in total), net speculative length for NYMEX platinum saw a strong increase of 45.7k oz this past week. Encouragingly, the improvement was attributable to both a healthy increase in long positions (26.8) and an unwinding of shorts (18.9). Nevertheless, total short positions are still worryingly high, at 498.3k oz (just off last year's high of 517.2k oz posted last week) and, until we see a more marked improvement, we would remain sceptical that the speculative market has become more supportive of the platinum market.

ETF holdings of platinum increased only 4.7k oz this past week, to bring the total to 1,293.3k oz — still not far from last year's low of 1,242.9k oz. The modest nature of this increase underscores the scepticism with which investors continue to view the platinum market.

After two weeks of modest increases (8.7k oz in total), net speculative length for NYMEX palladium fell a marked 72.9k oz. The deterioration was equally the result of a 37.5k oz decline in speculative longs and a 35.4k oz increase in shorts. The latest change has resulted in net speculative length reaching a new 12-month low of 530.2k oz. Total speculative shorts remain elevated, at 442.0k oz (2011 average is 292.1k oz) and speculative long positions are at a 12-month low (972.2k oz). All this signals a market that has failed to inspire investor confidence as we move into 2012. Consequently, we would not expect much support from investment demand over the coming weeks.

Further highlighting the lack of investor confidence is the

## Base metals

The base metals market is quiet, and volumes subdued. A strong dollar continues to be a drag on higher commodity prices in general, and we expect this to be the case at least until end of January. German industrial production for November contracted 0.6m/m, against expectations of a 0.5% contraction. This added downward pressure on the euro.

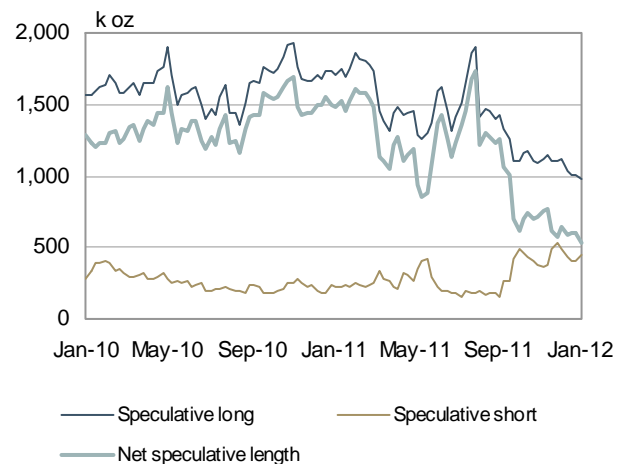
Apart from the influence of currency movements on commodity prices, the latest data out of China indicates that access to credit may be improving marginally in the country. In December CNY640.5bn in new loans were extended, against CNY562.2bn in November. For 2011 as a whole, CNY7,483bn was extended in 2011 — 6% less than in 2010.

A rise in New Loans may provide some support to metal prices, but the marginal rise in the December data should be put in context. The large amount of liquidity, and easy monetary policy in 2009 and 2010 was a key driver of commodity demand in China during those two years. In order for 2012 to see the same amount of loans extended as in 2010, the average monthly loans extended should be \$660bn. To match the amount of loans extended in 2009, the average loans should be CNY798bn.

Looking at the futures market positioning, the latest CFTC data shows COMEX copper open interest managed a moderate increase this past week, with a 19.7 tonnes added. Along with the improvement in open interest, net speculative length also rose, gaining 23.0 tonnes. This increase was mostly as a result of 12.2 tonnes of speculative shorts being unwound, with the 10.8 tonnes added to long positions further bolstering the net position. Currently at -17.9 tonnes, net speculative length remains in negative territory. Confidence is still lacking, with speculative longs still below par — at 336.0 tonnes, compared to an average 440.0 tonnes in 2011.

Elsewhere, the other base metals are very range-bound. With the news that Alcoa plans to shut down up to 12% of its production (or 540K mt), combined with tensions over the Strait of Hormuz supporting oil prices, we expect aluminium to find better support than the rest of the base metals basket in coming days.

## NYMEX palladium speculative longs and shorts



Sources: NYMEX; Standard Bank Research

2.2k oz shed from ETF holdings over the past week. ETF holdings of palladium now stand at 1,654.2k oz — down 590.9k oz from the same time last year.

Despite investor concerns, we continue to look at platinum palladium from a cost-push perspective rather than demand-pull perspective. From this point of view, we feel that both platinum and palladium are currently too low. While it will be difficult for the metals to rally in the current liquidity-scarce environment, we believe that platinum should be at least \$100 higher (with a ZAR at 8.00 against the dollar) and that palladium should find good support around \$600.

By Marc Ground

By Walter de Wet

## Precious metals

After better-than-expected non-farm payrolls data on Friday, interest in precious metals as a safe-haven subsided on bolstered confidence in the strength of the economy. However, this optimism has failed to translate into significant risk-taking in Asian trade early this morning, which saw precious metals win back some of Friday's losses. However, price gains failed to garner much momentum, partly as a result of thin trading volumes due to Japanese markets being closed for a public holiday.

This morning, we've seen the complex lose some ground again, although with focus once again on the Eurozone debt crisis ahead of a meeting between German and French leaders later today, we could see some renewed safe-haven interest. In addition, tensions surrounding Iran should keep investors sufficiently nervous to warrant some demand for precious metals as a store of value.

Looking at the latest CFTC data, net speculative length for COMEX gold eased off marginally, with 0.4 tonnes shed. The slight deterioration brings the net position to a 12-month low of 436.6 tonnes. Although only a modest decrease this past week, the sustained deterioration (this marks the fourth week of decline) in the net position is a signal that the speculative market remains wary of gold's prospects, which might explain the failure of gold to sustain upward momentum.

Net speculative for COMEX silver length saw a substantial increase into the New Year, with 407.2 tonnes added — the largest increase since August 2011. While this past week's improvement is encouraging, market positioning still appears weak, with net speculative length at 2,179.9 tonnes (the 2011 average is 4,538.8 tonnes) and short positions totalling 2,287.2 tonnes (1,140.5 tonnes was the average last year). The lack of investor confidence in the silver market is more readily apparent in ETF holdings which show that ETFs were net sellers of silver for the fourth consecutive week — 88.5 tonnes were shed last week.

Gold support is at \$1,606 and \$1,596. Resistance is \$1,630 and \$1,642. Silver support is at \$28.52 and \$28.13, resistance is at \$29.41 and \$29.91.

Platinum support is at \$1,391 and \$1,383, resistance is at \$1,416 and \$1,431. Palladium support is at \$603 and resistance at \$635.

**By Marc Ground**

## Energy

Oil prices were mixed last Friday despite bullish US employment data and ongoing geopolitical tensions in the Middle East. WTI fell 25c/bbl, while Brent gained 32c/bbl. Meanwhile, oil products made bigger gains amid the uncertainty future of Petroplus, the largest independent oil refiner in Europe. The scale-back of crude purchase from Petroplus has appeared also weighed on the term structure of Brent. In addition, the temporary boost to the Brent market from the arbitrage to Asia is also waning. Nevertheless, the physical market remains fairly tight.

Net for last week, front-month WTI and Brent rose \$2.73/bbl and \$5.68/bbl respectively, driven by geopolitical tensions and positive US economic data. A weak set of US oil inventory data were largely ignored. But oil was held back to some extent by an increasingly soft euro. Brent outperformed WTI as the market expects the spread between WTI and Brent to widen when the major commodity indices switch a significant portion of WTI holding into Brent this week.

The latest CFTC report shows that money managers raised their net length in WTI crude by 3.6% w/w (on a futures and options combined basis). Besides crude, money managers also significantly increased their net long positions in heating oil and RBOB gasoline, as they expect product market to tighten faster than crude. Commercial hedgers' net short positions fell 5.6%, as consumer long-hedging grew faster than producer short-hedging. Meanwhile, swap dealers are aggressively shorting WTI, while holding long positions in Brent, which reflects the anticipated WTI/Brent switch by commodity indices.

Looking ahead, the ECB is likely to cut euro's benchmark rate further this Thursday, which should induce further weakness to the signal currency. The Franco-German summit today is unlikely to yield anything substantial regarding the Eurozone debt situation. At the moment, the only significant bearish factor for the oil market is a declining euro. Physical oil market remained tight. Although the shutdown of three refineries by Petroplus has seen Brent structure softening, the rather strong refining margins will prompt other refineries to raise throughput to plug the gap.

**By James Zhang**

## 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	4,971,075	4,975,600	0	4,525	-4,525	675	744,925	14.99	201,083
Copper	366,900	368,125	600	1,825	-1,225	-4,000	39,600	10.79	155,780
Lead	350,875	349,775	2,100	1,000	1,100	-2,200	23,350	6.65	52,778
Nickel	89,838	89,838	0	0	0	-210	2,472	2.75	32,461
Tin	11,330	11,335	0	5	-5	-860	1,365	12.05	5,191
Zinc	819,200	820,075	150	1,025	-875	-2,500	12,050	1.47	123,594

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	15,925	15,920	-5
Copper	55,670	55,350	-540
Zinc	14,700	14,695	0

### COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'12	-	-	-
Copper	Cu Mar'12	344	341.65	-1.85
Zinc				

### ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,477	61,300	16,114	152,373	161,101	14,907	8.1570
3-month	17,112	62,690	16,202	155,072	164,169	15,325	8.2705

## Energy

Energy futures pricing	Price	Change	Price	Change	Price	Change	Price	Change	Price	Change
	1 month		2 month		3 month		6 month		1 year	
Sing Gasoil (\$/bbl)	128.48	-0.37	127.71	-0.47	127.29	-0.44	126.49	-0.42	-	-
Gasoil 0.1% Rdam (\$/mt)	963.50	2.75	964.50	3.75	962.00	4.00	953.50	4.50	948.75	4.50
NWE CIF jet (\$/mt)	1,024.87	-0.09	1,029.55	-1.45	1,033.82	-1.95	1,033.63	-2.20	1,031.26	-1.67
Singapore Kero (\$/bbl)	127.53	-0.32	127.86	-0.47	128.02	-0.49	127.06	-0.39	126.45	-0.32
3.5% Rdam barges (\$/mt)	656.75	-3.25	643.50	-3.50	637.25	-4.25	625.00	-5.25	602.75	-5.75
1% Fuel Oil FOB (\$/mt)	685.75	-4.25	676.75	-4.00	671.75	-3.75	659.50	-6.75		
Sing FO180 Cargo (\$/mt)	704.25	-5.75	687.25	-4.50	675.00	-5.25	656.00	-6.50		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	109.90	-0.10	110.15	-0.10	111.60
API4 (FOB RBCT)	106.40	-0.15	106.70	-0.30	107.85

## Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.52960	0.55800	0.58300	0.63740	0.67400
Silver	0.03000	0.00200	0.02000	0.09833	0.15167
USD Libor	0.29630	0.42820	0.58150	0.81200	1.13035

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	45.33	1,589.14	1,595.54	1,706.67	1,634.52	1,606.00	1,630.00
Silver	42.89	28.49	28.93	33.68	36.18	28.52	29.41
Platinum	38.90	1,407.28	1,424.66	1,601.42	1,690.54	1,391.00	1,416.00
Palladium	45.73	641.67	639.67	657.67	712.18	603.00	635.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'12	Mar'12	Apr'12	Apr'12	Feb'12	Dec'12	Feb'12
Settlement	1,611.70	28.6750	610.95	1,408.20	1,610.50	4,013.00	1,617.30
Open Interest	420,380	106,471	17,431	42,507	6,139	124,965	1,722
Change in Open Interest	-841	783	-184	62	0	2,108	-9

Sources: Standard Bank; LME; Bloomberg

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