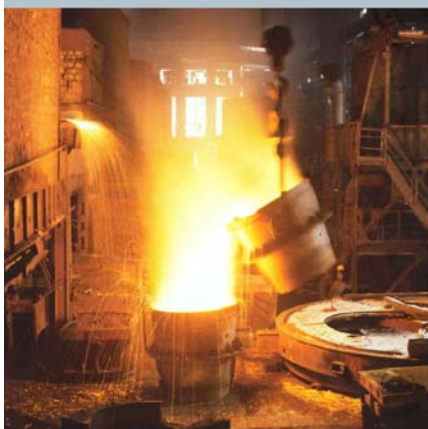


12 January 2010



### Focus: Aluminium inventories - activity building up?

The past few weeks have seen LME cancelled warrants for aluminium start to build up strongly, nearly doubling since the start of December to stand at 244,700 mt. Cancelled warrants, measured as a percentage of the total LME aluminium inventory currently stand at 5.3%, the highest level since October 2007.

- Gold failed to capitalise on the rally and failed to break above \$1,160 yesterday. The euro is trading slightly weaker this morning, providing support to the dollar. Weakness comes from rising concern about a possible Greece default with the Greece CDS rising more than 20bps this morning towards 290bps.
- The WTI front month contract yesterday failed to consolidate above the \$83 level. With some of the cold weather easing we could see crude oil break below \$80 again should tomorrow's DOE report be bearish.
- The base metals have all come under pressure heading into the early afternoon, with selling activity emerging across much of the complex. Initially the metals made slow start after the Chinese, against expectations, had a very quiet overnight session. The lack of Chinese activity follows a poor close yesterday for much of the complex and reports that the Peoples Bank of China will drain further liquidity from the money markets - via bond repurchase agreements.

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### Commodity price data (11 January 2010)

#### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,355	2,331	2,344	2,304	50	-1.03%	2,320.50	59	-34.75
Copper	7,668	7,568	7,617	7,531	103	-1.30%	7,685.00	239	-28.00
Lead	2,595	2,532	2,545	2,485	0	-2.44%	2,576.00	52	-25.50
Nickel	18,350	17,895	18,200	17,831	-35	-2.48%	18,300.00	175	-71.00
Tin	17,775	17,925	18,350	17,950	560	0.84%	17,825.00	410	-75.00
Zinc	2,594	2,574	2,595	2,540	52	-0.77%	2,579.00	50	-32.25

#### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	80.55	80.73	80.86	80.08	-0.24	-0.30%
NYMEX WTI	82.22	82.19	82.34	81.59	-0.33	-0.40%
ICE Gasoil	654.00	657.00	657.00	652.75	0.00	0.00%
API2 Q1'10	67.80	66.90	-	-	-0.90	-1.35%
EUA Dec10	12.61	12.58	-	-	-25.19	-0.24%

#### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,158.75	1,153.00	1,161.90	1,149.40	1,151.00	12.50	0/0.4
Silver	-	18.66	18.90	18.65	18.63	0.21	0.5/2.5
Platinum	1,613.00	1,593.00	1,593.00	1,590.00	1,589.00	24.00	3/5
Palladium	435.00	429.00	433.00	429.00	431.00	8.00	0/2

Sources: Standard Bank; LME; BBG



### Focus: Aluminium inventories - activity building up?

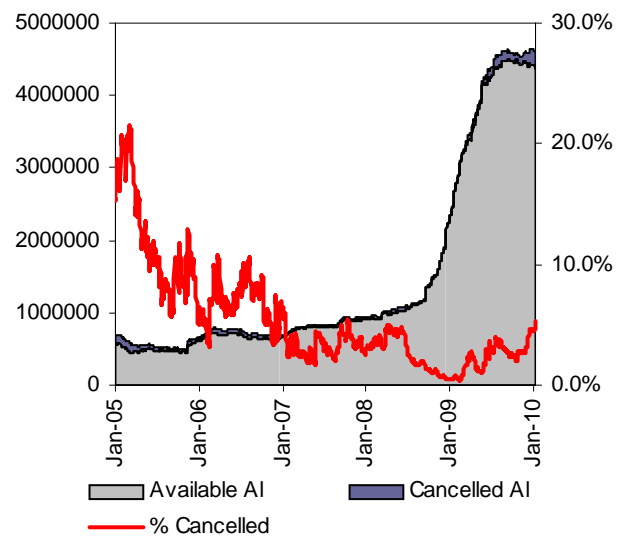
The past few weeks have seen LME cancelled warrants for aluminium start to build up strongly, nearly doubling since the start of December to stand at 244,700 mt. Cancelled warrants, measured as a percentage of the total LME aluminium inventory currently stand at 5.3%, the highest level since October 2007.

There are big regional differences in activity, with the main locations for the increase in cancelled warrants being the USA and Europe, climbing 60,000 mt and 61,725 mt respectively since the start of December. Cancelled warrants in the USA now represent 7.4% of the total 2 Mt held in US warehouses, while cancelled warrants in Europe account for 6.2% of the 1.5 Mt held there. In contrast, cancelled warrants represent only 0.36% of the 1.1Mt or so of material held in Asian warehouses.

While cancelled warrants have increased sharply, there is nevertheless still in excess of 4.3 Mt of available material. In spite of this, physical premiums also remain at elevated levels, with the Midwest aluminium premium currently trading at a 3½ year high of \$125-\$135/mt compared to \$120-\$130 in mid December.

Therefore, although there does appear to be an improvement in physical demand, it also appears that the overall availability of material still remains tight, with metal tied up in warehousing deals continuing to cloud the wider demand picture. The impact

LME Aluminium inventories vs. cancelled warrants (%)



Sources: LME, Standard Bank

of material being tightly held is to exacerbate physical premiums. This pattern will likely continue to be the case while money remains cheap and while real demand remains subdued.

By Leon Westgate

### Base metals

The base metals have all come under pressure heading into the early afternoon, with selling activity emerging across much of the complex. Initially the metals made slow start after the Chinese, against expectations, had a very quiet overnight session. The lack of Chinese activity follows a report that the Peoples Bank of China will drain further liquidity from the money markets - via bond repurchase agreements - while the poor close yesterday for many of the metals may have seen participants wait to see if there will be any further price weakness to come.

Volumes have built up strongly heading into the afternoon, particularly for the likes of copper and zinc, with the base metals attempting to dig their heels. Our back of the envelope calculations suggest that for copper at least, the arbitrage window is open and that the Chinese should come into the market as buyers. Whether that is the case, or whether the SHFE contract falls back in-line with the LME contract remains to be seen. Either way this afternoon's closing prices will be closely watched across the base metals complex.

In other news, reports suggesting that Chinese power stations are running low on coal supplies, following the weather-related disruption to the rail network, are starting to emerge, with Bloomberg reporting that up to 11% of Chinese power generators may be forced to shut. If power is constrained over the coming weeks, aluminium smelters may indeed have to close some capacity. However, after the last weather-related stoppages in 2008, where there were several uncontrolled shutdowns, it seems likely that any closures this year will be better managed. Consequently, although production may take a small hit, it will also ramp up much more quickly once the power situation normalises.

By Leon Westgate

## Precious metals

Gold failed to capitalise on the recent rally when it could not break above \$1,160 yesterday. The euro is trading weaker this morning, providing support to the dollar. Weakness comes from rising concern about a possible Greece default (with the Greece CDS rising more than 20bps towards 290bps). News that China is raising the reserve requirement for banks to drain liquidity from their market is adding downward pressure to gold.

However, uncertainty around the health of major currencies in general should see gold avoid a major sell-off. We also expect physical demand to pick up on price dips in gold. Key support for gold is at \$1,142 and then \$1,130. The metal will have to break above \$1,158—\$1,160 where after it may test \$1,170.

While gold is pushing lower, silver remains well supported around the \$18.50 level. This comes despite the gold and copper coming under selling pressure. Silver support is at \$18.35 and \$18.20, while resistance is at \$18.80 and \$19.10.

Both platinum and palladium is trading higher once again. Platinum raced past \$1,600 to touch \$1,627. Palladium traded as high as \$443. Both metals are defying any currency moves. However, both metals are starting to look overbought and some consolidation may lie ahead. Platinum's RSI is at 84. PGM's have benefited from rising risk appetite since the start of the month. Should we see a sharp rise in risk aversion platinum and palladium may be the biggest losers in the precious metals complex.

By Walter de Wet

## Energy

The WTI front month contract yesterday failed to consolidate above the \$83 level. With some of the cold weather easing we could see crude oil break below \$80 again should tomorrow's DOE report be bearish.

Last week's DOE report showed that US crude inventories increased +1.3 million bbl to 327.3 million bbl in the week ended 1 January—above average for the time of year. Gasoline stocks were up +3.7m bbls to 219.7m bbls, while distillate fuel inventories showed a -300k bbls draw (to close at 159m bbls) - far less expectations of a -1.9m bbls draw based on the cold weather that had blanketed the US. In total, US oil stocks had a draw of 2.2m bbls, but the main products (crude, heating oil, gasoline, and jet fuel) had an overall build of 4.4m bbls. The good news in the report was that utilization levels were back below 80%.

Expectations for tomorrow's DOE report are for another build in crude oil and gasoline inventories while distillates should show a decline of around 1m bbls.

Ahead of the DOE data, combined with a weak euro and concerns about China tightening liquidity in their domestic market, should make it hard for crude to rally much above \$82.00. WTI front month support is at \$81.60 and \$81.50, while resistance lies at \$82.11 and \$82.60.

Thermal coal prices are coming off their recent highs as an end to the cold weather are increasingly being priced into the market. API2 for delivery in January closed \$3.05 lower at \$91.05. However there were reports that China is experiencing coal shortages amid the recent cold spell. As a result we do not expect a major decline in coal prices in coming days.

By Walter de Wet

## 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	4,604,225	4,607,900	1,550	5,225	-3,675	-24,675	244,700	5.31	208,945
Copper	517,175	515,200	3,275	1,300	1,975	14,850	9,325	1.80	111,454
Lead	150,150	150,100	50	-	50	3,650	75	0.05	22,318
Nickel	159,726	159,792	-	66	-66	1,716	1,314	0.82	22,246
Tin	26,865	26,850	50	35	15	100	490	1.82	7,697
Zinc	489,275	491,325	-	2,050	-2,050	1,225	4,775	0.98	74,914

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	18,000	17,990	185	Ali Jan'10	-	-	-	-
Copper	61,980	61,490	-480	Cu Jan'10	344	343.60	-0.50	-0.15%
Zinc	21,410	21,145	-265					

### ZAR metal prices (11 January 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,972	56,208	18,841	133,846	130,372	18,863	7.3140
3-month	17,348	56,322	18,843	133,176	133,400	19,156	7.4421

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### 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)	88.78	0.85	88.92	-0.04	89.68	0.04	91.86	-0.23	95.91	-0.06
Gasoil 0.1% Rdam (\$/mt)	657.00	0.00	663.25	-0.75	668.75	-1.00	685.50	-0.75	713.25	-5.75
NWE CIF jet (\$/mt)	720.96	0.13	729.08	-0.42	736.84	-0.38	756.09	-0.75	790.67	-0.63
Singapore Kero (\$/bbl)	90.83	0.93	90.97	-0.04	91.63	0.04	93.63	-0.24	98.31	-0.06
3.5% Rdam barges (\$/mt)	474.50	1.00	476.25	1.00	477.50	1.25	480.75	1.50	486.75	1.50
1% Fuel Oil FOB (\$/mt)	491.50	4.50	494.75	2.75	498.00	3.00	509.25	1.50	525.00	0.75
Sing FO 380 Cargo (\$/mt)	501.50	0.50	500.75	0.75	500.75	0.75	502.75	1.00	503.75	-1.25
Sing FO180 Cargo (\$/mt)	507.75	0.25	505.75	0.50	505.25	0.75	507.50	0.75	503.75	-1.25

Thermal coal	Q1-10		Q2-10		Q3-10		Cal 11		Cal 12	
API2 (CIF ARA)	94.35	-2.15	94.85	-1.90	95.75	-1.90	103.10	-1.70	108.90	-2.00
API4 (FOB RBCT)	90.70	-2.30	90.35	-2.00	90.25	-2.10	95.10	-1.70	100.15	-1.25

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.28600	0.29800	0.31800	0.38000	0.58400
Silver	0.56400	0.56400	0.58400	0.59400	0.60400
USD Libor	0.23313	0.24250	0.25125	0.40375	0.91563

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.72	1,123.86	1,113.43	1,074.74	1,002.94	1,130.00	1,160.00
Silver	58.33	17.81	17.54	17.26	15.55	18.50	19.40
Platinum	68.01	1,532.61	1,486.70	1,379.74	1,283.76	1,525.00	1,600.00
Palladium	71.15	420.31	396.69	341.65	293.91	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	1,152.60	18,6850	437.40	1,592.50	1,152.70	3,409.00	1,152.90
Open Interest	513,344	127,372	23,801	34,215	1,497	115,656	2,465
Change in Open Interest	6,226	-276	-571	-466	0	8,049	369

Date: 12 January 2010

Sources: Standard Bank; LME; Bloomberg

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