

Commodities

Commodities: Daily



Focus: Gold struggles to gain traction

14 January 2011

Focus: Gold struggles to gain traction — Gold is failing to make new highs despite fairly strong physical demand in India and Asia. Investment demand is lacklustre. While we still see gold reaching \$1,500 in H1:2011, short-term the metal looks set to struggle.

- After failing to break higher on Thursday morning, the base metals drifted sideways to lower during Thursday afternoon, with that pattern continuing into Friday morning. Weaker equity markets again appear to be setting the tone for the day, with the metals ignoring gyrations in the dollar.
- The dollar has weakened by some margin against the euro since yesterday morning - WTI has largely ignored this move. Upside momentum may be fading after the strong rally mtd in crude. Should the dollar find strength, we may witness some long liquidation and some profit-taking.
- Gold support is at \$1,367 and \$1,356. Resistance is at \$1,391 and \$1,404. Silver support is at \$28.37 and \$27.82, resistance is at \$29.64 and \$30.33.

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Commodity price data (13 January 2011)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,495	2,485	2,495	2,480	-23	-0.40%	2,479.50	-5	-18.75
Copper	9,620	9,615	9,607	9,551	-65	-0.05%	9,622.00	-3	7.00
Lead	2,677	2,640	2,650	2,632	-26	-1.38%	2,699.00	37	24.00
Nickel	25,750	25,555	25,695	25,350	-250	-0.76%	25,725.00	660	-23.25
Tin	26,850	26,850	26,761	26,725	-150	0.00%	26,925.00	130	39.00
Zinc	2,458	2,463	2,460	2,440	-17	0.18%	2,448.50	14	-10.50

Energy

	Open	Close	High	Low	day/day	Change (%)	ATM 1m vol	ATM 6m vol	ATM 1y vol
ICE Brent	98.44	98.36	98.44	98.30	0.30	0.31%	-	-	-
NYMEX WTI	90.99	91.12	91.15	90.88	-0.28	-0.31%	-	-	-
ICE Gasoil	809.00	809.00	810.00	808.00	-1.50	-0.19%	-	-	-
API2 Q1'11	125.70	125.00	-	-	-0.70	-0.56%	-	-	-
ICE EUA Spot	13.90	13.97	-	-	0.07	0.50%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,380.75	1,381.50	1,393.10	1,379.80	1,387.00	1.00	-0.5/-0.1
Silver	-	28.95	29.78	29.23	29.26	-0.26	0.0/2.0
Platinum	1,798.00	1,824.00	1,830.00	1,796.00	1,810.00	12.00	0.0/2.0
Palladium	815.00	819.00	822.00	807.00	810.00	5.00	-1.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Gold struggles to gain traction

Gold is failing to make new highs despite fairly strong physical demand in India and Asia. Investment demand is lacklustre. While we still see gold reaching \$1,500 in H1:2011, short-term the metal looks set to struggle.

Empirically, we find the long-term causal drivers of gold are global liquidity and real interest rates (see Commodities Insight: Global liquidity and real interest rates support gold of 11Aug'10). We define global liquidity as the Fed's balance sheet plus global foreign reserve holdings (excluding gold). Gold trades around the long-term trend these two variables provide. All other factors we view are short-term drivers.

Lately, gold has diverged by some margin from the long-term trend provided by these causal drivers. Divergence by gold from this long-term trend is not unusual, but the speed, size and timing of its divergence coincide with a period in which risky assets are finding support.

We find a gold price closer to \$1,340 to be consistent with current global liquidity levels (refer to figure). That is, we believe gold has moved ahead of its casual drivers. This, combined with the fact that post-China's New Year (which is at the beginning of February) physical demand may tail off, short-term upside for the metal may be capped.

We see strong technical support for the metal between \$1,340 and \$1,347. At the same time global liquidity is set to grow further this year which should push gold eventually higher. We further believe

Base metals

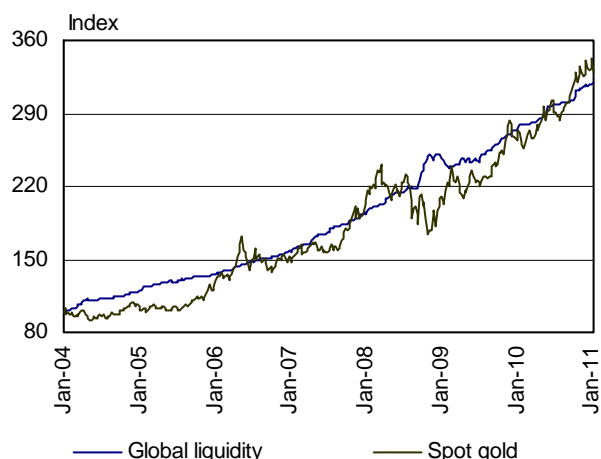
After failing to break higher on Thursday morning, the base metals drifted sideways to lower during Thursday afternoon, with that pattern continuing into Friday morning. Weaker equity markets again appear to be setting the tone for the day, with the metals ignoring gyrations in the dollar.

China has moved to increase the reserve ratio requirements for banks yet again, with another 50bp increase coming into effect from January 20th as the country attempts to tackle inflation. This is the fourth such move since October, but has had only a limited impact on metal prices this morning. While inflation is a serious concern, its worth noting that the ability of the Chinese government to impose this level of reserve ratio increase, in conjunction with two interest rate rises over the same period, also underscores just how strong the Chinese economy is.

Copper failed to push above \$9,700 on Thursday, with the metal instead drifting sideways to lower. Copper has continued to drift lower during Friday morning, with thin turnover again a feature of the market. Shanghai copper stocks posted a small 481 mt gain, however, they now stand at the highest level in 7 months or so. With the physical market in China looking increasingly moribund on the run up to the Chinese New Year, the inventory figures are yet another signal that the Chinese are out of the game, albeit perhaps only temporarily. The LME stocks situation is a little better, with inventories continuing to decline following the pick-up seen in December, and no sign yet that the ongoing lack of arbitrage in China is resulting in material being diverted into LME warehouses in the region.

Meanwhile, the warnings about refined tin production have started early this year, with PT Timah, the world's largest tin supplier, already noting that 2011 production may well continue to struggle. The company's initial estimates suggest refined output will be in the region of 37,000 to 40,000 mt, compared to 2010 output of 40,000 mt. Given that the La Nina weather anomaly was responsible for much of the weather-related production problems last year, the figures are perhaps on the conservative side. They nevertheless highlight the lack of significant new capacity coming on-stream.

Gold vs global liquidity



Source: Standard Bank

in 2011 low policy rates are here to stay despite the risk of higher inflation – as a result short-term real interest rates are set to remain very low. Low real interest rates are supportive of gold.

While we remain bullish on gold into 2011, we expect the metal to average only \$1,370 in Q1:11 but move higher in Q2:11. We expect gold to average \$1,430 this year.

By Walter de Wet

By Leon Westgate

Energy

Front month WTI lost \$0.46/bbl to close at \$91.40/bbl, while Brent was 6c/bbl lower to settle at \$98.06/bbl. Nymex RBOB cracks continued to weaken, but at a slower pace, and ended the day 26c/bbl lower. Nymex Heating Oil and ICE Gasoil cracks remained broadly flat. The term structures for WTI and Brent also remained largely unchanged.

The front month WTI/Brent spread continues to slide, declining another 74c/bbl to settle at a new recent low of -\$7/bbl yesterday. The strength in front month Brent is partly due to the backwardation between the first two contract months. The February Brent future contract closed 77c/bbl higher than the March contract, which is more widely traded now as the contract is scheduled to roll today.

The Trans-Alaska pipeline is scheduled to close at end of this week to complete the repair for the leak. Alaska's Department of Revenue reported that Alaska oil production went up from 48,717 bpd on Tuesday to 358,424 bpd on Wednesday. Meanwhile, Alaska's crude oil stocks rose by 13% to 2.45m bbl from Tuesday to Wednesday. Bar any surprises with the repair and restart of the pipeline, the market will soon put this behind, thanks to abundant oil in storage in the US.

In Europe, the weekly Amsterdam-Rotterdam-Antwerp product inventory show little surprise. Gasoil inventories decreased by 1%, but started the year with a historical seasonal high. Gasoline stocks rose by 6% to a 10 week high. Both could put further pressure to European refining margins.

The dollar has weakened by some margin against the euro since yesterday morning - WTI has largely ignored this move. Upside momentum may be fading after the strong rally mtd in crude. Should the dollar find strength, we may witness some long liquidation and some profit-taking.

By James Zhang

Precious metals

After relatively lacklustre trade, worse-than-expected US jobless claims figures gave precious metals a shot in the arm. Initial jobless claims rose to 445k, the highest since October last year, once again fuelling concerns over the strength of the US recovery. This prompted a weakening of the dollar, aided by eased concerns over the Eurozone debt situation after successful Spanish and Italian bond auctions relieved pressure on the euro.

However, since then precious metals have come off sharply, with gold and silver the hardest hit. Once again speculation has surfaced that Chinese authorities will tighten money supply further, which has shaken investor confidence in commodities. Profit taking after the past week's good performance could also be contributing to the fall in prices.

Gold support is at \$1,367 and \$1,356. Resistance is at \$1,391 and \$1,404. Silver support is at \$28.37 and \$27.82, resistance is at \$29.64 and \$30.33.

Amongst the PGM's platinum has been left fairly unscathed, most likely still receiving support from investors that view it as an underperformer in the precious metal group. In addition, supply concerns in SA are also helping to limit the drop in prices. Given palladium's exposure to the Chinese auto sector, the threat of Chinese monetary tightening and a consequent slowdown in Chinese economic expansion is weighing heavily on prices.

Platinum support is at \$1,792 and \$1,766, resistance is at \$1,837 and \$1,856. Palladium support is at \$799 and resistance at \$820.

By Marc Ground

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	4,434,950	4,408,350	31,500	4,900	26,600	157,900	161,150	3.63	182,841
Copper	377,350	378,175	0	825	-825	-200	33,550	8.89	133,505
Lead	211,425	211,975	0	550	-550	3,150	7,450	3.52	38,837
Nickel	136,662	135,096	1,656	90	1,566	990	4,332	3.17	36,050
Tin	17,170	17,115	250	195	55	895	410	2.39	9,183
Zinc	709,825	710,025	0	200	-200	8,400	1,400	0.20	71,535

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Chnge		Open	Close	Change	Change (%)
Aluminium	16,850	16,810	-80	Ali Mar'11	-	-	-	-
Copper	70,820	71,020	-370	Cu Mar'11	438	435.90	-1.80	-0.41%
Zinc	19,160	19,185	-100					

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,960	65,814	18,461	175,959	184,167	16,748	6.8400
3-month	17,222	66,637	18,297	177,109	186,084	17,066	6.9305

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)	108.06	-0.09	108.99	-0.47	109.60	-0.01	110.64	0.06	112.39	0.02
Gasoil 0.1% Rdam (\$/mt)	809.00	-1.50	813.75	-1.00	817.25	-0.25	825.25	0.25	838.00	-0.25
NWE CIF jet (\$/mt)	880.34	-0.68	891.26	-0.68	894.49	-0.33	902.30	0.25	915.78	-0.17
Singapore Kero (\$/bbl)	109.55	-0.03	110.69	-0.57	111.30	-0.06	112.29	0.01	114.20	-0.09
3.5% Rdam barges (\$/mt)	506.89	0.25	510.08	0.29	510.29	0.60	511.73	-1.09	517.48	-2.04
1% Fuel Oil FOB (\$/mt)	517.34	-0.74	522.08	-1.46	525.04	-0.40	529.73	-2.34		
Sing FO180 Cargo (\$/mt)	533.75	0.48	539.08	0.54	538.04	0.85	538.23	-0.84		

Thermal coal	Q1-11	Q2-11	Q3-11	Cal 11	Cal 12
API2 (CIF ARA)	125.00	-0.70	120.70	-1.00	119.20
API4 (FOB RBCT)	127.25	-0.95	123.45	-1.35	120.20

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.37500	0.39167	0.43000	0.51000	0.65000
Silver	0.53500	0.54167	0.55833	0.59667	0.65833
USD Libor	0.26125	0.28250	0.30313	0.45656	0.78375

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.34	1,381.17	1,387.82	1,347.37	1,275.46	1,367.00	1,391.00
Silver	55.05	29.34	29.56	25.39	21.83	28.37	29.64
Platinum	64.01	1,765.43	1,751.80	1,681.08	1,633.63	1,792.00	1,837.00
Palladium	63.58	782.64	776.54	656.56	570.67	799.00	820.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'11	Mar'11	Apr'11	Apr'11	Feb'11	Dec'11	Feb'11
Settlement	1,376.40	28.9300	809.45	1,821.20	1,376.20	3,668.00	1,376.10
Open Interest	589,368	137,059	22,707	39,928	2,562	121,425	2,586
Change in Open Interest	-1,189	-728	-519	-955	-142	-3,144	20

Sources: Standard Bank; LME; Bloomberg

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