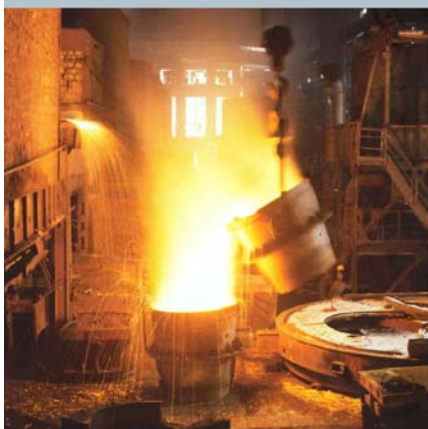


20 January 2010



**Focus: Base metals currency link has broken** - Over the past few months, the base metals appear to have largely broken clear of their link with the dollar. Prices in both dollars and euros have rallied on the back of a combination of the global growth story and signs of genuine demand.

- The main news this morning has been the announcement of further monetary tightening measures in China – with some banks being told to limit spending in order to comply with regulatory requirements. The news sparked a sell-off in Shanghai Composite Index and saw the base metals come under pressure. The Euro is also weaker vs. the dollar after failing to hold key support yesterday, reaching a five-month low.
- The dollar has strengthened substantially since yesterday morning, with the trade-weighted dollar gaining almost 1.5%. Nevertheless, precious metals, especially gold, are holding up well; this demonstrates demand *despite* dollar strength. Gold seems a good buy in euro.
- Energy is trading sideways but the risk remains skewed to the downside.
- Data-wise it's a fairly busy afternoon, with the release of the US PPI data for December (expected +4.5% y-o-y but unchanged m-o-m) and the December Housing Starts numbers (expected at 572K).

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**Commodity price data (19 January 2010)****Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,285	2,294	2,313	2,274	-11	0.37%	2,243.50	-49	-30.75
Copper	7,490	7,545	7,625	7,478	45	0.73%	7,442.00	-65	-26.00
Lead	2,440	2,426	2,465	2,419	-40	-0.57%	2,420.50	-31	-22.50
Nickel	18,700	19,215	19,350	18,890	310	2.75%	18,645.00	10	-67.00
Tin	17,675	18,000	18,025	17,800	-150	1.84%	17,630.00	-300	-64.00
Zinc	2,488	2,503	2,549	2,485	23	0.60%	2,458.50	-9	-20.75

**Energy**

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.50	76.94	77.56	76.65	-0.69	-0.90%
NYMEX WTI	78.88	78.37	79.03	78.05	-0.65	-0.83%
ICE Gasoil	622.75	619.75	622.75	617.75	4.25	0.69%
API2 Q1'10	86.10	85.00			-1.10	1.03%
EUA Dec10	13.32	13.65			0.33	0.24%

**Precious metals**

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,134.00	1,133.00	1,140.40	1,130.50	1,140.00	5.50	-0.3/0.1
Silver	-	18.59	18.84	18.48	18.77	0.08	0.5/2.5
Platinum	1,641.00	1,621.00	1,640.00	1,623.00	1,638.00	23.00	-2.5/-0.5
Palladium	462.00	456.00	463.00	458.00	463.00	9.00	-2.5/-0.5

Sources: Standard Bank; LME; BBG



### Focus: Base metals currency link has broken

Over the past few months, the base metals appear to have largely broken clear of their link with the dollar. Prices in both dollars and euros have rallied on the back of a combination of the global growth story and signs of genuine demand.

Copper, priced both in dollars and euros have rallied more or less in unison since October, with copper priced in Euros only marginally underperforming copper priced in dollars. The catalyst appears to be the re-emergence of solid Chinese buying interest and SHFE-LME arbitrage activity, rather than any currency effects.

Aluminium has taken a bit longer to shrug off the currency effects, but is now also moving independently rather than as a side-effect of the FX markets, particularly over the past 6 weeks or so. This change in behaviour can be seen in the correlations between those commodities and the dollar. On a 30-day rolling basis, Aluminium's correlation with the spot dollar/euro rates is only 0.19 while its correlation to the trade-weighted dollar index has fallen to zero. Copper's correlation with both the dollar/euro and trade weighted dollar are currently also next to nothing.

As the global markets go through the transition from recession to recovery over the next year or so, fundamental factors will also start to have a bearing on prices once again as physical markets start to tighten.

By Leon Westgate

## Base metals

The main news this morning has been the announcement of further monetary tightening measures in China – with some banks being told to limit spending in order to comply with regulatory requirements. The news sparked a sell-off in Shanghai Composite Index and saw the base metals come under pressure. The Euro is also weaker vs. the dollar after failing to hold key support yesterday, reaching a five-month low. Overall, while the base metals have largely ignored currency fluctuations over the past few weeks, the sharp deterioration in the euro, due primarily to ongoing concerns over Greece, is starting to cast a shadow over commodities generally.

Data-wise it's a fairly busy afternoon, with the release of the US PPI data for December (expected +4.5% y-o-y but unchanged m-o-m) and the December Housing Starts numbers (expected at 572K).

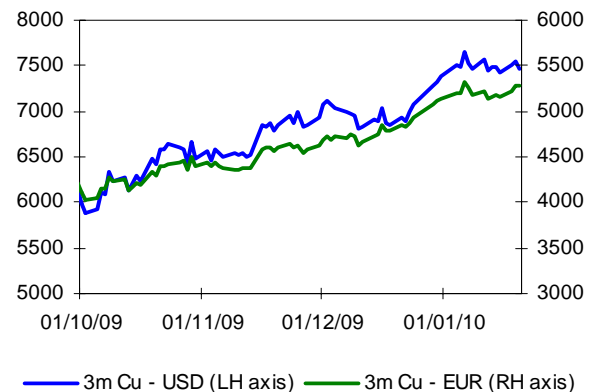
Copper had a solid day on Tuesday, shrugging off a weaker dollar during the afternoon to finish the day comfortably above \$7,500. The move came on the back of very good turnover, with over 11,000 lots trading on LME Select. This morning has seen copper open higher overnight and even trade up to \$7,625. However, the emergence of the China tightening news promptly saw it come off \$100 or so, with the red metal since continuing to drift lower heading into Wednesday afternoon. Meanwhile, inventory-wise, the steady build of copper stocks seen since the beginning of November appears to be reaching a plateau with declines in on warrant stocks on Monday and again this morning (-200 mt) breaking the recent trend.

Aluminium has followed a very similar pattern to copper over the past couple of days, rallying yesterday afternoon before coming back under pressure this morning. Although Tuesday saw pretty decent turnover, with in excess of 9,600 lots trading on LME Select, this morning has been much more subdued.

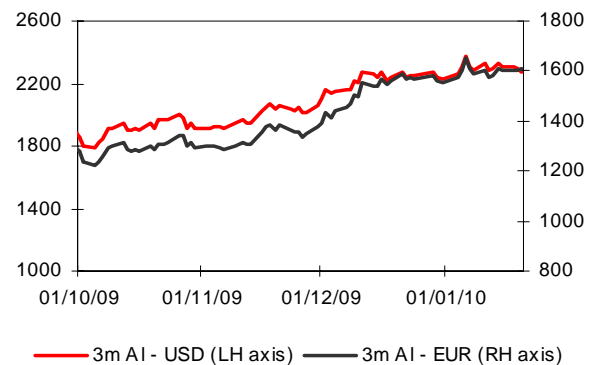
In other news, National Aluminium Co. (Nalco), India's second largest aluminium producer is looking at building an aluminium smelter in east Kalimantan province, Indonesia. The proposed smelter project includes a coal-base power plant and is expected to cost around \$4 billion. Bids for a consultant looking at the feasibility of the project have been called. Provisionally the smelter will have an initial capacity of 250,000 tpy of aluminium.

By Leon Westgate

LME 3 month Copper USD vs. EUR



LME 3m Aluminium USD vs. EUR



Sources: Standard Bank; LME

## Precious metals

The dollar has strengthened substantially since yesterday morning, with the trade-weighted dollar gaining almost 1.5%. Nevertheless, **precious metals, especially gold, are holding up well**; this demonstrates demand *despite* dollar strength. Gold seems a good buy in euro.

We have seen a steady physical buying in gold since the start of the year. The buying interest is not overwhelming, but it definitely outpaces the selling. However, the buying interest is being offset by selling in ETF holdings. The SPDR fund (the largest physically backed gold ETF in the world) shed 16.8 tonnes since the start of the year. As long as the dollar appreciates, we doubt that ETF holdings will rise.

**Gold is range-bound between \$1,120 and \$1,145.** A break below \$1,120 could see the metal test \$1,115.

The US platinum ETF holdings continue to rise and is now just over 160K oz. While above ground stock for platinum is high, we believe that ETF holdings are farther removed from the market than other above-ground stock. As a result the physical market is tightening up. We estimate ETF holdings now constitute 54% of total above ground stock (refer to *Commodities Daily* 19 January 2010). This leaves available platinum stock in Switzerland and COMEX at the lowest levels in at least five years. **We would buy platinum on dips** and see more upside despite the recent rally. **Support for platinum is at \$1,620 and \$1,600** **Palladium buying interest remains in place. Support is at \$458 and resistance at \$472.**

By Walter de Wet

## Energy

**Energy is trading sideways but the risk remains skewed to the downside.** The dollar is much stronger largely due to a lack of confidence in the euro. Like the rest of the commodity complex, crude prices are holding up surprisingly well in the face of the dollar strength. However, given weak underlying fundamentals, there are limits to how long crude can retain gains if the dollar continues to strengthen. Looking at recent correlations between front-month crude prices and other financial markets, there is a high correlation between US equities and WTI front-month contract. Another negative day on the equity market could see WTI give up more gains and approach the sub-\$77 level.

The US DOE inventory report's release has been delayed until tomorrow (due to Monday's public holiday in the US). Last week, the DOE report which showed increases in crude oil (3.7m bbls), gasoline (3.8m bbls), jet fuel (758k bbls), distillate (1.35m bbls), and fuel oil (241k bbls) inventories on the back of higher imports and lower demand. Refinery utilization was also up 1.4 percentage points, to 81.3%. On top of this bearish report, warmer weather is forecast in coming days. Tomorrow's report will have to be extremely bullish to see crude rally. Unfortunately, expectations are for more builds in inventory.

**Thermal coal prices are finding better support** on the back of supply disruptions at ports in Australia and China. Furthermore, coal shortages in China persist, with coal supplies running very low at many power plants. Coal shortages can take weeks to correct. While API2 for delivery in January dropped marginally to \$85.95 yesterday, the Newcastle Index for delivery in January closed \$1.50 higher, at \$99.00. We expect support for coal prices to remain in place.

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	4,622,225	4,623,175	2,000	2,950	-950	-6,675	243,175	5.26	154,097
Copper	526,650	526,750	900	1,000	-100	24,325	7,250	1.38	113,679
Lead	152,175	151,425	750	-	750	5,675	375	0.25	30,332
Nickel	161,292	161,622	-	330	-330	3,282	1,116	0.69	26,752
Tin	27,425	27,400	70	45	25	660	960	3.50	7,649
Zinc	488,750	487,775	1,000	25	975	700	3,675	0.75	85,036

### Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	17,730	17,570	-150
Copper	61,910	61,460	10
Zinc	21,100	20,935	145

### COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Jan'10	-	-	-	-
Cu Jan'10	345	340.70	-4.00	-1.16%

### ZAR metal prices (19 January 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,698	55,391	18,016	138,775	131,220	18,299	7.4430
3-month	17,366	57,130	18,369	145,494	136,294	18,952	7.5719

## 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)	85.17	-0.59	83.31	-1.31	84.08	-1.38	86.27	-1.64	90.48	-1.59
Gasoil 0.1% Rdam (\$/mt)	619.75	4.25	627.25	4.00	633.75	3.75	653.25	4.50	683.50	-7.50
NWE CIF jet (\$/mt)	695.59	-2.85	683.78	-12.92	690.40	-13.76	710.43	-14.25	748.52	-13.33
Singapore Kero (\$/bbl)	86.81	-0.43	84.81	-1.21	85.58	-1.28	87.77	-1.59	92.83	-1.54
3.5% Rdam barges (\$/mt)	452.35	-5.33	445.25	-7.25	447.25	-6.75	451.50	-6.25	458.50	-6.50
1% Fuel Oil FOB (\$/mt)	469.66	-3.75	465.00	-5.00	468.50	-4.75	480.50	-4.25	497.25	-5.75
Sing FO 380 Cargo (\$/mt)	473.50	-5.50	473.00	-6.00	473.75	-5.25	476.25	-5.00	477.50	-10.25
Sing FO180 Cargo (\$/mt)	490.97	-4.04	479.00	-6.00	478.75	-6.25	481.50	-5.25	477.50	-10.25

Thermal coal	Q1-10		Q2-10		Q3-10		Cal 11		Cal 12	
API2 (CIF ARA)	85.00	-1.10	85.80	-1.40	89.30	-1.15	101.15	-0.90	107.90	-0.90
API4 (FOB RBCT)	86.10	-0.30	85.40	-0.30	88.10	0.15	96.15	0.20	100.60	-0.40

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.19000	0.21500	0.22667	0.26000	0.37500
Silver	0.57833	0.57833	0.58667	0.59500	0.60167
USD Libor	0.23063	0.23938	0.24900	0.39063	0.88000

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	53.48	1,136.62	1,122.30	1,085.31	1,010.32	1,116.00	1,142.00
Silver	56.44	18.52	17.95	17.48	15.73	17.85	18.40
Platinum	67.41	1,599.86	1,542.79	1,402.14	1,295.75	1,600	1650
Palladium	70.74	442.09	422.49	351.35	300.33	440	460

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Feb'10	Mar'10	Mar'10	Apr'10	Feb'10	Dec'10	Feb'10
Settlement	1,130.40	18,5850	457.00	1,639.40	1,129.30	3,317.00	1,129.20
Open Interest	521,694	129,663	23,403	33,899	1,470	130,489	2,399
Change in Open Interest	-37,083	512	164	178	190	-4,546	103

Date: 19 January 2010

Sources: Standard Bank; LME; Bloomberg

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