

Commodities

Commodities: Daily



Focus: Focus: Silver ETF buying ramps up

23 January 2012

Focus: Growing investor confidence is evident in ETF positioning, with 341.8 tonnes added to their silver holdings this past week — the largest increase of the past 12 months. This is the strongest signal as yet that ETFs are finally changing their cautious stance on silver.

- With little economic data of significance today, focus remains on Europe. In that regard, the reaction of the US markets to the lack of progress over the Greek debt negotiations over the weekend, and the EU Finance ministers' meeting, will likely prove key to short term direction in base metals this afternoon.
- Precious metals enjoyed considerable upside during US trading at the end of last week, led mostly by silver which was buoyed by what appeared to be fund buying. This morning, the complex continued to push higher, despite the absence of Asian players away for the lunar New Year celebrations. Focus has shifted back to the Eurozone debt crisis which is seeing a return of some safe-haven interest, for once not dampened by a strengthening dollar. Whether this upward momentum can persist, will largely depend on dollar movements.
- Our view of the past few days remains; we expect a further downward correction in oil prices in the short term. This should be prompted by an easing geopolitical situation in the Middle East, a soft physical oil market and an upcoming spring refinery maintenance season in the northern hemisphere. That said, fundamentals remain fairly solid in the medium term for the oil market due to tight supply and low inventories.

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Commodity price data (20 January 2012)

Base metals LME 3-month

	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,227	2,217	2,235	2,205	-10	-0.45%	2,184.00	3	-34.25
Copper	8,393	8,220	8,429	8,206	-173	-2.06%	8,230.50	-120	-13.00
Lead	2,180	2,184	2,194	2,153	4	0.18%	2,130.50	-1	-25.25
Nickel	20,250	20,450	20,635	20,145	200	0.99%	20,155.00	475	-46.00
Tin	21,900	21,850	21,960	21,450	-50	-0.23%	21,850.00	-150	-51.00
Zinc	2,026	2,013	2,043	2,010	-13	-0.64%	1,995.50	-16	-19.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	110.04	110.14	110.17	109.23	0.28	0.25%
NYMEX WTI	98.34	98.05	98.39	97.40	-0.28	-0.29%
ICE Gasoil	932.50	933.75	934.25	931.00	0.75	0.08%
API2 Q1'12	105.20	105.20	-	-	0.00	0.00%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,646.00	1,653.00	1,666.30	1,648.00	1,663.80	9.50	0.0/0.4
Silver	-	32.48	31.74	30.47	31.73	1.19	-4.0/-2.0
Platinum	1,507.00	1,517.00	1,530.00	1,510.00	1,530.00	15.00	1.5/3.5
Palladium	668.00	669.00	677.00	668.00	674.00	-1.00	0.0/1.0

Sources: Standard Bank; LME; BBG

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Focus: Silver ETF buying ramps up

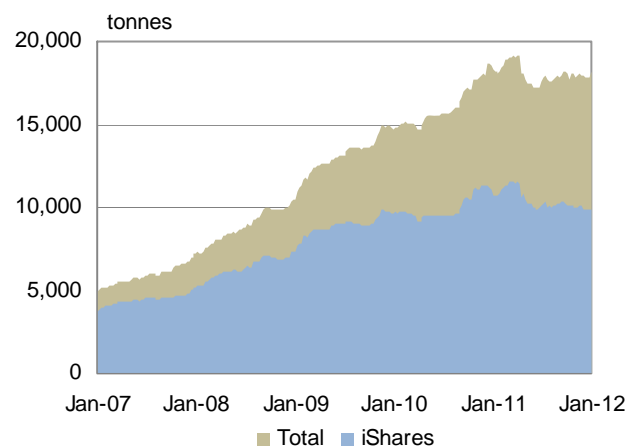
Net speculative length for COMEX silver continues to improve dramatically, with an increase of 341.9 tonnes this past week. Encouragingly, the fall in short positions continues apace with a decline of 298.0 tonnes recorded (309.8 tonnes were shed in the previous week). However, unlike in the previous week, long positions were added to this past week (43.9 tonnes). The improvements of the past few weeks are encouraging, although market positioning still appears weak, with net speculative length at 2,678.9 tonnes (the 2011 average is 4,538.8 tonnes). Short positions now total 1,679.4 tonnes and are moving in the right direction towards last year's average of 1,140.5 tonnes.

Growing investor confidence is evident in ETF positioning, with 341.8 tonnes added to their silver holdings this past week — the largest increase of the past 12 months. This is the strongest signal as yet that ETFs are finally changing their cautious stance on silver.

Despite the renewed interest in silver, net speculative length as a percentage of open interest remains relatively low (11.8% compared to last year's average of 15.7%), so for now the market does not appear overly stretched.

Net speculative length also grew, with 21.1 tonnes added last week. Unlike the previous week, which saw long positions come off slightly, the change in the net position last week was largely the result of speculative longs being added (12.1 tonnes). The 9.0 tonnes unwinding of speculative short positions also contributed significantly to the overall improvement in the net position. After two weeks of improvement, the net position at 469.4 tonnes is still only marginally up from a

Silver ETF holdings



Sources: Various ETFs; Standard Bank Research

12-month low of 436.6 tonnes. While the improvements are encouraging, their tentative nature indicates a speculative market that remains not entirely convinced of gold's short-term prospects.

Echoing this lack of conviction, ETF's turned net sellers of gold once again, shedding 3.7 tonnes this past week. ETF holdings now stand at 2,434.5 tonnes — down 1.5 tonnes since the beginning of the year.

Our view is largely in line with current market positioning. We maintain that gold will reach new highs this year but, given our dollar view, we believe that these highs will be reached only in H2:12.

By Marc Ground

Base Metals

The Chinese New Year holiday has had a predictable impact on LME turnover, with thin volumes being seen across the base metals complex. The absence of significant activity overnight has seen the base metals look towards the Euro for direction, with the market digesting the Greek talks over the weekend. Europe will continue to dominate trading this week as the build up towards the January 30th EU summit starts to kick in with the various Euro-zone finance ministers meeting today. A stronger Euro helping the base metals to rally ahead of US trade, though thin volumes and the triggering of stops has exacerbating some of the intraday movement.

With little economic data of significance today, focus remains on Europe. In that regard, the reaction of the US markets to the lack of progress over the Greek debt negotiations over the weekend, and the EU Finance ministers' meeting, will likely prove key to short term direction this afternoon.

Copper started very slowly this morning, trading sideways in thin Asian trade before rallying back above \$8,300 on the back of a stronger Euro. Elsewhere, Chinese imports of refined copper increased again in December, coming in at 406,937 mt, an increase of some 78% in y/y terms. With little arbitrage activity, and lacklustre physical demand, the increase in December imports may end up overhanging the market during Q1. Overall however, total refined imports fell for the second consecutive year in 2011, dropping 3% to 2.84 Mt, from 2.92Mt in 2010 and 3.18 Mt in 2009. Of note, LME on-warrant stocks fell by 6,225 mt this morning, due primarily to 5,875 mt jump in cancelled warrants in Chicago.

Nickel and zinc prices have also rallied, tracking the likes of copper higher into the afternoon, though inventory for both metals have increased. On-warrant nickel stocks climbed a net 1,128 mt, following a 1,164 mt delivery into Rotterdam while on-warrant zinc stocks climbed 4,850 mt with activity seen in Port Klang, Johor and New Orleans.

By Leon Westgate

Precious metals

Precious metals enjoyed considerable upside during US trading at the end of last week, led mostly by silver which was buoyed by what appeared to be fund buying. As the latest CFTC data attests (see *today's Focus*), ETF buying of silver did show a marked increase over the past week. This morning, the complex continued to push higher, despite the absence of Asian players away for the lunar New Year celebrations (China, Singapore, Malaysia and Indonesia). Focus has shifted back to the Eurozone debt crisis which is seeing a return of some safe-haven interest, for once not dampened by a strengthening dollar. Whether this upward momentum can persist, will largely depend on dollar movements.

Gold support is at \$1,659 and \$1,641. Resistance is \$1,681 and \$1,685. Silver support is at \$31.28 and \$29.88, resistance is at \$33.15 and \$33.61.

Extending two previous weeks of gains, net speculative length for NYMEX platinum saw another strong increase. Encouragingly, the improvement was attributable to both a healthy increase in long positions and an unwinding of shorts. Nevertheless, total short positions are still worryingly high, and, until we see a more marked improvement, we would remain sceptical that the speculative market has become significantly more supportive of the platinum market. The modest nature of ETF buying we've seen this year so far underscores the scepticism with which investors appear to view the platinum market.

After two weeks of fairly large declines, net speculative length for NYMEX palladium has risen. Despite the improvements, total longs are still only marginally above last week's 12-month low and total short positioning is still excessively high. Consequently, the market still appears weak, and we await further improvements before we would grow more confident in investor support for palladium. Further highlighting the lack of investor confidence is the meagre 0.7k oz added to ETF holdings over the past week.

Despite relatively week market positioning, PGM are enjoying some support from headlines regarding industrial action at one of Impala Platinum's operations in South Africa. The work stoppage has been declared illegal by the courts, which could see operations resume relatively soon. Consequently, we don't feel there will be a significant impact on global platinum supply.

Platinum support is at \$1,522 and \$1,497, resistance is at \$1,556 and \$1,563. Palladium support is at \$668 and resistance at \$683.

By Marc Ground

Energy

Our view of the past few days remains; we expect a further downward correction in oil prices in the short term. This should be prompted by an easing geopolitical situation in the Middle East, a soft physical oil market and an upcoming spring refinery maintenance season in the northern hemisphere. That said, fundamentals remain fairly solid in the medium term for the oil market due to tight supply and low inventories.

Crude oil is finding strong support from a weaker dollar, or rather a stronger euro on the back of rising hope that some sort of solution might be reached with creditors on Greece's debt. The euro has moved from the recent lows of \$1.2623 reached on 13 January, to testing \$1.2980 this morning.

In the futures market, speculative length on WTI has decreased. The decline in NYMEX open interest appeared to gain momentum this past week, with 41.3m bbls shed, compared to the 9.7m bbl decrease of the previous week. This brings NYMEX open interest to 1,352.4m bbls — below last year's average of 1,480.8m bbls. Along with the deterioration in open interest, prices also fell, although only marginally, with WTI crude losing 0.2% w/w.

Net speculative length rose again, for the fourth consecutive week, with 9.0m bbls added this past week. The increase was due to speculative long positions being added (9.6m bbls), with the 0.6m bbls added to speculative shorts softening the overall improvement. The past week's moves remain relatively subdued. It appears as though speculators remain unsure of the direction markets will take, as the threat of falling demand on the back of a weakening Eurozone economy is countered by supply concerns owing to political tensions with Iran.

Net speculative length as a percentage of open interest has risen. Currently at 10.7%, this is well above the average level experienced over the past two years (7.5%). Since this indicates an overstretched market, we advocate caution, especially given the ambivalence in markets.

As long as US data flow continues to paint a positive picture, we should see oil prices well supported, although we expect oil prices to remain volatile due to heightened geopolitical tensions in the Middle East.

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	5,005,050	5,005,225	4,275	4,450	-175	34,650	866,600	17.31	341,716
Copper	348,750	351,200	0	2,450	-2,450	-22,150	68,600	19.67	140,825
Lead	347,525	348,725	0	1,200	-1,200	-5,550	43,150	12.42	56,012
Nickel	91,668	91,788	0	120	-120	1,620	1,662	1.81	28,743
Tin	9,800	10,745	180	1,125	-945	-2,390	1,595	16.28	4,446
Zinc	843,325	840,500	3,200	375	2,825	21,625	22,400	2.66	106,339

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,355	16,390	30
Copper	60,850	60,770	480
Zinc	15,725	15,760	135

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'12	-	-	-
Copper	Cu Mar'12	375	374.65	0.15
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,401	65,577	16,975	160,585	174,090	15,899	7.9675
3-month	17,909	66,401	17,642	165,195	176,504	16,261	8.0780

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)	127.50	-0.42	125.19	-1.49	124.81	-1.45	123.91	-1.46	-	-
Gasoil 0.1% Rdam (\$/mt)	933.75	0.75	935.50	1.00	933.00	-0.50	929.50	-11.00	926.00	-10.00
NWE CIF jet (\$/mt)	1,016.36	-3.63	1,007.46	-10.00	1,010.11	-10.13	1,011.00	-10.67	1,011.35	-9.50
Singapore Kero (\$/bbl)	125.68	-0.39	124.89	-1.39	125.23	-1.43	124.65	-1.47	124.20	-1.34
3.5% Rdam barges (\$/mt)	668.60	-1.10	643.50	-6.75	634.75	-6.75	619.50	-7.00	597.50	-7.00
1% Fuel Oil FOB (\$/mt)	680.45	-0.70	668.25	-8.75	663.50	-8.25	655.00	-7.25		
Sing FO180 Cargo (\$/mt)	723.04	0.22	697.00	-6.75	681.50	-6.50	656.25	-6.75		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	105.20	0.00	105.75	0.00	107.20
API4 (FOB RBCT)	105.25	0.30	105.10	0.55	106.15

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.48300	0.51833	0.53700	0.56783	0.59500
Silver	0.27167	0.25000	0.25833	0.27000	0.26333
USD Libor	0.27730	0.40870	0.56110	0.79175	1.10995

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	51.98	1,651.70	1,620.45	1,689.36	1,643.71	1,659.00	1,681.00
Silver	54.06	30.58	29.55	32.59	35.66	31.28	33.15
Platinum	52.59	1,508.56	1,459.21	1,567.74	1,676.76	1,522.00	1,556.00
Palladium	54.71	654.33	648.33	646.82	705.98	663.0	680.0

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	1,671.80	32.4550	679.65	1,532.30	1,670.00	4,150.00	1,667.80
Open Interest	441,320	102,055	17,629	43,519	5,535	122,164	1,683
Change in Open Interest	2,930	-815	20	-329	21	-2,604	0

Sources: Standard Bank; LME; Bloomberg

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