Commodities

Commodities: Daily

Standard Bank

Focus: Another sign that PGMs could outperform

25 January 2011

Focus: While global monetary conditions still favour gold and silver, on relative terms these metals appear overvalued. With much stronger fundamentals, platinum and palladium could outperform within the precious metals group. Palladium is expected to continue to outperform platinum.

- After what was essentially a consolidation day on Monday, the base metals complex has come back under pressure this morning with an erratic overnight session giving way to a full blown sell-off ahead of US trade. The picture has been rather confused however, following the LME's decision to switch off its Select electronic market at around 11.10am UK time, owing to connectivity issues.

- Oil prices continued their downward correction yesterday. Front-month WTI lost $1.24/bbl, to close at $87.87/bbl, while front-month Brent was 99c/bbl down, to settle at $96.61/bbl. The front-month WTI/Brent spread weakened further, to -$8.65/bbl. Product cracks generally traded lower, and the term structures for WTI, Brent and ICE GO weakened.

- Precious metals received a blow from increased risk appetite, as investors bet on the perceived signs of global recovery. Investors have reduced positions in precious metals, especially gold and silver, as interest in riskier assets grows. Ahead of this afternoon's release of US consumer confidence, markets appear to be anxious. Should the number disappoint, precious metals, particularly platinum and palladium, should benefit.

Strategists

Walter de Wet, CFA*
Walter.DeWet@standardbank.com
+44-20-31456821

Leon Westgate*
Leon.Westgate@standardbank.com
+44-20-31456822

James Zhang*
Jinzhong.Zhang@standardbank.com
+44-20-31456824

Marc Ground, CFA*
Marc.Ground@standardbank.com
+27-11-3787215

Commodity price data (24 January 2011)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,420	2,414	2,419	2,405	-7	-0.27%	2,395.00	5	-24.00
Copper	9,490	9,530	9,524	9,416	88	0.42%	9,509.00	24	15.75
Lead	2,393	2,410	2,409	2,380	-20	0.71%	2,490.00	-60	69.00
Nickel	26,125	26,155	26,200	25,875	-25	0.11%	26,270.00	370	-24.00
Tin	27,700	28,095	27,800	27,700	350	1.43%	27,705.00	10	55.00
Zinc	2,297	2,303	2,326	2,277	-16	0.26%	2,280.00	-60	-17.75

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	96.39	96.30	96.62	96.24	-0.31	-0.32%
NYMEX WTI	87.70	87.48	87.77	87.39	-0.39	-0.45%
ICE Gasoil	805.00	806.50	807.50	805.00	-12.75	-1.58%
API2 Q1'11	117.85	116.75	-	-	-1.10	-0.94%
ICE EUA Dec'11	14.47	14.58	-	-	0.11	0.76%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,347.50	1,343.00	1,352.80	1,342.40	1,345.00	3.20	-0.7/-0.4
Silver	-	26.76	27.96	27.21	27.32	0.07	-0.4/-0.2
Platinum	1,824.00	1,822.00	1,832.00	1,820.00	1,815.00	-5.00	0.0/2.0
Palladium	818.00	816.00	823.00	811.00	815.00	1.00	-1.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Another sign that PGMs could outperform

Rising optimism over the prospects for the global economy has spurred renewed risk appetite — to the benefit of equity markets. Consequently, precious metals have fallen because of reduced safe-haven demand.

However, such dips used to be temporary, with precious metals, especially gold and silver, continuing to rally *despite* easing to risk aversion. This unusual relationship is best expressed in the negative long-term (one-year) correlation between risk aversion (as measured by the VIX Index) and precious metals.

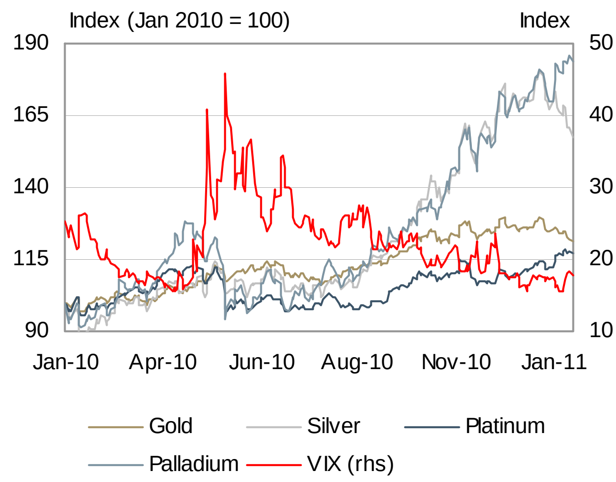
A major factor pushing gold and silver higher, despite the general trend of lower risk aversion, has been *ample global liquidity* and *low long-term real-interest rates*.

However, we believe that this relationship could be changing, as shorter-term correlations (20-day) are now positive for gold and silver (they remain negative for platinum and palladium).

This leads us to believe that investment demand for gold and silver is starting to wane, and that the support these metals enjoy from global liquidity and low real-interest rates is starting to be outgunned by the generally lower levels of risk aversion.

Platinum and palladium, however, seem to continue to rise despite generally lower risk aversion, thereby implying stronger investor interest.

Figure 1: VIX and precious metals



Sources: Bloomberg; Standard Bank

This is supported by recent CFTC data showing gold and silver speculative length falling considerably, while at the same time platinum and palladium saw an increase in speculative length.

This coincides with our view that while global monetary conditions still favour gold and silver, on relative terms these metals appear overvalued. With much stronger fundamentals, platinum and palladium could outperform within the precious metals group. Within the PGM complex, Palladium is expected to continue to outperform platinum.

By Marc Ground

Base metals

After what was essentially a consolidation day on Monday, the base metals complex has come back under pressure this morning with an erratic overnight session giving way to a full blown sell-off ahead of US trade. The picture has been rather confused however, following the LME's decision to switch off its Select electronic market at around 11.10am UK time, owing to connectivity issues throughout the morning. Whether this allows the metals to take a breather, or serves to exacerbate the weakness remains to be seen. It will however reduce the impact of CTA and algorithm-based trading activity as trading switches back to the Ring and the phones.

Copper traded sideways on Monday, with a lack of momentum, and investor appetite, seeing prices stall during the afternoon. With Chinese arbitrage players - wary about the potential for further tightening measures - starting to pare back their positions ahead of the Chinese New Year holidays next week, Asian trading patterns are becoming a little disconnected. As a result London morning trade was short of direction, with prices drifting lower. Another large increase in on-warrant LME copper inventories, up 8,625mt this morning, also weighed on sentiment, though the main location for the increase was Chicago, up 6,800mt with Busan seeing a smaller 1,000 mt increase.

In other news, the annual copper concentrate negotiations appear to be shifting in favor of the miners. Pan Pacific Copper Co. reportedly secured a 72% increase in processing fee's to $80/mt and 8¢/lb, from $46.50/mt and 4.65¢/lb last year. Reports suggest Chinese smelters are also poised for large increases in TC/RC's, up towards the $70/mt and 7.0¢/lb mark. The increase in Chinese TC/RCs, appears to be a combination of power-related cuts in late 2010, allowing smelter stocks of concentrate and scrap to build up, but also improved scrap availability generally.

Elsewhere, lead and zinc have continued to come under heavy pressure, with another large increase in on-warrant lead stocks, up 4,725 mt (albeit predominantly entering the European locations of Rotterdam, Trieste and Genoa), further weighing on sentiment. Tin has been the only metal to buck the trend, trading above $28,000 on Monday and continuing to hold on well heading into Tuesday afternoon.

By Leon Westgate

Energy

Oil prices continued their downward correction yesterday. Front-month WTI lost $1.24/bbl, to close at $87.87/bbl, while front-month Brent was 99c/bbl down, to settle at $96.61/bbl. The front-month WTI/Brent spread weakened further, to -$8.65/bbl. Product cracks generally traded lower, and the term structures for WTI, Brent and ICE GO weakened.

Saudi Arabian Oil Minister, Ali Al-Naimi, dominated the news in the oil market yesterday. Mr Al-Naimi is quoted as saying that "OPEC's policy is to meet any increase in oil demand to maintain the supply-demand balance. Some OPEC countries will increase their production capacities, thus maintaining OPEC's spare capacity at approximately 6million barrels per day." As Saudi holds the majority of OPEC's spare capacity, the reaction of the oil price appears to show the markets' sensitivity to comments out of Saudi.

As we pointed out in our *Energy Weekly* last Friday, OPEC could take its cue from the Fed. The Fed flagged further liquidity back in the summer of 2010. US treasury yields weakened accordingly despite the fact that the Fed did not officially announce the second round of quantitative easing until early November. Although, there is no immediate need for OPEC to ramp up production, we believe that it should reiterate its intention to increase production in order to support price stability.

In the financial markets, the euro rose further yesterday. The market seems to think that the Eurozone debt crisis will somehow be resolved. In the meantime, the IMF raised its forecast of global GDP growth from its earlier estimate of 4.2% to 4.4% in 2011, citing stronger growth in the US. The market will be eager to see the Fed's policy statement tomorrow.

The oil market is likely to continue its downward correction for now, while waiting for the US weekly inventory report. Brent has so far held surprisingly well relatively to WTI. This might change soon as signs of a weaker market have been given away by the softer Dubai flat price and term structure and weaker product cracks.

By James Zhang

Precious metals

Precious metals received a blow from increased risk appetite, as investors bet on the perceived signs of global recovery. Investors have reduced positions in precious metals, especially gold and silver, as interest in riskier assets grows. Even a weaker dollar could not provide much support as gold tumbled to lows last seen in October last year.

Ahead of this afternoon's release of US consumer confidence, markets appear to be anxious. European stock markets are down and US equity futures are in the red. Improved consumer confidence and consequently greater consumer spending remains key to a strengthening of the US economy. For now the increased anxiety has not translated into safe-haven buying of precious metals. Nevertheless, should the number disappoint, precious metals, particularly platinum and palladium, should benefit.

Consensus is for an improvement in consumer confidence in January, although we see downside risk, given the recent negativity surrounding the US economy.

US house price data is not expected to be of much consequence to precious metals markets.

Gold support is at $1,318 and $1,312. Resistance is at $1,335 and $1,345. Silver support is at $26.44 and $26.27, resistance is at $26.94 and $27.23.

Platinum support is at $1,767 and $1,751, resistance is at $1,809 and $1,824. Palladium support is at $771 and resistance at $805.

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	4,545,950	4,550,325	250	4,625	-4,375	268,900	166,175	3.66	171,726
Copper	381,500	381,300	1,575	1,375	200	3,950	30,600	8.02	134,586
Lead	266,775	264,175	3,150	550	2,600	58,500	4,475	1.68	52,019
Nickel	135,174	135,696	0	522	-522	-498	6,924	5.12	26,395
Tin	17,405	17,295	200	90	110	1,130	980	5.63	10,116
Zinc	711,450	711,550	0	100	-100	10,025	2,700	0.38	58,994

Shanghai 3-month forward prices

Metal	Open	Last	1d Chnge
Aluminium	16,840	16,850	-25
Copper	71,610	71,500	-390
Zinc	18,700	18,395	-550

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Mar'11	-	-	-	-
Cu Mar'11	435	431.50	-3.35	-0.77%

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,933	67,229	17,604	185,729	195,874	16,120	7.0700
3-month	17,290	68,273	17,265	187,374	201,273	16,499	7.1640

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 ($/bbbl)	108.44	0.16	109.78	0.36	110.27	0.53	111.42	0.64	112.76	0.81
Gasoil 0.1% Rdam ($/mt)	806.50	-12.75	811.75	-12.25	815.50	-11.00	833.75	6.25	846.75	6.50
NWE CIF jet ($/mt)	883.94	0.45	900.84	0.91	904.24	1.67	911.30	2.62	924.80	4.00
Singapore Kero ($/bbl)	110.00	0.26	112.28	0.66	112.32	0.68	113.17	0.69	114.91	0.81
3.5% Rdam barges ($/mt)	506.96	0.98	509.50	2.24	510.08	2.56	508.63	1.72	512.46	0.57
1% Fuel Oil FOB ($/mt)	514.76	0.51	518.50	1.49	521.58	2.56	527.13	2.72		
Sing FO180 Cargo ($/mt)	535.65	0.51	537.50	1.49	537.83	2.06	535.63	1.72		

Thermal coal	Q1-11		Q2-11		Q3-11		Cal 11		Cal 12	
API2 (CIF ARA)	116.75	-1.10	113.25	-0.50	113.45	-0.30	114.50	-0.60	115.15	-0.25
API4 (FOB RBCT)	117.35	-0.70	114.35	-0.30	112.85	0.20	114.50	-0.10	111.45	-0.35

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.32667	0.33500	0.35167	0.44000	0.58167
Silver	-0.07000	-0.07000	-0.07167	-0.03000	0.03667
USD Libor	0.26000	0.28313	0.30313	0.45469	0.78094

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	43.48	1,357.98	1,374.46	1,354.45	1,282.48	1,318.00	1,335.00
Silver	45.94	28.15	28.98	25.97	22.17	26.44	26.94
Platinum	58.53	1,813.53	1,782.24	1,700.12	1,637.21	1,767.00	1,809.00
Palladium	59.29	808.21	793.28	676.94	580.16	771.00	805.00

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	1,331.70	26.7850	800.00	1,819.60	1,332.80	3,543.00	1,332.70
Open Interest	580,750	133,596	22,050	42,196	2,511	133,225	2,395
Change in Open Interest	-2,179	2,246	271	582	0	-764	-39

Sources: Standard Bank; LME; Bloomberg

Forecasts

Base metals

Base metals LME cash prices (US$/mt)	Q1:11	Q2:11	Q3:11	Q4:11	Avg. 2011	Avg. 2012
Aluminium	2,460	2,470	2,350	2,440	2,430	2,510
Copper	9,150	8,900	9,300	9,450	9,200	10,000
Lead	2,450	2,390	2,520	2,560	2,480	2,600
Nickel	24,500	23,800	22,000	22,500	23,200	22,000
Tin	26,200	27,000	29,000	29,800	28,000	29,500
Zinc	2,350	2,300	2,250	2,380	2,320	2,500

Energy

Energy front-month prices	Q1:11	Q2:11	Q3:11	Q4:11	Avg. 2011	Avg. 2012
WTI ($/bbl)	90	90	93	95	92	100
Brent ($/bbl)	92	91	94	96	93.50	100
ICE Gasoil ($/mt)	760	775	790	790	780	830
Nymex RBOB Gasoline (c/gal)	240	245	245	240	245	260
API2 Coal Cif ARA ($/mt)	120	115	110	115	115	120
API4 Coal Fob Richards Bay ($/mt)	120	115	110	115	115	115

Precious metals

Precious metals spot prices (US$/oz)	Q1:11	Q2:11	Q3:11	Q4:11	Avg. 2011	Avg. 2012
Gold	1,370	1,440	1,500	1,435	1,430	1,450
Silver	27.00	28.35	28.20	27.35	27.70	27.80
Platinum	1,850	1,800	1,750	1,950	1,850	2,000
Palladium	780	740	700	880	775	850
Rhodium	2,400	2,300	2,400	2,700	2,500	3,000

Source: Standard Bank

Disclaimer

Certification

The analyst(s) who prepared this research report (denoted by an asterisk*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Conflict of Interest

It is the policy of The Standard Bank Group Limited and its worldwide affiliates and subsidiaries (together the "Standard Bank Group") that research analysts may not be involved in activities in a way that suggests that he or she is representing the interests of any member of the Standard Bank Group or its clients if this is reasonably likely to appear to be inconsistent with providing independent investment research. In addition research analysts' reporting lines are structured so as to avoid any conflict of interests. For example, research analysts cannot be subject to the supervision or control of anyone in the Standard Bank Group's investment banking or sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those sales and trading departments may conflict with your interests. **Please note that one or more of the analysts that prepared this report sit on a sales and trading desk of the Standard Bank Group.**

Legal Entities:

To U. S. Residents

Standard New York Securities, Inc. is registered with the Securities and Exchange Commission as a broker-dealer and is also a member of the FINRA and SIPC. Standard Americas, Inc is registered as a commodity trading advisor and a commodity pool operator with the CFTC and is also a member of the NFA. Both are affiliates of Standard Bank Plc and Standard Bank of South Africa. Standard New York Securities, Inc is responsible for the dissemination of this research report in the United States. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Standard New York Securities, Inc.

To South African Residents

The Standard Bank of South Africa Limited (Reg.No.1962/000738/06) is regulated by the South African Reserve Bank and is an Authorised Financial Services Provider.

To U.K. Residents

Standard Bank Plc is authorised and regulated by the Financial Services Authority (register number 124823) and is an affiliate of Standard Bank of South Africa. The information contained herein does not apply to, and should not be relied upon by, retail customers.

General

This research report is based on information from sources that Standard Bank Group believes to be reliable. Whilst every care has been taken in preparing this document, no research analyst or member of the Standard Bank Group gives any representation, warranty or undertaking and accepts no responsibility or liability as to the accuracy or completeness of the information set out in this document (except with respect to any disclosures relative to members of the Standard Bank Group and the research analyst's involvement with any issuer referred to above).

All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value.

Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Members of Standard Bank Group may act as placement agent, advisor or lender, make a market in, or may have been a manager or a co-manager of, the most recent public offering in respect of any investments or issuers referenced in this report. Members of the Standard Bank Group and/or their respective directors and employees may own the investments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. This report is intended solely for clients and prospective clients of members of the Standard Bank Group and is not intended for, and may not be relied on by, retail customers or persons to whom this report may not be provided by law. This report is for information purposes only and may not be reproduced or distributed to any other person without the prior consent of a member of the Standard Bank Group. Unauthorised use or disclosure of this document is strictly prohibited. By accepting this document, you agree to be bound by the foregoing limitations.