

Focus: Copper backwardation steepens Copper broke below \$7,250 and tumbled to \$7,000. Despite the recent fall in the 3m copper price, the copper forward curve has moved into a steeper backwardation in the last two weeks. We believe borrowing the spreads is still the preferred strategy. We believe that longer-term copper price support remains in place.

- Base metals remain under pressure after a sizable, broad-based sell-off yesterday and early this morning. This selling comes amid a US dollar which is finding strength from problems in the Eurozone. The market is growing increasingly concerned about the fiscal instability in Greece. The euro is finding strong support at \$1.4000 against the dollar. Should this support give way, additional dollar strength may drag base metals even lower.
- The dollar remains the natural beneficiary of Eurozone uncertainty. From a currency perspective, there could be more downside pressure on commodities — especially on gold.
- WTI front-month crude oil attempted to push higher yesterday afternoon but hit strong resistance around \$75. Financial markets are very uncertain; crude oil could find it difficult to rally. However, WTI crude oil is also finding good buying interest whenever it dips below \$74/bbl. With tomorrow being the last trading day of the month, we might see support for crude oil remain despite current dollar strength.

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Commodity price data (27 January 2010)**Base metals LME 3-month**

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,187	2,181	2,161	2,127	-41	-0.30%	2,149.00	-41	-32.75
Copper	7,267	7,235	7,123	7,040	-165	-0.44%	7,244.00	-62	-24.00
Lead	2,125	2,125	2,120	2,045	-75	0.00%	2,140.00	-26	-25.75
Nickel	17,975	18,195	18,000	17,740	-5	1.22%	17,935.00	-360	-78.00
Tin	17,900	17,855	17,900	17,600	-125	-0.25%	17,925.00	175	-57.00
Zinc	2,274	2,236	2,222	2,171	-83	-1.67%	2,254.50	-53	-24.50

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	72.36	72.41	72.57	71.94	0.17	0.23%
NYMEX WTI	73.71	73.88	74.08	73.35	0.21	0.28%
ICE Gasoil	586.00	586.50	588.25	583.00	-10.75	-1.83%
API2 Q1'10	83.25	83.10	-	-	-0.15	-0.18%
EUA Dec10	13.57	13.53	-	-	-0.04	-0.29%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,094.75	1,094.75	1,101.65	1,084.40	1,085.00	-13.30	-0.6/-0.2
Silver	-	16.54	16.94	16.43	16.44	-0.39	0.5/2.5
Platinum	1,514.00	1,519.00	1,531.00	1,509.00	1,505.00	-25.00	-1.5/0.5
Palladium	418.00	420.00	428.00	418.00	416.00	-12.00	-1.5/0.5

Sources: Standard Bank; LME; BBG



Focus: Copper backwardation steepens

Copper broke below \$7,250 and tumbled to \$7,000. Despite the recent fall in the 3m copper price, the copper forward curve has moved into a steeper backwardation in the last two weeks.

We believe borrowing the spreads is still the preferred strategy and should risk aversion increase, the copper backwardation could steepen.

Steeper backwardation is in line with our general view that copper demand will continue to grow in 2010 as a steeper copper forward curve (in theory) shows a tightening in the copper market. As a result, we see the steepening of the forward curve, despite the large-scale liquidation across all commodities, as an indication that **longer-term copper price support remains in place.**

The steepening of the curve comes on the back of aggressive selling further along the curve. Selling of far-dated copper may be driven by producer selling. It may also be driven by liquidation on the back of recent tightening of lending in China. While the immediate impact on real commodity demand of tighter monetary policy should be limited — especially with low US interest rates — we find that the largest impact of tighter monetary policy on base metals is typically only felt 18-months after policy tightening started. From this perspective, **it makes sense to borrow the spread, as the larger impact on real demand is not immediate.**

Base metals

Base metals remain under pressure after a sizable, broad-based sell-off yesterday and early this morning. This selling comes amid a US dollar which is finding strength from problems in the Eurozone. The market is growing increasingly concerned about the fiscal instability in Greece. The euro is finding strong support at \$1.4000 against the dollar. **Should this support give way, additional dollar strength may drag base metals even lower.**

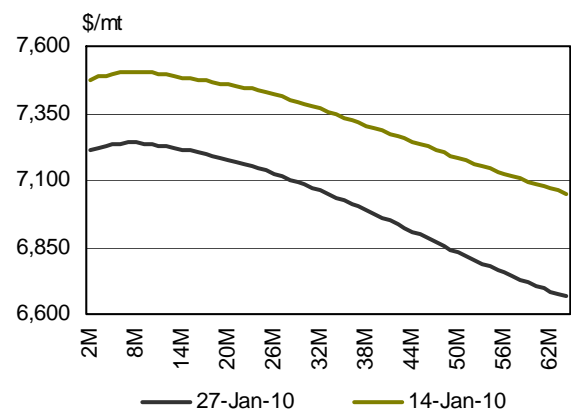
Copper is closing in on the \$7,000 level. A break below \$7,000 may see a renewed wave of selling coming through. There was some arbitrage related buying overnight which did provide some support to copper. This may well repeat itself tonight. We continue to look to US equity market for support. Should equities manage to close the day in the green, we may well see copper buying interest return. Some short-covering could attract additional support.

Zinc continues to suffer aggressive selling. Zinc went limit down in Shanghai this morning. The fact that zinc LME warehouse stock increased 450mt this morning added to more selling. With copper under pressure, we see buying support for zinc.

Nickel has in recent weeks found support from possible supply disruptions at nickel mines in Canada and from higher copper prices. **Nickel has been finding strong support above \$18,000 since late December.** However, there are reports that Vale Inco will resume mining at Voisey's Bay despite negotiations breaking down with workers. The company indicated that it would train non-striking workers to run operations. With the nickel price back at \$18,000 this morning, there may be more downside should the metal break below \$18,000. **With the 100-day moving average at \$17,700, this level could be the next key support.**

Aluminium is also trading lower; we would be looking at \$2,125 for support. The large smelter capacity and aluminium stock overhang continues to weigh on smelters. Alcoa indicated that its two Italian smelters, which produced almost 200K mt of metal a year, could be closed down permanently.

LME copper forward curve



Sources: LME, Standard Bank

With a rapid increase in speculative length in copper since the start of December (according to the CFTC data at least), there is little doubt the speculative longs will come under pressure as the dollar strengthens and risk appetite declines. Given that liquidity for nearby contracts are far greater than longer-dated contracts, price movements at the back-end of the curve are likely to be more severe. **This also favours borrowing the spread.**

By Walter de Wet

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Precious metals

The euro's problems continue, with Greece the centre of attention. Greek government bonds sold off heavily as fears are growing about the country's fiscal stability. Greece's 10-year Government bond yield are now at their highest since 1999.

The dollar remains the natural beneficiary of Eurozone uncertainty. From a currency perspective, **there could be more downside pressure on commodities — especially on gold.**

The fact that the Fed confirmed yesterday low interest rates are here to stay should still see overall support to precious metals in place despite the current sell-off. The futures market now assigns a 61.4% probability to rates being raised in November. Only one week ago, this probability was at 83.3% — the market keeps pushing into the futures their rate-hike expectations. But cheap money will be around for some time.

There is still very good physical demand for gold on the price dips. **Gold support is at \$1,085 and \$1,075, with resistance at \$1,105.**

Platinum recovered from selling late yesterday, with good buying interest out of Asia on the dips below \$1,500. **We still see these dips towards \$1,500 as a buying opportunity.**

With copper struggling this morning, silver is lagging other precious metals. **Support is at \$16.30 and \$16.10. Resistance is at \$16.90 and \$17.20.**

By Walter de Wet

Energy

WTI front-month crude oil attempted to push higher yesterday afternoon but hit strong resistance around \$75. Financial markets are very uncertain; crude oil could find it difficult to rally. However, WTI crude oil is also finding good buying interest whenever it dips below \$74/bbl. With tomorrow being the last trading day of the month, we might see support for crude oil remain despite current dollar strength.

It seems the S&P has successfully bounced of the 100d moving average after the Fed meeting yesterday. This optimism is spilling into European equity markets this morning despite the bond-market's fear about Greece's fiscal stability. Higher equity markets may see energy markets stabilise.

Yesterday's DOE inventory report was mixed. While crude inventory declined 3,888K barrels, products (both gasoline and distillates) showed a rise. Given that product demand is weak and inventories already high, it probably outweighs the importance of crude oil inventory draw. The only bullish reading was the 691K draw at Cushing.

We see support for WTI front-month prices at \$73.90 and \$73.50. Resistance is at \$75 and \$75.40.

Nearby thermal coal pushed marginally higher yesterday. The support factors for thermal coal remain in place and nearby coal prices should as a result also see support. API2 for delivery in February closed yesterday at \$82.30 — \$0.30 higher than Tuesday.

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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	4,619,200	4,623,800	1,125	5,725	-4,600	-9,700	254,650	5.51	206,900
Copper	540,175	538,600	2,575	1,000	1,575	37,850	11,200	2.07	114,535
Lead	156,125	155,775	500	150	350	9,625	9,750	6.24	26,007
Nickel	163,518	163,704	120	306	-186	5,508	1,248	0.76	22,247
Tin	27,740	27,640	200	100	100	975	1,465	5.28	5,839
Zinc	496,650	496,200	600	150	450	8,600	3,400	0.68	75,014

Shanghai 3-month forward prices

Metal	Open	Last	1d Change
Aluminium	16,600	16,470	-570
Copper	56,900	57,580	-1,990
Zinc	18,555	18,480	-825

COMEX active month future prices

	Open	Close	Change	Change (%)
Ali Jan'10	-	-	-	-
Cu Jan'10	322	321.45	-0.80	-0.25%

ZAR metal prices (26 January 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,279	54,873	16,211	135,858	135,782	17,078	7.5750
3-month	16,806	55,764	16,378	140,238	137,617	17,234	7.7075

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)	84.27	0.00	80.78	-0.28	81.35	-0.24	83.54	-0.06	87.53	-0.07
Gasoil 0.1% Rdam (\$/mt)	586.50	-10.75	593.50	-10.50	599.25	-10.25	627.50	-0.25	661.00	-0.75
NWE CIF jet (\$/mt)	686.88	0.25	665.68	-0.17	671.09	-0.49	690.09	-0.88	726.27	-0.75
Singapore Kero (\$/bbl)	85.93	0.04	82.53	-0.18	83.10	-0.24	85.19	-0.06	89.93	-0.07
3.5% Rdam barges (\$/mt)	449.51	0.71	433.50	4.25	434.75	3.50	437.75	2.75	443.50	2.50
1% Fuel Oil FOB (\$/mt)	464.64	0.64	449.00	1.50	452.25	1.50	464.75	1.25		
Sing FO 380 Cargo (\$/mt)	458.50	2.25	458.50	2.00	459.00	2.00	461.50	2.00		
Sing FO180 Cargo (\$/mt)	486.24	-0.03	465.50	2.25	464.75	2.25	466.00	2.00		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	83.75	1.95	86.25	1.25	89.50	1.30	85.60	1.40	96.60	-0.40
API4 (FOB RBCT)	82.95	0.90	84.00	0.60	85.75	0.75	84.05	0.55	90.10	-0.60

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.18667	0.20000	0.21667	0.24833	0.36667
Silver	0.57833	0.57833	0.58667	0.59500	0.60167
USD Libor	0.23063	0.23938	0.24875	0.38344	0.84188

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	46.52	1,107.33	1,118.98	1,091.04	1,016.47	1,085.00	1,105.00
Silver	43.16	17.51	17.82	17.51	15.86	16.30	16.90
Platinum	52.66	1,573.76	1,565.03	1,418.28	1,306.40	1,500.00	1,550.00
Palladium	55.10	443.03	434.41	359.68	306.38	420.00	433.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGXX GLD	TOCOM GLD	CBOT GLD
	Feb'10	Mar'10	Mar'10	Apr'10	Feb'10	Dec'10	Feb'10
Settlement	1,089.70	16.5550	416.30	1,492.10	1,087.80	3,169.00	1,088.40
Open Interest	507,565	124,895	23,354	34,697	1,298	122,743	2,244
Change in Open Interest	2,045	-120	28	-324	35	-1,469	58

Date: 27 January 2010

Sources: Standard Bank; LME; Bloomberg

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