

Commodities

Commodities: Daily



Focus: ETF's show renewed interest in PGM

30 January 2012

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- With the return of Chinese participants, we saw some light profit-taking emerge, which took base metals lower. The trend has continued into this morning, with a strengthening dollar adding to the drag on base metals. Not much support from Euro-zone consumer and economic confidence data either — all numbers showed a fall in confidence and souring expectations.
- Along with the other metals, precious metals have also succumbed to profit-taking as Chinese participants returned to the market. Downward momentum has continued into this morning, with European markets adopting a risk-off stance. Currently, US equity futures paint a similar picture for US markets, and as such, we expect precious metals to encounter further downside as the day progresses.
- The oil market was mixed on Friday as a robust physical market was offset by a weaker euro. WTI fell slightly, by 14c/bbl, while Brent gained 67c/bbl. Product cracks and refining margins strengthened further, led by a buoyant gasoline market on the back of refinery outage. Gasoline crack last reached this high back in last year's summer driving season; which now raises the question of how long the strength will last. Meanwhile, the term structures for RBOB gasoline, Nymex heating oil and ICE gasoil all jumped amid concerns over the short-term product supply situation.

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Commodity price data (27 January 2012)

Base metals LME 3-month

| | Close | High | Low | Daily change | Change (%) | Cash Settle | Change in cash settle | Cash - 3m | |
|-----------|--------|--------|--------|--------------|------------|-------------|-----------------------|-----------|--------|
| Aluminium | 2,272 | 2,266 | 2,288 | 2,231 | -6 | -0.26% | 2,241.50 | 10 | -33.00 |
| Copper | 8,550 | 8,525 | 8,680 | 8,507 | -25 | -0.29% | 8,610.00 | 50 | -13.75 |
| Lead | 2,320 | 2,295 | 2,329 | 2,275 | -25 | -1.08% | 2,288.00 | 11 | -24.25 |
| Nickel | 21,550 | 21,700 | 21,788 | 21,270 | 150 | 0.70% | 21,670.00 | 320 | -64.00 |
| Tin | 24,100 | 24,400 | 24,650 | 23,850 | 300 | 1.24% | 24,310.00 | 980 | -52.00 |
| Zinc | 2,195 | 2,150 | 2,201 | 2,144 | -45 | -2.05% | 2,178.50 | 0 | -17.25 |

Energy

| | Open | Close | High | Low | day/day | Change (%) |
|------------|--------|--------|--------|--------|---------|------------|
| ICE Brent | 111.50 | 111.12 | 111.70 | 111.00 | -0.34 | -0.31% |
| NYMEX WTI | 100.00 | 99.01 | 100.05 | 98.92 | -0.55 | -0.56% |
| ICE Gasoil | 957.00 | 953.00 | 958.00 | 952.25 | -0.75 | -0.08% |
| API2 Q1'12 | 105.60 | 106.60 | - | - | 1.00 | 0.94% |

Precious metals

| | AM Fix | PM Fix | High bid | Low offer | Closing bid | Change (d/d) | EFP's |
|-----------|----------|----------|----------|-----------|-------------|--------------|-----------|
| Gold | 1,722.00 | 1,726.00 | 1,735.00 | 1,715.00 | 1,732.90 | 6.20 | 2.6/3.0 |
| Silver | - | 33.45 | 33.94 | 33.30 | 33.78 | 0.04 | -4.0/-2.0 |
| Platinum | 1,613.00 | 1,608.00 | 1,621.00 | 1,604.00 | 1,617.00 | 2.00 | 1.5/3.5 |
| Palladium | 685.00 | 684.00 | 692.00 | 681.00 | 687.00 | -11.00 | 0.0/1.0 |

Sources: Standard Bank; LME; BBG

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Focus: ETFs show renewed interest in PGM

According to the latest CFTC data, futures market positioning in PGM remains cautious (although it must be remembered that the data only covers the week ended 24 January, and therefore does not include the rally that occurred in the wake of the FOMC announcement). ETF positioning data on the other hand, which does include the period subsequent to the rally, shows growing investor interest. It remains to be seen whether this will gather momentum.

Marking a fourth week of successive gains, net speculative length for NYMEX platinum picked up 48.8k oz. Unlike the previous week, the improvement was attributable to an unwinding of short positions (59.1k oz), with a decline in longs (10.4k oz) detracting slightly from the net gain. Total short positions are still worryingly high, at 415.2k oz (last year's average is 158.8k oz). We are still concerned by the apparent lack of support for platinum from the speculative market.

ETF buying stepped up considerably this past week, with 21.8k oz added to platinum holdings — the largest gain since November 2011. This brings total platinum holdings to 1,325.6k oz. Should ETF buying maintain this momentum, we would view this as a sign that investors are shrugging off their scepticism of the past month.

Adding to last week's gains, net speculative length for NYMEX palladium has risen a strong 236.9k oz — the largest gain since June 2011. The improvement was mostly attributable to a 148.9k oz decrease in speculative shorts, with a 88.0k oz increase in longs contributing further. The past week's changes bring total short positioning to 324.2k oz, much closer to last year's average of 292.1k oz. However, total longs remain relatively weak at only 1,082.1k oz (the 2011 average is 1,417.1k oz).

Base Metals

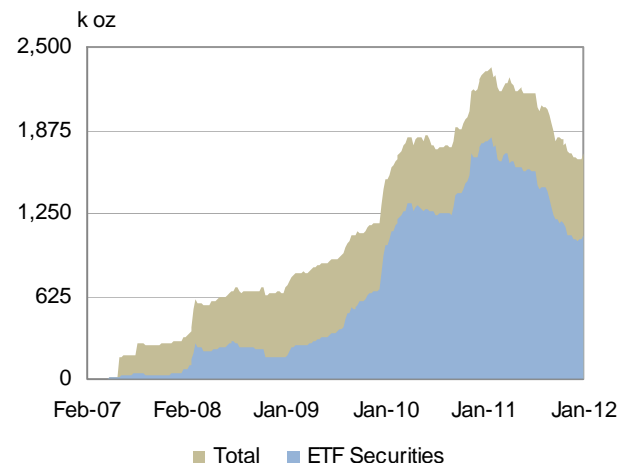
With the return of Chinese participants, we saw some light profit-taking emerge, which took base metals lower. The trend has continued into this morning, with a strengthening dollar adding to the drag on base metals. Not much support from Eurozone consumer and economic confidence data either — all numbers showed a fall in confidence and souring expectations.

According to the latest CFTC data released last Friday, along with an improvement in open interest, net speculative length for COMEX copper also rose, gaining 25.7 tonnes this past week. This increase was mostly as a result of 22.5 tonnes of speculative longs being added, with the 3.2 tonnes unwound in short positions contributing marginally. This past week's changes have pushed net speculative length deeper into positive territory — the deepest since August 2011. Speculative shorts are still elevated; they are at 357.8 tonnes, compared to last year's average of 300.2 tonnes. Confidence, however, appears to be growing, with speculative longs currently at 408.6 tonnes, closing on the 2011 average of 440.0 tonnes.

We believe that downside for copper remains exposed. On the downside, we see value in copper below \$7,000, but upside still seems compressed.

Later today, we could see US personal income and spending data generate some activity in base metals, especially after last Friday's disappointing Q4:11 GDP figures. Given the more risk-averse stance of markets this morning, we would expect a negative reading to generate more of a reaction than if the figures are better than expected.

Palladium ETF holdings



Sources: Various ETFs; Standard Bank Research

Despite the weakness in the futures market, ETF's appear much more confident in palladium's prospects, having added 41.8k oz (the largest increase of the past 12 months) to their holdings. ETF holdings of palladium now stand at 1,701.6k oz — a return to the levels seen in mid-December 2011.

Despite growing investor interest, we believe that PGM will struggle in Q1:12 on the back of a lack of real demand — a price above \$1,650 and \$700 for platinum and palladium respectively, will be difficult to sustain in the current macro-economic environment. However, platinum at \$1,500 and palladium at \$600 is too low based on cost pressures in the industry and our ZAR forecast (around 8.00 against the dollar). Over the long term, we still favour palladium over platinum.

By Marc Ground

By Marc Ground

Precious metals

Along with the other metals, precious metals have also succumbed to profit-taking as Chinese participants returned to the market. Downward momentum has continued into this morning, with European markets adopting a risk-off stance. Currently, US equity futures paint a similar picture for US markets, and as such, we expect precious metals to encounter further downside as the day progresses.

Net speculative length for COMEX gold grew, with 29.0 tonnes added last week — the largest gain of the year so far. The change in the net position was largely the result of speculative longs being added (26.0 tonnes). After three weeks of improvement, the net position at 498.4 tonnes is still well below last year's average of 671.3 tonnes. While these improvements are encouraging, their tentative nature indicated a speculative market that remained not entirely convinced of gold's short-term prospects ahead of the Fed's announcement. ETFs added 17.3 tonnes of gold, the strongest weekly rise since mid-November 2011.

Turning to COMEX silver, net speculative length continues to improve dramatically, with an increase of 355.7 tonnes this past week. Once again, the fall in short position continues apace with a decline of 348.5 tonnes recorded. However, participants are still not eager to put on long positions with only 7.2 tonnes added. The improvement over the past month is encouraging, although market positioning still appears weak. The lack of long positions being added, also points to a market that still lacks confidence. This wavering confidence is evident in ETF positioning, which dropped 62.7 tonnes this past week.

Gold support is at \$1,711 and \$1,700. Resistance is \$1,737 and \$1,751. Silver support is at \$33.00 and \$32.81, resistance is at \$33.67 and \$34.15.

In a press briefing this morning, the CEO of Eskom, South Africa's major power supplier, downplayed recent fears over a repeat of the 2008 blackouts which severely curtailed production in the country's PGM sector. He noted that coal stockpiles were at "healthy levels" and that current electricity demand had been lower than expected. Nevertheless, Public Enterprises Minister did say that discussions were underway with various stakeholders to implement a voluntary energy conservation scheme. While we still feel the probability of PGM production being severely disrupted is minimal, we will continue to monitor developments on this front closely.

Platinum support is at \$1,594 and \$1,585, resistance is at \$1,619 and \$1,634. Palladium support is at \$679 and resistance at \$692.

By Marc Ground

Energy

The oil market was mixed on Friday as a robust physical market was offset by a weaker euro. WTI fell slightly, by 14c/bbl, while Brent gained 67c/bbl. Product cracks and refining margins strengthened further, led by a buoyant gasoline market on the back of refinery outage. Gasoline crack last reached this high back in last year's summer driving season; which now raises the question of how long the strength will last. Meanwhile, the term structures for RBOB gasoline, Nymex heating oil and ICE gasoil all jumped amid concerns over the short-term product supply situation.

Net for last week, front-month WTI and Brent gained \$1.10/bbl and \$1.60/bbl respectively. The sell-off pressure from the previous week was held back by a strong physical market, as refineries rushed to capture strong refining margins. The market was boosted by the Fed as the central bank reiterated its stance to hold rates at the record low for an extended period. Corporate reporting season was net bullish last week, and the economic data from the Eurozone has shown signs of stabilising. However, the market continues to be wary of the ongoing negotiation over the Greek debt and the stress in the European financial system. However, Fitch's downgrade of five Eurozone countries later on Friday was largely ignored by the market.

The latest CFTC report shows that money managers raised their net length in WTI crude by 6.2% w/w (on a futures and options combined basis). Commercial hedgers' net short positions also grew sharply in percentage terms, by 7.2% but from a very low base. Meanwhile, swap dealers maintained a sizeable net short position. The open interest in WTI fell again w/w while market participants appeared to lack conviction on market direction.

This week is packed with important economic data releases, with the US non-farm payroll data at the top of the list, followed by the ISM/PMI surveys in both the US and Europe. We expect these data releases will be broadly supportive of the oil market. In conjunction with a robust physical market, oil prices are likely to make further gains during the week. However, we remain cautious that the strength in products is unlikely to last as refineries ramp up throughput and warm weather continues to erode demand. Consequently, we have a slightly bearish bias for the next few weeks. In addition, we are looking to sell into the strength of product cracks.

By James Zhang

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 | 4,996,650 | 5,000,150 | 0 | 3,500 | -3,500 | 26,250 | 968,750 | 19.39 | 181,707 |
| Copper | 335,425 | 337,875 | 1,000 | 3,450 | -2,450 | -35,475 | 90,425 | 26.96 | 127,910 |
| Lead | 343,050 | 344,525 | 200 | 1,675 | -1,475 | -10,025 | 47,975 | 13.98 | 49,511 |
| Nickel | 95,016 | 94,452 | 888 | 324 | 564 | 4,968 | 3,762 | 3.96 | 35,631 |
| Tin | 9,365 | 9,665 | 0 | 300 | -300 | -2,825 | 1,890 | 20.18 | 9,283 |
| Zinc | 848,350 | 848,500 | 1,000 | 1,150 | -150 | 26,650 | 21,900 | 2.58 | 91,981 |

Shanghai 3-month forward prices

| Metal | Open | Last | 1d Change |
|-----------|--------|--------|-----------|
| Aluminium | 16,450 | 16,345 | -45 |
| Copper | 60,800 | 60,930 | 160 |
| Zinc | 16,100 | 16,120 | 360 |

COMEX active month future prices

| Metal | Open | Close | Change | Change (%) |
|-----------|------------|-------|--------|------------|
| Aluminium | Ali Mar'12 | - | - | - |
| Copper | Cu Mar'12 | 389 | 383.75 | -5.15 |
| Zinc | | | | |

ZAR metal prices

| | Aluminium | Copper | Lead | Nickel | Tin | Zinc | ZAR/USD fix |
|---------|-----------|--------|--------|---------|---------|--------|-------------|
| Cash | 17,376 | 66,745 | 17,737 | 167,986 | 188,451 | 16,888 | 7.7520 |
| 3-month | 17,803 | 66,977 | 18,031 | 170,486 | 191,699 | 16,891 | 7.8565 |

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) | 128.48 | 0.47 | 127.88 | 0.98 | 127.33 | 0.93 | 126.06 | 0.73 | - | - |
| Gasoil 0.1% Rdam (\$/mt) | 953.00 | -0.75 | 953.75 | -1.25 | 951.00 | -1.50 | 944.00 | 4.50 | 937.25 | 2.25 |
| NWE CIF jet (\$/mt) | 1,020.94 | 1.11 | 1,025.58 | 7.33 | 1,026.84 | 6.78 | 1,025.00 | 4.25 | 1,022.18 | 1.83 |
| Singapore Kero (\$/bbl) | 126.87 | 0.46 | 127.18 | 0.63 | 127.45 | 0.68 | 126.25 | 0.28 | 125.34 | -0.04 |
| 3.5% Rdam barges (\$/mt) | 667.82 | -0.11 | 661.00 | 1.25 | 649.00 | 1.00 | 630.75 | 1.25 | 605.75 | 0.25 |
| 1% Fuel Oil FOB (\$/mt) | 679.63 | 0.82 | 676.25 | 1.25 | 673.25 | 1.00 | 663.25 | 2.75 | | |
| Sing FO180 Cargo (\$/mt) | 723.17 | -0.14 | 711.50 | -1.25 | 695.00 | -0.75 | 667.50 | -0.25 | | |

| Thermal coal | Q4-11 | | Q1-12 | | Q2-12 | | Cal 12 | | Cal 13 | |
|-----------------|--------|------|--------|------|--------|------|--------|------|--------|------|
| API2 (CIF ARA) | 106.60 | 1.00 | 109.25 | 1.95 | 111.60 | 1.90 | 110.50 | 1.70 | 118.00 | 2.05 |
| API4 (FOB RBCT) | 107.10 | 0.35 | 108.10 | 0.70 | 109.35 | 1.05 | 108.95 | 0.80 | 114.25 | 1.55 |

Precious metals

| Forwards (%) | 1 month | 2 months | 3 months | 6 months | 12 months |
|--------------|---------|----------|----------|----------|-----------|
| Gold | 0.53760 | 0.56000 | 0.58100 | 0.60740 | 0.62200 |
| Silver | 0.23200 | 0.24750 | 0.23400 | 0.23200 | 0.27800 |
| USD Libor | 0.27000 | 0.40250 | 0.55110 | 0.78525 | 1.09920 |

| Technical Indicators | 30-day RSI | 10-day MA | 20-day MA | 100-day MA | 200-day MA | Support | Resistance |
|----------------------|------------|-----------|-----------|------------|------------|----------|------------|
| Gold | 57.51 | 1,688.17 | 1,657.82 | 1,682.74 | 1,648.98 | 1,711.00 | 1,737.00 |
| Silver | 56.11 | 32.18 | 30.89 | 32.17 | 35.34 | 33.00 | 33.67 |
| Platinum | 57.73 | 1,563.30 | 1,508.33 | 1,554.57 | 1,671.90 | 1,594.00 | 1,619.00 |
| Palladium | 54.86 | 680.21 | 658.73 | 643.28 | 704.40 | 679.0 | 692.0 |

| Active Month Future | COMEX GLD | COMEX SLV | NYMEX PAL | NYMEX PLAT | DGCX GLD | TOCOM GLD | CBOT GLD |
|-------------------------|-----------|-----------|-----------|------------|----------|-----------|----------|
| | Apr'12 | Mar'12 | Apr'12 | Apr'12 | Feb'12 | Dec'12 | Feb'12 |
| Settlement | 1,734.20 | 33.4300 | 685.05 | 1,623.00 | 1,735.80 | 4,277.00 | 1,732.60 |
| Open Interest | 433,710 | 102,006 | 18,962 | 45,139 | 5,149 | 120,910 | 1,893 |
| Change in Open Interest | -1,287 | -510 | 529 | 670 | 0 | -2,516 | 172 |

Sources: Standard Bank; LME; Bloomberg

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