

Focus: The oil price spiked on Friday amid political tensions in Egypt. Although Egypt's domestic net oil demand is small, its importance in the international oil markets is represented as an important transit point for oil shipment. We expect the oil market to be biased towards the upside because of the unrest in Egypt and the risk of contagion into main oil-producer countries like Algeria and Libya. However, for now, we see a low probability that the Suez Canal and Sumed Pipeline operation will be affected.

- After gradually recovering over the tail-end of last week, copper has surged back above \$9,700 this morning as Asian based short covering augmented on-going position squaring activity ahead of the Chinese New Year holidays. Copper's strength has dragged the rest of the base metals complex higher heading into the afternoon
- Oil spiked on Friday amid political turmoil in Egypt. Front-month WTI gained \$3.70/bbl, to close at \$89.34/bbl, while front-month Brent rose by \$2.03/bbl, to close at \$99.42/bbl. The front-month WTI/Brent spread narrowed to -\$10.08/bbl. The market appeared to think that the very wide WTI/Brent spread had been overdone.
- Precious metals shrugged off data showing an acceleration in US economic growth, as investors remained assured that the Fed's monetary stimulus plans would not be altered. Perhaps the lower-than-expected rise in the GDP price index (0.3% q/q; consensus: 1.6% q/q) reduced worries that rising inflation might force the Fed to curtail stimulus plans.

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Commodity price data (28 January 2011)

Base metals LME 3-month										
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m	
Aluminium	2,459	2,473	2,495	2,468	47	0.57%	2,455.00	64	-8.25	
Copper	9,580	9,535	9,703	9,532	194	-0.47%	9,590.00	100	14.50	
Lead	2,466	2,438	2,470	2,420	17	-1.12%	2,545.00	55	79.00	
Nickel	26,700	26,620	27,000	26,600	125	-0.30%	26,825.00	25	-32.00	
Tin	29,700	29,700	30,000	29,600	500	0.00%	29,900.00	705	33.00	
Zinc	2,315	2,354	2,370	2,320	94	1.68%	2,300.00	49	-16.50	
Energy										
	Open	Close	High	Low	day/day	Change (%)				
ICE Brent	99.61	99.56	99.97	99.43	0.14	0.14%				
NYMEX WTI	89.97	89.56	90.87	89.42	0.22	0.25%				
ICE Gasoil	828.25	832.50	835.00	828.25	8.25	0.99%				
API2 Q1'11	117.90	118.70	-	-	0.80	0.67%				
ICE EUA Dec'11	14.77	14.68	-	-	-0.09	-0.61%				
Precious metals										
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's			
Gold	1,316.00	1,319.00	1,346.75	1,308.80	1,340.50	21.70	0.4/0.8			
Silver	-	27.90	28.04	26.37	27.92	0.89	-0.4/-0.2			
Platinum	1,790.00	1,784.00	1,805.00	1,764.00	1,800.00	0.00	0.0/2.0			
Palladium	803.00	806.00	813.00	795.00	812.00	2.00	-1.0/1.0			

Sources: Standard Bank; LME; BBG

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Focus: Egyptian tensions make oil spike

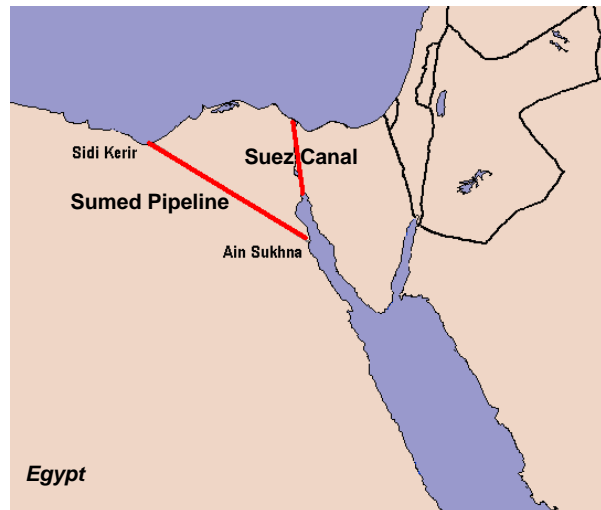
The oil price spiked on Friday amid political tensions in Egypt. Although Egypt's domestic net oil demand is small, it is of major importance to the international oil market as a key transit point for oil shipments out of the Persian Gulf, via the Suez Canal and the Sumed (Suez-Mediterranean) Pipeline. Closure of the Suez Canal and the Sumed Pipeline would divert tankers around the southern tip of Africa, the Cape of Good Hope, adding approximately 6,000 miles, or about 15 days, to transit time.

According to the Suez Canal Authority (SCA) and the US Department of Energy (DOE), total crude oil volumes transiting through the Suez were approximately 585,000 bpd in 2009, of which about 314,000 bpd travelled from South to North – the majority originating in the Persian Gulf. According to APEX and the DOE, oil flow through the Sumed pipeline in 2009 was around 1.1 million bpd. The amount of oil transported in 2009 by both the Suez Canal and the Sumed Pipeline was about 50% lower from the levels in 2008. This however reflects the changing dynamics of the international crude oil markets, where Asian demand is increasing at a higher rate than European and American markets, while West African crude production is meeting a larger share of the latter's demand.

The Suez Canal has previously been closed on three occasions: the Second World War saw it closed to non-Allied shipping, the Suez Crisis between late 1956 and early 1957, and the Arab-Israeli wars of 1967 and 1975. The canal has otherwise continued to operate through many other less serious turmoil in the region. We believe that the likelihood of a severe disruption to the Suez Canal and the Sumed Pipeline is small.

As to the risks of contagion of the political instability, many of the main oil-producer countries in the Middle East and North

Figure 1: Suez Canal and SUMED Pipeline



Source: Standard Bank Research

Africa (MENA) Region have a robust fiscal balance, as we pointed on in our *Energy Weekly* 9 December, thanks to high oil prices. The Economist Intelligence Unit looks at the major social-economic factors, including high unemployment, unaccountable secret police, ruling family business empire, recent food, fuel or jobs protests, and succession crisis looming. It highlights that the most vulnerable countries in the MENA region include Algeria, Jordan, Libya, Morocco and Syria, in addition to Tunisia and Egypt. Among these countries, Algeria and Libya are both OPEC members with 1.3mbd and 1.6mbd crude production respectively.

We see a low probability that the Suez Canal and Sumed Pipeline operation will be affected by the ongoing political turmoil in Egypt in the near term. The role of these two key oil transportation routes is still critical, but less so due to the change of dynamics in the international oil market. However, there are contagious risks into main oil-producer countries like Algeria and Libya.

By James Zhang

Base metals

After gradually recovering over the tail-end of last week, copper has surged back above \$9,700 this morning as Asian based short covering augmented on-going position squaring activity ahead of the Chinese New Year holidays. Copper's strength has dragged the rest of the base metals complex higher heading into the afternoon, though prices have stalled on the approach of US trade. Aside from copper, turnover across the rest of the complex is rather subdued.

Friday saw the metals again break free from the dollar, with solid US GDP figures, particularly the very strong personal consumption component, helping the base metals to rally in spite of a stronger dollar. Geopolitical tensions in the middle east, in particular Egypt, did trigger a bit of risk aversion late-on however, with weaker US equity markets weighing on the metals.

Looking ahead, this afternoon sees the release of the US Personal Income figures for December, and the January Chicago PMI. With the dollar still having only a marginal impact on the base metals, the data, but perhaps more importantly the reaction of the US equity markets to Friday's sell-off, will likely be key in terms of price direction this afternoon.

While headline LME copper stocks fell by 4,050 mt this morning - due mainly to a 6,300 mt draw in Chicago - on-warrant stocks actually increased by 4,075 mt as large increases in Busan and Rotterdam offset the US activity. Elsewhere, on-warrant tin stocks also declined sharply, with a 655 mt jump in cancelled warrants in Johor accounting for much of today's 670 mt fall, but also suggesting that demand for the metal remains solid, in spite of record prices.

By Leon Westgate

Energy

Oil spiked on Friday amid political turmoil in Egypt (see *Focus*). Front-month WTI gained \$3.70/bbl, to close at \$89.34/bbl, while front-month Brent rose by \$2.03/bbl, to close at \$99.42/bbl. The front-month WTI/Brent spread narrowed to -\$10.08/bbl. The market appeared to think that the very wide WTI/Brent spread had been overdone.

Despite the jump on Friday, front-month WTI was only up by 27c/bbl net for the week. Oil weakened during the first half of the week as (a) Saudi Arabia indicated it might boost production and (b) disappointing US jobs number and durable good orders. But then fears over Egypt and strong US economic data took hold of the market on Friday.

The latest CFTC report shows that Money Managers cut their net length in crude by a hefty 19.5% w/w for their positions on 25 January (futures and options combined). Commercial hedgers reduced their net short positions by 3% as the long hedges outstripped the short hedges. Swap Dealers reduced their net short positions by 23.7%. The net long position held by Non-Commercials as a percentage of total open interest came in at 6.5%, 1.7% lower than the record high hit on the last week of 2010.

The sharp cutback on Money Managers' net long positions earlier last week probably played a role in the sharp spike in the oil price on Friday, with the rally likely triggering short-covering.

In the financial market, the January PMI data for the US and the Eurozone are this week. The market expects continuous expansion in both these regions. Also, the US January non-farm payroll will be closely watched (Friday).

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By James Zhang

Precious metals

Precious metals shrugged off data showing an acceleration in US economic growth, as investors remained assured that the Fed's monetary stimulus plans would not be altered. Perhaps the lower-than-expected rise in the GDP price index (0.3% q/q; consensus: 1.6% q/q) reduced worries that rising inflation might force the Fed to curtail stimulus plans.

After relatively little activity last week, physical buying has begun to gain momentum supported by comparatively low prices. Investor demand is also picking up as political tensions in Egypt prompt renewed safe-haven interest. News that AngloGold has had to shut down one of its mines after a seismic event could also be lending support to gold.

Gold support is at \$1,312 and \$1,291. Resistance is at \$1,352 and \$1,369. Silver support is at \$26.86 and \$25.79, resistance is at \$28.52 and \$29.12.

Stronger-than-expected industrial growth and a deceleration in the decline of vehicle production in Japan are promising for PGMs, especially platinum. Industrial production grew by 3.1% m/m (consensus: 2.8% m/m) and vehicle production fell only 5.1% y/y (previous month's fall was 6.7% m/m). Japanese PMI figures also point to increasing industrial activity.

Platinum support is at \$1,765 and \$1,738, resistance is at \$1,813 and \$1,834. Palladium support is at \$796 and resistance at \$825.

By Marc Ground

Base metals

Daily LME Stock Movement (mt)

Metal	Today	Yesterday	In	Out	One day change	YTD change (mt)	Cancelled		Contract turnover
							warrants (mt)	Cancelled warrants (%)	
Aluminium	4,524,675	4,530,725	0	6,050	-6,050	247,625	166,900	3.69	149,407
Copper	398,075	397,275	3,050	2,250	800	20,525	27,000	6.78	158,614
Lead	279,025	276,925	2,450	350	2,100	70,750	2,975	1.07	29,688
Nickel	134,298	135,186	0	888	-888	-1,374	5,688	4.24	25,862
Tin	17,635	17,720	190	275	-85	1,360	920	5.22	9,569
Zinc	710,925	711,050	0	125	-125	9,500	2,975	0.42	86,487

Shanghai 3-month forward prices

Metal	Open	Last	1d Chnge
Aluminium	16,840	16,940	130
Copper	72,000	73,510	1,870
Zinc	18,550	18,730	380

COMEX active month future prices

Metal	Open	Close	Change	Change (%)
Aluminium	Ali Mar'11	-	-	-
Copper	Cu Mar'11	437	440.45	3.15
Zinc				

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,259	67,418	17,891	188,580	210,197	16,169	7.0300
3-month	17,807	68,657	17,555	191,677	213,855	16,950	7.2005

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)	108.15	0.02	110.69	0.91	111.20	0.88	112.60	0.93	114.15	0.98
Gasoil 0.1% Rdam (\$/mt)	832.50	8.25	837.00	7.50	841.75	8.75	850.50	7.50	857.50	7.25
NWE CIF jet (\$/mt)	883.53	0.84	912.16	10.08	912.43	7.82	920.64	7.67	935.42	7.78
Singapore Kero (\$/bbl)	109.83	0.02	112.64	0.76	112.75	0.73	113.92	0.85	116.25	0.98
3.5% Rdam barges (\$/mt)	507.05	0.47	516.50	6.50	515.75	6.75	515.50	6.75	520.00	6.25
1% Fuel Oil FOB (\$/mt)	514.18	0.22	528.75	6.25	529.75	6.50	535.50	7.00		
Sing FO180 Cargo (\$/mt)	536.04	0.52	545.00	6.75	543.25	6.75	541.75	6.25		

Thermal coal	Q1-11		Q2-11		Q3-11		Cal 11		Cal 12	
API2 (CIF ARA)	118.70	0.80	115.60	1.35	115.70	1.20	116.70	1.10	117.10	1.35
API4 (FOB RBCT)	119.95	1.05	117.70	1.70	115.95	1.20	117.25	1.35	113.70	1.35

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.33800	0.35000	0.37000	0.43200	0.60000
Silver	-0.03600	-0.03600	-0.04600	-0.00600	0.04800
USD Libor	0.26000	0.28313	0.30438	0.45381	0.78063

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	45.26	1,342.46	1,358.40	1,357.85	1,286.14	1,312.00	1,352.00
Silver	50.72	27.69	28.37	26.28	22.36	26.85	28.52
Platinum	56.03	1,808.76	1,788.64	1,709.79	1,638.27	1,765.00	1,813.00
Palladium	59.67	810.61	796.10	688.28	585.04	796.00	825.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Apr'11	Mar'11	Apr'11	Apr'11	Feb'11	Dec'11	Apr'11
Settlement	1,335.00	27.8750	814.25	1,805.00	-	3,533.00	1,331.80
Open Interest	488,939	123,551	21,631	41,744	1,258	131,480	2,262
Change in Open Interest	2,283	670	93	-170	696	1,383	56

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

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