

# FICC Research

## Commodities: Daily

### Focus: Gold physical demand remains positive



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**Focus: Gold physical demand remains positive** — Since the start of the month our Standard Bank Gold Physical Flow Index continued to climb and remains at high levels. In fact, the current levels seen in our index compare well with previous highs reached earlier this year and late-2009.

- Stronger US equities and better than expected US New Home Sales data helped reinvigorate the base metals during the afternoon. Copper was particularly strong, closing the day on its highs and above its 100-day MA for the first time since April-30th.
- Gold support is at \$1,182 and \$1,174. A drop below this level opens the metal for a possible test of \$1,150. Resistance is at \$1,192 and \$1,201.
- Crude oil prices appear to have settled into a range, following the rally seen on July 22nd, with front month WTI trading sideways, just above its 100-day MA.

#### Commodity price data (26 July 2010)

##### Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,049	2,057	2,063	2,026	8	0.37%	2,021.00	13	-20.50
Copper	7,040	7,149	7,149	6,985	109	1.55%	6,995.50	1	-23.00
Lead	1,978	2,015	2,015	1,965	37	1.86%	1,960.00	30	-22.00
Nickel	20,525	20,800	20,810	20,310	275	1.34%	20,415.00	35	-74.00
Tin	19,400	19,400	7,117	19,200	0	0.00%	19,235.00	600	-30.00
Zinc	1,928	1,954	1,955	1,916	26	1.35%	1,883.50	-8	-28.25

##### Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.45	77.35	77.75	77.19	-0.15	-0.19%
NYMEX WTI	78.92	78.88	79.19	78.73	-0.10	-0.13%
ICE Gasoil	654.00	653.75	654.75	651.50	-1.50	-0.23%
API2 Q3'10	92.60	92.95	-	-	0.35	0.38%
EUA Dec10	14.26	14.05	-	-	-0.21	-1.47%

##### Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,189.00	1,183.50	1,194.40	1,180.30	1,184.00	-4.50	-1/-0.6
Silver	-	18.20	18.26	18.07	18.19	0.09	-1/1
Platinum	1,558.00	1,546.00	1,550.00	1,543.00	1,548.00	10.00	1.5/3.5
Palladium	476.00	477.00	475.00	466.00	473.00	7.00	-0.5/1.5

Sources: Standard Bank; LME; BBG

### Focus: Gold physical demand remains positive

In our last gold physical flow update (Commodities Daily 8 July 2010) we pointed to a strong demand response from the physical market following gold's drop from \$1,250 to below \$1,200.

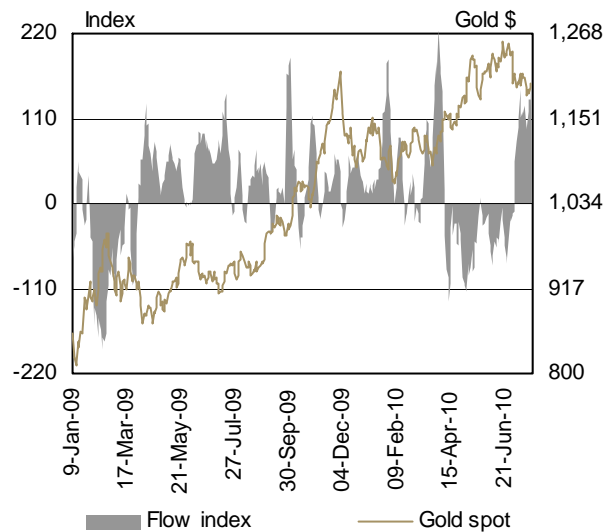
This remains the case and with gold below \$1,200 the demand response from the physical market remains one of support rather than resistance. This is evident from our Standard Bank Gold Physical Flow Index (an index value greater than zero indicates buying activity in the physical market. The higher the value, the greater the buying momentum. An index value less than zero indicate selling in the physical market).

Since the start of the month our Standard Bank Gold Physical Flow Index continued to climb and remains at high levels. In fact, the current levels seen in our index compare well with previous highs reached earlier this year and late-2009. For now the demand from the physical market persists despite gold having rallied from around \$1,180 towards \$1,200 in the past two days.

In technical terms gold looks bearish in approach of the \$1,181 - \$1,174 range where the 100-day MA and long-term support trend line meets. However for now the physical market sees gold as a buying opportunity at \$1,180 and is providing support around this crucial technical support range.

Our view on the physical gold market remains unchanged. We expect support from the physical market to increase towards Q4:10 - we estimate seasonality in gold jewellery demand to be

### Standard Bank Gold Physical Flow Index



Source: Standard Bank

the strongest in Q4. Buying of gold for jewellery demand, especially in India, may increase in August/September already.

We still see gold heading towards \$1,300 in, or closer to, Q4:10.

By Walter de Wet

### Base metals

Stronger US equities and better than expected US New Home Sales data helped reinvigorate the base metals during the afternoon. Copper was particularly strong, closing the day on its highs and above its 100-day MA for the first time since April-30th.

The metals have drifted sideways to lower so far this morning, in spite of stronger European equity markets, with the complex appearing to settle into a new, albeit slightly higher, trading range. Although copper has been busy, turnover across the other base metals is very poor. With the technical rally of last week having now largely petered out, the market is still short on direction and appears to be waiting for the US equity markets to show it the way to go.

This afternoon sees the release of the US Consumer Confidence figures for July (expected at 51.0 from 52.9). The wider market has increasingly focused on the various US consumer confidence indices and consumer spending figures to try and ascertain the pace of economic recovery and also likely demand for goods. With the metals having broken out of their recent ranges, the bears may view a bad set of figures as an opportunity to smash prices, while positive numbers should help the metals consolidate their recent gains.

Copper has seen good turnover so far this morning, though both Reuters and Bloomberg volume feeds for LME Select have been overstating the true Select figure by around ~2,300 lots at time of writing. The metal has nevertheless seen very good two-way interest, trading sideways in a fairly narrow ~\$50 range and holding above its 100-day MA (\$7,069).

Dundee Precious Metals is to invest \$30 million to refurbish and expand its Tsumeb smelter in Namibia from a current throughput capacity of 190 ktpy of copper concentrates to 240 ktpy of concentrates by 2012. The facility is able to treat complex concentrates and takes much of its feed from the Chelopech mine in Bulgaria which is also currently undergoing expansion work.

By Leon Westgate

## Precious metals

Gold is range-bound between \$1,180 and \$1,200 and still close to the 100-day MA at \$1,182 and long-term support line at \$1,174. Today is options expiry on COMEX with significant open interest around \$1,180 and \$1,200. While we remain constructive on gold on a 6-month view (partly due to what we observe in the physical market), short-term the preferred strategy remains one of selling into rallies on approach of \$1,200.

Gold support is at \$1,182 and \$1,174. A drop below this level opens the metal for a possible test of \$1,150. Resistance is at \$1,192 and \$1,201.

Technically there are key developments in other markets which may benefit PGM and silver and to a lesser extent gold. The S&P managed to close above its 200-day MA yesterday which is positive for risk appetite. The VIX also moved below its 200-day MA which confirmed improved risk appetite. However, the US bond market remains generally bearish. Should US treasury yields start rising this may add to upside momentum for especially PGM.

Platinum and palladium continues to find better support which is consistent with our view that platinum below \$1,500 provides a buying opportunity. Additional support for platinum (and to a lesser extent palladium) comes from the ZAR which has shown remarkable strength in recent days. While the current ZAR strength is not enough to justify much higher PGM prices, we believe a stronger ZAR adds to our view that support on the downside for PGM prices are building. A stronger ZAR puts more pressure on SA platinum producers' revenue stream.

Platinum support is at \$1,540 and resistance at \$1,565. Palladium support is at \$465 and resistance at \$485.

**By Walter de Wet**

## Energy

Crude oil prices appear to have settled into a range, following the rally seen on July 22nd, with front month WTI trading sideways, just above its 100-day MA. That said, the wider global markets, and US equities in particular, continue to govern short term price direction, with yesterday afternoon's strong performance from the Dow Jones and S&P helping rescue crude oil prices after a poor start to the week.

The interplay between what essentially remains a bleak near-term fundamental outlook, short term technical signals, and the ebb and flow of investor sentiment will continue to dictate price behaviour, resulting in nervy and volatile trading over the coming weeks. We remain broadly positive towards crude oil, and expect prices to trend higher over the balance of the year. However, we also expect to see a lot of noise in the process, with the stronger fundamental picture taking time to exert an influence on prices.

Looking ahead to tomorrow's DOE inventory data, it will be interesting to see what impact the recent storms in the Gulf of Mexico may have had. Consensus expectations are for a 1,750K bbl decline in Crude Oil inventories, while Gasoline and Distillate stocks are both expected to increase, by 300 K and 2,000 K respectively.

Coal prices started the week on the back foot, with farther-dated prices coming under additional pressure and seeing the contango narrow. API2 for Q4-10 fell \$0.35/mt to \$93.40, while Cal-11 fell by \$0.50/mt. API\$ for Q4-10 managed to hold steady, climbing by \$0.05/mt to close at \$90.05, though Cal-11 also fell by \$0.50 to finish the day at \$93.80.

**By Leon Westgate**

## 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	4,399,775	4,404,650	#N/A	N/A	4,875	-4,875	-229,125	241,875	5.50	110,626
Copper	413,800	416,275	825	3,300	-2,475	-88,525	30,725	7.43	106,289	
Lead	183,175	182,800	3,825	3,450	375	36,675	4,175	2.28	28,115	
Nickel	115,950	116,262	402	714	-312	-42,060	4,506	3.89	22,690	
Tin	15,150	15,370	25	245	-220	-11,615	915	6.04	7,061	
Zinc	620,300	620,600	#N/A	N/A	300	-300	132,250	22,300	3.60	52,682

### Shanghai 3-month forward prices

### COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	15,390	15,350	-10	Ali Jul'10	-	-	-	-
Copper	55,620	55,430	10	Cu Jul'10	322	321.65	-0.65	-0.20%
Zinc	16,060	15,975	45					

### ZAR metal prices (26 July 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,885	51,522	14,435	150,356	141,666	13,872	7.3650
3-month	15,380	53,466	15,070	155,559	145,089	14,614	7.4788

## 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)	84.70	0.13	87.67	0.60	88.00	0.54	89.67	0.48	-	-
Gasoil 0.1% Rdam (\$/mt)	653.75	-1.50	659.50	-1.50	665.00	-1.25	677.50	-1.75		
NWE CIF jet (\$/mt)	690.09	0.85	711.54	3.75	717.21	3.75	732.30	3.32		
Singapore Kero (\$/bbl)	85.34	0.12	88.37	0.45	89.05	0.39	91.00	0.39		
3.5% Rdam barges (\$/mt)	418.90	2.79	433.75	1.75	432.75	1.50	438.50	1.50		
1% Fuel Oil FOB (\$/mt)	457.17	2.31	470.50	-0.50	470.75	-1.00	478.25	-0.25		
Sing FO 380 Cargo (\$/mt)	449.75	0.00	449.75	0.00	449.75	0.00	449.75	0.00		
Sing FO180 Cargo (\$/mt)	446.84	1.74	458.50	1.50	459.50	1.75	466.50	1.25		
Thermal coal	Q3-10		Q4-10		Q1-11		Cal 11		Cal 12	
API2 (CIF ARA)	92.95	0.35	93.50	-0.10	95.50	-0.05	98.10	0.00	105.45	-0.05
API4 (FOB RBCT)	90.40	-0.70	90.00	-0.60	92.00	-0.25	94.30	-0.30	99.70	-0.30

## Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.40250	0.46800	0.50800	0.56200	0.61000		
Silver	0.71000	0.72000	0.73000	0.78000	0.78000		
USD Libor	0.32500	0.40125	0.48750	0.69769	1.08031		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	47.21	1,192.26	1,199.95	1,182.61	1,148.17	1,180.00	1,198.00
Silver	50.46	18.00	18.01	18.08	17.67	17.80	18.20
Platinum	49.71	1,528.01	1,522.92	1,608.23	1,543.37	1,535.00	1,565.00
Palladium	52.59	459.93	452.49	482.40	438.76	465.00	485.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Jun'10	Jul'10	Jun'10	Jul'10	Jun'10	Feb'11	Jun'10
Settlement	1,187.90	18.1850	476.30	1,555.80	1,184.00	3,341.00	1,184.40
Open Interest	560,595	115,922	19,710	28,614	1,103	108,988	2,633
Change in Open Interest	-8,218	1,940	-222	-581	0	2,096	1

Date: 26 July 2010

Sources: Standard Bank; LME; Bloomberg

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