

FICC Research

Commodities: Daily

Focus: Speculative interest rising — but still low



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Speculative interest rising — but still low Speculative length for metals and crude oil increased last week. Despite this increase, speculative length remains well below that of the past few months.

- Precious metals are finding good buying support, with platinum and palladium taking the lead. While platinum and palladium have very good support from a supply perspective, silver and gold look best positioned for a rally, based on speculative interest.
- After rallying strongly in the immediate aftermath of the Nonfarm Payroll figures, crude oil prices have essentially trod water, albeit with one eye on the dollar's movements. Overall, front month WTI crude remains rangebound and continues to trade very technically around the \$82/bbl mark.
- Latent momentum from Friday's better than expected US Nonfarm Payroll figures resulted in firmer Asian equity markets overnight, with stronger Asian equities and a weaker dollar emerging as the main drivers behind the rally in base metals prices this morning. Of note, the overnight session was pretty quiet with the Chinese market looking on from the sidelines rather than getting involved too aggressively.

Commodity price data (5 March 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,235	2,232	2,262	2,226	15	-0.13%	2,201.00	-2	-30.25
Copper	7,510	7,546	7,630	7,506	175	0.48%	7,466.50	-19	-31.00
Lead	2,195	2,230	2,291	2,235	60	1.59%	2,178.00	-19	-22.75
Nickel	22,650	22,400	22,825	22,450	95	-1.10%	22,500.00	-375	-75.00
Tin	17,525	17,405	17,620	17,450	250	-0.68%	17,425.00	-130	-77.00
Zinc	2,282	2,350	2,411	2,320	90	2.98%	2,257.00	-33	-26.00

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	80.21	80.44	80.92	80.18	0.55	0.68%
NYMEX WTI	81.79	81.96	82.41	81.70	0.46	0.56%
ICE Gasoil	651.75	652.25	655.00	650.75	0.75	0.11%
API2 Q1'10	74.50	73.75	-	-	-0.75	-1.02%
EUA Dec10	13.25	13.34	-	-	0.09	0.68%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,135.00	1,135.00	1,140.70	1,128.00	1,134.80	2.50	0/0.4
Silver	-	17.46	17.49	17.17	17.36	0.20	0/2
Platinum	1,577.00	1,578.00	1,583.00	1,573.00	1,575.00	-5.00	-5/1.5
Palladium	465.00	466.00	475.00	467.00	474.00	14.00	0/2

Sources: Standard Bank; LME; BBG

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Focus: Speculative interest rising — but still low

Speculative length for metals and crude oil increased last week. Despite this increase, speculative length remains well below that of the past few months. Gold and silver in particular don't seem overextended yet.

Gold has seen net speculative length on COMEX rise marginally, from 33.60% of open interest (OI), to 33.90% — still well below 42% of OI in September 2009. The net speculative long position now stands at 717 tonnes. This is 186 tonnes less than the highs reached in October 2009.

For silver, the picture is similar — speculative length is at 23.20% of OI (19.30% the previous week).

For gold and silver, the relatively low level of speculative interest indicates that both metals are set to be less sensitive to dollar appreciation than dollar depreciation. We still expect more strength in the dollar (target: \$1.30 against the euro). Because speculative length is low, and we expect more dollar strength, we still favour gold and silver in euro. We would look for a large rally in gold and silver (in dollar terms) once the dollar starts to depreciate again.

WTI crude saw speculative interest rise from 6.65% of OI to 7.10% last week. The speculative length in WTI does not look overextended yet, but we may be getting closer to this level. Speculative length reached 10.4% of OI in January before prices declined from \$84 to \$70. Average speculative length as a percent of OI over the past 12 months was only 3.7%.

Base metals

Latent momentum from Friday's better than expected US Nonfarm Payroll figures resulted in firmer Asian equity markets overnight, with stronger Asian equities and a weaker dollar emerging as the main drivers behind the rally in base metals prices this morning. Of note, the overnight session was pretty quiet with the Chinese market looking on from the sidelines rather than getting involved too aggressively. With fears over Greece starting to subside, it will be interesting to see if the base metals continue to react to the global economic recovery story, regardless of Chinese activity.

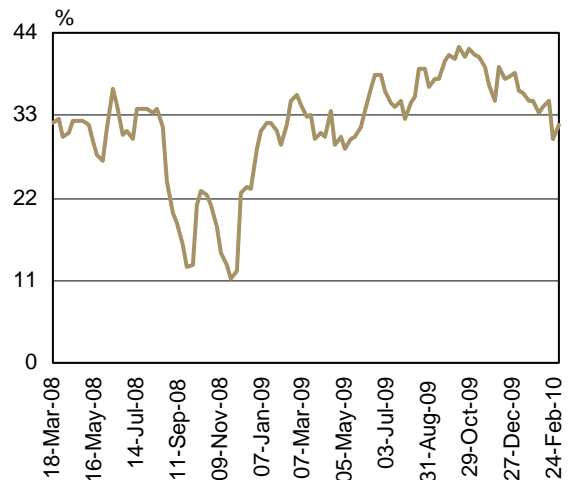
Copper rallied strongly during Friday afternoon in the wake of the payroll figures, before profit taking kicked in towards the close. Given the late correction in prices, copper has started this week rather tentatively and in consolidation mode, though Shanghai prices have played catch up to the LME, while a weaker dollar and stronger Asian equities have helped support prices heading into the afternoon. A quiet overnight session has resulted in subdued volumes this morning, with the market seemingly on-hold until the US equity markets open up.

Aluminium has rallied back towards Friday's intraday highs, with the light metal recovering from the sell-off seen during Friday evening. Lead, nickel have tracked aluminium higher this morning, with both metals putting in a solid performance. Zinc has also rallied strongly, but has run out of steam heading into the afternoon with the metal starting to track copper again.

Concerns over Chinese lead supply are starting to re-emerge, with Hunan Nonferrous Metals Corp. saying that the government will likely raise environmental standards for lead producers. While new standards may impact on short term supply, longer term output is unlikely to be affected with the implementation of rules likely emerging as the catalyst for consolidation in the industry rather than widespread capacity closures.

In other news, China is reportedly planning to nullify loan guarantees made by local governments, and will look to ban all future agreements. China's local governments have been raising funds through investment vehicles in order to get around rules that prevent them from borrowing directly. The Chinese government has said it will continue its moderately loose fiscal policy, however whether official lending emerges to fill any gap left by the local governments remains to be seen.

Gold non-commercial long position as % of OI



Source: Standard Bank, CFTC

While copper has found support from the recent earthquake in Chile, COMEX non-commercial length is also rising reaching 12.20% of open interest last week. This is still well below levels of 20% seen in January. However, looking at the rising in open interest on LME, indications are that non-commercial activity in base metals is on the rise.

By Walter de Wet

By Leon Westgate

Precious metals

Precious metals are finding good buying support, with platinum and palladium taking the lead. While platinum and palladium have very good support from a supply perspective, silver and gold look best positioned for a rally, based on speculative interest.

Both gold and silver have seen their speculative interest decline sharply since October last year (refer to *Focus*). While speculative interest is now rising again, the levels in US futures markets are still well below levels seen last year for both these metals. The non-commercial net long position in gold averaged 35.5% last year, reaching a high of 40.2% in October. Currently, non-commercial length for COMEX gold stands at 33.90%. For silver, the average non-commercial length was 19.5% of OI and a high of 30.7%. Currently non-commercial length on COMEX is at 23.2%. For both metals, we see room for a rise in speculative interest. While we expect more dollar strength, we believe because speculative interest in gold is not overextended yet. Therefore, the gold price could fall less when the dollar appreciates further. As a result, we still favour gold in euros and GBP.

Gold continues to find support at \$1,130. Gold support is at \$1,128 and \$1,121, resistance is at \$1,142 and \$1,148.

Platinum speculative length as a percentage of opening interest is at 60% — compared to an average level of only 50% in 2009. Palladium speculative length is at 57% of OI, while the average level last year was also 50%. Both metals are seeing very high speculative activity. This should keep both metals very volatile. But despite the rise in speculative activity, we still favour buying dips. ETF holdings continue to rise, with the US platinum ETF adding another 9,947oz to its holdings. ETF holdings continue to tighten up the market.

There are reports that the South African government may not extend guarantees to Eskom as the power utility struggles to raise debt for capital expansion. This would add to the list of issues that provides support for platinum and palladium on the downside. The ZAR has strengthened almost 6% in the past two weeks. When the ZAR strengthens, South African PGM producers require a higher PGM prices (in dollar terms) to cover their (predominantly ZAR) costs.

With palladium above \$475, the next target is \$490. Resistance is at \$465. Platinum resistance is at \$1,610 and support at \$1,580.

By Walter de Wet

Energy

After rallying strongly in the immediate aftermath of the Nonfarm Payroll figures, crude oil prices have essentially trod water, albeit with one eye on the dollar's movements. Overall however, front month WTI remains rangebound and continues to trade very technically around the \$82/bbl mark.

This afternoon is looking rather light in terms of economic data. As such WTI is likely to continue looking to the dollar and its technical signals, though the performance of the US equity markets may also have a bearing on prices.

Both API2 and API4 saw nearby prices come under pressure on Friday, though the back end of the curve for both contracts held up fairly well. API2 for Q2-10 delivery fell \$0.75/mt to \$73.75 whereas Q2-11 fell only \$0.20/mt to \$89.90. API4 for Q2-10 fell \$0.20/mt to \$81.35 while API4 for Q2-11 posted a \$0.40/mt gain.

Meanwhile, BHP Billiton has said it has agreed to sell coking coal on shorter term contracts in Europe, China, India and Japan as the company moves away from the historical norm of annual price deals.

In other news, Richards Bay Coal Terminal exported 4.94 million mt in February, while relieving 5.20 million mt by rail during the same period. End-month stocks at the terminal were 2.98 million mt.

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	4,538,900	4,545,125	2,150	8,375	-6,225	-90,000	291,800	6.43	161,875
Copper	541,575	543,150	-	1,575	-1,575	39,250	29,625	5.47	105,952
Lead	170,525	169,975	750	200	550	24,025	13,200	7.74	32,071
Nickel	160,224	160,884	630	1,290	-660	2,214	2,832	1.77	30,035
Tin	24,445	24,370	75	-	75	-2,320	1,415	5.79	3,463
Zinc	540,500	540,700	-	200	-200	52,450	4,550	0.84	61,077

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,760	16,870	145	Ali Mar'10	-	-	-	-
Copper	60,270	60,370	880	Cu Mar'10	342	343.00	1.25	0.37%
Zinc	18,750	18,850	585					

ZAR metal prices (5 March 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,413	55,678	16,241	167,783	129,938	16,830	7.4570
3-month	16,923	57,214	16,908	169,837	131,965	17,818	7.5820

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)	86.84	0.46	88.27	1.35	88.90	1.44	90.41	1.47		
Gasoil 0.1% Rdam (\$/mt)	652.25	0.75	656.00	0.75	660.25	0.25	676.00	0.25		
NWE CIF jet (\$/mt)	709.46	8.93	718.14	10.10	724.58	10.75	741.59	10.87		
Singapore Kero (\$/bbl)	86.22	0.14	88.52	1.25	89.40	1.39	91.51	1.44		
3.5% Rdam barges (\$/mt)	452.50	4.25	455.00	4.75	457.25	5.25	462.00	6.00		
1% Fuel Oil FOB (\$/mt)	461.50	6.00	467.25	6.00	473.25	6.00	491.00	7.25		
Sing FO 380 Cargo (\$/mt)	472.25	4.75	475.50	5.75	477.50	5.75	474.75	-5.50		
Sing FO180 Cargo (\$/mt)	479.50	4.75	481.75	5.25	484.00	5.75	489.00	6.25		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	73.75	-0.75	77.35	-0.55	81.65	-0.45	91.65	-0.10	102.90	0.15
API4 (FOB RBCT)	81.35	-0.20	81.25	0.25	83.25	0.40	88.75	0.35	96.90	0.25

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.20000	0.21200	0.22800	0.32000	0.47800
Silver	0.55000	0.55000	0.56250	0.57500	0.58250
USD Libor	0.22906	0.23938	0.25363	0.39000	0.85063

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	55.12	1,122.23	1,111.54	1,113.21	1,040.58	1,124.00	1,140.00
Silver	54.56	16.69	16.23	17.27	16.16	17.15	17.55
Platinum	58.64	1,554.84	1,538.63	1,476.10	1,360.07	1,580.00	1,610.00
Palladium	63.16	444.94	436.19	393.85	333.81	475.00	490.00

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	1,137.00	17,4800	478.50	1,579.10	1,136.80	3,308.00	1,136.50
Open Interest	466,572	117,376	23,459	34,991	1,325	98,751	2,943
Change in Open Interest	6,264	-9,303	-1,647	-44	80	9,331	187

Date: 5 March 2010

Sources: Standard Bank; LME; Bloomberg

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