

FICC Research

Commodities: Daily

Focus: Speculative length in commodities building



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Focus: After the sharp correction in the speculative length of many commodities at the start of February, speculative activity is building again. On speculative activity, our view remains largely unchanged. We expect commodity prices to experience sharp corrections as the futures markets becomes overextended relative to the underlying physical market for certain commodities. However, we expect dips to be bought and recoveries after corrections to be fast.

- A weaker dollar has helped support prices this morning, with all of the base metals pushing higher. Copper has seen increased Chinese buying activity while nickel has broken out of its recent range.
- The CFTC meeting on whether to impose position limits in metal markets was largely inconclusive and is perhaps best viewed as part of the learning process for the commissioners, politicians and other interested parties.
- Gold enjoyed a good rally this morning as the euro experienced short-covering.
- Crude oil has rallied on the back of the weaker dollar, nevertheless, front month WTI is rather subdued and is again struggling to make much headway above \$81/bbl.

Commodity price data (25 March 2010)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,208	2,219	2,225	2,207	-2	0.52%	2,176.00	-19	-31.50
Copper	7,379	7,436	7,505	7,364	60	0.77%	7,347.00	37	-34.60
Lead	2,052	2,078	2,100	2,065	51	1.24%	2,025.50	25	-28.75
Nickel	22,675	22,825	23,430	22,700	550	0.66%	22,675.00	480	-19.00
Tin	17,600	17,460	17,750	17,650	100	-0.80%	17,500.00	250	-78.00
Zinc	2,241	2,246	2,266	2,220	34	0.22%	2,215.00	33	-31.50

Energy

	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	79.36	80.05	80.35	79.31	0.44	0.55%	-	-	-
NYMEX WTI	80.15	80.92	81.21	80.05	0.39	0.48%	-	-	-
ICE Gasoil	661.50	666.50	667.25	661.50	2.25	0.34%	-	-	-
API2 Q1'10	74.50	73.25	-	-	-1.25	-1.71%	-	-	-
EUA Dec10	13.11	12.84	-	-	-0.27	-2.06%	-	-	-

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,093.50	1,093.00	1,094.50	1,088.50	1,092.50	3.70	-5/-1
Silver	-	16.85	16.83	16.67	16.72	0.10	0/2
Platinum	1,585.00	1,593.00	1,604.00	1,585.00	1,600.00	20.00	-0.5/1.5
Palladium	447.00	448.00	452.00	448.00	451.00	6.00	0/2

Sources: Standard Bank; LME; BBG

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Focus: Speculative length in commodities building

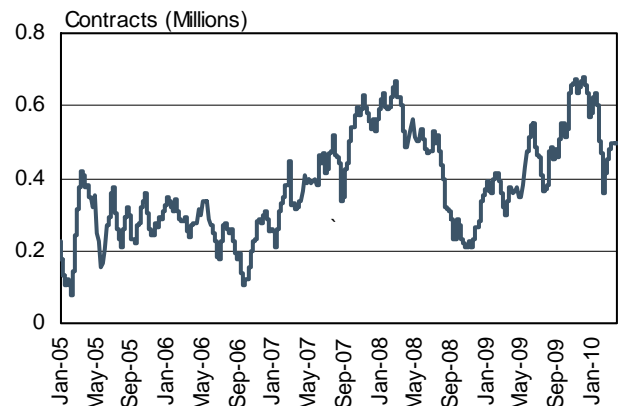
After the sharp correction in the speculative length of many commodities at the start of February, speculative activity is building again. On speculative activity, our view remains largely unchanged. We expect commodity prices to experience sharp corrections as the futures markets becomes overextended relative to the underlying physical market for certain commodities. However, we expect dips to be bought and recoveries after corrections to be fast.

We believe that the global economy will keep recovering. This remains the case despite recent concerns about sovereign debt in the Eurozone. Economic growth is particularly strong in important commodity-consuming economies, especially that of Asia.

At the same time, indications are that accommodative monetary policy will remain in the US and Europe. The US is a large source of global liquidity.

In order to gage the extent of speculative activity in the entire commodity market, we look at the cumulative net long non-commercial position for some futures contracts in the US (contracts included is soybean, wheat, corn, gold, silver, platinum, palladium, copper and WTI). The current cumulative net speculative length for these contracts has been rising from February's lows. However, speculative interest isn't near levels seen January and September 2009. This indicates that although speculative long positions are building, at an aggregate level, they don't look overextended yet. However, for

Net long non-commercial position for selected contracts



Sources: Standard Bank; CFTC

individual markets such as NYMEX WTI, net speculative length is approaching levels where it looks overextended.

We grow more cautious as speculative interest rises. But for commodities as a whole, the market does not look overextended yet. Commodities in euro should perform better than commodities in dollar, while speculative interest continues to rise.

By Walter de Wet

Base metals

A weaker dollar (or rather stronger euro) following yesterday's EU agreement on how to deal with the Greek crisis has helped support prices this morning, with all of the base metals pushing higher. Copper was much busier overnight with fresh Chinese buying interest emerging, while nickel has also seen very good turnover after prices broke out of recent ranges. Volumes elsewhere in the base metals complex remain pretty thin however.

Thursday afternoon saw the base metals rally, initially on the back of Ben Bernanke's comments that the US economy continues to need accommodative monetary policies, then again on speculation that the EU summit would reach a deal on Greece. A late dollar-related sell off did take the shine off somewhat, however further dollar weakness this morning has seen the metals resume their uptrend.

Meanwhile, the CFTC meeting on whether to impose position limits in metal markets was largely inconclusive and is perhaps best viewed as part of the learning process for the commissioners, politicians and other interested parties.

Copper was much busier overnight with fresh Chinese buying interest emerging. The weaker dollar has been a key factor behind the recovery in prices, though copper also received an additional boost from a 13,636 mt (8%) fall in SHFE stocks. Prices have continued to strengthen heading into the afternoon with prices climbing back above \$7,500.

Nickel has been the strongest performer over the past couple of days, with the metal building on yesterday's strength and continuing to rally strongly this morning. 3-month prices have since climbed above \$23,500 heading into Friday afternoon, the highest level since June 2008. In doing so, the metal has set a new high for the year and has broken out from its recent range, triggering fresh buying interest and short covering activity. LME inventories have meanwhile continued to come under pressure, with headline stocks declining 1,074 mt today. Declining inventory, in a month which traditionally sees stocks build, has been one of the factors helping to underpin the metal's recent price strength.

By Leon Westgate

Precious metals

Gold enjoyed a good rally this morning as the euro experienced short-covering.

Euro strength comes on the back of the EU striking a deal on how to deal with Greece. The EU, together with the IMF, seem set finance Greece only if the country can't raise funds in the capital market first. This would create a safety net for Greece.

While this deal may ease downward pressure on the euro for now, the response in the market has been lukewarm. We still see many questions that need answers before the downward trend in the euro will stop. The Greece economy is a lightweight. What if a heavyweight like Italy needs a safety net? Also, the market may wait to see what happens when Greece actually does come to the market in an attempt to raise enough funding, and at what spread over German bunds investors will lend money to Greece. Furthermore, should Greece require EU assistance, any decision on assistance from the EU must be unanimous, e.g. Germany may still veto assistance.

While gold is finding support, we believe that selling into rallies is still the preferred strategy. Resistance is at \$1,100 and \$1,109, support is at \$1,085 and then \$1,080.

Platinum may still test lower levels should gold come under pressure. We would look for support at the \$1,550 – \$1,560 level. Palladium is holding up well. We have seen very good buying on approach of \$440, and the metal is now back at \$460. We believe palladium will outperform platinum as this level is providing very good support.

By Walter de Wet

Energy

Crude oil has rallied on the back of the weaker dollar, nevertheless, prices have been rather subdued with front month WTI again struggling to make much headway above \$81/bbl this morning. Given the recent trend of a stronger morning session followed by afternoon weakness, it seems that oil has a bit of work to do this afternoon if prices are going to end the week on a positive note.

Seasonal demand factors and concerns over rising inventories are likely to continue weighing on sentiment towards crude oil, however, month and quarter-end factors are also likely to come into play today and early next week. Consequently, although we expect prices to remain under pressure, the next couple of days are likely to be rather volatile. Short term direction will continue to be dominated by fluctuations in the dollar, but also by technical signals.

Coal prices have softened a little with API2 for Q2-10 falling \$0.35 to \$73.25/mt and Cal-11 falling \$0.85. API4 has fared a little better, with Q2-10 unchanged and Cal-11 declining \$0.30 to \$85.20. The declaration of force majeure at BHP Billiton's Hay Point terminal has seen spot coking coal prices pick up, however the impact is understandably rather localised.

In other news, a drought in Southwest China has increased speculation that Chinese demand for coal may increase in order to offset the drop in hydroelectric power output. This may give coal prices some support in what is traditionally a weaker seasonal demand period.

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	4,579,375	4,586,350	-	6,975	-6,975	-49,525	292,900	6.40	149,675
Copper	516,925	518,825	325	2,225	-1,900	14,600	19,000	3.68	79,024
Lead	172,250	172,000	750	500	250	25,750	10,475	6.08	24,592
Nickel	155,922	156,996	-	1,074	-1,074	-2,088	4,458	2.86	21,266
Tin	24,265	24,285	-	20	-20	-2,500	290	1.20	4,344
Zinc	542,325	542,375	-	50	-50	54,275	13,900	2.56	49,590

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,420	16,500	90	Ali Mar'10	-	-	-	-
Copper	59,350	59,770	610	Cu Mar'10	338	339.85	1.80	0.53%
Zinc	18,380	18,510	200					

ZAR metal prices (25 March 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,052	54,199	14,942	167,273	129,098	16,340	7.3770
3-month	16,646	55,780	15,585	171,229	130,981	16,849	7.5018

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)	87.56	-0.04	88.07	0.57	88.46	0.38	89.87	0.34		
Gasoil 0.1% Rdam (\$/mt)	666.50	2.25	663.25	1.25	664.50	0.25	677.50	-1.25		
NWE CIF jet (\$/mt)	705.71	1.25	712.14	4.40	716.75	2.95	735.27	3.00		
Singapore Kero (\$/bbl)	87.21	-0.08	88.17	0.47	88.81	0.33	90.87	0.39		
3.5% Rdam barges (\$/mt)	444.99	0.42	447.00	3.25	450.00	3.25	455.75	4.00		
1% Fuel Oil FOB (\$/mt)	470.64	3.39	478.50	7.75	480.50	6.50	492.75	5.50		
Sing FO 380 Cargo (\$/mt)	466.75	2.75	469.50	3.00	472.25	3.25	474.00	3.25		
Sing FO180 Cargo (\$/mt)	470.83	0.37	474.25	3.00	477.00	3.00	482.75	3.25		

Thermal coal	Q2-10		Q3-10		Q4-10		Cal 10		Cal 11	
API2 (CIF ARA)	73.60	-0.50	76.70	-0.65	79.90	-1.00	86.30	-1.00	97.30	-1.00
API4 (FOB RBCT)	80.00	-1.10	80.85	-0.75	82.80	-1.20	85.50	-1.30	93.05	-1.25

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month
Gold	0.25000	0.26400	0.27600	0.34600	0.54200
Silver	0.51600	0.51600	0.53600	0.55600	0.59600
USD Libor	0.24694	0.26375	0.28781	0.43688	0.90844

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	47.90	1,107.20	1,114.88	1,119.71	1,051.56	1,088	1,109
Silver	49.79	17.05	17.06	17.26	16.31	16.60	17.50
Platinum	55.70	1,611.98	1,598.89	1,513.17	1,385.74	1,580.00	1,640.00
Palladium	54.96	463.61	461.34	412.60	348.77	455.00	470.00

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	1,097.90	16.8500	458.25	1,611.80	1,097.50	3,271.00	1,096.60
Open Interest	492,675	112,811	23,810	36,749	560	110,922	3,164
Change in Open Interest	3,974	278	225	201	722	-4,449	-1,031

Date: 25March 2010

Sources: Standard Bank; LME; Bloomberg

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