Commodities

Futures market and ETF positioning

Standard Bank

Week ended 23 March 2012

26 March 2012

The latest CFTC (Commodity Futures Trading Commission) data, released on Friday 23 March 2012, reveals the following:

- **Gold:** Total short positions have now pushed above last year's average, while net speculative length is quite weak. After the previous week's pause, the activity in the futures market suggests a return to the less favourable view on gold we saw two weeks ago.
- **Silver:** The continued deterioration in long positioning, coupled with the strong pick-up in short positions, does indicate a market that expects further losses in silver. ETFs remained net sellers, underscoring the unfavourable investor attitude towards silver.
- **Platinum:** The slowing in the addition of short positions is encouraging, although we'd rather see some unwinding, as total shorts at 200.9k oz are uncomfortably above the 2011 average of 158.8k oz.
- **Palladium:** The subdued deterioration (relative to that of the other precious metals) makes it seem as though market participants are more confident on palladium's prospects. However, the recent price drop brings this confidence into question.
- **Oil:** Net speculative length as a percentage of open interest is currently at 12.6%. This is still well above the average level experienced over the past two years (7.5%), indicating an overly stretched market. This might explain the wariness of futures market participants, and also further underscores the oil market's vulnerability.
- **Copper:** Speculative shorts have been quite high for some time now (currently at 414.6 tonnes), so last week's strong increase is somewhat disconcerting. Nevertheless, net speculative length still looks relatively healthy, at 138.0 tonnes, closing in on the 12-month record of 140.5 tonnes.

Research Strategist

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Weekly change in speculative positions and ETF holdings

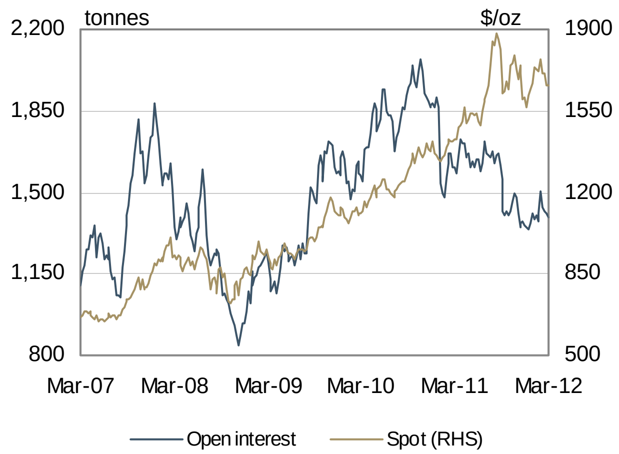
	Gold	Silver	Platinum	Palladium	Crude oil (WTI)	Crude oil (Brent)	Copper
	tonnes	tonnes	k oz	k oz	m bbls	m bbls	tonnes
Speculative longs	564.1	4,939.0	1,484.5	1,449.2	420.5	2.9	552.6
- Change	-68.0	-85.0	-13.4	7.7	-13.2	-0.6	61.5
Speculative shorts	120.0	886.7	200.9	254.9	102.0	2.3	414.6
- Change	12.8	128.6	12.1	15.6	-1.3	-0.1	25.9
Net speculative length	444.2	4,052.3	1,283.6	1,194.3	318.5	0.7	138.0
- Change	-80.8	-213.6	-25.5	-7.9	-12.0	-0.5	35.6
Net speculative length as a % of open interest	20.5%	16.5%	53.7%	51.2%	12.6%	1.8%	7.9%
- Change	-3.4%	-0.8%	-1.6%	-2.0%	-0.1%	-1.2%	1.9%
EFT holdings	2,482.9	18,329.3	1,392.5	1,887.9			
- Change	-8.4	-30.3	-0.6	8.7			

Sources: Standard Bank Research; COMEX; NYMEX; LME; Various ETFs

Gold — COMEX

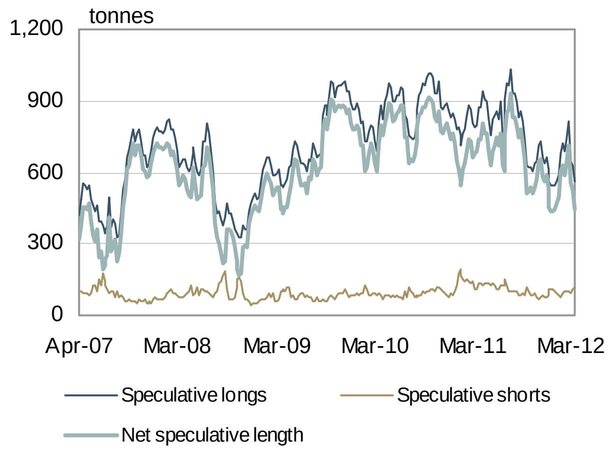
- Open interest continued its decline, marking a fourth week of decreases, with 20.0 tonnes lost over the past week. Gold open interest on COMEX stands at 1,388.8 tonnes, well below the 2011 average of 1,587.0 tonnes. Although last week saw relatively lacklustre investor interest, prices managed a meagre gain of 0.1% w/w — the best performance in the complex.
- Net speculative length fell again, picking up pace again, as 80.8 tonnes were shed, compared to only 28.1 tonnes the previous week. The change in the net position was once again largely the result of speculative longs being unwound (68.0 tonnes). There was also another increase in short positioning (12.8 tonnes). Total short positions have now pushed above last year's average, while net speculative length is quite weak. After the previous week's pause, the activity in the futures market suggests a return to the less favourable view on gold of two weeks ago.
- ETF enthusiasm has dwindled. ETFs have turned net sellers, for the first time in eight weeks, with a significant loss of 8.4 tonnes (compared to the meagre 1.8 gain of the previous week). Bargain-buying on price dips appears to have faded as ETFs grow more cautious on gold.
- Gold dipped briefly below $1,630 last week. Since the start of the month, we saw value between $1,630 and $1,600 for gold — and we still hold this view. We remain neutral around $1,645. Longer term, we maintain that gold will reach new highs in 2012, probably around Q3.

Figure 1: Gold price vs. COMEX open interest



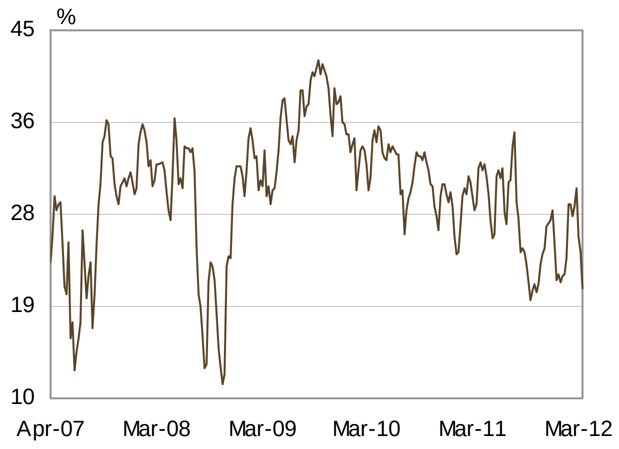
Source: COMEX

Figure 2: COMEX speculative longs and shorts



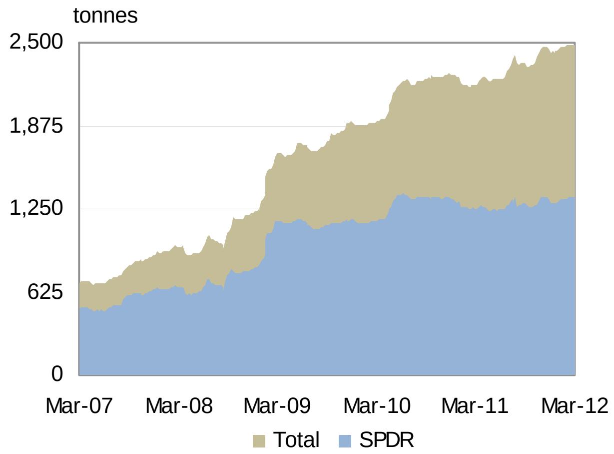
Sources: COMEX; Standard Bank Research

Figure 3: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank Research

Figure 4: ETF holdings

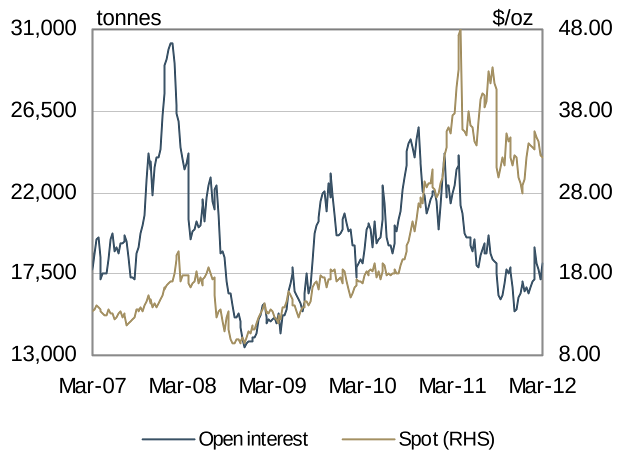


Sources: Various ETFs; Standard Bank Research

Silver — COMEX

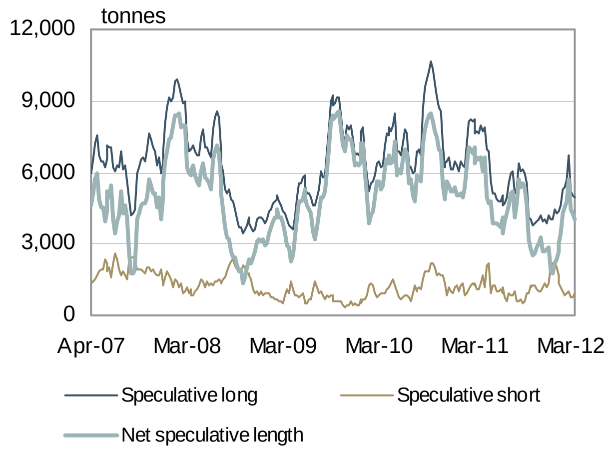
- Open interest arrested the losses of the previous three weeks, adding a strong 812.8 tonnes last week (total losses for the three preceding weeks were 1,751.4 tonnes). This brings COMEX open interest to 18,062.7 tonnes, still well below last year's average of 19,388.6 tonnes. Silver surrendered its place as the worst performer amongst the precious metals, losing only 1.0% w/w this past week.
- Nevertheless, net speculative dropped again, shedding 213.6 tonnes. Ominously, this deterioration was largely the result of a hefty 128.6 tonnes increase in short positions — the largest of the year so far. A fair amount of long positions were also unwound: 85.0 tonnes. The continued deterioration in long positioning, coupled with the strong pick-up in short positions, does indicate a market that expects further losses in silver. The deterioration in net speculative length has seen this, as a percentage of open interest, fall to 16.5%. However, it is still above the 2011 average of 15.7% — indicating an overly stretched market.
- ETFs remained net sellers last week, underscoring the unfavourable investor attitude towards silver. Silver ETF holdings fell a significant 30.0 tonnes.
- Silver is under pressure, and consequently we believe that rallies should be sold into. We wait patiently for the metal to drop closer to $30/oz. Around this level, we see good value, with the potential for silver to reach $40/oz in Q3:12.

Figure 1: Silver price vs. COMEX open interest



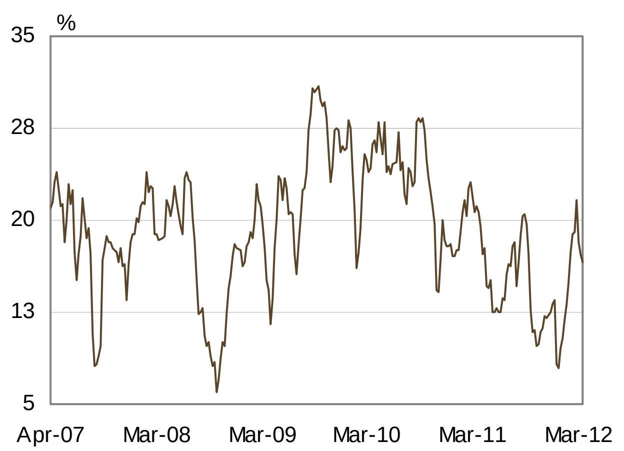
Source: COMEX

Figure 2: COMEX speculative longs and shorts



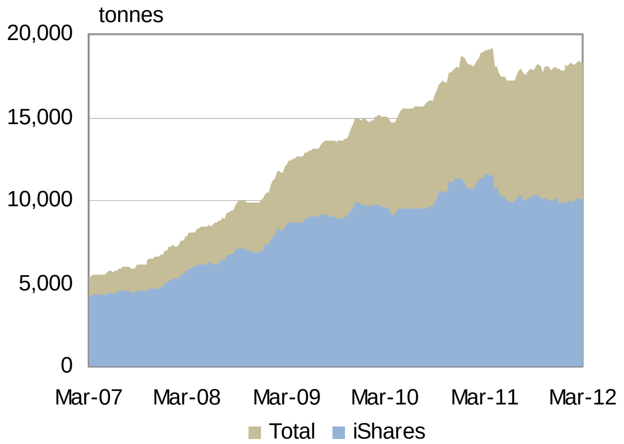
Sources: COMEX; Standard Bank Research

Figure 3: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank Research

Figure 4: ETF holdings

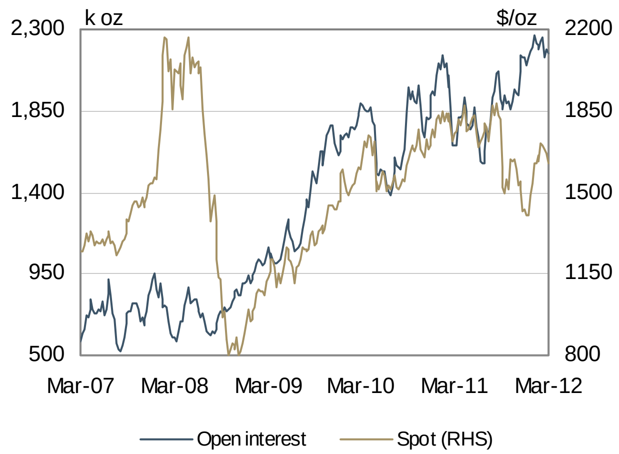


Sources: Various ETFs; Standard Bank Research

Platinum — NYMEX

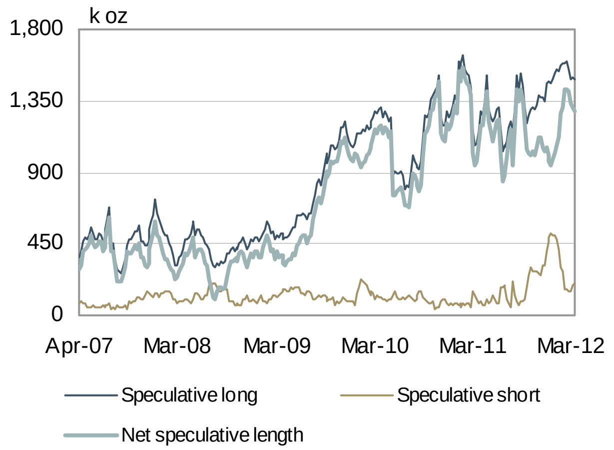
- Open interest fell a modest 26.4k oz this past week. Platinum open interest on NYMEX now stands at 2,163.9k oz — still well above last year's average of 1,887.5k oz. PGM succumbed to the lack of interest in precious metals, although concerns over weak industrial demand (especially out of China) dragged the group down further. Platinum ended the week 2.7% w/w lower.
- Net speculative length lost 25.5k oz — largely in line with the previous week's fall of 26.3k oz. However, unlike in the previous week, only 12.1k oz was due to an increase in short positions (the previous week saw a marked 35.0k oz added). The week also saw 13.4k oz in long positions being unwound. The slowing in the addition of short positions is encouraging, although we'd prefer to see some unwinding as total shorts at 200.9k oz are uncomfortably above the 2011 average of 158.8k oz.
- Although ETFs remained net sellers, the meagre loss (0.6k oz) indicates that perhaps ETF are pausing before making their next move.
- Net speculative length as a percentage of open interest is now 53.7%. This is below last year's average of 57.0% and, being indicative of a lack of strain in the platinum futures market, is a point of strength.
- Platinum and palladium failed to sustain a move above $1,700 and $700 respectively. We see, from a cost-of-production perspective, value in platinum between $1,550 and $1,600.

Figure 1: Platinum price vs. NYMEX open interest



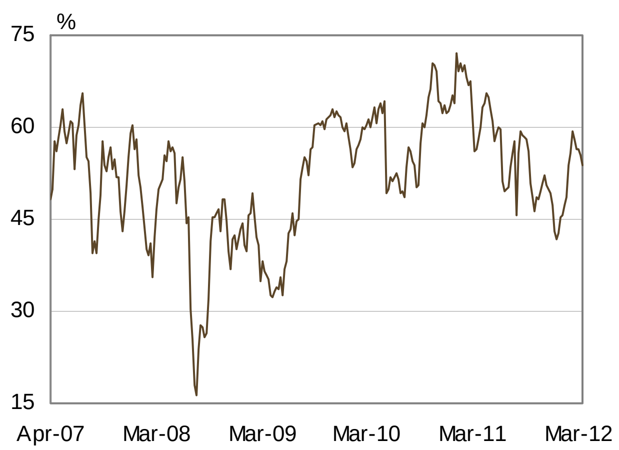
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



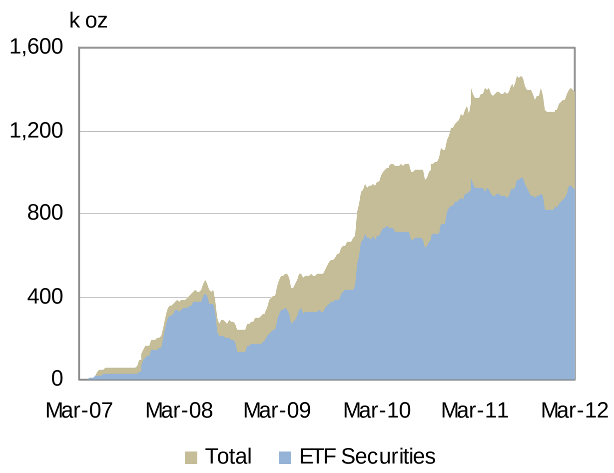
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest



Sources: NYMEX; Standard Bank Research

Figure 4: ETF Holdings



Sources: Various ETFs; Standard Bank Research

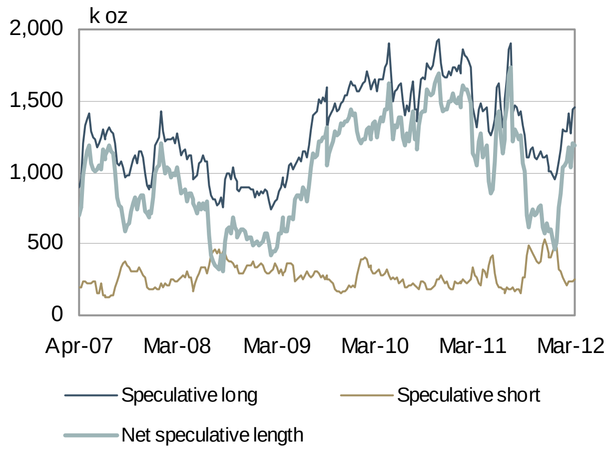
Palladium — NYMEX

- Open interest fell heavily, losing 117.2k oz this past week. This brings NYMEX open interest for palladium to 2049.0k oz — once again below last year's average of 2,061.3k oz. Palladium prices also ended the week lower, dropping 5.8% w/w — the hardest hit among the precious metals.
- After the previous week's impressive recovery, net speculative length fell this this past week, although only marginally, surrendering only 7.9k oz. The decrease in the net position was attributable to an increase in speculative shorts 15.6k oz). The 7.7k oz added to speculative longs softened the overall deterioration. Total short positioning is still below last year's average (292.1k oz). Total longs, currently at 1,449.2k oz, are in line with the 2011 average of 1,4171k oz. The subdued deterioration (relative to that of the other precious metals) makes it seem as though market participants are more confident on palladium's prospects. However, the more recent price drop brings this confidence into question.
- ETF buying of palladium continued (the only precious metal to see ETF holdings increase last week), with 8.7k oz added. This again suggests that investors are looking more favourably on palladium than on the rest of the complex.
- Despite investor confidence, we believe that palladium will struggle in H1:12, as real demand will be lacking. For this reason, we feel that a price above $700 will be difficult to sustain (as happened last week). However, on the downside, palladium at $600 is too low, based on cost pressures in the industry (and dependent on our ZAR forecast of around 8.00 against the dollar).

Figure 1: Palladium price vs. NYMEX open interest

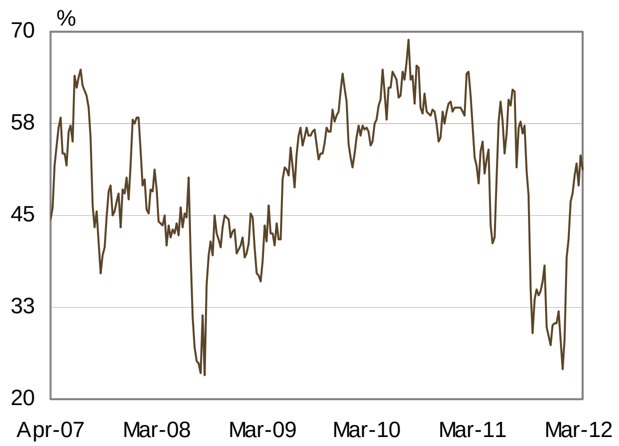
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



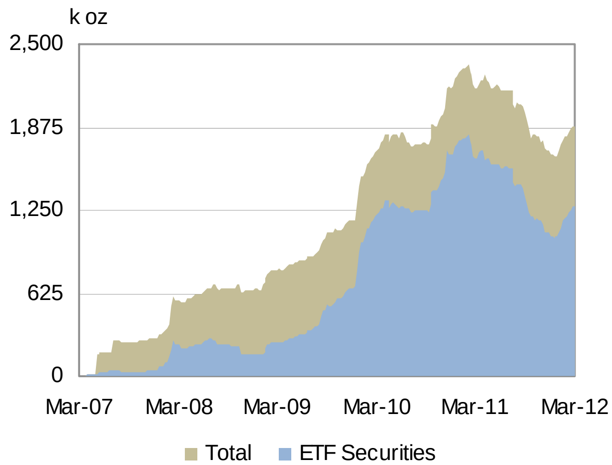
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest



Sources: NYMEX; Standard Bank Research

Figure 4: ETF holdings

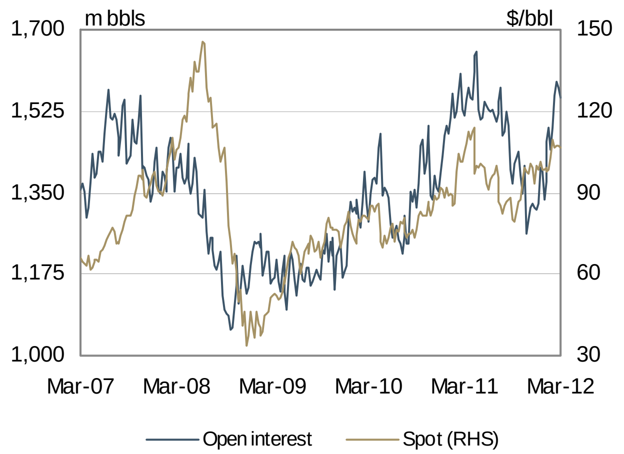


Sources: Various ETFs; Standard Bank Research

Crude oil (WTI) — NYMEX

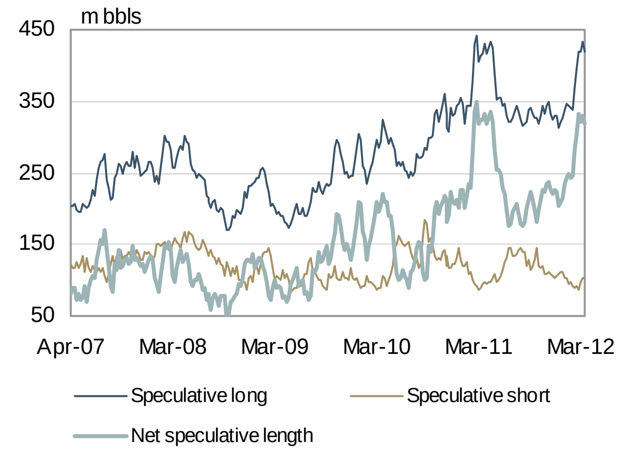
- Open interest fell for a second week, losing 20.9m bbls. This brings NYMEX open interest to 1,553.2 bbls — still above last year's average of 1,480.8m bbls. Prices also lost ground again, surrendering 0.2% w/w, once again due to speculation about a possible release of strategic oil reserves.
- Net speculative length also fell, at 12.0m bbls lost. The decrease was due to drop in long positions (13.2m bbls). However, shorts also came off, with 1.3m bbls unwound this past week. The positioning of the past week shows that confidence is beginning to waver as scepticism gains traction.
- Net speculative length as a percentage of open interest is currently at 12.6%. This is still well above the average level experienced over the past two years (7.5%), indicating an overly stretched market. This might explain the wariness of futures market participants, and also further underscores the oil market's vulnerability.
- Since the beginning of this month, the market has been trading in a range-bound pattern, struggling for direction. Implied volatility has declined substantially since the beginning of this year. We do not expect these relatively calm market conditions to last long as the oil market braces itself for interventions (for e.g. a release of strategic oil reserves) or possibly even shocks.

Figure 1: NYMEX WTI price vs. open interest



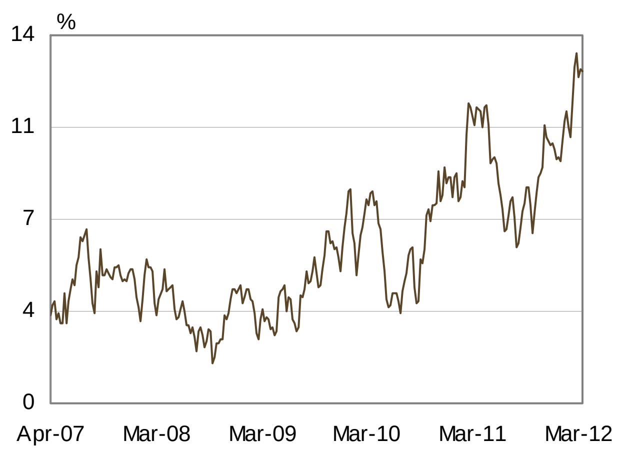
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



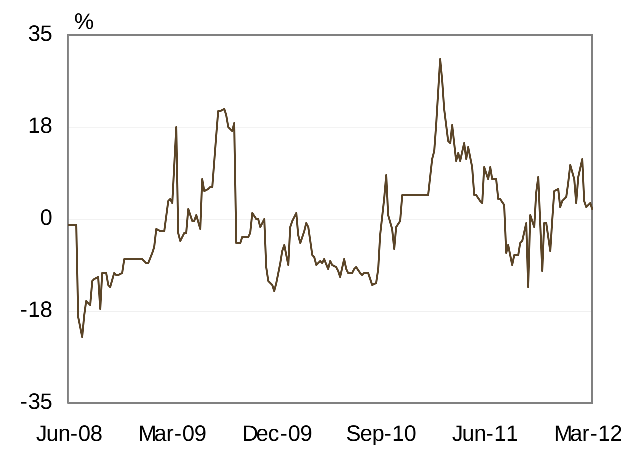
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest (WTI)



Sources: NYMEX; Standard Bank Research

Figure 4: NYMEX net spec length as a % of open interest (ICE Brent)

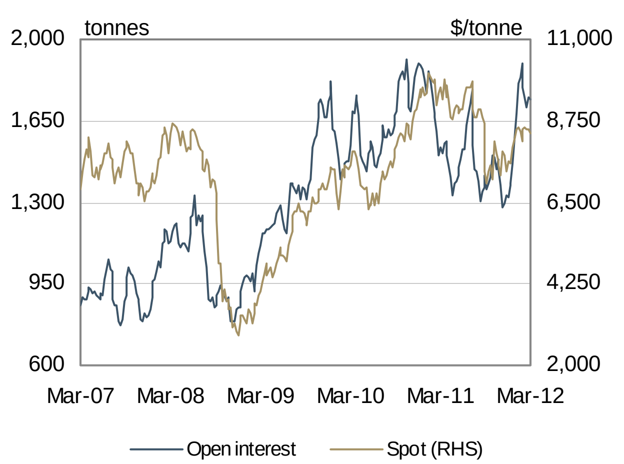


Sources: NYMEX; Standard Bank Research

Copper — COMEX

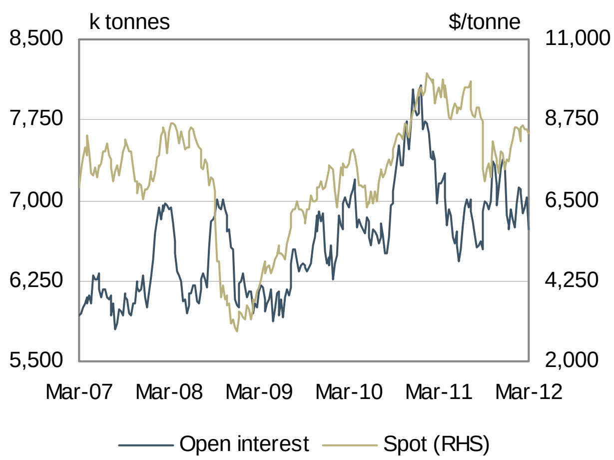
- After a brief interruption, open interest resumed its decline, with a modest 9.0 tonne decrease this past week. However, at 1,745.7 tonnes, open interest on COMEX is still well above last year's average of 1,515.9 tonnes. Copper prices also ended the week lower, although more dramatically, with a 1.5% w/w loss.
- Net speculative length, however, made a remarkable recovery from the previous week's loss (28.2 tonnes), with 35.6 tonnes added this past week. This gain was the result of 61.5 tonnes being added to speculative longs. There was also a strong 25.9 tonne increase in short positions, which detracted from the overall improvement. Speculative shorts have been quite high for some time now (currently at 414.6 tonnes), so last week's strong increase is somewhat disconcerting. Nevertheless, net speculative length still looks relatively healthy, at 138.0 tonnes, closing in on the 12-month record of 140.5 tonnes.
- As a percentage of open interest, net speculative length has dropped jumped to 7.9% (6.0%, the previous week). This is now much closer to the 8% average recorded last year, and bears watching.
- Despite the strong Chinese refined copper imports in February, the current rate looks far from sustainable and, given how similar levels of bonded stock levels were drawn down in 2011, it implies a sharp deterioration in Chinese refined imports over the coming months. We still believe that demand for copper is unlikely to be strong enough to see prices trade sustainably above $9,000/mt for most of this year.

Figure 1: LME copper price vs. COMEX open interest



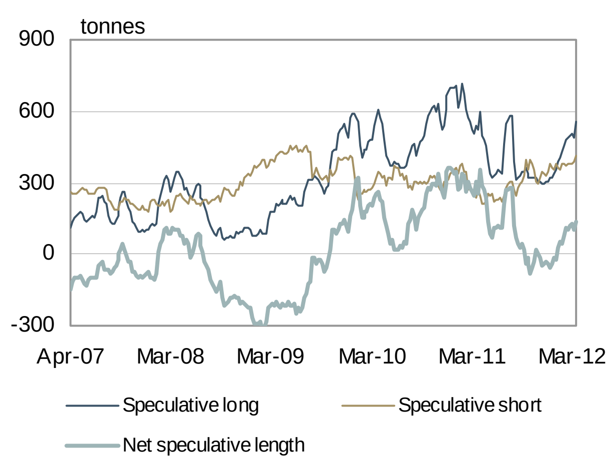
Sources: COMEX; LME

Figure 2: LME copper price vs. LME open interest



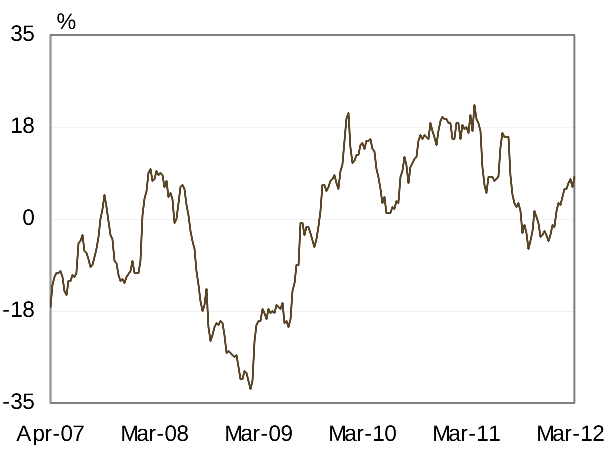
Source: LME

Figure 3: COMEX speculative longs and shorts



Sources: COMEX; Standard Bank Research

Figure 4: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank Research

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