Commodities Daily

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<u>Focus</u>: Focus: Electricity data continues to show recovery — As we head towards the end of the year, there is growing confidence that the economic recovery in many developed markets is underway, adding to the strong growth seen in many emerging markets already. We continue to monitor electricity generation figures to provide us with information about real economic growth trends.

- The overriding theme this morning has been the weaker dollar, which has helped spark are recovery in commodity prices generally, following Friday's weakness. Interestingly however, the support from the weaker dollar for the base metals has started to fade, with the complex running out of steam heading into the afternoon.

- Gold is trading at new highs—and we expect more upside. Underlying support remains in place and this should be the case for the rest of the quarter. Our target for the US dollar against the euro remains $1.60 towards the end of Q1:10.

- This morning has since seen crude oil prices recover, due mainly to a weaker dollar. Front month WTI has climbed back above $78/bbl while Brent is hovering around $77/bbl.

Commodity price data (6 November 2009)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	1,925	1,911	1,930	1,921	-15	-0.78	1,887.00	1	-32.25
Copper	6,575	6,491	6,594	6,560	-40	-0.61	6,532.00	5	-20.75
Lead	2,330	2,249	2,296	2,280	-90	-3.85	2,320.00	0	-26.50
Nickel	17,860	17,375	17,730	17,400	-410	-2.31	17,805.00	-5	-67.00
Tin	14,950	14,750	14,900	14,850	-200	-1.34	14,975.00	-35	66.00
Zinc	2,201	2,174	2,210	2,198	-45	-2.03	2,168.00	-18	-26.25

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	78.29	75.87	78.81	75.25	-2.12	-2.72%
NYMEX WTI	79.80	77.43	80.34	76.71	-2.19	-2.75%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,095.00	1,096.75	1,101.50	1,087.30	1,095.00	100.00	0.00/0.40
Silver	-	17.70	17.62	17.29	17.49	0.83	0.00/2.00
Platinum	1,360.00	1,359.00	1,358.00	1,344.00	1,342.00	60.00	2.5/4.5
Palladium	331.00	330.00	331.00	330.00	329.00	38.00	0/3

ZAR metal prices (6 November 2009)	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	14,233	49,267	17,498	134,292	112,947	16,352	7.5424
3-month	14,652	49,769	17,244	133,221	113,094	16,669	7.6674

Sources: Standard Bank; LME; BBG

Focus: Electricity data continues to show recovery

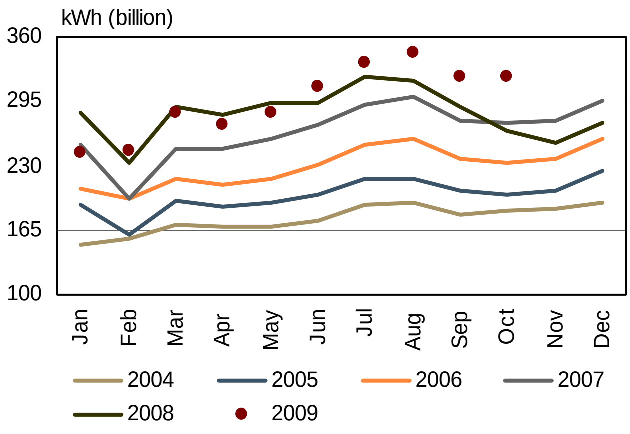
As we head towards the end of the year, there is growing confidence that the economic recovery in many developed markets is underway, adding to the strong growth seen in many emerging markets already. We continue to monitor electricity generation figures to provide us with information about real growth trends in economies. After a sluggish start to the year, electricity generation in China especially continues to signal strong growth.

Electricity consumption is highly correlated to manufacturing and industrial demand. These sectors tend to be the largest consumers of electricity — especially in EM economies like China where the primary and secondary economies constitute such a large part of GDP.

Electricity production grew at an average rate of 14.3% a year from 2004-2007. At the same time, the Chinese economy grew by an average 10.5% a year. China's electricity demand growth outpaced GDP growth by around one-third in each year. However, since late 2008, this picture has changed, with electricity production plummeting. In October 2008, production actually fell below the levels of a year earlier (see graph). Between January to July 2009, growth in electricity production was zero compared to the same period last year. This is at odds with the historic relationship between electricity and GDP.

However, since July, electricity generation has risen substantially and is now well above levels seen in 2008. To us, this signals strong growth in China, driven by commodity-intensive sectors.

Figure 1: China electricity production



Source: China CEIStandard Bank

While electricity production in the US is still below levels seen in 2007, production is also rising. This confirms a slow recovery in growth, even in the US.

Overall this recovery trend should help limit the downside for commodity prices generally.

By Walter de Wet

Base metals

The base metals all closed lower on Friday, following weaker than expected US employment numbers. That said, the sell-off was far from catastrophic with the metals remaining well within recent ranges and only nickel failing to bounce significantly from its intraday lows. The overriding theme this morning has been the weaker dollar, which has helped spark are recovery in commodity prices generally, following Friday's weakness. Interestingly however, the support from the weaker dollar for the base metals has started to fade, with the complex running out of steam heading into the afternoon.

There is little in the way of significant economic data today, however stronger than expected German Industrial Production figures (+2.7% vs expectations of a 1.0% gain), have seen the Euro strengthen further against the Dollar.

Copper opened higher this morning before generally trading higher again on the back of the weaker dollar. The red metal had a little wobble in the wake of another large - 4,525 mt - increase in LME on-warrant stocks, but appears to have shrugged off the inventory gains so far. The main location for the copper stock inflows were the US, with on warrant stocks climbing by 2,225 mt (split between St. Louis, New Orleans and Chicago) and Busan in South Korea which saw on-warrant stocks climb by 1,800 mt. Copper has managed to poke its head back above $6,000 again this morning but it appears to have run out of momentum once again and is looking rather tired. Volumes remain lacklustre, compounding the metal's current range-bound nature.

In other news, Codelco has reportedly set the copper premium for Yokohama at $75/mt, a 15% increase on last year, reflecting expectations of stronger demand from the Asian region. Negotiations over the Chinese premium are expected to take place next week. Currently, expectations are that there will be a $5-$10 increase this year from the $75 premium in 2009.

Elsewhere the other base metals are generally tracking copper, with the initial impact of the weaker dollar fading somewhat. This is has been the case for aluminium in particular which, after rallying strongly during the mid-morning, has since been sold back down towards its opening levels. Volumes across the complex remain thin.

By Leon Westgate

Precious metals

Risk appetite is back this morning which is benefiting gold. The increased risk appetite comes as G20 leaders signal continued stimulus for the global economy. As a result the dollar is weaker this morning.

Gold is trading at new highs—and we expect more upside. Underlying support remains in place and this should be the case for the rest of the quarter. Our target for the US dollar against the euro remains $1.60 towards the end of Q1:10. We believe $1,150 for the gold price is a real possibility. However, at this stage we are slightly less bullish on gold next quarter. As we head into Q1:10, we also expect some the dollar weakness to be offset by seasonal weakness in the jewellery market.

With gold edging above $1,100 this morning in Asia, there has been some short covering pushing the price quickly towards $1,105. The fact that the dollar is trading around the $1,50 level against the euro is adding to the gold buying. Although there was some consolidation this morning in the price around $1,105, the US market might come in and buy more gold. However, we expect resistance from the physical market as more scrap may come to the market. Gold support is at $1,090 and resistance is at $1,110.

Silver has rallied on the back of gold. Further support comes from the base metals which have also pushed higher this morning. Overall however, the $18.00 level remains a strong resistance level for the metal which should remain in place.

Both platinum and palladium are following the dollar, having recovered their losses on Friday. For platinum the $1,370 resistance level remains in place and although we see upside for the metal during the next 6 months, there is likely to be selling ahead of $1,370. Palladium is range-trading between $325 and $335.

By Walter de Wet

Energy

Front-month WTI crude fell sharply on Friday, in the wake of the US Nonfarm Payroll and unemployment figures, closing at $77.43 - some $2.91 below the intraday highs. Front month Brent also followed WTI lower, finishing the week at 75.87.

The US unemployment data was worse than expected, with Nonfarm payrolls falling by 190K compared to expectations of a 175K fall. Partially offsetting this was a positive revision to the previous months data, but, with the unemployment rate also breaching the physiologically important 10% level - climbing from 9.8% to 10.2% - the data triggered a general sell-off. Overall however, the markets generally seem to have digested the bad news pretty well.

This morning has since seen crude oil prices recover, due mainly to a weaker dollar. Front month WTI has climbed back above $78/bbl while Brent is hovering around $77/bbl. With no significant economic data due out today, it seems likely that the energy complex will continue to track the currency markets.

Of note, Hurricane Ida has entered the Gulf of Mexico, forcing BP and Chevron Corp. to cut some output. Given the very high level of crude inventories however, it seems likely the hurricane will play second fiddle to the currencies in terms of impacting on price direction.

Although coal prices continue to broadly track crude oil, albeit on the back of pretty disappointing volumes, Thermal coal contract prices actually finished the week on a slightly firmer footing. API2 (CIF ARA) for Dec-09 climbed 50¢ to $76.75, while Cal-10 climbed 40¢ to $82.60. API4 (FOB RBCT) also climbed on Friday, with Dec-09 gaining 95¢ to $68.35 and Cal 10 finishing 40¢ higher at $73.70

Of interest however has been a general flattening of the forward curve, due to a combination of increased producer selling, but also a lack of utility buying. The build-up in coal inventories in Europe also points to the weak fundamental picture, with stock levels at the EMO dry bulk terminal in Rotterdam - Europe's largest - continuing to break records.

By Leon Westgate

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