

Commodities

Commodities: Daily



Focus: Speculative market still wavering on gold

10 October 2011

Focus: We still feel that the speculative market, while not outright bearish, remains cautious about gold's current prospects. Although moderating, speculative shorts remain at relatively high levels, a further signal that confidence in gold is still lacking.

- The Chinese have made a tentative return to the base metal markets following the Golden Week holiday. Turnover has been relatively light during Monday morning, with Tuesday likely to see more activity as participants become more confident about the position of the SHFE-LME arbitrage.
- Despite increased optimism regarding the US and the Eurozone, gold continues to garner interest, especially out of Asia, as the Chinese return after last week's Golden Week celebrations. The better-than-expected non-farm payrolls data on Friday eased concerns over the US economy, although the possibility of recession remains.
- Oil made small gains after a choppy trading day last Friday. WTI and Brent strengthened by 39c/bbl and 15c/bbl respectively. Gasoline and middle distillates cracks weakened after a strong rally during the past week on refinery closures. The latest news shows that Shell is starting up its refinery in Singapore, which is to weigh further on product cracks and refining margins. The term structures of Brent and WTI were firmer again on declining Cushing inventories and an outage at Total's Elgin-Franklin field in the North Sea respectively.

Strategists

Walter de Wet, CFA*

Walter.DeWet@standardbank.com
+44-20-31456821

Leon Westgate*

Leon.Westgate@standardbank.com
+44-20-31456822

James Zhang*

Jinzhong.Zhang@standardbank.com
+44-20-31456824

Marc Ground, CFA*

Marc.Ground@standardbank.com
+27-11-3787215

Commodity price data (7 October 2011)

Base metals LME 3-month

	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash - 3m
Aluminium	2,233	2,228	2,247	2,203	-5	-0.22%	2,176.50	7	-33.75
Copper	7,241	7,369	7,385	7,220	128	1.77%	7,250.00	155	-19.50
Lead	1,940	1,940	1,970	1,921	0	0.00%	1,946.00	2	17.50
Nickel	19,003	18,905	19,255	18,607	-98	-0.52%	18,710.00	-20	-32.00
Tin	22,500	22,950	23,099	22,301	450	2.00%	22,720.00	570	-15.00
Zinc	1,883	1,920	1,928	1,864	37	1.96%	1,845.00	2	-19.75

Energy

	Open	Close	High	Low	day/day	Change (%)
ICE Brent	106.01	106.25	106.63	105.65	0.37	0.35%
NYMEX WTI	82.75	83.77	84.12	82.75	0.79	0.94%
ICE Gasoil	896.50	897.75	899.50	892.25	1.50	0.17%
API2 Q4'11	119.05	118.90	-	-	-0.15	-0.13%
ICE EUA Dec'11	10.42	10.40	-	-	-0.02	-0.19%

Precious metals

	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFP's
Gold	1,651.00	1,652.00	1,666.00	1,627.20	1,636.00	-13.50	1.3/1.7
Silver	-	32.00	32.82	30.74	31.00	-0.86	0.0/2.0
Platinum	1,521.00	1,529.00	1,535.00	1,490.00	1,490.00	-15.00	1.5/3.5
Palladium	598.00	609.00	609.00	517.00	588.00	-10.00	0.0/1.0

Sources: Standard Bank; LME; BBG

Focus: Speculative market still wavering on gold

According to the latest CFTC data for the week ended 4 October, net speculative length for COMEX gold increased marginally, with 11.4 tonnes added over the past week. The net speculative position for gold now stands at 521.8 tonnes — well below last year's average of 777.6 tonnes. The increase in the net position was mostly attributable to a 16.2 tonne decrease in speculative shorts. A meagre 4.7 tonnes were shed from speculative longs.

Given the modest nature of last week's improvement in the net position, we still feel that the speculative market, while not outright bearish, remains cautious about gold's current prospects. Although moderating, speculative shorts remain at relatively high levels, a further signal that confidence in gold is still lacking.

Further evidence of this lack of confidence is the sustained decline in ETF holdings of gold. However, with only 3.7 tonnes shed over the past week, this confirms our view that, while investors are wary, they are not bearish.

Nevertheless, physical demand for gold is very strong, with gold below \$1,650, as we witnessed again this past week. Given the interest from the physical market, the potential for future short covering exists, which could see prices push higher.

Unlike gold, the decline in COMEX silver net speculative length continued, with a significant 431.3 tonnes lost. For the most part, the decline in the net position was attributable to 350.6 tonnes added to speculative short positions, with 80.7 tonnes shed from speculative longs compounding the de-

Base metals

Hope that Eurozone officials will reach some sort of agreement ahead of the G20 meeting, in terms of bank recapitalisations, and maybe more, has helped give the base metals a lift heading into the morning, while the euro has also strengthened significantly against the dollar. The rally erodes any potential boost from a resolution, but arguably also increases the downside risk to prices should Eurozone ministers again disappoint the global markets.

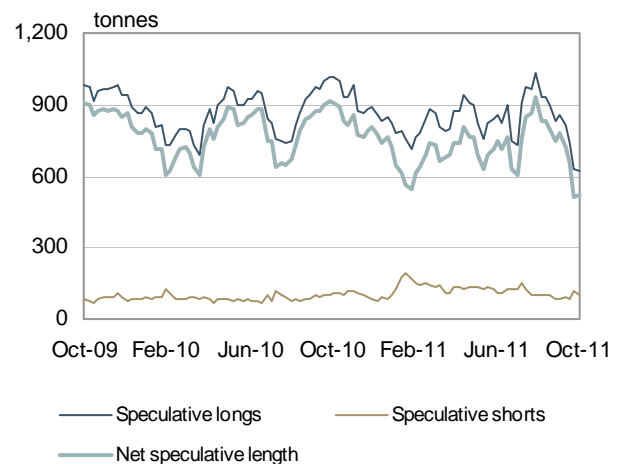
The Chinese have made a tentative return to the base metal markets following the Golden Week holiday. Turnover has been relatively light during Monday morning, with Tuesday likely to see more activity as participants become more confident about the position of the SHFE-LME arbitrage.

While focus last week was on the US, in terms of economic data, with a better than expected Nonfarm Payroll figure helping boost sentiment, this week attention focuses on China. Data on New Yuan Loans and Money Supply could be released overnight, however the key CPI figures are currently scheduled for release on Friday, while the Import and Export numbers for September are released on Thursday.

After a bit of a hiccup this morning, copper prices have picked up heading into Monday afternoon, as a weaker dollar and promises by Merkel & Sarkozy on bank recapitalisation boosted sentiment. LME copper headline stocks saw further falls as the wave of warrant cancellations seen last week continue to see that metal head for the exit. Meanwhile, Pan Pacific Copper has announced that it will maintain its 2012 copper premium at \$100/mt.

Elsewhere, zinc has seen fairly good turnover with prices settling down after the Chinese holidays and trading sideways into the afternoon. Turnover elsewhere is very thin however, with lead perhaps the best of a rather subdued bunch. Of interest, tin inventories continue to come under pressure, with headline stocks falling 495 mt as recently cancelled material in Singapore and Malaysia starts to leave LME warehouses.

COMEX gold speculative longs and shorts



Sources: COMEX; Standard Bank Research

clines. With net speculative length (2,766.7.0 tonnes) well below the 2010 average of 6,123.3 tonnes, market positioning looks weak and decidedly bearish (given the marked increase in short positions).

Despite the apparent lack of confidence in the speculative market, ETF buying continues apace, with a robust 147.3 tonnes added to holdings over the past week. The promising investor interest in silver we've seen of late (before the liquidations of the week ended 23 September) appears to have returned. It appears as if ETFs continue to see value in silver. However, given the current market turbulence and market positioning, we would caution against taking any positions in silver.

By Marc Ground

By Leon Westgate

Precious metals

Despite increased optimism regarding the US and the Eurozone, gold continues to garner interest, especially out of Asia, as the Chinese return after last week's Golden Week celebrations. The better-than-expected non-farm payrolls data on Friday eased concerns over the US economy, although the possibility of recession remains. The upshot of this weekend's meeting between German Chancellor Merkel and French President Sarkozy appears to be that while they have not decided on the details, they will take whatever actions are necessary to recapitalise Eurozone banks. A deadline for coming up with a "comprehensive solution" has been set for the end of this month. This has bolstered confidence in the region, and allayed fears over the emergence of another liquidity crisis.

Gold support is at \$1,639 and \$1,614. Resistance is \$1,678 and \$1,691. Silver support is at \$30.97 and \$29.89, resistance is at \$32.97 and \$33.89.

Looking at the latest CFTC data, NYMEX platinum net speculative length fell again, marking a fourth week of losses. The fall of 25.0k oz was due to an increase in speculative short positions (76.6k oz), with the 51.7k oz added to speculative longs softening the deterioration in the net position. The sustained increase in short positions (the previous week saw 73.2k oz added), points to a speculative market that seems to have returned to the bearish stance towards platinum of several weeks ago.

Net speculative length for NYMEX palladium posted another loss, although at 82.7k oz this was considerably down from the 302.7k oz shed the previous week. The decrease in the net position was largely as a result of 69.5k oz being added to speculative short positions, with the 13.2k oz shed from speculative longs contributing further to the overall deterioration. The direction of activity of the past few weeks, especially the build-up in speculative shorts (currently at 483.4k oz, compared to the 2010 average of 256.0k oz), points to a market positioning for further weakness.

Platinum support is at \$1,491 and \$1,459, resistance is at \$1,548 and \$1,572. Palladium support is at \$593 and resistance at \$626.

By Marc Ground

Energy

Oil made small gains after a choppy trading day last Friday. WTI and Brent strengthened by 39c/bbl and 15c/bbl respectively. Gasoline and middle distillates cracks weakened after a strong rally during the past week on refinery closures. The latest news shows that Shell is starting up its refinery in Singapore, which is to weigh further on product cracks and refining margins. The term structures of Brent and WTI were firmer again on declining Cushing inventories and an outage at Total's Elgin-Franklin field in the North Sea respectively.

Net for last week, front-month WTI and Brent gained \$3.78/bbl and \$3.12/bbl respectively. The market was boosted by support from central banks and progress in tackling the Eurozone debt crisis. Furthermore, the economic data from the US most exceeded market expectations; although the data still points to a soft growth, fears of an imminent recession have somewhat retreated.

The latest CFTC report shows that money managers had reduced their net length in WTI crude, by 3.9% w/w (on a futures and options combined basis). The net reduction was driven by a sharp increase in short positions rather than a decline of long positions, which signals a more divided view among investors. Commercial hedgers' net short positions declined by 10.9% w/w, to the lowest level since November last year, as growth in consumer long hedges outstripped that of producer short hedges. Meanwhile, swap dealers increased their net short positions by 17.5%, albeit from a much lower base than the accumulated positions of money managers and commercial hedgers.

China cut retail fuel prices over the weekend by 3.5% and 3.9% for petrol and diesel respectively, following the decline of oil prices in the international market. This should help with the heated inflation in China. Across the Pacific, US retail gasoline prices have fallen from over \$4/gal at the beginning of May, to slightly below \$3.5/gal last week, a 12.5% drop, measured by the average price of all grades of retail gasoline in the US reported by the DOE. The decline in the oil price should provide some support to revive the economy.

This week is light on economic data in general, with focus on the Fed's FOMC meeting on Wednesday. The market's attention will remain focused on the Eurozone in tackling the debt crisis. Meanwhile, in the physical market, the Chairman of Libya's National Oil Company told the press that Libya's oil production has reached 390kbd, which is greater than what the market has expected, and should provide some relief to the very tight physical market. For now, we expect the flat price of oil to continue to be swung by macro-events, while the structure remains firm on tight supplies.

By James Zhang

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	4,544,725	4,548,725	0	4,000	-4,000	267,675	238,250	5.24	259,103
Copper	462,525	467,100	0	4,575	-4,575	84,975	52,625	11.38	127,563
Lead	382,000	380,400	2,250	650	1,600	173,725	7,200	1.88	31,591
Nickel	93,366	94,266	0	900	-900	-42,306	6,210	6.65	31,734
Tin	19,795	20,290	15	510	-495	3,520	3,985	20.13	5,191
Zinc	806,475	807,925	2,500	3,950	-1,450	105,050	72,975	9.05	78,489

Shanghai 3-month forward prices

Metal	Open	Last	1d Change	COMEX active month future prices	Open	Close	Change	Change (%)
Aluminium	16,600	16,665	105	Ali Dec'11	-	-	-	-
Copper	55,060	54,820	1,320	Cu Dec'11	327	332.25	4.90	1.50%
Zinc	15,170	15,160	90					

ZAR metal prices

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	17,377	57,884	15,537	149,381	181,396	14,730	7.9840
3-month	18,020	59,600	15,691	152,904	185,620	15,529	8.0880

Energy

Energy futures pricing	Price	Change	Price	Change	Price	Change	Price	Change	Price	Change
	1 month		2 month		3 month		6 month		1 year	
Sing Gasoil (\$/bbl)	119.60	1.78	117.22	2.39	116.39	2.25	114.77	1.94	-	-
Gasoil 0.1% Rdam (\$/mt)	897.75	1.50	892.50	1.25	884.25	1.00	863.25	-1.25	858.75	14.50
NWE CIF jet (\$/mt)	973.19	13.35	973.22	15.91	967.75	14.25	953.85	14.49	950.56	13.51
Singapore Kero (\$/bbl)	121.17	1.79	119.72	2.39	119.44	2.35	117.72	1.94	117.26	1.86
3.5% Rdam barges (\$/mt)	595.24	0.69	587.25	1.25	580.50	1.50	570.00	1.75	553.75	1.50
1% Fuel Oil FOB (\$/mt)	615.30	3.92	612.00	2.75	610.50	2.75	604.00	2.50		
Sing FO180 Cargo (\$/mt)	626.81	1.50	618.00	1.50	611.75	1.75	600.00	1.50		

Thermal coal	Q4-11	Q1-12	Q2-12	Cal 12	Cal 13
API2 (CIF ARA)	118.90	-0.15	119.45	-0.15	119.35
API4 (FOB RBCT)	114.10	-0.20	116.05	-0.15	115.90

Precious metals

Forwards (%)	1 month	2 months	3 months	6 months	12 months
Gold	0.49967	0.49833	0.49917	0.51283	0.51667
Silver	0.30000	0.30000	0.30000	0.27500	0.17833
USD Libor	0.24289	0.31100	0.39111	0.58056	0.89267

Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	47.34	1,637.19	1,700.68	1,653.06	1,539.95	1,639.00	1,678.00
Silver	41.37	30.84	34.38	37.65	36.35	30.97	32.97
Platinum	35.19	1,514.48	1,627.33	1,755.36	1,774.65	1,491.00	1,548.00
Palladium	39.09	603.51	648.85	746.55	761.77	593.00	626.00

Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'11	Dec'11	Jan'12	Jan'12	Dec'11	Aug'12	Dec'11
Settlement	1,661.50	31.9700	615.10	1,493.30	1,667.00	4,048.00	1,661.00
Open Interest	432,946	100,165	18,982	37,969	9,213	122,378	1,868
Change in Open Interest	130	-387	-29	-228	49	-4,043	-3

Sources: Standard Bank; LME; Bloomberg

Disclaimer

Email subs@standardbank.com if you would like to receive Standard Bank research. Please supply your email-address in the body of the email.

Certification

The analyst(s) who prepared this research report (denoted by an asterisk*) hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s) personal views about the subject investment(s) and issuer(s) and (ii) no part of the analyst's(s) compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Conflict of Interest

It is the policy of The Standard Bank Group Limited and its worldwide affiliates and subsidiaries (together the "Standard Bank Group") that research analysts may not be involved in activities in a way that suggests that he or she is representing the interests of any member of the Standard Bank Group or its clients if this is reasonably likely to appear to be inconsistent with providing independent investment research. In addition research analysts' reporting lines are structured so as to avoid any conflict of interests. For example, research analysts cannot be subject to the supervision or control of anyone in the Standard Bank Group's investment banking or sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analyst's published research. Therefore, the proprietary interests of those sales and trading departments may conflict with your interests. **Please note that one or more of the analysts that prepared this report sit on a sales and trading desk of the Standard Bank Group.**

Legal Entities

To U. S. Residents

Standard New York Securities, Inc. is registered with the Securities and Exchange Commission as a broker-dealer and is also a member of the FINRA and SIPC. Standard Americas, Inc is registered as a commodity trading advisor and a commodity pool operator with the CFTC and is also a member of the NFA. Both are affiliates of Standard Bank Plc and Standard Bank of South Africa. Standard New York Securities, Inc is responsible for the dissemination of this research report in the United States. Any recipient of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Standard New York Securities, Inc.

To South African Residents

The Standard Bank of South Africa Limited (Reg.No.1962/000738/06) is regulated by the South African Reserve Bank and is an Authorised Financial Services Provider.

To U.K. Residents

Standard Bank Plc is authorised and regulated by the Financial Services Authority (register number 124823) and is an affiliate of Standard Bank of South Africa. The information contained herein does not apply to, and should not be relied upon by, retail customers.

To Turkey Residents

Standard Unlu Menkul Degerler A.S. and Standard Unlu Portfoy Yonetimi A.S. are regulated by the Turkish Capital Markets Board ("CMB"). Under the CMB's legislation, the information, comments and recommendations contained in this report fall outside of the definition of investment advisory services. Investment advisory services are provided under an investment advisory agreement between a client and a brokerage house, a portfolio management company, a bank that does not accept deposits or other capital markets professionals. The comments and recommendations contained in this report are based on the personal opinions of the authors. These opinions might not be appropriate for your financial situation and risk and return preferences. For that reason, investment decisions that rely solely on the information contained in this presentation might not meet your expectations. You should pay necessary discernment, attention and care in order not to experience losses.

To Singapore Residents

Singapore recipients should contact a Singapore financial adviser for any matters arising from this research report.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company(ies) within the past 12 months.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts (denoted by an asterisk*) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts (denoted by an asterisk*) may not be associated persons of Standard New York Securities Inc. and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Each analyst (denoted by an asterisk*) is a Non-U.S. Analyst. The analyst is a research analyst employed by The Standard Bank Group Limited.

General

This research report is based on information from sources that Standard Bank Group believes to be reliable. Whilst every care has been taken in preparing this document, no research analyst or member of the Standard Bank Group gives any representation, warranty or undertaking and accepts no responsibility or liability as to the accuracy or completeness of the information set out in this document (except with respect to any disclosures relative to members of the Standard Bank Group and the research analyst's involvement with any issuer referred to above). All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of

investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Members of Standard Bank Group may act as placement agent, advisor or lender, make a market in, or may have been a manager or a co-manager of, the most recent public offering in respect of any investments or issuers referenced in this report. Members of the Standard Bank Group and/or their respective directors and employees may own the investments of any of the issuers discussed herein and may sell them to or buy them from customers on a principal basis. This report is intended solely for clients and prospective clients of members of the Standard Bank Group and is not intended for, and may not be relied on by, retail customers or persons to whom this report may not be provided by law. This report is for information purposes only and may not be reproduced or distributed to any other person without the prior consent of a member of the Standard Bank Group. Unauthorised use or disclosure of this document is strictly prohibited. By accepting this document, you agree to be bound by the foregoing limitations. Copyright 2011 Standard Bank Group. All rights reserved.

AG/CD/00111