

FICC Research

Commodities: Daily

Focus: Crude oil spec length at 5-month high



11 October 2010

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Focus: Crude oil speculative length at a 5-month high—According to CFTC's Commitments of Traders (COT) reports, net position in crude futures held by non-commercials has shown a 164% jump in net length over the last three weeks, and net position in crude futures and options held by non-commercials has an increase of 42% in net length.

- The Shanghai equity market surged higher overnight, closing up 2.49%, with the miners lead the way higher, boosted by recent gains in commodity prices seeing . The strength in Asian equities in turn spilled over into the commodity markets, with the base metals starting LME week strongly. Prices have drifted back slightly ahead of the afternoon however, with the metals following the dollar.
- The precious metals markets remain range-bound since Friday afternoon, with very little interest coming from the physical market for gold and silver at current price levels.
- Front-month WTI Crude rose \$0.99/bbl on Friday, recouped some of the loss of the previous session. This rise was on the back of a firmer belief that the Fed would increase dollar liquidity further, as the September non-farm payroll number had come worse than expected.

Commodity price data (8 October 2010)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,340	2,421	2,438	2,410	94	4.04%	2,321.00	-22	-34.25
Copper	8,110	8,315	8,388	8,296	200	2.47%	8,104.50	-158	-6.00
Lead	2,218	2,280	2,317	2,270	61	2.76%	2,199.00	-82	-28.25
Nickel	23,725	24,400	24,758	24,350	500	2.09%	23,705.00	-1,025	-39.00
Tin	26,000	26,350	26,650	26,350	750	2.93%	26,025.00	-525	-1.00
Zinc	2,260	2,291	2,350	2,286	28	1.24%	2,232.00	-70	-28.25
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	84.33	84.22	84.68	84.01	0.19	0.23%			
NYMEX WTI	82.95	83.06	83.50	82.84	0.40	0.48%			
ICE Gasoil	722.75	724.00	725.00	722.00	2.25	0.31%			
API2 Q3'10	96.60	96.60	-	-	-	-			
EUA Dec10	15.43	15.56	-	-	0.13	0.84%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs		
Gold	1,330.50	1,341.50	1,349.50	1,328.00	1,344.50	10.30	0.6/1.0		
Silver	-	23.27	23.29	22.37	23.09	0.53	0.0/2.0		
Platinum	1,688.00	1,683.00	1,708.00	1,676.00	1,704.00	-12.00	3.0/5.0		
Palladium	575.00	572.00	589.00	573.00	586.00	-9.00	0.0/2.0		

Sources: Standard Bank; LME; BBG

Please refer to the disclaimer at the end of this document.

Focus: Crude oil speculative length at a 5-month high

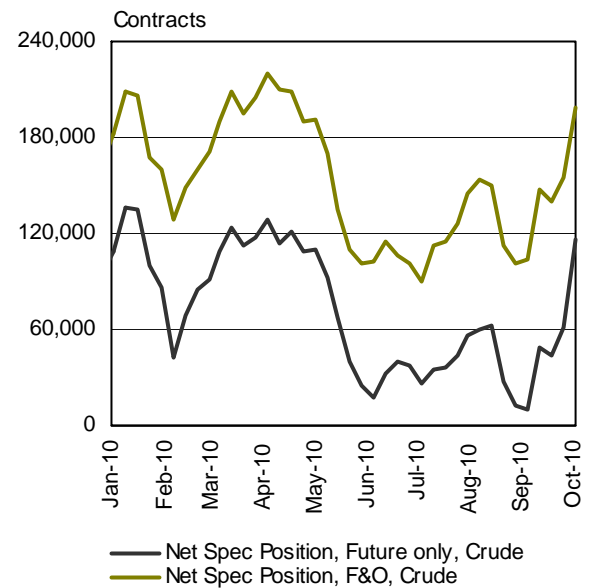
Crude oil has had an impressive price rally in the last three weeks. Front-month WTI future contract gained \$9/bbl (a 12.2% increase). The non-commercial participants, whose positions are required to be reported to the US Commodity Futures Trading Commission (CFTC), built a net length not seen since April (see adjacent Figure).

According to CFTC's Commitments of Traders (COT) reports, net position in crude futures held by non-commercials has shown a 164% jump in net length over the last three weeks, and net position in crude futures and options held by non-commercials has an increase of 42% in net length. The current net long is not far off the record length held by non-commercials in crude futures and options, reached at the beginning of April this year.

The renewed bullish spirit by the non-commercials has been fuelled by the belief that the Fed would start a fresh round of quantitative easing (QE) in November. The US dollar has been duly weakening. The impact on the oil price became rather evident late last week when a better-than-expected jobless claim numbers on Thursday saw the crude oil price slip, while a worse-than-expected non-farm payroll number on Friday appeared to move the oil price up. The market simply took its cue from these macro data on the likelihood of the Fed's new QE II programme.

Besides a weakening dollar, other factors attacking investment money into oil market include diminishing incentives to store oil, a seasonal pickup in oil demand as winter approaches, and the exposure to different political risks evidenced by the terrorist attack at

Nymex WTI net non-commercial position



Sources: CFTC; Standard Bank

the Nigeria capital Lagos on 2 October. However, we believe that record high oil inventories in most regions should prevent price spikes in the short- and medium term.

By Walter de Wet

Base metals

The Shanghai equity market surged higher overnight, closing up 2.49%, with the miners lead the way higher, boosted by recent gains in commodity prices seeing . The strength in Asian equities in turn spilled over into the commodity markets, with the base metals starting LME week strongly. Prices have drifted back slightly ahead of the afternoon however, with the metals following the dollar.

It's a fairly quiet week data-wise, however tomorrow sees the release of the minutes from the last FOMC meeting, while we are also entering Q3 earnings reporting season. With many market participants in London for LME Week, volumes are likely to be more subdued than normal during London hours. A such, aside from technical signals, the equity and currency markets will likely dictate direction for much of this week.

China's central bank temporarily raised reserve requirements for six large commercial banks. The ratio for the banks impacted by the move will rise 50 basis points to 17.5% for two months. The move has had little impact on the market so far, and arguably represents the fine tuning of otherwise solid underlying economic growth.

In other news, and subject to approval from the London Stock Exchange, ETF Securities have launched a range of physically backed base metals exchange-traded commodities. The ETCs will include the 6 LME-traded base metals and a basket consisting of all six metals. The industrial metal backing each product will be stored in LME-approved warehouses.

How the ETFs impact on the market is open to debate, and depends on the amount of investor interest. Assuming they do take off however, they will ultimately affect both the physical market, absorbing inventory, and the futures market, through the potential for increased activity from investors previously unable to access the industrial metal markets. Experiences from the platinum market suggest that the impact from an industrial metal ETF, if it takes hold, will be to amplify the volatility in the price, particularly around turning points in the supply/demand balance.

By Leon Westgate

Precious metals

The precious metals markets remain range-bound since Friday afternoon, with very little interest coming from the physical market for gold and silver at current price levels.

Much of the current strength for gold is still founded in the belief that the Fed will announce more quantitative easing at the start of November. Using the relationship between global liquidity (of which the Fed balance sheet constitute a large portion) and the gold price, we estimate that the gold market is pricing in an expansion of the Fed Balance sheet by another \$500bn. We also find a gold price closer to \$1,260 would be consistent with the Fed not announcing any QE during the first week of November.

While we remain cautious of gold at current price levels, we believe the metal should still find support into 2011. The IMF/World bank conference over the weekend led to no solution on the currency wars between major economies. We believe that the beneficiary is gold.

Central Bank purchasing of gold continues. The latest country to announce an increase in gold reserves is Russia which bought over 100 tonnes of gold from domestic supply. The volume of gold bought is small compared to the larger gold market but the signal to the market is strong — central banks aren't selling gold anymore.

Gold support is at \$1,330 and \$1,315. Resistance is at \$1,355 and \$1,365.

Silver is shadowing gold. Silver support is at \$22.60 and \$22.00. Resistance is at \$23.60 and \$23.95.

By Walter de Wet

Energy

Front-month WTI Crude rose \$0.99/bbl on Friday, recouped some of the loss of the previous session. This rise was on the back of a firmer belief that the Fed would increase dollar liquidity further, as the September non-farm payroll number had come worse than expected.

Within the oil complex, WTI/Brent spread continues to narrow. European product cracks and structure had the support of the prolonged French strike. RBOB cracks continue climbing higher after DOE stocks showing a two-week draw in a row for gasoline in PADD1. However, gasoil and heating oil cracks are off the recent high, as the market takes the rally had been overdone.

The speculative money flowing into oil has jumped in recent weeks. The latest CFTC report shows the net spec length on crude futures and options has increased to a level last seen in April, and close to the all-time high set in early April this year. This partly explains the recent rally in the oil price.

For the rest of this week, the Opec meeting on Thursday will be closely watched, although it is expected OPEC will maintain the quota. Weekly US DOE inventory data will be released on Thursday instead, due to US holiday. The US producer price index and consumer price index for September will be published on Thursday and Friday respectively, which should confirm that there is no immediate inflation risk in the US for an increase in dollar liquidity. Without doubt, the FOMC meeting minutes, due to be out tomorrow, will be scrutinized for clues on details about further quantitative easing by the Fed.

By Walter de Wet

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	4,331,600	4,336,675	900	5,975	-5,075	-297,300	231,500	5.34	285,242
Copper	372,000	373,450	-	1,450	-1,450	-130,325	22,725	6.11	119,945
Lead	198,400	199,300	-	900	-900	51,900	7,450	3.76	41,648
Nickel	123,222	122,994	420	192	228	-34,788	4,062	3.30	39,697
Tin	12,275	12,355	5	85	-80	-14,490	320	2.61	8,789
Zinc	611,725	612,600	-	875	-875	123,675	43,950	7.18	90,176

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,230	16,430	470	Ali Dec'10	-	-	-	-
Copper	61,800	62,610	1,930	Cu Dec'10	377	379.20	1.75	0.46%
Zinc	18,340	18,655	675					

ZAR metal prices (8 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,080	56,148	15,235	164,228	180,301	15,463	6.9280
3-month	17,021	58,458	16,029	171,542	185,251	16,107	7.0304

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)	93.82	0.99	95.04	0.48	95.49	0.37	96.81	0.27	-	-
Gasoil 0.1% Rdam (\$/mt)	724.00	2.25	721.50	1.25	722.00	0.50	730.50	0.75		
NWE CIF jet (\$/mt)	761.71	0.67	767.55	1.97	771.93	1.19	782.97	1.00		
Singapore Kero (\$/bbl)	93.91	-0.06	95.84	0.48	96.39	0.37	97.86	0.27		
3.5% Rdam barges (\$/mt)	459.70	-0.80	462.25	-0.25	464.25	-0.25	472.75	-0.10		
1% Fuel Oil FOB (\$/mt)	474.80	-1.45	482.50	-0.75	487.50	-0.50	501.00	-0.10		
Sing FO 380 Cargo (\$/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo (\$/mt)	480.42	-2.33	486.00	-0.50	489.00	-0.75	496.50	-0.85		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	96.60	-	97.50	-	98.80	0.10	99.50	0.10	106.20	0.10
API4 (FOB RBCT)	90.60	0.10	93.10	-0.10	94.40	-	95.10	-	100.40	0.60

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.37800	0.40800	0.42400	0.47000	0.49400		
Silver	0.58600	0.59600	0.60600	0.62400	0.63400		
USD Libor	0.25625	0.27297	0.28906	0.45750	0.76956		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	70.39	1,327.96	1,305.25	1,235.89	1,184.95	1,332.00	1,357.00
Silver	71.54	22.45	21.70	19.10	18.27	22.62	23.61
Platinum	63.97	1,679.92	1,651.75	1,563.78	1,588.61	1,677.00	1,716.00
Palladium	64.31	576.16	562.28	492.15	482.05	573.00	596.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGEX GLD	TOCOM GLD	CBOT GLD
	Dec'10	Dec'10	Jan'11	Jan'11	Dec'10	Aug'11	Dec'10
Settlement	1,348.90	23.2650	584.00	1,708.70	1,347.70	3,554.00	1,347.70
Open Interest	620,516	152,725	24,675	38,462	2,110	105,632	2,360
Change in Open Interest	1,425	2,605	-218	232	-13	229	-31

Date: 8 October 2010

Sources: Standard Bank; LME; Bloomberg

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