

FICC Research

Commodities: Daily

Focus: Physical market is resisting gold's move higher



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Walter de Wet, CFA*
Walter.DeWet@standardbank.com

Leon Westgate*
Leon.Westgate@standardbank.com

Focus: Our Standard Bank Gold Physical Flow Index (GPFI) remains in negative territory, indicating continued resistance from the physical market to a higher gold price. Our index tracks physical gold buying and selling, including scrap gold, on a daily basis.

- As expected, gold and silver benefited from the release of the FOMC minutes, which stated the Fed's readiness to implement a second round of quantitative easing.
- Base metals rallied strongly during Tuesday afternoon, helped by further dollar weakness and a recovery in US equity markets. That strength has continued into Wednesday morning, boosted by further dollar weakness and by the FOMC minutes.
- With Q3 reporting season starting up in the US, the performance of the US equity markets will also be an increasingly important factor in terms of dictating short term price direction over the coming weeks.
- 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 (12 October 2010)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,415	2,437	2,447	2,423	37	0.91%	2,385.50	-6	-36.00
Copper	8,270	8,345	8,415	8,334	60	0.91%	8,266.00	-70	-4.75
Lead	2,314	2,377	2,434	2,376	60	2.72%	2,275.00	5	-28.00
Nickel	24,050	24,050	24,539	24,160	-325	0.00%	24,150.00	-320	-41.00
Tin	26,200	26,505	26,700	26,300	350	1.16%	26,600.00	205	24.00
Zinc	2,340	2,370	2,410	2,361	40	1.28%	2,309.50	8	-28.25
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	83.46	84.06	84.18	83.46	0.56	0.67%			
NYMEX WTI	81.72	82.46	82.50	81.68	0.79	0.96%			
ICE Gasoil	712.75	717.00	717.75	711.50	3.75	0.52%			
API2 Q3'10	97.40	97.40	-	-	-	0.00%			
EUA Dec10	15.83	15.72	-	-	-0.11	-0.69%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs		
Gold	1,343.50	1,348.50	1,355.00	1,345.25	1,346.20	-7.30	0.6/1.0		
Silver	-	23.50	23.31	23.00	23.13	-0.17	0.0/2.0		
Platinum	1,676.00	1,685.50	1,696.00	1,683.00	1,680.00	-8.00	1.0/3.0		
Palladium	580.00	585.00	587.00	577.00	580.00	-6.00	1.0/3.0		

Sources: Standard Bank; LME; BBG

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

Focus: Physical market is resisting gold's move higher

Our Standard Bank Gold Physical Flow Index (GPGFI) remains in negative territory, indicating continued resistance from the physical market to a higher gold price. Our index tracks physical gold buying and selling, including scrap gold, on a daily basis.

In our last physical flow update at the end of August (*Commodities Daily 27 Aug 2010*) we reported strong demand for gold on the back of seasonal demand factors. This physical demand for gold continued strongly until gold breached the \$1,300 level three weeks ago.

Since the start of September gold ETFs added 15 tonnes to their holdings (ETF holdings increased from 2025 tonnes at the start of September to 2040 tonnes at the start of this week). The investment market is very bullish and without the scrap and other gold selling in the physical market, the gold price could arguably have been much higher.

The extent of the selling in the physical market is evident from our index which pushed deep into negative territory in recent days and compares well with the selling we witnessed during April, May and June this year and also in Q1:09 (an index value below zero indicates net selling in the physical gold market).

However, we are also witnessing a trend where scrap selling slows on dips towards \$1,330 and some buying in the physical market returns. We believe this will provide support for gold on dips for the next four weeks.

With regard to physical flows: our analysis show that gold demand for jewellery is by far the strongest in the last quarter. We expect

Base metals

The base metals rallied strongly during Tuesday afternoon, helped by further dollar weakness and a recovery in US equity markets. That strength has continued into Wednesday morning, with the minutes from the recent FOMC meeting - saying that the Fed is prepared to ease monetary policy before too long - reinforcing the view that another round of quantitative easing is on the way.

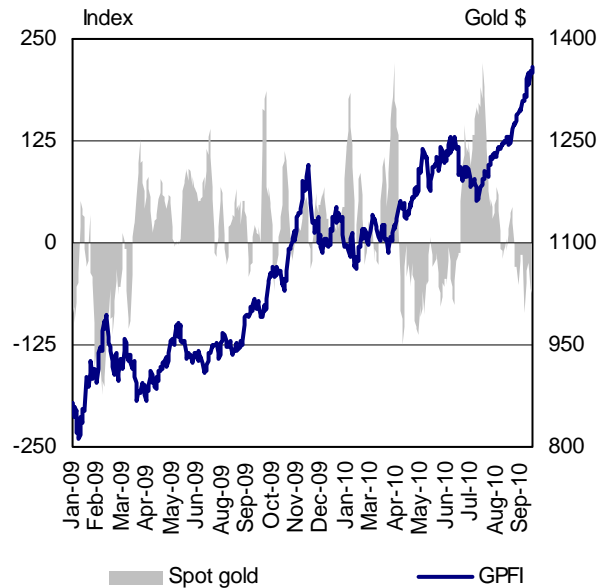
The dollar has continued to weaken as a result of the FOMC minutes, with that weakness and the prospects of QE2 giving the metals a lift heading into the afternoon. With Q3 reporting season starting up in the US, the performance of the US equity markets will also be an increasingly important factor in terms of dictating short term price direction over the coming weeks.

Copper prices have continued to perform very strongly heading into Wednesday afternoon, though prices are struggling to push through \$8,400. Turnover has been solid rather than spectacular, with two way interest starting to build up. Record levels of open interest are potentially a cause for concern with regards to possible liquidation, with some participants perhaps looking to pare back their long positions as a result.

The latest Chinese import figures showed a small 2.9% decline in shipments of copper and copper products in September to 368,410 mt. Given the national day holidays in September, and the lack of arbitrage opportunity, the figure can still be regarded as a solid number. Interestingly, scrap imports for September climbed 2.5% to 410,000 mt

Indonesia's tin exports declined again in September, falling 13.4% m-o-m and 11% y-o-y to 6,904.4 mt. The fall is the second monthly decline in a row and is one of the key factors underpinning tin's recent price rally. Given recent statements by PT Timah and others, regarding expected production shortfalls, Indonesian exports are likely to struggle over the balance of the year. Tin prices have continued to rally, in-line with the strength elsewhere in the complex, with the metal breaching \$27,000/mt for the first time ever.

Standard Bank Gold Physical Flow Index



Source: Standard Bank

gold demand for jewellery to pick up on dips towards \$1,330 until the middle of November, after which seasonal effects should weaken.

We remain cautious of gold given the strong rally since mid-August and the looking FOMC meeting at the start of November. We believe the gold market is already pricing substantial quantitative easing by the Fed (refer to *Commodities Daily* dated 12 Oct'10).

By Walter de Wet

By Leon Westgate

Precious metals

As expected, gold and silver benefited from the release of the FOMC minutes, which stated the Fed's readiness to implement a second round of quantitative easing. Citing that if the pace of economic growth remained too slow "to make satisfactory progress toward reducing the unemployment rate", the Fed stood ready to provide additional monetary accommodation "before long". This implies that further monetary easing could be announced as early as the next meeting (2-3 Nov). However, with no indication as yet of the amount, market estimates vary between \$100bn to \$1.5tr. The average estimate is around \$500bn, which we believe is consistent with the current gold price of around \$1350.

Expectations of further QE, and the associated dollar weakness, should keep gold buoyant for the remainder of the month. However, the risk is that the Fed announces a more conservative approach to QE than markets are expecting. A likely scenario might be a staggered accommodative program (for e.g. a \$100bn per month), which could detract from gold. Profit-taking and lacklustre physical demand could amplify this downward pressure.

Gold support is at \$1,346 and \$1,336. Resistance is at \$1,362 and \$1,367.

Once again, silver has outperformed gold. Silver support is at \$23.15 and \$22.78, resistance is at \$23.68 and \$23.83.

PGM's have made steady gains, much in line with the base metals. Improving Eurozone industrial production figures has lent further support. Platinum support is at \$1,678 and \$1,661, resistance at \$1,707 and \$1,717. Palladium support is at \$581 and resistance at \$598.

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	4,323,750	4,327,575	2,025	5,850	-3,825	-305,150	222,450	5.14	267,635
Copper	371,750	372,475	-	725	-725	-130,575	24,600	6.62	130,604
Lead	198,425	198,450	200	225	-25	51,925	6,875	3.46	40,257
Nickel	123,714	123,474	420	180	240	-34,296	4,116	3.33	31,679
Tin	12,150	12,255	60	165	-105	-14,615	205	1.69	7,782
Zinc	610,350	610,850	250	750	-500	122,300	42,350	6.94	86,301

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,460	16,460	115	Ali Dec'10	-	-	-	-
Copper	62,950	62,830	620	Cu Dec'10	379	382.10	3.15	0.83%
Zinc	19,120	19,100	350					

ZAR metal prices (12 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,504	57,188	15,740	167,082	184,032	15,978	6.9185
3-month	17,105	58,574	16,684	168,807	186,039	16,635	7.0190

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)	93.14	-0.63	93.83	-0.86	94.48	-0.72	95.97	-0.48	-	-
Gasoil 0.1% Rdam (\$/mt)	717.00	3.75	718.75	3.50	723.00	4.00	726.00	-3.75		
NWE CIF jet (\$/mt)	759.61	-3.23	763.52	-3.52	767.86	-3.53	777.97	-3.45		
Singapore Kero (\$/bbl)	94.48	-0.56	94.83	-0.71	95.48	-0.62	97.07	-0.43		
3.5% Rdam barges (\$/mt)	455.26	-1.84	456.00	-2.75	458.50	-2.50	467.70	-1.95		
1% Fuel Oil FOB (\$/mt)	468.20	-2.67	471.75	-5.50	477.50	-5.00	492.20	-3.70		
Sing FO 380 Cargo (\$/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo (\$/mt)	475.74	-1.82	479.50	-2.50	483.25	-1.75	492.70	-0.70		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	97.40	-	97.80	-0.10	98.80	-0.40	99.60	-0.35	106.30	-0.45
API4 (FOB RBCT)	90.10	-0.70	93.30	-0.20	94.30	-0.50	95.10	-0.45	100.40	-0.45

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.37200	0.39800	0.41800	0.47400	0.48800		
Silver	0.58400	0.59400	0.60400	0.62200	0.61400		
USD Libor	0.25625	0.27297	0.28906	0.45656	0.76694		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	68.92	1,332.36	1,309.49	1,237.38	1,186.12	1,346.00	1,362.00
Silver	69.57	22.59	21.83	19.15	18.29	23.15	23.68
Platinum	61.52	1,683.53	1,655.78	1,565.36	1,589.33	1,678.00	1,707.00
Palladium	63.62	578.38	563.95	493.58	482.89	581.00	598.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DG CX GLD	TOCOM GLD	CBOT GLD
	Dec'10	Dec'10	Jan'11	Jan'11	Dec'10	Aug'11	Dec'10
Settlement	1,356.90	23.4750	593.00	1,683.30	1,357.00	3,578.00	1,356.80
Open Interest	617,881	153,050	24,514	38,726	2,173	104,107	2,304
Change in Open Interest	15,183	2,335	394	453	-63	-	-1

Date: 12 October 2010

Sources: Standard Bank; LME; Bloomberg

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