

FICC Research

Commodities: Daily

Focus: Rising open interest, increasing risk



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Focus: With commodity prices fast rising, we contemplate open interest (OI) for different commodities. Specifically, we compare OI for Comex gold, Comex silver, LME copper and Nymex crude. The proportion of speculative interest, relative to historical levels, tells us that silver and copper may be the most vulnerable to a sharp dollar reversal, followed by crude oil. Gold doesn't look overextended from this perspective.

- The base metals have made a nervy and erratic start to the day, broadly tracking the dollar. Prices have nevertheless remained well supported, though volumes have been subdued across the board, with the market appearing to be on hold ahead of Ben Bernanke's comments on monetary policy later today.
- Yesterday's core US PPI numbers showed few inflationary pressures (coming in at 0.1% m/m). Broad-based PPI was slightly higher, at 0.4% m/m. The focus shifts today to CPI. In a world where final demand is relatively weak and unemployment high, we find it difficult to see producer price pressures being passed on to consumers.
- DOE weekly inventory changes on gasoline and distillate was broadly consistent with the API numbers. The only major discrepancy between the two data sets was where gasoline had been drawn. Almost all DOE gasoline draws were at PADD1.

Commodity price data (14 October 2010)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,434	2,413	2,044	2,003	-21	-0.86%	2,402.00	12	-34.75
Copper	8,416	8,405	7,320	7,139	-11	-0.13%	8,412.00	12	-12.50
Lead	2,432	2,412	2,037	1,967	-20	-0.82%	2,402.00	-6	-27.25
Nickel	24,400	24,310	20,625	20,160	-90	-0.37%	24,355.00	245	-46.00
Tin	27,300	26,950	2,433	20,400	-350	-1.28%	27,600.00	800	28.50
Zinc	2,426	2,415	2,060	1,981	-11	-0.45%	2,399.00	18	-28.05
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	84.02	84.09	84.48	83.74	-0.11	-0.13%			
NYMEX WTI	82.77	82.72	83.10	82.45	0.03	0.04%			
ICE Gasoil	716.25	717.75	720.75	715.50	-6.00	-0.84%			
API2 Q3'10	93.25	93.25	-	-	0.00	0.00%			
EUA Dec10	13.89	13.88	-	-	-0.01	-0.07%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs		
Gold	1,377.25	1,373.25	1,380.00	1,371.70	1,376.50	7.30	0.5/0.9		
Silver	-	24.57	24.56	24.07	24.43	0.51	0/2		
Platinum	1,701.00	1,708.00	1,710.00	1,703.00	1,703.00	11.00	3.5/5.5		
Palladium	597.00	598.00	603.00	599.00	599.00	8.00	1/3		

Sources: Standard Bank; LME; BBG

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Focus: Rising open interest, increasing risk

With commodity prices fast rising, we contemplate open interest (OI) for different commodities. Specifically, we compare OI for Comex gold, Comex silver, LME copper and Nymex crude.

LME copper's open interest has risen to all-time highs recently, so has the OI for Comex gold. While Comex silver is not at all-time highs yet, it has risen very steeply.

When comparing OI since June across the commodities, a consistent pattern emerges — in relative terms, precious metals have seen OI rise the most, followed by copper and then crude oil. Silver has attracted the most interest and is consistent with silver's outperformance of copper, gold and crude oil over the past three months.

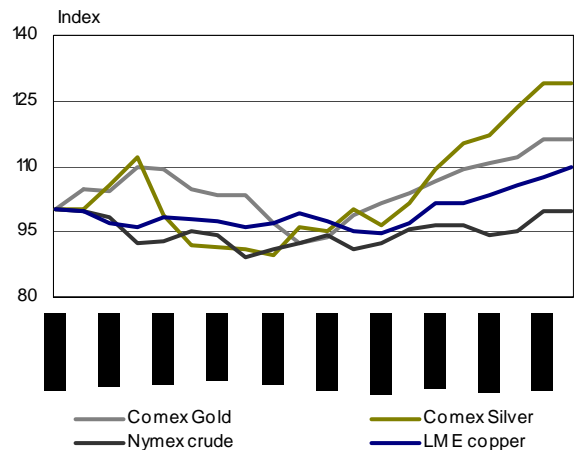
The rise in open interest does come at a time when the dollar has seen a sharp depreciation. While a rise in open interest, combined with a rise in prices, indicates that more long positions are being opened.

However, the rise in OI has also gone alongside the sharp depreciation in the dollar in recent weeks. We therefore believe that the short-term fortune of many commodities remains tied to movements in the dollar.

To gauge how commodities may be affected should the dollar see a sudden reversal of fortunes and appreciate sharply, we look at what percentage of OI is net non-commercial positions (i.e. speculative position).

Silver has a net non-commercial long position as percent of open interest of 26.4% — well above the average of 21.8% seen over

Open interest on futures exchanges



Sources: CFTC; Standard Bank

the past two years. The similar figure for gold is 32.4% (compared to a 2y average of 32.6%). Nymex crude's position is at 7.12%, compared to a 2y average of 4.6%. LME doesn't publish non-commercial positions for copper. However, the much less liquid COMEX copper spec position as percent of OI is currently 15%, compared to a 2y average of 9%.

The proportion of speculative interest, relative to historical levels, tells us that silver and copper may be the most vulnerable to a sharp dollar reversal, followed by crude oil. Gold doesn't look overextended from this perspective.

By Walter de Wet

Base metals

The base metals have made a nervy and erratic start to the day, broadly tracking the dollar. Prices have nevertheless remained well supported, though volumes have been subdued across the board, with the market appearing to be on hold ahead of Ben Bernanke's comments on monetary policy later today.

In terms of data, the US Advance Retail sales figures for September (expected +0.4%), CPI (expected +0.2%) and the U. of Michigan Confidence index (expected at 68.9 from 68.2) may cause a bit of volatility if they are significantly out of line with expectations, though the main event, certainly as far as the wider global markets are concerned, is the speech by Ben Bernanke in Boston about monetary policy.

After a weak start, copper rallied during overnight trade, boosted by stronger Chinese equities. A big increase in SHFE inventories, up 9.9% to 103,510 mt saw prices take a bit of a hit, though prices have steadied around Thursday's closing levels. Meanwhile, after surging higher open interest in copper has finally stabilised, albeit perhaps only briefly, indicating some participants are starting to take profits and fade the rally. Whether new long positions are added today however, depends very much on the dollar and how Mr Bernanke's speech is interpreted by the markets.

In other news, reports suggest that in Zhejiang province and other east-coast Chinese provinces, it is the copper fabricating industry that has been impacted most by the government drive to curb energy consumption. As noted in previous reports however the effect from the clampdown is not uniform, with the recent increase in spot copper TC/RCS also partially due to the impact of energy curbs on some smelting capacity. Looking ahead, it will be interesting to see how the trade-off between meeting GDP targets and curbing energy and pollution unfolds, particularly in terms of whether the re-stocking/de-stocking cycle is disrupted as a result.

By Leon Westgate

Precious metals

Yesterday's core US PPI numbers showed few inflationary pressures (coming in at 0.1% m/m). Broad-based PPI was slightly higher, at 0.4% m/m. The focus shifts today to CPI. In a world where final demand is relatively weak and unemployment high, we find it difficult to see producer price pressures being passed on to consumers.

There are cost-push factors (such as higher commodity prices) pushing the cost of production higher — but very few demand-pull pressures. Because of weak final demand, companies are more likely to absorb these costs than pass them on to consumers. We expect few inflationary pressures in the US for some months to come. We also expect further QE.

Ben Bernanke is set to speak on monetary policy today. The main risk is that he might use this opportunity to reign in expectations of quantitative easing, i.e. perhaps hinting at a more conservative approach than markets' are currently anticipating. This could prompt a pull-back in precious metals. However, we anticipate some seasonal jewellery demand (Diwali ends 5 Nov) to prompt some buying into dips.

Gold support is at \$1,372 and \$1,362. Resistance is at \$1,388 and \$1,396,

Silver continues to rise and is heading towards \$25. Support for the metal may linger until at least the FOMC meeting and the end of Diwali. As noted in the **Focus** section, we do see the risk of a price correction growing as speculative interest continues to rise. Silver support is at \$24.12 and \$23.60. Resistance is at \$25.00 and \$25.45.

By Walter de Wet

Energy

As we expected, OPEC decided to maintain the production quotas unchanged on their meeting yesterday. Understandably, some members voiced their concerns about dollar devaluation, as it hurts their real income from oil exports.

The dollar remains on the back foot. We keep a close eye on US CPI today. We watch with keen interest to see whether producers have been able to pass rising cost to US consumers. More importantly, the CPI figures should give some clue on the Fed's QE program, as the Fed wants to use QE to push up inflation, and in turn the aggregated demand. The CPI release will also coincide with a scheduled speech by the Fed Chairman.

Yesterday saw the DOE release a small draw of 0.4mmbbl of crude inventory in the US. This aligns with our view that the 4mmbbl draw reported by the API the day before was a catch-up with DOE data from last week. The market gave back some gains on both flat price and the WTI structure.

DOE weekly inventory changes on gasoline and distillate was broadly consistent with the API numbers. The only major discrepancy between the two data sets was where gasoline had been drawn. Almost all DOE gasoline draws were at PADD1. However, the market responded rather coldly in terms of RBOB cracks. Again, as we mentioned in previously, the gasoline draw should be viewed as a short-term issue caused by an import drop from Europe.

November WTI finished 32c/bbl lower, while Brent ended 11c/bbl lower yesterday. This morning, WTI clawed back some of the loss as dollar continued to weaken. Technically, oil has been in correction mode all week, currently clusters together with the 5, 8 and 13-day moving averages, has been unable to find a direction. We maintain our view that oil is not ready to break out this year's trading range yet, but we watch the dollar very carefully for risk of breaking out on the upside.

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	4,313,975	4,318,100	1,850	5,975	-4,125	-314,925	213,550	4.95	231,521
Copper	371,025	371,500	400	875	-475	-131,300	23,075	6.22	122,988
Lead	197,700	197,875	-	175	-175	51,200	6,775	3.43	43,113
Nickel	124,056	124,176	-	120	-120	-33,954	4,320	3.48	31,684
Tin	12,525	12,465	90	30	60	-14,240	315	2.51	5,241
Zinc	608,250	609,275	-	1,025	-1,025	120,200	40,300	6.63	63,272

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,320	16,340	-105	Ali Dec'10	-	-	-	-
Copper	63,140	63,340	-200	Cu Dec'10	382	382.00	0.45	0.12%
Zinc	19,180	19,225	-85					

ZAR metal prices (14 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,300	57,084	16,300	165,273	187,294	16,280	6.7860
3-month	16,614	57,868	16,607	167,374	185,551	16,627	6.8850

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)	93.98	-0.13	95.43	-0.22	95.91	-0.21	97.11	-0.13	-	-
Gasoil 0.1% Rdam (\$/mt)	717.75	-6.00	719.50	-5.75	722.25	-6.25	728.75	-6.00		
NWE CIF jet (\$/mt)	766.76	-2.15	772.20	-4.41	776.01	-4.33	793.72	5.00		
Singapore Kero (\$/bbl)	95.48	-0.01	96.48	-0.17	96.96	-0.21	98.21	-0.13		
3.5% Rdam barges (\$/mt)	455.40	-3.62	455.50	-6.75	458.00	-7.25	467.64	-7.41		
1% Fuel Oil FOB (\$/mt)	470.45	-3.55	474.50	-6.25	480.00	-6.75	493.39	-7.16		
Sing FO 380 Cargo (\$/mt)	100.15	0.00	100.15	0.00	100.15	0.00	100.15	0.00		
Sing FO180 Cargo (\$/mt)	475.28	-4.42	478.25	-8.00	482.50	-7.50	491.89	-6.91		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	98.70	1.30	99.50	1.70	100.40	1.60	101.10	1.50	107.70	1.40
API4 (FOB RBCT)	91.40	1.30	94.50	1.20	95.80	1.50	96.40	1.30	101.80	1.40

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.37000	0.38800	0.41200	0.47000	0.51000		
Silver	0.56000	0.56000	0.57000	0.59000	0.61400		
USD Libor	0.25625	0.27297	0.28906	0.45375	0.76650		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	73.07	1,352.16	1,325.38	1,242.35	1,189.76	1,363.00	1,389.00
Silver	75.65	23.36	22.40	19.33	18.39	23.94	24.77
Platinum	63.03	1,697.78	1,670.24	1,570.36	1,591.52	1,694.00	1,726.00
Palladium	65.09	586.99	571.26	497.92	485.45	589.00	605.00
Active Month Future	COMEX GLD	COMEX SLV	NYMEX PAL	NYMEX PLAT	DGCX GLD	TOCOM GLD	CBOT GLD
	Dec'10	Dec'10	Jan'11	Jan'11	Dec'10	Aug'11	Dec'10
Settlement	1,379.20	24.5850	598.50	1,712.60	1,379.00	3,606.00	1,378.90
Open Interest	627,336	155,661	24,530	39,184	2,289	103,655	2,294
Change in Open Interest	-10,954	-1,691	-334	-486	89	452	-16

Date: 14 October 2010

Sources: Standard Bank; LME; Bloomberg

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