

FICC Research

Commodities: Daily

Focus: We remain bullish on platinum and palladium



27 October 2010

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Focus: We remain bullish on platinum and palladium — Our targets for platinum and palladium remain at \$1,800 and \$650 respectively (*Commodities Daily* 4Jun'10 and 14 Jun'10). We believe that these targets may be reached towards year-end or early in 2011. We believe that palladium will reach its target first, and possibly aim for \$700 in Q1:11.

- Metals remain within their recent trading ranges. Financial markets in general remain uncertain about global monetary policy. The dollar remains the driver for intra-day movements.
- Precious metals have been hit hard as investors take profits and adopt a wait-and-see approach ahead of next week's FOMC meeting (2-3 Nov). Growing uncertainty over the magnitude of the Fed's second-round of quantitative easing has seen a resurgence in the dollar and an accompanying push lower on commodities.
- API US Inventory data released yesterday read 6.4mmbbl crude increase in crude oil stock, 1.8mmbbl draw in gasoline and 0.8mmbbl build in distillate. The huge stockpile in crude came at a surprise. However a close look into the API numbers appears to raise more questions than answers.

Commodity price data (26 October 2010)

Base metals LME 3-month									
	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,363	2,390	2,392	2,346	18	1.14%	2,332.00	-30	-31.75
Copper	8,495	8,511	8,547	8,365	-7	0.19%	8,466.00	-35	-6.75
Lead	2,569	2,594	2,619	2,540	9	0.97%	2,541.00	-19	-26.75
Nickel	23,360	23,300	23,450	22,810	-300	-0.26%	23,185.00	-570	-70.00
Tin	26,750	26,700	26,650	26,300	-200	-0.19%	26,550.00	-245	-25.00
Zinc	2,586	2,616	2,634	2,530	50	1.16%	2,556.50	4	-27.50
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	83.59	82.81	83.67	82.80	-0.85	-1.03%			
NYMEX WTI	82.48	81.62	82.69	81.60	-0.93	-1.14%			
ICE Gasoil	708.50	702.25	708.50	701.25	-8.00	-1.14%			
API2 Q4'10	101.70	101.50	-	-	-0.20	-0.20%			
EUA Dec10	15.17	14.99	-	-	-0.18	-1.19%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs		
Gold	1,334.00	1,329.50	1,343.55	1,328.80	1,338.20	-0.30	-10.0/0.3		
Silver	-	23.59	23.94	23.18	23.81	0.28	-1.0/1.0		
Platinum	1,693.00	1,696.00	1,701.00	1,696.00	1,698.00	4.00	3.5/5.5		
Palladium	607.00	608.00	612.00	610.00	612.00	-4.00	1.0/3.0		

Sources: Standard Bank; LME; BBG

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Focus: We remain bullish on platinum and palladium

Our targets for platinum and palladium remain at \$1,800 and \$650 respectively (*Commodities Daily* 4 Jun'10 and 14 Jun'10). We believe that these targets may be reached towards year-end or early in 2011. We believe that palladium will reach its target first, and possibly aim for \$700 in Q1:11.

Firstly, we see \$1,800 and \$650 as minimum targets for platinum and palladium to make the marginal mine profitable on a "cash operating cost + CAPEX" in 2010, given a ZAR at \$7.50 (the average ZAR ytd) against the dollar. Should the ZAR remain at current levels (around \$7.00) for an extended period of time, we would increase our targets for platinum and palladium.

Secondly, with specific reference to palladium: metal continues to flow out of Zurich vaults. Switzerland was a net exporter of 21,927 oz palladium in Sep'10. This is the fifth month running that Zurich was a net exporter of metal. On average, 95K oz of palladium has flowed out of Zurich per month (we note some palladium has shifted to London for Loco London settlement which distorts Swiss export figures somewhat).

Thirdly, we look for a rise in auto sales starting in December. This should continue until at least Mar'11. We look at auto sales in the US, China, Japan and Europe — these countries are the largest consumers of platinum and palladium. *Seasonally Dec, Feb and March are consistently good months for auto sales.* This seasonal pattern has prevailed even during the downturn in 2009 (adjacent graph). We may see some auto manufacturers re-stock ahead of increased production.

Base metals

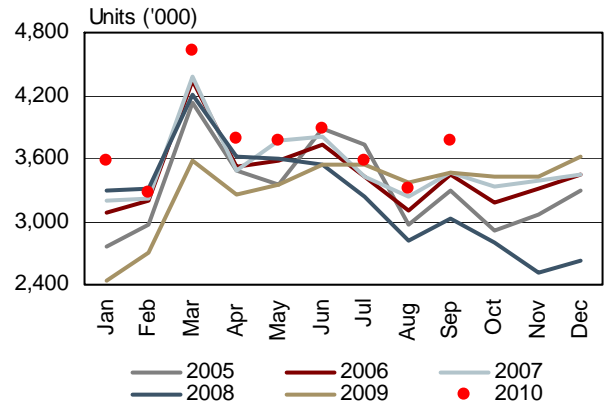
Metals remain within their recent trading ranges. Financial markets in general remain uncertain about global monetary policy. The dollar remains the driver for intra-day movements.

Copper declined from yesterday's highs above \$8,500. With prices at current levels, we continue to see some softness in the physical copper market. This softness is not substantial yet but is an indication that physical buying appetite is not as strong as it was a few weeks ago. Copper premiums in Asia, most notably CIF Shanghai and Singapore are lower than in September and earlier this month. Premiums in Shanghai CIF were around \$60-\$75 at the start of the week. This is markedly down from levels of \$100 and higher in Shanghai in July and August.

The softness in the physical copper market coincides with resistance in the market to a copper price above \$8,500. This resistance also coincides with a decline in LME open interest from its record highs a few days ago (although copper open interest remains at elevated levels and above the highs seen in mid-2009). Looking past the current softness in the physical market, we note the fact that open interest remains elevated is a positive signal with the bullish fundamental picture for copper over the next couple of years reassuring the market.

Zinc and lead have given up some of the gains made since last week. However, both metals continue to find support above \$2,500. This support is still on the back of smelter shutdowns in China. While we expect this support to continue as uncertainty remains about production output of both lead and zinc, we do note that China's lead and zinc outputs both jumped in September to record highs, as smelters returned to full capacity from maintenance shutdowns and to benefit from higher metal prices. Combined with some resistance in the physical market to a higher copper price, the rising output in China may see lead and zinc rallies also capped ahead of the FOMC meeting on 3 Nov'10.

Auto sales in US, EU, Japan and China



Sources: Standard Bank; Bloomberg

Fourthly, we expect platinum jewellery demand to pick up in December and January. We estimate that jewellery demand will constitute 30% of platinum demand in 2011 (equivalent to 2.3m oz). Of this 2.3m oz jewellery demand, almost 65% of demand may come from China. Traditionally jewellery demand picks up during the Western Hemisphere's festive season in December. For China demand picks up around Chinese New Year in 2011 Chinese New Year is on 3 February. This, combined with a seasonal pick-up in auto sales, should support platinum and palladium.

By Walter de Wet

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Precious metals

Precious metals have been hit hard as investors take profits and adopt a wait-and-see approach ahead of next week's FOMC meeting (2-3 Nov). Growing uncertainty over the magnitude of the Fed's second-round of quantitative easing has seen a resurgence in the dollar and an accompanying push lower on commodities. The consensus has been for around \$500bn in monetary accommodation, though conflicting signals from recent data flow and comments by Fed members seems to have dampened these expectations.

Yesterday, US consumer confidence showed an encouraging increase, but also revealed that Americans' view of the labour market has worsened. The Fed's Dudley spoke yesterday saying that the recovery has been "tepid" and that more stimulus is "likely warranted", while Fed member Hoenig reiterated that further quantitative easing would be a "dangerous gamble".

Given this uncertainty we expect precious metals to remain largely range-bound with a bias to the downside ahead of next week's meeting, as investors continue to lock in profits or opt to remain on the sidelines. Limited physical buying might provide some support on dips.

Gold support is at \$1,325 and \$1,319. Resistance is at \$1,342 and \$1,351. Silver support is at \$23.26 and \$22.81, resistance is at \$24.06 and \$24.40.

While we expect PGM's to largely follow the trend of the broader precious metals group, better-than-expected US durable and capital goods orders data could limit downside pressures.

Platinum support is at \$1,687 and \$1,676, resistance at \$1,710 and \$1,721. Palladium support is at \$607 and resistance at \$635.

By Marc Ground

Energy

API US Inventory data released yesterday read 6.4mbbl crude increase in crude oil stock, 1.8mbbl draw in gasoline and 0.8mbbl build in distillate. The huge stockpile in crude came at a surprise. However a close look into the API numbers appears to raise more questions than answers. API weekly data showed refining run increased by 107kbd, while net import increase by 137kbd. This is aligned with our forecast that a higher run rate offset by higher import. With domestic crude production reported unchanged, the crude inventory should have stay flat. Instead, API reported a 6.4mbbl build. It is likely the import number has been under reported. More crude might have been diverted to the US in anticipation for the end of the maintenance season.

Our DOE forecast points to 2mbbl build of crude, 1mbbl and 1.5mbbl draw in gasoline and distillate respectively. Our forecast is more bullish on product cracks for the short term, given the higher US product export. However, the US domestic demand appears still weak and market anticipates on further increase in refinery utilisation rate, which can put pressure on any rally in cracks. Otherwise, in case of bullish DOE numbers we could see oil to bounce back. But we don't see WTI is yet ready to break the upper boundary of the trading range, around \$85/bbl.

Front-month WTI traded lower this morning, which partly also attributes to dollar strengthening. It is hard to see DOE comes up with a set of more bearish numbers than API, given the huge 10mbbl discrepancy on crude between the two. However, a confirmation from DOE on oil stockpile could weight on the market further. As we suggested yesterday, it could accelerate the risk unwinding prior to the Fed meeting.

Technically, front-month WTI has its resistance at \$82.35 and support at \$81.88.

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	4,315,075	4,319,275	1,225	5,425	-4,200	-313,825	194,200	4.50	144,340
Copper	367,475	368,375	0	900	-900	-134,850	28,425	7.74	97,981
Lead	198,875	197,725	1,575	425	1,150	52,375	5,525	2.78	29,160
Nickel	127,254	126,768	750	264	486	-30,756	4,158	3.27	26,215
Tin	12,735	12,670	100	35	65	-14,030	470	3.69	4,569
Zinc	606,700	607,000	0	300	-300	118,650	39,900	6.58	62,798

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,750	16,570	-165	Ali Dec'10	-	-	-	-
Copper	65,000	64,410	-220	Cu Dec'10	387	381.30	-5.60	-1.45%
Zinc	21,475	20,810	-375					

ZAR metal prices (26 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,147	58,619	17,594	160,533	183,832	17,701	6.9240
3-month	16,736	59,597	18,164	163,155	186,963	18,318	7.0024

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)	92.94	-0.01	93.84	-0.02	94.34	0.00	95.57	-0.10	-	-
Gasoil 0.1% Rdam (\$/mt)	702.25	-8.00	704.75	-8.00	708.75	-7.75	716.50	-6.75		
NWE CIF jet (\$/mt)	758.66	0.19	758.34	0.84	761.86	-0.25	772.72	0.00		
Singapore Kero (\$/bbl)	94.40	-0.09	94.99	-0.07	95.44	-0.05	96.62	-0.10		
3.5% Rdam barges (\$/mt)	453.74	0.00	456.50	1.00	458.50	1.00	467.41	0.94		
1% Fuel Oil FOB (\$/mt)	471.55	-0.14	476.75	-0.75	482.00	0.25	492.66	-0.31		
Sing FO 380 Cargo (\$/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo (\$/mt)	475.99	0.12	483.00	1.75	484.75	1.00	491.66	0.19		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	101.50	-0.20	102.40	-0.20	102.80	-0.10	103.10	-0.20	107.20	-0.30
API4 (FOB RBCT)	94.80	-0.50	97.60	-0.60	98.30	-0.50	98.50	-0.60	101.80	-0.40

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.33000	0.34800	0.37600	0.42600	0.47000		
Silver	0.46000	0.47000	0.48000	0.51800	0.54600		
USD Libor	0.25531	0.27109	0.28844	0.45125	0.76525		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	57.19	1,345.97	1,342.45	1,251.32	1,197.88	1,325.00	1,342.00
Silver	62.47	23.82	23.32	19.77	18.59	23.26	24.06
Platinum	58.67	1,690.18	1,689.95	1,582.25	1,594.70	1,687.00	1,710.00
Palladium	64.31	597.66	589.31	509.81	491.45	607.00	635.00
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	1,327.40	23.5600	620.00	1,704.00	1,329.20	3,510.00	1,329.40
Open Interest	612,037	150,390	24,233	37,870	1,757	101,002	2,427
Change in Open Interest	2,348	-1,308	37	112	-16	506	-179

Date: 26 October 2010

Sources: Standard Bank; LME; Bloomberg

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