

FICC Research

Commodities: Daily

Focus: Gold physical demand picks up on price dip



29 October 2010

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Focus: The physical gold market has undergone a marked change in the past week. Until last week the physical market has provided resistance to a higher gold price - now it is providing support. We have seen strong physical selling and scrap gold coming to market since mid-September, as the gold price pushed higher. However, the latest decline in the gold price to below \$1,330 has spurred renewed physical buying interest.

- Base metals opened on the back foot in Shanghai and saw very little buying support all morning. Ahead of next week we continue to look at broader markets instead of metal specific factors. The copper market continues to find resistance on rallies toward \$8,500. Lead and zinc are giving up some of the gains following the recent Chinese smelter closure. In relative terms we believe lead should benefit more from smelter closure than zinc.
- Speculation over the magnitude of the Fed's anticipated quantitative easing continues to drive precious metals markets, especially gold. We believe the risk is that the Fed will disappoint the markets. If so, gold could fall next week. Nevertheless, we place a floor of \$1,280 on the gold price
- Oil traded sideways yesterday. December WTI ended the day 22c/bbl higher at \$82.18/bbl, while December Brent was 37c/bbl higher and finished at \$83.59/bbl. As October draws to a close, front-month crude ended more or less where it started, with some rather volatile sessions in between. Most of the volatility comes from dollar move.

Commodity price data (28 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	2,348	2,344	2,310	24	0.32%	2,308.00	-14	-29.00
Copper	8,340	8,341	8,322	8,200	40	0.01%	8,332.00	-	-10.50
Lead	2,505	2,506	2,493	2,435	-38	0.03%	2,480.00	-52	-25.00
Nickel	23,100	23,150	23,073	22,806	245	0.22%	23,080.00	130	-71.00
Tin	26,300	26,250	26,100	25,050	200	-0.19%	26,300.00	-40	-35.00
Zinc	2,497	2,494	2,510	2,414	-16	-0.12%	2,464.00	-52	-27.50
Energy									
	Open	Close	High	Low	day/day	Change (%)			
ICE Brent	83.47	83.22	83.50	83.15	-0.37	-0.44%			
NYMEX WTI	81.92	81.59	82.03	81.47	-0.59	-0.72%			
ICE Gasoil	703.75	701.25	705.00	700.50	-6.75	-0.96%			
API2 Q4'10	101.15	101.80	-	-	0.65	0.64%			
EUA Dec10	15.07	14.91	-	-	-0.16	-1.06%			
Precious metals									
	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs		
Gold	1,326.50	1,333.50	1,346.00	1,325.50	1,342.20	19.90	-20.0/0.2		
Silver	-	23.94	24.02	23.59	23.87	0.46	-1.0/1.0		
Platinum	1,684.00	1,685.00	1,689.00	1,585.00	1,688.00	-11.00	2.0/4.0		
Palladium	625.00	626.00	630.00	619.00	628.00	3.00	-1.0/1.0		

Sources: Standard Bank; LME; BBG

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Focus: Gold physical demand picks up on price dip

The physical gold market has undergone a marked change in the past week. Until last week the physical market has provided resistance to a higher gold price - now it is providing support.

We have seen strong physical selling and scrap gold coming to market since mid-September, as the gold price pushed higher.

However, the latest decline in the gold price to below \$1,330 has spurred renewed physical buying interest. As a result our Standard Bank Gold Physical Flow Index (GPF) has jumped into positive territory after lingering in negative territory for almost more than a month (adjacent Figure)

The buying interest is spurred by two events:

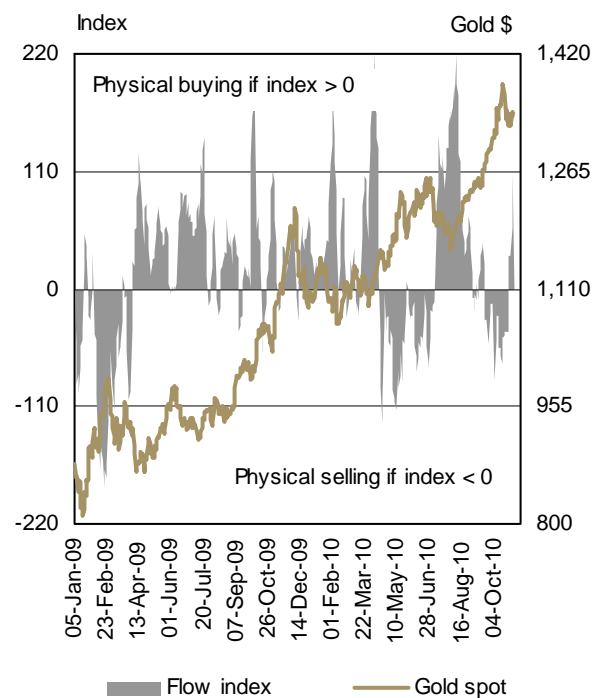
Firstly, ahead of the end of Diwali on 5 Nov, India buying interest should remain strong on any price dips. This buying on pull-backs in the gold price may fall away after next weekend. Short term this warrants some caution.

Secondly, we believe the buying interest is an indication that the physical gold market is slowly adjusting to the higher gold price and now sees a "higher low" in the gold price as a buying opportunity. Long term this is a bullish sign.

We continue to expect gold physical demand to prevail on dips. However, the demand on dips might not be as strong as it has been the past month. While Indian demand may fall away towards mid-November, we still have the festive season in the Western Hemisphere as well as Chinese New Year. In 2011 Chinese New Year is on 3 February.

We note that physical demand is dominated by investment demand. As a result our main focus remains the action of the Fed next week. With regards to the Fed actions - we believe the gold

Standard Bank Gold Physical Flow Index



Source: Standard Bank

market is pricing \$500bn of QEII already. Our estimates are based on gold's close relationship since 2004 with global liquidity of which the Fed's balance sheet makes up an important component. We find a gold price closer to \$1,280 would be consistent with no additional QE.

By Walter de Wet

Base metals

Base metals opened on the back foot in Shanghai and saw very little buying support all morning. Ahead of next week we continue to look at broader markets instead of metal specific factors.

In this regard, we look at the German and French plans to create a permanent bail-out fund for the EU. The plan also includes a crisis-resolution mechanism for member countries which may fall foul off creditors and other EU members. Initial indications are that it may force bondholders to incur losses. German data showed the country's retail sales dropped substantially, and unexpectedly, in September. Retail sales fell 2.3% m/m - the second monthly drop in a row. Apart from the EU developments, we have the G20 meeting on November 11th/12th. Trade and current account surpluses - and by implication FX - will be discussed. While these developments are likely to take a back seat ahead of next week's FOMC meeting, EU developments and a G20 meeting may attract more attention. At this stage we don't see these developments as a threat to real base metal demand, but we see these developments as a short-term risk to base metal prices via the FX transmission mechanism.

The copper market continues to find resistance on rallies toward \$8,500. We noted softness setting into the physical copper market (Commodities Daily dated 28 Oct'10). The copper market may also be waiting to see where Codelco's Asian premium settles. The European premium reportedly settled around \$98 (albeit with some flexibility around this level). The Asian premium, expected in November, is likely to be significantly higher, perhaps around the \$115 mark.

Lead and zinc are giving up some of the gains following the recent Chinese smelter closure. In relative terms we believe lead should benefit more from smelter closure than zinc. We estimate the lead market to be in a deficit this year (41K mt) and next (67K mt), while the zinc market should still see a sizable surplus (95K mt) next year.

By Walter de Wet

Precious metals

Speculation over the magnitude of the Fed's anticipated quantitative easing continues to drive precious metals markets, especially gold. Yesterday expectations that the intended monetary stimulus would be large were fuelled after the Fed surveyed bond dealers asking how asset purchases might influence yields.

Estimates for QEII are as high as \$2tr, although consensus remains for around \$500bn as an initial announcement next week. As stated yesterday, we believe the risk is that the Fed will disappoint the markets, and rather announce a staggered approach with smaller amounts of asset purchases on a monthly basis. If so, gold could fall next week. Nevertheless, we place a floor of \$1,280 on the gold price, as this is the price we find consistent with no additional stimulus.

This morning, gold and silver have come under pressure as the dollar regains some lost ground. Physical selling and investor profit-taking has added to the downward pressure, although the market is relatively thin. Seasonal jewellery demand (Diwali next week) could prompt some price support in the dips.

Gold support is at \$1,327 and \$1,313. Resistance is at \$1,351 and \$1,360. Silver support is at \$23.62 and \$23.29, resistance is at \$24.15 and \$24.36.

The market for PGM's is also seeing muted trading, with prices looking rather range bound with a downward bias. The stronger dollar is weighing on prices, as well as some profit-taking ahead of the weekend.

Platinum support is at \$1,679 and \$1,666, resistance at \$1,700 and \$1,708. Palladium support is at \$620 and resistance at \$637.

By Marc Ground

Energy

Oil traded sideways yesterday. December WTI ended the day 22c/bbl higher at \$82.18/bbl, while December Brent was 37c/bbl higher and finished at \$83.59/bbl. The dollar weakened throughout the day, even though the weekly jobless claims number turned out to be better than expected.

As October draws to a close, front-month crude ended more or less where it started, with some rather volatile sessions in between. Most of the volatility comes from dollar moves, which has been driven by speculation on the Fed's QE move for the past month. Even a prolonged French strike and huge DOE weekly inventory changes failed to break the close correlation between dollar and oil.

French port workers at Le Havre have voted to end their strike, following the lead of workers at three refineries earlier this week. The high oil inventory has avoided panic and severe price actions which otherwise might have been caused by such a long and wide-spread strike.

Technically, front-month Brent holds short-term resistance at \$83.39, support at \$82.02.

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	4,307,375	4,310,975	1,475	5,075	-3,600	-321,525	187,725	4.36	157,372
Copper	368,025	368,600	325	900	-575	-134,300	29,250	7.95	125,065
Lead	199,775	198,700	1,250	175	1,075	53,275	5,550	2.78	29,490
Nickel	128,262	126,972	1,452	162	1,290	-29,748	4,542	3.54	34,635
Tin	12,820	12,825	-	5	-5	-13,945	390	3.04	5,594
Zinc	616,850	611,525	5,450	125	5,325	128,800	39,700	6.44	76,578

Shanghai 3-month forward prices

COMEX active month future prices

Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	16,420	16,460	20	Ali Dec'10	-	-	-	-
Copper	63,380	62,810	-950	Cu Dec'10	379	374.00	-4.75	-1.25%
Zinc	20,035	19,630	-675					

ZAR metal prices (28 October 2010)

	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	16,228	58,582	17,437	162,275	184,915	17,324	7.0310
3-month	16,739	59,476	17,866	165,073	187,178	17,784	7.1306

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)	92.88	0.15	93.56	1.61	94.03	1.60	96.63	2.88	-	-
Gasoil 0.1% Rdam (\$/mt)	701.25	-6.75	704.50	-6.25	708.25	-6.50	722.25	12.75		
NWE CIF jet (\$/mt)	758.42	1.36	759.25	15.00	763.28	15.42	775.14	16.17		
Singapore Kero (\$/bbl)	94.31	0.15	94.66	1.71	95.18	1.75	97.63	2.88		
3.5% Rdam barges (\$/mt)	453.43	0.39	454.50	4.00	456.50	3.75	465.14	3.34		
1% Fuel Oil FOB (\$/mt)	471.95	0.82	475.75	5.25	480.50	4.75	491.14	4.34		
Sing FO 380 Cargo (\$/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo (\$/mt)	476.00	0.51	481.75	4.25	483.00	3.75	489.14	2.84		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	101.80	0.65	102.80	0.95	102.60	0.85	102.90	0.80	106.45	0.45
API4 (FOB RBCT)	95.55	0.70	98.50	1.05	98.30	0.95	98.70	1.00	101.70	1.10

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.32000	0.33750	0.37250	0.45000	0.50500		
Silver	0.47000	0.48250	0.50750	0.54250	0.55750		
USD Libor	0.25406	0.27016	0.28688	0.44981	0.76400		
Technical Indicators	30-day RSI	10-day MA	20-day MA	100-day MA	200-day MA	Support	Resistance
Gold	58.79	1,339.20	1,345.17	1,253.71	1,200.35	1,327.00	1,351.00
Silver	63.84	23.72	23.52	19.88	18.66	23.62	24.15
Platinum	58.06	1,686.40	1,691.75	1,585.22	1,595.85	1,678.00	1,700.00
Palladium	65.62	604.00	595.09	513.37	493.31	620.00	637.00
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	1,341.60	23.9450	632.50	1,692.00	1,342.10	3,488.00	1,341.40
Open Interest	603,411	152,291	25,747	37,738	1,931	96,851	2,336
Change in Open Interest	4,171	689	-1,045	168	218	4,139	24

Date: 28 October 2010

Sources: Standard Bank; LME; Bloomberg

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