Commodities

Futures market and ETF positioning

Standard Bank

Week ended 26 April 2013

29 April 2013

Strategist

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The latest **CFTC** (Commodity Futures Trading Commission) data released on Friday 26 April 2013 (*covering the week ended 23 April*) and **ETF** data (*covering the week ended 26 April 2013*) reveals the following:

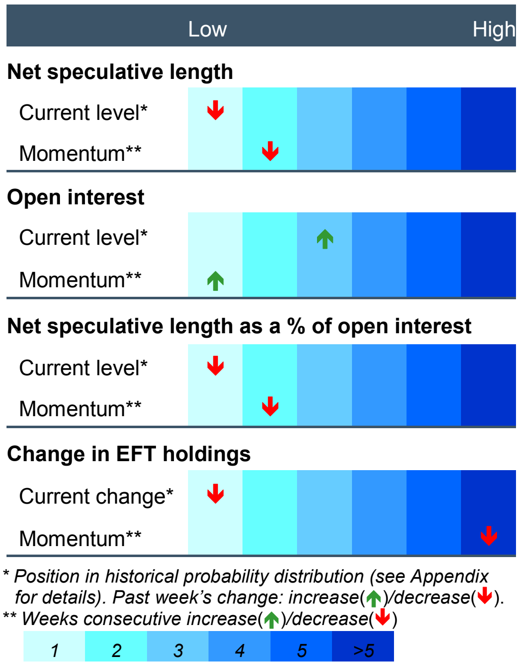
- **Gold**: The relative price stability observed over the week ended 23 April belied a massive liquidation of net speculative length over that week. Net speculative length fell 72.0 tonnes, much more than the 20.8 tonne decline witnessed the preceding week.
- **Silver**: After a surprising and strong increase in net speculative length last week (1,462.8 tonnes) amid a 16.4% w/w fall in the silver price, this past week saw a large decrease in net speculative length (574.2 tonnes) as the price fell only 1.9% w/w.
- **Platinum**: The decline in net speculative length showed signs of easing, with only 15.9k oz shed this past week—compared to 274.0k oz and 194.3k oz lost the preceding two weeks. ETFs added a particularly confident 25.1k oz to their platinum holdings. This week, we have the scheduled conclusion of the Amplats consultation, with government and labour regarding their plans to shutdown mine shafts—which should see investors paying close attention to PGM.
- **Palladium**: Like for platinum, the liquidation of net speculative length eased off considerably over the past week—although platinum fared slightly better. Net speculative length for palladium dropped 62.3k oz.
- **Oil**: Ending two weeks of decline, net speculative length posted a modest increase of 0.7m bbls this past week.
- **Copper**: Net speculative length in copper continued to climb, although we remain unconvinced that his marks a change in the futures market's dim view of the metal. Net speculative length grew 32.2 tonnes, a slowdown from the 44.6 tonnes added the preceding week.

Weekly change in speculative positions and ETF holdings

	Gold	Silver	Platinum	Palladium	Crude oil (WTI)	Crude oil (Brent)	Copper
	tonnes	tonnes	k oz	k oz	m bbls	m bbls	tonnes
Speculative longs	561.3	5,606.8	2,067.5	2,272.3	380.6	3.1	492.2
- Change	-32.5	-259.8	29.6	-35.5	18.3	-0.6	-18.8
Speculative shorts	292.3	3,582.5	680.8	414.0	129.1	4.1	725.5
- Change	39.5	314.4	45.5	26.8	17.7	0.0	-51.0
Net speculative length	269.1	2,024.3	1,386.8	1,858.3	251.5	-1.0	-233.3
- Change	-72.0	-574.2	-15.9	-62.3	0.7	-0.6	32.2
Net speculative length as a % of open interest	10.1%	5.5%	40.8%	45.2%	10.2%	-2.2%	-11.8%
- Change	-3.0%	-1.8%	-0.8%	1.6%	0.4%	-1.3%	0.6%
EFT holdings	2,360.4	20,004.6	1,669.2	2,113.1			
- Change	-59.0	-95.4	25.1	13.8			

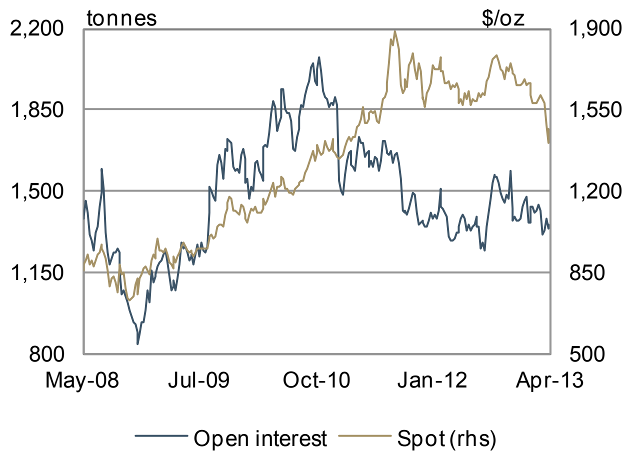
Sources: Standard Bank Research; COMEX; NYMEX; LME; Various ETFs

Gold — COMEX



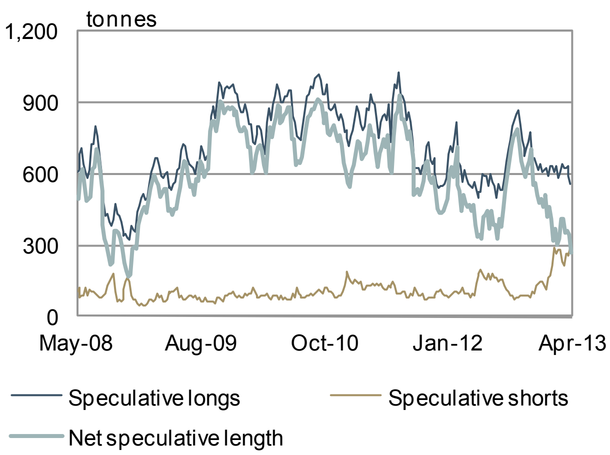
- The relative price stability observed over the week ended 23 April belied a massive liquidation of net speculative length over that week. **Net speculative length fell 72.0 tonnes**, much more than the 20.8 tonne decline witnessed the preceding week when the price dropped precipitously (more than \$200/oz or 13.7% w/w). We did point out that the preceding week's fall in net speculative length appeared relatively mild, so perhaps this past week's decline was a catch-up. Underlying moves were particularly bearish, with 32.5 tonnes unwound from long positions (slightly lower than the 35.8 tonnes shed the preceding week) and a disconcerting 39.5 tonnes added to speculative shorts. Clearly, the futures market was not convinced that gold could sustain its upward momentum.
- ETFs are of the same opinion. Another large drop was witness in total gold holdings last week (59.0 tonnes), marking the eleventh straight week of liquidation. Over these eleven weeks, a total of 342.7 tonnes have been sold off, and there appears to be no let-up in sight. Despite favourable fundamentals (in our opinion) and robust physical buying, without an end to this persistent ETF liquidation, the upside for gold is severely constrained.

Figure 1: Gold price vs. COMEX open interest



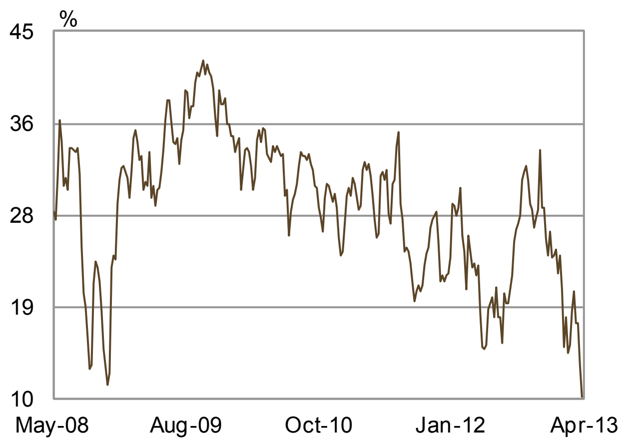
Source: COMEX

Figure 2: COMEX speculative longs and shorts



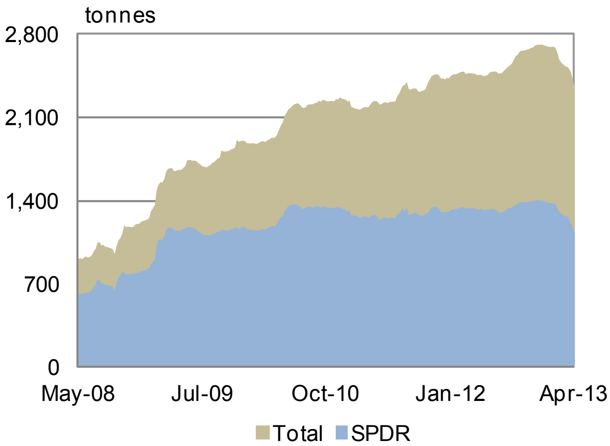
Sources: COMEX; Standard Bank Research

Figure 3: COMEX net spec length as a % of open interest



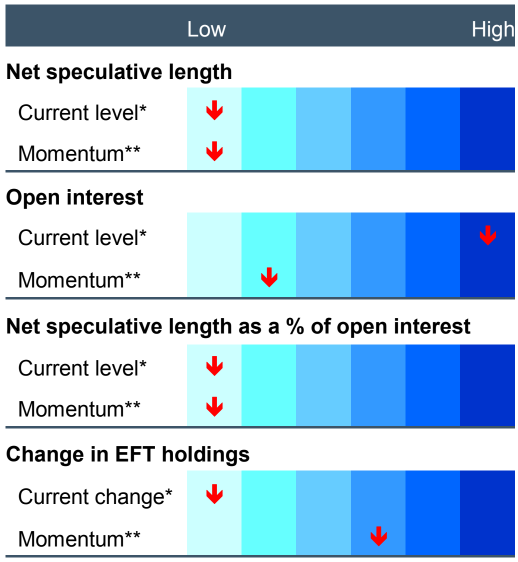
Sources: COMEX; Standard Bank Research

Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Silver — COMEX

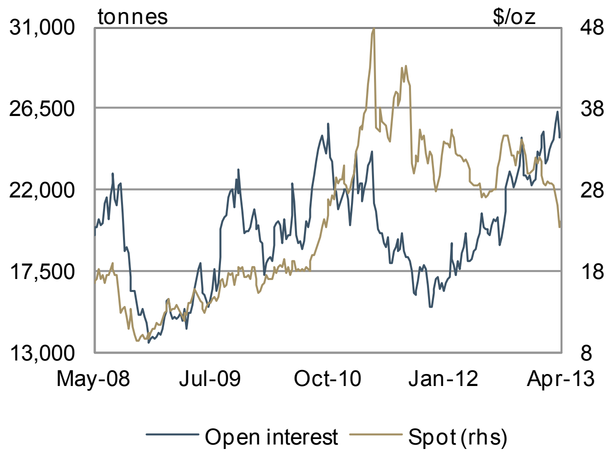


* Position in historical probability distribution (see Appendix for details). Past week's change: increase(↑)/decrease(↓).
** Weeks consecutive increase(↑)/decrease(↓)

1	2	3	4	5	>5

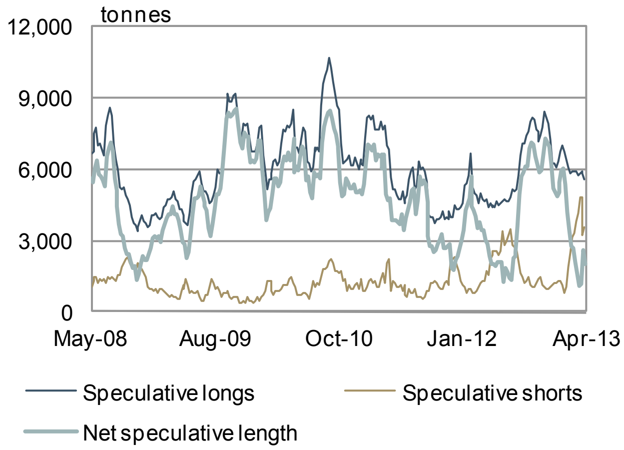
- After a surprising and strong increase in net speculative length last week (1,462.8 tonnes) amid a 16.4% w/w fall in the silver price, this past week saw a **large decrease in net speculative length** (574.2 tonnes) amid only a 1.9% w/w fall in the price.
- A massive decrease in speculative longs was observed—259.8 tonnes, the largest decrease since mid-February, when the price fell 5.3% w/w. However, this was not the main driver of the net deterioration. Speculative shorts grew 314.4 tonnes, although this appeared relatively mild compared to the 1,548.7 tonnes unwound the preceding week.
- Clearly, participants are hanging onto their expectation of more weakness. Total shorts are now at 3,582.5 tonnes, still well-above the 5-year average of 1,321.9 tonnes. Speculative longs are at 5,606.8 tonnes, below the 5-year average of 6,066.6 tonnes.
- ETFs remained net sellers of silver, with an accelerated pace of selling. Silver holdings dropped 95.4 tonnes, compared to the 33.9 tonnes shed the preceding week.

Figure 1: Silver price vs. COMEX open interest



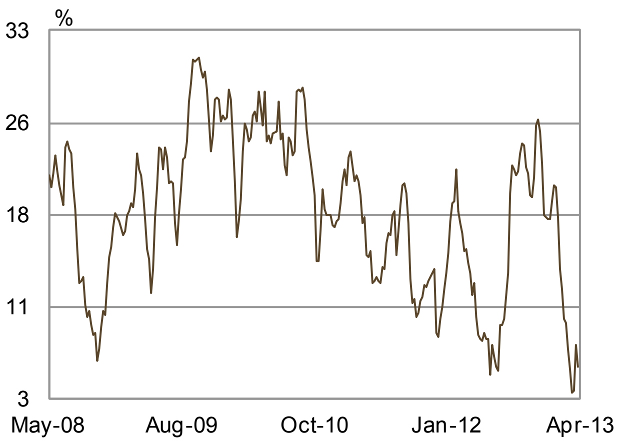
Source: COMEX

Figure 2: COMEX speculative longs and shorts



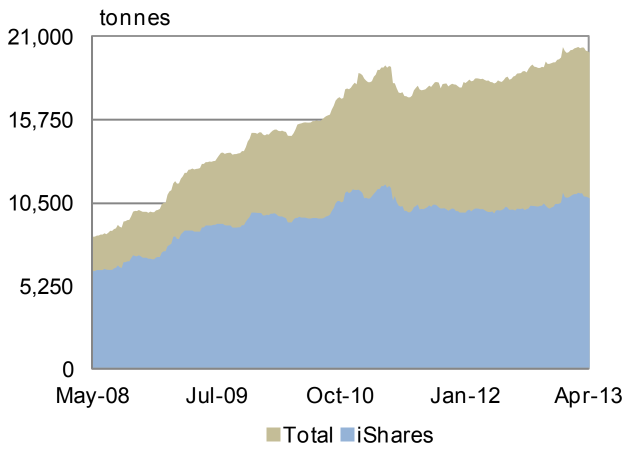
Sources: COMEX; Standard Bank Research

Figure 3: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank Research

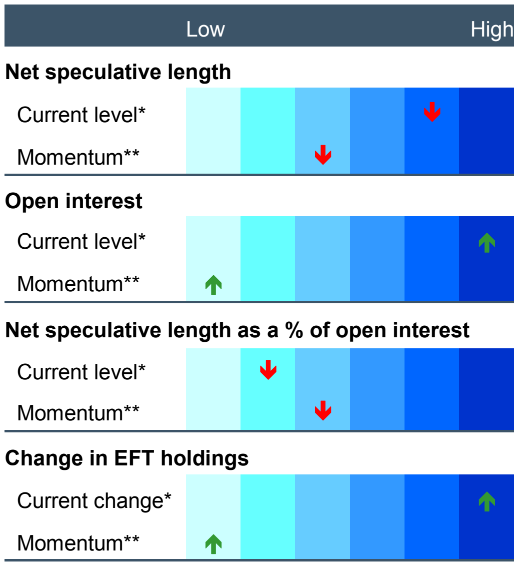
Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Platinum — NYMEX

- **The decline in net speculative length showed signs of easing**, with only 15.9k oz shed this past week—compared to 274.0k oz and 194.3k oz lost the preceding two weeks.
- However, the underlying moves did not look particularly encouraging. A weak 29.6k oz were added to speculative longs, while a fairly strong 45.5k oz were added to shorts.
- Net speculative length as a percentage of open interest at 40.8% remains comfortably below its 5-year average of 51.6%, a signal that the market is considerably less vulnerable to any significant correction than it has been for most of this year—it has averaged 56.9% YTD.
- ETFs added a particularly confident 25.1k oz to their platinum holdings, undoing more than half of the 40.0k oz shed during the commodity-wide sell-off of the preceding two weeks.
- This week, we have the scheduled conclusion of the Amplats consultation with government and labour regarding their plans to shut down mine shafts—which should see investors paying close attention to PGM.



* Position in historical probability distribution (see Appendix for details). Past week's change: increase(↑)/decrease(↓).
** Weeks consecutive increase(↑)/decrease(↓)

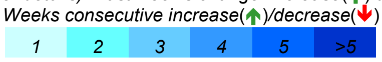
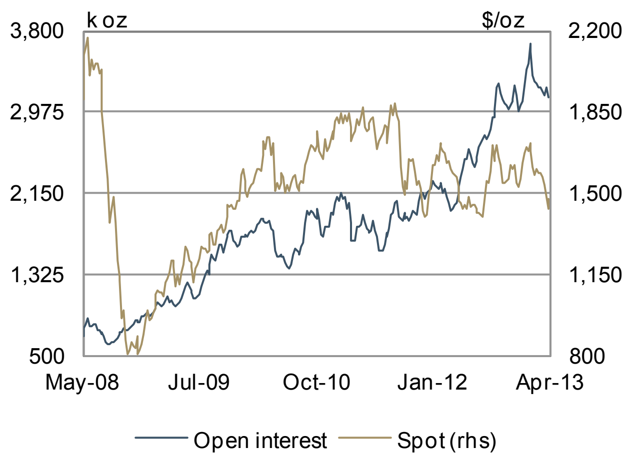
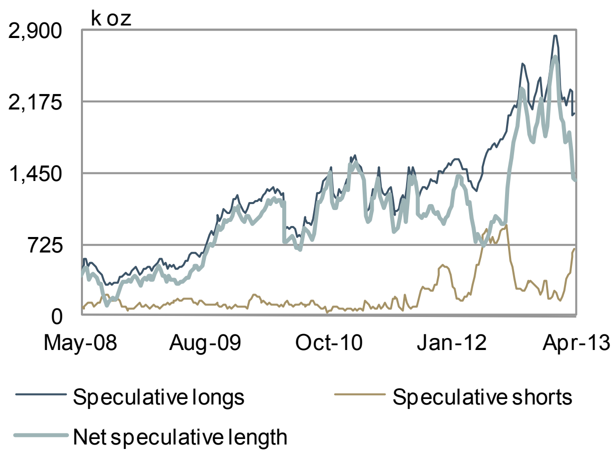


Figure 1: Platinum price vs. NYMEX open interest



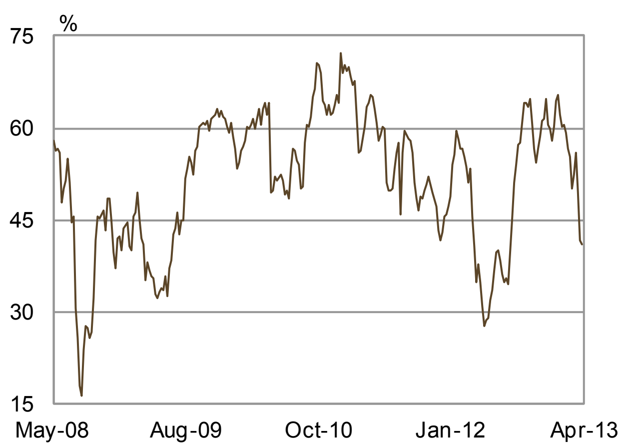
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



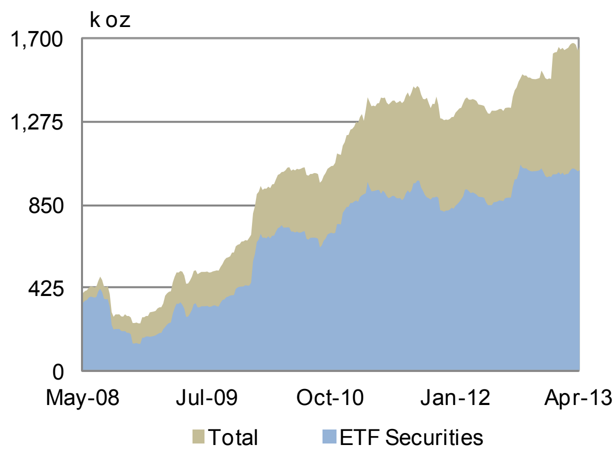
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest



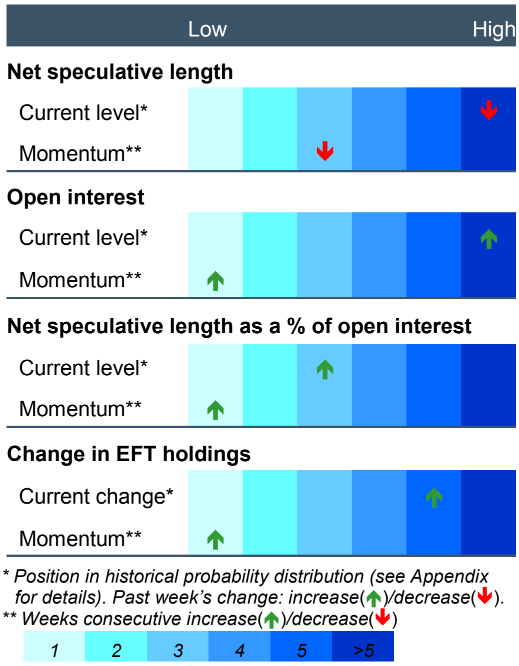
Sources: NYMEX; Standard Bank Research

Figure 4: ETF Holdings



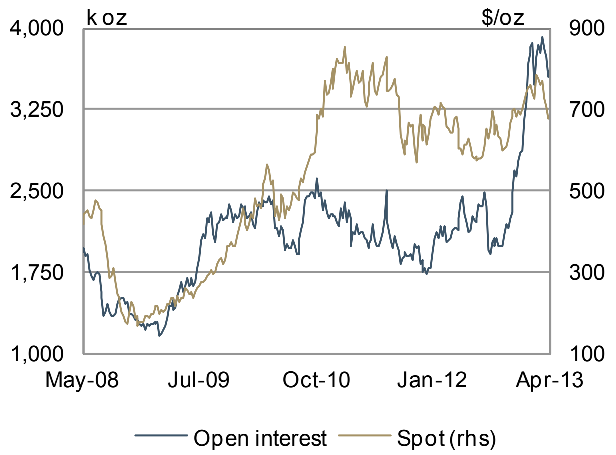
Sources: Various ETFs; Standard Bank Research

Palladium — NYMEX



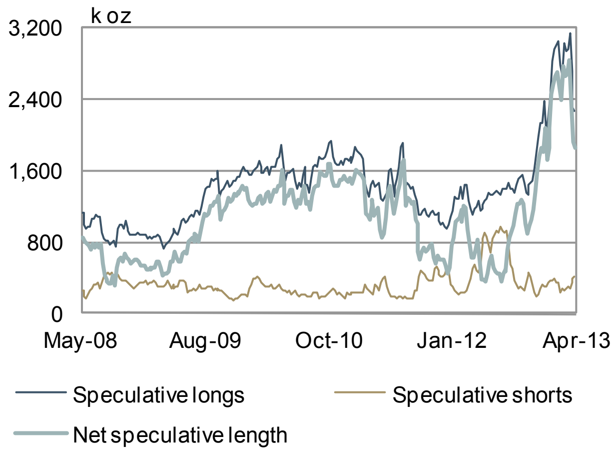
- Like for platinum, **the liquidation of net speculative length eased off considerably over the past week**—although platinum fared slightly better. Net speculative length for palladium dropped 62.3k oz (compared to the 464.6k oz average loss of the preceding two weeks).
- The underlying moves were not similar to the platinum market, with the net deterioration driven by an unwinding of longs (35.5k oz). A 26.8k oz addition to shorts marked the third week of increase, although the upward momentum does appear to be slowing (we saw 47.5k oz and 55.7k oz added the preceding two weeks).
- Net speculative length as a percentage of open interest edged up slightly to 45.2% (from 43.6%) although this remains below the 5-year average of 48.2%, providing some comfort that the market is now where near as strained as it has been for the better part of this year.
- ETFs turned net buyers (another good sign), adding 13.8k oz to their palladium holdings this past week—the prospect of South African supply concerns are seeing investor interest return to PGM more quickly than what we are seeing for gold and silver.

Figure 1: Palladium price vs. NYMEX open interest



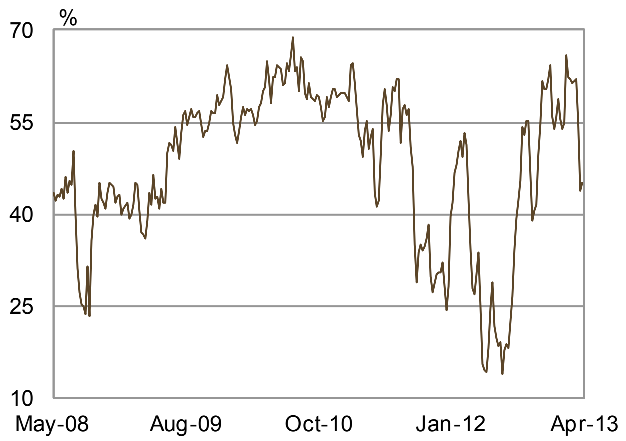
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



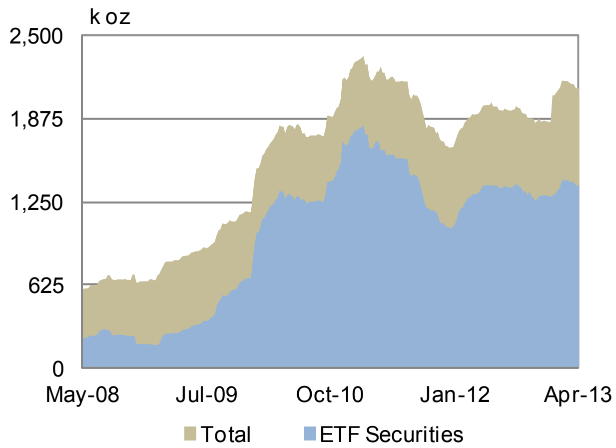
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest



Sources: NYMEX; Standard Bank Research

Figure 4: ETF holdings



Sources: Various ETFs; Standard Bank Research

Crude oil (WTI) — NYMEX

- Ending two weeks of decline, net **speculative length posted a modest increase** of 0.7m bbls this past week.
- The oil market remained under pressure for most of the week ended 23 April, as is clearly evident by the 17.7m bbls added to speculative shorts over the week. However, some participants felt that perhaps the reaction to the realisation that the market's global growth outlook had perhaps been too optimistic was overdone and therefore, like us, felt that some upside was imminent—this prompted them to add 18.3m bbls to long positions.
- We feel that the potential for a return to the strength of Q1:13 is highly unlikely. Perhaps a supply response from OPEC could be forthcoming, but we doubt that WTI could push significantly and sustainably above $95/bbl again over the next month, given the absence of a demand-side catalyst.

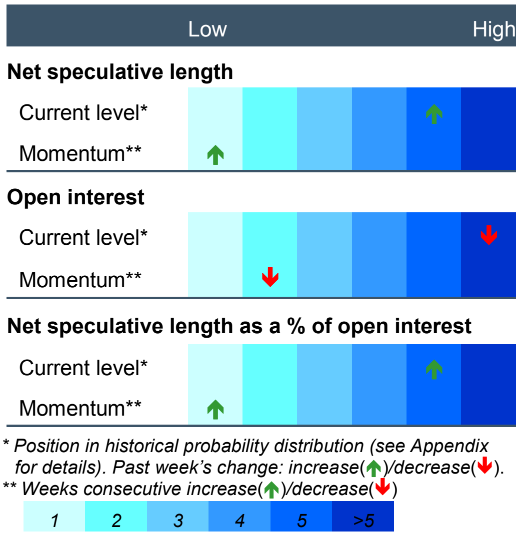
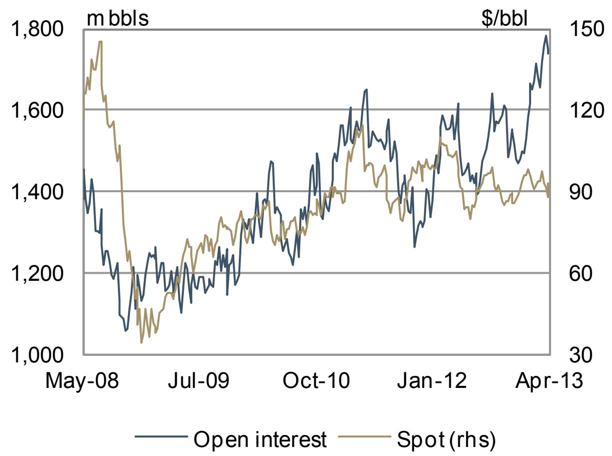
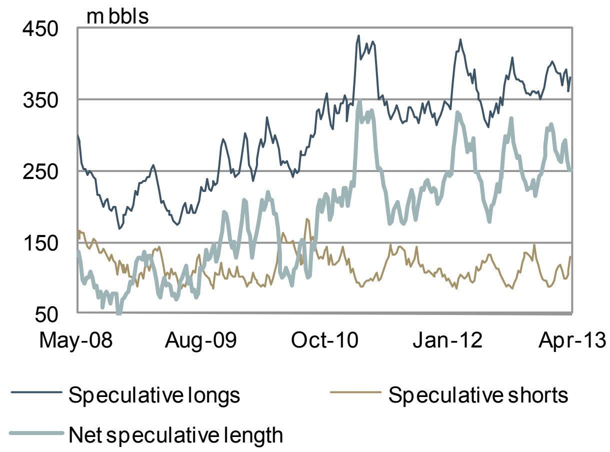


Figure 1: NYMEX WTI price vs. open interest



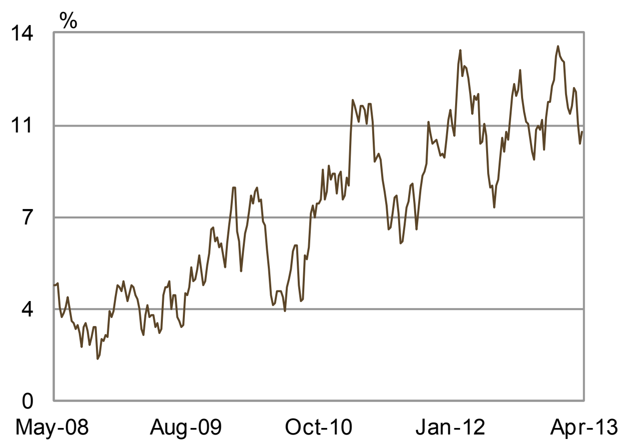
Source: NYMEX

Figure 2: NYMEX speculative longs and shorts



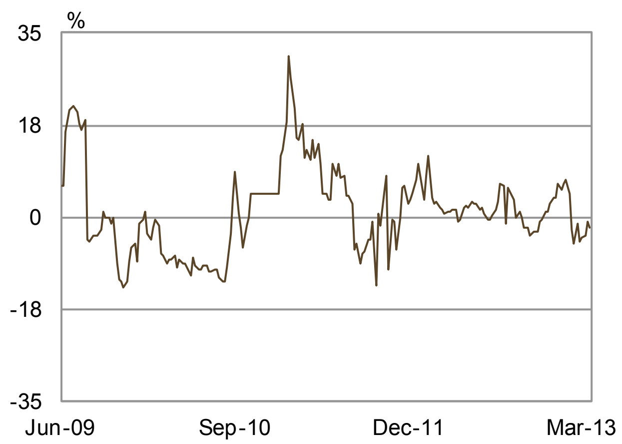
Sources: NYMEX; Standard Bank Research

Figure 3: NYMEX net spec length as a % of open interest (WTI)



Sources: NYMEX; Standard Bank Research

Figure 4: NYMEX net spec length as a % of open interest (ICE Brent)



Sources: NYMEX; Standard Bank Research

Copper — COMEX

- **Net speculative length in copper continued to climb**, although we remain unconvinced that his marks a change in the futures market's dim view of the metal.
- Net speculative length grew 32.2 tonnes, a slowdown from the 44.6 tonnes added the preceding week. The liquidation of speculative longs continued for a fourth week, with 18.8 tonnes shed. Speculative shorts were also unwound—51.0 tonnes this time, less than the 74.8 tonnes shed the preceding week.
- Last week's Flash PMI numbers weighed on sentiment towards industrial metals. Especially China's April flash-PMI, which printed 50.5 last week, is of some concern. Should the actual China PMI also come out around the 50.5 this week, it would imply that m/m the index had declined (the March official data print was 50.9). Historically, April's PMI usually prints higher m/m. The average m/m increase in April has been 1.4 pts since 2005. In fact, since 2005, April has posted only two m/m declines — in 2005 and 2011.

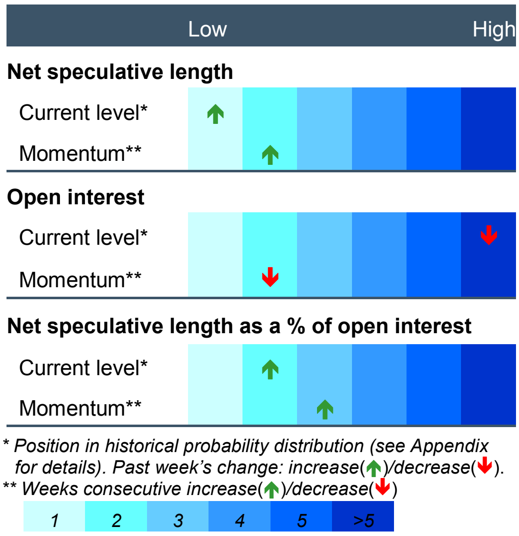
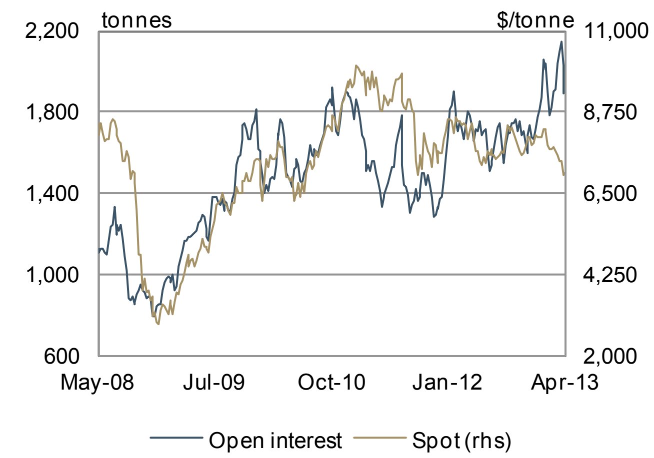
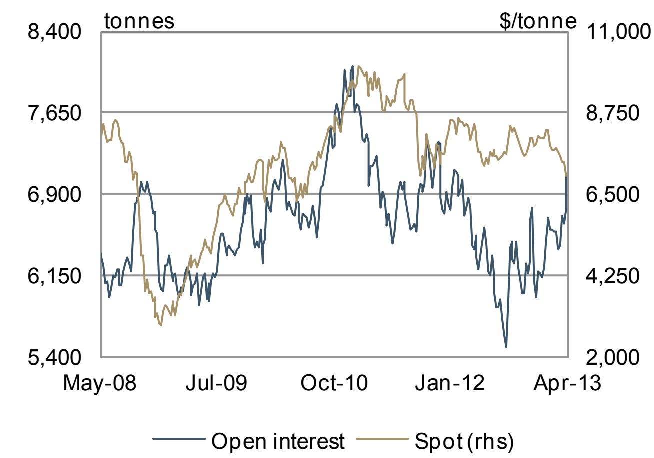


Figure 1: LME copper price vs. COMEX open interest



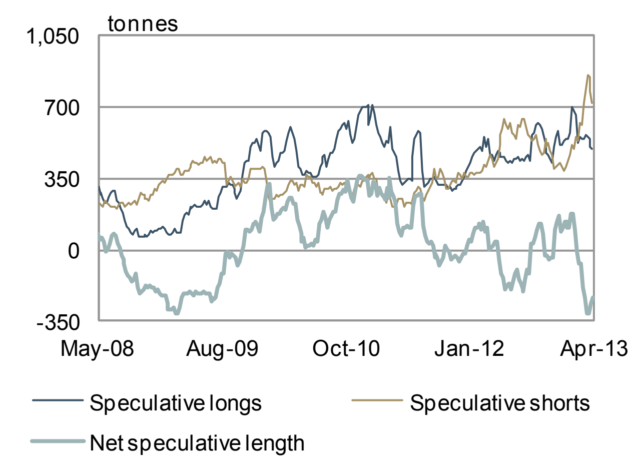
Sources: COMEX; LME

Figure 2: LME copper price vs. LME open interest



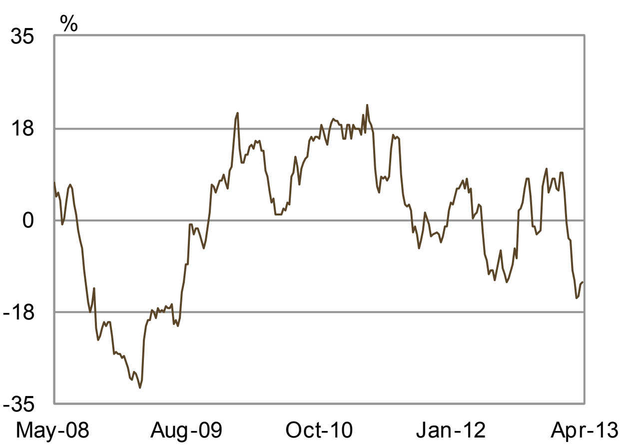
Source: LME

Figure 3: COMEX speculative longs and shorts



Sources: COMEX; Standard Bank Research

Figure 4: COMEX net spec length as a % of open interest



Sources: COMEX; Standard Bank Research

Appendix

Explanation of tables and appendix graphs

Using open interest for NYMEX platinum as an example, the *Example Table* alongside is explained.

For **Current level** the green upward-pointing arrow (↑) indicates that open interest over the week under review increased (see Actual data). If a decrease had been recorded this would be a red downward-pointing arrow (↓). The position of the arrow indicates where the current level of open interest (in this example, 2,113.3k oz) falls in relation to the percentiles of the calculated probability distribution of open interest (explanation of this calculation follows), as per the table below. For this example, the current level falls in the >83.3% and =<100% bracket.

	>0% and =<16.7%		>50% and =<66.7%
	>16.7% and =<33.3%		>66.7% and =<83.3%
	>33.3% and =<50%		>83.3% and =<100%

Example table - *NYMEX platinum*

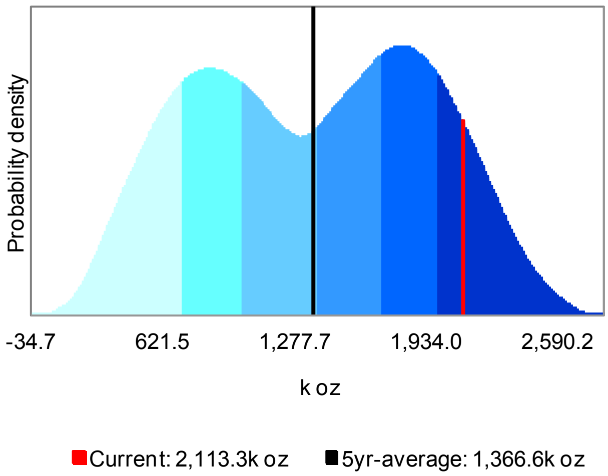
	Low					High
Open interest						
Current level*						↑
Momentum**				↑		

Actual data - *Open interest for NYMEX platinum*

Date	Level (k oz)	Change (k oz)
Previous weeks	2,044.5	
	1,968.9	-75.6
	1,998.1	29.3
	2,027.2	29.1
	2,050.2	23.0
Current	**2,113.3**	**63.1**

A graphical depiction of the calculated probability distribution of open interest is also provided in this Appendix, see *Probability distribution* graph. The *red line* in this graph indicates the position of the current level (in this example, 2,113.3k oz) in relation to the calculated probability distribution, while the *black line* indicates the position of the average as taken over a five-year period (in this example, 1,366.6k oz). The colour variation of the probability distribution graph corresponds to the percentiles of the distribution, as per the table discussed above.

Probability distribution — *open interest for NYMEX platinum*



As for Current level, for **Momentum** the green upward-pointing arrow indicates that open interest over the week under review increased (see Actual data). If a decrease had been recorded this would be a red downward-pointing arrow. Consequently, this arrow will always be the same as for Current level. However, the position of the arrow here indicates the number of consecutive weeks of increase/decrease that have been observed (in this example, there has been four consecutive weeks of increase), as per the table below.

	1 week		4 weeks
	2 weeks		5 weeks
	3 weeks		More than 5 weeks

Calculation of probability distribution

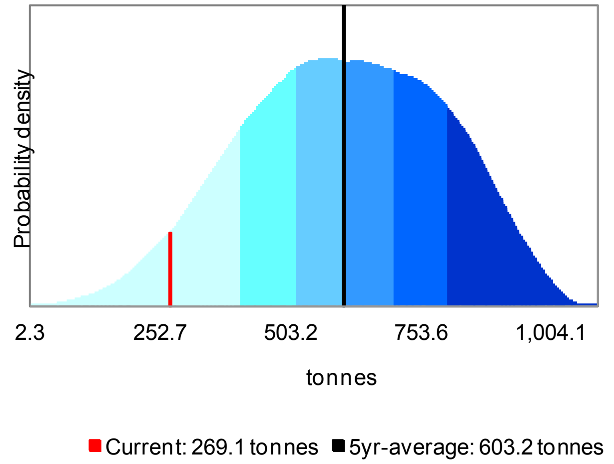
Taking open interest data over a rolling five-year period, an empirical probability density is obtained using a kernel density estimator (see the example *Probability distribution* graph). A kernel density estimator is used instead of the usual normal density approximation since the observed values do not always conform to the classic bell shape of the normal distribution (as is apparent in our example graph).

This probability density essentially indicates the implied (as per historical observations) distribution of open interest for NYMEX platinum. This is useful in gauging how unusual or extreme the current level of open interest is compared to historical observations. Observations in the tails of the distribution (far left and far right) are considered more unusual, while observations closer to the peak (not necessarily the middle or unique, since we are not using the normal distribution) are considered more likely.

In our example, the current level of open interest for NYMEX platinum (at 2,113.3k oz) is positioned in the far right end of the distribution (within the >83.3% and =<100% bracket), indicating that open interest is currently at an extremely high level compared to historical norms.

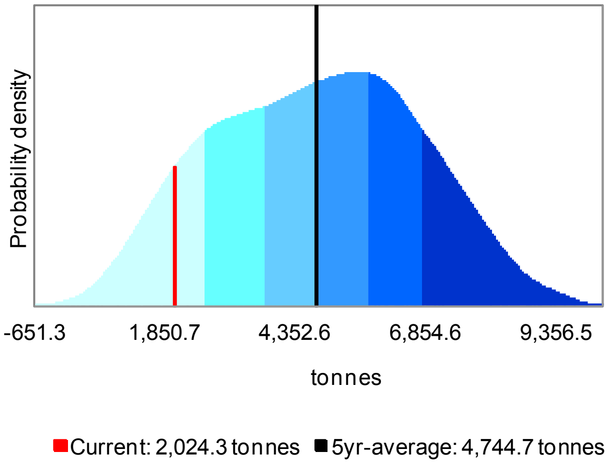
APPENDIX — Net speculative length

Gold — COMEX



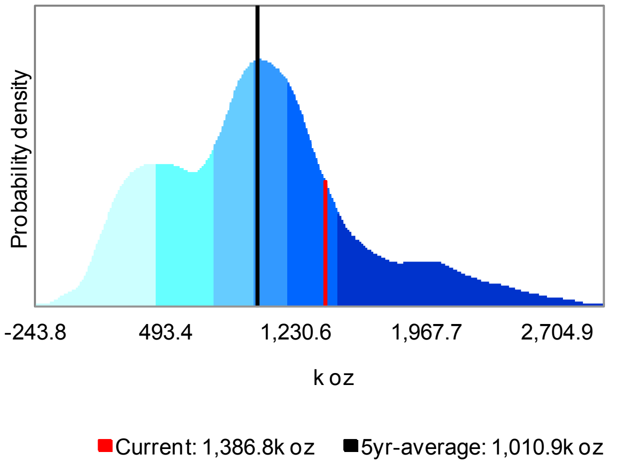
Sources: Standard Bank Research; COMEX

Silver — COMEX



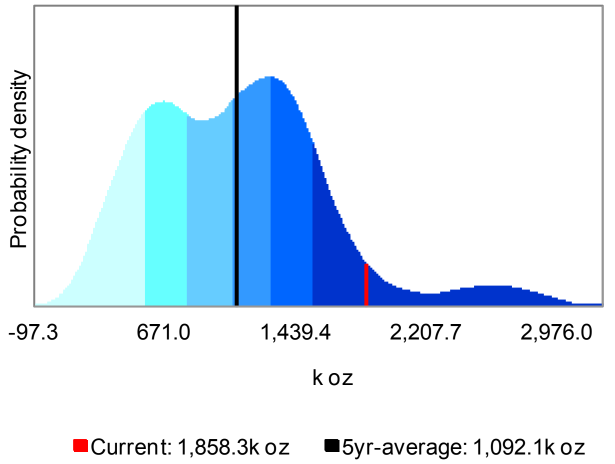
Sources: Standard Bank Research; COMEX

Platinum — NYMEX



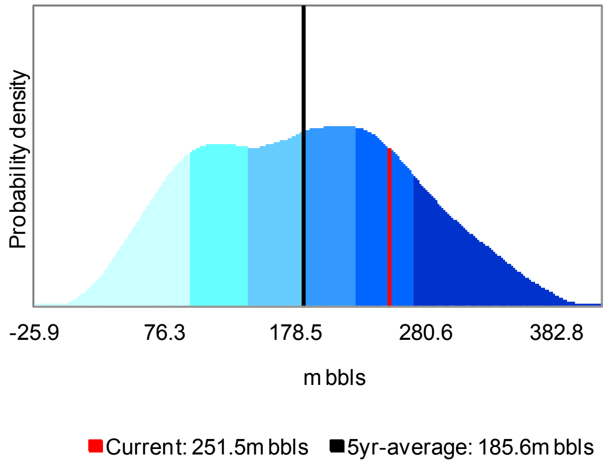
Sources: Standard Bank Research; NYMEX

Palladium — NYMEX



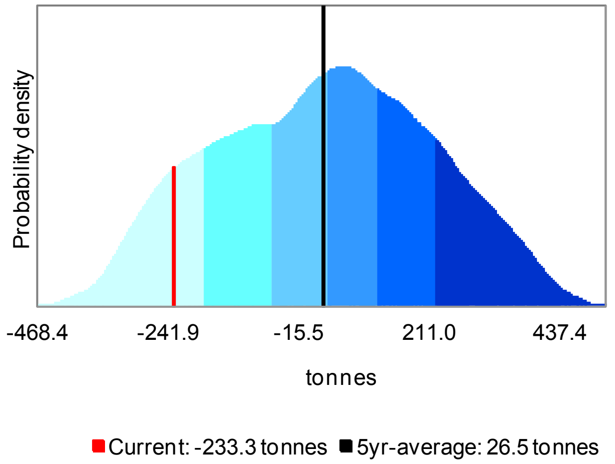
Sources: Standard Bank Research; NYMEX

Crude oil (WTI) — NYMEX



Sources: Standard Bank Research; NYMEX

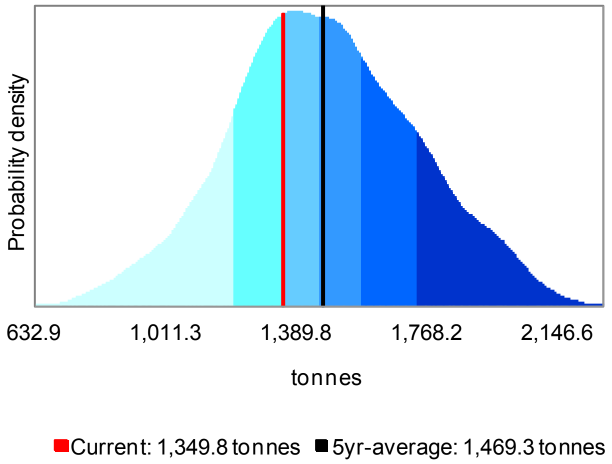
Copper — COMEX



Sources: Standard Bank Research; COMEX

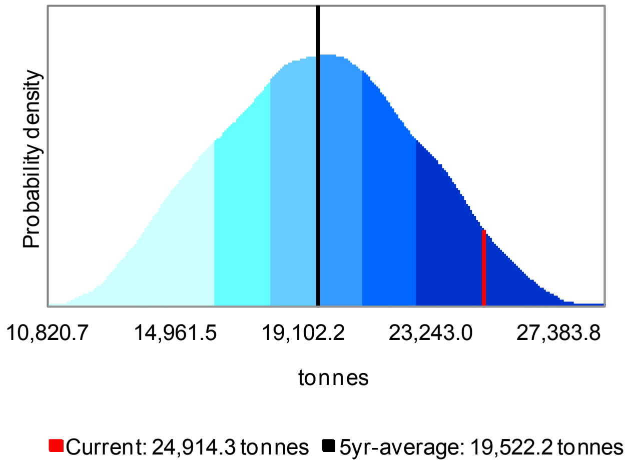
APPENDIX — Open interest

Gold — COMEX



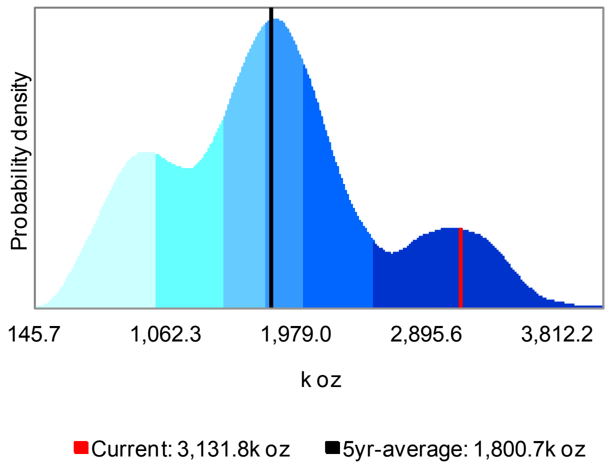
Sources: Standard Bank Research; COMEX

Silver — COMEX



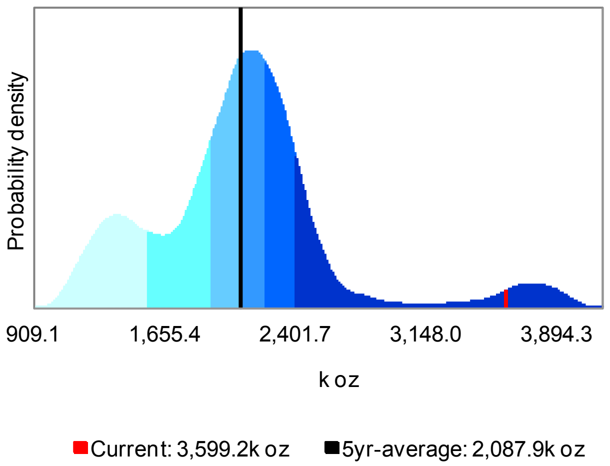
Sources: Standard Bank Research; COMEX

Platinum — NYMEX



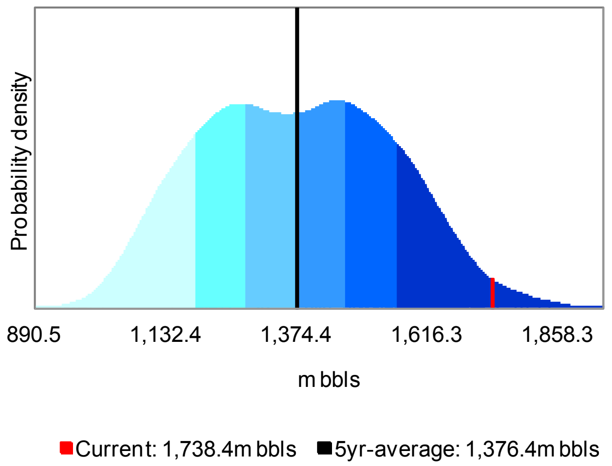
Sources: Standard Bank Research; NYMEX

Palladium — NYMEX



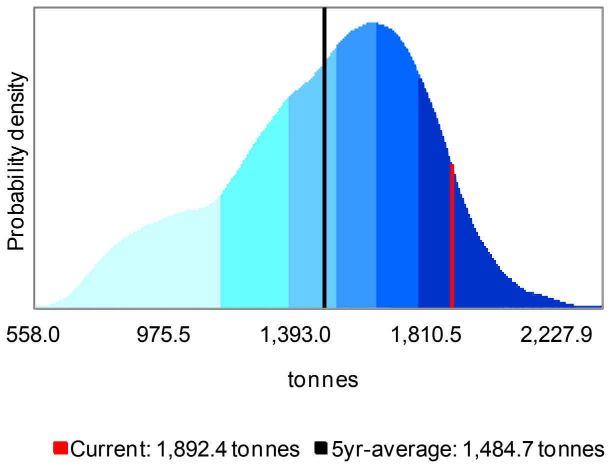
Sources: Standard Bank Research; NYMEX

Crude oil (WTI) — NYMEX



Sources: Standard Bank Research; NYMEX

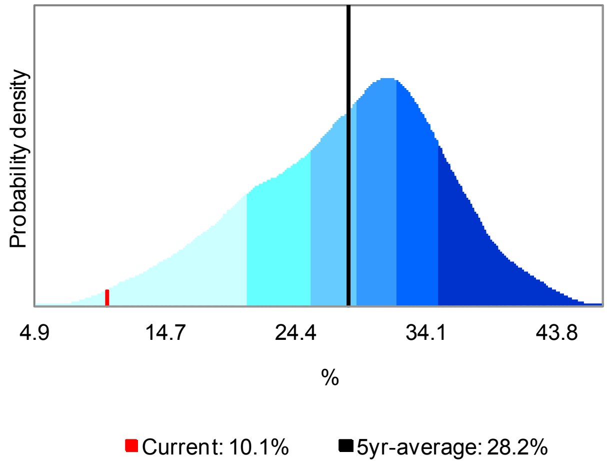
Copper — COMEX



Sources: Standard Bank Research; COMEX

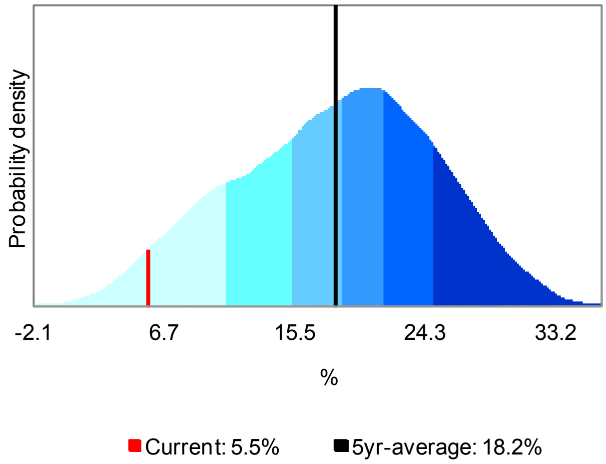
APPENDIX — Net speculative length as a percentage of open interest

Gold — COMEX



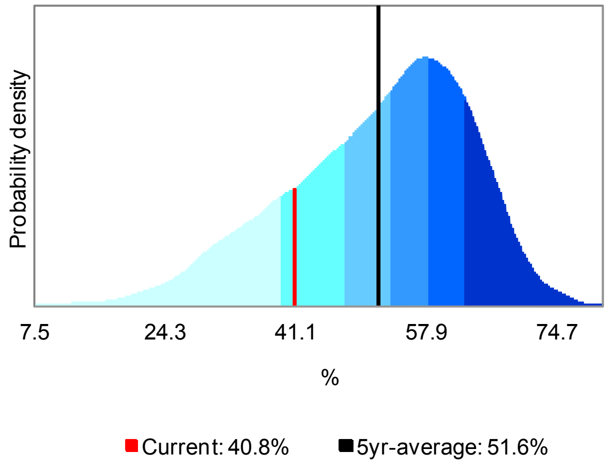
Sources: Standard Bank Research; COMEX

Silver — COMEX



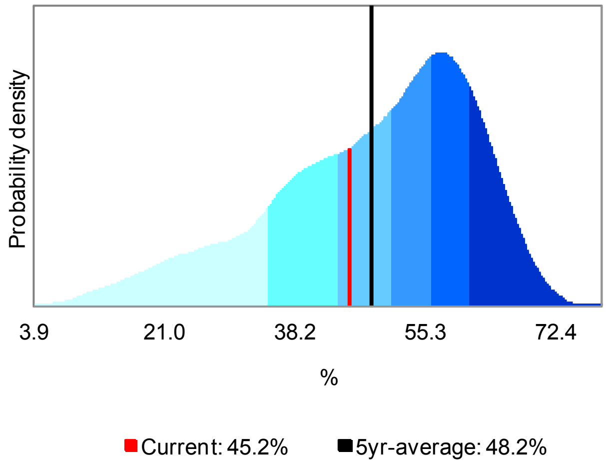
Sources: Standard Bank Research; COMEX

Platinum — NYMEX



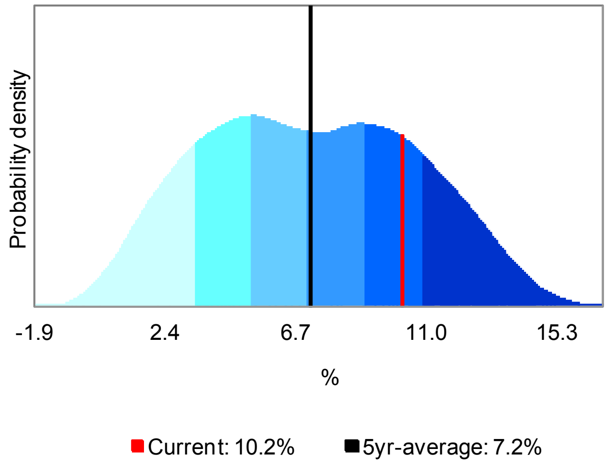
Sources: Standard Bank Research; NYMEX

Palladium — NYMEX



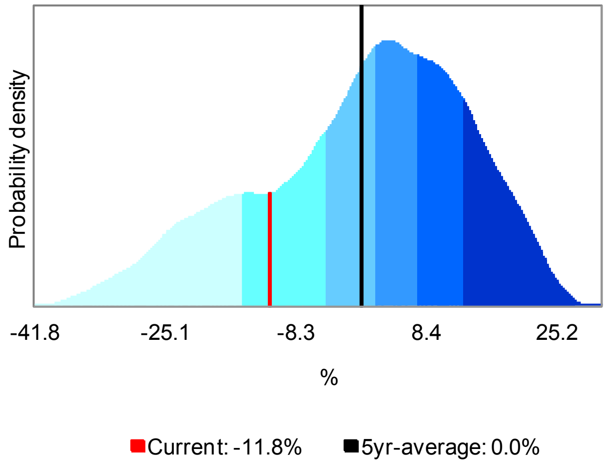
Sources: Standard Bank Research; NYMEX

Crude oil (WTI) — NYMEX



Sources: Standard Bank Research; NYMEX

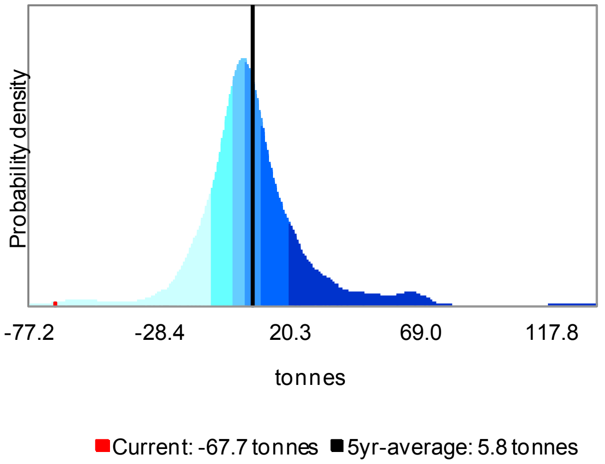
Copper — COMEX



Sources: Standard Bank Research; COMEX

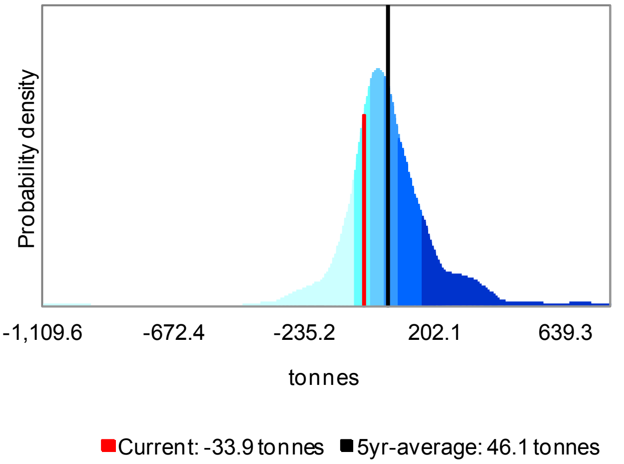
APPENDIX — Change in ETF holdings

Gold — COMEX



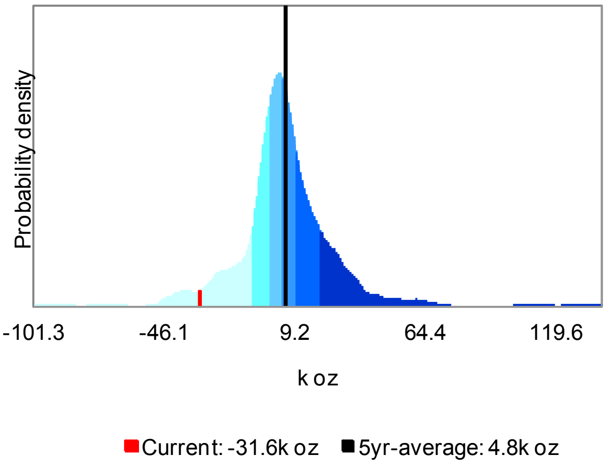
Sources: Standard Bank Research; Various ETFs

Silver — COMEX



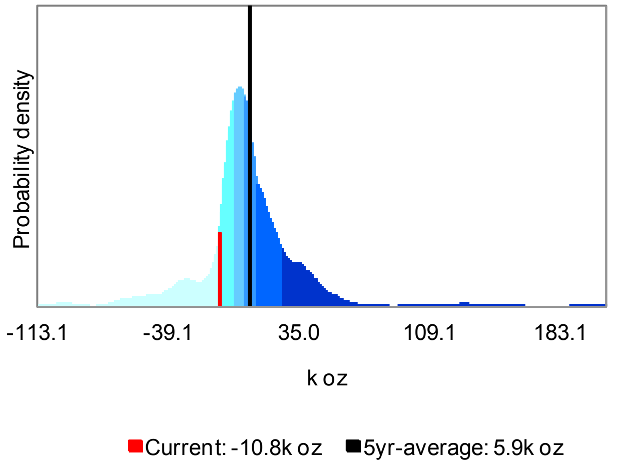
Sources: Standard Bank Research; Various ETFs

Platinum — NYMEX



Sources: Standard Bank Research; Various ETFs

Palladium — NYMEX



Sources: Standard Bank Research; Various ETFs

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