FICC Research

Commodities: Daily

Focus: Going for gold

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Focus: Gold is pushing towards its all time high of $1,265. Our target for gold remains $1,300 in Q4:10. We see the long-term fundamental drivers for investment demand in gold as *liquidity* and *long-term real interest rates*. Both support a higher gold price (refer to *Commodities Insight* dated 11 Aug'10).

- Base metals continue to find decent support despite a more negative view on European credit. However, volumes traded in base metals remain relatively light.
- Our FX analyst still favours a weaker euro against the dollar towards Q1:11. Gold in euros has bounced of its 100-day MA last week. Against the backdrop of issues mentioned above, we believe long gold in euros may outperform over the next couple of weeks. Euro gold currently stands at Eur 990. The 100d MA, at Eur 957, may provide support.
- Crude oil remains range-bound ahead of API and DOE inventory data. WTI front month support is at $72.95 and $71.80, while resistance is at $74.90 and $75.78.

Commodity price data (7 September 2010)

Base metals LME 3-month	Open	Close	High	Low	Daily change	Change (%)	Cash Settle	Change in cash settle	Cash – 3m
Aluminium	2,140	2,165	2,172	2,152	-31	1.17%	2,110.00	-39	-28.50
Copper	7,520	7,630	7,631	7,569	-76	1.46%	7,520.00	-141	-15.00
Lead	2,151	2,184	2,190	2,157	-13	1.56%	2,126.00	-34	-29.25
Nickel	21,675	22,200	22,350	21,925	40	2.42%	21,635.00	-275	-39.00
Tin	20,700	21,000	21,200	21,100	50	1.45%	20,875.00	-500	-35.00
Zinc	2,162	2,189	2,197	2,150	-7	1.25%	2,137.00	-9	-29.25

Energy	Open	Close	High	Low	day/day	Change (%)
ICE Brent	77.70	77.58	77.70	77.23	-0.16	-0.21%
NYMEX WTI	73.91	73.86	73.93	73.63	-0.23	-0.31%
ICE Gasoil	654.25	655.25	655.75	653.75	8.75	1.34%
API2 Q3'10	91.30	90.60	-	-	-0.70	-0.77%
EUA Dec10	15.71	15.69	-	-	-0.02	-0.13%

Precious metals	AM Fix	PM Fix	High bid	Low offer	Closing bid	Change (d/d)	EFPs
Gold	1,247.25	1,256.75	1,259.70	1,247.50	1,257.50	8.50	1.4/1.8
Silver	-	19.98	20.00	19.75	19.88	0.23	1.5/3.5
Platinum	1,552.00	1,556.00	1,564.00	1,554.00	1,555.00	-7.00	1.0/3.0
Palladium	524.00	529.00	529.00	526.00	524.00	-5.00	1.0/3.0

Sources: Standard Bank; LME; BBG

Focus: Going for gold

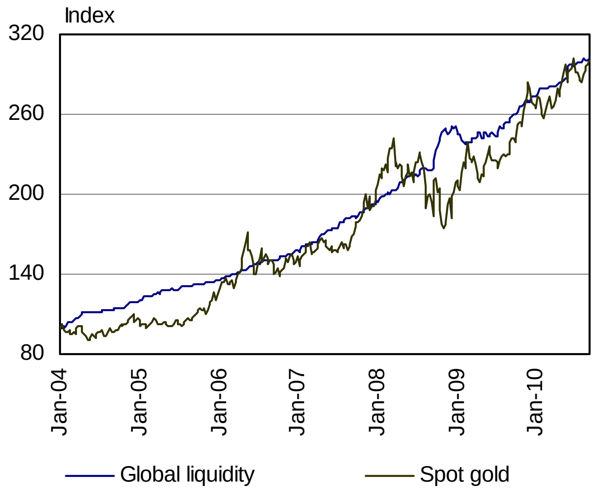
Gold is pushing towards its all time highs of $1,265. Our target for gold remains $1,300 in Q4:10.

We see the long-term causal fundamental drivers for investment demand in gold as *liquidity* and *long-term real interest rates*. Both support a higher gold price (refer to *Commodities Insight* dated 11 Aug'10).

Global liquidity is ample and real interest rates are low; as a result, investment demand for gold is likely to remain in place. Gold's relationship with liquidity is confirmed visually (refer to figure) as well as empirically. We measure global liquidity as *the US Fed balance sheet plus global foreign reserves holdings excluding gold*. YTD, our measure of global liquidity is up 10%. The gold price is up 13% YTD. As ETFs are utilised by institutional and retail investors, they are an important vehicle for liquidity and low interest rates to be channelled into gold demand. Given robust global liquidity, it is not surprising that total ETF holdings now stand at around 2,030 tonnes. Since the start of 2009, gold ETF holdings have increased by almost 72%. In the past two years, ETFs have executed few liquidations despite increased market volatility.

The relationship between global liquidity and commodities indicates that gold is a main beneficiary. In fact, gold has been tracking global liquidity. We expect the Fed to keep interest rates unchanged for most of 2011 and, thereafter, to hike rates slowly. The 10-year US inflation-linked bond yield is around 1%, indicating that the market expects real interest rates to average a mere 1% over the next 10 years. The current yield is well below that of 1997, when the real interest rate implied by inflation-linked bonds was at 4%. The current yield favours gold investment.

Gold vs liquidity



Source: Standard Bank

We believe that global liquidity will keep rising as emerging markets specifically, further expand their foreign reserve holdings. However, we expect it to slow in 2011 and 2012 — to only 8% and 5% respectively.

However, until either real interest rates start to rise or liquidity declines, we believe that gold's investment case remains intact.

By Walter de Wet

Base metals

Base metals continue to find decent support despite the European credit issue rearing its head again. Volumes traded in base metals remain relatively light.

Copper is hanging on to the $7,600 level. With the copper LME/SFE arbitrage ratio at 7.84 there is however little incentive for China to buy LME metal aggressively. We look to yesterday's low at $7,500 for support for copper. Copper premiums have remained firm throughout the summer holiday period, with Asian premiums in particular managing to shrug-off negative SHFE-LME arbitrage conditions. Both LME and SHFE warehouse inventories have also continued to decline during the summer months of July and August which has helped lend background support to prices. Unless market risk picks up substantially in the coming days, we believe value lies below $7,300 in copper.

The rest of the complex is quiet and running into resistance on rallies. Zinc and lead are both finding strong resistance at the $2,200 level. A look at correlations confirm that base metals have been following equities closely in recent days. With the S&P running into resistance at its 200d MA, we expect base metals also to struggle to push much higher until the S&P breaks above this strong resistance.

On the macro scene European debt is at the forefront. There are also concerns over European banks that may need to raise more capital. We will keep an eye on 3m Euribor which has been declining steadily from a high of 0.905% at the start of August to 0.881% yesterday. A rapid turn around in the downward trend of Euribor could see base metals under pressure. However it is worth noting that Euribor has not risen yesterday – a positive sign for base metals.

By Walter de Wet

Precious metals

European debt is at the forefront once again. There are also concerns over European banks that may need to raise more capital. We will keep an eye on 3m Euribor which has been declining steadily from a high of 0.905% at the start of August to 0.881% yesterday. Perceived sovereign risk in Europe is also rising with the 5-y CDS for Greece, Portugal, Spain and Italy all widening (but remains well off the highs seen earlier this year). Rising sovereign risk is bullish for gold.

Our FX analyst still favours a weaker euro against the dollar towards Q1:11. Gold in euros has bounced of its 100-day MA last week. Against the backdrop of the issues mentioned above, we believe long gold in euros may outperform over the next couple of weeks. Euro gold currently stands at Eur 990. The 100d MA, at Eur 957, may provide support. We also maintain our bullish view on gold in dollars (with $1,300 still the target). Gold support is at $1,246 and $1,238, while resistance is at $1,261 and $1,268.

Fundamentally we still believe platinum below $1,500 provides value. Like the S&P, platinum is also finding strong resistance at the 200d MA (at $1,566). Looking at the correlations, we expect platinum to push above this resistance if the S&P does the same. The target then could be $1,600. Until this happens we see range-trading for platinum between $1,500 and $1,565. We see the fundamental floor for palladium at $420 - $430, but support is very strong and another rally may be in store, should platinum push higher.

Silver physical demand from India remains strong. Given our bullish view on gold we expect silver to test higher. Support is at $19.55 and $19.33, while resistance is at $20.00 and $20.25.

By Walter de Wet

Energy

Crude oil remains range-bound ahead of API and DOE inventory data. WTI front month support is at $72.95 and $71.80, while resistance is at $74.90 and $75.78.

Largely consistent with seasonal patterns, US refinery utilisation remains high, with utilisation rates at 84.8%, last week. We expect utilisation rates to remain high throughout most of September. The high utilisation rates are showing up in rising DOE inventory figures for refined products, especially distillates. Gasoline inventory on a days forward basis has risen from 23.4 days at the end of June, to 24.1 days last week. Distillate days forward cover stands at a high of 47.9 days. However, despite the high refinery utilisation rates, crude oil inventory is also not declining. Crude oil coverage has steadily risen from 23.0 days at the start of August, to 24.1 days last week. We expect the data to be released tomorrow, to show that this has risen further.

Combined with the rising concerns over European debt and concerns over European banks that may need to raise more capital, we expect WTI crude to be sold into rallies. The broader trading range remains $70/bbl to $78/bbl. We believe crude oil around $69/bbl - $70/bbl may provide value.

Coal is still steady with marginal downward pressure. API2 for Q4-10 fell $0.70/mt to $90.60, while Cal-11 fell also $0.70/mt. It was a similar picture for API4, with Q4-10 falling $1.00/mt compared to a $0.0.75/mt fall in Cal-11.

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	4,417,075	4,421,650	800	5,375	-4,575	-211,825	105,150	2.38	123,441
Copper	395,475	396,875	-	1,400	-1,400	-106,850	24,700	6.25	63,019
Lead	191,025	191,000	150	125	25	44,525	10,700	5.60	18,206
Nickel	119,490	119,886	-	396	-396	-38,520	3,564	2.98	17,016
Tin	14,345	14,385	35	75	-40	-12,420	1,240	8.64	5,334
Zinc	621,150	621,675	-	525	-525	133,100	57,825	9.31	37,814

Shanghai 3-month forward prices				COMEX active month future prices				
Metal	Open	Last	1d Change		Open	Close	Change	Change (%)
Aluminium	15,710	15,690	-80	Ali Dec'10	-	-	-	-
Copper	59,660	59,850	-20	Cu Dec'10	347	347.70	0.65	0.19%
Zinc	17,960	18,050	110					

ZAR metal prices (7 September 2010)							
	Aluminium	Copper	Lead	Nickel	Tin	Zinc	ZAR/USD fix
Cash	15,349	54,704	15,466	157,384	151,855	15,546	7.2745
3-month	15,982	56,322	16,123	163,883	155,024	16,159	7.3821

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 ($/bbbl)	86.76	0.80	86.15	0.76	86.63	0.74	88.29	0.81	-	-
Gasoil 0.1% Rdam ($/mt)	655.25	8.75	658.00	8.75	660.75	8.75	663.50	-2.50		
NWE CIF jet ($/mt)	697.26	3.07	701.08	4.16	705.91	4.75	722.53	4.59		
Singapore Kero ($/bbl)	87.62	0.59	87.10	0.71	87.73	0.64	89.69	0.71		
3.5% Rdam barges ($/mt)	423.83	4.25	426.75	6.00	429.25	6.00	439.90	5.75		
1% Fuel Oil FOB ($/mt)	446.49	2.64	453.75	3.75	457.75	4.00	470.90	4.00		
Sing FO 380 Cargo ($/mt)	100.15	-	100.15	-	100.15	-	100.15	-		
Sing FO180 Cargo ($/mt)	447.09	5.39	451.25	6.25	454.50	6.25	465.15	6.00		
Thermal coal	Q4-10		Q1-11		Q2-11		Cal 11		Cal 12	
API2 (CIF ARA)	90.60	-0.70	92.90	-0.65	95.00	-0.70	96.20	-0.70	103.50	-0.70
API4 (FOB RBCT)	87.50	-1.00	89.70	-0.65	91.60	-0.70	92.50	-0.75	98.10	-0.70

Precious metals

Forwards (%)	1-month	2-month	3-month	6-month	12-month		
Gold	0.34167	0.36167	0.38167	0.43000	0.50167		
Silver	0.59667	0.59667	0.60500	0.62500	0.63333		
USD Libor	0.25766	0.27438	0.29188	0.48875	0.82594		
Technical Indicators	**30-day RSI**	**10-day MA**	**20-day MA**	**100-day MA**	**200-day MA**	**Support**	**Resistance**
Gold	60.96	1,246.81	1,236.68	1,211.65	1,164.37	1,085.00	1,105.00
Silver	62.56	19.49	18.90	18.40	17.80	16.30	16.90
Platinum	51.75	1,543.25	1,534.66	1,572.57	1,566.51	1,500.00	1,550.00
Palladium	58.90	514.81	499.49	482.97	461.36	420.00	433.00
Active Month Future	**COMEX GLD**	**COMEX SLV**	**NYMEX PAL**	**NYMEX PLAT**	**DGCX GLD**	**TOCOM GLD**	**CBOT GLD**
	Dec'10	**Dec'10**	**Oct'10**	**Oct'10**	**Oct'10**	**Aug'11**	**Dec'10**
Settlement	1,260.70	19.9950	526.30	1,556.30	1,259.40	3,391.00	1,260.90
Open Interest	580,127	137,796	21,360	31,887	1,659	108,374	2,531
Change in Open Interest	4,595	452	-30	181	-210	-181	-

Date: 7 September 2010

Sources: Standard Bank; LME; Bloomberg

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