

# Gold is brighter, energy robust

Gold has clearly been the metal of choice, boosted by central bank purchases and a steadily weakening US dollar in recent weeks, while the energy complex constituents have also gained. An **MF Global** report.

**G**old had been lingering just above the previous all-time high near US\$1034 per ounce (Comex near-month futures contract) at the start of October. It then got the decisive push higher, following the Reserve Bank of India's (RBI) 200-tonne purchases from the International Monetary Fund (IMF). This large transaction stunned the markets, as until then it had only been China that was considered the most likely candidate to purchase a bulk of the IMF's 403 tonnes of gold reserves on offer.

Traditionally, Indian consumers have been the largest buyers of gold, either for festivals or weddings. Ironically, such sales were down in the 10-month period up to October by over 50 per cent to 166 tones, due to high prices. The RBI's swift move not only removed the burden on cash markets, but also strengthened speculations that Asian central banks had seriously stepped up efforts in US dollar reserve diversification. While the US dollar reacted little to this news, it did spark off a buying frenzy in gold markets.

In other developments, the US-based Chicago Mercantile Exchange allowed physical gold to be used as collateral for margin requirements on all exchange products. Silver, however, remained lackluster, ending one per cent lower at US\$17.63 per ounce, weighed down by the progress in base metals.

In the energy complex, coal gained six per cent on month to US\$77.50 per tonne (ICE near-month futures contract) and crude oil by five per cent to US\$77 per barrel (NYMEX near-month futures).

Coal got support on the expectation that increased disruptions in coal mining due to the worst snow storms in the past 60 years could prompt higher imports from China. Crude oil rose during the month, helped by the US dollar's

weakness, hopes of economic recovery and concerns over tropical storm Ida's impact on production in the US Gulf of Mexico.

Meanwhile, the International Energy Agency in its monthly report in November said that expansion in economic activity in North America, the Middle East and the Asian countries would result in crude oil demand increasing by 140,000 barrels per day in 2010 to 86.20 million barrels per day. However, it added that the forward cover or the number of days for which the oil inventory would last was very comfortable and stood at 60 days at the end of September, more than 3.8 days a year ago and sharply higher than 52-55 days, traditionally expected by OPEC countries.

## Metals and energy

In the base metals complex, copper gained the most by six per cent on month to US\$6520 per tonne (LME three-month forward contract). Copper was helped by speculations that a heavy snowstorm in China would have impacted the smelting capacity there. Besides this, a strong jump in term premiums (charges over LME cash price) paid by Chinese companies to Chile's Codelco seem to point out that demand was likely to remain strong. Codelco secured a premium of US\$85 per tonne, a lot higher than expectations of US\$80 and US\$75, secured by buyers from Korea and Japan. Zinc was the second-best performer, gaining four per cent on month to US\$2174 due to improved auto sales in Asia and West Europe.

Nickel plunged 14 per cent on month to US\$16,105 per tonne as stockpiles at LME warehouses rose to their highest levels since 1995 to over 131,700 tonnes. Also, a drop in

stainless steel prices in China on fears of excess capacity has cast a doubt on improvement in nickel demand. Over 60 per cent of total nickel is used in stainless steel production.

Going forward, a price action in the metals and energy space could get choppy, though range bound as the financial year draws to a close. Thereafter, the ability of the global economy to survive without help from government spending will be under focus, as will be the sorting out of the problems over exchange rates.

So far, any apparent move or talks of possible actions towards the removal of stimulus measures have resulted in a strong setback to the equity and commodities market. Market players remain skeptical about private consumption taking the driver's seat in leading global economic recovery. Consumer spending restraint is likely to remain as long as the unemployment rate climbs higher and new job additions fluctuate.

On other hand, governments face the dangers of running a loose monetary stance for too long. Ballooning spending has put a strain on government balance sheets in the form of massive debts, the pain of which will become more apparent as the era of ultra-low interest rates draws to a close.

On the exchange rate front, many of the industrialised economies, as well as leading economies, in emerging markets have been tight lipped over the US dollar's weakness. But pressure to curb their respective currency appreciation is being felt with fears of losing export competitiveness. Emerging markets that are leading the way in the present recovery also fear that a steady influx of funds could fuel another round of asset bubble.

The information in this column is provided by MF Global. For further details, write to: [customercaredubai@mfglobal.com](mailto:customercaredubai@mfglobal.com) or call +971 4 332 5052, +971 4 332 8894. Source: Bloomberg, MF Global Commodities India.