

February 27th 2008

Demand at odds with conditions

Insight (page 2): Financial market conditions like those currently in control used to mean that commodity prices would plummet. However, we presently observe certain conditions that should support commodities *even if emerging market growth slows in tandem with the US economic slowdown*. Most notably, we view the massive post-1998 build-up of foreign reserves by most emerging markets as the key driver of brisk commodity demand.

Precious metals (page 3): We maintain that bullish factors outweigh bearish factors for gold. The yellow metal has lagged silver and crude in their recent rally, making it cheap on a relative basis. That said, increased gold scrap is coming to market at around \$940 – \$950, which could cap rallies for now. On the PGM front, we will watch developments in the gold mining sector; possible strikes due to jobs cuts could spill over into the platinum sector.

Base metals (page 6): Aluminium continues to find good support all round. Looking ahead, there might be further narrowing of the spread between the 3-month and forward prices as equities continue to see a small recovery after their recent bad run. With copper stock levels on the decline, price support remains at all maturities, but more so for nearby prices. Tin has scaled new heights in the past week as supply problems surfaced in Indonesia. The metal is currently trading at \$18,050/mt for delivery in three months.

Energy (page 13): Crude and natural gas have rallied significantly in the last two weeks on the combination of geopolitical events, colder winter weather, and the rush of investor capital into commodities. Longer-term support is being offered in the flow of investor capital into commodities — and also into oil. Until prospects for the financial markets improve, this support is likely to continue — which could leave crude open to a downward correction, with oil demand growth risks skewed to the downside.

Trade idea (page 21): Long gold, short SA gold equities — gold miners in South Africa are between a rock and a hard place. In the short- to medium term, we foresee continued downward pressure on gold equities in South Africa.

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Insight: credit conditions, foreign reserves, and commodities prices

The situation in the credit derivatives arena is deteriorating daily — with bad news on many fronts. Nonetheless, commodities remain very well supported.

Many US consumers are over-indebted, resulting in an inability to service debt as well as a slowdown in consumption expenditure (the biggest component of GDP) in the US economy. This has had implications much greater than expected. Bad debt has been woven so deep into many credit derivatives that finding the source is virtually impossible. Therefore, many financial institutions are writing down bad credit as and when it surfaces.

When banks write down credit, it cripples their ability to lend. By definition (through the balance sheet), a write-down in assets implies an equal loss in debt and/or equity. Most banks have seen their equity value decline. Since banks are highly leveraged institutions, a fall in equity on the balance sheet implies a rise in the debt/equity ratio. This results in banks being even more leveraged without lending more money. In simple terms, the balance sheets of many banks have deteriorated, curtailing their ability to lend. With less credit available, economic activity inevitably slows.

Compounding the credit rationing is the extent of the credit write-downs that remain largely unresolved, both in value and ownership. Declared write-downs are in the region of \$160bn. Estimates put potential write-downs at anything between \$300bn and \$400bn. To put the severity of the losses into perspective, currently the market expects AAA rated credit derivatives to return in 75 cents in the dollar. Normally AAA rated credit has almost zero default expectations.

All this has resulted in lending remaining expensive despite central banks, like the Fed and BOE, cutting interest rates. But monetary policy is a blunt tool at best, and easing of conditions now must soon have an impact.

In the past, such conditions was a recipe for commodity prices to plummet. Energy, base metals and even precious metals prices would have been expected to decline as economic activity slows. However, we now observe conditions that should support commodities *even if emerging market growth slows in tandem with the US economic slowdown*.

Firstly, we see massive post-1998 foreign reserves accumulation by most emerging markets as key to ongoing commodity demand. The deep pockets of many emerging markets, most importantly China (via its \$1.3trillion foreign reserves holdings), will ensure ongoing commodity-intensive investment programmes needed for economic development. Even if foreign investment into China, domestic demand and exports should slow, infrastructure programmes and domestic capital formation will continue making demand for commodities very inelastic.

These foreign exchange holdings have also come to the rescue of some financial institutions, ameliorating problems in financial markets. It has long been debated whether holding the majority of foreign reserves in low-yielding assets, such as US treasuries, is the best way to invest in a country's reserves — given that this money could probably be put to better use. Countries (such as Singapore) have created sovereign wealth funds, utilising foreign reserves to make strategic investments. In some cases, these funds have come to the aid of banks, providing much-needed capital for banks to beef up balance sheets, ensuring future business.

Secondly, supply continues to be hampered by the lack of skills and infrastructure, mainly in emerging markets. This is positive for commodities: to get resources out of the ground (and out of the country), other commodities are needed to put infrastructure in place. This results in an endogenous demand growth cycle. Not only are skills at mining and production levels in short supply, but also at a much broader level — such as national, regional and local where governments are supposed to create viable conditions for business. This skills shortage is out of the control of mining companies, and is bound to hinder supply. In addition, there is the problem of supply control for certain commodities by governments and cartels ensuring price support above certain levels.

Lastly, the growing acceptance of commodities as an asset class has resulted in the slowing physical demand for commodities being replaced, to some extent, by investment demand for commodities. With other asset classes either performing badly (equities) or remaining expensive (US treasuries), commodities seem to be favoured by a growing number as a hedge against uncertainty and inflation.

Therefore, we believe commodities will remain well supported (but will experience increased volatility) despite growing financial market pessimism. What would see commodity prices come under severe downward pressure? *Firstly*, a global liquidity squeeze could force speculative money out of (commodity) markets. A global liquidity squeeze is something the Fed and other central banks would guard against valiantly. *Secondly*, a global recession that leads to a severe and prolonged decline in exports of many emerging markets so that foreign reserve holdings reach critically low levels. Although a US recession is a real possibility, the duration and severity is unlikely to lead to a global recession that would deplete foreign reserve holdings.



Precious metals

Gold

The financial environment remains bullish for gold. Apart from the uncertainty that is ruling financial markets, the US Fed is also increasingly facing higher inflationary pressures while the economic scene remains dismal. This discord between inflation and growth has come back to haunt policy-makers. But despite increasing signs of rising inflation, the Fed will probably continue easing.

We note the following bearish factors:

- The IMF will likely sell some of its gold reserves to fund financial shortfalls. The signal this proposed sale sends is probably more bearish than an actual sale would be. We foresee no major impact in the greater context of the gold market.
- We continue to receive reports of large volumes of scrap metal coming to the market at around \$950. This should retard any rally if the market cannot absorb these volumes quickly. That said, we also receive reports of buying interest returning for jewellery demand around \$900. This should provide good support for gold.

For now, we maintain that bullish factors outweigh bearish factors. **On the bullish front:**

- Gold ETF's has absorbed more than 10 tonnes of gold over the past two weeks. If this demand from ETF's persists, scrap metal supply should be easily absorbed by the market.
- The US dollar remains fundamentally weak. And with the Fed set to continue cutting interest rates (to at least 2%), dollar weakness should support gold.

Although gold doesn't track crude oil and silver in lock-step, they tend to rally together when global market conditions are driving. But gold has lagged silver and crude in the recent rally since the beginning of the month (see adjacent graph). On this relative basis, gold has some catch-up to do.

Silver

We maintain that the outlook for silver is dismal if gold is taken out of the equation — destined to continue as industrial demand continues to slow.

In fact, the gold:silver ratio at time of writing is 49.7 (down from 55 at the beginning of February). This is the lowest level since June last year. We will be watching this ratio.

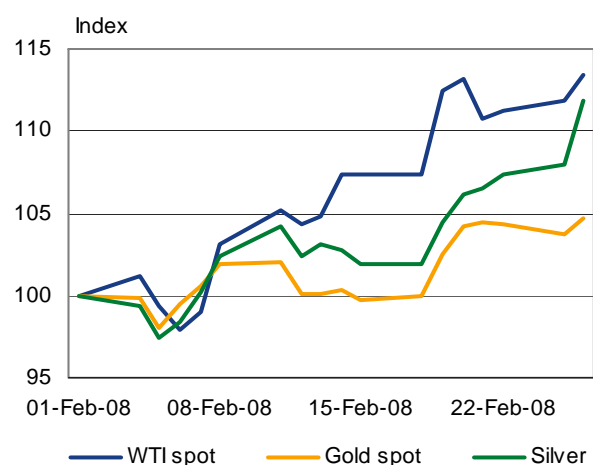
Platinum Group Metals

PGM's remain well supported. Volatility demonstrates a great deal of speculative activity in platinum and palladium. The overhang of the platinum supply problems, combined with bullish sentiment towards gold, should continue to provide fertile ground for fund investment.

Two recent developments on the PGM front worth noting:

- Major gold producer, Gold Fields, has announced that it plans to cut jobs. This is to retain costs as production slows due to electricity rationing. The National Union of Mineworkers has stated in reaction to this, that it would consider a strike if jobs are lost due to the electricity problems. It is unknown whether such a strike, if it actually takes place, could be nationwide. This could also affect platinum miners.
- There is a growing number of calls in South Africa to lift the 10% electricity rationing on major miners (rather imposing it on other sectors). Since the mining sector is a large employer and forex earner for the country, it could be argued that such a move would be justified. If the rationing on miners is indeed lifted, or reduced, it could see PGM production return to normal. However, we do not foresee any change in Eskom policy for now. The state-owned utility might also want to wait for winter demand before making any changes to current rationing policies.

Relative performance: gold, crude oil and silver

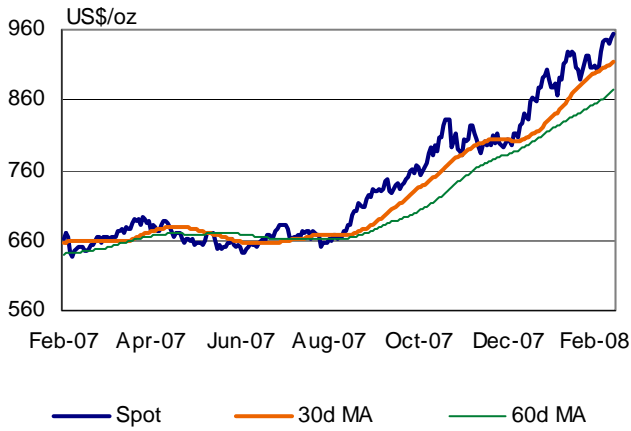


Source: Standard Bank Group



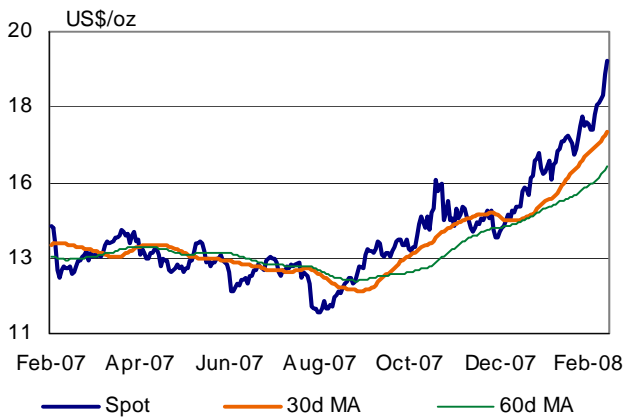
Gold & silver

Gold spot price



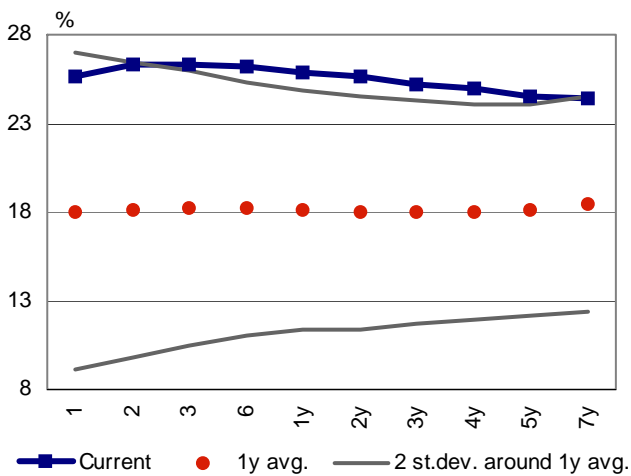
Sources: COMEX; Standard Bank Group

Silver spot price



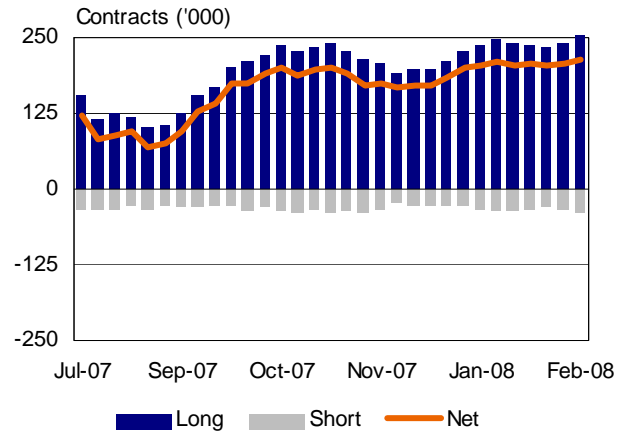
Sources: COMEX; Standard Bank Group

ATM implied volatility



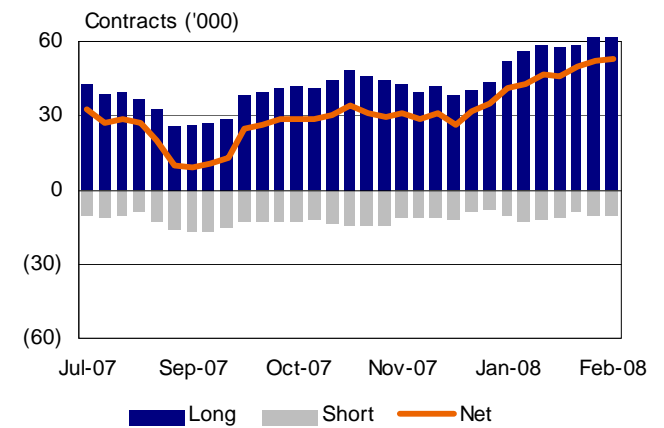
Sources: Bloomberg; Standard Bank Group

Gold speculative positions (COMEX)



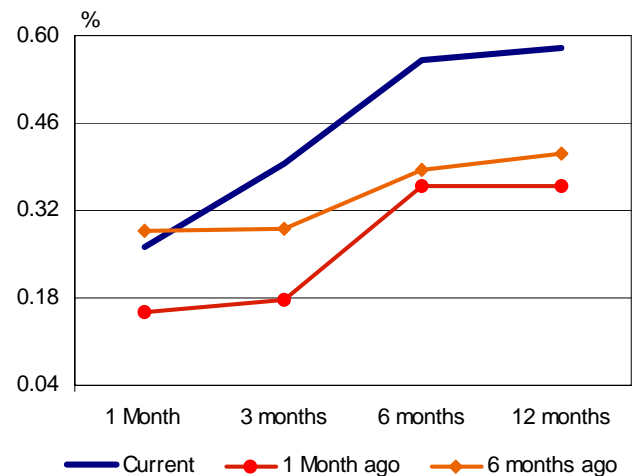
Sources: COMEX; Standard Bank Group

Silver speculative positions (COMEX)



Sources: COMEX; Standard Bank Group

Gold lease rates (LIBOR—GOFO)

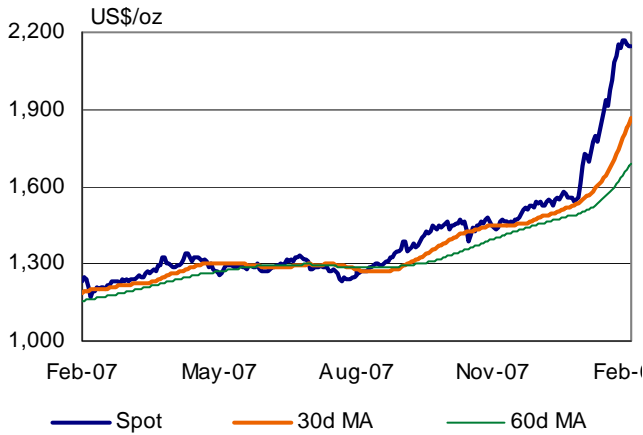


Sources: LBMA; Standard Bank Group



Platinum Group Metals (PGM)

Platinum price movement



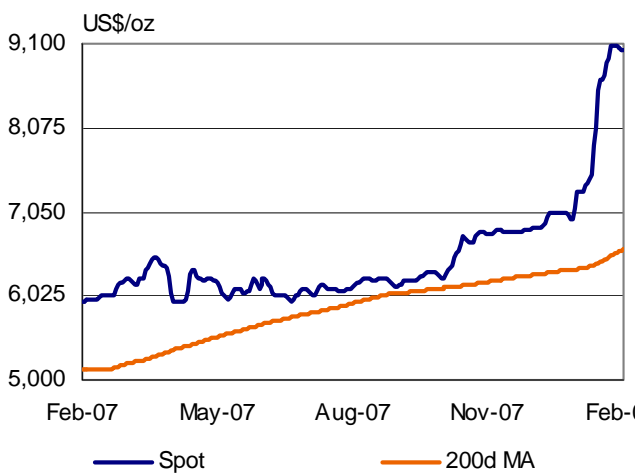
Sources: NYMEX; Standard Bank Group

Palladium price movement



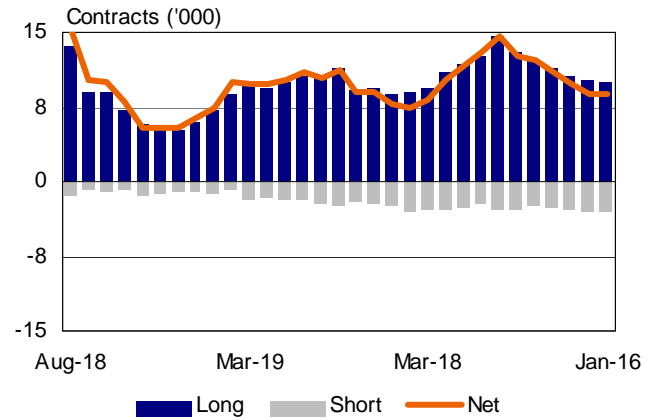
Sources: NYMEX; Standard Bank Group

Rhodium price movement



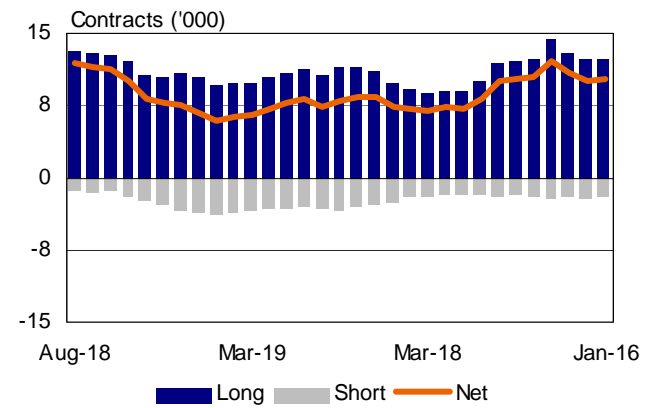
Source: Standard Bank Group

Platinum speculative positions (COMEX)



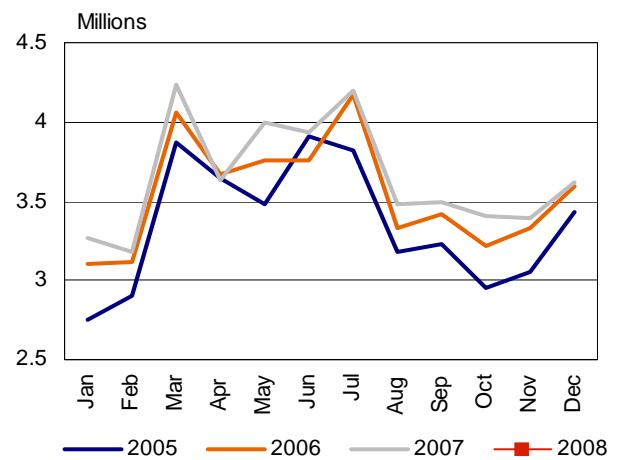
Sources: NYMEX; Standard Bank Group

Palladium speculative positions (COMEX)



Sources: NYMEX; Standard Bank Group

Auto sales (EU, US, Japan, South Korea, China)



Source: Standard Bank Group



Base metals

The base metals complex has seen very good support over the past week as commodities remain well supported across the globe. The recent rally continues on the back of the growing financial market concerns as well the various supply problems reported in in depth recently. As discussed in the [Insight \(page 2\)](#), we continue to believe that metals should remain supported under current market conditions. It doesn't mean we would necessarily see new all-time highs — but an economic downturn is likely to have a much smaller effect on prices than previous periods of slowing global demand.

Aluminium

The light metal continues to find good support all round. The 3-month price rose above \$3,000 this morning — the first time since May 2006.

During the past week the forward curve has also seen a parallel shift higher as crude oil rose sharply. We estimate that the effect of a rise in crude oil is almost identical on all maturities of the forward curve, and this shift higher is expected under current circumstances ([see adjacent graph](#)).

Looking ahead, there might be further narrowing of the spread between the 3-month and forward prices as equities continue to see a small recovery after a recent bad run. Furthermore, with the US dollar on the back foot, we see further support for nearby prices.

Recent price movements have pushed the implied volatility higher. It appears as if the current volatility for nearby prices is high compared to stock levels and historical vols.

Copper

As with aluminum, copper continues to remain well supported. The metal continues to track equities, gold and oil closely. After a sell-off on Monday and Tuesday, that pushed the 3-month price from around \$8,400 to below \$8,100, the price is trading back to \$8,400 again.

With copper stock levels on the decline, price support remains at all maturities, but especially nearby prices. There is growing concern that Chinese demand might be higher than initially expected this year, which should offset slower demand from the US. That said, it could be expected that the recent rise in Shanghai stock levels will persist for now as some Chinese buyers might opt to wait for dips to buy. This might cap prices on the upside. But combined with the supply problems that seem ever-present, copper remains well supported.

Lead

Lead has been following the rest of the complex higher, taking its cue from aluminium. The 3-month LME price is currently trading around \$3,300. There has been a parallel shift higher in the forward curve as LME warehouse stock levels declined by almost a 1,000mt over the past week.

Further price support is provided by lower exports from China, due to tax policy, as well as disruptions that continue to hamper lead production. However, we believe that the metal will continue to track movements in the complex.

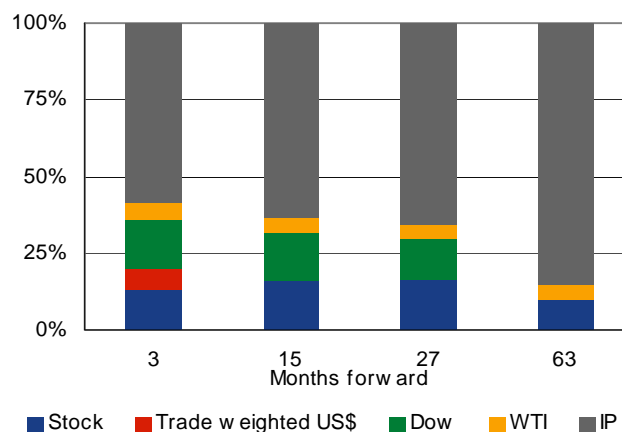
Nickel

Nickel continues to be a beacon of calm in the current volatile market with prices trading sideways. Futures prices have also barely moved from a week ago. The metal continues to trade between \$27,000 and \$29,000. It appears as if nickel stock levels have reached an interim plateau. After racing towards 50,000mt in the second half of last year, the stock levels has stagnated around the 47,000mt level. This is in part the reason for the relative stable prices for nickel. However, we will keep an eye on nickel demand for stainless steel production that could see a steady rise again.

Tin

Tin has scaled new highs in the past week as supply problems raised it head in Indonesia. The metal is currently trading at \$18,050 for delivery in three months. Stock levels continue to decline. Current warehouse stock is at 10,858mt — the lowest level since June last year. The market remains jittery as reports of tin loaded for export from Indonesia was prevented from sailing after police sealed the barge. We do see tin well supported even though current levels are at historic highs.

Relative importance of factors influencing aluminium



Source: Standard Bank Group



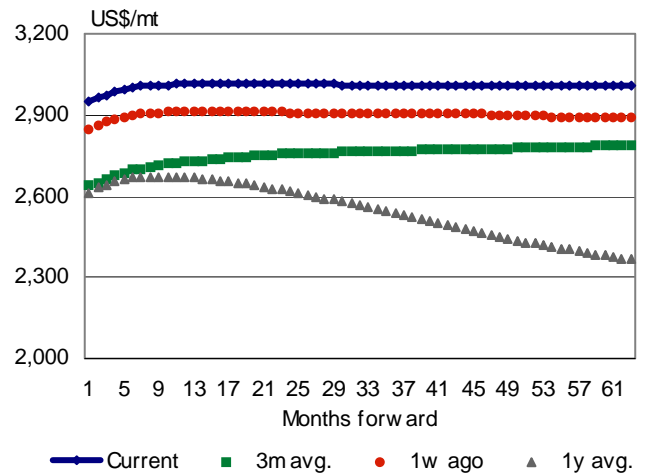
Aluminium

Price movement



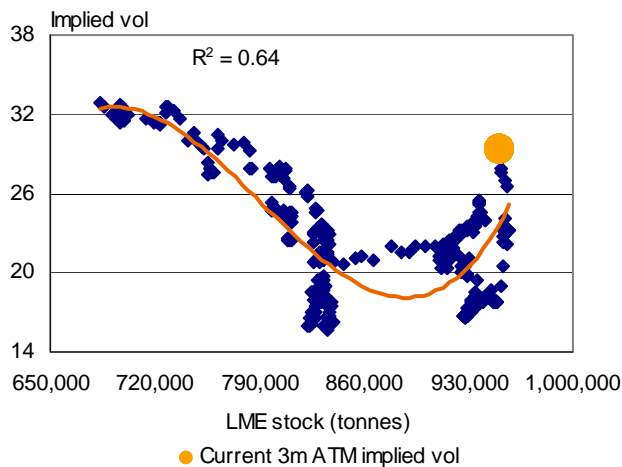
Sources: LME; Standard Bank Group

Forward curve



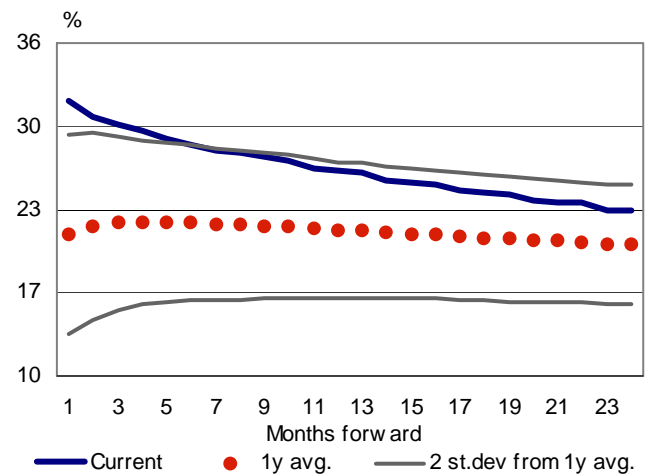
Sources: LME; Standard Bank Group

Volatility vs. stock levels



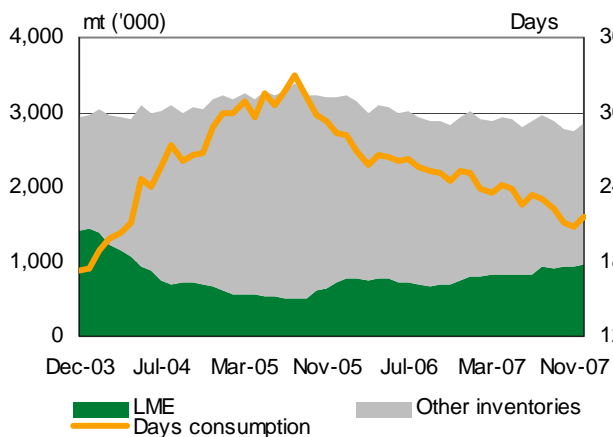
Sources: LME; Standard Bank Group

ATM implied volatility



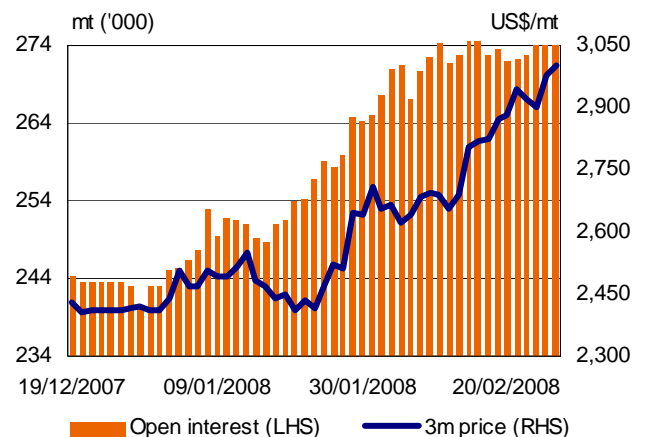
Sources: LME; Standard Bank Group

Stock



Sources: LME; AIA; Standard Bank Group

LME open interest



Sources: LME; Standard Bank Group



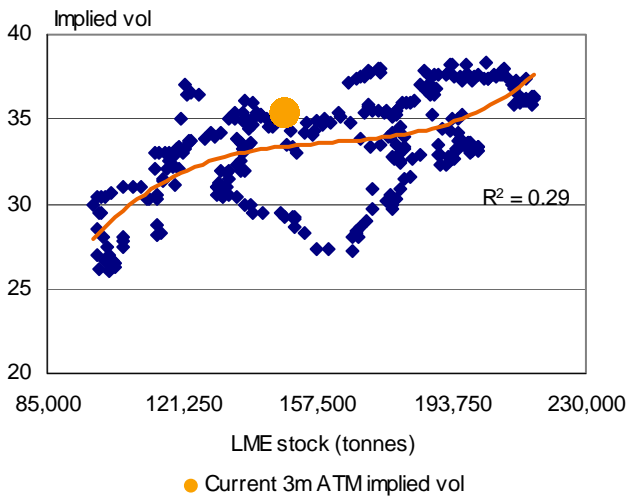
Copper

Price movement



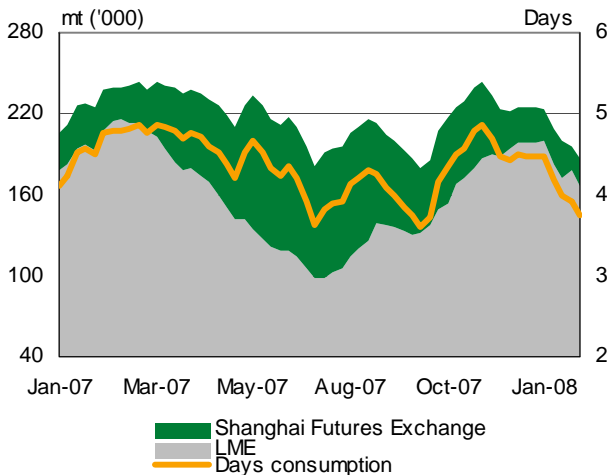
Sources: LME; Standard Bank Group

Volatility vs. stock levels



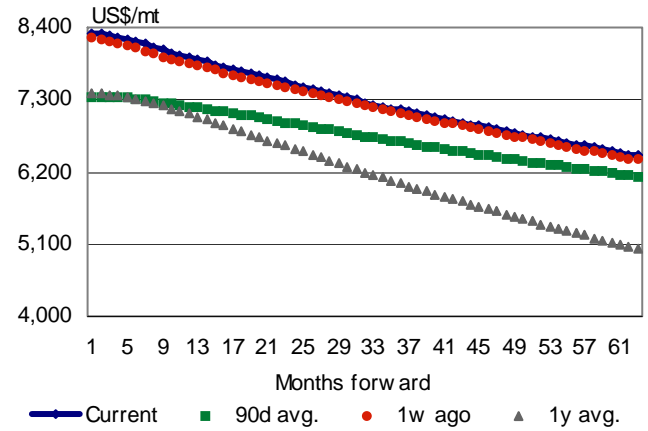
Sources: LME; Bloomberg; Standard Bank Group

Stock



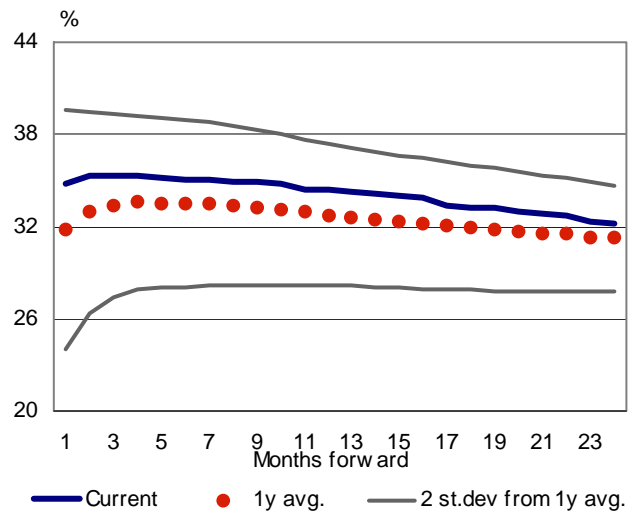
Sources: LME; SFE; Standard Bank Group

Forward curve



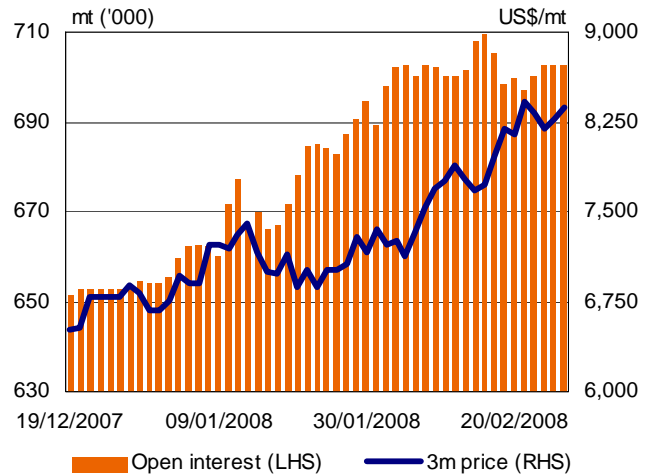
Sources: LME; Standard Bank Group

ATM implied volatility



Sources: LME; Standard Bank Group

LME open interest

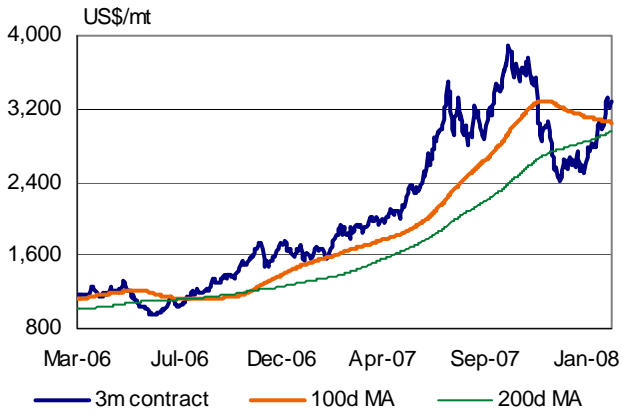


Sources: LME; Standard Bank Group



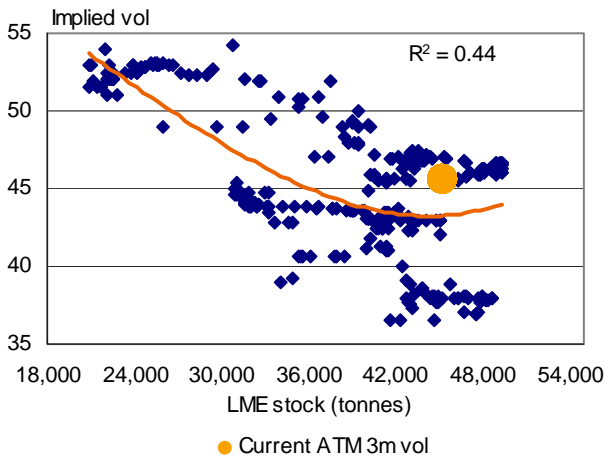
Lead

Price movement



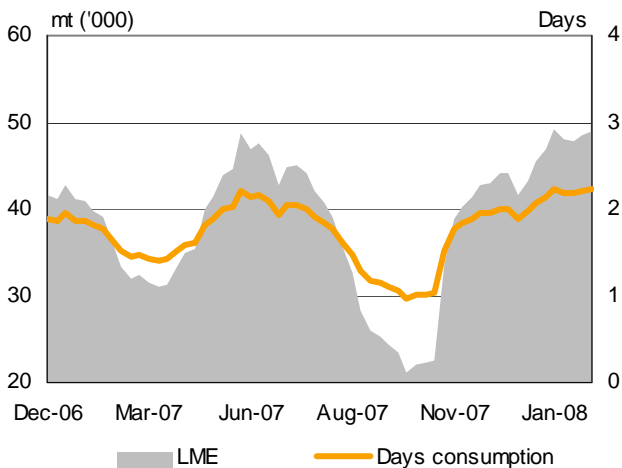
Sources: LME; Standard Bank Group

Volatility vs. stock levels



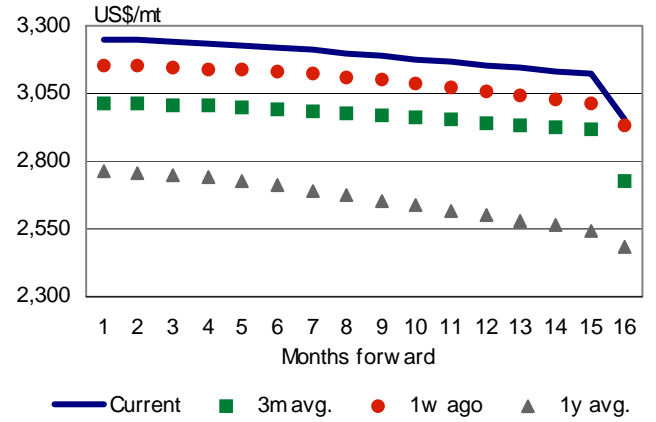
Sources: LME; Bloomberg; Standard Bank Group

Stock



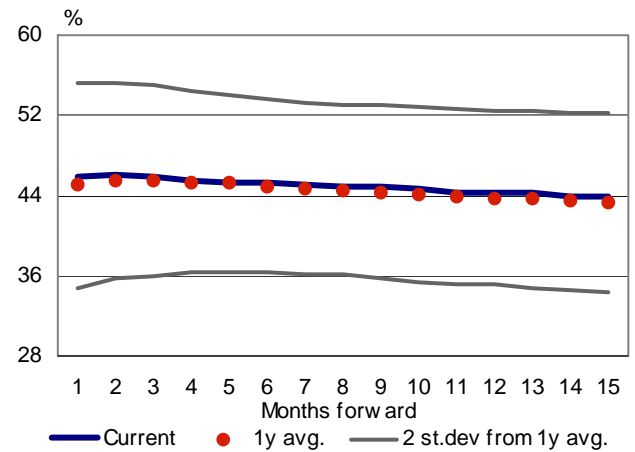
Sources: LME; SFE; Standard Bank Group

Forward curve



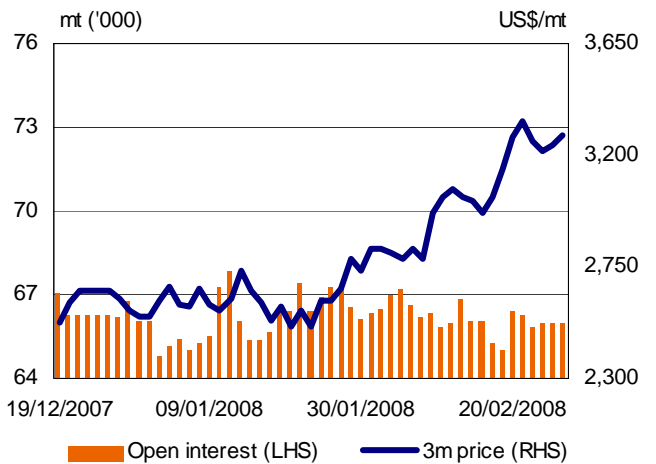
Sources: LME; Standard Bank Group

ATM implied volatility



Sources: LME; Standard Bank Group

LME open interest

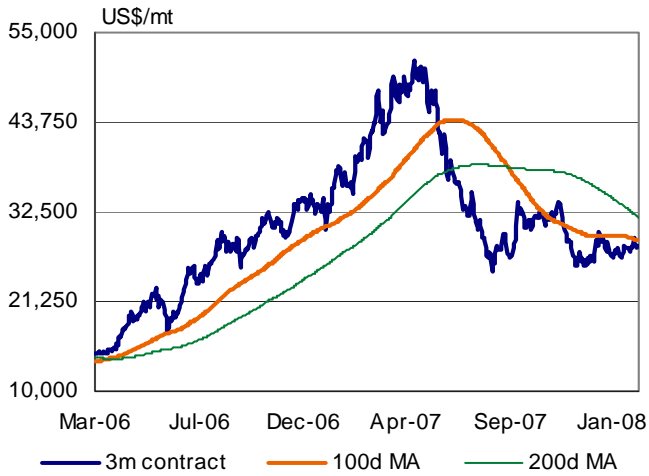


Sources: LME; Standard Bank Group



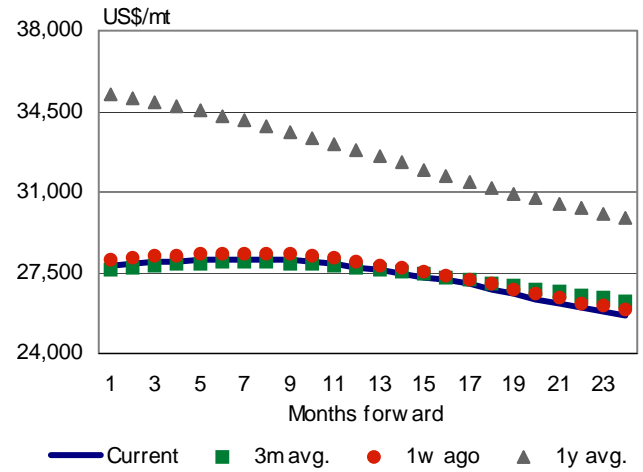
Nickel

Price movement



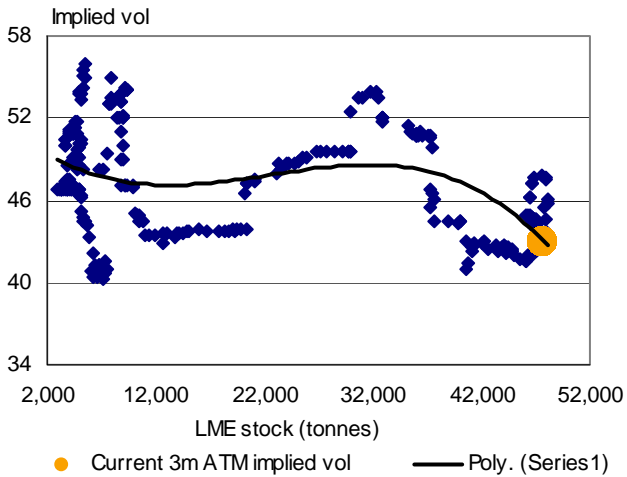
Sources: LME; Standard Bank Group

Forward curve



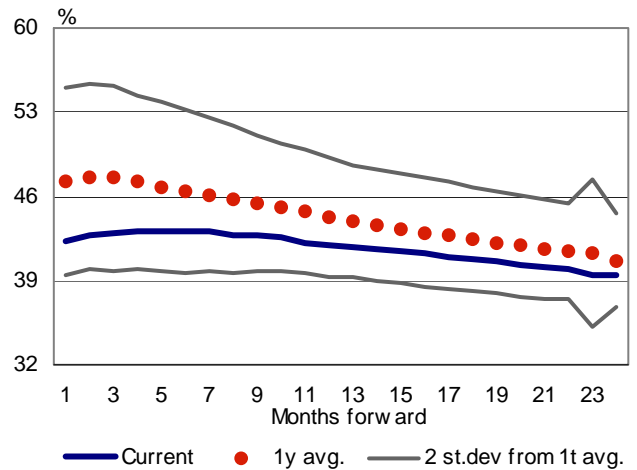
Sources: LME; Standard Bank Group

Volatility vs. stock levels



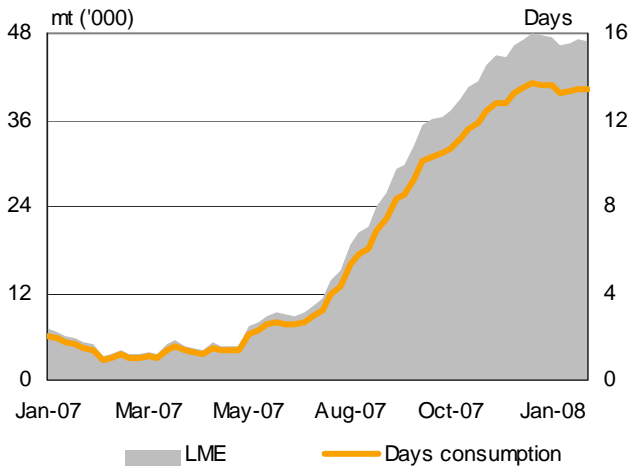
Sources: LME; Bloomberg; Standard Bank Group

ATM implied volatility



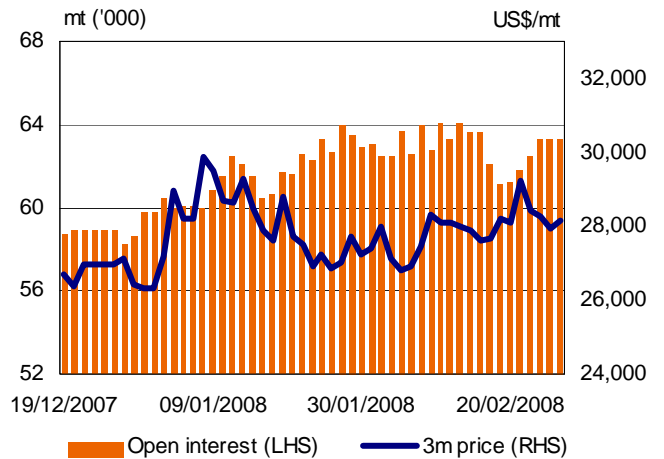
Sources: LME; Standard Bank Group

Stock



Sources: LME; SFE; Standard Bank Group

LME open interest

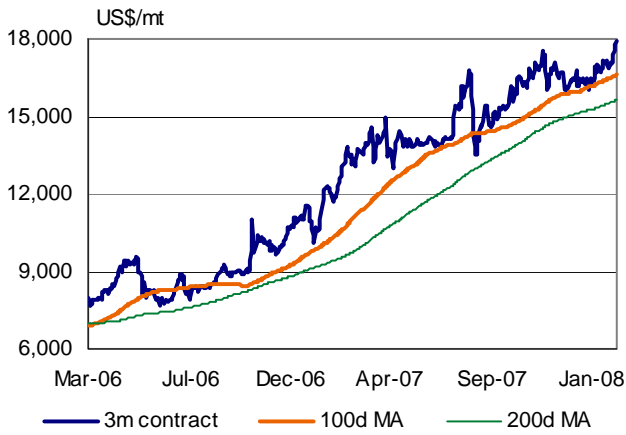


Sources: LME; Standard Bank Group



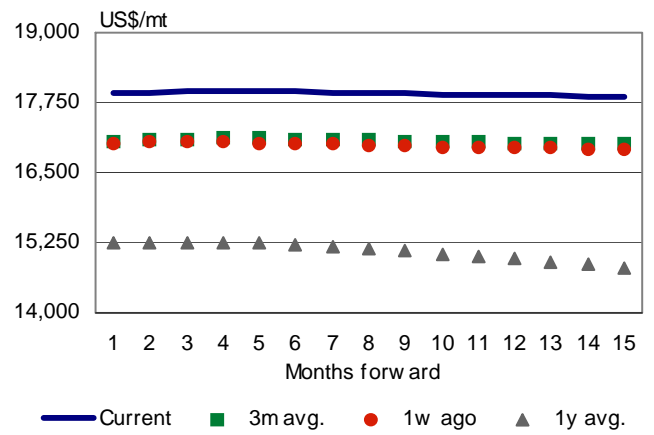
Tin

Price movement



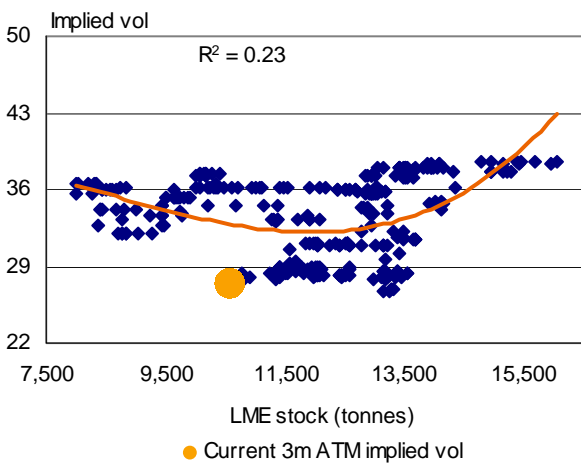
Sources: LME; Standard Bank Group

Forward curve



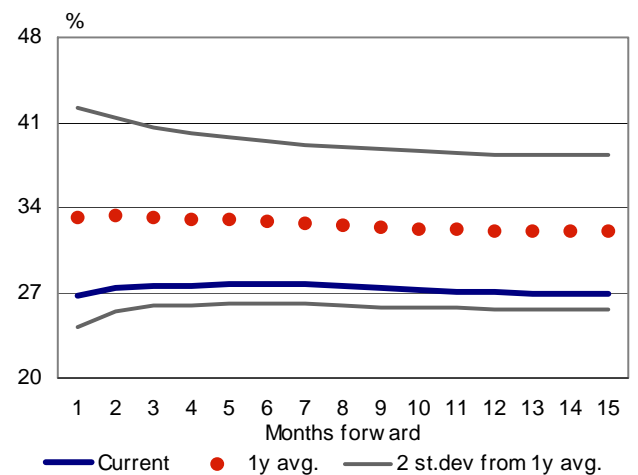
Sources: LME; Standard Bank Group

Volatility vs. stock levels



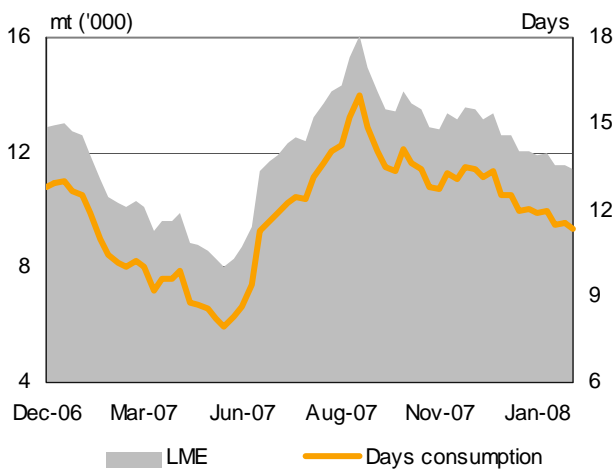
Sources: LME; Bloomberg; Standard Bank Group

ATM implied volatility



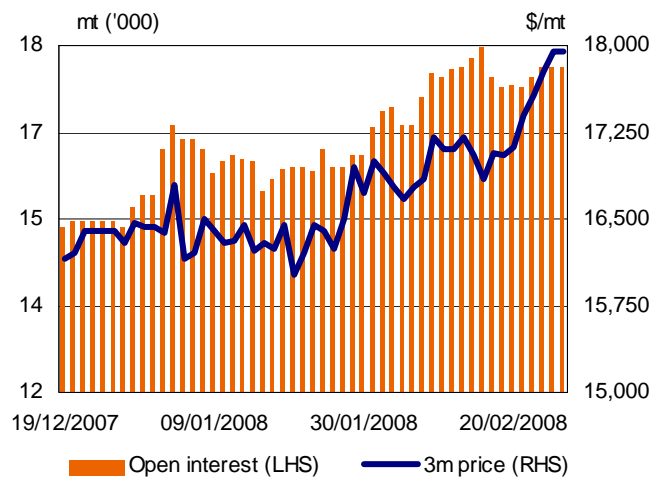
Sources: LME; Standard Bank Group

Stock



Sources: LME; Standard Bank Group

LME open interest

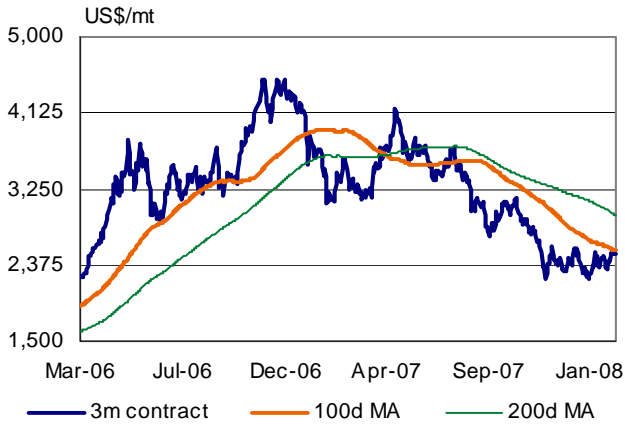


Sources: LME; Standard Bank Group



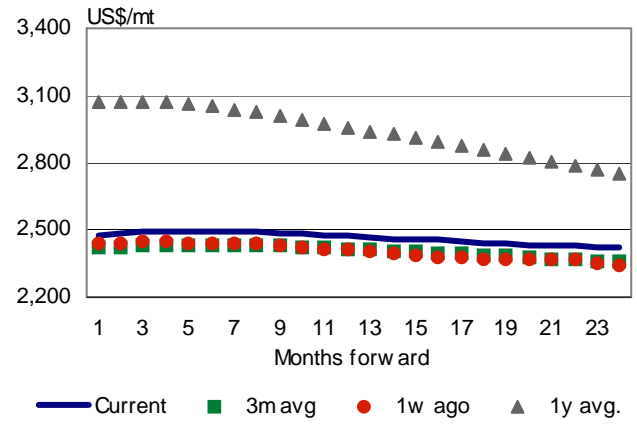
Zinc

Price movement



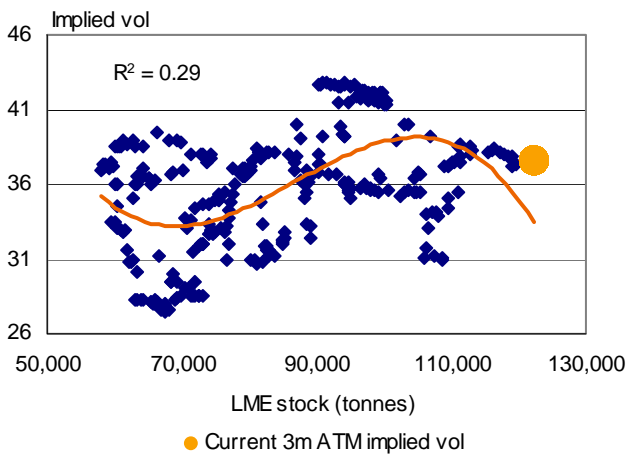
Sources: LME; Standard Bank Group

Forward curve



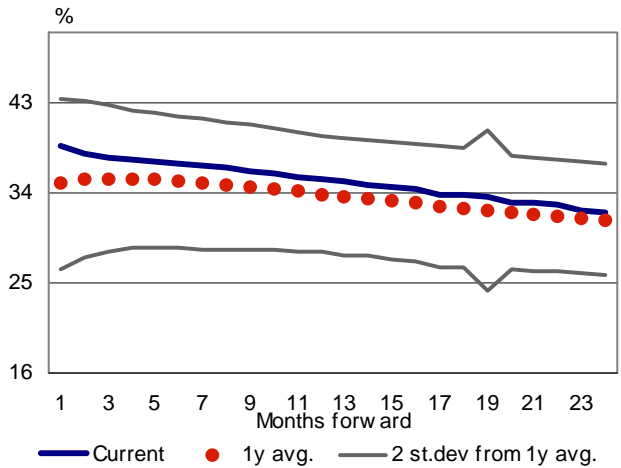
Sources: LME; Standard Bank Group

Volatility vs. stock levels



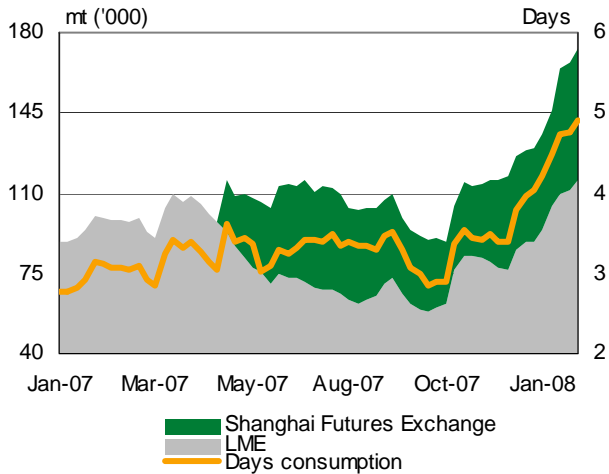
Sources: LME; Bloomberg; Standard Bank Group

ATM implied volatility



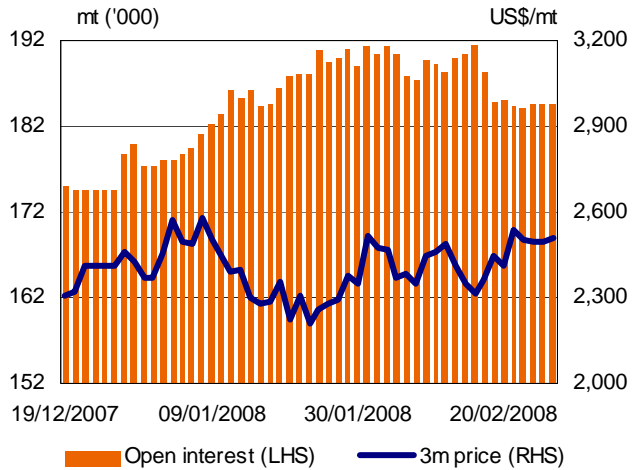
Sources: LME; Standard Bank Group

Stock



Sources: LME; SFE; Standard Bank Group

LME open interest



Sources: LME; Standard Bank Group



Energy market overview

NYMEX front month crude futures have gained 11% so far this month on the back of supply disruption concerns and heavy fund buying. According to Friday's CFTC COT data, crude speculators increased their net-long positions by 52% to 60,873 contracts, the highest in a month.

Investors have sought refuge in oil, along with other commodities which have also touched record highs, because of a combination of a lack of clarity in global financial markets and the flight to safety as inflationary threats loom. For several years now analysts have guesstimated that the investor "premium" in oil was somewhere around 12%, depending on the market. Using oil's current price band of \$95—\$100, the implication is that fundamentals support oil at \$85.

Is that a rational price when we are entering what traditionally has been a seasonally low point in demand and no significant supply disruptions have actually occurred?

Despite threats from Chavez, so far PdVSA has only cut off shipments to Exxon Mobil—hardly a threat to global oil supply. And while crude rallied again last Friday on news that Turkish troops had invaded northern Iraq, the move is unlikely to pose direct threats to oil flows in the region.

After being quiet for the last few months, Iran re-emerged on the geopolitical front threatening reprisals against any nation supporting new sanctions over its alleged nuclear weapons program. Tehran was responding to a draft resolution to

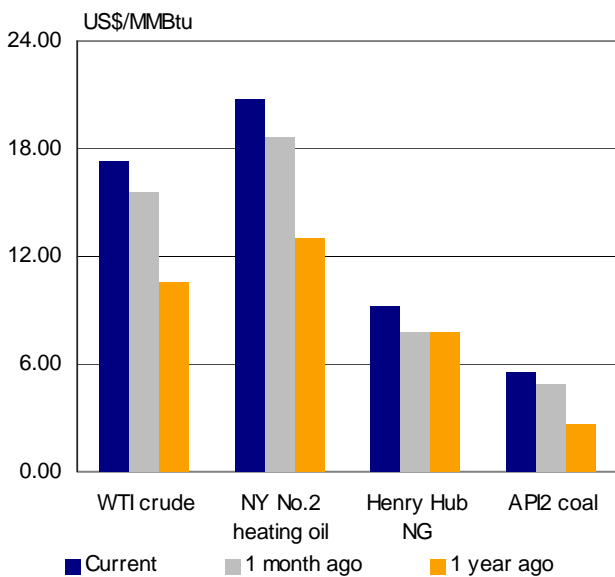
impose new sanctions which was submitted to the UN Security Council by the US, Britain and France and which will be voted on this week.

Although OPEC remains under pressure to increase production, it is unlikely to change oil output targets at its meeting on 5 March, as high prices and concern about the economy balance expectations for a seasonal demand fall. Tanker-tracker Petrologistics has forecast informal cuts in February shipments by OPEC members, indicating that shipments will equal 32.4m bpd, down from 32.65mbpd in January. Keeping in mind the seasonal drop in demand, OPEC may need to agree a production cut to defend \$90 through 2Q08.

Traders took a break (and some profits) from the six-session rally last Thursday after the bearish DOE report exorcised some of the current supply disruption fears. The report showed a 4.2m bbls jump in crude stocks and another gain in gasoline inventories which took them to a 14 year high. The report also showed that year-on-year gasoline demand declined for a fifth consecutive week. Refinery utilization dropped to a 83.5%, the lowest since March 2006.

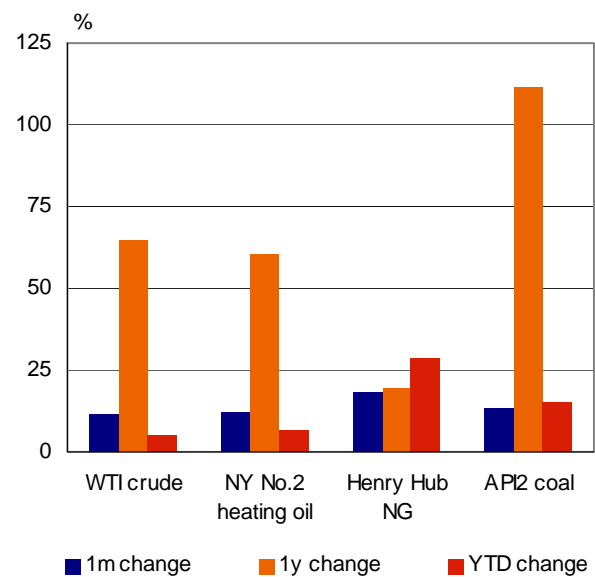
So while the pricemay not be rational, it is likely to continue. In a world where there is little information, and when it is released it is frequently old, traders must respond to the headlines. The old adage that traders buy on the rumor and sell on the fact is likely to become more true as the market becomes more tightly balanced.

Energy price comparison on BTU basis



Sources: NYMEX; The McCloskey Group Ltd; Standard Bank Group

Change in energy prices (USD)



Sources: NYMEX; The McCloskey Group Ltd; Standard Bank Group



Crude and refined products

On Tuesday, NYMEX crude futures for April delivery touched \$101.43 before closing at \$100.88 after the US dollar reached a new low against the euro. The re-emergence of concerns over Iran's nuclear programme and border clashes in Iraq have also added to supply disruptions concerns — outweighing mounting problems in the US economy and forecasts for another build in crude inventories. April ICE Brent settled up \$1.78 at \$99.47. The WTI/Brent differential has narrowed to \$1.41.

Breaking through \$102, technicals point to aggressive follow-through rally, but some profit-taking is to be expected if the US DOE data is moderately bearish.

The first decline in nine weeks, last week's DOE report showed falling inventories in the three major product categories, a leading indicator for improvements in refining margins. Atlantic Basin refinery margins are recovering, although gasoline cracks remain soft. Despite cold weather in key heating areas, refiners are likely to further reduce distillate runs to bring down the inventory overhang by the end of the US heating season.

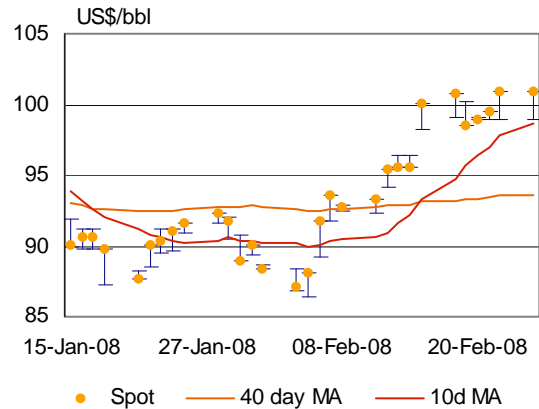
European product prices were mixed with a surge in gasoil and diesel offsetting fuel oil and mogas weakness. Last week, the IPE gasoil contract hit \$900/mt for the first time ever, and the Brent-Gas oil crack has now pushed out to its widest since October 2005. European mogas was dragged down by the fall in the RBOB gasoline futures after the US inventory figures had shown a sharp rise in gasoline stocks.

Asian gasoil price backwardation is the highest since last March supported by strong demand, particularly for the front-month contracts. The Singapore gasoil crack against Dubai hit a record high of \$24.35, breaking the previous record set in June 2006. Concomitant with the demand for front month contracts, price backwardation in Singapore gasoil has widened. Arbitrage of European fuel oil to Asia remains open, with Singapore fuel oil cracks still lagging other Asian products.

NOTE: NYMEX March natural gas futures expire on Wednesday, followed by March heating oil and RBOB gasoline futures on Friday. Refined products February calendar swaps, crack spread swaps, and financially settled crude oil calendar swaps also expire on Friday. ICE March heating oil, gasoline, and natural gas futures expire on Thursday.

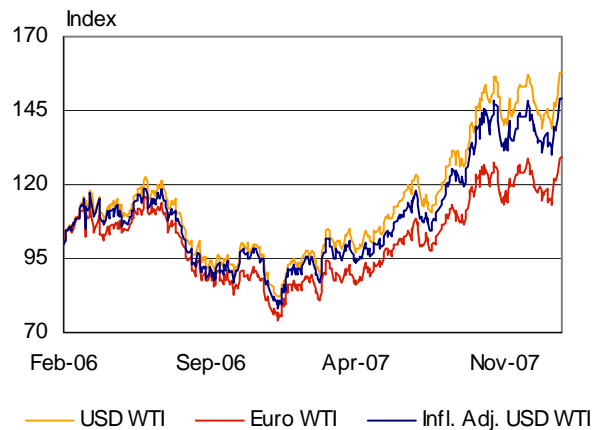
OPEC's meeting next Wednesday and investor moves are likely to be the primary drivers of the next few days, with the market looking overbought above \$100. If technicals are breached — either direction — prices will move quickly to establish new trading levels.

WTI crude oil spot/high/low price



Sources: NYMEX Standard Bank Group

WTI price comparison



US crude oil stock days forward cover

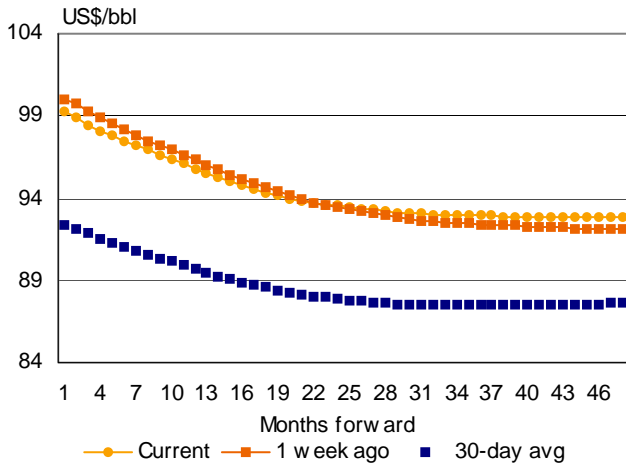


Sources: DOE; Standard Bank Group



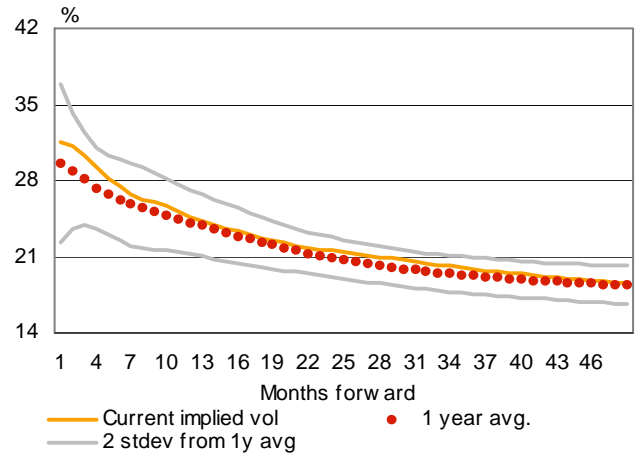
Crude oil

WTI crude forward curve



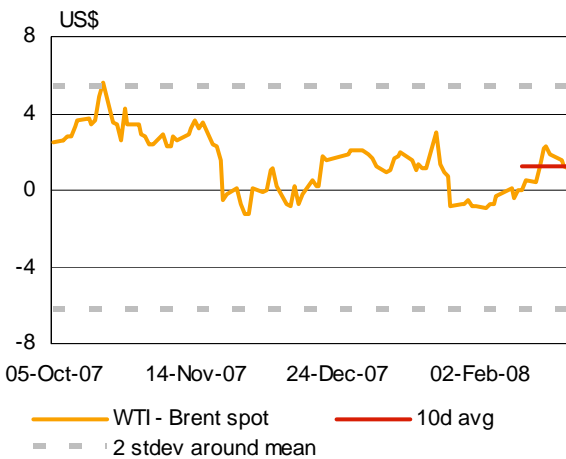
Sources: NYMEX; Standard Bank Group

WTI ATM implied volatility



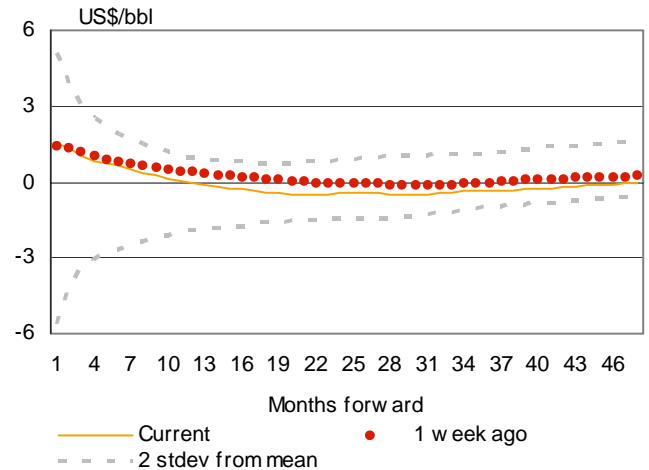
Source: Standard Bank Group

WTI — Brent spot price spread



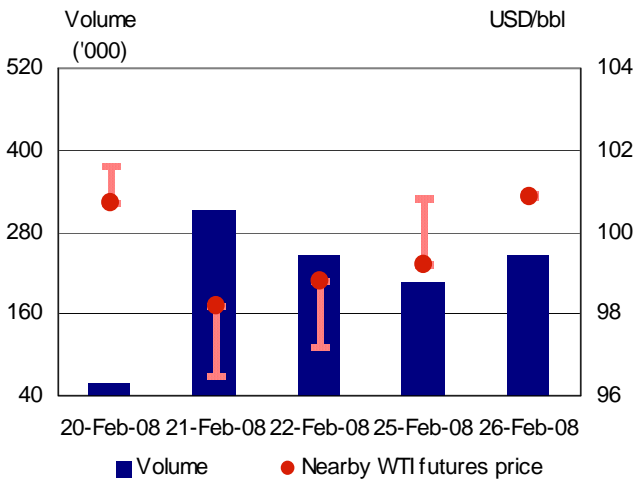
Source: Standard Bank Group

WTI — Brent forward curve spread



Source: Standard Bank Group

NYMEX near- month WTI future — last 5 sessions



Sources: NYMEX; Standard Bank Group

Commitment of traders report (NYMEX crude oil)

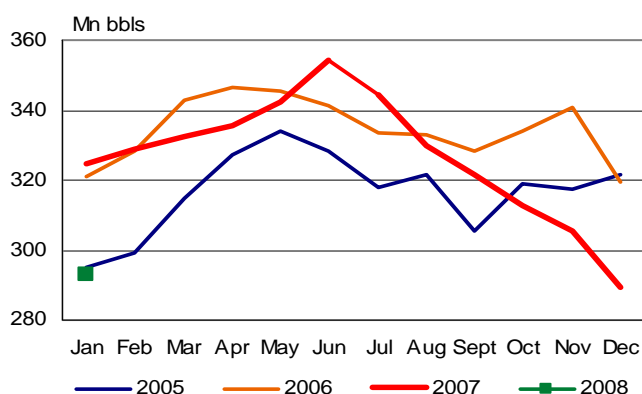
Most recent	
Total open interest	1,355,135
Futures longs as % of OI	93.90%
Futures non-commercial long as % of OI	17.15%
One week ago	
Total open interest	1,393,035
Futures longs as % of OI	92.37%
Futures non-commercial long as % of OI	15.61%
One month ago	
Total open interest	1,458,072
Futures longs as % of OI	93.46%
Futures non-commercial long as % of OI	15.63%

Sources: NYMEX; Standard Bank Group



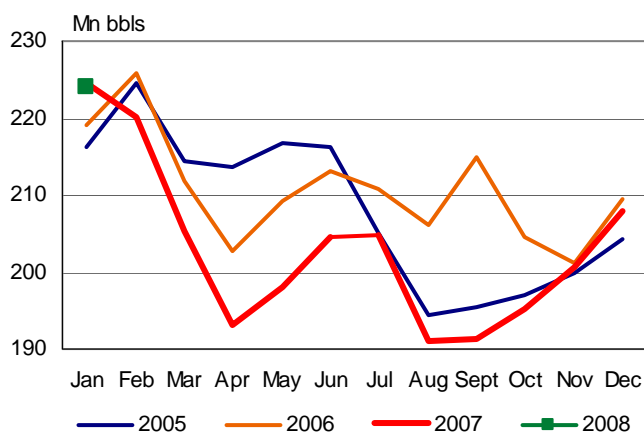
Inventory — crude and products

US commercial crude stock levels



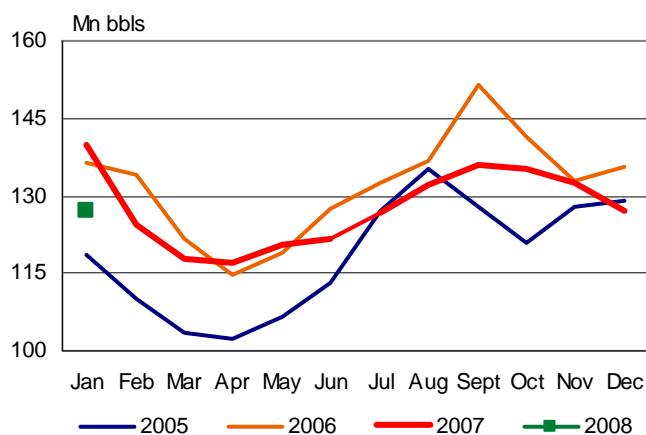
Sources: DOE; Standard Bank Group

US commercial gasoline stock levels



Sources: DOE; Standard Bank Group

US commercial distillate stock levels



Sources: DOE; Standard Bank Group

US Inventory Statistics

	Unit	This week	Last week	Change
Crude				
US crude oil stock (excl. SPR)	mn bbls	15,257	15,529	-272
SPR	mn bbls	695	695	0
Total crude stock	mn bbls	14,562	14,834	-272
Crude import	mn bpd	10,102	9,737	365
Crude days forward cover	days	21.00	20.60	0.40

Gasoline

US Commercial gasoline stock	mn bbls	229,236	230,264	1,028
Gasoline imports	mn bpd	827	841	-14
Gasoline forward cover	days	25.60	25.60	0.00
Gasoline implied demand	bpd	9,309	9,265	0.044
Finished Gasoline Production	mn bpd	8,840	8,909	-69

Distillates

US Commercial distillate stock	mn bbls	122,527	126,973	-4,446
Distillate Imports	mn bpd	381	282	99
Distillate days forward cover	days	28.20	30.00	-1.80
Distillate implied demand	bpd	1,042	1,007	0.035
Distillate Production	mn bpd	4,010	4,091	-81

Total US commercial stock	mn bbls	1,676,276	1,679,983	-3,707
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Refinery Activity

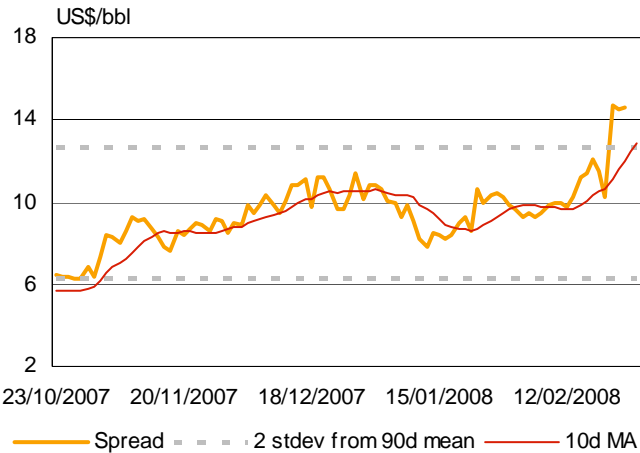
Crude oil input into refineries	mn bpd	14,562	14,834	-272
Refinery capacity utilisation	%	83.52	85.08	-1.56

Sources: DOE; Standard Bank Group



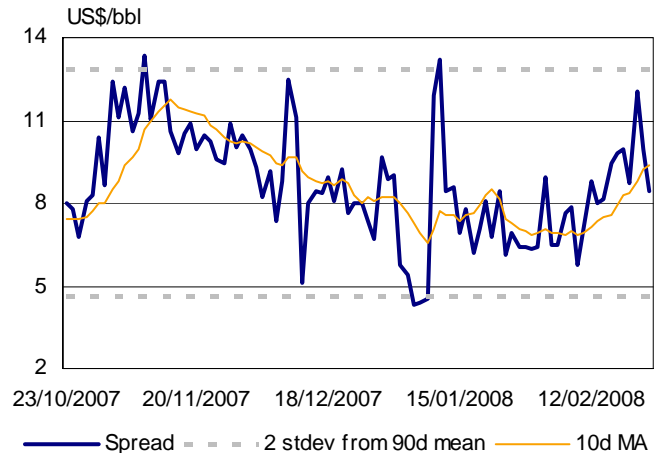
Refined products benchmarks and futures

NYMEX 3-2-1 crack spread (WTI)



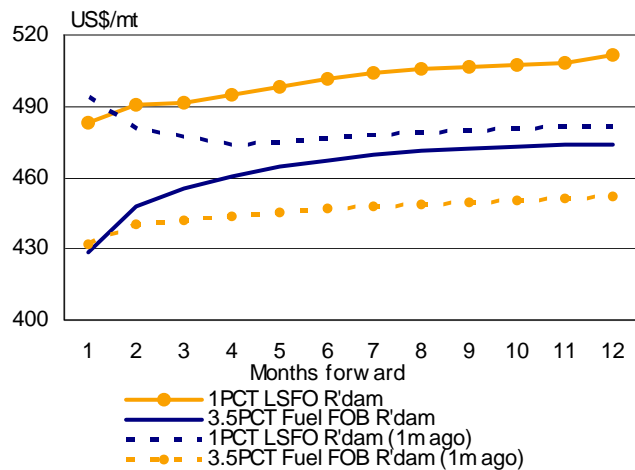
Sources: Bloomberg; Standard Bank Group

ICE 3-2-1 crack spread (Brent)



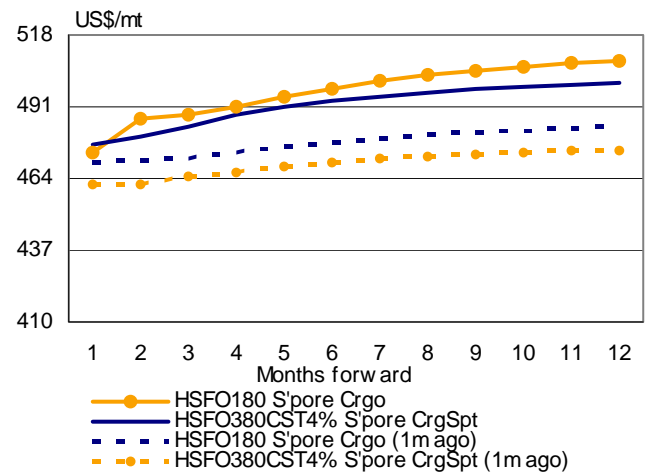
Sources: Bloomberg; Standard Bank Group

European benchmark fuel oil futures



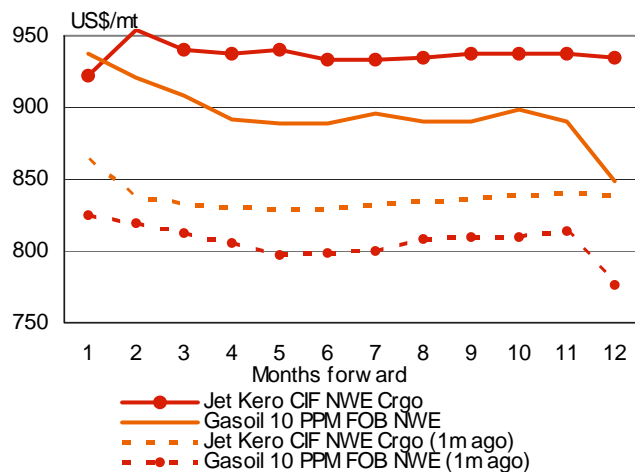
Sources: NYMEX; Standard Bank Group

Asian benchmark fuel oil futures



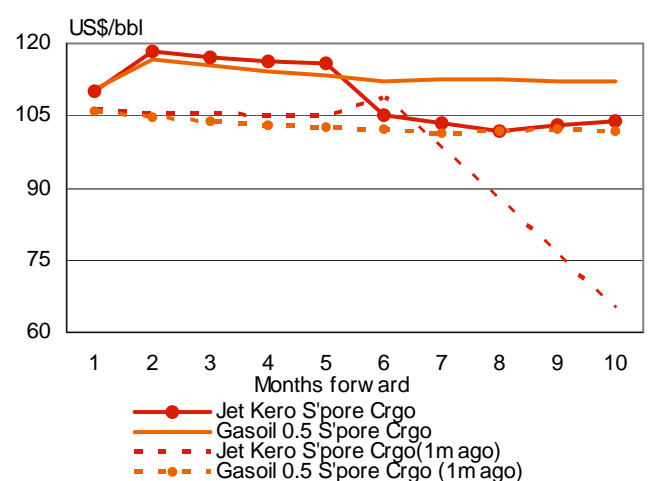
Sources: NYMEX; Standard Bank Group

European product futures



Sources: NYMEX; Standard Bank Group

Asian product futures



Sources: NYMEX; Standard Bank Group



Refined products and other futures prices

Futures prices							
	Unit	Today	1 day ago	2 days ago	3 days ago	4 days ago	5 days ago
Crude							
NYMEX WTI	US\$/bbl	100.88	99.48	98.96	98.53	100.74	100.01
ICE Brent	US\$/bbl	97.41	96.82	97.52	97.61	-	95.03
Dated Brent	US\$/bbl	100.23	99.65	97.92	97.07	96.29	98.57
Dubai 1st month	US\$/bbl	95.11	92.68	92.89	90.96	93.20	92.49
Urals CIF 1st month	US\$/bbl	95.02	93.34	92.66	-	-	-
Tapis blend 1st month	US\$/bbl	101.79	100.07	100.00	98.55	99.95	99.20
Malaysia 1st month	US\$/bbl	99.79	100.23	98.58	100.80	100.48	98.52
OPEC basket	US\$/bbl	94.09	92.62	92.62	93.97	94.23	92.64
Refining margins (netback)							
USGC cracking (WTI)	US\$/bbl	109.62	109.59	108.70	97.19	109.61	109.77
NEW cracking (Dated Brent)	US\$/bbl	100.77	99.43	99.76	100.94	100.69	101.06
Singapore cracking (Dubai)	US\$/bbl	92.52	92.54	92.05	93.78	92.36	90.76
Products							
1% LSFO fob ARA barges	US\$/mt	492.00	492.00	465.00	493.00	493.00	493.00
3.5% Fuel fob ARA barges	US\$/mt	442.00	442.00	439.00	440.00	447.00	446.00
HSFO180 Singapore cargo	US\$/mt	490.00	481.00	485.00	486.50	495.50	492.50
HSFO380 CST4% Singapore cargo	US\$/mt	478.75	472.00	475.00	476.25	486.00	482.50
Jet Kerosene CIF NWE Cargo	US\$/mt	977.25	973.75	966.50	953.00	974.00	973.00
Gasoil 0.2 cif Med Cargo	US\$/mt	899.25	895.75	898.50	894.00	897.00	895.00
Jet Kerosene Singapore Cargo	US\$/bbl	929.25	926.75	924.50	916.00	921.00	918.00
Gasoil 0.5 Singapore cargo	US\$/bbl	116.85	115.15	115.60	113.85	117.35	115.55
Other energy							
NYMEX Natural Gas	US\$/mmbtu	9.19	9.21	9.19	9.15	-	8.97
ICE UK Natural Gas	GBP/mmbtu	52.30	51.60	52.45	50.65	49.80	49.70
Forex (against US\$)							
EUR		1.5068	1.4975	1.4830	1.4828	1.4814	1.4714
JPY		106.39	107.28	108.07	107.17	107.40	108.12
GBP		1.9908	1.9872	1.9674	1.9669	1.9628	1.9417
CAD		0.9769	0.9815	0.9962	1.0130	1.0113	1.0129

Source: Bloomberg



Coal

The upward trajectory in coal prices remains in place although prices experienced a loss in momentum. At the time of writing, API2 for delivery in March was bid at \$144.35 a ton. API4 for delivery in March was bid at \$115.6 a metric ton. Newcastle FOB and Richards bay FOB were priced at \$135 and \$113.9 respectively.

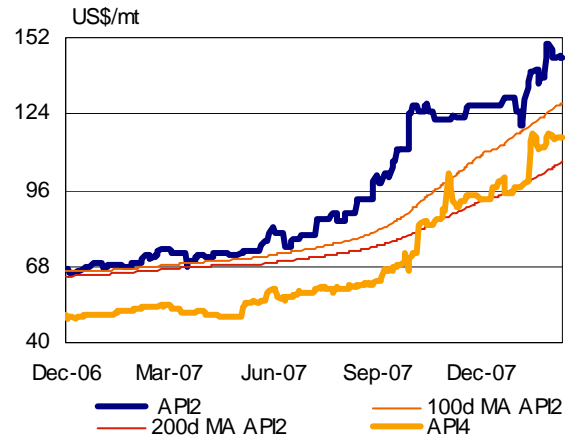
Continued supply disruptions in Australia and power concerns in South Africa should give near-term support to prices. Prices have also been supported by rising shipping costs as the Baltic Dry index rose a further 0.2% this week (a third consecutive rise). This recovery comes after a large fall from the highs reached late last year. The rise in the index also signals possible increased trade volumes on shipping routes. That said, the recent rise in shipping costs may not be indicative of a resurgence in global economic growth as the recent halt in Chinese coal exports could be forcing some Far Eastern countries to import coal from non-traditional markets, artificially raising trade volumes. The export halt on coal is expected to continue until April this year.

In China, reports from the Work Safety Agency indicate that the supply squeeze in the domestic coal market is easing amid rapid reconstruction projects in regions badly affected by the recent snowfalls. Coal reserves at power stations that fall under the rule of the State Grid Corporation have risen to 27.58 million tons (equivalent to 14 days' supply). National reserves are at 36 million tons. Further, reports also indicate that January coal output rose 3.2% to 177.63 million tons, as government efforts to deal with infrastructural damage boosted a rise in coal transportation. Coal transported by rail increased 7.7%. With decreased strain to local power generation, these developments should nullify expectations of a permanent coal export halt, which should ease the global coal supply problems. This could be viewed as a preemptive factor for a thermal coal price correction in April (As China reopens its export channels). However, we believe thermal coal demand will remain supported by rising European demand and rapid economic development in India.

In Australia, disruptions to the supply grid, due to heavy storms in Queensland, caused a 46% decline in export volumes at the Newcastle terminal. This eased congestion and resulted in a small downward correction in prices after the recent rally. We expect Newcastle thermal coal spot prices to rise as the terminal approaches full capacity utilization.

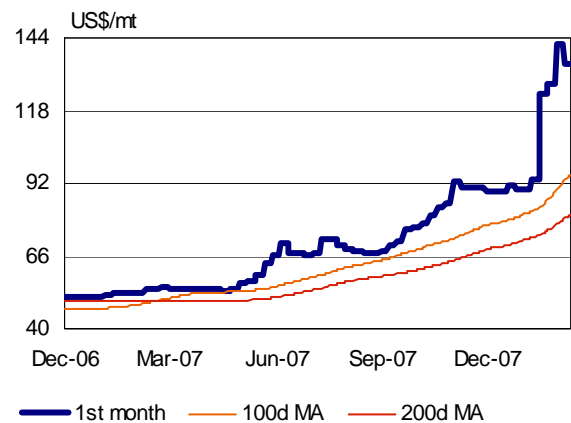
In South Africa, power utility Eskom's plans to import 45 million tons of coal are in place (with funding from the National Treasury). Richards Bay prices remain supported by an EU economy that has been remarkably resilient in the face of a US economic slowdown.

Price — API Index 1st month



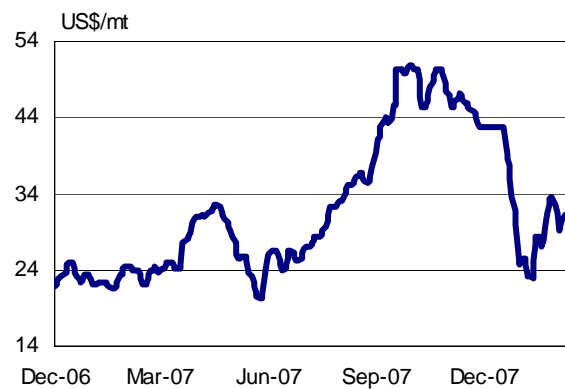
Sources: The McCloskey Group Ltd; Standard Bank Group

Price — globalCoal Newcastle Index 1st month



Sources: The McCloskey Group Ltd; Standard Bank Group

Price — C4 spot

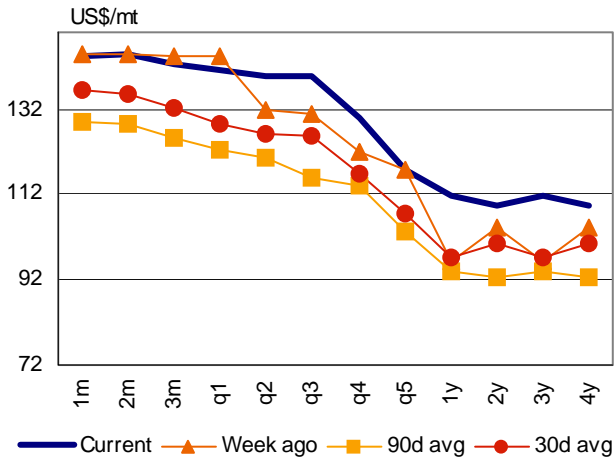


Sources: Baltic Exchange; Standard Bank Group



Coal (continued)

API2 Index forward curve



Sources: The McCloskey Group Ltd; Standard Bank Group

Coal shipment at Newcastle and Richards Bay

Coal terminal activity (mt)

Newcastle (week ended 25 January 2008)

Total tonnes shipped for the week	1,099,757
Shipped so far this month	5,549,689
Projection for the month	7,600,000
Coal stock on hand (Carrington)	205,447
Coal stock on hand (Kooragang)	1,152,155

Richards Bay (January)

Coal received	5,078,568
Coal shipped	3,567,984
Coal stock at end of month	2,642,842

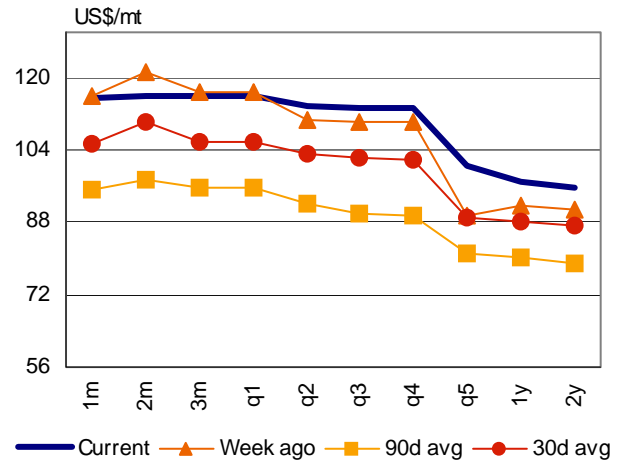
Sources: NPC; RBCT

Coal forward prices

26-Feb-08	API2	API4	Implied freight	gC Newcastle
Feb 08	143.00	113.25	29.75	129.25
Mar-08	144.50	116.00	28.50	128.50
Apr-08	142.65	116.40	26.25	127.00
Q2 08	141.95	116.00	25.95	125.00
Q3 08	140.70	114.45	26.25	118.00
Q4 08	140.30	113.85	26.45	114.80
Q1 09	139.55	113.80	25.75	113.50
Cal 09	130.85	106.10	24.75	105.20
Cal 10	119.35	100.45	25.40	98.50
Cal 11	112.25	97.35	21.55	95.50
Cal12	110.50	96.00	17.15	92.60

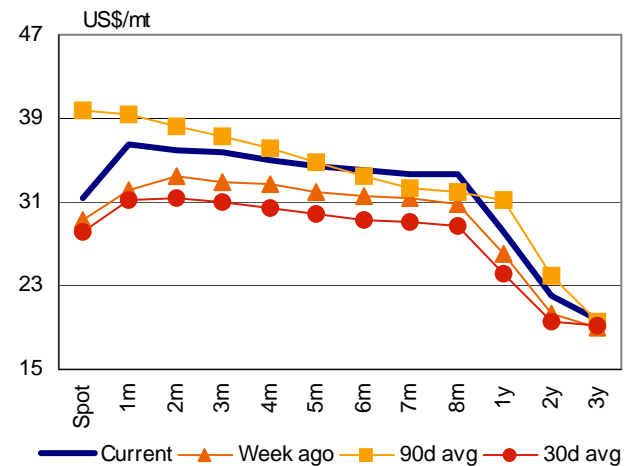
Sources: TullettPrebon; globalCoal; Standard Bank Group

API4 Index forward curve



Sources: The McCloskey Group Ltd; Standard Bank Group

C4 forward curve



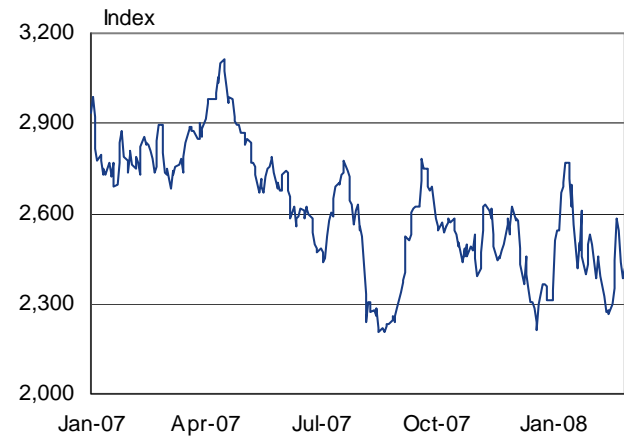
Sources: Baltic Exchange; Standard Bank Group



Trade idea: long gold, short SA gold equities

- Power problems are hampering gold producers in South Africa.
- 10% less electricity at miners' disposal translates into a production loss of more than 10%. Although South African mines are major producers of gold, production declines should affect the gold price only marginally in the short term (relative to other factors such as US dollar weakness).
- Gold miners, such as Gold Fields, face the dilemma of closing certain mines and shafts to keep costs under control — failing which, earnings could be affected negatively.
- Unfortunately, the National Union of Mineworkers has already indicated that it would consider a strike should lay-offs take place because of power cuts. This will impair production even further.
- Also, mining fatalities could lead to yet more production stoppages.
- Gold miners in South Africa are between a rock and a hard place. In the short- to medium term, we foresee continued downward pressure on South African gold miners' share prices.
- If gold should rise rapidly, we believe equity prices won't rise by the same margin. However, a decline in the gold price could see equity prices fall more than gold.
- We note that spot gold was fixed at \$937 (PM fix) on February 26th. At the same time, the gold index on the Johannesburg Stock Exchange was trading at 2,399 points.
- This trade could be enhanced by shorting an individual gold mine stock (instead of the index).

JSE gold index



Source: JSE

JSE gold index / spot gold

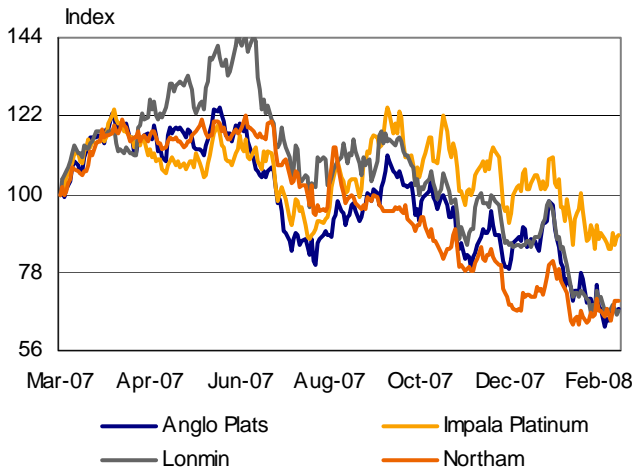


Sources: JSE, Standard Bank Group



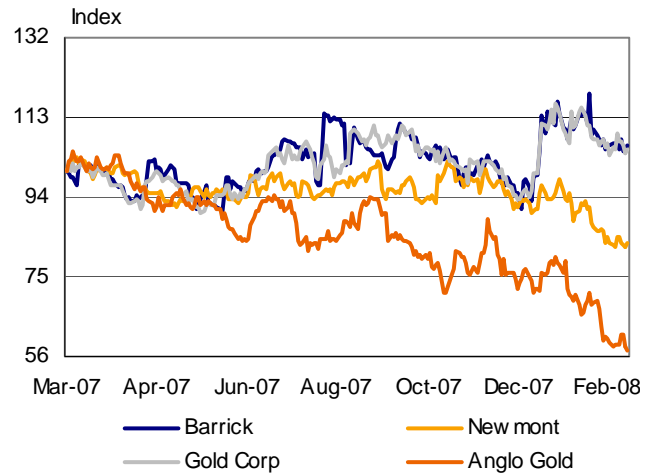
Equity performance

PGM stocks/Platinum price



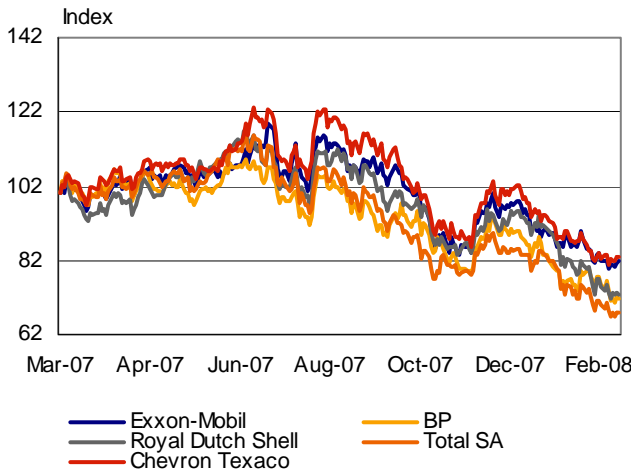
Sources: Bloomberg; Standard Bank Group

Gold stock/Gold price



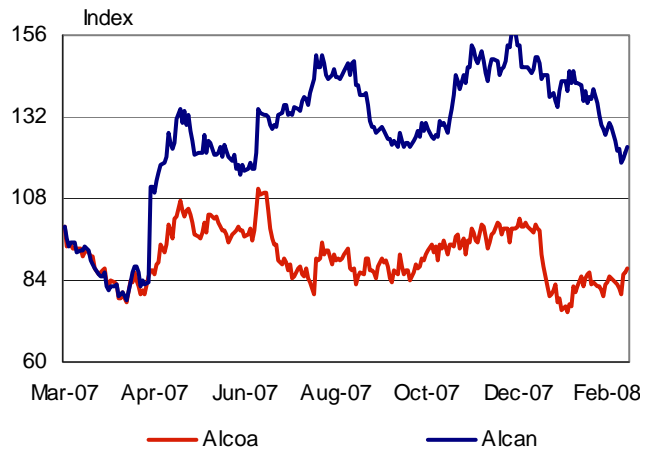
Sources: Bloomberg; Standard Bank Group

Energy stocks/Energy BTU equivalent



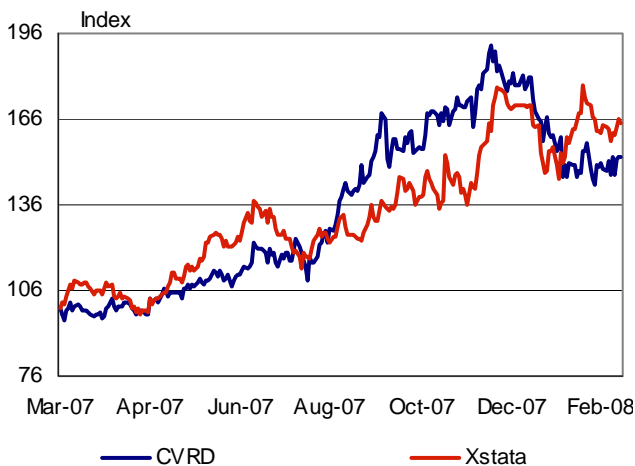
Sources: Bloomberg; Standard Bank Group

Aluminium stocks/Aluminium prices



Sources: Bloomberg; Standard Bank Group

Diversified base metals mining stocks/LMEX Index



Sources: Bloomberg; Standard Bank Group



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