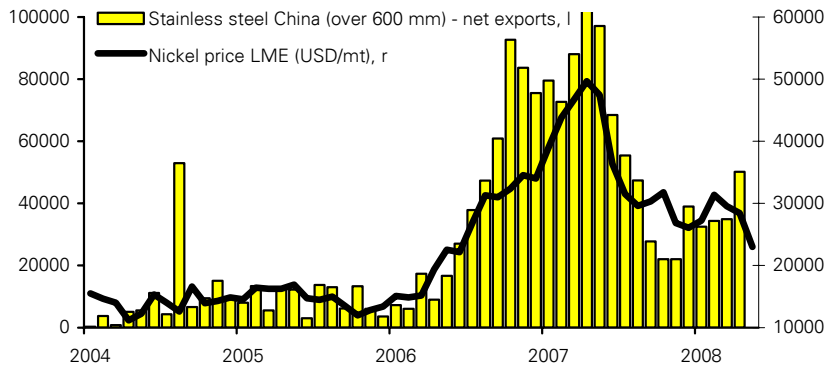



**Economic &
Commodity Research**

Commodities Daily

Change of mood not set to last

Nickel to benefit from strong Chinese stainless steel exports



Sources: Baltic Exchange, Bloomberg, Commerzbank Corporates and Markets

Prices

Energy*	current	1 day	1 week	1 month	1 yr
Brent Blend	128.3	0.5%	-2.9%	10.4%	85%
WTI	128.9	-1.2%	-1.4%	7.2%	95%
Gasoline RBOB	1119.0	0.0%	-0.9%	11.9%	45%
Gasoil	1258.8	-1.3%	-0.9%	14.6%	108%
Diesel	1317.3	-1.6%	-0.1%	12.7%	107%
Jet fuel	1370.8	-1.2%	-2.1%	11.8%	103%
Natural gas	11.8	0.2%	4.0%	4.8%	55%

Industrial metals**

Aluminium	2997	-0.7%	-0.7%	-1.2%	7%
Copper	8190	-0.3%	-1.9%	-5.6%	13%
Lead	2055	-1.7%	-6.9%	-26.9%	-9%
Nickel	23300	-1.7%	-11.9%	-21.8%	-51%
Tin	24200	-0.6%	1.6%	0.6%	73%
Zinc	2151	-2.4%	-7.7%	-8.9%	-42%

Precious metals***

Gold	909.1	-0.3%	-2.4%	1.4%	38%
Silver	17.5	-0.3%	-2.7%	2.3%	35%
Platinum	2129.0	-1.6%	-4.3%	6.4%	65%
Palladium	440.3	0.4%	-2.6%	1.0%	20%

Agriculturals*

Wheat	759.0	-0.8%	-3.9%	-8.8%	50%
Corn	598.0	-1.0%	0.4%	-1.3%	57%
Soybeans	1347.8	0.8%	2.1%	5.9%	67%
Sugar	10.1	0.5%	-4.8%	-4.3%	7%
Coffee	132.0	0.6%	-2.9%	-0.5%	18%
Cocoa	2590.0	0.4%	-0.1%	-9.2%	35%

* 1-month forward, ** 3-month forward, *** spot

Inventory data

Energy*	current	1 day	1 week	1 month	1 yr
Crude oil	320442	-	-1.6%	2.2%	-7%
Gasoline	209413	-	-0.4%	-2.9%	6%
Destillates	4344	-	-0.2%	7.8%	4%
Jet fuel	107790	-	0.7%	1.6%	-10%
Natural gas	1614	-	5.6%	28.0%	-17%

Industrial metals**

Aluminum LME	1072300	0.1%	1.0%	2.8%	29%
Aluminum COMEX	10924	0.0%	0.0%	-4.8%	-43%
Aluminum Shang.	185917	-	-1.0%	0.5%	535%
Copper LME	125800	1.1%	2.6%	14.0%	-6%
Copper COMEX	11027	1.9%	5.9%	1.9%	-63%
Copper Shanghai	45586	-	-11.5%	-18.9%	-54%
Lead LME	63575	0.0%	-1.4%	13.8%	36%
Nickel LME	48504	-0.1%	-1.6%	-6.3%	551%
Tin LME	7435	0.1%	-1.8%	-4.7%	-14%
Zinc LME	135650	5.4%	5.8%	5.5%	75%
Zinc Shanghai	69130	-	-0.7%	-2.4%	-

Precious metals***

Gold	7586540	0.0%	0.1%	-1.7%	-1%
Silver	135074	0.9%	1.0%	-0.2%	2%
Platinum	1068	0.0%	0.0%	0.0%	63%
Palladium	4608	-0.2%	-0.4%	-2.1%	-29%

*'000 barrels (DOE), ** metric tons, *** gold – oz., silver – '000 oz.

Energy: The mood on the oil market changed yesterday, with fears suddenly predominating that demand could slump in response to the market high. As a result, oil lost over \$3, retreating to just under \$129 a barrel. With the US summer driving season beginning, there is concern about poor consumer confidence. Moreover, Sinopec, one of the Top 3 Chinese oil companies, reported severe losses from refining crude to produce gasoline and other products, drawing attention to the limits to which energy prices can be subsidised. Since refineries have to buy crude oil at a high price – Sinopec's own oil production accounts for less than 20% of its refinery utilisation – but sell the resulting products cheaply on the strictly regulated domestic market, the outcome is an alleged loss of at least 3,000 yuan (\$435) per ton of diesel or gasoline according to Sinopec's officials. The Chinese government pays out subsidies to refineries, 7.1b yuan (more than \$1bn) going to Sinopec April alone. Last year's subsidies to Sinopec amounted to 4.9bn yuan only. However, the subsidy paid at an oil price of more than \$100 a barrel amounts on average to 600 to 700 yuan, which is not enough to make up for the losses incurred at present. In the medium term, the government would have to raise either its subsidies or the prices of oil products. In its latest monthly report, the IEA estimates that this year's subsidies could total as much as \$45bn, even though they are based on lower assumed oil price than the current spot price. A litre of gasoline currently costs only 40 euro cents in China. The last time the price was raised was in November. Taiwan has already yielded to pressure, though, and is to raise gasoline prices 13% today. It is the first increase since November, when the Taiwanese government capped gasoline and diesel prices in order to rein in inflation.

However, in our view the relief expressed at oil prices retreating is premature, as this is likely to be just a phase of consolidation within an intact upward trend. What could be described as normal scope for a correction would take it as far as \$125 a barrel. US inventory data are not due out until tomorrow on account of today's public holiday.

Precious metals: Yesterday was a black day for precious metals too. As oil fell and the dollar firmed, gold shed \$25 per Troy ounce, dropping back to \$905. We see it moving more or less sideways over the next few months within a range of \$850 to \$950. At latest in the fourth quarter, prices should pass the \$1,000 mark once more as physical demand picks up again. The China Gold Association has today announced the discovery of five large goldfields. The biggest deposit, at Yangshan in the Gansu province, is said to amount to as much as 308 tons. Gold production in China remains highly dynamic, and the country has overtaken South Africa to become the world's number one producer.

Base metals: The LME copper market is highly concentrated at present, with over 90% of LME warrants held by one player, exposing prices to sudden volatile upsets. Work has been resumed at El Teniente mine in Chile after flooding from heavy rain closed it down for two days. In addition, Codelco has announced that there is no need to close down its Salvador mine early on account of serious damage. We expect the copper price to correct under \$8000 in the coming weeks.

Nickel continued its slide yesterday, dropping back to under \$23,000 a ton. This was in line with what we expected, and we do not envisage it retreating much further now. For one thing, Chinese stainless steel exports have rallied a little, and INSG figures reveal a slight drop in the nickel surplus.

The IAI reports that global stocks of unprocessed aluminium amounted to 1.6 million tons at the end of April, 38 thousand fewer than at the end of March.

Eugen Weinberg

+49 69 136 43417

Eugen.Weinberg@commerzbank.com

Barbara Lambrecht

+49 69 136 22295

Barbara.lambrecht@commerzbank.com

Additional information available on request

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Commerzbank Corporates & Markets

Frankfurt

Commerzbank AG

DLZ - Gebäude 2, Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt

Tel: + 49 69 136 44440

Fax: + 49 69 136 40357

London

Commerzbank AG

London Branch

60 Gracechurch Street,
London
EC3V 0HR

Tel: + 44 20 7653 7000

Fax: + 44 20 7653 7400

New York

Commerzbank Capital

Markets Corp.

2 World Financial Center, 31st floor
New York,
NY 10281-1050

Tel: +1 212 703 4000

Fax: +1 212 703 4201