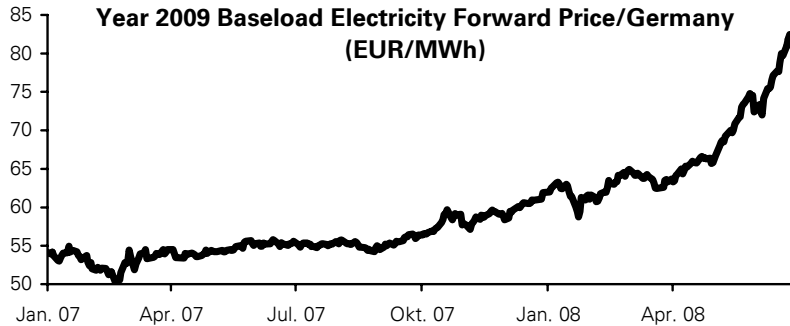



**Economic &
Commodity Research**

Commodities Daily

Contango returns to the oil market

Energy prices in Germany: The trend is (not) your friend!

Sources: GFI Group, Bloomberg, Commerzbank Corporates and Markets

Energy: The front end of the forward curve for WTI crude has returned to contango again, meaning that the forward prices for WTI contracts with a maturity up to May 2009 are now higher than the futures next due. In the same way as backwardation of the forward curve is a sign of a shortage, contango implies ample supply and high inventories. The situation on the physical market is relatively relaxed at the moment in our view. Saudi Arabia's announced expansions of output and sluggish demand recently – according to MasterCard advisors, the demand for US gasoline dropped again by 2.7% last week – should continue to ease markets. The resumption of work on the Bonga platform off Nigeria, shut down last week because of rebel attacks, should also play a role. At the same time, Iran is now trying to find another supertanker to add to the 15 supertankers already hired, with a capacity of up to 30 million barrels of oil. The ships are evidently required for temporary storage as stocks on land are no longer sufficient to store Iranian crude oil that cannot be refined at present. We believe financial investors' actions are also responsible for the unusual shape of the oil curve recently, as they are mainly focusing on the front end of the curve.

Another decline in crude oil stocks in the USA is expected this afternoon, which would be the sixth in succession. This could support the price of oil, despite the fact that inventory declines are normal for this time of year. Consensus anticipates no change in petrol stocks, and a rise of 2 million barrels for distillates. A further positive factor for oil is the mounting geopolitical tensions with Iran; the European accounts of Iran's state bank Mellis have been frozen following the new UNO resolution. Rumours of an attack on Iran's nuclear facilities have been denied by the Israeli and US military.

The huge rise in oil, gas and coal prices has strongly propelled energy prices worldwide. In China, the government had to give way to enormous cost pressure last week and increase electricity prices. And the forward prices for Germany's electricity in 2009 have also risen by nearly 30% since the start of the year.

Precious metals: The consultancy firm CPM expects the global mining output of platinum to fall this year by 2.7%, while demand should increase by 3.2%. Even so, the market should show a surplus, albeit an insignificant one. CPM anticipates a strong rise in the demand for palladium by 5.2% to 8.4 million ounces, while this market should also show a small surplus. We believe the effect of energy shortages and the strong rise of costs in South Africa, the largest producer of platinum metals, are being underestimated.

The largest silver ETF, iShares Silver Trust, has posted an outflow of 3 million ounces or around \$50 million in the last few days. We believe precious metal prices will show a volatile sideways trend in the next two to three months and will only advance again from September. We expect moderate positive impulses for this sector from the Fed's meeting today, as a rate hike remains unlikely, while the risks of stronger inflation should be mentioned. This climate is attractive for precious metal investments.

Base metals: Base metals remained weak across the board yesterday, with nickel, lead and zinc trading close to the several-month low after retreating by around 25% since the start of the year. We regard the price slide of these metals as exaggerated and expect stabilisation soon.

The outcome of price negotiations between Rio Tinto and China's largest steel producer, Baosteel, is surprisingly high, at an increase of 96% for fine ore year-on-year. The tight schedule was evidently a factor, as the negotiations had to be concluded by 30 June. Otherwise, Australian iron ore producers could offer their ore at the spot price, which is even higher. The higher increase in the price of Australian ore compared to Brazilian ore is mainly due to the cheaper freight costs. The world's largest commodities company, BHP Billiton, is widely expected to agree to the same price rise. The strong growth in the demand for steel in Asia is being dampened slightly by the slowdown in the USA. As the American Institute for Iron and Steel reports, US steel imports fell in May by 18% to 2.45 million tons.

Prices

Energy*	current	1 day	1 week	1 month	1 yr
Brent Blend	136.5	0.1%	0.2%	3.9%	91%
WTI	137.0	0.1%	0.3%	3.7%	98%
Gasoline RBOB	1164.0	-0.9%	0.3%	4.4%	53%
Gasoil	1239.3	0.2%	2.4%	-3.2%	100%
Diesel	1264.5	0.0%	-0.2%	-5.4%	94%
Jet fuel	1328.5	0.2%	1.4%	-5.4%	91%
Natural gas	13.0	0.0%	-1.5%	9.7%	87%

Industrial metals**

Aluminium	3100	-0.1%	0.2%	3.2%	14%
Copper	8350	0.3%	1.6%	2.3%	12%
Lead	1825	-0.3%	-2.2%	-9.4%	-33%
Nickel	21500	1.0%	-5.5%	-9.9%	-44%
Tin	22700	-0.2%	0.9%	-4.6%	61%
Zinc	1899	0.1%	-4.5%	-11.6%	-46%

Precious metals***

Gold	888.8	0.0%	-0.1%	-3.8%	36%
Silver	16.7	-0.3%	-3.6%	-7.8%	29%
Platinum	2023.5	-0.3%	-3.5%	-7.1%	57%
Palladium	466.5	-0.3%	-0.6%	3.3%	26%

Agriculturals*

Wheat	870.0	0.3%	-3.5%	15.9%	48%
Corn	712.5	0.4%	-4.2%	19.2%	100%
Soybeans	1501.0	0.1%	-3.4%	9.9%	87%
Sugar	11.7	-1.3%	4.5%	15.5%	26%
Coffee	143.8	1.4%	4.9%	8.8%	
Cocoa	3191.0	1.2%	7.7%	25.3%	65%

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

Inventory data

Energy*	current	1 day	1 week	1 month	1 year
Crude oil	300955	-	-0.4%	-7.6%	-14%
Gasoline	208910	-	-0.6%	-0.6%	3%
Destillates	4439	-	-0.8%	2.0%	11%
Jet fuel	116598	-	2.3%	8.9%	-5%
Natural gas	1943	-	3.0%	27.1%	-17%

Industrial metals**

Aluminum LME	1084800	0.1%	1.5%	1.1%	31%
Aluminum COMEX	10924	0.0%	0.0%	0.0%	-43%
Aluminum Shang.	179886	-	-1.9%	-4.2%	702%
Copper LME	123150	0.0%	-0.3%	-1.8%	5%
Copper COMEX	11040	0.0%	0.0%	2.0%	-51%
Copper Shanghai	33417	-	-1.7%	-35.1%	-65%
Lead LME	96750	1.2%	2.0%	51.2%	116%
Nickel LME	46296	-0.9%	-1.5%	-4.9%	413%
Tin LME	6735	-2.3%	-3.9%	-9.1%	-44%
Zinc LME	150025	-0.7%	4.3%	16.6%	105%
Zinc Shanghai	67960	-	-0.5%	-2.3%	-

Precious metals***

Gold	7612071	0.1%	0.1%	0.3%	2%
Silver	135972	0.0%	0.9%	1.6%	0%
Platinum	1068	-0.2%	-0.2%	0.0%	63%
Palladium	4541	0.5%	0.3%	-1.5%	-25%

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

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