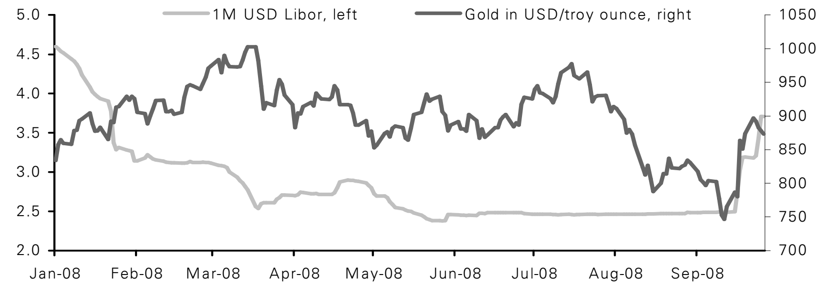
Economic & Commodity Research

Commodities Daily

Waiting for the rescue package

Gold aided by recent tensions in inter-bank trading



Sources: Bloomberg, Commerzbank Corporates and Markets

Energy: Uncertainty as to whether the $700bn US rescue package can be approved before the weekend prompted a retreat by WTI this morning to $105 a barrel. Yesterday, an agreement initially seemed imminent, but a number of conservative Republicans in Congress suddenly rejected the compromise reached and submitted their own proposal. This leaves little time for a decision, as Congress meets for the last time today prior to the election on 4 November. Consequently, oil will no doubt be strongly influenced today by news from Washington on the latest state of play. If an igreement *is* reached, oil should move quickly towards $110. If there are more hold-ups, though, it could test yesterday's low of $103. IEA executive director Tanaka has warned of the negative fallout for the demand for oil worldwide if the US crisis persists. According to the US Department of Energy, average fuel demand in the US over the past four weeks was at its lowest ebb for five years. Concern about a drop in OPEC supplies is perhaps not quite as acute as first assumed. According to estimates provided by Oil Movements, OPEC crude supplies in the four weeks to 11 October are expected to be up 2.2% or 540 thousand barrels a day on the previous four-week period. On a recent visit to China, Venezuelan president Chavez announced plans to increase its oil exports to the country by 25% next year to 500 thousand barrels a day, and raise this to 1 million a day over the next three to four years. According to Chavez, exports to the US won't be suspended. However, it remains to be seen whether Venezuela can meet its commitment, given that its oil production is falling. Current production amounts to 2.44 million barrels of crude a day, according to the EIA, and just over half of this goes to the US.

Precious metals: Gold is currently trading at $870 a Troy ounce, down $20 from yesterday. Profit-taking is probably the explanation for the drop, since prices had risen over 20% since mid-month. The world's biggest gold-backed ETF, SPDR, reports that its gold holdings have shrunk for the first time in two weeks, albeit on a minimal scale of 1.2 tons, or 0.17% of its total volume. The collapse of Washington Mutual, the biggest banking failure in US history, and uncertainty about the administration's rescue package have put pressure on the equity markets this morning, so further gold losses should be limited from here. The business year of the Central Bank Gold Agreement (CBGA) ends today. In 2004, 15 European central banks agreed to sell a maximum of 500 tons of gold p.a., but sales will probably have come nowhere near this limit over the past year. After eleven months, the associated central banks had only sold 319 tons, according to the World Gold Council. The fact that they have scaled down their gold sales could mean a change of mind towards gold, which is good for the price. Yet again, the US Mint has had to suspend the sale of American Buffalo gold coins on account of strong demand and depleted stock levels. Strong physical demand and for gold as an investment should lend further support, so that we expect the price to rise again.

Base metals: There has been little movement here, as these markets too are waiting for the rescue package to be approved. The latest news on the copper market bears out our view that supplies will be expanding rapidly: Japan's Mitsui plans to resume production after 30 years at its Huanzala mine in Peru. Copper was a secondary consideration, the company said, as the mine's main deposits are zinc, but with copper prices so high it was worth producting copper concentrates of some 80 tons a month. In addition, Peru's Energy ministry reports that output at the Antmina mine could be doubled. This is the world's largest copper zinc mine, and the eighth largest copper mine. However, at the same time Australia's Vulcan Resources reports that work at the Kylylathi mine in Finland is being held up by financing difficulties. Nickel remains under pressure: LME inventories rose another 1,500 tons last week to the highest level for nine years. The main problem is weak demand from the stainless steel industry. Industrial sources in China do not envisage a recovery in the last three months of the year. It is also reported that BHP Billiton is reopening its Kalgoorlie nickel smelter in Western Australia, the third largest in the world, after structural alterations. Nevertheless, we view the correction on the nickel market as exaggerated.

Prices

Energy*	current	1 day	1 week	1 month	1 year
Brent Blend	104.6	-2.5%	2.4%	-11.0%	32%
WTI	108.0	-2.5%	0.7%	-9.4%	31%
Gasoline RBOB	899.0	-1.3%	9.4%	-10.0%	27%
Gasoil	968.0	-0.6%	6.1%	-7.1%	39%
Diesel	999.5	-1.7%	3.1%	-5.6%	35%
Jet fuel	1090.5	-3.0%	1.8%	-8.1%	43%
Natural gas	7.7	-0.2%	2.4%	-6.8%	20%
Industrial metals**					
Aluminum	2509	-0.1%	-1.1%	-9.4%	2%
Copper	6930	-0.9%	-2.8%	-9.4%	-14%
Lead	2015	-2.2%	3.7%	6.2%	-43%
Nickel	17075	-0.3%	0.4%	-15.0%	-48%
Tin	17600	0.0%	3.8%	-15.0%	15%
Zinc	1800	-1.1%	0.1%	-0.5%	-40%
Precious metals***					
Gold	877.9	-0.7%	-0.2%	5.6%	20%
Silver	13.2	-0.8%	3.8%	-3.5%	-2%
Platinum	1185.5	-3.5%	0.7%	-19.4%	-15%
Palladium	239.5	0.0%	1.5%	-16.3%	-30%
Agriculturals*					
Wheat	736.3	-0.7%	1.8%	-12.0%	-20%
Corn	558.3	-0.7%	2.2%	-3.7%	48%
Soybeans	1183.0	0.2%	3.7%	-11.4%	20%
Sugar	13.1	-1.1%	10.8%	-8.3%	33%
Coffee	137.6	-0.7%	2.7%	-4.9%	6.3%
Cocoa	2740.0	-0.5%	1.3%	-5.2%	33%
Currencies***					
EUR/USD	1.461	-0.11%	0.88%	-0.42%	3.30%

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

Inventory data

Energy*	current	1 day	1 week	1 month	1 year
Crude oil	290186	-	-0.5%	-5.2%	-9%
Gasoline	178739	-	-3.2%	-9.1%	-7%
Destilates	3258	-	-14.3%	-26.0%	-21%
Jet fuel	125449	-	-3.2%	-5.0%	-8%
Natural gas	3023	-	1.7%	13.9%	-6%
Industrial metals**					
Aluminum LME	1370700	0.1%	2.0%	17.7%	46%
Aluminum COMEX	10924	0.0%	0.0%	0.0%	-39%
Aluminum Shang.	190134	-	-2.4%	-1.8%	185%
Copper LME	200175	-0.2%	-4.6%	19.9%	53%
Copper COMEX	9921	0.0%	14.1%	84.1%	-51%
Copper Shanghai	16130	-	-5.5%	-26.0%	-66%
Lead LME	65700	-1.3%	-5.0%	-24.0%	215%
Nickel LME	54342	1.0%	3.9%	15.4%	71%
Tin LME	6040	2.6%	1.7%	1.5%	-57%
Zinc LME	156500	-0.1%	-0.7%	-3.7%	150%
Zinc Shanghai	71356	-	0.2%	-1.3%	-
Precious metals***					
Gold	8589093	0.0%	-0.7%	1.3%	23%
Silver	135657	-0.3%	-0.8%	-2.3%	1%
Platinum	1059	0.0%	0.0%	0.0%	34%
Palladium	4427	-0.1%	-0.1%	-0.7%	-31%

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

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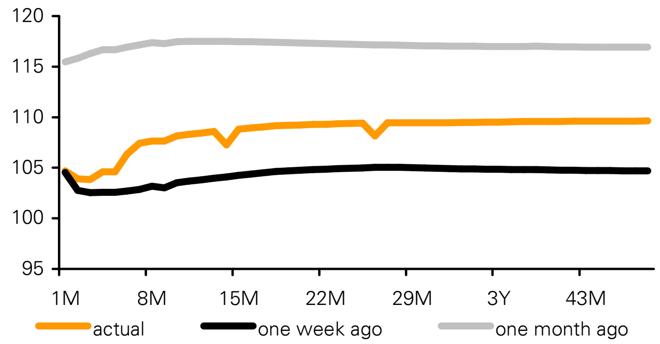
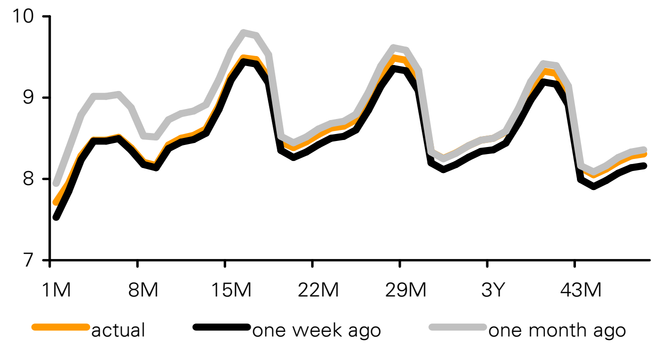
GRAPH1: **Forward curve oil market (WTI)**



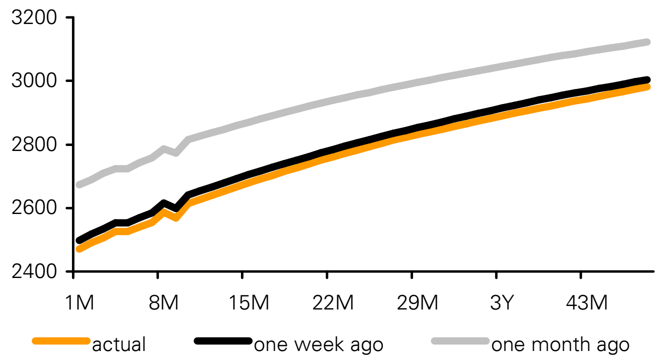
Source: NYMEX; Bloomberg, Commerzbank Corporates & Markets

GRAPH 2: **Forward curve gas market (Henry Hub)**



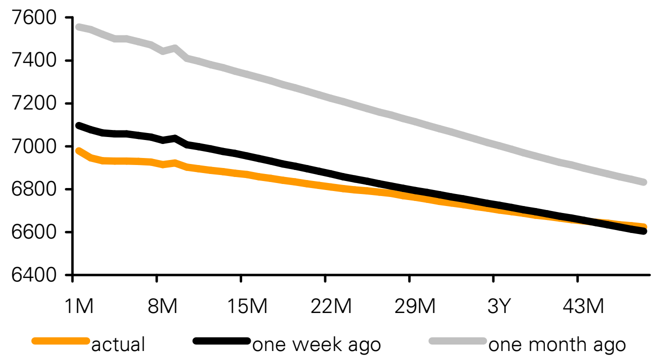
Source: NYMEX, Bloomberg, Commerzbank Corporates & Markets

GRAPH 3: **Forward curve aluminium (LME)**



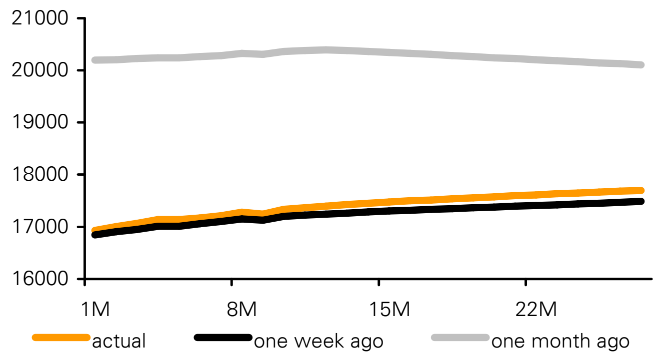
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 4: **Forward curve copper (LME)**



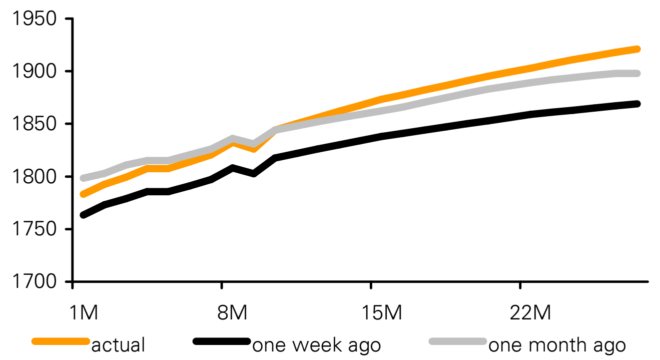
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 5: **Forward curve Nickel (LME)**



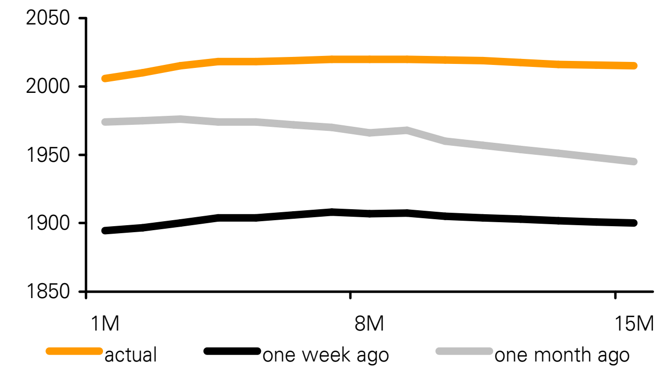
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 6: **Forward curve zinc (LME)**



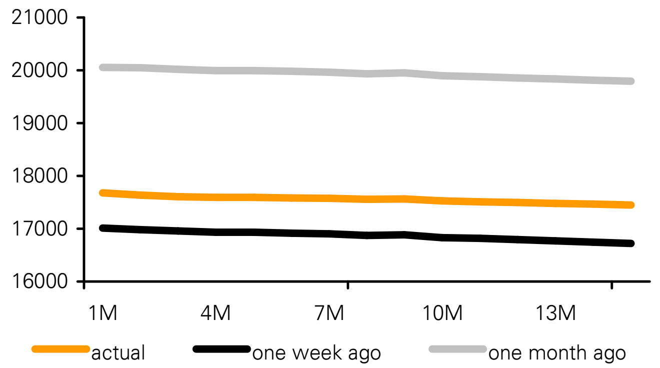
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 7: **Forward curve lead (LME)**



Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 8: **Forward curve tin (LME)**



Source: LME; Bloomberg, Commerzbank Corporates & Markets

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