


**Economic &
Commodity Research**

Commodities Daily

A (nearly) perfect short-term recovery

LME Index vs. Dow Jones: industrial metals in the maelstrom of stock markets



Sources: LME, Bloomberg, Commerzbank Corporates and Markets

Commodities markets are oversold at the moment, having already dropped 44% in value since July's peak, based on the S&P GSCI commodities index. Although we view this merely as a reaction to strong speculative excess before, industrial commodities are still likely to stage a strong price recovery now that equity markets are friendlier again. On Friday, the Dow Jones stock index made a close-to-perfect rebound and initial losses of up to 10% have meanwhile been made up for virtually in full. On Friday and over the weekend, the major industrial states and Eurozone countries agreed on concerted action to tackle the financial crisis, which is certain to help settle commodity markets near term. The persisting medium-term downtrend for commodities is still intact, though, as commodities such as energy sources or industrial metals will be in little demand in a recession.

Energy: The sharp fall in equity markets and concern that the financial crisis will weaken the demand for oil even more put WTI under strong pressure again on Friday. For the first time in a year, the \$80 a barrel mark was broken, when oil prices dipped to a 13-month low. The fact that other industrial commodities such as base metals are already at their lowest level since the end of 2005 shows that crude oil has further correction potential. Even so, we expect oil to make a strong recovery in the next few days, probably beyond \$90 a barrel. The risks on the supply side are still higher than before, with OPEC's likely reaction at the extraordinary meeting in November and the tense situation in Nigeria, Russia, Iran and Venezuela having adverse effects. And the credit and confidence crisis is also to contribute to the tension, not only because projects are being delayed, but also on the back of fears that the crisis will next affect letters of credit. These are used by industrial customers as well as logistics companies for short-term financing, whereby the banks' lack of mutual confidence could also lead to the collapse of global trade if the shippers banks' LOCs are not accepted by other banks. That said, this supply-side risk should be abated by the rescue package and not prevent a medium-term retreat by oil. Indeed, despite the IEA's further downward revision, the agency expects a growth in demand of 690 thousand barrels a day next year, which should prove too optimistic in our opinion. J.D. Power, a leading marketing information services provider, expects light vehicle sales in the USA to fall by a further 3% next year, after probably having plunged this year by 16%, year on year. Growth should weaken dramatically not only in the OECD countries but also in China and India. In the case of China, it should be 9.7% this year, compared to 24.1% last year; in India, the growth rate should drop to as low as 5.1% p.a.

Precious metals: Gold has not really reaped the benefit of the weak financial markets and is trading this morning at \$860, compared to prices of around \$930 again on Friday. The largest Gold ETF, SPDR Gold Trust, has reported further inflows. The fund's volume stands now above 770 tons. The fund is now the 7th largest holder of gold reserves worldwide having larger reserves than the Bank of Japan or ECB. A return of the confidence of financial investors should weigh on gold prices in the short term, but we are still convinced of the safety aspects of gold investments on a medium-term perspective and expect a sustained rise in prices beyond \$900 in the coming months. In contrast, platinum and palladium prices remain caught up in the maelstrom of the emerging recession, which is dragging down the demand for cars and autocatalysts, although prices are unlikely to drop more because of the high production costs.

Base metals: With the exception of aluminium, all non-ferrous metals traded on the LME shed more than 10% at times on Friday. In our view, this sharp price fall reflects the capitulation of financial investors and, in part, the forced liquidation of producers and traders, which is not based on fundamental conditions. Furthermore, rising LME stocks are not necessarily an indication of a market surplus either, but rather a reclassification of existing stocks for short-term liquidation purposes. The signs of medium-term bottoming out are increasing because mining supply should fall sharply in future as new projects are delayed and existing activities are scaled down. This should also mean that commodity prices will recover strongly after the crisis, as projects are not being realised and stocks will be low. In the short term, we expect strong price rises for base metals to follow the sharp losses of the past two weeks.

Prices

Energy*	current	1 day	1 week	1 month	1 year
Brent Blend	74.1	3.9%	-8.0%	-21.1%	-4%
WTI	77.7	4.4%	-7.6%	-19.8%	-3%
Gasoline RBOB	666.0	0.0%	-13.2%	-31.3%	-7%
Gasoil	723.8	1.8%	-11.2%	-21.6%	5%
Diesel	765.8	0.6%	-7.3%	-19.1%	6%
Jet fuel	799.8	0.6%	-8.6%	-22.7%	5%
Natural gas	6.5	2.1%	-2.4%	-9.4%	-4%

Industrial metals**

Aluminum	2215	2.5%	0.9%	-14.8%	-9%
Copper	4790	4.1%	-10.3%	-30.0%	-38%
Lead	1475	4.1%	-6.1%	-20.9%	-60%
Nickel	12175	3.5%	-11.9%	-34.5%	-61%
Tin	14100	2.8%	-10.5%	-25.5%	-12%
Zinc	1450	1.7%	-4.8%	-21.8%	-53%

Precious metals***

Gold	869.9	-0.7%	-0.1%	14.0%	15%
Silver	10.7	0.4%	-4.8%	-0.1%	-22%
Platinum	996.0	-0.5%	1.3%	-17.8%	-30%
Palladium	197.3	1.4%	0.0%	-17.0%	-47%

Agriculturals*

Wheat	563.5	2.8%	-2.7%	-17.7%	-32%
Corn	408.3	2.0%	-1.8%	-23.9%	19%
Soybeans	910.0	2.3%	1.0%	-37.5%	-5%
Sugar	11.2	4.1%	-0.8%	-5.4%	19%
Coffee	115.4	3.4%	4.1%	-11.7%	-14.4%
Cocoa	2244.0	2.0%	-4.6%	-10.2%	25%

Currencies***

EUR/USD	1.346	1.29%	0.77%	-3.98%	-4.06%
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* 1-month forward, ** 3-month forward, *** spot

Inventory data

Energy*	current	1 day	1 week	1 month	1 year
Crude oil	302587	-	2.8%	-0.4%	-5%
Gasoline	186815	-	4.0%	-3.9%	-3%
Distillates	4029	-	9.5%	-10.8%	-3%
Jet fuel	122601	-	-0.4%	-6.9%	-9%
Natural gas	3198	-	2.8%	12.3%	-4%

Industrial metals**

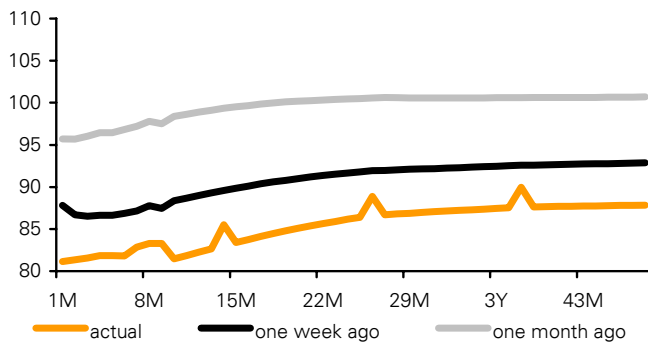
Aluminum LME	1398600	0.2%	0.9%	17.9%	49%
Aluminum COMEX	10924	0.0%	0.0%	0.0%	-38%
Aluminum Shang.	205531	-	8.1%	5.9%	154%
Copper LME	209325	0.0%	5.3%	3.1%	52%
Copper COMEX	9426	-1.4%	-5.0%	74.9%	-52%
Copper Shanghai	25681	-	59.2%	34.4%	-56%
Lead LME	62450	-0.9%	-4.0%	-16.8%	177%
Nickel LME	56280	2.4%	1.5%	10.5%	56%
Tin LME	5520	-1.1%	-1.1%	-1.1%	-59%
Zinc LME	165950	-0.3%	2.5%	4.2%	184%
Zinc Shanghai	72616	-	1.8%	2.6%	-

Precious metals***

Gold	8598189	0.0%	0.0%	0.1%	20%
Silver	134162	-0.5%	-1.7%	-3.2%	1%
Platinum	1058	0.0%	0.0%	-0.1%	34%
Palladium	4295	-0.4%	-0.6%	-3.6%	-32%

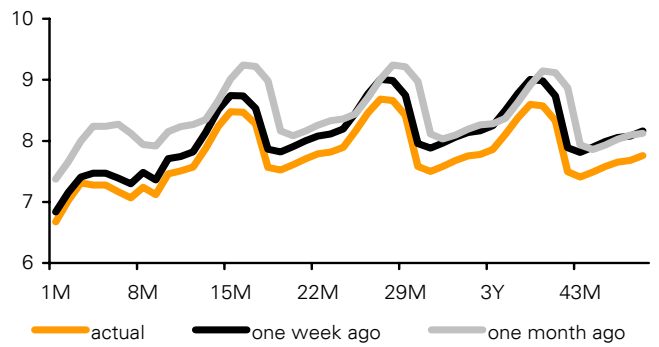
*'000 barrels (DOE), ** metric tons, *** gold – oz., silver – '000 oz.

GRAPH 1: Forward curve oil market (WTI)



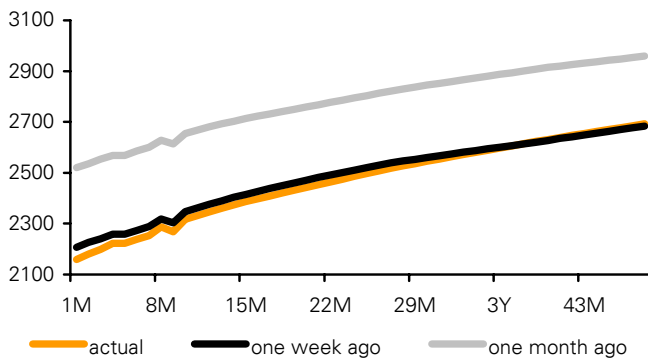
Source: NYMEX; Bloomberg, Commerzbank Corporates & Markets

GRAPH 2: Forward curve gas market (Henry Hub)



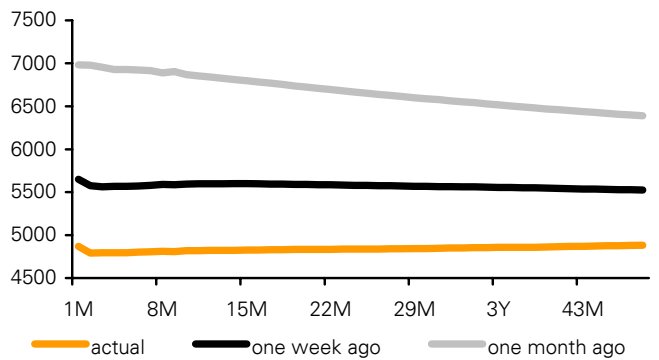
Source: NYMEX, Bloomberg, Commerzbank Corporates & Markets

GRAPH 3: Forward curve aluminium (LME)



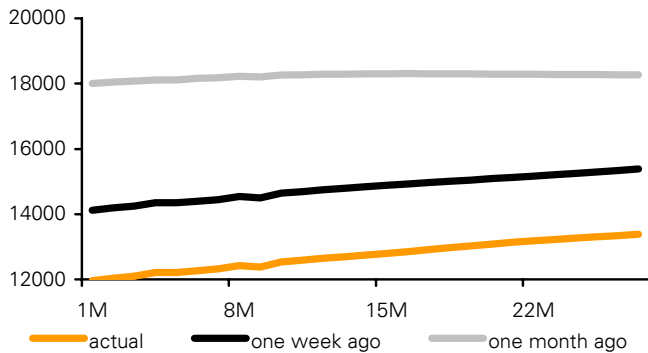
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 4: Forward curve copper (LME)



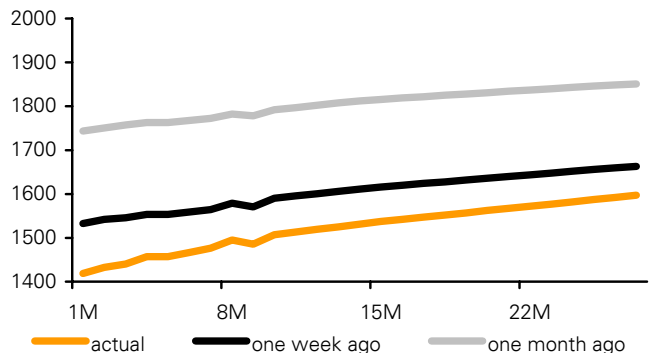
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 5: Forward curve Nickel (LME)



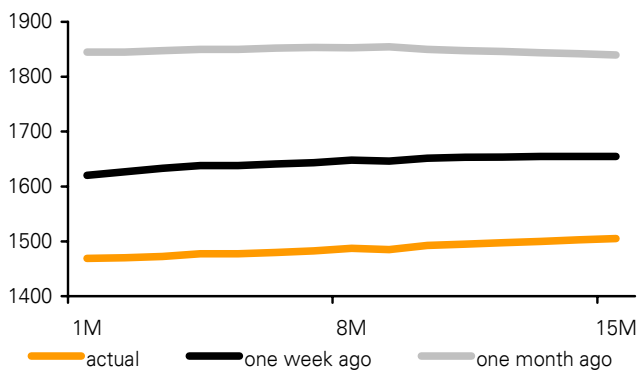
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 6: Forward curve zinc (LME)



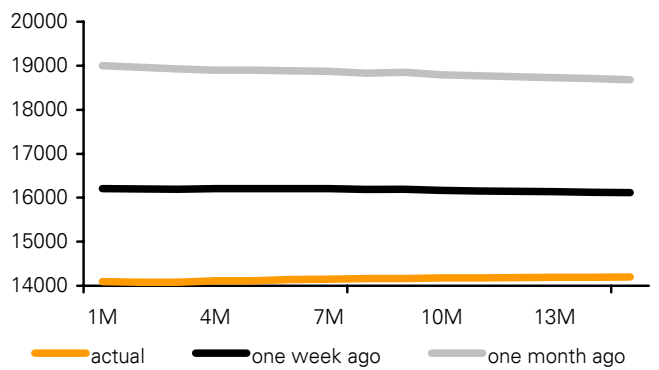
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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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