

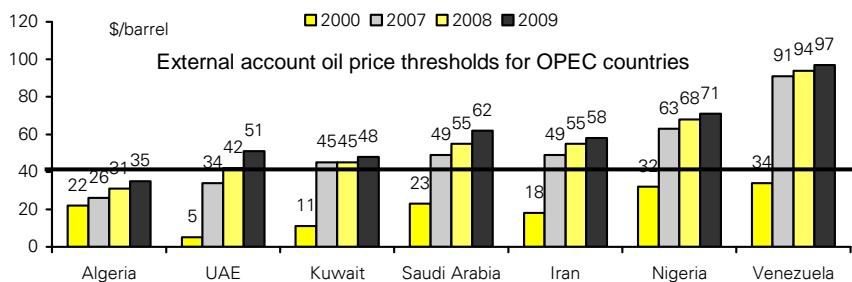


**Economic &
Commodity Research**

Commodities Daily

OPEC – too fast, too furious

OPEC with back to the wall: cheating an increasing probability



Sources: PFC Energy, Commerzbank Corporates&Markets

Energy: In one of our recent studies, we referred to OPEC as a “fair weather world power”, a reference to the limited impact of OPEC negotiations and the lack of cooperation among its members in times of crisis. OPEC has evidently just made a grave error in that it has misjudged current market psychology. First, it drove expectations sky high, and yesterday’s record production cut of 2.2 million barrels a day was the crowning point. On the one hand, OPEC is openly acknowledging the disastrous situation on the oil market, but has also revealed that it is not in a position to control the oil market and is being forced to adopt drastic measures. Moreover, the latest cuts leave the organisation little scope for further reductions. The main question now, though, is who will be willing to implement the cuts as scheduled. And this is OPEC’s Achilles’ heel – it is risking its one remaining trump card, namely its sound reputation as the guardian of the oil market and the credibility it has built up in recent years. To the market, OPEC’s decision is reminiscent of the good old days of the 1980s and 1990s when the generous production cuts announced were simply ignored because in times of falling oil prices each country is tempted to cheat vis-à-vis its fellow members and benefit at others’ expense. OPEC has even called on non-OPEC exporters to join in with production cuts on a scale of 500-600 thousand barrels a day. We are expecting Russia, currently the world’s leading oil producer and exporter, to scale down its exports over the months ahead. Deputy Prime Minister Sechin has said that November daily exports were in fact down 350 thousand barrels, but this merely reflects the country’s inadequate investment, corruption and high export duties. Azerbaijan, which produces over 800 thousand barrels a day, unexpectedly announced yesterday that it was willing to cut this figure by 300 thousand barrels. We expect most of the production cuts to be implemented over the next few months, which should stabilise the market, as demand will not be falling on anything like the scale as supply. Nevertheless, psychological factors will continue to predominate for now.

US WTI crude dipped below \$40 yesterday, its lowest price since July 2004. It was driven down in our view not so much by OPEC’s announcement as by the US inventory figures announced. According to the DoE, crude stocks at Cushing, Oklahoma, the trading hub for WTI, have risen 4.7 million barrels or 21%. Our theory is borne out by the futures price for Brent still being above \$45. While we see current price levels as highly attractive, it is evidently still too early for the market to stabilise, especially since in technical terms there is not inconsiderable downward potential.

Precious metals: The volume of the biggest gold ETF, SPDR Gold Trust, has hit another record, rising yesterday by 6 tons to 775.33. Investors’ demand is thus still a main source of support here, in contrast with other commodities. Platinum prices too have risen and are currently somewhat higher than gold, despite all the bad news from the car industry. We expect production cuts announced by leading producers Anglo Platinum, Impala, Lonmin and Aquarius to have a positive impact on prices in the longer term.

Base metals: LME aluminium stocks rose by a massive 99 thousand tons yesterday, and since September alone have soared by over 870,000 tons or 75% to the highest level since 1994. However, we see this not as a giant surplus but as the return of stocks previously held outside the LME system. Century Aluminium has announced the closure of a potline and is to curtail the production at its Ravenwood smelter in West Virginia with an annual capacity of 170.000 mt completely in 60 days’ time if the LME aluminium price has not stabilised by then. India’s Madras Aluminium has halted production, and Canada’s aluminium diecaster Burlington Technologies is shutting down its Alumetco works in Ontario. Rio Tinto Alcan no longer wishes to have a stake in the aluminium complex in Saudi Arabia, merely a partner. In our view, the risks on the aluminium market have already been adequately priced in, and we expect prices to stabilise even though there is more bad news on the cards from the US “big three” – Ford, GM and Chrysler.

Prices

Energy*	current	1 day	1 week	1 month	1 year
Brent Blend	45.5	-0.2%	-4.1%	-12.4%	-50%
WTI	40.1	0.3%	-16.2%	-26.1%	-56%
Gasoline RBOB	342.0	2.3%	9.7%	-17.1%	-56%
Gasoil	470.3	-1.9%	7.5%	-17.0%	-43%
Diesel	485.8	-0.9%	-0.5%	-18.1%	-42%
Jet fuel	494.8	-0.9%	-0.1%	-20.0%	-43%
Natural gas	5.6	-0.4%	-0.1%	-14.1%	-22%

Industrial metals**

Aluminum	1510	-1.0%	-4.3%	-22.0%	-38%
Copper	3020	-1.9%	-10.8%	-21.0%	-54%
Lead	985	1.1%	-2.4%	-23.4%	-59%
Nickel	9805	1.5%	-10.5%	-7.4%	-62%
Tin	11050	0.5%	-8.3%	-14.9%	-31%
Zinc	1100	-0.9%	-1.4%	-11.3%	-53%

Precious metals***

Gold	865.8	-0.1%	4.0%	16.9%	8%
Silver	11.5	-1.0%	8.0%	18.1%	-19%
Platinum	861.0	0.9%	2.8%	4.1%	-42%
Palladium	177.0	1.0%	-1.9%	-16.8%	-50%

Agriculturals*

Wheat	557.5	0.4%	13.9%	5.6%	-41%
Corn	389.5	-0.4%	14.8%	2.1%	-10%
Soybeans	864.0	-0.1%	0.8%	-4.3%	-25%
Sugar	11.7	0.5%	0.9%	-0.1%	9%
Coffee	109.6	0.8%	1.9%	0.0%	-15.1%
Cocoa	2569.0	1.8%	9.8%	23.6%	25%

Currencies***

EUR/USD	1.436	0.10%	7.38%	13.39%	-0.27%
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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	321289	-	0.2%	3.0%	8%
Gasoline	203959	-	0.6%	3.0%	-1%
Distillates	4617	-	-0.8%	5.6%	7%
Jet fuel	133523	-	2.3%	4.0%	3%
Natural gas	3291	-	-2.0%	-3.6%	0%

Industrial metals**

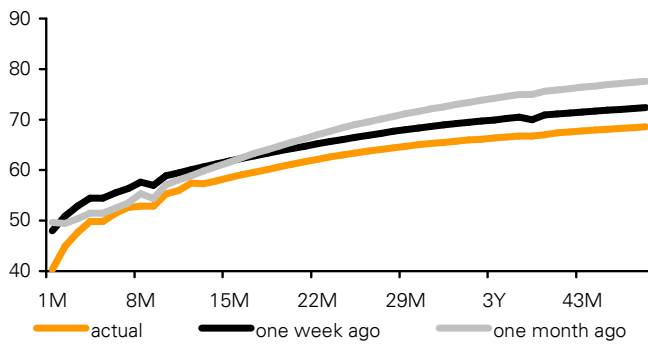
Aluminum LME	2041825	5.1%	7.7%	26.7%	120%
Aluminum COMEX	10924	0.0%	0.0%	0.0%	-36%
Aluminum Shang.	205933	-	1.4%	0.9%	113%
Copper LME	321900	1.0%	6.0%	16.7%	66%
Copper COMEX	24487	5.9%	33.8%	117.6%	54%
Copper Shanghai	16297	-	-17.3%	-33.9%	-38%
Lead LME	43975	-0.3%	0.3%	0.1%	5%
Nickel LME	70722	1.0%	6.8%	17.6%	51%
Tin LME	6530	32.3%	40.0%	90.4%	-48%
Zinc LME	232300	0.0%	5.5%	26.3%	204%
Zinc Shanghai	67064	-	-0.1%	-6.9%	-

Precious metals***

Gold	8540301	-0.2%	0.1%	5.2%	16%
Silver	127170	0.2%	-0.3%	-1.4%	-5%
Platinum	1043	0.0%	-1.6%	-2.4%	8%
Palladium	4274	0.0%	-0.1%	-0.5%	-31%

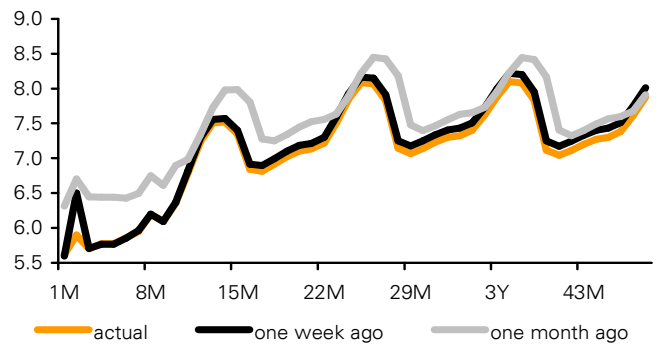
*'000 barrels (DOE), ** metric tons, *** gold – oz., silver – '000 oz.

GRAPH 1: Forward curve oil market (WTI)



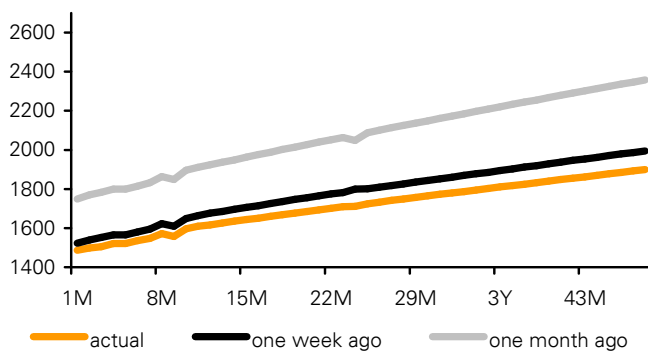
Source: NYMEX; Bloomberg, Commerzbank Corporates & Markets

GRAPH 2: Forward curve gas market (Henry Hub)



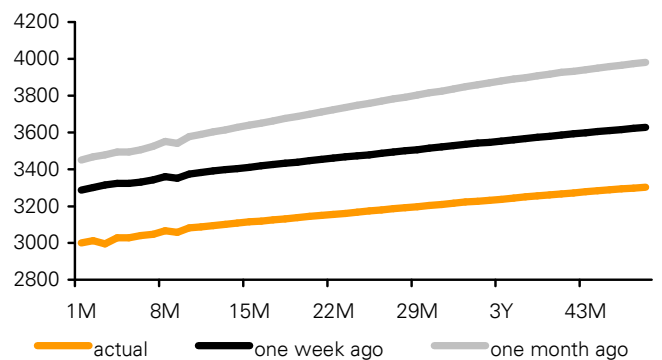
Source: NYMEX, Bloomberg, Commerzbank Corporates & Markets

GRAPH 3: Forward curve aluminium (LME)



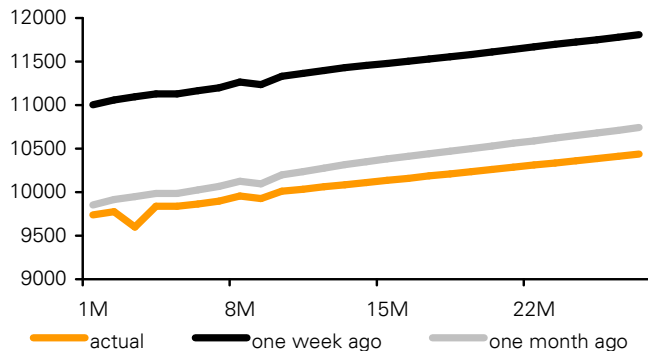
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 4: Forward curve copper (LME)



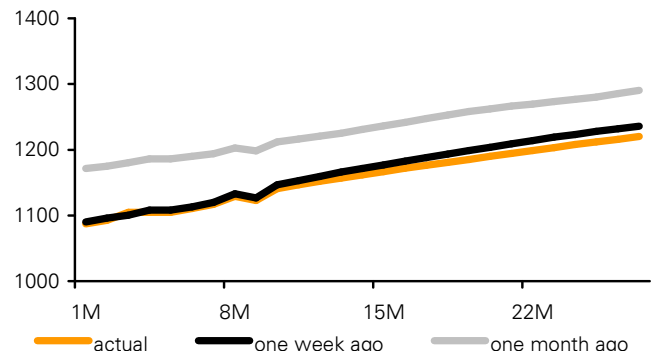
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 5: Forward curve Nickel (LME)



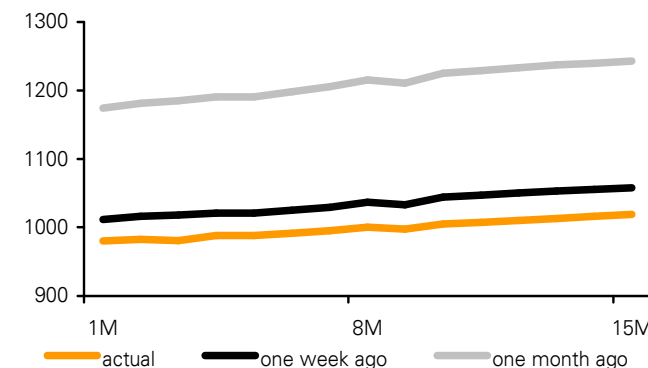
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 6: Forward curve zinc (LME)



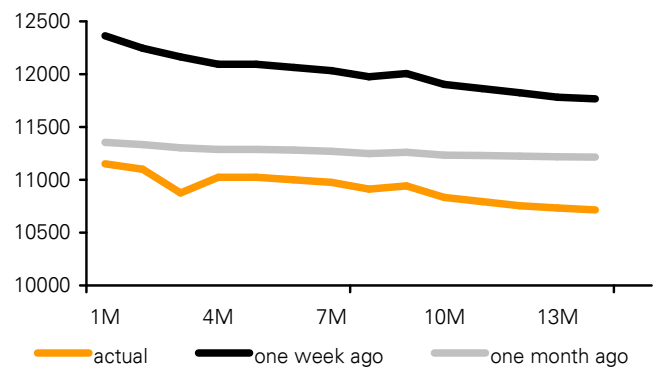
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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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