Commodities Daily

19 May 2009

Palladium and lead weather the economic crisis

Energy: The oil price increased for the first time in four trading days, closing on Monday some 5% up on the day at US$59/bbl. In the morning WTI crude prices have risen further to US$60/bbl. The price increase has come along with a weaker US dollar and rising stock markets, indicating rising market confidence. Oil prices also rose in part due to a Nigerian militant group threatening to block waterways used for oil exports. Since the weekend, Nigeria's security situation has markedly deteriorated. The attacks and blockades could potentially lead to a reduction in the oil production overhang and therefore help the OPEC to better comply with its production quotas. Nigeria produced 1.84mb/d of crude in April, 170kb/d more than would have been in compliance with OPEC quotas. Among all OPEC members, Nigeria deviated most from the OPEC production quotas alongside Iran. In addition, an explosion and fire at Sunoco's Marcus Hook refinery in the US supported refined product prices for prompt delivery. As a result, the price of US gasoline reached its highest level since October 2008. We expect that oil prices will remain volatile, especially in view of the psychologically important US$60/bbl threshold, until there is more confidence about how oil inventories will develop going forward. Following today's markets close, API will release its estimates.

Precious Metals: The gold price saw a strong downward correction to US$916/oz yesterday as risk appetite returned to the financial markets. We believe that the market optimism will continue to hurt the gold price, pushing gold below US$900/oz soon.

Yesterday, PGM refining group, Johnson Matthey, released its annual report on platinum metals. Accordingly, the market deficit for platinum rose by 80K to 375K ounces last year, as supply fell faster (-9.5%) than demand (-5%). Johnson Matthey expects the platinum price to trade between US$950 and US$1,350/oz over the next six months. Stronger demand coming from both the jewelry industry and financial investors should largely offset industrial demand.

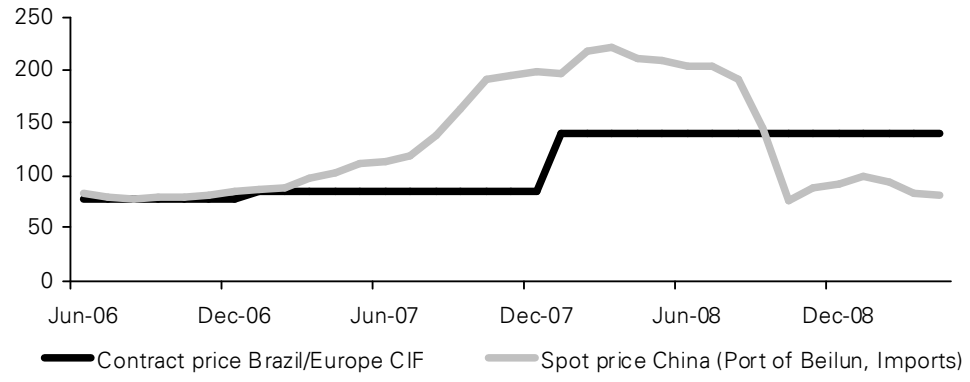
While supply of palladium declined by 15% last year, palladium demand saw a slight increase of 0.2%. Hence, the surplus declined significantly by 73% to 460K ounces. Johnson Matthey argued that, since palladium is undervalued, price increases to US$280/oz during the coming six months are likely. However, should investment demand be lacklustre, the downside risk of a price decline to US$180 may emerge. We also favour palladium over platinum. The car-scrappage bonuses, introduced worldwide due to the economic crisis, supports purchases of small gasoline-driven vehicles. While diesel-driven vehicles use platinum-based catalysts, gasoline-driven cars are predominantly equipped with palladium based catalysts.

Quote of the week:

"I see no reason why 1931 should not be an extremely good year."

Alfred P. Sloan, Jr., General Motors November 1930

CHART OF THE DAY: How much will iron ore contract prices contract (USD/mt)?



Source: IWF, Antaike, Commerzbank Corporates & Markets

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For important disclosure information please see pages 4 and 5

Base metals: China's Iron Ore and Steel Association (CISA) expects that steel producers will expand their iron ore purchases on the spot market this year, in order to increase pressure on iron ore producers in their ongoing price negotiations. Spot prices for iron ore are currently cheaper than contract prices, which will be retroactively downward adjusted (see chart of the day). Rio Tinto has already signaled that spot prices can only serve as a floor price for annual contracts. Compared to last year, the price discount on iron ore might end up somewhere between 20% as offered by iron ore producers and 50% as demanded by steel producers. We affirm our expectation of last autumn, according to which a price reduction of 30% will be achieved. CISA is currently analyzing the high volumes of iron ore imports into China during April. They assume that iron ore suppliers used them as a tactic to increase pressure on steel producers. We think that both sides are applying negotiating strategies.

Data released by research group ILZSG yesterday confirms that the demand for lead has remained strong. Additionally supported by Chinese reserve purchases demand in March rose significantly compared to the previous month, leading to a first-quarter decline in lead demand of only 1% y-o-y. The situation in the zinc markets appears to be somewhat different. Although demand for zinc increased m-o-m, it plummeted by as much as 13% on a year-on-year basis. While in both markets mining production is declining, the lead market showed a small annualized surplus of 1.5% during the first three months of the year. The zinc market, in contrast, showed a supply surplus of 6.5%.

Agriculturals: Thanks to improved weather conditions in the U.S., planting of corn, soybeans and spring wheat showed significant progress last week. However, planting still lags far behind the levels that are typical for this time of the year. According to the latest progress report by the U.S. Department of Agriculture, corn planting is 62% complete, up from 48% last week. At the same time last year, however, planting was 70% complete. The five-year average shows a completion rate of 85% at this point in the season. Soybean planting is 25% complete, up from 14% a week ago. This represents last year's completion level, but is also significantly below the five-year average of 44%. Planting of spring wheat is lagging even further behind. Only half of the planting has been accomplished, which is up by 15% compared to last week. However, under normal circumstances, 90% of all spring wheat planting should be completed by this time of the year. Although the risk of crop losses has somewhat diminished, given that the season is at an advanced stage and given that planting is still lagging behind schedules, farmers cannot afford any further delays. This is particularly the case for corn and wheat.

Prices

Energy [1]	current	1 day	1 week	1 month	1 year
Brent Blend	58.5	4.4%	2.4%	11.2%	-53%
WTI	59.0	4.8%	2.0%	19.2%	-53%
Gasoline (95)	611.3	2.6%	7.6%	18.7%	-42%
Gasoil	466.3	-0.3%	0.7%	4.4%	-60%
Diesel	472.3	-0.2%	1.7%	6.0%	-60%
Jet Fuel	505.8	0.4%	-0.9%	4.3%	-61%
Gas Henry Hub	4.1	1.0%	-5.8%	12.4%	-62%
Base metals [2]					
Aluminium	1520	-0.1%	-1.1%	3.0%	-49%
Copper	4520	1.6%	1.2%	-3.2%	-44%
Lead	1490	0.5%	3.4%	-1.9%	-32%
Nickel	12350	-0.8%	-2.0%	-0.3%	-51%
Tin	13650	-0.2%	-1.1%	13.3%	-42%
Zinc	1518	1.5%	0.5%	-0.3%	-32%
Precious metals [3]					
Gold	918.3	-1.5%	-0.1%	6.1%	2%
Silver	13.8	-1.6%	-2.7%	16.7%	-18%
Platinum	1135.8	2.8%	0.1%	-6.0%	-47%
Palladium	229.0	1.4%	-0.7%	-0.1%	-48%
Agriculturals [1]					
Wheat	590.5	2.3%	2.1%	13.7%	-25%
Corn	421.5	1.0%	1.5%	13.2%	-27%
Soybeans	1146.5	1.4%	1.7%	10.1%	-13%
Cotton	57.6	2.2%	-4.1%	15.8%	-19%
Sugar	15.8	1.3%	0.6%	19.9%	46%
Coffee Arabica	129.9	0.4%	1.4%	16.1%	-4%
Coffee Robusta	1507.0	1.3%	1.6%	0.9%	-33%
Cocoa	2332.0	1.5%	-0.9%	-2.9%	-11%
Live cattle	82.5	0.2%	-0.5%	-6.3%	-11%
Lean hogs	66.8	0.4%	8.2%	-7.5%	-12%

Inventories

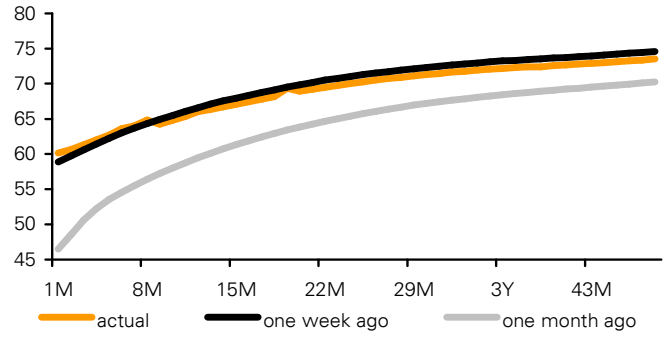
Energy (US (DOE))*	current	1 day	1 week	1 month	1 year
Crude oil	370629	-	-1.2%	2.7%	14%
Gasoline	208291		-2.0%	-4.2%	-1%
Distillates	4130		-1.8%	5.4%	-5%
Jet fuel	147455		0.6%	4.7%	38%
Gas Henry Hub	2013		5.0%	20.3%	32%
Base metals**					
Aluminium LME	4060600	3.1%	4.8%	10.8%	291%
COMEX	10836	0.0%	0.0%	0.0%	0.0%
Shanghai	170479		2.3%	34.4%	-9%
Copper LME	348825	-1.3%	-8.0%	-25.7%	184%
COMEX	49583	0.2%	3.2%	4.4%	361%
Shanghai	35389		27.8%	88.6%	-31%
Lead LME	74375	0.6%	1.3%	22.6%	16%
Nickel LME	109788	-0.4%	-2.0%	4.2%	122%
Tin LME	13635	0.2%	4.9%	15.6%	77%
Zinc LME	320150	-0.2%	-1.0%	-7.8%	149%
Shanghai	84880		6.0%	15.8%	
Precious metals ***					
Gold	8501818	0.5%	0.1%	-1.0%	12%
Silver	119106	0.2%	1.1%	3.0%	-11%
Platinum	2552	5.5%	0.0%	-2.5%	139%
Palladium	3942	0.0%	-0.3%	2.8%	-15%

Currencies 3)					
EUR/USD	1.3632	0.1%	-0.1%	5.5%	-12%

Source: Bloomberg, Commerzbank Corporates & Markets

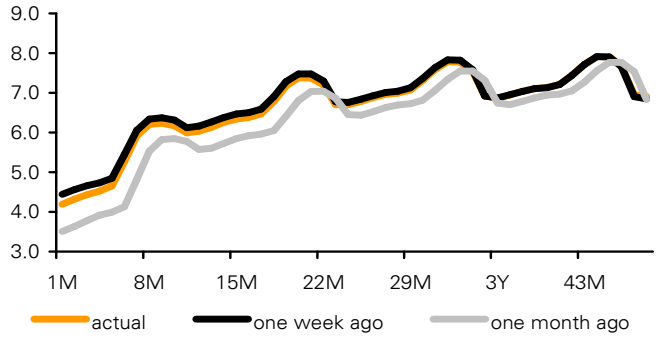
Percentage change on previous period
[1] 1 month forward, [2] 3 months forward, [3] Kassa
* thds barrel, ** tons,*** thds ounces

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



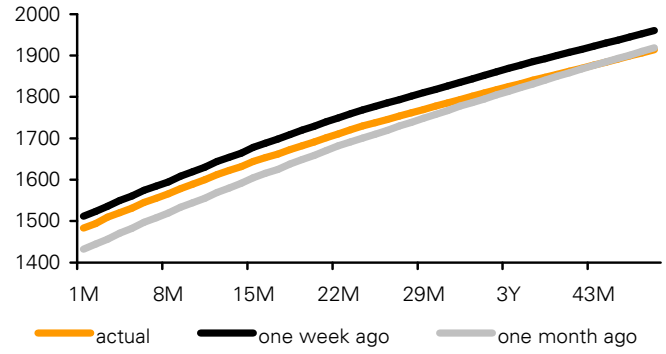
Source: NYMEX; Bloomberg, Commerzbank Corporates & Markets

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



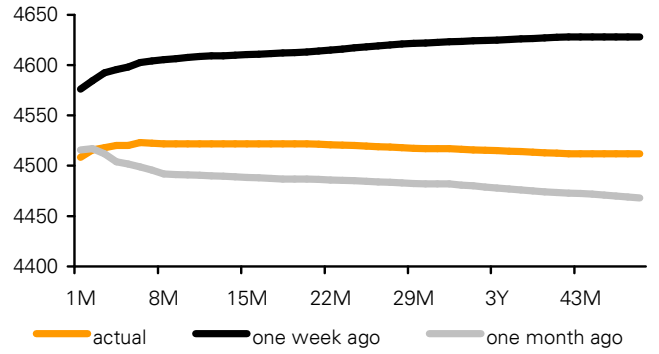
Source: NYMEX, Bloomberg, Commerzbank Corporates & Markets

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



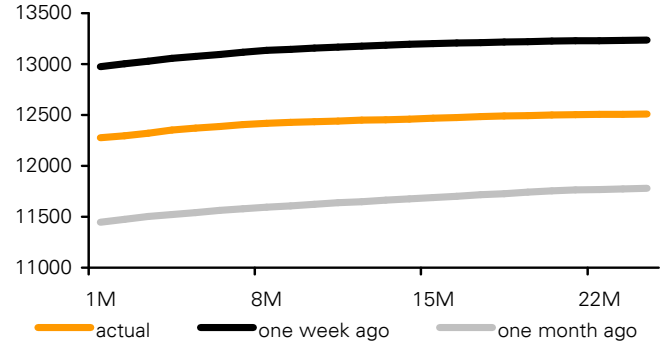
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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



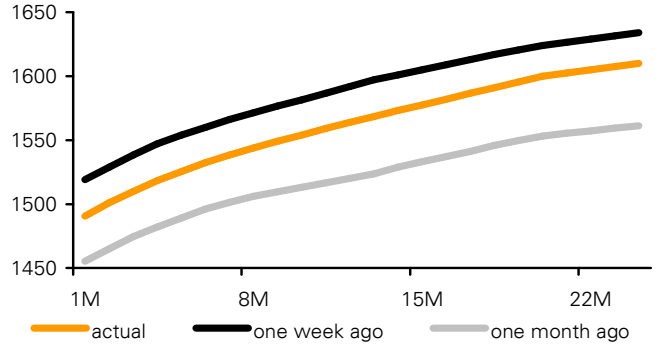
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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



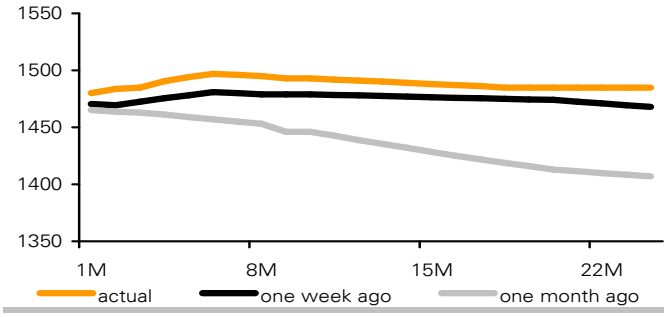
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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



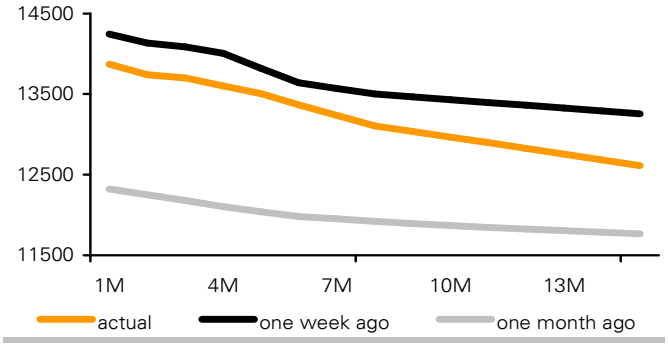
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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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