Commodities Daily

21 May 2010

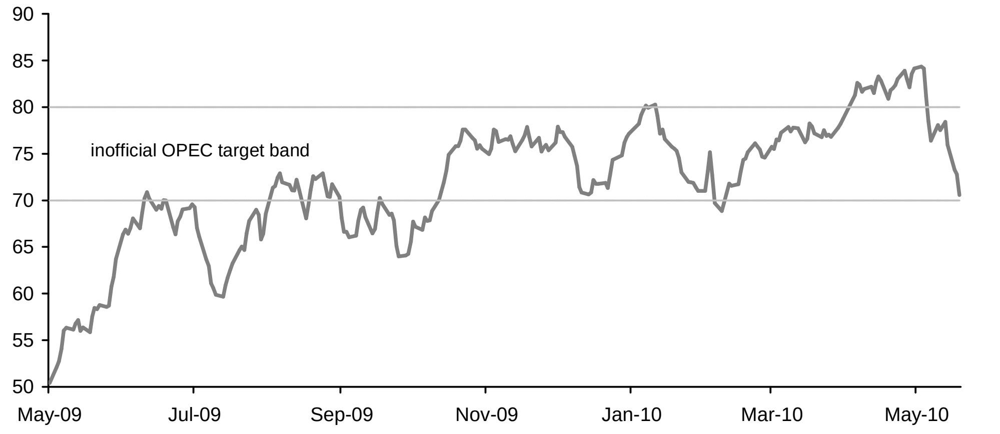
Palladium sheds 20% in two days

Energy: Just before contract rollover yesterday, WTI dipped temporarily to $64 a barrel, the lowest level in nearly 10 months. Since the rollover to the July contract, WTI is trading again at $70. Brent's premium on WTI has meanwhile narrowed to only one US dollar now. There are clearly fears that the announced fiscal consolidation measures could sharply curb economic growth and oil demand in Europe. The trend of US crude oil stocks at Cushing suggests that the price gap will widen again in Brent's favour, though. Energy data provider Genscape reports that Cushing stocks rose in the week ending 18 May by a further 500 thousand barrels to a record 39.46 million barrels. This makes further stockbuilding likely this week, which will be revealed in the US Department of Energy's published figures next week. OPEC is still expanding its supply in the meantime. In the four weeks up to 5 June, OPEC's oil shipments are likely to rise by 1.2% to 23.53 million barrels per day, according to the consulting firm Oil Movement. Given the price slump, the pressure on OPEC members to scale back their overproduction should increase. The OPEC basket price is only just inside the OPEC target corridor of $70-80 a barrel and risks dropping out of the range for the first time since the start of February.

According to the US Department of Energy, US natural gas stocks climbed last week by 76 billion cubic feet. This was in line with expectations but below the 5-year average injection of 90 billion cubic feet. The inventory overhang has thus fallen to 16.6%.

Precious metals: The euro's sharp rise is putting pressure on precious metals. The price of gold in euros plunged overnight by nearly 4% to €930 a troy ounce. In dollars, gold dipped by "only" 2% to 1,170 a troy ounce. The unusual negative correlation between the euro and gold price is therefore still intact. The price of silver shed 3% yesterday, while platinum lost nearly 6%. The price for one troy ounce of palladium fell by over 10% at at one point and temporarily broke through the $400 a troy ounce mark, the lowest level since the start of February. Alone in the past two trading days, the price of palladium slumped by nearly 20%. There are fears at the moment that the debt crisis in the eurozone could have a negative impact on the global economy and this would dampen the demand for palladium. Speculators are clearly seeing this as an excuse for profit-taking. That said, some market players appear to be viewing the lower prices as an opportunity to buy. The US palladium ETF of ETF Securities has reported inflows of 40,000 ounces. This shows that there is still demand for palladium from medium and long-term investors. The decisive question for future price movements will be whether economic fears or investment demand overweighs.

CHART OF THE DAY: OPEC basket price at risk of dropping out of the target range



Source: Bloomberg, Commerzbank Corporates & Markets

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Base metals: Base metals have proved relatively stable in the past few days, compared to other commodity sectors. Copper has recovered today to over $6,600 a ton again. Support is coming from the latest import figures from China. Although imports of refined copper were 8% down on March, they were still 50% more than the average in January and February and 30% above the monthly average in the second half of 2009. The fall in copper prices on the LME has also increased the incentive to import, as Shanghai spot prices in US dollars have not followed the price slump on the LME to the same extent. The buying behaviour of the Chinese has been very price sensitive in the past. Today's inventory data from Shanghai are also supporting prices, stating that stocks had fallen further from their record high at the end of April; they have fallen by a further 5,300 tons to nearly 168 thousand tons, which puts them a good 11% lower than the peak.

Another striking factor in China's trade figures is the sharp rise in aluminium exports: China thus shows a clear export surplus for unrefined aluminium and aluminium alloys for the first time since the end of 2008. In the case of the other base metals nickel, lead and zinc, net imports rose slightly in April.

Agriculturals: The International Grains Council (IGC) yesterday published new supply and demand estimates for crop year 2010/11. The IGC has raised the forecast for global corn production by 13 million to a record level of 822 million tons, primarily because of a higher US crop estimate. Even so, the global corn market should show a deficit again in the coming crop year, as global corn consumption is set to rise at the same time to 826 million tons, 8 million tons more than previously estimated, on account of higher feed demand and a further rise in industrial use. Stocks are therefore expected to fall further to 142 million tons. The market situation is quite different for wheat. Global wheat production should decline by 16 million tons, year-on-year, to 660 million tons. Despite the fall in production and an expected rise in global wheat consumption of 7 million to 654 million tons, the IGC still anticipates an oversupply. Global wheat stocks are expected to rise to a 9-year high of 201 million tons. Wheat stocks in the US, the world's largest exporter, should even reach a 23-year high. The contradictory fundamental developments on the corn and wheat markets are also likely to be reflected in the price movements going forward.

Prices

Energy [1]	current	1 day	1 week	1 month	1 year
Brent Blend	71.8	-2.5%	-7.7%	-16.8%	-9%
WTI	70.8	-2.7%	-1.6%	-15.8%	-11%
Gasoline (95)	672.0	-0.6%	-9.8%	-14.2%	-4%
Gasoil	601.8	-2.6%	-8.8%	-13.8%	-5%
Diesel	640.0	-3.0%	-11.3%	-13.4%	-6%
Jet Fuel	670.0	0.4%	-12.5%	-13.6%	-9%
Gas Henry Hub	4.11	-1.3%	-4.8%	3.8%	-26%
Base metals [2]					
Aluminium	1992	-0.5%	-4.8%	-14.9%	-10%
Copper, LME	6610	1.6%	-4.0%	-14.3%	-10%
Copper, SHFE (CNY)	53620	-0.6%	-4.8%	-10.8%	-10%
Lead	1761	-0.6%	-9.2%	-24.1%	-28%
Nickel	21200	-0.5%	-0.7%	-20.7%	16%
Tin	17450	-0.3%	-2.3%	-9.4%	3%
Zinc	1874	0.9%	-7.9%	-21.9%	-26%
Precious metals [3]					
Gold	1182.4	-1.0%	-4.6%	2.6%	7%
Gold (EUR)	946.7	-1.5%	-6.2%	0.9%	22%
Silver	17.7	-3.1%	-8.3%	-2.0%	5%
Platinum	1512.5	-5.6%	-13.3%	-14.0%	2%
Palladium	416.6	-9.4%	-21.8%	-27.3%	1%
Agriculturals [1]					
Wheat, LIFFE (EUR)	136.5	0.7%	1.9%	5.4%	4%
Wheat, CBOT	469.8	0.1%	0.9%	-4.1%	-14%
Corn	362.0	0.8%	1.3%	0.6%	-13%
Soybeans	944.0	0.6%	-0.2%	-5.0%	-9%
Cotton	82.1	-1.4%	1.9%	-1.0%	9%
Sugar	14.99	0.4%	2.3%	-8.9%	-44%
Coffee Arabica	131.7	-0.6%	-3.9%	1.9%	-3%
Cocoa	2839.0	0.3%	-2.1%	-6.3%	-14%

Inventories

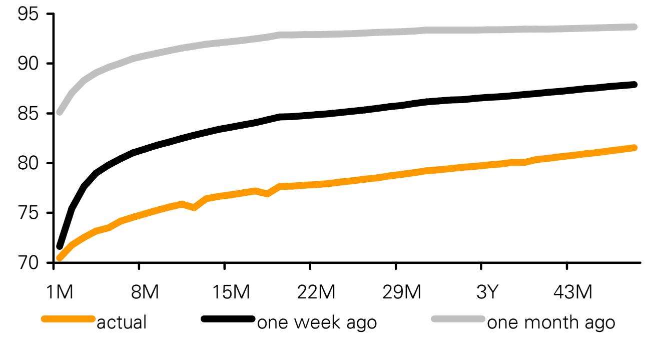
Energy (US (DOE))*	current	1 day	1 week	1 month	1 year
Crude oil	362686	-	0.0%	2.5%	-2%
Gasoline	221834		-0.1%	0.2%	9%
Distillates	4213		-1.9%	6.3%	2%
Jet fuel	152810		-0.6%	4.1%	3%
Gas Henry Hub	2165		3.6%	23.3%	3%
Base metals**					
Aluminium LME	4588700	0.9%	2.4%	0.4%	11%
COMEX	1767	0.0%	0.0%	0.0%	-84%
Shanghai	478294		10.3%	15.8%	181%
Copper LME	481300	-0.2%	-0.8%	-5.2%	41%
COMEX	101242	0.0%	0.0%	0.1%	96%
Shanghai	173095		-4.4%	2.1%	389%
Lead LME	186700	0.0%	0.9%	4.0%	151%
Nickel LME	138888	-0.3%	-2.6%	-7.4%	27%
Tin LME	20880	-0.9%	-0.6%	-11.8%	51%
Zinc LME	564875	-0.2%	-1.0%	3.5%	77%
Shanghai	286420		9.0%	15.3%	
Precious metals ***					
Gold	10541	0.6%	1.8%	4.3%	24%
Silver	117171	0.0%	1.4%	2.2%	-2%
Platinum	133	-0.1%	8.0%	3.9%	5%
Palladium	633	-0.1%	-0.2%	-2.2%	61%

Currencies 3)					
EUR/USD	1.2486	0.6%	1.7%	-6.1%	-9%

Source: Bloomberg, Commerzbank Corporates & Markets

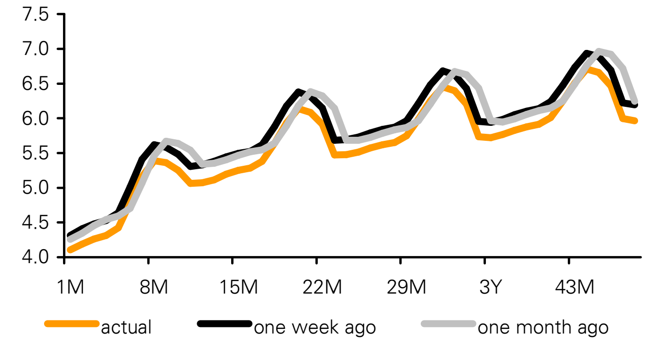
Percentage change on previous period
[1] 1 month forward, [2] 3 months forward, [3] spot
* '000 barrel, ** tons,*** '000 ounces

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



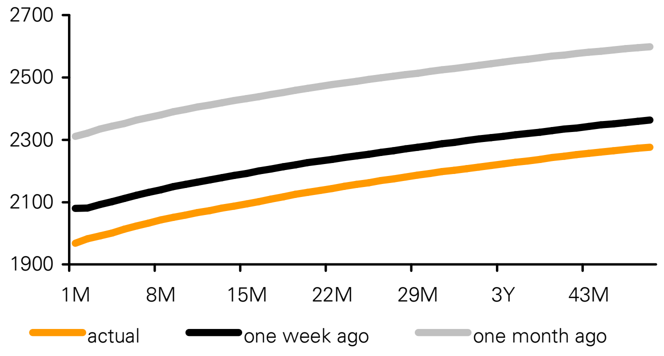
Source: NYMEX; Bloomberg, Commerzbank Corporates & Markets

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



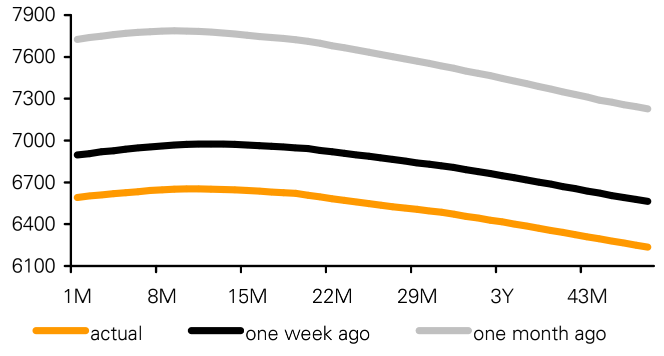
Source: NYMEX, Bloomberg, Commerzbank Corporates & Markets

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



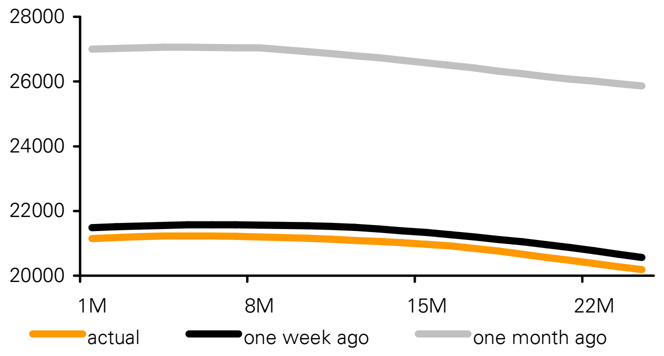
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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



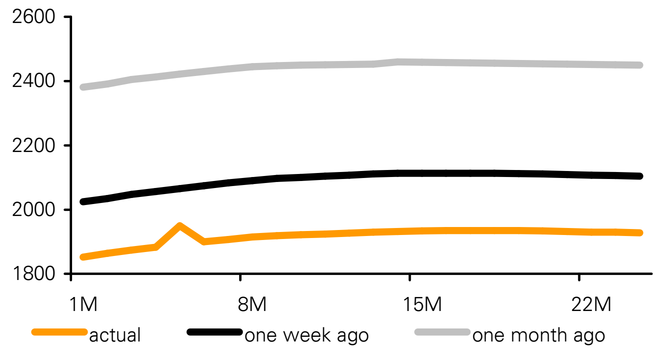
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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



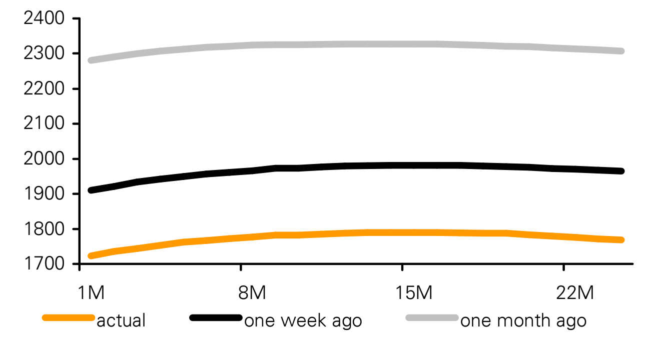
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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



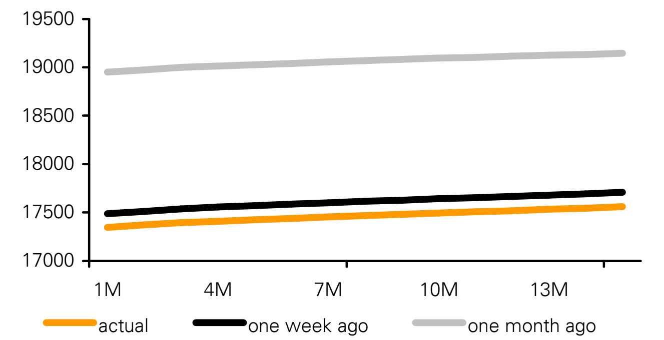
Source: LME; Bloomberg, Commerzbank Corporates & Markets

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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