

Commodities Daily

26 May 2010

Commodity markets look set for an interim recovery

Energy: WTI has recovered overnight to \$70 a barrel, after lows of \$67 a barrel were recorded yesterday. This was partly due to a late revival of US equity markets. Furthermore, the American Petroleum Institute reported yesterday evening that US crude oil stocks at Cushing decreased last week for the first time in seven weeks, raising hopes of an end to stockbuilding. In addition, US gasoline stocks fell by an unexpectedly sharp 3.2 million barrels last week, which was seen by markets as evidence that the demand for gasoline appears to be picking up just before the summer driving season begins. A stronger-than-expected rise in US consumer confidence has also fuelled such hopes. The DOE publishes its official inventory data today. A moderate build-up of crude oil and oil product stocks is anticipated. We expect the interim recovery to continue after prices have plunged too quickly and too sharply in past weeks. The US Energy Information Administration has lowered its long-term forecast for global oil demand by 2.5% and now only expects a rise to 103.9 millions barrels a day up to 2030. 106.6 million barrels a day had been predicted previously. 84% of the demand growth is likely to come from the emerging countries. 40% of the expected rise in production up to 2035 should come from higher oil production in OPEC countries, nearly 20% from non-OPEC countries and the rest from unconventional resources.

Precious metals: The price of gold has noticeably recovered since the correction last week, especially if we look at the trend in euros. Gold is currently trading at €983, which is 5% higher than at the end of last week. In US dollars, too, gold has since advanced by 2.5% and taken the \$1,200 a troy ounce hurdle. The price of gold is therefore still being driven by strong investment demand and the flight to the safe haven. The world's largest gold ETF, SPDR Gold Trust, reported fresh inflows of 30 tons yesterday; meaning that 47 tons of gold have flowed into this gold EFT in the past two days, which is more than the global mining output of one week. The World Gold Council expects a revival in the demand for gold in the course of the year on the back of rising investment demand. According to the WGC's quarterly report on demand trends, gold demand fell in the first quarter by 25%, year-on-year. This decline was largely attributable to ETF demand, which was only 3.8 tons in the first quarter, compared to 465 tons in the first quarter of 2009. Since the start of the second quarter, however, ETF demand has already recovered to 107 tons. The most recent ETF inflows are not yet incorporated. The demand for jewellery rose in the first quarter to 470 tons, a rise of 43% on the first quarter of the last year. Jewellery demand in India has even quadrupled according to the WGC.

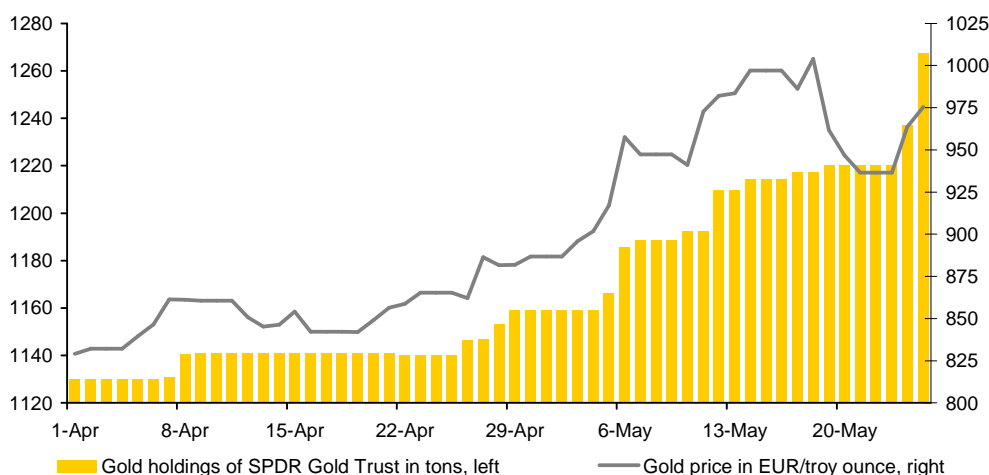
US-inventories crude oil /products

	API	DOE	Survey
Crude oil	+0.62	+0.3	+0.16
Gasoline	-3.19	+0.3	-0.29
Distillates	+1.52	+0.5	-0.98
Utiliz. (%)	+0.00	+0.0	-0.48
Imports	-1.56		0.14

Weekly change in mm barrels, imports in mbd

Source: API, DOE, Bloomberg

CHART OF THE DAY: ETF gold holdings rise by nearly 50 tons within two days



Source: SPDR Gold Shares, Bloomberg, Commerzbank Corporates & Markets

Head of Commodity Research

Eugen Weinberg
+49 69 136 43417
eugen.weinberg@commerzbank.com

Analyst

Carsten Fritsch
+49 69 136 21006
carsten.fritsch@commerzbank.com

Analyst

Barbara Lambrecht
+49 69 136 22295
barbara.lambrecht@commerzbank.com

Analyst

Michaela Kuhl
+49 69 136 29363
michaela.kuhl@commerzbank.com

Analyst

Daniel Briesemann
+49 69 136 29158
daniel.briesemann@commerzbank.com

cbcm.commerzbank.com

Base metals: Base metals lost substantial ground in yesterday's trading but have already recovered a little this morning. We believe the market is oversold at present and prices will continue to recover in the next few days. In this context, the Baltic Dry Index, measuring freight rates for dry and bulk commodities and serving as an indicator of economic activity on commodity markets for many market players, rose yesterday to its highest level since November 2009 and is currently still 40% higher than in mid April.

News on the fundamental situation on the nickel market was mixed: the report from China's largest nickel producer Jinchuan that it has to close its largest production site for 140 days due to maintenance work lent support to prices. At 130 thousand tons, Jinchuan accounted for a good half of China's annual production last year. Even so, the company states that it is sticking to its production target of 130 thousand tons in the current year. On the other hand, China's steel producer Baoshan Iron and Steel put a dampener on the good news for prices. The head of the company's stainless steel group envisages only 5% growth for China's stainless steel industry in the current year. Furthermore, the company wants to make more use of nickel pig iron instead of refined nickel.

Agriculturals: In its new semi-annual report the USDA forecasts an oversupply on the sugar market for the coming season 2010/11, while current production has lagged behind consumption in previous years. A rise in production of 12 million tons to 164 million tons should face an unprecedented high demand of 158 million tons. The sugar scarcity that had driven prices for some months before they were pushed down by the outlook for the new crops is therefore easing. Precisely in the major producers Brazil and India, where the recent poor harvests were the main reason for the shortage, production is expected to rise by 4 million tons and 5 million tons respectively. This means a rise of 12% for Brazil and as much as 25% for India, year-on-year. Even so, we expect that prices will increase to 18 US cents a pound in the third and fourth quarter. Firstly, the demand for ethanol is rising sharply; secondly, importers are likely to be replenishing their depleted stocks. At the end of the season 2009/10 in September, the International Sugar Organisation expects global inventories to have fallen in relation to consumption to their lowest level in 20 years. Furthermore, there is a risk that the harvest in India, commencing in October, will fall short of expectations and the global market surplus will be lower than expected.

Prices

Energy ¹⁾	current	1 day	1 week	1 month	ytd
Brent Blend	69.6	-2.3%	-5.3%	-19.6%	-10%
WTI	68.8	-2.1%	-0.4%	-17.4%	-12%
Gasoline (95)	650.0	-2.4%	-7.4%	-19.0%	-7%
Gasoil	592.5	-1.9%	-3.2%	-16.9%	-6%
Diesel	621.0	-1.6%	-5.9%	-17.2%	-7%
Jet Fuel	658.0	1.1%	-7.4%	-16.4%	-9%
Gas Henry Hub	4.05	0.8%	-2.1%	-4.5%	-27%
Base metals ²⁾					
Aluminium	2017	-3.2%	1.9%	-11.9%	-9%
Copper, LME	6730	-2.6%	4.8%	-12.7%	-8%
Copper, SHFE (CNY)	54790	0.4%	3.7%	-10.0%	-8%
Lead	1783	-4.6%	1.5%	-24.4%	-27%
Nickel	21195	-4.5%	1.2%	-20.6%	16%
Tin	17595	-0.9%	1.0%	-7.9%	4%
Zinc	1855	-3.9%	2.8%	-21.8%	-25%
Precious metals ³⁾					
Gold	1204.3	1.1%	1.0%	4.5%	10%
Gold (EUR)	975.3	1.2%	2.0%	1.4%	28%
Silver	17.9	0.2%	-1.0%	-1.3%	7%
Platinum	1516.0	-0.9%	-5.3%	-13.0%	4%
Palladium	443.0	-1.2%	-3.0%	-21.1%	9%
Agriculturals ¹⁾					
Wheat, LIFFE (EUR)	136.8	-1.6%	1.3%	4.4%	4%
Wheat, CBOT	460.5	-1.5%	-1.7%	-3.0%	-15%
Corn	364.3	-1.8%	2.1%	4.1%	-12%
Soybeans	930.5	-1.1%	-0.3%	-6.3%	-10%
Cotton	82.1	-0.2%	-1.8%	-2.6%	8%
Sugar	15.25	0.4%	3.0%	-2.6%	-43%
Coffee Arabica	132.8	0.4%	-2.6%	0.7%	-2%
Cocoa	2922.0	0.2%	2.6%	-8.2%	-11%

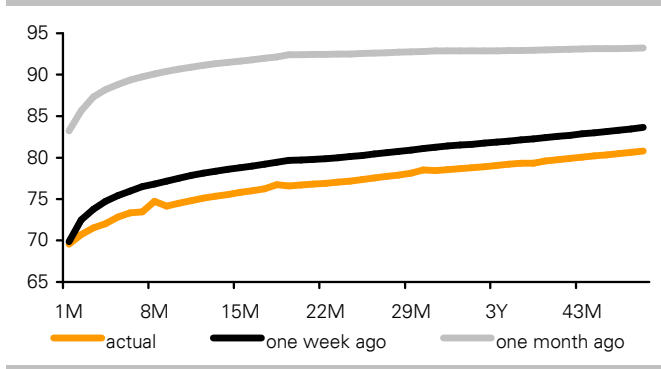
Inventories

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	4573750	-0.1%	1.4%	0.1%	9%
COMEX	1767	0.0%	0.0%	0.0%	-84%
Shanghai	489495	-	2.3%	15.0%	182%
Copper LME	479325	-0.1%	-0.8%	-5.5%	44%
COMEX	101358	0.1%	0.1%	0.2%	91%
Shanghai	167789	-	-3.1%	-9.7%	396%
Lead LME	190125	1.8%	1.8%	5.8%	155%
Nickel LME	138444	-0.1%	-1.1%	-5.6%	26%
Tin LME	20485	-0.3%	-1.7%	-7.8%	43%
Zinc LME	617325	5.2%	8.9%	13.7%	94%
Shanghai	288438	-	0.7%	14.8%	-
Precious metals***					
Gold	10608	0.0%	1.2%	4.5%	28%
Silver	118061	0.5%	-0.1%	2.4%	-2%
Platinum	133	0.0%	8.0%	4.0%	5%
Palladium	632	0.0%	-0.1%	-0.7%	61%
Currencies ³⁾					
EUR/USD	1.2345	-0.2%	-1.0%	-8.1%	-12%

Source: Bloomberg, Commerzbank Corporates & Markets

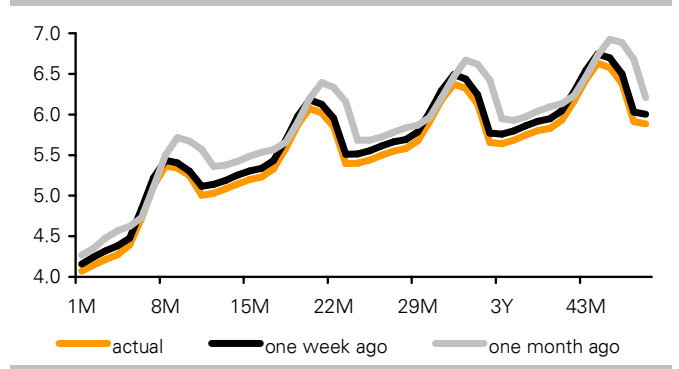
Percentage change on previous period
¹⁾ 1 month forward, ²⁾ 3 months forward, ³⁾ spot
* '000 barrel, ** tons, *** '000 ounces

GRAPH 1: Forward curve oil market (WTI)



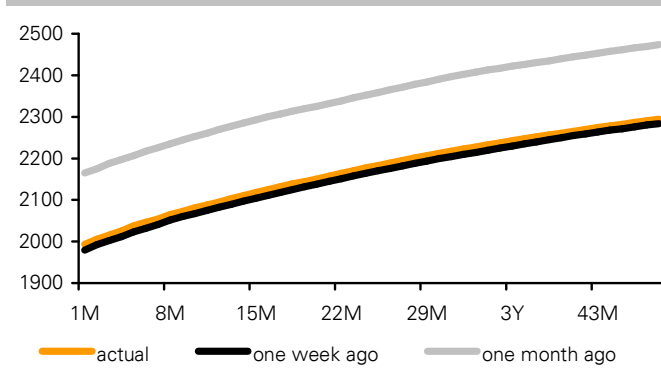
Source: NYMEX; Bloomberg, Commerzbank Corporates & Markets

GRAPH 2: Forward curve gas market (Henry Hub)



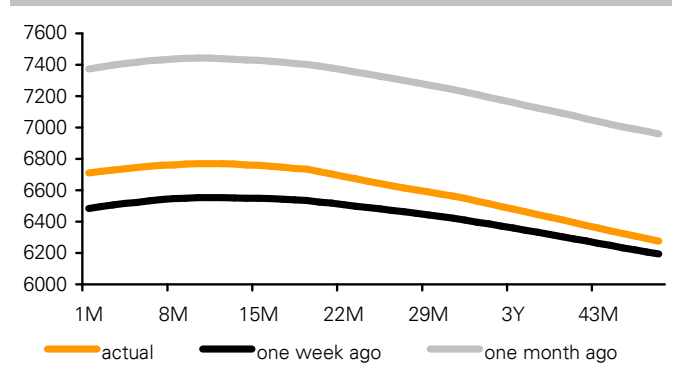
Source: NYMEX, Bloomberg, Commerzbank Corporates & Markets

GRAPH 3: Forward curve aluminium (LME)



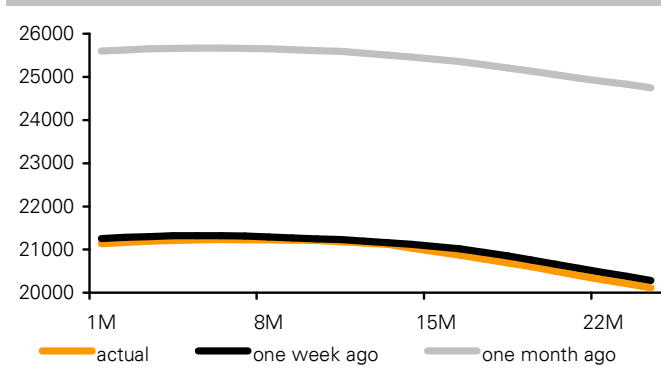
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 4: Forward curve copper (LME)



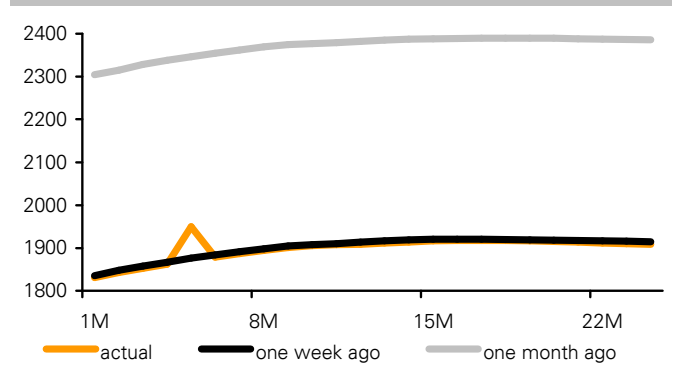
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 5: Forward curve Nickel (LME)



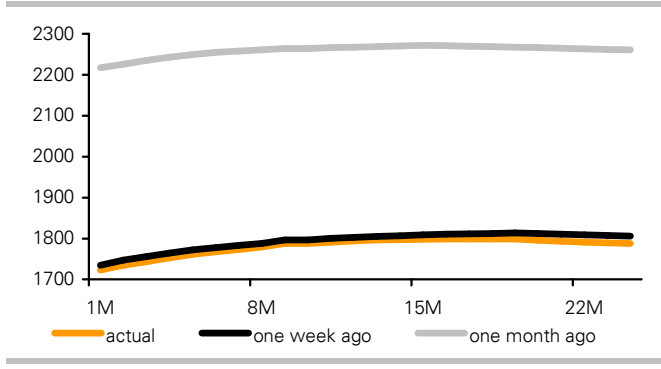
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 6: Forward curve zinc (LME)



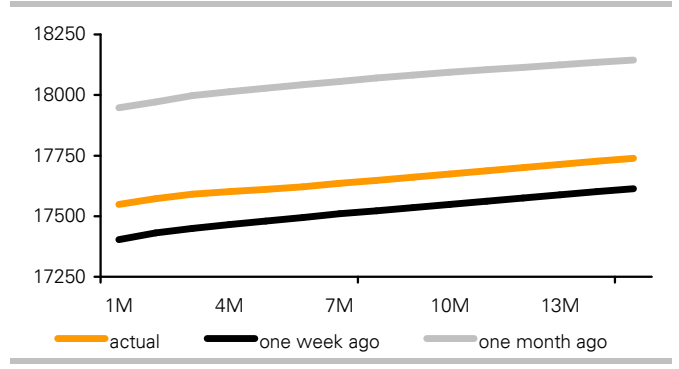
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 7: Forward curve lead (LME)



Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 8: Forward curve tin (LME)



Source: LME; Bloomberg, Commerzbank Corporates & Markets

This document has been created and published by the Corporates & Markets division of Commerzbank AG, Frankfurt/Main or Commerzbank's group companies mentioned in the document. Commerzbank Corporates & Markets is the investment banking division of Commerzbank, integrating research, debt, equities, interest rates and foreign exchange.

The relevant research analyst(s), as named on the front cover of this report, certify that (a) the views expressed in this research report accurately reflect their personal views about the securities and companies mentioned in this document; and (b) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document. The research analyst(s) named on this report are not registered / qualified as research analysts with FINRA. The research analyst(s) may not be associated persons of Commerz Markets LLC or Commerzbank Capital Markets Corp. and therefore may not be subject to NASD Rule 2711 and incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price.

Conflicts of interest

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document*:

.....

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts: <https://cbcm.commerzbank.com/en/site/research/equity/disclaimer/index.jsp> *

* *Updating this information may take up to ten days after month end.*

Ratings and definitions

Our fundamental equity analysts rate shares on an absolute basis using a 6-month target price. A Buy rating implies potential share price upside of more than 15%. An Add rating reflects potential share price upside of between 5% and 15%. A Hold rating is given when implied upside or downside is within 5% of the current share price. A Reduce rating implies potential downside of between 5% and 15%. A Sell rating implies potential share price downside of more than 15%. For more information please refer to: <https://cbcm.commerzbank.com/en/site/research/equity/ratingsanddefinitions/index.jsp>

Explanation of valuation parameters and risk assessment

Unless otherwise stated, target prices are based on either absolute valuation methods (discounted cash flow, absolute multiple) or comparable peer multiples, or a combination of both. The result of this fundamental valuation is adjusted to reflect the analyst's view on the likely development of investor sentiment and its impact on the share price. Whichever valuation method is used there is a significant risk that the target price will not be achieved. Risk factors include, but are not limited to, unforeseen changes in competitive pressures, the level of demand for the company's products, management, technology, the level of economic activity, interest rates, operating and/or material costs, consumer tastes, regulation, exchange rates and taxation. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, political and social conditions.

Disclaimer

This document is for information purposes only and does not take account of the specific circumstances of any recipient. The information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever.

The information in this document is based on data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. The opinions and estimates contained herein reflect the current judgement of the author(s) on the data of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

Additional notes to readers in the following countries:

Germany: Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by the German regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Lurgiallee 12, 60439 Frankfurt am Main, Germany.

United Kingdom: This document has been issued or approved for issue in the United Kingdom by Commerzbank AG London Branch. Commerzbank AG, London Branch is authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and subject to limited regulation by the Financial Services Authority. Details on the extent of our regulation by the Financial Services Authority are available from us on request. This document is directed exclusively to eligible counterparties and professional clients. It is not directed to retail clients. No persons other than an eligible counterparty or a professional client should read or rely on any information in this document. Commerzbank AG, London Branch does not deal for or advise or otherwise offer any investment services to retail clients.

United States: Commerzbank Capital Markets Corporation ("CCMC"): This document has been approved for distribution in the US under applicable US law by CCMC, a wholly owned subsidiary of Commerzbank and a US registered broker-dealer. Any transaction by US persons must be effected with CCMC. Under applicable US law; information regarding clients of CCMC may be distributed to other companies within the Commerzbank group. Commerz Markets LLC: Where this document has been approved for distribution in the US, such distribution is by either: (i) Commerz Markets LLC; or (ii) other Commerzbank companies to US Institutional Investors and Major US Institutional Investors only; or (iii) if the document relates to non-US exchange traded futures, Dresdner Kleinwort Limited. Commerz Markets LLC, or in case (iii) Dresdner Kleinwort Limited, accepts responsibility for this document in the US. Any US persons wishing to effect a transaction through Commerzbank group (a) in any security mentioned in this document may only do so through Commerz Markets LLC, telephone: (+1 212) 429 2000; or (b) in a non-US exchange traded future may only do so through Dresdner Kleinwort Limited, telephone: (+ 11 44) 20 7623 8000; or (c) in a banking product may only do so through Commerzbank AG New York Branch, telephone (+1 212) 969 2700.

European Economic Area: Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA.

Singapore: This document is being distributed for Commerzbank in Singapore by Commerzbank AG, Singapore Branch purely as a resource and for general informational purposes only, and is intended for general circulation. Accordingly, this research document does not take into account the specific investment objectives, financial situation, or needs of any particular person and is exempted from the same by Regulation 34 of the Financial Advisers Regulations ("FAR") (as required under Section 27 of the Financial Advisers Act (Cap. 110) of Singapore ("FAA")).

Hong Kong: This document is being distributed in Hong Kong by Commerzbank AG, London Branch. Unless permitted to do so by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue this document, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong, other than with respect to the securities referred to in this document which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made thereunder, and to persons whose ordinary business is to buy and sell shares or debentures.

Japan: Commerzbank AG, Tokyo Branch is responsible for the distribution of Research in Japan. Commerzbank AG, Tokyo Branch is regulated by the Japanese Financial Services Agency (FSA).

Australia: Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

© Commerzbank AG 2010. All rights reserved. Version 9.10

Commerzbank Corporates & Markets

Frankfurt	London	New York
Commerzbank AG	Commerzbank AG London Branch	Commerzbank Capital Markets Corp.
DLZ - Gebäude 2, Händlerhaus Mainzer Landstraße 153 60327 Frankfurt	PO BOX 52715 30 Gresham Street London, EC2P 2XY Tel: +44 207 623 8000	2 World Financial Center, 31st floor New York, NY 10281-1050 Tel: +1 212 703 4000 Fax: +1 212 703 4201