

Commodities Daily

21 June 2010

Speculation on appreciation of yuan lends impetus

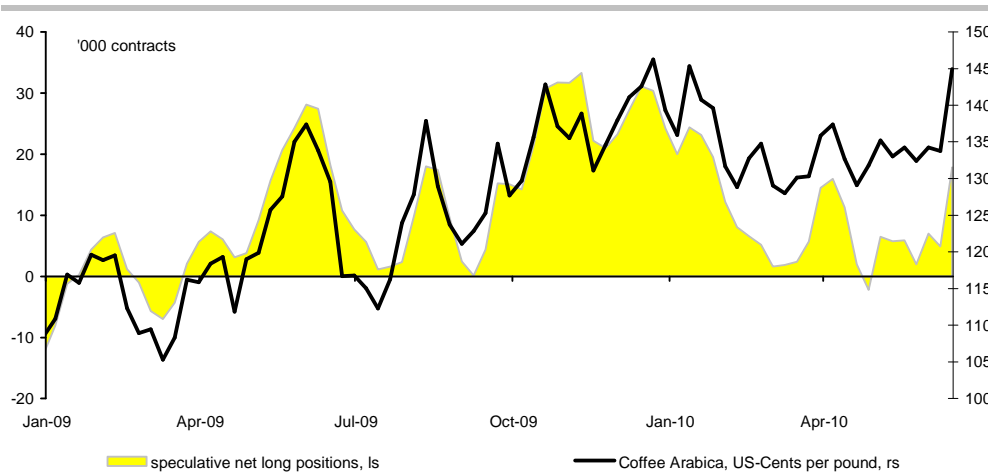
Energy: Speculation about possible imminent appreciation of the Chinese yuan has helped the price of Brent oil rise initially this morning to nearly \$80 a barrel. Even if the People's Bank of China does not actually go this far and specifies that its aim is to keep the currency at a stable level, the commodity market is clearly speculating on a possible appreciation and its positive effect on China's commodity imports. Already before the announcement, net long positions of speculators on the NYMEX rose in the week ending 15 June by 23.6 thousand contracts, albeit almost solely due to the closing of short sales. The closeness to the psychologically important mark of \$80 a barrel should continue to fuel speculation, especially as positive impetus is also coming from recent strong equity markets.

The oil market is also getting psychological support on other fronts. Firstly, Nobuo Tanaka, executive director of the International Energy Agency (IEA), said on Friday that global oil production could fall by up to 900 thousand barrels a day up to 2015 should deepwater drilling projects be postponed by one to two years on account of the oil disaster in the Gulf of Mexico. Secondly, the potential halt of Russian oil and gas imports through Belarus is unsettling the market following President Medwedew's threat to cut gas deliveries to its neighbouring country by up to 85% if Belarus does not settle its outstanding energy bills of nearly \$200 million by this morning.

Precious metals: Gold has reached a new all-time high this morning, at above \$1,265 a troy ounce. This precious metal is profiting from its status as a "safe haven" and is likely to remain in strong demand as long as doubts persist about the chances of successfully resolving the debt crisis in Europe. Investors are therefore still trying to protect their investments with gold. Besides the high inflows and holdings of gold ETFs, this is also reflected in the market positioning of speculative investors, who have increased their net long positions in the week up to 15 June for the third consecutive week to 211.5 thousand contracts, which is a 4-week high. According to the World Gold Council, Russia's central bank bought 26.6 tons of gold in the first quarter, thus increasing its gold holdings to almost 670 tons. This shows that the interest in gold is still strong even at the current high prices. China has also recently announced that it wants to diversify its currency reserves through gold and other precious metals.

Platinum and palladium have also made substantial gains in the past few days. Platinum has broken through the psychologically important mark of \$1,600 a troy ounce. Palladium is swiftly approaching the \$500 a troy ounce mark. If these levels are broken on a lasting basis, this could attract more buyers.

CHART OF THE DAY: Speculative financial investors in coffee are much more optimistic



Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

Speculative market positioning (net)

	'000 contracts	Weekly change
15-Jun-10		
WTI	91.266	23623
Henry Hub	-96.224	-959
Gold	211.490	1474
Silver	31.915	3022
Platinum	15.799	325
Palladium	13.860	663
Copper	2.763	150
Wheat	-56.406	-8910
Corn	-4.112	-5475
Soybeans	13.619	19239
Cotton	36.964	12882
Coffee	17.812	12889
Cocoa	22.139	-1867
Sugar	95.549	13957

Source: CFTC, Bloomberg

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Base metals: A dominant topic on metal markets today is possible reforms to the exchange rate regime in China. Announcements here by the People's Bank of China (PBoC) have been interpreted by market players as appreciation of the Chinese currency against the US dollar. However, we believe this will probably boil down to a reorientation of the yuan away from its exclusive peg to the US dollar and towards an international currency basket. In the wake of very firm Asian equity markets and a weaker US dollar, metal prices have made strong gains across the board and are currently trading up to 5% higher on the LME. In Shanghai, copper and zinc have reached their maximum daily limit of 5% (limit up). Appreciation of the yuan could lead to a rise in demand, as it would make commodities prices in other currencies more attractive for Chinese customers. Unlike speculative demand, this would have only a minor impact on real demand, though. We therefore believe the reaction of metal prices is exaggerated and we expect the situation will calm. As the data published by the CFTC on Friday evening reveal, speculative financial investors are still holding back on the copper market. Net long positions virtually stagnated in the week ending on 15 June, at 2,763 contracts.

Agriculturals: After falling slightly in the days before, the price of Arabica coffee climbed again on Friday by 2.5% and closed just above the 160 US cents a pound mark. This means a rise of 20% overall in the past two weeks. We still believe this rapid movement is exaggerated despite the present shortage of high-quality Arabica beans and this was also the message of the US Department of Agriculture's coffee market report published at the end of last week. Indeed, it will soon be possible to replenish depleted stocks: a record coffee crop is expected in 2010/11, not only in Brazil as the world's largest producer, but across the globe. Production is set to increase by 11%, year-on-year, to 139.7 million 60kg bags, whereby the expansion of Brazil's Arabica coffee production by a sharp 27% will have a strong impact. That said, at 9 million bags, Colombia's production is likely to remain below the 5-year average of 11.8 million bags. The price of Arabica coffee should therefore continue to be well supported, even if the current sharp rise is excessive. Speculative financial investors are also playing their part in the price rally, by more than trebling their net long positions already in the week up to 15 June. This is likely to have continued since then and thus supported the upward trend in prices.

Prices

Energy ¹⁾	current	1 day	1 week	1 month	1 year
Brent Blend	78.2	-0.6%	6.1%	11.3%	2%
WTI	77.2	0.5%	4.9%	12.5%	-1%
Gasoline (95)	719.0	0.7%	3.2%	2.4%	3%
Gasoil	681.0	-0.5%	6.0%	13.4%	9%
Diesel	693.5	-0.6%	5.8%	6.2%	5%
Jet Fuel	724.0	1.0%	5.6%	5.6%	4%
Gas Henry Hub	5.00	-3.2%	2.1%	26.6%	-8%
Base metals ²⁾					
Aluminium	1944	-1.1%	0.9%	-2.1%	-10%
Copper, LME	6435	-0.2%	0.6%	-2.1%	-9%
Copper, SHFE (CNY)	54000	4.4%	8.0%	1.0%	-9%
Lead	1810	-1.1%	5.5%	-0.1%	-26%
Nickel	19590	-1.1%	0.1%	-4.8%	10%
Tin	17450	-1.7%	6.2%	2.3%	6%
Zinc	1730	-2.0%	0.8%	-4.2%	-29%
Precious metals ³⁾					
Gold	1256.8	0.9%	3.3%	7.1%	15%
Gold (EUR)	1014.4	-0.2%	-1.3%	-0.8%	-24%
Silver	19.2	2.5%	6.4%	9.8%	15%
Platinum	1587.8	0.6%	2.7%	6.3%	9%
Palladium	490.0	1.7%	8.4%	13.7%	22%
Agriculturals ¹⁾					
Wheat, LIFFE (EUR)	141.8	1.3%	3.8%	0.5%	6%
Wheat, CBOT	461.8	-0.2%	3.6%	-0.9%	-14%
Corn	360.8	0.9%	3.6%	-0.7%	-12%
Soybeans	961.0	0.9%	2.0%	3.2%	-7%
Cotton	81.8	1.2%	-0.1%	-0.6%	9%
Sugar	15.58	-1.3%	-1.6%	5.3%	-42%
Coffee Arabica	160.3	2.5%	10.6%	17.6%	18%
Cocoa	2932.0	0.6%	0.4%	2.9%	-11%

Inventories

Energy (US (DOE))*	current	1 day	1 week	1 month	1 year
Crude oil	363105	-	0.5%	0.2%	2%
Gasoline	218340	-	-0.3%	-1.7%	6%
Distillates	4282	-	-2.2%	-0.3%	9%
Jet fuel	156622	-	1.2%	1.8%	4%
Gas Henry Hub	2543	-	3.5%	21.7%	-1%
Base metals**					
Aluminium LME	4474175	-0.2%	-0.5%	-0.8%	2%
COMEX	1767	0.0%	0.0%	0.0%	-84%
Shanghai	498008	-	0.0%	4.1%	201%
Copper LME	457425	-0.6%	-1.6%	-5.3%	62%
COMEX	101925	0.0%	-0.2%	0.7%	69%
Shanghai	135944	-	-2.4%	-21.5%	98%
Lead LME	189800	-0.6%	-1.6%	1.6%	125%
Nickel LME	129798	-1.0%	-3.0%	-7.3%	20%
Tin LME	20305	-0.2%	-2.9%	-2.6%	20%
Zinc LME	618025	0.1%	0.1%	9.0%	83%
Shanghai	267740	-	-8.0%	-6.5%	-
Precious metals***					
Gold	10795	0.0%	0.7%	3.0%	24%
Silver	117695	-0.5%	-0.7%	-0.4%	-1%
Platinum	133	0.0%	0.0%	7.7%	6%
Palladium	630	0.0%	0.1%	-0.4%	54%

Currencies 3)

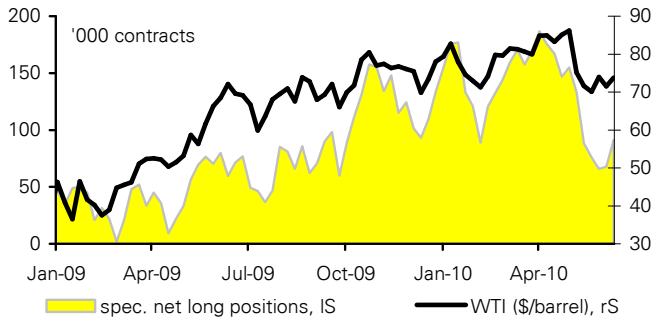
EUR/USD	1.2388	0.2%	1.9%	-0.9%	-10%
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Source: Bloomberg, Commerzbank Corporates & Markets

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

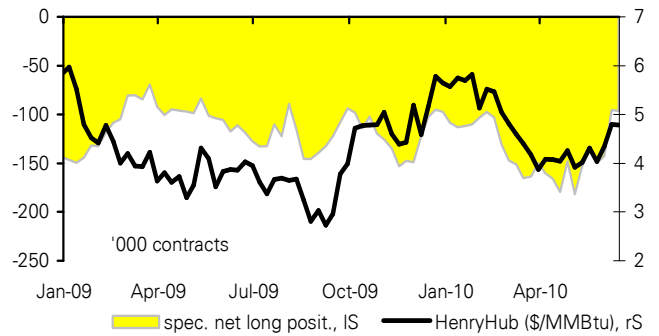
Net long positions of money managers vs. price

GRAPH 1: Crude oil (WTI)



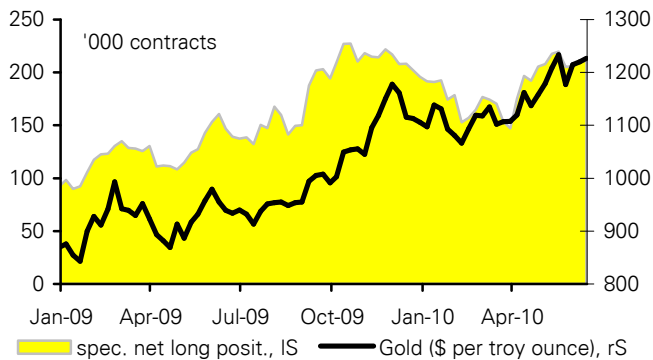
Source: CFTC; Bloomberg, Commerzbank Corporates & Markets

GRAPH 2: Natural gas (Henry Hub)



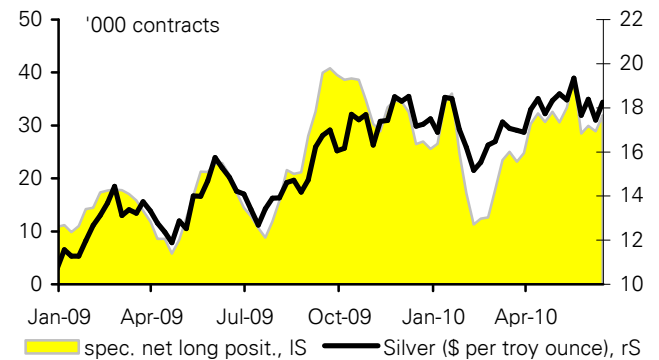
Source: CFTC; Bloomberg, Commerzbank Corporates & Markets

GRAPH 3: Gold



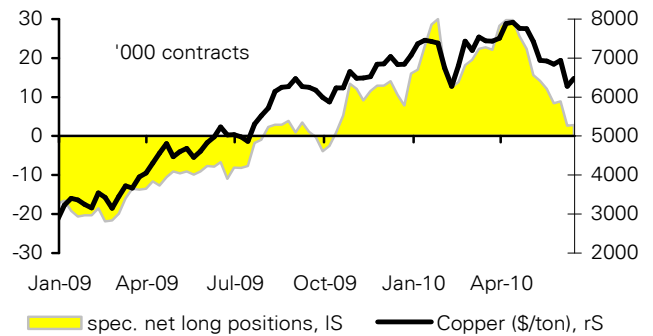
Source: CFTC; Bloomberg, Commerzbank Corporates & Markets

GRAPH 4: Silver



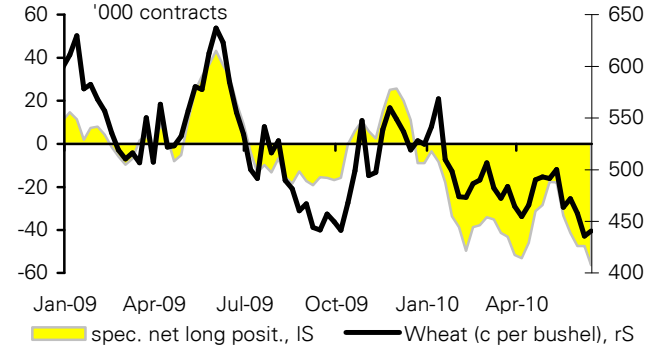
Source: CFTC; Bloomberg, Commerzbank Corporates & Markets

GRAPH 5: Copper



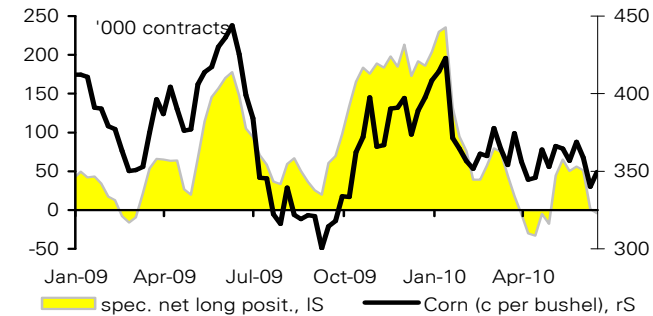
Source: CFTC; Bloomberg, Commerzbank Corporates & Markets

GRAPH 6: Wheat



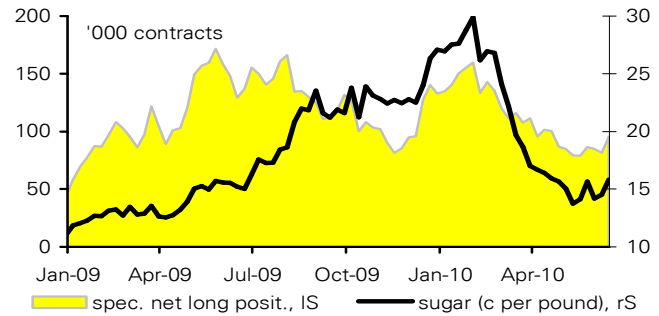
Source: CFTC; Bloomberg, Commerzbank Corporates & Markets

GRAPH 7: Corn



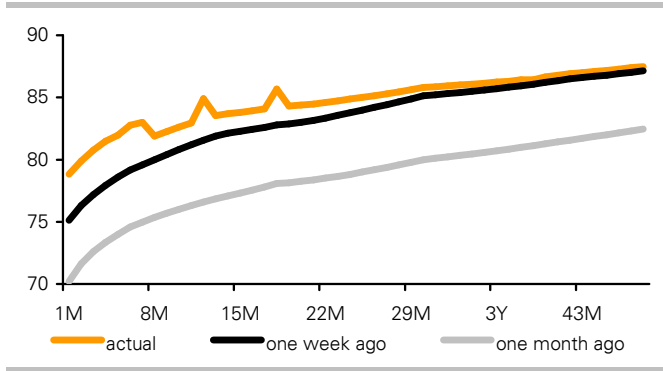
Source: CFTC; Bloomberg, Commerzbank Corporates & Markets

GRAPH 8: Sugar



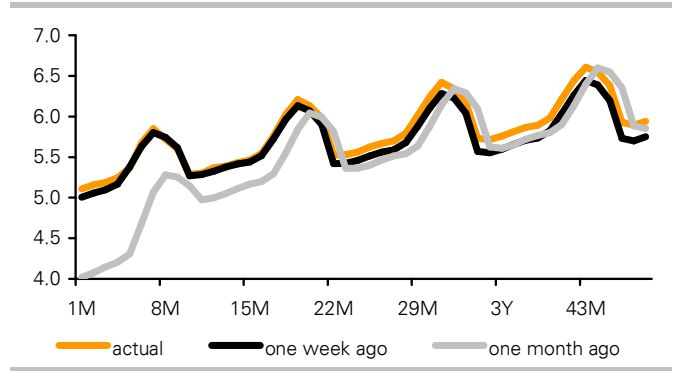
Source: CFTC; Bloomberg, Commerzbank Corporates & Markets

GRAPH9: Forward curve oil market (WTI)



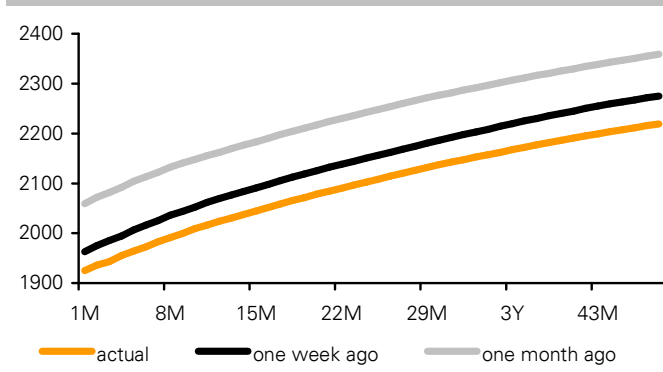
Source: NYMEX; Bloomberg, Commerzbank Corporates & Markets

GRAPH 10: Forward curve gas market (Henry Hub)



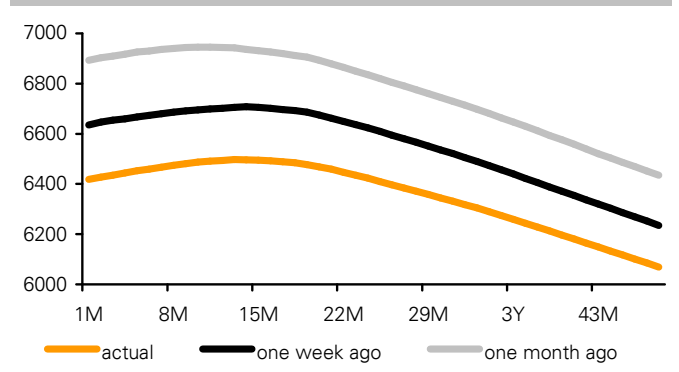
Source: NYMEX, Bloomberg, Commerzbank Corporates & Markets

GRAPH 11: Forward curve aluminium (LME)



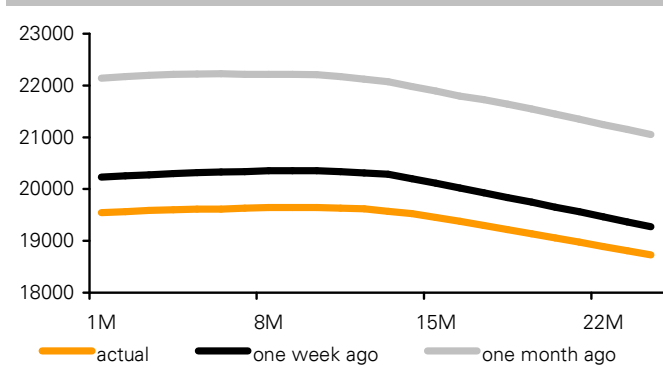
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 12: Forward curve copper (LME)



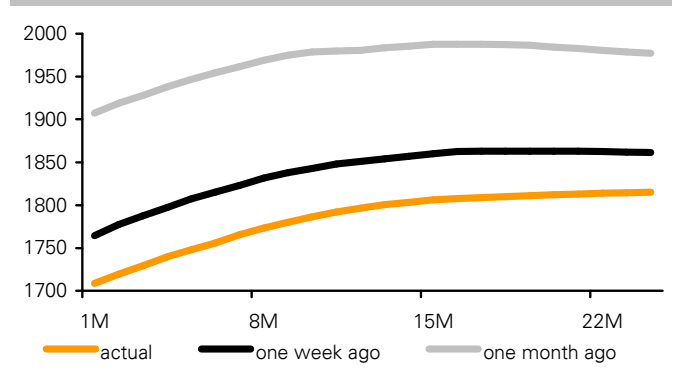
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 13: Forward curve Nickel (LME)



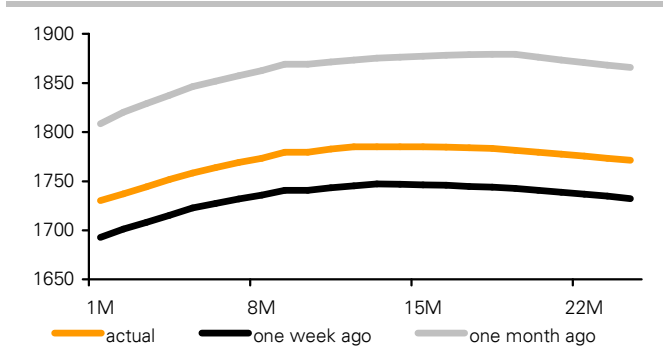
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 14: Forward curve zinc (LME)



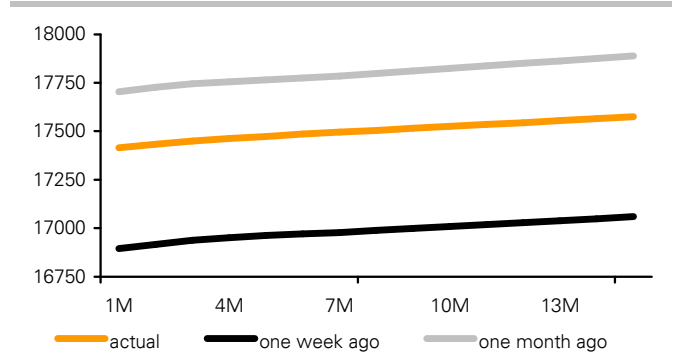
Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 15: Forward curve lead (LME)



Source: LME; Bloomberg, Commerzbank Corporates & Markets

GRAPH 16: Forward curve tin (LME)



Source: LME; Bloomberg, Commerzbank Corporates & Markets

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