

Commodities Daily

3 August 2010

Low expectations spur commodity prices

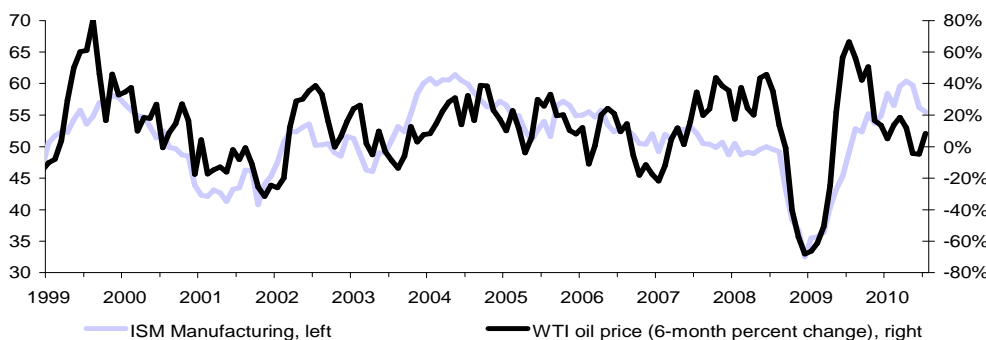
The more modest ones' expectations are the more positive the surprise will be. This is the impression one has recently got in view of the reaction of commodity prices to the economic data. During the weekend, China reported the decrease of the PMI manufacturing index to 51.2 points, respectively the lowest level since February 2009. However, partly a figure of less than 50 was expected. Yesterday, commodity markets absorbed the US ISM data very positively, when the figure turned out to be above the consensus of 54.5 with 55.5. The fact that the forward looking new orders sub-index declined sharply at the same time was ignored. The positive mood can last for quite a while. Soon, however, hard facts have to be presented, for most commodity markets are still showing production surpluses.

Energy: Yesterday's massive price increase of crude oil, when the WTI oil price increased by 3% to a 3-month high at just under US\$ 82 per barrel, surprisingly happened already prior to the start of trading at the US stock markets, which recently influenced the oil price significantly. In our opinion, the main reason is the upwards breakout from the medium-term trading range between US\$ 70 and US\$ 80, which has triggered many stop losses and has attracted new prospective investors. There might be additional impulses coming from the inventory report of the American Petroleum Institute to be published tonight after close of the trading. After a strong increase of inventories last week due to risen imports, a counter movement may be expected now. It might even be strengthened by the temporary shutdown of oil platforms in the Gulf of Mexico and the production losses of approximately 2 million barrels connected with it due to tropical storm Bonnie. The expectation of an inventory reduction by merely 1 million barrels regarding crude oil might therefore be too low by far.

Nevertheless, fundamental data point towards a sufficient availability of crude oil. The Russian oil production increased to a record level of 10.14 million barrels per day in July. According to separate surveys by Reuters and Bloomberg, OPEC production also increased once again in July. The OPEC members, who are bound to quotas, produced slightly more than 2 million barrels of crude oil more than scheduled in July.

Precious metals: Recently, gold could hardly benefit from the strength of other commodities and the weakness of the US dollar and still trades around US\$ 1,180 per troy ounce. At least a further slide of the price was prevented by the weaker US dollar, which was a consequence of the comments by the Chairman of the Federal Reserve, Bernanke. Obviously, the market is already looking ahead to the situation after the crisis and has a critical opinion of the Fed's current expansive monetary policy. Gold, the protection from inflation, benefits from this. Currently gold is also supported by the increasing physical purchases after the most recent slide of the price, but also by the upcoming festival season in India and the Ramadan fasting month in Muslim countries. Furthermore, Peru, the sixth biggest gold producer worldwide, reported a decline of its gold production by 1.8% to 14.4 metric tons in June compared to the previous year. The seasonal weakness regarding gold should soon be over, so that we expect prices of gold to rise again in the medium term.

CHART OF THE DAY: Economic activity in the US is an important factor for oil



Source: Institute for Supply Management, Bloomberg, Commerzbank Corporates & Markets

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Base metals: Metal prices rocketed upwards yesterday. After an already positive start into the week, the ISM index from the US provided further stimulation yesterday afternoon. Lead and zinc were the biggest winners with 6.6% respectively 4.8%. Yet, nickel, for instance, also clearly increased and almost reached the mark of US\$ 22,000 per metric ton. Once again, all metals reached multiple-month highs. This morning, prices took a short break; however, the momentum indicates another increase in the short term. Market participants' risk appetite remains high and stock markets also increase in the course of, among other things, positive business reports. However, prices are already ahead of the improving fundamental data, so that we expect an adjustment on the metal markets in the medium term.

After steel prices in China have recently fallen below production costs, some 40% of local steel producers announced to cut back production in order to contain further losses. Already last month, the companies had started with extensive maintenance work and thus reduced production. The massive excess supply has led to clearly increasing inventories in China. With 10.8 million metric tons, steel inventories in 22 major cities are higher by some 35% compared to the beginning of the year.

Agriculturals: More and more new forecasts regarding possible further price increases of wheat caused by the continuing dramatic drought, especially in Russia, enhance the interest of investors. Yesterday, the price for the September contract at the CBOT intermediately increased to US\$ 7.11 per bushel; however, at the close of the trading, it was below the mark of US\$ 7. The foreign service of the USDA meanwhile also reduced its harvest forecast for Russia from previously 53 to just 50 million metric tons. In addition, reduced exports of just 14 million metric tons are expected, which is lower by another 1 million metric tons. The wheat market currently also supports the prices of corn and soybeans. The US growth conditions should presently not add any major uncertainties to the market, which was also confirmed by yesterday's crop progress report of the USDA.

Arabica coffee reached a 12-year high yesterday with 182 US cents per pound. Robusta quoted at the highest level in almost 2 years with US\$ 1,800 per metric ton. The upward movement was triggered by the scarcity of high-grade beans and falling inventories – stocks at the ICE have been declining since November 2008 by altogether 54%, those of Robusta coffee in London by almost 40% since the end of 2009. Furthermore, speculative traders expanded their exposure regarding Arabica coffee. Net long positions are as high as in March 2008 with well over 33 thousand contracts. Due to improved crop forecasts in South America, we do not expect current prices to endure in the long term.

Prices

Energy ¹⁾	current	1 day	1 week	1 month	1 year
Brent Blend	80.8	3.4%	6.1%	12.7%	4%
WTI	81.3	3.0%	4.8%	12.6%	2%
Gasoline (95)	733.0	3.1%	3.5%	9.9%	5%
Gasoil	680.0	4.9%	5.8%	10.5%	7%
Diesel	660.0	4.5%	3.5%	11.3%	5%
Jet Fuel	700.0	4.3%	3.4%	11.1%	4%
Gas Henry Hub	4.70	-4.5%	1.2%	1.0%	-15%
Base metals ²⁾					
Aluminium	2217	1.9%	7.3%	13.9%	-1%
Copper, LME	7510	2.9%	5.0%	15.7%	1%
Copper, SHFE (CNY)	57730	0.4%	3.9%	10.7%	-3%
Lead	2205	6.6%	11.5%	25.8%	-9%
Nickel	21950	3.8%	5.8%	15.7%	17%
Tin	19880	1.9%	1.9%	14.3%	16%
Zinc	2122	4.8%	8.5%	16.3%	-19%
Precious metals ³⁾					
Gold	1182.9	0.2%	1.8%	-2.4%	8%
Gold (EUR)	897.5	-0.8%	-0.1%	0.8%	-14%
Silver	18.4	2.0%	4.3%	2.9%	9%
Platinum	1601.5	1.8%	3.9%	6.1%	9%
Palladium	508.8	2.3%	9.1%	18.2%	25%
Agriculturals ¹⁾					
Wheat, LIFFE (EUR)	203.0	-2.3%	12.3%	35.1%	52%
Wheat, CBOT	693.3	4.8%	14.3%	39.4%	26%
Corn	390.5	-0.6%	6.5%	6.1%	-7%
Soybeans	1053.3	0.1%	4.3%	8.1%	0%
Cotton	83.9	-0.6%	2.3%	2.0%	10%
Sugar	18.89	-2.6%	2.6%	13.1%	-30%
Coffee Arabica	172.0	-0.3%	5.0%	5.9%	26%
Cocoa	3070.0	-0.3%	3.0%	5.1%	-7%

Inventories

Energy (US (DOE))*	current	1 day	1 week	1 month	1 year
Crude oil	360764	-	2.1%	-1.2%	4%
Gasoline	222245		0.0%	2.1%	4%
Distillates	4347		-3.6%	0.8%	9%
Jet fuel	167513		0.6%	6.8%	3%
Gas Henry Hub	2919		1.0%	11.2%	-3%
Base metals**					
Aluminium LME	4403750	0.5%	0.1%	-0.3%	-4%
COMEX	1767	0.0%	0.0%	0.0%	-84%
Shanghai	492264		-0.2%	-0.9%	173%
Copper LME	414075	0.2%	0.1%	-7.4%	47%
COMEX	100727	-0.1%	-0.5%	-1.2%	82%
Shanghai	104507		-8.3%	-15.7%	104%
Lead LME	184850	0.5%	0.9%	-2.6%	72%
Nickel LME	118158	-0.2%	1.9%	-4.3%	12%
Tin LME	14885	-0.8%	-1.7%	-13.6%	-19%
Zinc LME	620350	0.1%	0.0%	0.6%	52%
Shanghai	242832		-0.5%	-8.3%	
Precious metals***					
Gold	11176	1.1%	0.5%	2.3%	22%
Silver	110361	0.2%	0.0%	-3.5%	-6%
Platinum	132	0.0%	-0.2%	-0.7%	-4%
Palladium	620	0.0%	-0.1%	-1.1%	44%

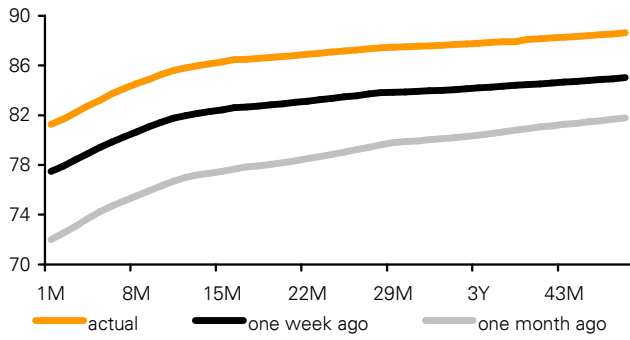
Currencies 3)

EUR/USD	1.3179	0.9%	1.8%	5.5%	-8%
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Source: Bloomberg, Commerzbank Corporates & Markets

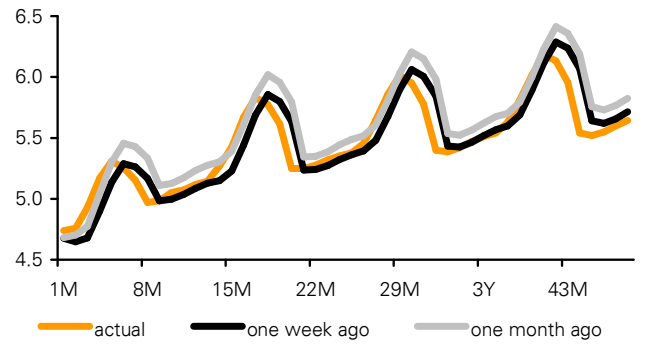
Percentage change on previous period
¹⁾ 1 month forward, ²⁾ 3 months forward, ³⁾ spot
 * '000 barrel, ** tons, *** '000 ounces

CHART1: Forward curve oil market (WTI)



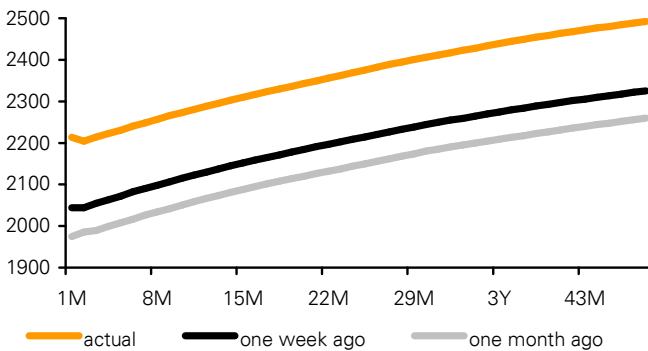
Source: NYMEX; Bloomberg, Commerzbank Corporates & Markets

CHART 2: Forward curve gas market (Henry Hub)



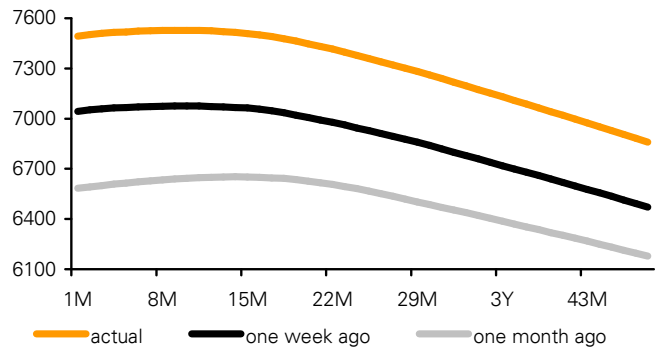
Source: NYMEX, Bloomberg, Commerzbank Corporates & Markets

CHART 3: Forward curve aluminium (LME)



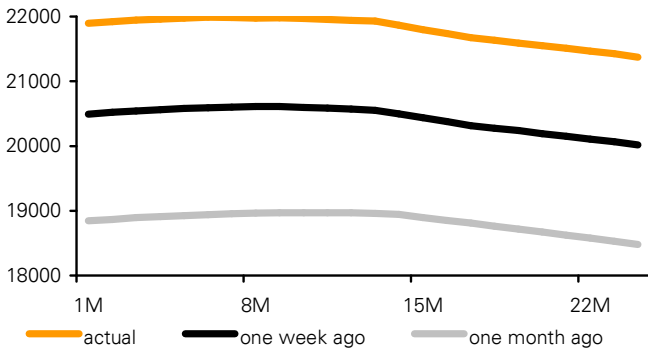
Source: LME; Bloomberg, Commerzbank Corporates & Markets

CHART 4: Forward curve copper (LME)



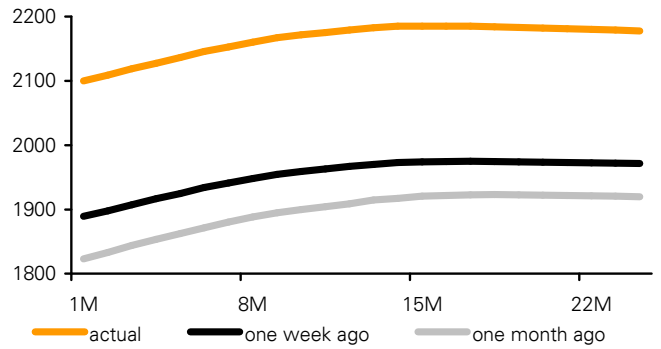
Source: LME; Bloomberg, Commerzbank Corporates & Markets

CHART 5: Forward curve Nickel (LME)



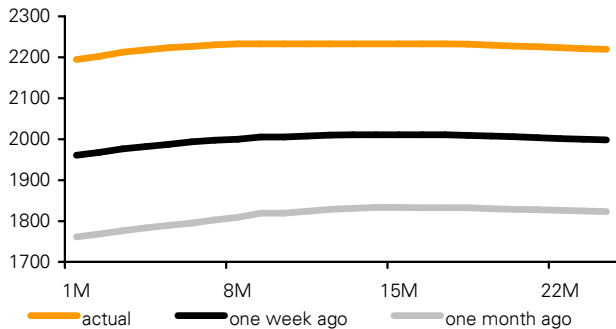
Source: LME; Bloomberg, Commerzbank Corporates & Markets

CHART 6: Forward curve zinc (LME)



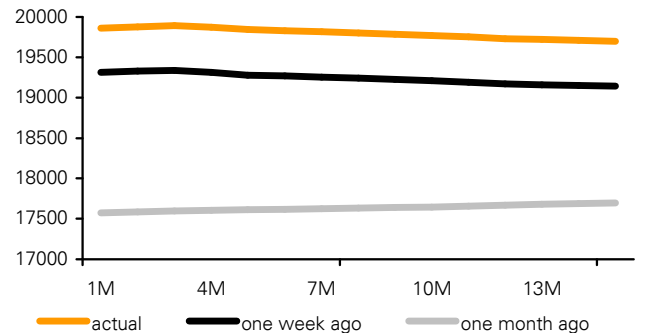
Source: LME; Bloomberg, Commerzbank Corporates & Markets

CHART7: Forward curve lead (LME)



Source: LME; Bloomberg, Commerzbank Corporates & Markets

CHART8: Forward curve tin (LME)



Source: LME; Bloomberg, Commerzbank Corporates & Markets

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