

Commodities: Economic optimism retains the upper hand

■ From a European viewpoint, the last few weeks have been dominated by concerns about developments in the peripheral Eurozone countries. Commodity markets, however, are looking at the whole world, and the situation looks quite a bit better from this viewpoint. Nevertheless, looking forward to coming months, we feel that there is only limited potential for further price increases in commodity markets. In our view the economic recovery in the major industrialised countries is proving to be slow.

■ Energy: The oil price remains unimpressed by the strong US dollar and concerns about Greece, and is moving in the direction of the USD 80 mark (p. 2). / Precious metals: The price of gold remains at a high level, although the strong upward momentum has ended for the present (p.3). / Base metals: The world's largest copper producer Chile was shaken by a violent earthquake, sending copper prices soaring (p.4).

Commodity price movements						
	Commodity	Unit	Price on 2/03/2010	Change in % compared to previous week	month	year
Energy	WTI	\$/bbl	78.70	-1.82	5.74	75.83
	Brent	\$/bbl	78.64	1.80	3.39	86.31
	Gasoline	\$/Gallon	2.20	6.41	8.93	70.89
	Heating Oil	\$/Gallon	2.07	1.89	1.92	79.87
	Natural Gas	\$/MMBtu	4.71	-1.53	-13.73	13.32
	Gas Oil	\$/t	641.00	1.95	6.43	75.14
	GSCI Energy	Index points	994.7	0.85	7.13	41.58
Precious Metals	Gold	\$/oz	1,133.90	2.83	1.48	20.63
	Silver	\$/oz	16.45	1.40	-1.27	25.71
	Platinum	\$/oz	1,544.00	0.79	0.31	42.27
	Palladium	\$/oz	436.50	-1.27	1.86	124.02
	GSCI Precious Metals	Index points	1,471.95	3.52	4.99	24.32
Base Metals	Copper	\$/t	7,377.00	0.87	8.89	86.31
	Nickel	\$/t	21,383.00	4.72	19.18	115.10
	Aluminium	\$/t	2,116.00	-0.49	2.77	60.97
	Zinc	\$/t	2,197.50	-3.39	3.24	98.24
	Lead	\$/t	2,150.50	-6.93	5.99	106.93
	GSCI Base Metals	Index points	1,693.79	3.81	8.94	87.86
	GSCI Agriculture	Index points	560.55	-0.49	-1.83	9.98
GSCI Livestock	Index points	2,122.31	1.79	4.48	-4.53	
GSCI Total Return	Index points	4,417.66	1.04	5.78	35.41	

Sources: CFTC, Bloomberg, DekaBank
Note: The futures price refers to the next generic futures contract (generally 1-month term).

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Energy

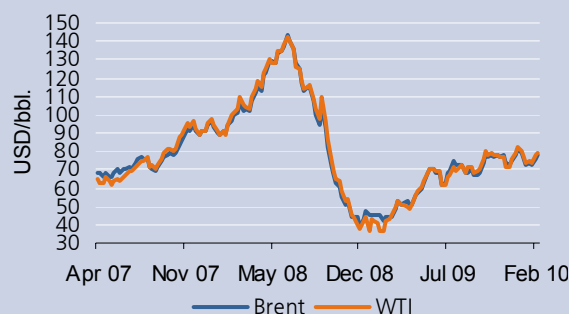
Economic optimism supports oil price

■ The price of crude oil has been fluctuating within a range between USD 70 and 80 per barrel since the beginning of October last year. Although these fluctuations were still relatively closely correlated with changes in the USD/EUR exchange rate at the beginning of the year, this correlation disappeared at the beginning of February. Since that time, a strong US dollar was accompanied by rising equity markets and oil prices and was therefore no longer an indicator of rising risk aversion in these markets. Basically, the exchange rate changes were no longer primarily due to the strength of the dollar but, instead, a weakness of the euro. The euro is suffering from concerns about concerns over the creditworthiness of the peripheral Eurozone countries. However, these concerns are apparently not strong enough to cloud the outlook for global equity and commodity markets in the long term. This is understandable for the crude oil market, since strong sustained demand from the emerging markets is having no problem compensating for the weakness in European demand. The price of WTI crude oil is currently just below the USD 80 per barrel mark.

■ Rising economic optimism is also shown by the futures market position taken by speculative, that is, non-commercial, investors. The net long position doubled within a period of two weeks to reach 85,000 contracts in the last week of February. Although this net position is below the historical high of 135,000 contracts set in January, it is still considerably higher than the three-year average of slightly less than 43,000 contracts.

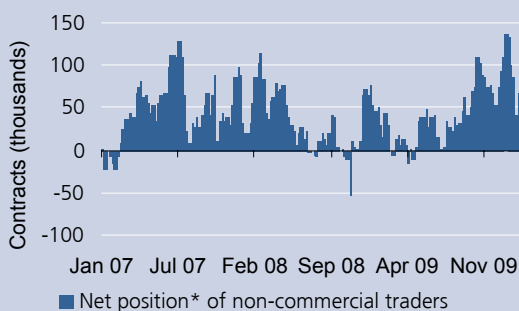
■ **Forecast:** We feel that oil is fairly priced at a level of USD 75. If the concerns about Greece continue to diminish, the resistance at the USD 80 level could soon be overcome. An upward movement like this would also occur if concerns over a military conflict in Iran were to increase. The weakness of economic activity in the industrialised countries suggests that a higher price level could not be sustained. Although the problems are clearly apparent in Europe, we feel that the latest data from the US conceal the still existing problems. Inventory data also do not favour a strong increase in oil prices. US inventories are close to historical highs and the upward trend remains intact.

Fig. 1 Oil price tests the USD 80 mark



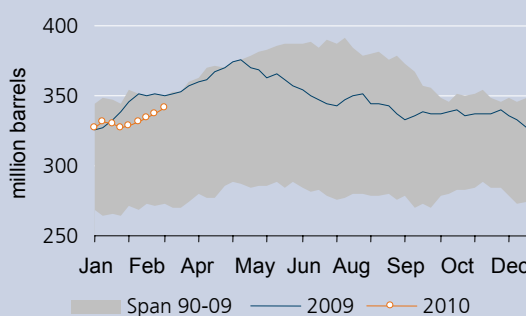
Source: Bloomberg, DekaBank

Fig. 2 Speculators remain optimistic



Source: CFTC, DekaBank *A net positive (negative) position means that the majority is betting on rising (falling) prices.

Fig. 3 US crude oil inventories near historical highs



Source: Department of Energy, DekaBank

Table 1 DekaBank forecast for WTI

	Feb. avg.	3 months	6 months	12 months
Price*	\$ 76.5	\$ 76.5	\$ 78	\$ 73

The 3-month price, for example, indicates that we expect WTI to have an average price of USD 76.5 per barrel in June 2010.

Precious metals

Gold: Taking a deep breath at a high level

■ Although the price of gold was once again near its record high at the end of the period, the upward momentum of the previous year is no longer apparent. Soon after rising above the USD 1 200 per fine ounce level in December, a significant correction occurred. However the price did recover lately and is currently at USD 1 140 per fine ounce. As was the case in the previous year, this movement has little to do with the fundamentals. Physical demand, especially for jewellery, declined significantly in the previous year, while there was a considerable increase in gold scrap usage. This opened a gap between physical supply and demand, although the excess supply is now slowly decreasing as physical demand recovers.

■ The central banks of the industrialised countries and the International Monetary Fund increased their gold sales in the previous year. In contrast, central banks' gold positions rose in the emerging markets, in particular in India and Russia. In overall terms, the public sector had already become a net gold buyer by the second quarter of the previous year and is expected to remain a net buyer in coming months.

■ In spite of the role played by central banks, in our view the strong price increase that occurred in the previous year was primarily the result of financial investor demand, not fundamental demand. Many investors continue to purchase gold as a way to hedge against inflation risks that might result from the strongly expansionary monetary policy pursued by the major central banks. Concerns about the future of the European Monetary Union have fuelled demand for "fundamental assets".

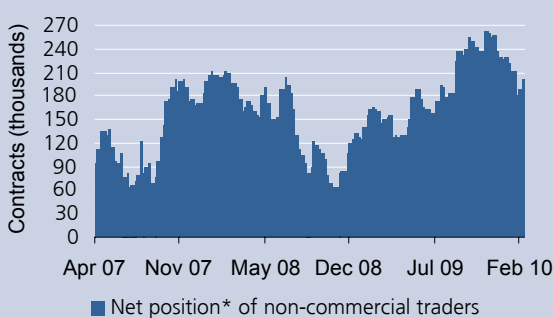
■ **Forecast:** We expect the gold price to undergo a volatile sideways movement in coming weeks. The economic recovery in the G3 countries will likely continue to be tough, but we do not expect a relapse into another recession. The fiscal problems in Greece and other Eurozone countries should remain manageable, if necessary with external assistance. Overall, we feel that there is little risk of inflation. The last two factors should depress the price of gold. At the same time, however, we expect fundamental demand to recover, thereby providing support to the price. Concerns that the exit from expansionary monetary policy might not proceed as smoothly as the central banks would like will also hold the gold price at a high level.

Fig. 4 Soaring gold price stops for the moment



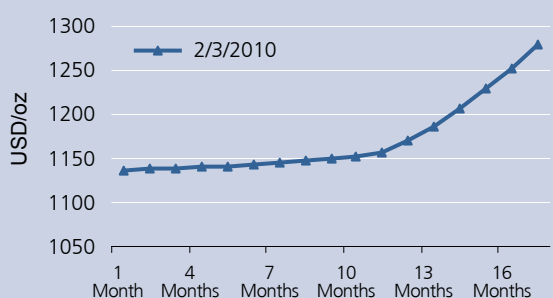
Sources: Bloomberg, DekaBank

Fig. 5 Net long position receding



Sources: CFTC, DekaBank *A net positive (negative) position means that the majority is betting on rising (falling) prices.

Fig. 6 Gold futures curve



Sources: Bloomberg, DekaBank

Table 2 DekaBank forecast for gold

	Feb. avg.	3 months	6 months	12 months
Price*	1098	1120	1140	1070

The 3-month price, for example, indicates that we expect gold to have an average price of USD 1 120 per ounce in June 2010.

Base metals

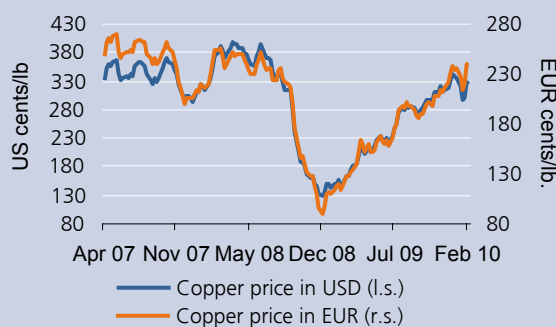
Earthquake in Chile shakes the copper market

■ Price changes were mixed for base metals in February. The upward momentum for aluminium, zinc and lead has slowed considerably compared to the previous year. In a week-on-week comparison, these metals even recorded price losses. Investor sentiment was clouded by concerns about a tightening of monetary policy in China. Combined with continuously high inventory levels this change in policy should dampen demand. The price of nickel, on the other hand, rose significantly. This was due to factors on both the supply and demand sides. The demand for nickel by the US and European steel sectors rose noticeably, leading to a significant decline in LME nickel inventories during the previous month (-4.4 kt). On the supply side the ongoing labour dispute at Vale Inco in Canada continued to create a shortage.

■ The devastating earthquake in Chile and its consequences have been the primary driver of the copper price in the previous few days. The southern part of the country, in particular, suffered considerable damage. A number of copper mines had to stop production due to power failures. As Chile is by far the most important copper producer in the world (approx. 35% of global production), the earthquake also caused turbulence in the copper market. However, the price increases in the first week of March are of a short-term nature. For one thing, the most important Chilean copper mines are in the northern part of Chile, which was not affected by the earthquake. As a result, most of them have already resumed production. In addition, copper inventories remain full to bursting. Even if power supply problems were to halt mining temporarily again, existing inventories are able to provide a cushion against short-term shortages.

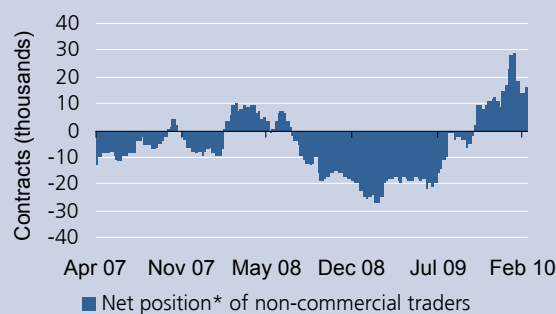
■ **Forecast:** Like other base metals, the price of copper this year will not continue to show the strong increases recorded in the previous year. Although the revival of economic activity in the industrialised countries, which is shown, for example, by the recent improvements of the purchasing manager index (PMI) for the manufacturing sector, is providing support for prices, copper inventories are at their six-years high which should put a brake on the upward trend.

Fig. 7 Interim high for copper prices



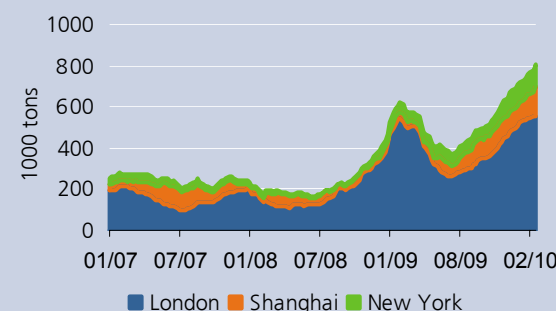
Sources: Bloomberg, DekaBank

Fig. 8 Speculators betting on higher prices



Source: CFTC, DekaBank *A net positive (negative) position means that the majority is betting on rising (falling) prices.

Fig. 9 Copper inventories full to bursting



Sources: Bloomberg, DekaBank

Table 3 DekaBank forecast for copper

	Feb.avg.	3 months	6 months	12 months
Price*	\$ 7 885	↑	→	→

Price per ton. The arrows show the direction of change relative to the monthly average shown in the second column of the table.