Robust rise in commodities prices harbours potential for a reversal

- ***Energy:*** *Rise in price of oil not yet supported by fundamentals*
- ***Precious metals:*** *Inflation fears supporting gold prices at high levels*
- ***Base metals:*** *Aluminium inventories at record levels*

Looking back: As is fitting, commodities markets have joined in celebrating the **continued brightening of prospects for the global economy**. With few exceptions, commodities prices posted gains this past month. The sharpest rises were in energy commodities, up 15%. Agricultural products saw a 5% increase, while precious and base metals were up a good 4%. **We believe, however, that these price rises are not yet adequately supported by the fundamentals**. Given the continued high inventory levels, a physical shortage of commodities is at present nowhere in sight. Non-commercial commodities dealers, on the other hand, expanded their net long positions in May at a brisk pace, which suggests that a significant **portion of the most recent commodities price rises may have been driven by speculation**.

Commodity		Unit	Price on 8/6/2009	Change in % compared to previous week	month	year
Energy	WTI	$/bbl	67.5	-1.6	15.1	-51.3
	Brent	$/bbl	67.7	-0.4	16.4	-50.8
	Gasoline	$/Gallone	1.9	0.8	13.7	-45.3
	Heating Oil	$/Gallone	1.8	-1.4	15.4	-55.9
	Natural Gas	$/MMBtu	3.8	-10.8	-12.1	-70.1
	Gas Oil	$/t	544.0	1.1	14.0	-56.4
	GSCI Energy	Indexpoints	981.0	-1.0	15.4	-66.1
Precious Metals	Gold	$/oz	950.0	-2.9	3.8	6.1
	Silver	$/oz	14.9	-5.1	7.2	-14.3
	Platinum	$/oz	1234.0	1.1	7.6	-40.7
	Palladium	$/oz	259.1	9.7	16.2	-38.7
	GSCI Precious Metals	Indexpoints	1245.1	-3.0	4.1	2.2
Base Metals	Copper	$/t	4963.0	3.0	9.5	-50.8
	Nickel	$/t	14529.0	4.6	21.7	-36.0
	Aluminium	$/t	1544.5	9.4	2.1	-46.0
	Zinc	$/t	1541.5	-0.3	2.3	-20.3
	Lead	$/t	1657.5	6.3	19.0	-13.8
	GSCI Base Metals	Indexpoints	1207.6	1.5	4.4	-40.7
	GSCI Agriculture	Indexpoints	630.6	-5.0	5.1	-28.6
	GSCI Livestock	Indexpoints	2029.1	-4.1	-6.2	-33.3
	GSCI Total Return	Indexpoints	4306.0	-1.7	8.8	-58.4

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

Outlook: We believe that **current commodities price levels**, **after rallying these past weeks and months, harbour the potential for a reversal**. The longer the markets' upward movement lasts, the more pressing becomes the question of whether the trend can be sustained. Prospects for the global economy are clearly improving at the moment; that much is quite evident. But it is doubtful that the upward momentum can continue like this while commodities warehouses are as full as they are at present. **A temporary price correction is entirely likely before any price rises justified by fundamentals can occur.**

Rise in price of oil not yet supported by fundamentals

1. Currently: The effects of the economic turnaround are being felt with particular force on the market for crude oil. The price for a barrel of **WTI crude has worked its way towards USD 70**, which is nearly a doubling of the mid-February lows.

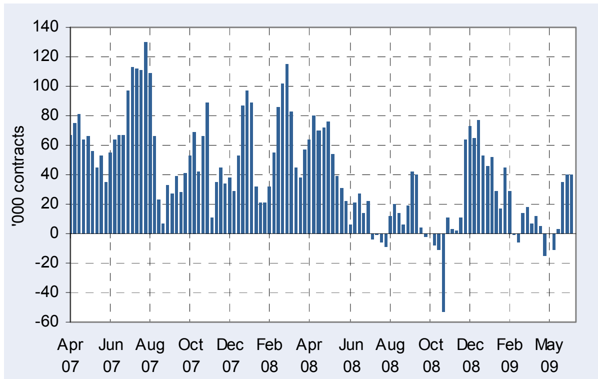
2. Fundamental factors: In addition to a slowly changing economic assessment, another important factor on the market is the tightening of oil supplies. With its output cuts over the past months, OPEC in particular has brought down supply significantly. **As expected, at OPEC's Vienna meeting at the end of May, a decision was made to maintain output at current levels**. Indicative of cartel members' satisfaction with the current price is the announcement by an OPEC official proclaiming that they could live with an oil price between USD 60 and 70 until year's end. In that respect, there would have been little justification for additional quota cutbacks. **At the same time, the rebound in prices has been gnawing away at the discipline of cartel members**. The rise in the price of crude oil is a good opportunity to expand output and thus slowly but surely put an end to the sharp drop in revenues over the past quarters. Hence, OPEC countries slightly raised their crude oil production in May, even though they had already gone over quota in previous months, and no change was made to official output volumes going forward from May. Production continues to be near the official quotas. But to go on "cheating as a policy" would help revenues only in the short run; long term it would impact the cartel's credibility.

3. Our view: The fact that crude oil speculators have clearly built up their net long positions to a quarterly high confirms our view **that the current price increases are not yet sustainable, but rather are being driven by speculation**. This can also be seen in inventories, which continue to be very high. We expect that only in the late summer months will the price of oil make a permanent jump above the USD 70 mark.

Price of oil on the upswing …

Sources: Bloomberg, DekaBank

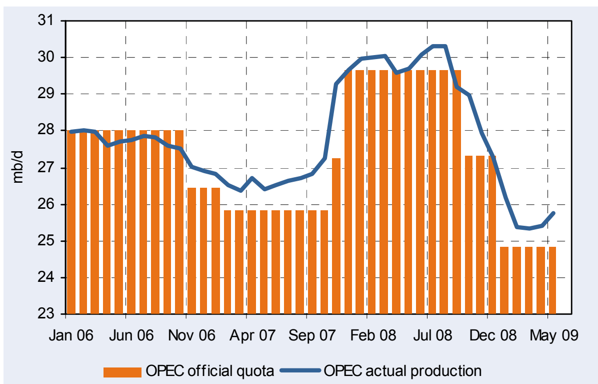
… as are speculators' net long positions



Sources: CFTC, DekaBank

* A net positive position means that the majority is betting on rising prices.

OPEC continues to "cheat"



Sources: Bloomberg, DekaBank

Our forecast for WTI

	May avg.	3 months	6 months	12 months
Price*	$ 59.20	$ 70	$ 75	$ 67

* The 3-month price, for example, indicates that we expect WTI to have an average price of USD 70 per barrel in August.

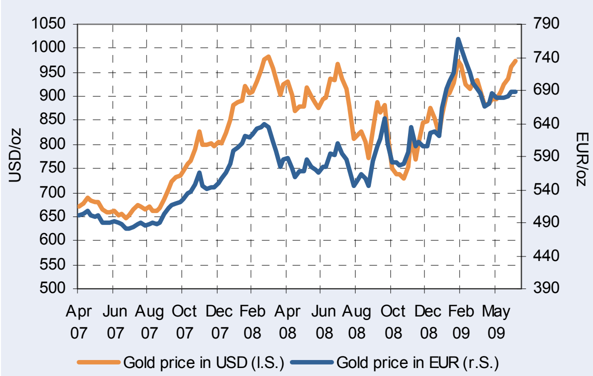
Inflation fears supporting gold prices at high levels

1. Currently: Gold prices have once again been strongly tied to the external value of the U.S. dollar. This is also evidenced by the fact that the gold price increase in euros was much less than in U.S. dollars. Speculators' positions are surely playing a major role at the moment.

2. Fundamental factors: Worldwide **gold supplies** continued their upward trend **in the first quarter of 2009, rising more than 34% compared to the prior-year quarter**. As already was the case at the end of 2008, high prices increasingly helped to bring old gold back on to the gold market. **Old gold supplied 558 tonnes in the first quarter, about as strong a contribution as from mine production (560 tonnes)**. That is noteworthy, since in previous years the old gold supply was only about half of their mine production amount. The difficult economic environment, combined with high gold prices, was supposedly the reason for the increased selling of old gold. The previous year's trends also continued with respect to demand. The weak jeweller and industrial demand (-26% and -31%, respectively, versus the previous year) was more than offset by the great number of investors seeking out the investment "safe haven" represented by gold. Overall, worldwide **demand in the first quarter was up 35% compared to first quarter 2008, comparable to the increase in supply**. But whereas in previous quarters global investment demand was dominated by purchases of gold bars and coins, gold-backed securities (ETFs) represented the dominant factor in the first quarter. But this was not the case for Germany. German demand for gold bars and coins, 59 tonnes in the first quarter, was the strongest in the world, showing that, **compared to the rest of the world, Germans are marked by quite strong inflation and currency fears**.

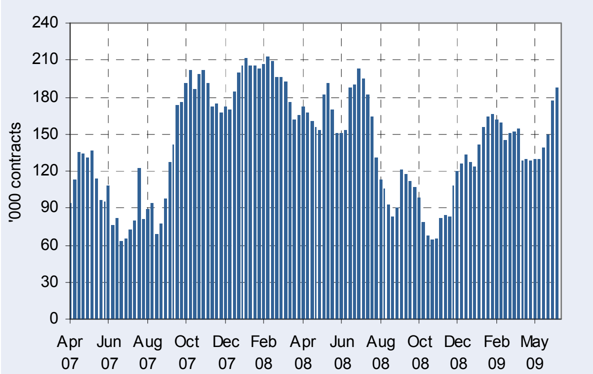
3. Our view: Tensions on the financial markets have eased as a result of the **brightening of the global economic outlook**, accompanied, however, by **expectations of higher inflation**. Inflationary concerns will support the price of gold at high levels for the next several quarters.

Dollar-driven rise in price of gold



Sources: Bloomberg, DekaBank

Speculators quite optimistic



Sources: CFTC, DekaBank

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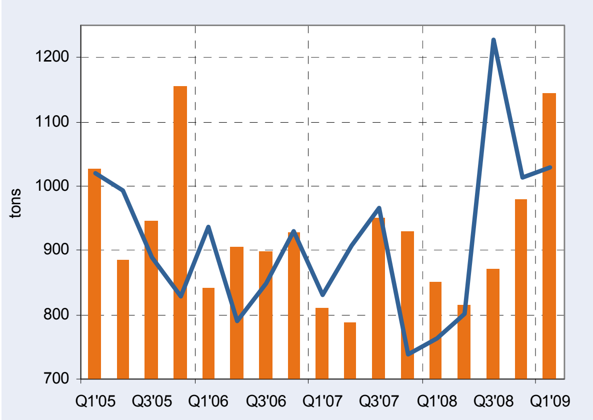
Strong pick-up in gold supply



Sources: World Gold Council, DekaBank

Our forecast

	May avg.	3 months	6 months	12 months
Price*	$ 930	$ 910	$ 900	$ 910

* The 3-month price, for example, indicates that we expect gold to have an average price of USD 910 in August.

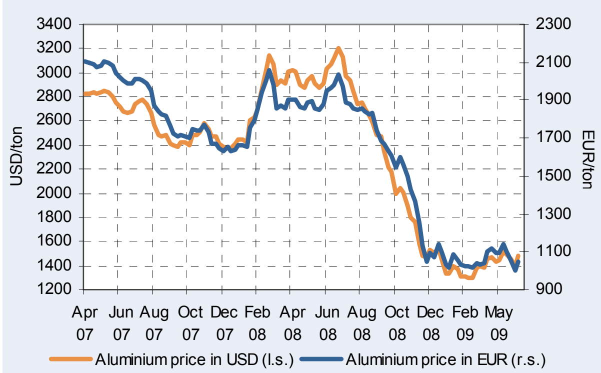
Aluminium inventories at record levels

1. Currently: While the price of aluminium **has for the moment hit bottom**, aluminium prices are not showing a pronounced trend change to the upside, as is being seen with a number of other base metals.

2. Fundamental factors: Virtually nothing has changed over the past few months in the fundamental situation on the aluminium market. There continues to be **massive oversupply**, as decreased production, despite cuts which have meanwhile become significant, is still failing to match the collapse in demand. The global recession is causing a decline in consumption demand in construction, transportation, the packaging industry and even in the electricity sector. International Aluminium Institute (IAI) data show global aluminium production since December 2008 at below its prior year level. In **April 2009, global production of aluminium was 9.3% lower** than a year ago. That these cutbacks are insufficient to prevent excess supply is evidenced by the **strong continued build-up of inventories** on the London Metal Exchange. In the first quarter of 2009, aluminium inventories increased another 50% compared to the last quarter of 2008, even after having risen 70% in the previous quarter. LME warehouses are now storing three times as much aluminium as one year ago. **Inventories of 3500 thousand tonnes, as seen in the first quarter, constitute a historical record**. The last time this happened, it was in 1994 with 2600 thousand tonnes, inventories on the LME were not even close to being this high. Given this inventory situation, a trend change is currently not expected.

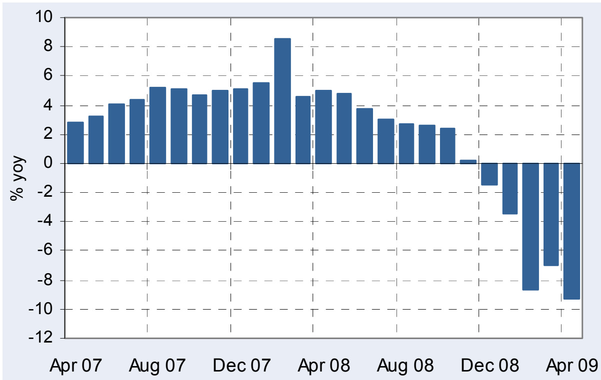
3. Our view: We see **oversupply prevailing for the foreseeable future** on the aluminium market. Even if demand picks up once again due to the global economic packages and increasing global economic momentum in the second half of the year, massive inventories will first be drawn on followed by a reactivation of excess production capacity before any notable price pressure can arise. For that reason, only on a 12-month basis can we see aluminium prices **revisiting the levels of May 2009**.

Aluminium price moving sideways



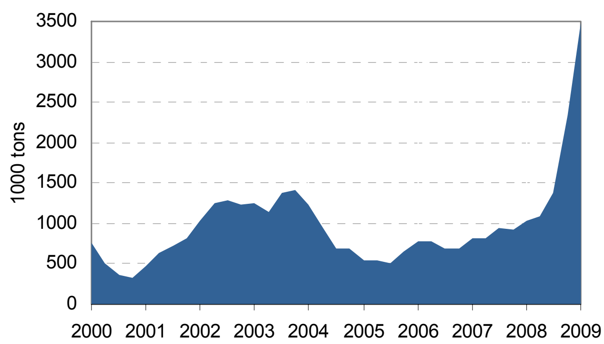
Sources: Bloomberg, DekaBank

Trend in global aluminium production



Sources: IAI, DekaBank

Inventories at record levels (LME, quarterly data)



Sources: IAI, DekaBank

Our view

	May avg.	3 months	6 months	12 months
Price*	$ 1,472	↓	↓	→

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

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