

Commodities: Government debt crisis and China concerns depress prices

In spite of the extensive measures taken to stem the government debt crisis in the Eurozone, financial market uncertainty remains high. In addition, there are fears that growth might weaken in China. These concerns are also depressing commodity markets. Gold was the only commodity sought out as a safe haven in recent weeks. It recorded price increases while the prices of all other commodities fell, in some cases substantially. In coming months we expect sustained strong growth in the global economy, as well as the implementation of announced savings measures within the Eurozone. The combination of these two should provide support to financial markets and lead to a recovery in commodity prices.

Energy: The price of oil remains under pressure due to the uncertainty, even though the demand for oil is growing well. (P. 2). / Precious metals: The price of gold has been boosted by the crisis (P. 3).

| Commodity price movements | | | | | | |
|---------------------------|----------------------|-------------------|----------------------------------|--------|--------|--------|
| Commodity | Unit | Price on June 07, | Change in % compared to previous | | | |
| | | 2010 | week | month | year | |
| Energy | WTI | \$/bbl | 71.51 | -4.08 | -13.57 | 3.92 |
| | Brent | \$/bbl | 71.36 | -4.41 | -8.83 | 4.42 |
| | Gasoline | \$/Gallon | 2.00 | -2.14 | -14.08 | 1.69 |
| | Heating Oil | \$/Gallon | 1.96 | -2.09 | -13.36 | 9.74 |
| | Natural Gas | \$/MMBtu | 4.80 | 11.71 | 19.54 | 25.91 |
| | Gas Oil | \$/t | 617.00 | -3.25 | -6.20 | 12.34 |
| | GSCI Energy | Index points | 876.9 | -1.96 | -9.32 | -10.61 |
| Precious Metals | Gold | \$/oz | 1,216.20 | 0.36 | 4.02 | 23.95 |
| | Silver | \$/oz | 17.30 | -6.33 | -2.91 | 8.83 |
| | Platinum | \$/oz | 1,525.30 | -1.78 | -9.52 | 17.94 |
| | Palladium | \$/oz | 429.80 | -7.02 | -16.58 | 68.95 |
| | GSCI Precious Metals | Index points | 1,598.28 | 1.75 | 3.52 | 28.37 |
| Base Metals | Copper | \$/t | 6,251.00 | -10.21 | -10.65 | 4.42 |
| | Nickel | \$/t | 17,889.00 | -17.72 | -27.28 | 22.24 |
| | Aluminium | \$/t | 1,852.25 | -9.16 | -13.29 | 20.59 |
| | Zinc | \$/t | 1,612.25 | -15.77 | -23.91 | 3.85 |
| | Lead | \$/t | 1,583.50 | -13.08 | -22.14 | -4.00 |
| | GSCI Base Metals | Index points | 1,365.33 | -11.97 | -14.28 | 13.06 |
| | GSCI Agriculture | Index points | 474.44 | -3.37 | -6.75 | -24.76 |
| GSCI Livestock | Index points | 2,072.06 | -2.94 | -7.25 | 2.12 | |
| GSCI Total Return | Index points | 3,893.58 | -2.89 | -8.85 | -9.58 | |

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

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Energy commodities

Concerns about government debt put pressure on the price of oil

■ The price of oil has been put under pressure in recent weeks by fears of a further intensification of the Eurozone debt crisis and the associated strength of the US dollar, as well as signs of an economic slowdown in China. The price of Brent crude oil fell significantly from just under USD 90 per barrel at the beginning of May to a final value slightly above USD 70.

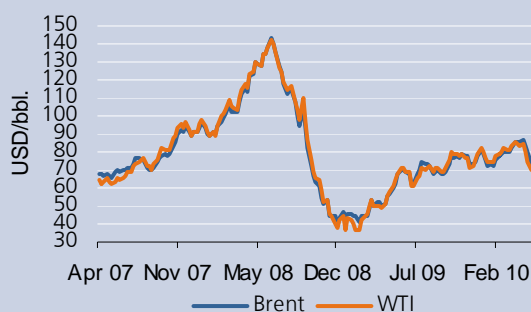
■ The uncertainty resulted in a large number of open long crude oil contracts being closed. The net long position held by speculative investors dropped from 110,000 at the beginning of May to 25,000 at the beginning of June, the lowest level recorded since August 2009.

■ Good economic data from the US prevented an even larger price decrease from occurring. The surprisingly sharp rise in the demand for oil was a particularly positive factor for the price of oil, rising to a final value of more than 20 million barrels per day, a level not seen since January 2009. This made it clear that the increase in US crude oil inventories was not due to weak demand. Inventories rose 2.7 million barrels in May to 363 million barrels. For the first time since November 2005, the Japanese demand for oil rose for three months in a row on a year-on-year basis. This was consistent with the positive macroeconomic numbers recently recorded in Japan.

■ Sentiment in the oil market is currently dominated by concerns about government finances in the Eurozone. Restructuring these finances will take many years, and cannot be accomplished in a few weeks. Since no quick solution is in sight for this problem, reductions in economic growth associated with the savings programmes will also not be felt until the medium term. Although further negative news could also arrive in the short term, we expect investor perception to focus on the good fundamental data in the oil market in coming weeks. In addition to developments in the US this includes, in particular, the strong economic growth in emerging markets, which we feel is not in danger in spite of ongoing concerns about an economic slowdown in China. On the technical side, the significant reduction in the net long position held by speculative investors could potentially result in a slight setback.

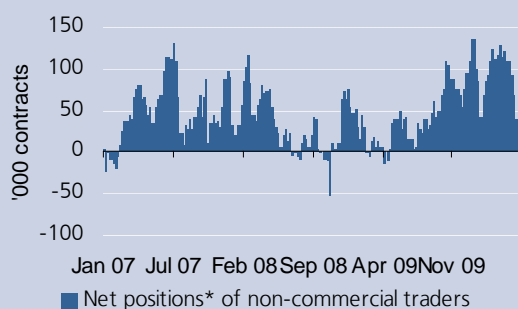
■ **Forecast:** We therefore expect the price of oil to firm up in coming weeks. It should already be back above the USD 80 per barrel level in two to three months. We expect the price of WTI crude oil to be USD 80 at the end of the year.

Fig. 1 Significant correction in the price of oil



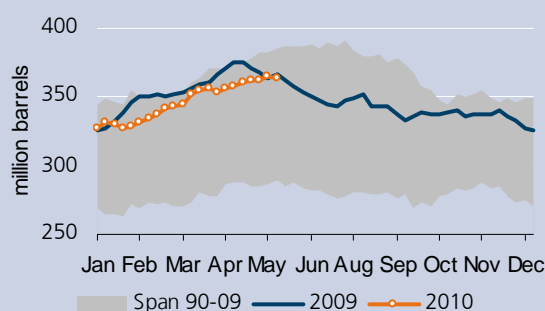
Source: Bloomberg, DekaBank

Fig. 2 Speculators go on the defensive



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

Fig. 3 US crude oil inventories continue to rise



Source: Department of Energy, DekaBank

Table 1 DekaBank forecast for WTI

| | May avg. | 3 months | 6 months | 12 months |
|--------|----------|----------|----------|-----------|
| Price* | \$ 74.10 | \$ 81 | \$ 81 | \$ 83 |

* The 3-month price, for example, indicates that we expect WTI to have an average price of USD 82 per barrel in September 2010.

Precious metals

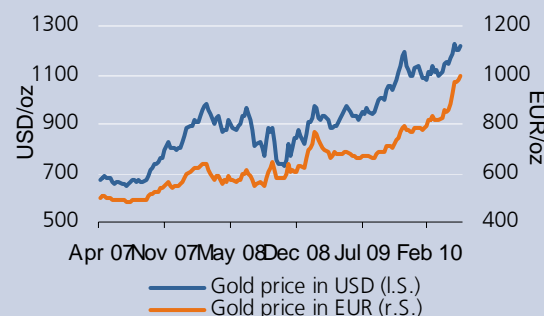
Gold: Boosted by the crisis

■ The euro price of gold is moving from one record to another. This is primarily due to increased uncertainty created by the debt crisis in peripheral Eurozone countries. On the one hand, the increase in risk aversion leads to a search for a secure haven, which many see in gold. On the other hand, the crisis impacts the stability of the euro, which has recently fallen significantly. In spite of the sizeable rescue packages, no solution is yet in sight for the current crisis of confidence. The US dollar price of gold is now gaining momentum again, after experiencing a significant correction in the first quarter of the year. The intensification of the debt crisis is giving new impetus to the gold price. Gold is currently trading near the historical high again at a price of USD 1,217 per fine ounce. The price in euro is just slightly below the EUR 1,000 mark. The change in fundamentals, which derives from the traditional demand from industry and jewellery production, had scarcely any effect on the market in previous months. On the other hand, the importance of the demand for financial products linked to the gold price is increasing.

■ The central banks of the industrialised countries and the International Monetary Fund increased their gold sales in the previous year. In contrast, central bank gold positions rose in the emerging markets, including, in particular, the central banks of 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.

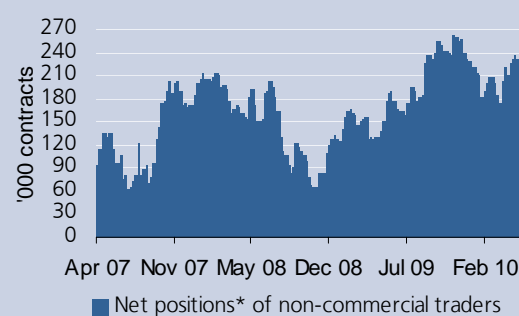
■ **Forecast:** In the short term, the gold price should benefit from ongoing uncertainty in financial markets and concerns about the continued existence of the euro. Many investors continue to purchase gold as a way to hedge against inflation risks that might result from the highly expansionary monetary policy pursued by the major central banks. Concerns about the continued existence of the euro have fuelled demand for "fundamental assets". In the medium term, however, investor attention should move from inflation risks to a closer consideration of the interaction between supply and demand. This is likely to halt the current soaring prices sooner or later. However, a significant decline to a level below the USD 1,100 per fine ounce mark is becoming increasingly unlikely for this year.

Fig. 4 Record high for gold price in euro



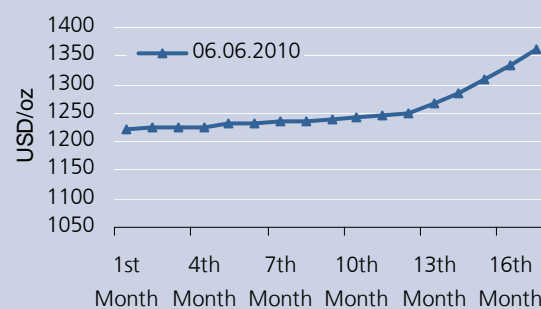
Sources: Bloomberg, DekaBank

Fig. 5 Sustained high net long position



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

Fig. 6 Gold futures curve



Source: Bloomberg, DekaBank

Table 2 DekaBank forecast for gold

| Price* | May avg. | 3 months | 6 months | 12 months |
|--------|----------|----------|----------|-----------|
| | 1,204 | 1,150 | 1,150 | 1,000 |

* The 3-month price, for example, indicates that we expect gold to have an average price of USD 1,180 per ounce in August 2010.