Commodities Monthly

DekaBank

July 2009 **Macro Research**

Price increases only continue for some commodities

- ***Energy:*** *Oil price correction?*
- ***Precious metals:*** *Platinum market – first supported by financial investors, then by automobile production*
- ***Base metals:*** *Unexpected stabilisation of nickel price*

Looking back: Not all commodities continued their upward trend in recent weeks. **Continued improvement of the economic outlook**, together with ongoing implementation of worldwide economic stimulus packages (particularly the infrastructure measures included), provided new support for base metals, which rose 1.5% over the past month. **The value of base metals has increased by 24% since the beginning of the year.** Although energy commodities also saw an increase in the first half of June, **disenchantment returned to these markets in the final weeks of June**. This also depressed precious metals, which experienced a slight reduction in demand compared to the previous month.

Commodity		Unit	Price on 6/7/2009	Change in % compared to previous		
				week	month	year
Energy	WTI	$/bbl	64.1	-7.4	-6.4	-55.9
	Brent	$/bbl	63.9	-10.1	-6.6	-55.8
	Gasoline	$/Gallone	1.7	-7.6	-11.4	-51.5
	Heating Oil	$/Gallone	1.6	-5.4	-7.5	-60.1
	Natural Gas	$/MMBtu	3.5	-11.1	-9.3	-74.1
	Gas Oil	$/t	514.8	-9.7	-6.3	-60.3
	GSCI Energy	Indexpoints	905,8	-10.4	-8.7	-69.3
Precious Metals	Gold	$/oz	925.8	-1.6	-3.7	-0.8
	Silver	$/oz	13.2	-6.6	-14.3	-27.8
	Platinum	$/oz	1178.0	-2.1	-8.4	-41.9
	Palladium	$/oz	245.0	-0.8	-5.4	-47.1
	GSCI Precious Metals	Indexpoints	1196.7	-2.1	-7.1	-4.9
Base Metals	Copper	$/t	4970.0	-1.1	1.3	-55.8
	Nickel	$/t	16129.0	2.5	14.1	-22.2
	Aluminium	$/t	1575.5	-2.6	8.3	-49.8
	Zinc	$/t	1526.0	-2.2	0.9	-13.4
	Lead	$/t	1691.8	-0.6	6.1	6.4
	GSCI Base Metals	Indexpoints	1218.0	-1.5	1.5	-43.1
	GSCI Agriculture	Indexpoints	546.2	-5.9	-15.9	-41.9
	GSCI Livestock	Indexpoints	2115.0	1.3	3.2	-29.8
	GSCI Total Return	Indexpoints	3988.5	-8.3	-8.1	-62.3

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

Outlook: The first fundamental data is now available **providing support for the commodities price increases experienced in previous months**. The trend toward rising inventories has ended for some energy commodities and base metals, and in some cases inventories have actually fallen. This is particularly the case for the commodity heavyweights, crude oil, aluminium and copper. In the final analysis, however, the rapid price increases recorded in the spring months **harbour the potential for another rebound in commodities markets** before further sustainable price increases based on fundamental data can be expected starting in late summer.

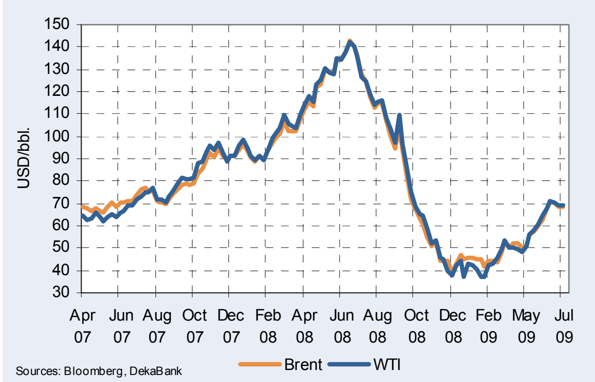
Oil price correction?

1. Currently: The oil price **rose to around USD 70 in June**, due in part to the continued net long position held by speculators, but increasingly also due to the ongoing decrease in inventories recorded, for example, in the US. In the first days of July, however, **the oil price once again dropped** toward USD 65 per barrel.

2. Fundamental factors: The latest **International Energy Agency (IEA) forecast of oil demand** and supply for the next five years received heavy coverage in the media. The IEA advises 28 oil consuming countries, and made a strong downward revision to its December forecast of global consumption. **Although it expects oil demand to begin rising again in 2009, the average annual rate of increase is only projected to be 1.4% or 1.2 million barrels a day until 2014.** This may sound small, but the increase in average annual oil demand was also only 1.5% between 1990 and 2006 (global oil consumption even declined in 2007 and 2008). The IEA forecasts are based on expected annual growth in global GDP of just under 5% between 2012 and 2014. On the supply side, **the IEA is forecasting a decrease in non-OPEC production of 0.4 million barrels a day by 2014.** This implies the need for an increase in OPEC production from 27.68 million barrels per day in 2009, rising to 31.45 million barrels in 2014, which represents a total increase of 13.6% or 2.3% per year. **The inability of non-OPEC oil supplies to satisfy demand growth in coming years clearly shows the increasing importance of the OPEC cartel for the oil market.** The IEA forecasts signal that oil market supply shortages have not been avoided, but only delayed for a number of years. The **IEA forecast therefore implies that the oil price will only experience moderate upward pressure in coming years.**

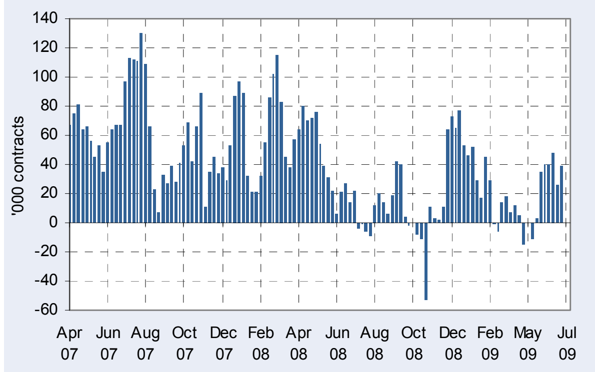
3. Our view: Although we feel the price of oil could fall during the next few weeks, **we expect oil prices to rise over the next 3 to 6 months to a level higher** than that reached in June.

Will the oil price remain at USD 70?



Sources: Bloomberg, DekaBank

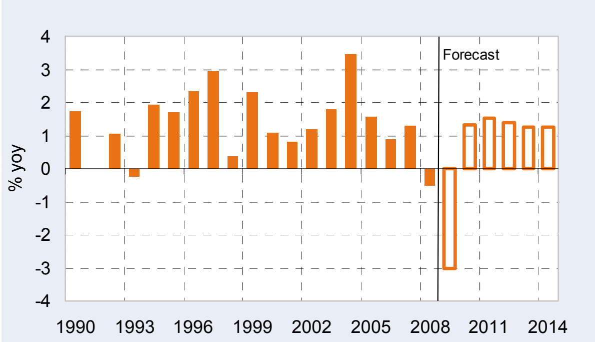
Speculators moderately optimistic



Sources: CFTC, DekaBank

* A net positive (negative) position means that the majority is betting on rising (falling) prices.

IEA forecast of global oil consumption



Sources: BP, IEA, DekaBank

Our forecast for WTI

	June avg.	3 months	6 months	12 months
Price*	$ 69.8	$ 72	$ 73	$ 67

* The 3-month price, for example, indicates that we expect WTI to have an average price of USD 72 per barrel in September.

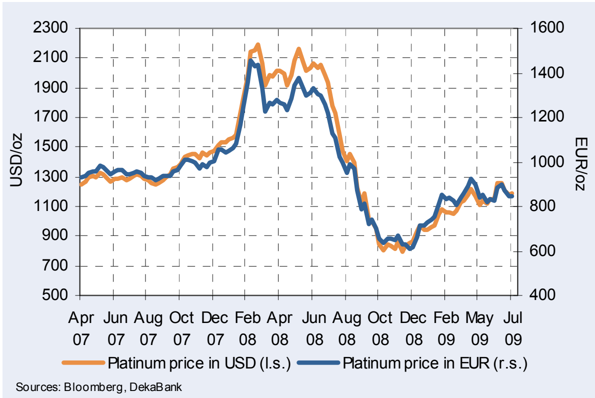
Platinum market – first supported by financial investors, then by automobile production

1. Currently: The price of a fine ounce of **platinum has risen since the beginning of the year,** settling in the range of USD 1,100 to 1,300 in previous weeks. Non-commercial platinum traders continue to be strongly optimistic about the platinum price, and the majority are betting on rising prices by taking a **pronounced net long position.** This, together with strong ETF demand for physical platinum (record level in April), is likely to be one the main reasons for the price increase recorded since the beginning of the year. However, the **automotive industry,** which is by far the most important consumer of platinum, clearly also played a role in the turnaround.

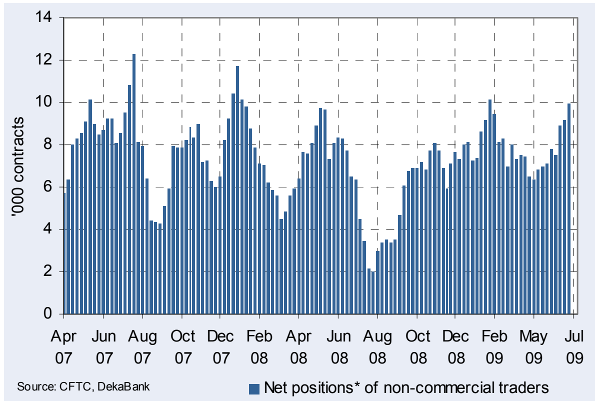
2. Fundamental factors: More than half of the **market demand for platinum comes from the automotive industry,** which uses this commodity for catalytic converters. Although the global automotive economy still has a long way to go, the first **signs of recovery** are already being seen in a number of regions of the world. This can be seen most strongly in China, where automobile production in February, April and May was once again above the level of these months in the previous year. Even though automobile production was lower than the previous year in other important economic areas like the US, Japan and EU27, the strongest downward movement also appears to be over in these areas, with annual rates of change rising since February or March (although they remain in the negative range). Due to continued poor growth of the global economy, it is likely that the **second most important demand component, jewellery demand,** created little in the way of upward price momentum during the year to date. Improvement is unlikely to be seen in this area until the end of the year at the earliest.

3. Our view: Demand from the automotive industry and jewellery production is more likely to generate stronger stimulus in the latter part of the year and in the coming year. Investor demand will continue to provide support until then. As the trend in production is expected to remain flat, **a significant increase in the value of platinum is only expected over a 12-month horizon.**

Platinum price stabilises



Speculators remain optimistic



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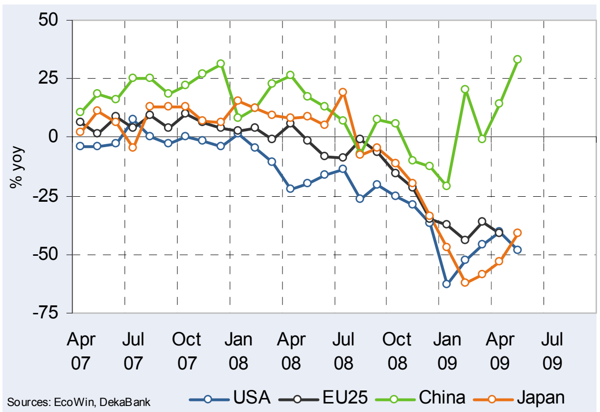
Automobile production picks up again



Our opinion

	June avg.	3 months	6 months	12 months
Price change*	$ 1222	→	→	↑

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

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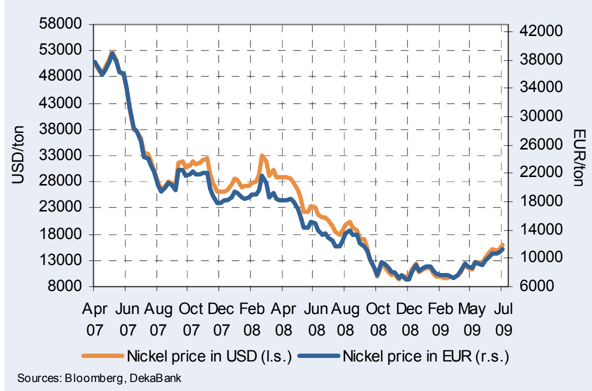
Unexpected stabilisation of nickel price

1. Currently: The price of nickel firmed **unexpectedly** in previous months, and has **increased strongly since March.** This was partly due to the general upward trend experienced by base metals during this period. However, economic stimulus packages also had an unexpectedly rapid effect on worldwide steel production, which has provided support for the nickel price since March.

2. Fundamental factors: Even though global production of **steel** continues to be 30% lower than a year ago, **world production has stabilised since March.** The steel market is therefore the primary factor driving the nickel market, as more than half of annual nickel demand is used for steel alloys, that is, the production of high-grade steel. China plays an especially important role here, as it represents one fifth of worldwide nickel consumption. Even though Chinese steel production also stabilised somewhat at the end of the period, the main factor of interest was **net Chinese imports of nickel, which rose to record levels in April and May**. It is hard to imagine that Chinese consumption accelerated at the same rate as imports. Instead, it appears that China is stockpiling inventory in anticipation of further increases in nickel prices, which raises the question of how long this import increase will be sustained. A look at **nickel inventories on the London Metal Exchange** (LME) shows no further increase in nickel reserves over previous months. This could be due to increased demand for nickel for global high grade steel production while nickel production remains weak.

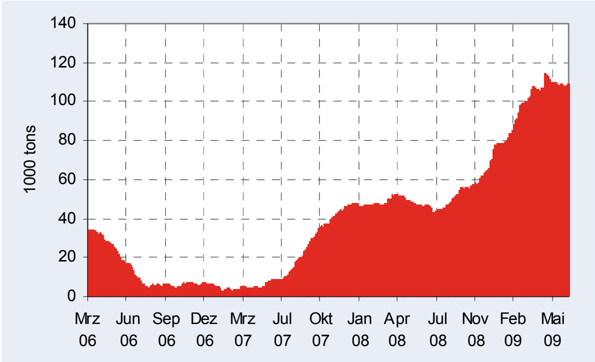
3. Our view: We feel that the **pronounced increase in the price of nickel since the beginning of the year is not sustainable**, as we expect the steel industry to remain weak over the long-term. In addition, **nickel inventories are very high compared to historical levels**. Although we expect **nickel prices to rise again late in the second half of the year**, prices are likely to remain below the current level.

Nickel price: unexpected stabilisation



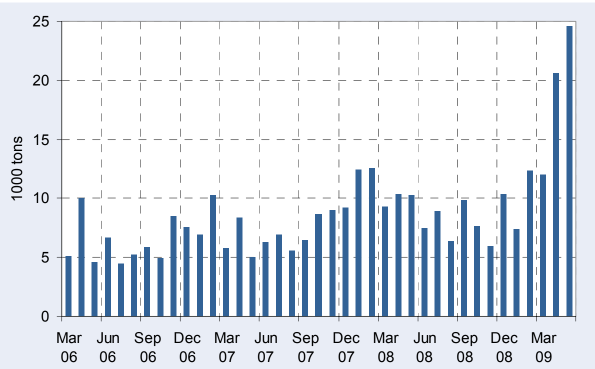
Sources: Bloomberg, DekaBank

No further inventory increases



Sources: Bloomberg, DekaBank

Chinese nickel imports rise dramatically



Sources: National Bureau of Statistics China, DekaBank

Our opinion

	June avg.	3 months	6 months	12 months
Price change*	$ 15015	↓	↓	↓

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

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