Increasing economic concerns burden commodity markets

▮ Weak economic indicators from China and the USA have fuelled concerns about weaker than expected global economic growth in the last few weeks. This environment has put pressure on the prices of most commodities. Markets are also being depressed by the ongoing government debt crisis in the Eurozone, new tensions in the European banking system, and uncertainty about future financial market regulations. In our view, however, the picture of a continuing, albeit slow, recovery of the global economy will be confirmed in coming months. Commodity prices should increase slightly again in this environment.

▮ Energy: The price of oil is under some pressure again due to weak economic figures from China and the USA, but has remained above the 70 dollar mark (p.2). / Base metals: Increasing pessimism about growth prospects and a major increase in supply are putting pressure on the price of aluminium (p.3).

Commodity price movements

	Commodity	Unit	Price on 07/07/2010*	Change in % compared to previous week	month	year
Energy	WTI	$/bbl	71.98	-8.01	0.66	12.38
	Brent	$/bbl	72.17	-3.79	0.07	14.14
	Gasoline	$/Gallon	1.97	-7.78	-1.20	13.27
	Heating Oil	$/Gallon	1.92	-8.41	-2.07	17.87
	Natural Gas	$/MMBtu	4.68	-0.74	-2.40	34.27
	Gas Oil	$/t	621.50	-3.61	0.08	23.13
	GSCI Energy*	Index points	862.2	-4.70	-1.60	-3.23
Precious Metals	Gold	$/oz	1,190.00	-4.22	-3.98	28.08
	Silver	$/oz	17.83	-4.52	3.09	34.82
	Platinum	$/oz	1,513.80	-3.31	-0.75	32.75
	Palladium	$/oz	440.40	-6.31	2.47	78.30
	GSCI Precious Metals*	Index points	1,542.50	-3.84	-1.36	28.32
Base Metals	Copper	$/t	6,584.00	1.73	5.33	32.78
	Nickel	$/t	18,845.00	-0.94	5.34	18.75
	Aluminium	$/t	1,974.75	2.40	6.61	24.16
	Zinc	$/t	1,823.25	6.14	13.09	18.49
	Lead	$/t	1,761.00	3.45	11.21	5.78
	GSCI Base Metals*	Index points	1,473.88	2.07	6.16	22.28
	GSCI Agriculture*	Index points	512.35	5.48	7.27	-3.58
	GSCI Livestock*	Index points	2,114.82	0.40	0.68	0.20
	GSCI Total Return*	Index points	3,908.98	-2.61	0.25	-0.38

* GSCI index, components and changes as of 07/06/2010. Sources: CFTC, Bloomberg, DekaBank
Note: The futures price refers to the next generic futures contract (generally 1-month term).

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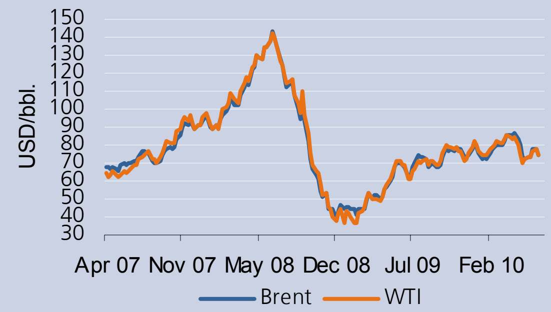
Energy commodities

Weaker outlook for oil demand

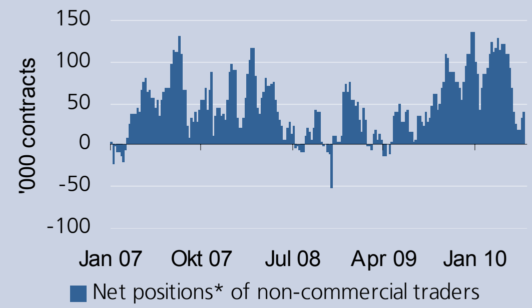
- Capital market sentiment is being dampened by a number of factors simultaneously. Concern about the increase in government debt in the Eurozone is one factor, regardless of the collective commitment to deficit reduction issued by the last G20 summit, and the fact that most countries have already approved specific measures. Uncertainty about the banking systems has also increased again in recent weeks, due to a significant decrease in lending in the interbank market. Investor reluctance also comes from a lack of clarity about the future course of financial market regulation. As a result of this environment, the reception given to the latest economic figures from the USA and China was more negative than it would have been a few months ago. So far, however, the figures mostly just confirm the economic picture that existed previously: the recovery is proceeding slowly in the USA, and the slowdown that the government wanted is now taking place in China. In view of this, the latest fall in the price of WTI crude oil from USD 79 per barrel at the end of June to a final value of USD 72 comes as no surprise.
- The market was not affected, however, by the latest published data on changes in US oil inventories, which fell slightly by 2 million barrels to 363 million barrels at the end of June. Overall, oil inventories have followed a relatively stable sideways trend for several weeks. The strong increase in demand should cause inventories to decrease slightly in coming months.
- After falling to 17,460 contracts at the beginning of June, the lowest level in almost a year, the net long position of speculative investors rose again slightly to 39,640 contracts during the following two weeks. Previously, the net long position had still been 128,140 contracts at the beginning of April. This shows that investors are being somewhat cautious, which limits the potential of a setback in coming weeks.
- **Forecast:** We continue to see the market as relatively well protected on the downside, as the current uncertainties do not, in our view, cast doubt on the robust trend in fundamental demand. We expect the price of oil to move within a range of USD 70 to 80 in the coming weeks, and to be at the upper end of this range at the end of the year.

Fig. 1 Oil price under pressure again



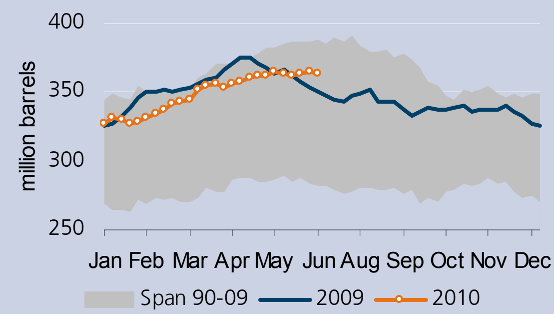
Source: Bloomberg, DekaBank

Fig. 2 Speculators still cautious



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

Fig. 3 US crude oil inventories in sideways trend



Source: Department of Energy, DekaBank

Table 1 DekaBank forecast for WTI

	June avg.	3 months	6 months	12 months
Price*	$ 74.6	$ 82	$ 76	$ 84

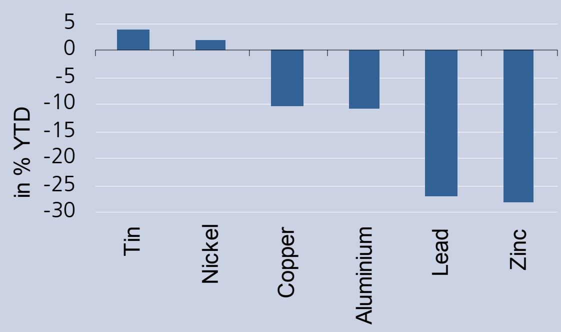
* The 3-month price, for example, indicates that we expect WTI to have an average price of USD 82 per barrel in October 2010.

Base metals

Affected by concerns about China

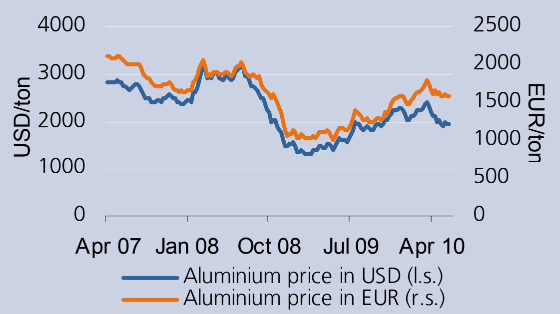
▮ Base metal prices were also affected by the general uncertainty prevailing in markets. In previous weeks, all of the base metals gave up the profits they had made at the beginning of the year. Only the prices of tin and nickel remain above their levels at the beginning of the year, with lead and zinc suffering large price declines.
▮ One of the reasons for these price declines is the increase in risk aversion in financial markets due to the debt crisis in peripheral Eurozone countries. However, concerns about the world economy also play a major role. Negative reports from China, which provided support for the base metals during the previous year as a result of its investment and construction boom, had a particularly negative effect. The Chinese purchasing manager index fell for the third time in a row in June. The measures taken to prevent a real estate bubble in China are expected to reduce construction activity, thereby curbing demand for metals such as copper. Although growth momentum was expected to decline in China, uncertainty about the size of the decline increased recently, because the restrictive measures in China coincide with the debt crisis in the Eurozone. This is expected to dampen the prospects for base metals over the next few months.
▮ Consistent with the rising price of aluminium, production of this base metal also increased considerably in the previous year, particularly in China, where production has now reached record levels. Because aluminium production is very energy intensive, significantly higher prices for energy commodities are now causing production costs to rise sharply. At the same time, the increase in production quantity and concerns about the economy are putting increasing pressure on the price of aluminium. This is making some smelters unprofitable and should lead to production cutbacks.
▮ **Forecast:** Due to the nervous sentiment in financial markets and weakening demand, the price of aluminium is expected to come under pressure in the next three months. Over the medium term, however, the low price level should cause production to be terminated in the unprofitable aluminium smelters. We expect the fall in prices to be limited due to this reduction in supply.

Fig. 4 Base metals move in reverse



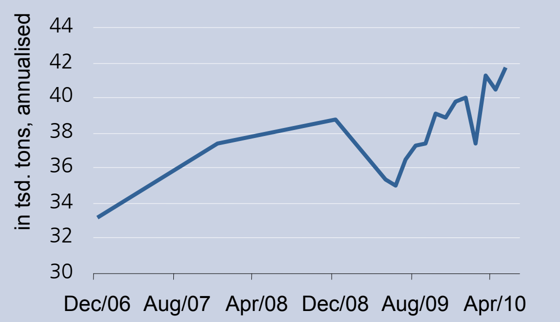
Sources: Bloomberg, DekaBank

Fig. 5 Aluminium: Price levels falling



Source: Bloomberg, DekaBank

Fig. 6 Aluminium: Production rises sharply



Source: IAI, DekaBank

Table 2 DekaBank forecast for gold

	June avg.	3 months	6 months	12 months
Price*	$ 1936	↓	→	→

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