Macro Research
Commodities Monthly

DekaBank

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The glass is back to half full

▮ Cautious optimism is returning to the commodity markets and has resulted in strong price increases by month-on-month comparison. Although the economic recovery in the USA is still slow and growth is cooling down in China, the worries about the government debt crisis in the Eurozone and the state of the banking systems have lessened. In light of the fact that economic indicators in the Eurozone have improved on balance, the likelihood of the global economy sliding back into recession has diminished even further.

▮ Energy: The oil price is benefitting from the improved sentiment on the financial markets and has topped the US Dollar 80 mark (p.2.). / Precious metals: Recently, the gold price has come under severe pressure as worries about a possible exacerbation of the government debt crisis in the peripheral Eurozone countries have abated (p. 3).

Commodity price movements

	Commodity	Unit	Price on 08/02/2010*	Change in % compared to previous week	month	year
Energy	WTI	$/bbl	81.34	2.99	12.75	17.12
	Brent	$/bbl	80.82	4.28	12.80	12.72
	Gasoline	$/Gallon	2.17	2.98	9.65	6.05
	Heating Oil	$/Gallon	2.15	5.44	12.44	20.07
	Natural Gas	$/MMBtu	4.70	1.93	0.30	28.69
	Gas Oil	$/t	680.00	3.78	10.79	19.19
	GSCI Energy*	Index points	957.3	3.29	9.67	-5.35
Precious Metals	Gold	$/oz	1,183.40	0.03	-2.01	24.09
	Silver	$/oz	18.42	1.23	4.07	32.13
	Platinum	$/oz	1,602.20	3.19	6.87	31.96
	Palladium	$/oz	515.85	8.70	20.84	108.85
	GSCI Precious Metals*	Index points	1,532.15	0.01	-1.49	23.29
Base Metals	Copper	$/t	7,493.00	5.00	17.30	30.90
	Nickel	$/t	21,898.00	5.55	16.81	22.27
	Aluminium	$/t	2,213.00	8.22	15.35	18.12
	Zinc	$/t	2,100.25	8.55	19.69	21.30
	Lead	$/t	2,194.75	9.70	26.57	17.93
	GSCI Base Metals*	Index points	1,676.41	6.48	17.87	14.54
	GSCI Agriculture*	Index points	599.66	8.73	16.56	2.18
	GSCI Livestock*	Index points	2,200.40	1.99	3.32	6.61
	GSCI Total Return*	Index points	4,350.70	4.12	10.51	-1.46

* 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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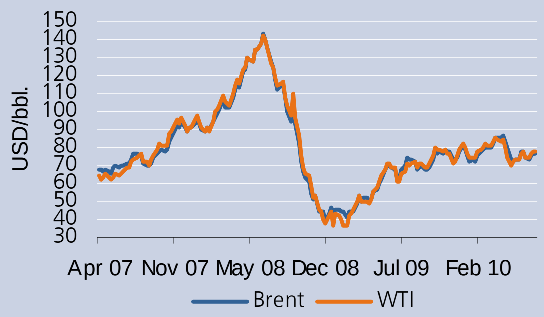
Energy commodities

Cautious optimism on the oil market

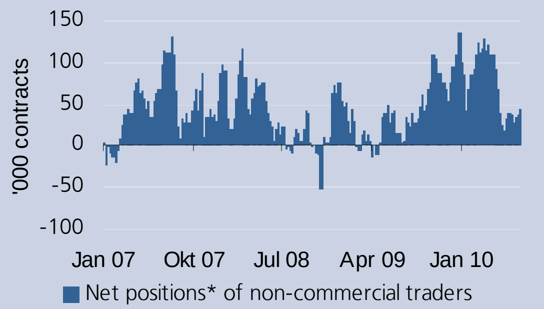
- In recent weeks, the concerns surrounding the government debt crisis in the peripheral Eurozone countries have diminished considerably. As a result, the risk premiums imposed on the countries are declining and the Euro is witnessing a recovery. At the same time, the signs that China's economy is cooling down are becoming increasingly visible, and the recovery of the US economy has still not picked up in pace. Overall, however, there is a sense of relief that the situation in Europe has relaxed. Together with the good demand for oil, this provides a positive general environment for the development of the oil price. Following the sharp dip to about US Dollar 70 per barrel in the first half of May, prices have meanwhile stabilised again. WTI crude is currently trading at just over US Dollar 80.
- US imports of crude oil have increased by a surprisingly large margin. In the most recently published weekly figures, the US were importing more than 11 million barrels a day, which is the highest value ever recorded. This leap should, however, remain a temporary aberration since some of the deliveries arrived late as a result of hurricane Alex and others were brought forward to avoid the oncoming hurricane Bonnie. Nevertheless, this increase in imports has also pushed up inventories. US crude oil stocks have soared by more than 7 million barrels to more than 360 million barrels. Demand remained strong. Total US demand for oil recently amounted to some 19.8 million barrels a day, which is equivalent to an increase of about 3% by year-on-year comparison.
- Speculators on the oil market are currently in waiting position. The net long position recently comprised 44,310 contracts, compared with more than 100,000 contracts back at the beginning of May. As such, the potential for a setback in oil prices is limited.
- **Forecast:** After moving within a bandwidth of US Dollar 70 - 80 since the end of May, the price of a barrel of WTI crude could now initially top the US Dollar 80 mark. We do not anticipate any fundamental changes to the conflicting signals witnessed in recent weeks. The strong increase in global demand for oil will continue to be faced with concerns over growth in the USA and China. Disappointing economic figures keep distracting attention from the positive trend in demand on the oil market, which we do not see as being at risk. Accordingly, the oil price could well hover around the US Dollar 80 mark on average for quite some months to come before setting its sights on the US Dollar 90 mark in the second half of 2011.

Fig. 1 Oil price is benefiting from strong demand



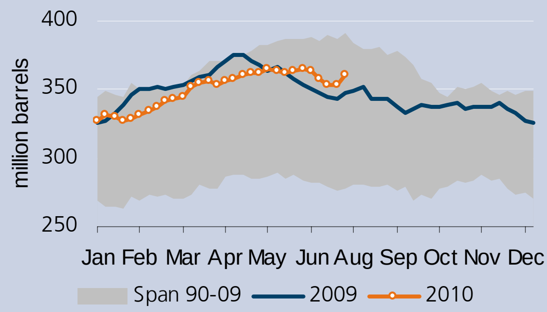
Source: Bloomberg, DekaBank

Fig. 2 Speculators remain cautious



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

Fig. 3 US crude oil stocks have soared recently



Source: Department of Energy, DekaBank

Table 1 DekaBank forecast for WTI

	July avg.	3 months	6 months	12 months
Price*	$ 76.4	$ 82	$ 78	$ 88

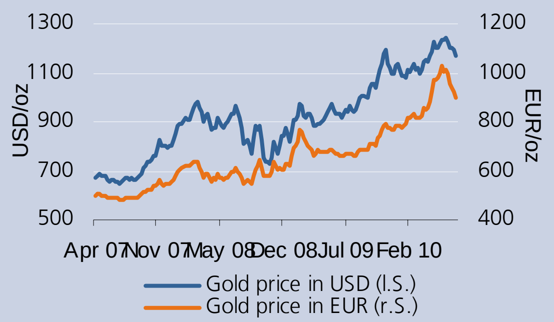
* The 3-month price, for example, indicates that we expect WTI to cost an average of USD 82 per barrel in November 2010.

Precious metals

Gold: Return to normality exerts pressure on the price of gold

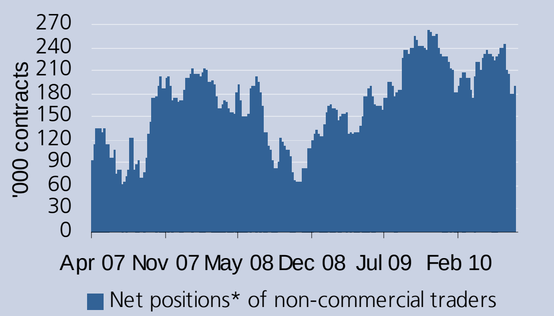
- The decreasing risk aversion over the past two weeks has left a severe mark on the price of gold. Concerns about the solvency of the peripheral Eurozone countries and the uncertainties surrounding economic development had previously pushed the price of gold up to new record heights. As the cautious reaction to the bank stress tests has shown, however, these concerns have still not abated.
- The fine ounce is currently trading below the US Dollar 1,200 mark again, or just below 900 in Euro terms. Fundamental developments derived from the traditional demand from industry and jewellery production have exerted much less influence on the market in recent months than was the case in the past. At best, the recent recovery in the demand for jewellery has slowed the decline in the gold price. On the other hand, the importance of the demand for financial products linked to the gold price is increasing. This trend will probably result in sustained high levels of volatility over the coming months. On the supply side, we expect mining production to increase further this year in the wake of heightened incentives from record prices. At the same time, old gold is still in copious supply, despite the slight decline following the record year in 2009.
- 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. The International Monetary Fund will probably continue to reduce its exposure.
- **Forecast:** The overriding issue in the coming months will be whether the risks for the global economy have been averted and whether the chapter on the global financial crisis can be closed. Doubts will also continue to surround the solvency of certain industrialised countries. This uncertainty should provide upward momentum for the price of gold over the coming months. In the medium term, however, investor attention should move away from the risks towards a closer consideration of the interaction between supply and demand. This is likely to halt the currently soaring prices sooner or later. A significant decline to a level below the USD 1,100 per fine ounce mark is becoming increasingly unlikely for this year. We do, however, expect the price to dip further over the course of the coming year.

Fig. 4 Recoil from record height



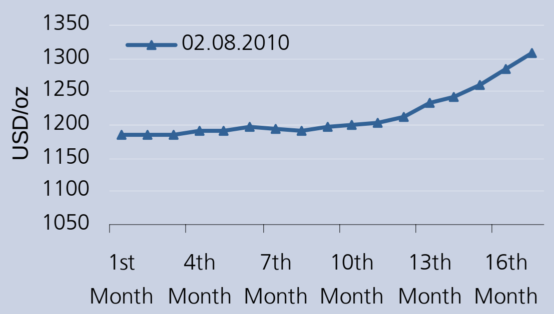
Sources: Bloomberg, DekaBank

Fig. 5 Continuing high net long positions



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

Fig. 6 Futures curve for gold



Source: Bloomberg, DekaBank

Table 2 DekaBank forecast for gold

	July avg.	3 months	6 months	12 months
Price*	1192	1250	1150	950

* The 3-month price, for example, indicates that we expect gold to cost an average of USD 1,250 per ounce in November 2010.