Commodities Monthly

DekaBank

October 2009 **Macro Research**

Good supply situation reflected in performance of commodities

- ***Energy:*** *Crude oil price moves sideward around USD 70*
- ***Precious metals:*** *Is silver more in demand as a safe haven than gold?*
- ***Base metals:*** *Excess supply still the main factor in the aluminium market*

Looking back: A **sideward trend could be seen in the previous month** when looking at commodities as a whole, and the search for orientation continues. Many commodities are at **reasonable price levels, so that there is no great need for adjustment in either direction**. As a result, commodity market participants are being influenced by good and bad news from other markets, which is leading to this volatile sideward movement. The previous poor performer natural gas was the single commodity departing significantly from this trend, this time moving upward, showing an increase of 70% in September to follow the further drop of 40% it had recorded the month before.

	Commodity	Unit	Price on 5/10/2009	Change in % compared to previous week	month	year
Energy	WTI	$/bbl	69.2	3.5	1.7	-26.3
	Brent	$/bbl	67.2	2.6	0.6	-25.5
	Gasoline	$/Gallon	1.7	5.5	-2.7	-22.4
	Heating Oil	$/Gallon	1.8	4.9	3.1	-33.4
	Natural Gas	$/MMBtu	4.7	26.8	73.4	-35.7
	Gas Oil	$/t	551.8	1.8	2.5	-37.5
	GSCI Energy	Index points	943.1	4.6	3.8	-46.9
Precious Metals	Gold	$/oz	1004.0	1.2	0.9	21.1
	Silver	$/oz	16.2	0.4	-0.1	43.4
	Platinum	$/oz	1275.6	-0.7	3.7	30.2
	Palladium	$/oz	300.5	2.5	1.8	48.9
	GSCI Precious Metals	Index points	1331.7	2.4	2.0	19.0
Base Metals	Copper	$/t	5865.8	-2.0	-4.9	-25.5
	Nickel	$/t	17210.0	2.2	-4.9	13.9
	Aluminium	$/t	1776.5	-0.8	-2.2	-21.4
	Zinc	$/t	1858.5	-0.1	2.8	18.8
	Lead	$/t	2094.0	-3.4	-0.5	24.6
	GSCI Base Metals	Index points	1398.9	-1.5	-4.8	-5.5
	GSCI Agriculture	Index points	538.0	-1.0	-0.9	-12.0
	GSCI Livestock	Index points	1927.7	-2.9	-2.7	-26.7
	GSCI Total Return	Index points	4133.8	2.9	2.0	-37.6

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

Outlook: The **world is currently well supplied with commodities**. Inventories are good, ranging from adequate to above average levels, and there is no sign of shortages. Although the **economic recovery is underway worldwide**, it could **still be a while before the global economy brings commodity markets to their capacity limits again**. The only factor that might lead to strong price increases in the near future is if the abundant liquidity present in money markets were to leave in search of better returns. Except for the precious metals, however, these increases would likely be reversed relatively quickly once it became clear to the market that demand was responding flexibly to higher prices. We therefore expect **only moderate increases in commodity prices over the remainder of the year**.

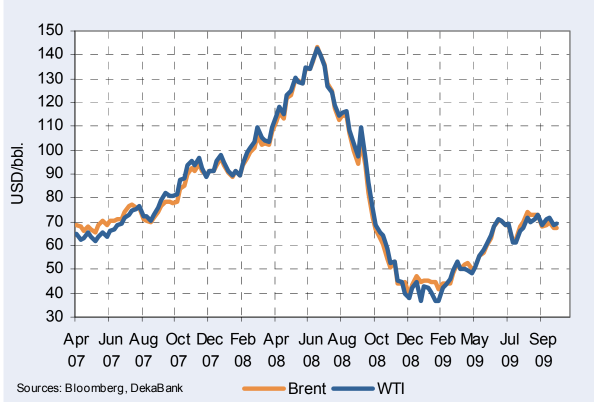
Crude oil price moves sideward around USD 70

1. Currently: The **oil price continues to move around the USD 70 mark**. Due to the lack of significant oil market news, market participants are still being led by developments in other markets (e.g. equities and currencies). The result is a volatile sideward movement in the oil price. In the meantime, non-commercial oil traders are becoming bolder. They have been expanding their net long positions for a number of weeks, at times even rising higher than the levels set in January 2009.

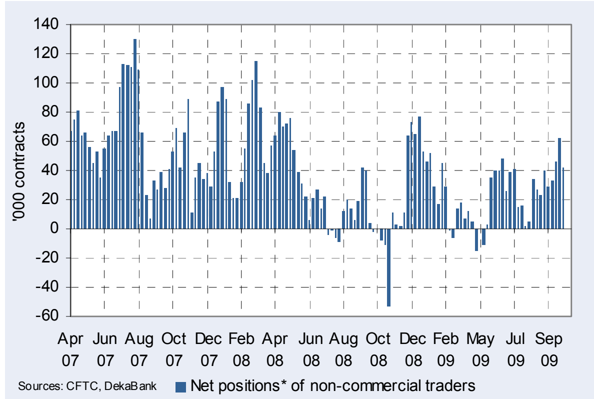
2. Fundamental factors: There has been no significant news in terms of fundamentals in previous weeks. **As expected, the OPEC countries did not change production quotas at their meeting in September**. There has, however, been news from the US Commodities Futures Trading Commission (CFTC), which is currently heavily involved in discussions about the influence that speculation has on price changes and any regulatory measures that this might lead to. Its first step was to publish **more detailed data on exchange trading of crude oil** since September. Instead of the two former trader categories (commercial and non-commercial), the following four trader categories now exist: 1) producer/commercial trader/processor/consumer, 2) swap dealer, 3) managed money and 4) other. The first category includes the typical physical oil trader. The second category includes, for example, banks, as well as index traders, which formerly belonged to the commercial category. The third category includes e.g. hedge funds, and the fourth category includes all other speculators. Since the CFTC has only published the **positions of these four trader groups since the beginning of September**, there is little possibility of using this data to interpret or identify correlations with oil price changes. At the same time, however, the CFTC announced that it would make this data available for the previous three years, which will make it possible to extract more information.

3. Our view: We **expect the price of oil to rise only moderately in coming months**, as full inventories make it unlikely that there will be pressure on prices. At best, liquidity might temporarily drive prices higher more strongly.

Oil price moves around USD 70 per barrel

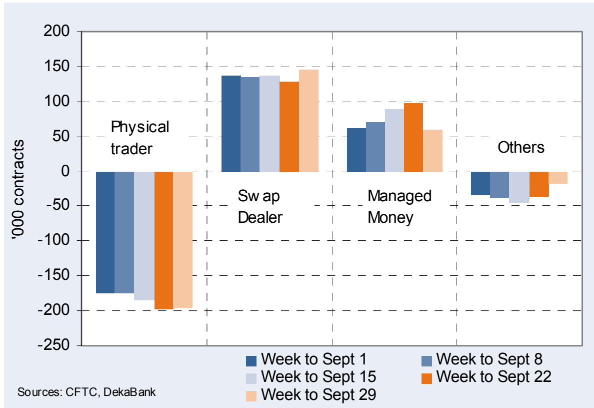


Speculators (former definition) become bolder



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

New crude oil trading data (net positions)



Our forecast for WTI

	Sep. avg.	3 months	6 months	12 months
Price*	$ 69.30	$ 73	$ 64	$ 76

* The 3-month price, for example, indicates that we expect WTI to have an average price of USD 73 per barrel in December.

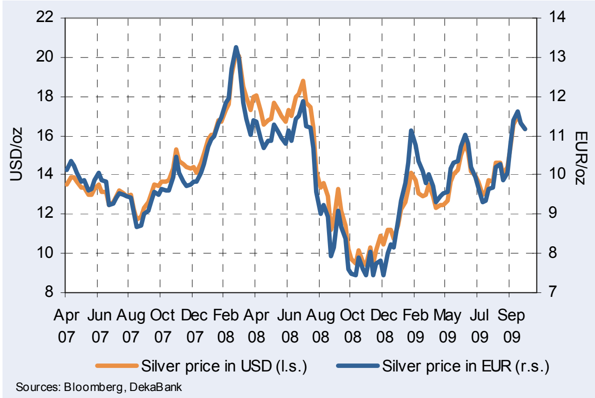
Is silver more in demand as a safe haven than gold?

1. Currently: In our opinion, the **pronounced upward trend** in the price of silver, particularly since the middle of July, is strongly linked to **speculative interest**. This conclusion is based on the fact that the net long positions of non-commercial traders have risen to their highest level in a year. In addition, a notably close **correlation between the changes in gold and silver prices** has developed, with silver rising even more quickly in value than gold in previous months.

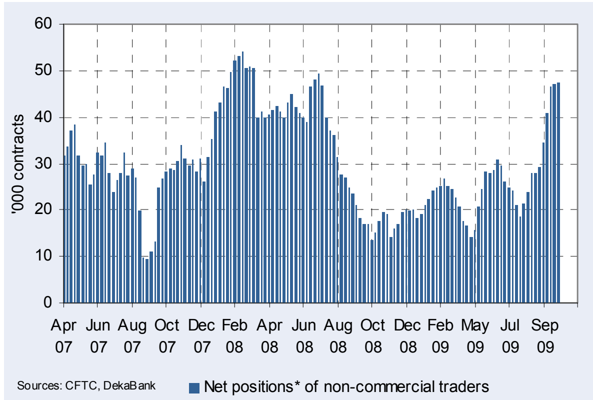
2. Fundamental factors: Although no reliable quarterly data is available on changes in fundamental factors, the annual supply and demand data, which is now available for 2008, show some fundamental trends that explain the strength of silver prices. As a result of weak global industrial production, **the industrial component of demand** for silver dropped 1.4% in the previous year. It can be assumed that this trend has also continued for long periods in the current year. As expected, demand from the photography industry also fell by 16%, recording a trend of increasing declines. **Jewellery demand** is also unreliable in times of financial crisis and during a global recession, and fell by 3.2% in 2008. The demand for silverware experienced a similar decline, falling by around 2.5%. **One can already see by the massive 63% increase in the demand for coins recorded in the previous year that the strength of silver prices is largely due to silver's function as a safe haven, similar to gold.** This component of demand was still declining in the years prior to this. Silver demand in 2008 was primarily satisfied by an increase in mine production on the order of 2.5%.

3. Our view: Investor demand for silver is clearly stronger than we had expected even a few months ago. As a result, we are revising our forecast for silver prices significantly upwards (in accordance with the upward revision of the gold forecast).

Silver price close to the high for the year



Speculators believe in silver



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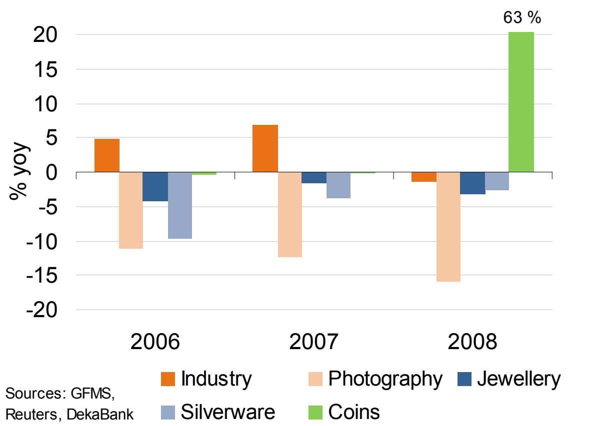
Components of silver demand



Our view

	Sep. avg.	3 months	6 months	12 months
Price*	$ 16.50	↑	↑	↓

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

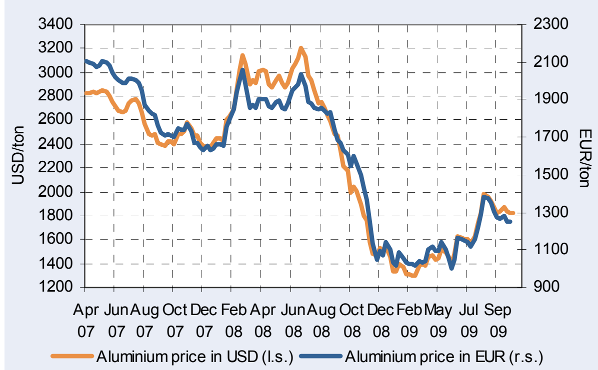
Excess supply still the main factor in the aluminium market

1. Currently: Although the downward movement in aluminium prices came to an end in the summer, the price of aluminium has not made any great leaps since that time. At a level **20% below the previous year**, the price of aluminium still remains very low compared to several other base metals.

2. Fundamental factors: The fundamental situation remains unchanged in the aluminium market. A situation of massive excess supply continues to exist, since reductions in production still fail to match the collapse in demand, in spite of appreciable cuts. The global recession is depressing consumption in the construction, transport and packaging industries, as well as the electricity sector. According to data from the International Aluminium Institute (IAI), global aluminium production has been below the level of the previous year since December 2008. **All the same, production has stabilised since the spring in the region of -10% below the value in the previous year.** The fact that these cuts are insufficient to prevent excess supply from occurring is an indicator of the **continuing sharp increase in inventories** on the London Metal Exchange (LME). Aluminium stocks rose again by a good 25% in the second quarter of 2009 compared to the same quarter of the previous year, following increases of 50% and 70% percent in the preceding quarters. **LME aluminium inventories are now more than four times the size they were the year before.** Inventories of 4,400 kilotons like those in the second quarter represent a new historical record. The last record was a peak value of 2,600 kilotons of aluminium set in 1994 that was not nearly as high as the LME inventories. Although there has been no indication of a reversal in the trend of inventory changes to date, this should not be too much longer in coming given the stabilisation of the world economy.

3. Our view: We only expect **a gradual increase in the value of aluminium**, since an increase in demand due to continued economic recovery can first be satisfied from inventories.

Aluminium price remains low



Sources: Bloomberg, DekaBank

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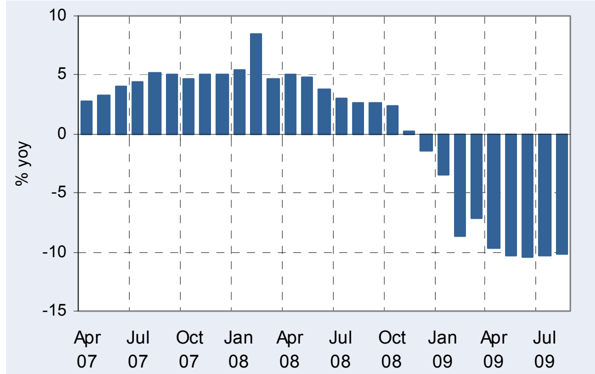
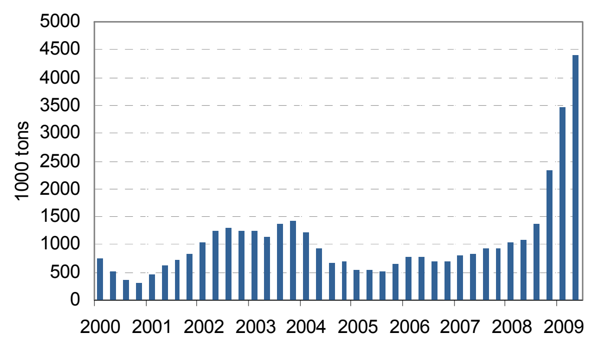
Changes in global aluminium production



Sources: IAI, DekaBank

Inventories reach a new record level (LME, quarterly data)



Sources: IAI, DekaBank

Our view

	Sep. avg	3 months	6 months	12 months
Price*	$ 1843	→	→	↑

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

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