

Commodities: How much of a price increase is justified?

- **Energy:** Oil price higher than it has been for a year
- **Precious metals:** Record gold price accompanied by record optimism among speculators
- **Base metals:** Economic stimulus packages providing support for the copper price – for the moment

Looking back: The upward movement in commodity markets occurred across a broad front in the previous month. Energy commodities and base metals continued the upward movement they had shown in September, with base metals and agricultural commodities joining in the upward trend in October. **The most extreme price increases were recorded in energy markets.** The main drivers were likely the weak US dollar, the large number of positive economic surprises, and periods of restored risk tolerance in financial markets.

Commodity		Unit	Price on 5/11/2009	Change in % compared to previous		
				week	month	year
Energy	WTI	\$/bbl	79.9	0.1	13.5	22.4
	Brent	\$/bbl	78.4	0.4	15.2	26.7
	Gasoline	\$/Gallon	2.0	-1.2	13.8	40.1
	Heating Oil	\$/Gallon	2.1	0.9	15.7	0.9
	Natural Gas	\$/MMBtu	4.7	-6.7	-5.3	-34.8
	Gas Oil	\$/t	635.0	-1.4	16.7	-2.5
	GSCI Energy	Index points	1.040,5	-0.8	9.5	-19.0
Precious Metals	Gold	\$/oz	1091.4	4.2	7.3	47.0
	Silver	\$/oz	17.4	4.7	5.4	66.8
	Platinum	\$/oz	1363.2	1.9	5.3	54.9
	Palladium	\$/oz	331.5	1.0	9.3	51.4
	GSCI Precious Metals	Index points	1422.8	4.1	4.3	49.6
Base Metals	Copper	\$/t	6557.5	2.2	11.8	26.7
	Nickel	\$/t	17843.0	0.6	3.7	39.9
	Aluminium	\$/t	1895.8	0.6	6.7	-8.1
	Zinc	\$/t	2206.0	1.7	18.7	81.7
	Lead	\$/t	2328.5	5.2	11.2	51.6
	GSCI Base Metals	Index points	1525.3	-2.2	6.1	31.4
	GSCI Agriculture	Index points	579.2	0.0	4.9	4.4
	GSCI Livestock	Index points	2064.0	0.0	6.5	-19.0
	GSCI Total Return	Index points	4531.4	-0.6	8.3	-10.2

Sources: CFTC, Bloomberg, DekaBank

Note: The futures price refers to the next generic futures contract (generally 1-month term).

Outlook: To what extent are the price increases justified by world economic growth, and where do we see commodity prices being driven up by liquidity instead? This is the key question for the coming months and quarters in commodity markets. With inventories of some energy commodities and many base metals still filled to bursting, and gold prices in the four-digit range, we may already be seeing the silhouette of overheating in commodity markets. At the same time, strong price increases are not being maintained very long at present, as profit taking and the continual discovery of new risks are leading to price corrections relatively quickly. **In a risk scenario marked by prices that are more on the high side, we feel it is most likely that commodity prices will see only moderate increases in coming months.**

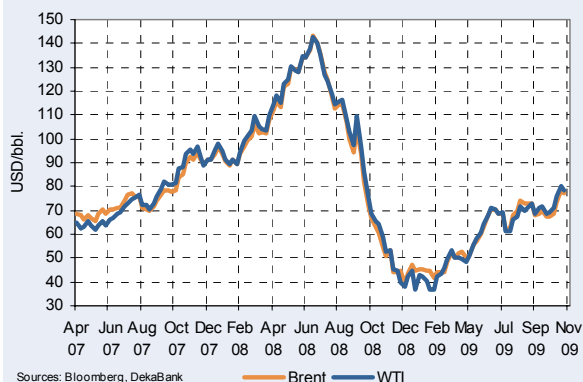
Oil price higher than it has been for a year

1. Currently: The price for WTI crude oil rose considerably in the previous month. The price then moved down again on balance to the 78 US dollar level. In addition, the **inverse relationship between the external value of the US dollar and the price of oil** has continued to hold, with increases in the price of crude oil accompanied by devaluation of the US dollar, and decreases in the crude oil price by appreciation. **Non-commercial traders are becoming increasingly optimistic about the outlook for oil.** They continuously expanded their net long position, almost reaching the record high set in the summer of 2007.

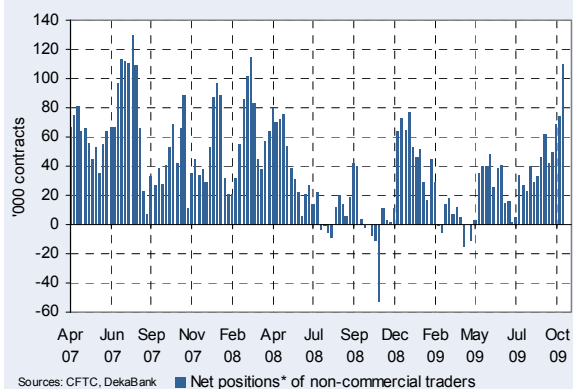
2. Fundamental factors: OPEC representatives took advantage of the overall high level of oil prices to show some of the cards they were holding. The OPEC Secretary General held out prospects of a **possible expansion of production at the next OPEC meeting in December.** In his view, this would be conditional on the price of oil remaining at a high level or moving higher, and a reduction in inventories in the direction of their normal level with an associated increase in the global demand for oil. We consider all of these conditions to be entirely probable. Although oil inventories at the main WTI delivery location (Cushing, Oklahoma) are still full to bursting, a trend toward inventory reductions can already be seen. In view of the unused production capacity in OPEC countries, which is currently at quite a high level of more than 6 million barrels a day, they are definitely capable of expanding oil production at short notice. However, OPEC has already been producing a good 1 million barrels per day of crude oil above the official quota permitted. This means that **an increase in the OPEC quota would be little more than an adjustment to the actual quantity of oil being produced**, thereby rendering the statements by the OPEC Secretary General slightly meaningless.

3. Our view: Based on the continuing weakness of the world economy, we feel that an **oil price above USD 80 per barrel is not justified by the fundamentals**, and we expect it to fall again in the direction of USD 70 in coming months.

Oil price breaks through the USD 80 mark

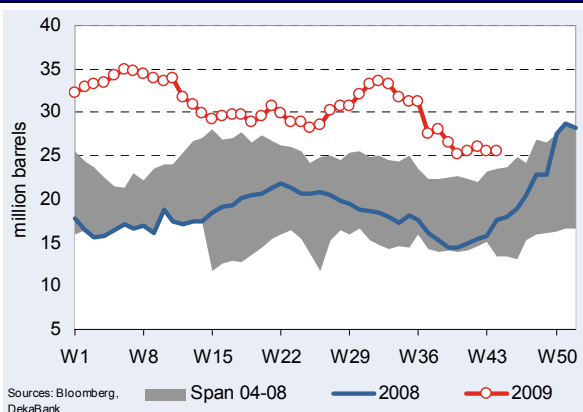


Speculators even more bullish



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

Slow reduction of oil inventories in Cushing



Our forecast for WTI

	Oct. avg.	3 months	6 months	12 months
Price*	\$ 75.80	\$ 70	\$ 65	\$ 77

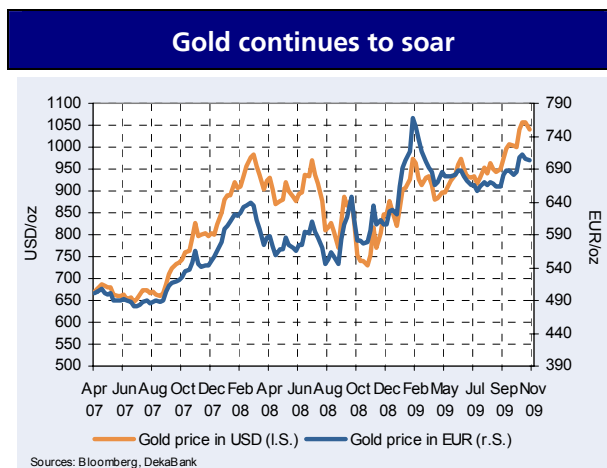
* The 3-month price, for example, indicates that we expect WTI to have an average price of USD 70 per barrel in January 2010.

Record gold price accompanied by record optimism among speculators

1. Currently: Gold prices are soaring again. This is a sign of a speculative bubble, as **one of the main reasons is a record level of optimism among non-commercial traders**. Their net long position of more than 240 thousand contracts that was recorded at the end of the period is higher than ever before. The futures curve for gold indicates that markets are currently expecting further significant increases in the price of gold, particularly following the end of 2010.

2. Other factors: It has long been known that financial investors have a strong interest in the gold market. However, the **new detailed data on commodity exchange trading now provided by the US regulatory agency for commodity futures trading (CFTC)** represents the next step in the direction of increased transparency. While this data previously only differentiated between commercial and non-commercial traders, one can now distinguish between the positions of swap traders (including banks) and the so-called managed money group (including hedge funds) over the period starting with 2006. Although the gold market provides the most impressive example of the fact that **swap traders often take anti-cyclical positions, while managed money and futures price movements often point in the same direction** and therefore influence price movements, this rule also holds for most of the other commodity markets.

3. Our view: We expect that the price of gold will initially continue to rise. **Abundant money market liquidity and inflation** are two topics that will continue to dominate for a while longer, and create fertile ground for high gold prices. **Fear about the currency system** is another "story" for the gold markets. We are therefore adjusting our gold price forecast significantly upward, and **expect average gold prices in the four-digit range over the next 12 months**. We now expect an average gold price of USD 970 per fine ounce for 2009, and USD 1150 for the coming year.



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



Our forecast

	Oct. avg.	3 months	6 months	12 months
Price*	\$ 1044	\$ 1200	\$ 1140	\$ 1170

* The 3-month price, for example, indicates that we expect gold to have an average price of USD 1200 per fine ounce in January 2010.

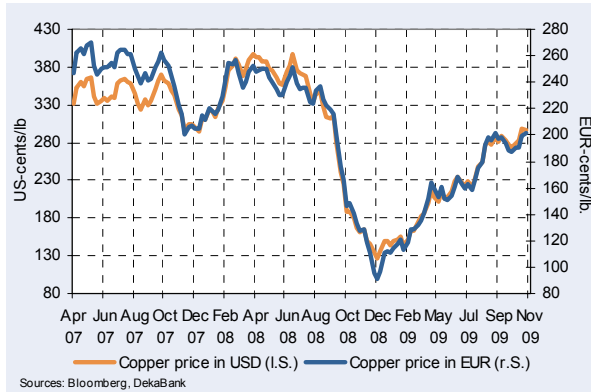
Economic stimulus packages providing support for the copper price – for the moment

1. Currently: The price of copper has continued to rise unchecked, and has now reached **price levels that were previously seen a year ago**. Even **non-commercial traders are losing their scepticism for the first time in 15 months**, with the majority now betting on rising copper prices.

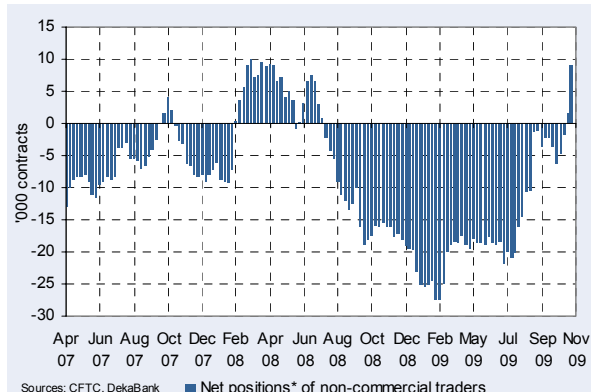
2. Fundamental factors: Although the **physical shortage expected in the copper market** did actually occur in the first half of the year, past months have seen **initial doubts arise as to whether this trend would continue**. Third quarter economic growth (measured in terms of estimated qoq rates) slowed in China, which represents almost one quarter of global copper consumption. Monthly net import data show a corresponding reduction in the momentum of copper imports. This is due to a decline in stimulus from the Chinese fiscal stimulus package, resulting from a decrease in the number of newly started infrastructure projects in recent months. This is because growth in China is mainly driven by investments in infrastructure and housing construction, and both of these are important consumers of copper. We expect **the trend toward slower growth and therefore weaker demand for copper to continue in China**. Inventory changes are already showing initial indications of an easing of the global copper market. Copper inventories have risen strongly at the major trading centres in London, Shanghai and New York since the middle of July. Current copper inventories are nevertheless still far lower than the temporary high point reached in the inventory cycle during the spring of this year.

3. Our view: According to our forecast, global economic momentum is likely to increase for a while longer, in spite of the slowdown of growth in China, thereby stimulating the global demand for copper. This is because the **economic stimulus packages** of many other countries also include major construction and investment projects. However, it is likely that this **stimulus will decline by the end of twelve months at the latest, with a noticeable effect on the price of copper**.

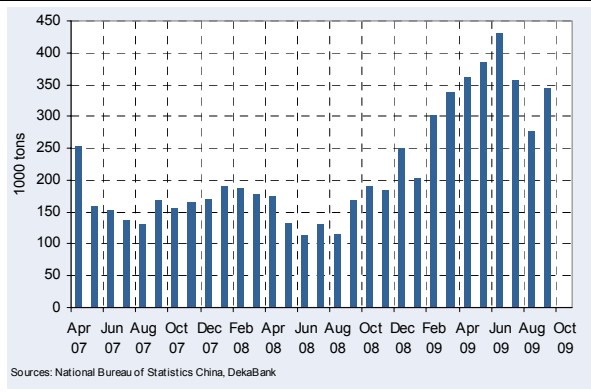
Copper price continues to rise



Speculators now betting on rising prices



Chinese imports remain at a high level



Our view

	Oct avg.	3 months	6 months	12 months
Price*	USc 288	↑	↑	→

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