

# Commodity Monthly

September 30, 2008

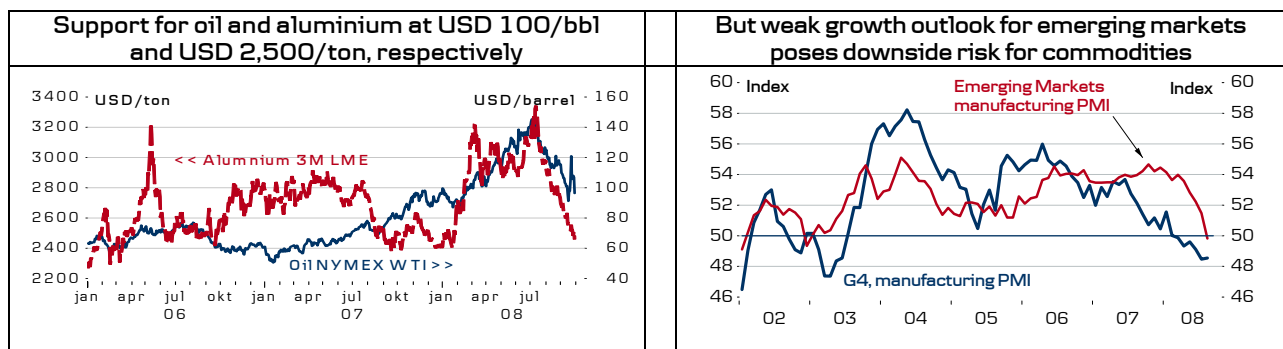
## Financial meltdown bad for commodities

Commodity Research: Arne Lohmann Rasmussen, Senior Analyst, +45 45 12 85 32, [arr@danskebank.dk](mailto:arr@danskebank.dk)

The financial crisis is sweeping across all markets at the moment – and commodities are not the place to hide. The current turmoil has one sure loser (besides equity and debt holders!), and that is growth. Banks collapsing or struggling to remain alive hammers lending and consequently investments. The message is clear: the financial crisis does and will have an effect on global growth going forward. Many people had hoped the huge US bailout plan would mark a turning point this week, but its rejection by the US House of Representatives means the crisis continues to rage. The crisis is now well and truly global, and all financial institutions are feeling the liquidity squeeze in an unprecedented way.

Last week we published our new global growth forecast in *Global Scenarios*, and in general we have slashed all global growth centres, with the Middle East now the only major pocket of strength remaining. In Europe, Germany in particular has suffered, and morphed from last man standing to last man falling. The slowdown has spread to most emerging markets, with GDP growth and industrial activity weakening in Asia, Central and Eastern Europe and Latin America. In our view, the global economy is now on the brink of recession.

As a consequence of the bleaker growth outlook we have slashed our commodity forecast for Q4 and for 2009, though we still believe there is some upside for prices in 2009. In our view the market has already priced in a very negative growth trajectory in 2009. It is no big surprise for the commodity market that global growth is under pressure. If we see signs of relief in financial markets or incipient signs of a better growth outlook, commodity prices will be the first asset class to move higher. But uncertainty is high in commodity markets and further price drops should be expected as long as the financial crisis continues to rage as intensely as at present. That said, some of the ‘automatic stabilisers’ in the market have started to work. OPEC has drawn a line the sand at USD 100 a barrel for oil; aluminium, zinc and nickel prices are trading close to or below marginal costs; and the strengthening of the dollar should now start to slow down. Hence, we maintain our medium-term positive view of the commodity market, but certainly recommend caution given the worries about economic growth. On the other hand, the current volatility in commodity markets provides a window to hedge commodity exposure at attractive levels. We find the downside for energy and aluminium well protected at current levels, for example.



Commodity sales: Martin Vorgod, Dealer, FX, MM and derivatives sales, +45 45 14 32 86, [mavo@danskebank.dk](mailto:mavo@danskebank.dk)

Editor in Chief: Steen Bocian, Chief Economist, + 45 45 12 85 31, [stbo@danskebank.dk](mailto:stbo@danskebank.dk)

Web: <http://www.danskebank.com/danskeresearch>

# Energy

## OPEC to defend USD 100 a barrel once the dust settles in financial markets

The oil market is in the hands of the financial markets at the moment – few are focusing on oil fundamentals. This will probably also be the case for the rest of this month, meaning we should probably expect a lot of volatility in October in energy markets.

Looking at the fundamental picture, however, a very important driver for the price of oil this past month was the OPEC meeting at the beginning of September. In our view OPEC posted a clear message to the market: the cartel will not accept an oil price significantly below USD 100/barrel. Consequently, OPEC decided to cut production by 0.5 million barrels a day. The market, however, still needs to see that OPEC production has actually been cut, and given the current slowdown in global growth and hence global demand for oil, OPEC might need to slash oil production even further over the coming months to keep oil anywhere close to USD 100/barrel. The bulk of the output cut has to be done by the Saudis. Saudi Arabia opened its taps in the summer, and it would be relatively easy for the Saudis to cut production now. Nevertheless, OPEC is still divided, with the Saudis the most reluctant to take a hawkish stance. Given the latest events in the global economy, it certainly cannot be ruled out that the more pragmatic members of OPEC, such as Saudi Arabia, Kuwait and the Emirates, would be willing to accept a lower oil price in the coming months to support the global economy. Remember that the wealthy OPEC countries are currently suffering badly from the global destruction of assets that is happening on the financial markets. Such a pragmatic stance would of course be in conflict with the intentions of the more hawkish members, such as Venezuela, Iran and Libya. All in all, though, we expect OPEC to stick to the USD 100/barrel threshold.

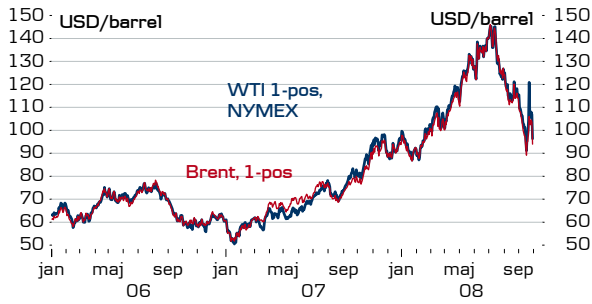
But will OPEC actually be able to control the oil price going forward? US demand has clearly surprised on the downside over the past couple of quarters, and if we take a look at the latest implied gasoline demand numbers from the EIA we note that demand is still under pressure in the US. In week 37, implied gasoline demand fell to its lowest level for five years. Implied gasoline demand is down 5.4%. Hence, still no stabilisation in US gasoline demand.

While fundamentals have slipped out of focus, it is still worth mentioning that oil supplies from the Gulf Of Mexico are remain very low. The US department of Energy said on Friday that 59.3% of oil production remains shut-in and 0.7 mb/d of refinery capacity remains completely shut down. We also note that Mexican oil production continues to disappoint. Production at the huge Cantarell field has fallen for ten months straight, averaging just 0.97 mb/d in July compared to 1.5 mb/d just a year ago. Mexico has usurped the North Sea as the prime area of decline. The IEA expects Mexican crude output to decline to 2.6mb/d in 2009 from 2.8 mb/d in 2008. The geopolitical agenda is also attracting very little interest at the moment, but we would point out that the UN Security Council last week unanimously passed a resolution ordering Iran to halt nuclear enrichment. The financial crisis might also affect the supply side, as more exotic marginal projects with a high breakeven oil price will now find it difficult to raise funding given tight credit and oil prices under pressure. However, that said, remember that the majority of projects in the oil sector are funded by financially healthy oil companies that do not need to fund projects via the capital markets.

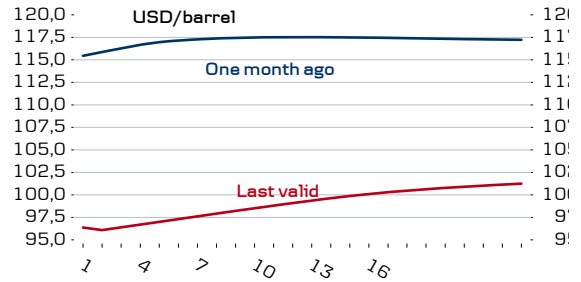
As a consequence of the bleaker outlook for the global economy we have revised our oil price forecast for Q4 2008 and 2009 lower. We now expect oil prices to trade slightly above USD 100/barrel on average for the next six months. Basically, we expect OPEC to be able to defend USD 100/barrel once the dust settles in the financial markets – hopefully when the US bailout plan is approved later this week. Volatility is expected to remain high, however, and we recommend hedging oil exposure when prices dip below USD 100. We continue to expect a gradual recovery in the global economy in 2009 and, moreover, the supply outlook for 2010 looks very modest. Hence, the oil market should again tighten by the end of 2009. All in all, we expect oil prices to average USD 110/ barrel in 2009 with a rising profile during the year.

# Energy – charts

Crude oil prices



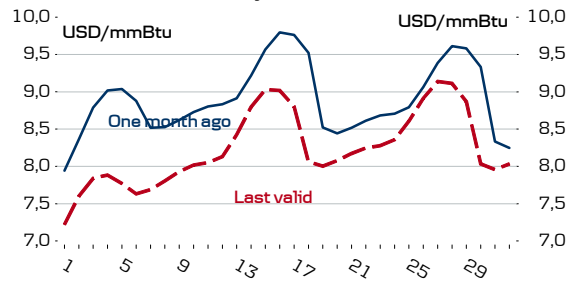
WTI futures curve



Natural Gas, Henry Hub, 1-pos.



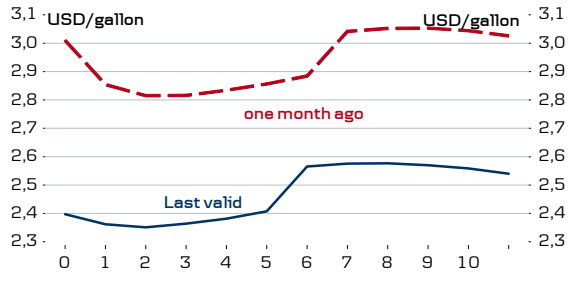
Natural Gas, Henry Hub futures curve



Gasoline RBOB, 1-pos NYMEX



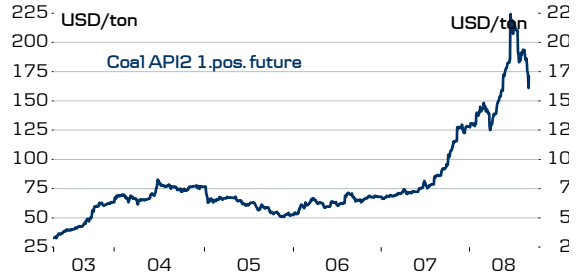
RBOB gasoline futures curve



Heating oil, 1-pos Nymex



Coal, 1. pos, API2



# Energy – charts

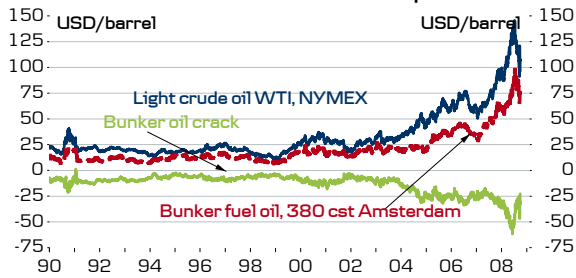
Electricity price, Nordpool, 1. pos., quarterly



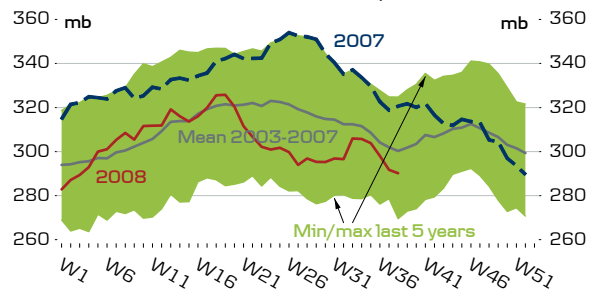
Emission rights, CO2, ICE ECX



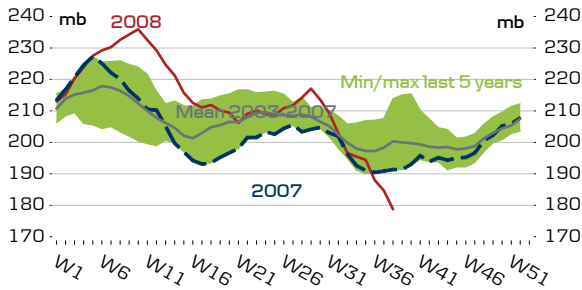
Bunker fuel oil and crack spread



Total crude oil stock, EIA



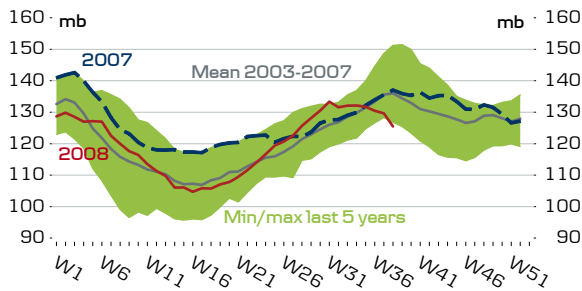
Gasoline stock, EIA



Gasoline crack spread, NYMEX 1-pos



Distillate stock, EIA



Heating oil crack, NYMEX 1-pos



# Base metals

## Global growth worries and growing stocks push base metals lower

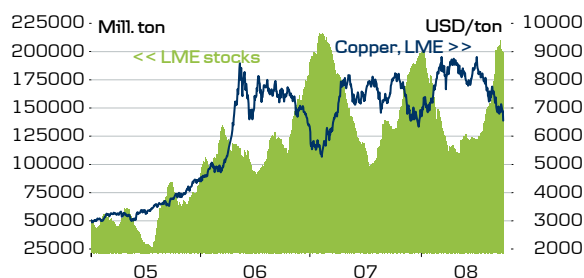
Global growth jitters and the sell-off in commodities have continued to hit the base metals complex over the past month. Among the various commodities, base metals are the most sensitive to a slump in the business cycle.

Copper and Nickel prices have been under particular pressure in September, down 14 and 19% on the month and 20% and 46% on the year, respectively. Both metals are used in construction and in manufacturing. Hence, with the bleaker outlook for the global economy, the cyclical headwind is strong for the base metal complex.

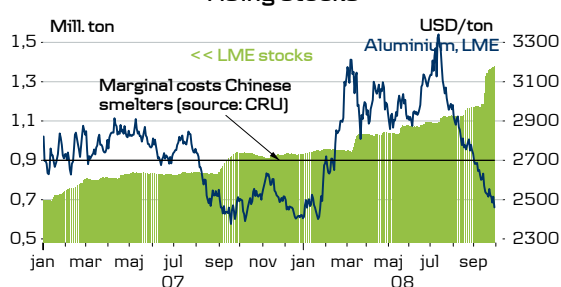
The current pressure on Copper is being intensified by the credit crisis, which is hitting global construction. In addition, increasing signs that China might be slowing are now weighing heavily on metals. Chinese refined Copper imports dropped marginally y/y in August, and imports of unwrought Copper and semi-finished products into China fell 4% in August compared to July. The bottom line is that demand for copper has been relatively weak in the past couple of months in China. However, if we look at the global copper balance according to the International Copper Study Group (ICSG), the copper market was in deficit from January to June by 130,000 tons. That said, this picture might have changed in the past couple of months as the global economy has slowed significantly. The clearest indication of a surplus in the market at the moment can be seen in LME Copper stocks, which have grown steadily in the past couple of months.

We have earlier argued that the downside for Aluminium is limited, as prices are now below production costs. However, the current growth worries about the global economy and the financial crisis mean that such a relationship does not necessarily apply in the short term: and Aluminium prices have fallen approx. 10% in September. We find Aluminium prices well-supported at the current level. Industrial sources like CRU set the marginal costs for Chinese smelters at USD 2,650 - USD 2,750 a ton. All in all, we stick to our base case with regard to Aluminium. Higher smelter costs in China will eventually slow Chinese supply growth and turn China into a net importer, though this might happen later than earlier envisaged. Hence, we have revised down our Aluminium forecast for Q4 2008 and for 2009. We also have to admit that, considering the fundamental picture, Aluminium prices might trade below marginal production costs for a while. Indeed, we have seen a surge in Aluminium stocks during September, underlining that the fundamental picture is weak at the moment.

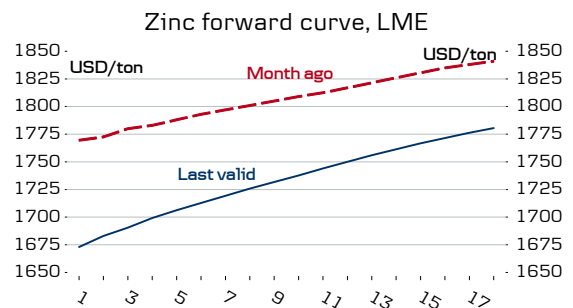
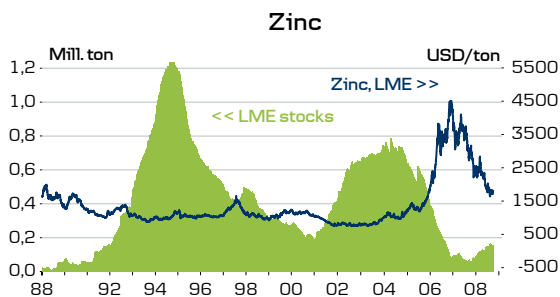
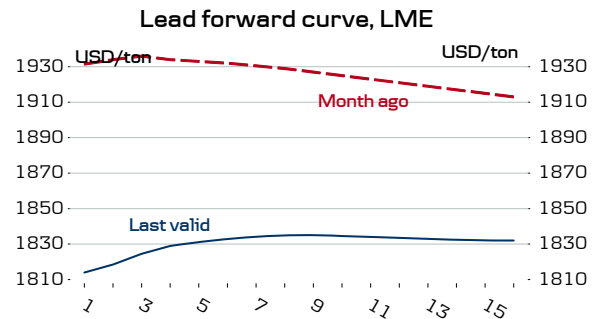
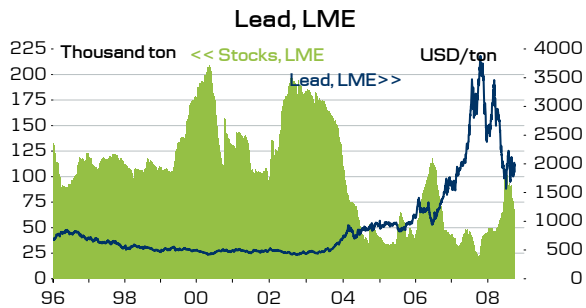
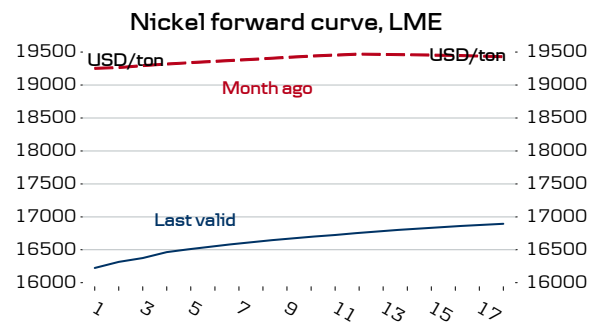
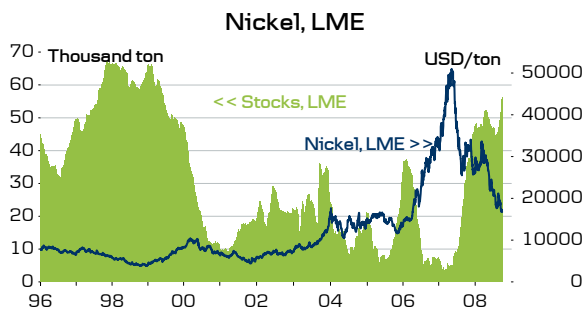
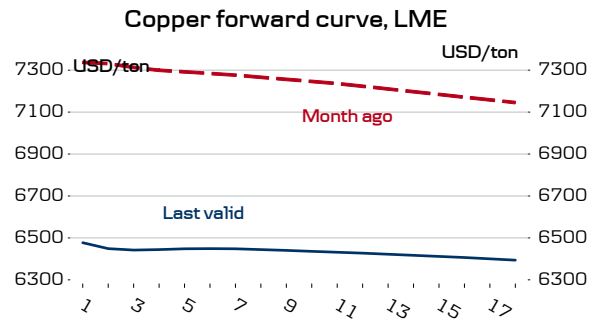
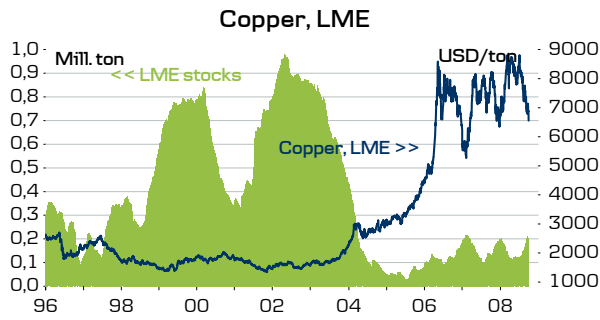
LME copper stocks on the rise

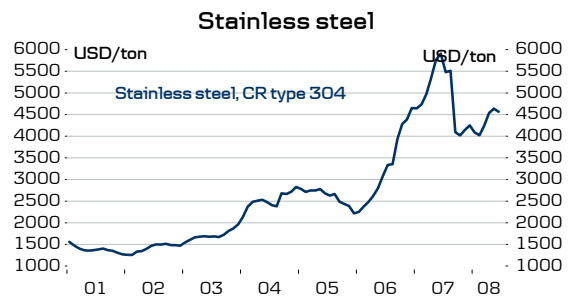
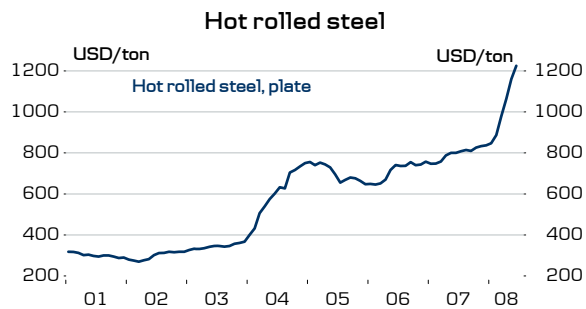
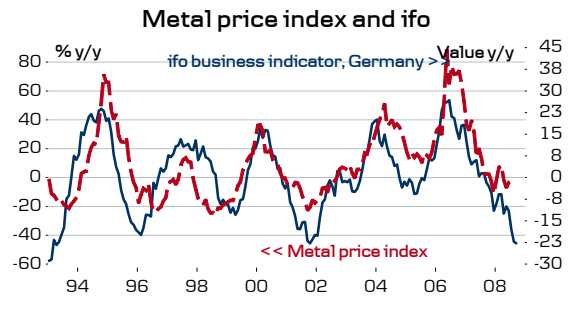
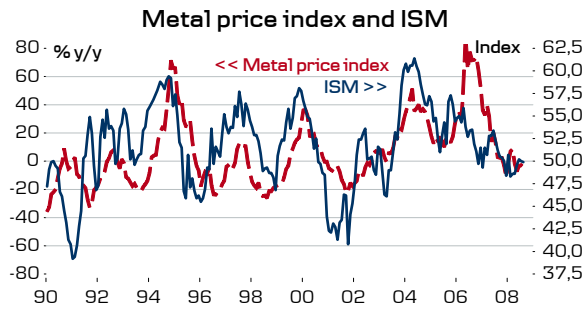
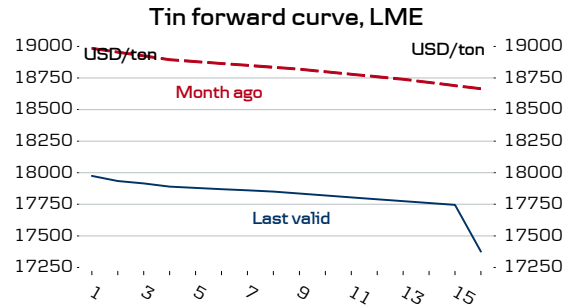
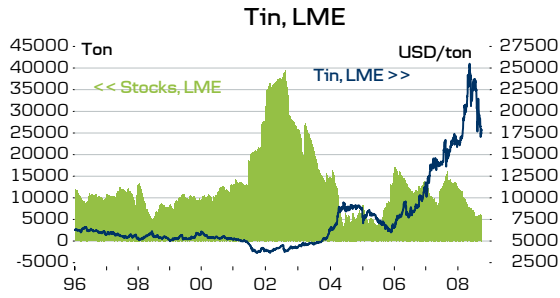
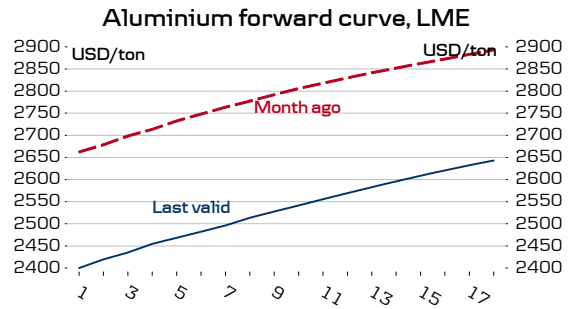
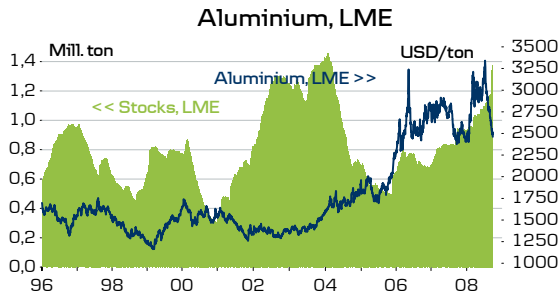


Aluminium prices below production costs, but fundamental picture weakening with rising stocks



# Base metals – charts





# Agriculturals

## Grains pushed lower by falling energy prices and improved harvest outlook

In line with other commodities, grain markets have also been under pressure in September - yet another reminder that grains have now become an integrated part of the energy complex and the global economy.

The combination of lower energy prices, a stronger dollar and global growth worries hit the grain market hard in September. Soybeans in particular suffered, down 18.2%, though corn fell more than 9%, pushed down by lower ethanol prices.

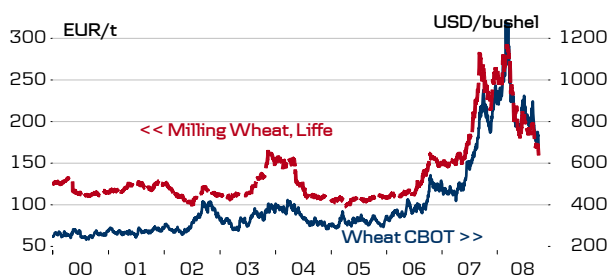
Wheat prices too, which had been relatively stable over the summer, have been under considerable pressure in September. Both CBOT and Matif wheat prices fell in September, by 15.0% and 13.7%, respectively. Wheat has also suffered from favourable production estimates. The International Grains Council (IGC) has once again revised its forecast for the global wheat crop higher for the 2008-2009 seasons. The forecast has been revised up from 672 million tons to 676 million tons. Wheat production is now expected to be 11% higher compared with 2007. An improved harvest outlook in the EU, Russia and Ukraine more than offsets a reduced forecast for Australia, which is still suffering from a lack of rain. On the other hand, it seems that quality has fallen. The IGC notes that several countries have reported a larger than usual amount of wheat being downgraded to feed quality because of poor growing conditions.

Despite the higher production we still forecast higher prices in 2009, for as prices have retreated the consumption outlook has improved. The IGC now expects 2008/2009 global wheat consumption to be 35 million tons above the 2007/2008 consumption figure. Despite this, stock levels at the end of 2008 should be better than the record low for 2007 stocks. Higher wheat stocks and a generally downbeat tone for commodities pose a downside risk to our wheat price forecast.

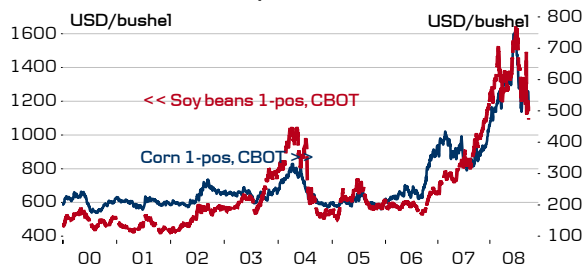
The 2008/2009 corn production forecast continues to be below last year's record crop. Furthermore, corn consumption looks strong compared to the 2007/2008 season. According to the IGC, global corn demand is expected to rise 1.5%. Corn demand is being driven by industrial use, which is expected to rise 29 million tons or 17% in 2008/2009. The majority of the growth in industrial demand is taking place in the US in connection with ethanol production. On the other hand, demand for corn as a feed ingredient is falling as more cheap feed wheat is available. Global corn stocks are projected to hit a 5-year low of 109 million tons by year-end.

Due to the weaker fundamental outlook in the grains market we have adjusted our forecasts for corn and wheat lower for the rest of 2008 and for 2009.

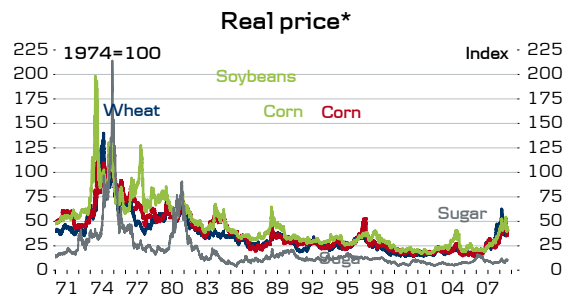
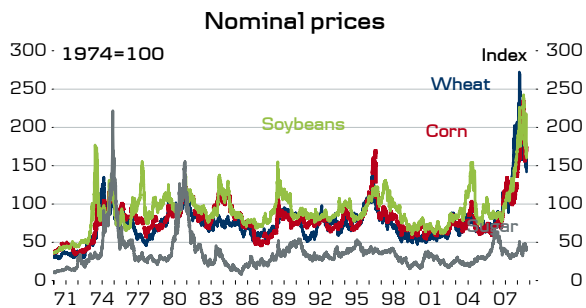
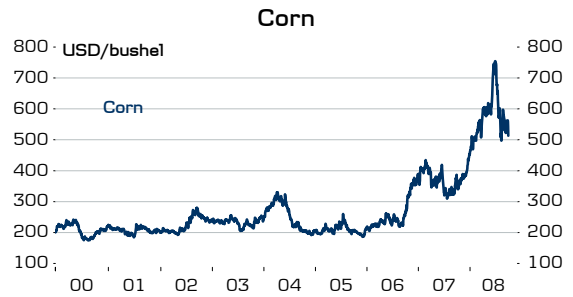
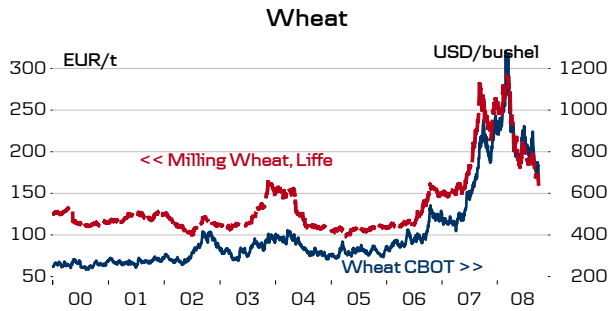
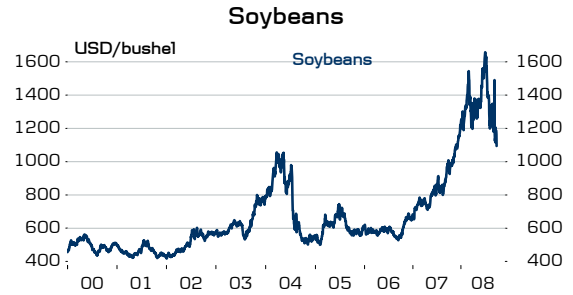
Wheat production is recovering and wheat prices are being hammered



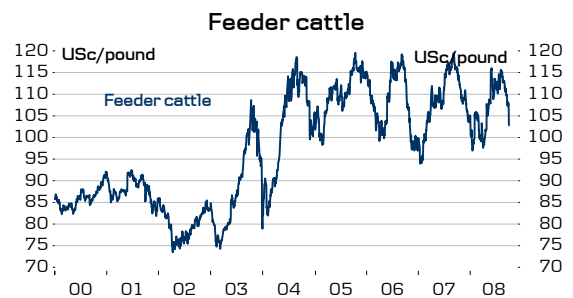
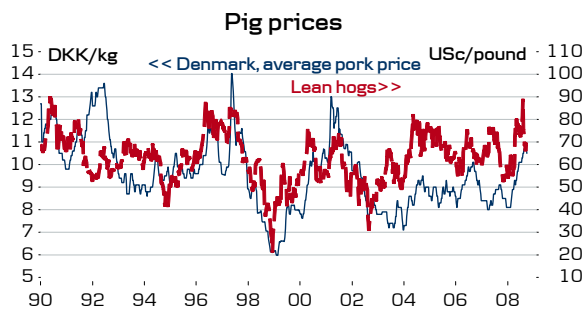
Corn and soybean prices pressured by improved fundamentals and weaker energy prices



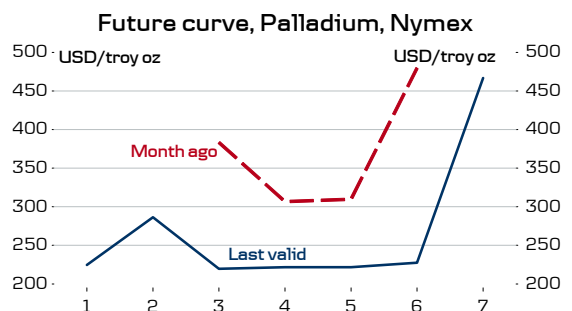
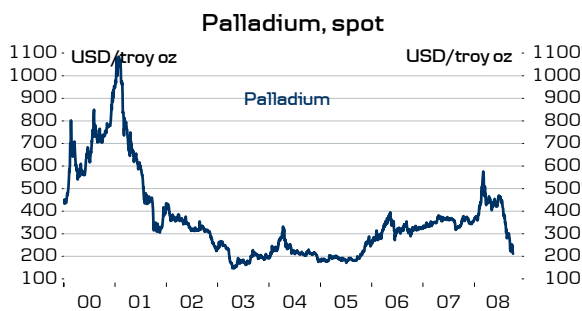
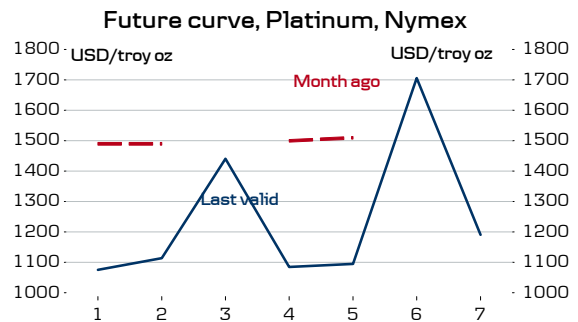
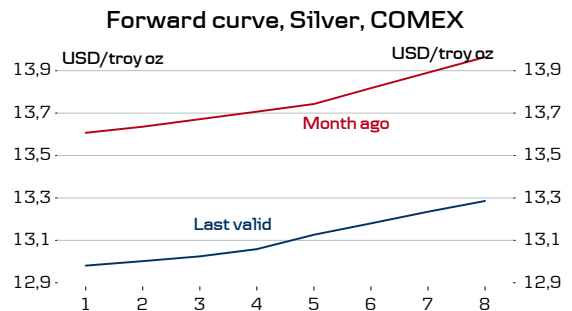
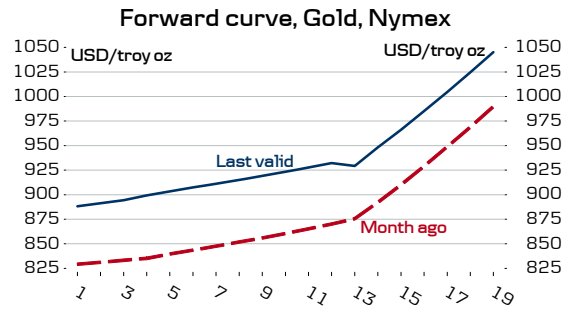
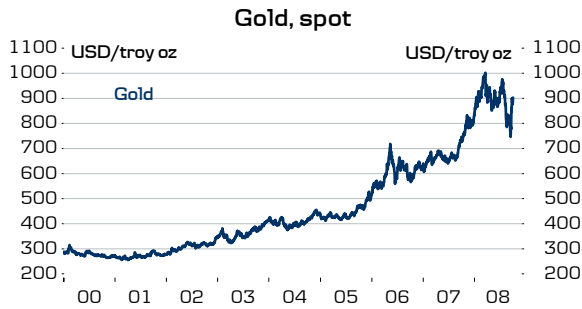
# Agriculturals - charts



\* Deflated with US CPI



# Precious metals – charts



# Commodity prices

	30-09-2008	Month ago		Year ago		This year	
	Closing price	Price	%, m/m	Price	%, y/y	Start level	YTD change, %
<b>Energy</b>							
NYMEX WTI - 1.pos.	97,5	115,4	-15,5	81,6	19,5	95,9	1,7
NYMEX Gasoline RBOB (Usc/gln) 1.pos.	242,4	301,0	-19,5	206,8	17,2	247,6	-2,1
ICE Brent 1.pos.	95,5	114,1	-16,3	79,2	20,6	93,9	1,7
ICE Carbon (€/tn), DEC-08	22,5	25,2	-10,8	21,7	3,7	22,4	0,3
Electricity Nord Pool,€, OCT-08	63,5	73,6	-13,8	50,3	26,1	53,9	17,7
TTF Natural Gas,€, 1st. month	30,2	27,0	11,7	-	80,0	24,8	21,8
Natural Gas, Nymex, 1.pos.	7,3	7,9	-7,8	6,9	6,6	7,5	-2,2
API2, steam coal, 1st month	149,5	194,8	-23,2	102,5	45,9	126,0	18,7
<b>Base metals:</b>							
<b>LME 3MP Prices (US\$/t)</b>							
Aluminium	2.441	2.714	-10,06	2.520	-3,14	2.409	1,33
Copper	6.440	7.510	-14,25	8.020	-19,70	6.675	-3,52
Lead	1.825	1.975	-7,60	3.380	-46,01	2.550	-28,43
Nickel	16.400	20.225	-18,91	30.500	-46,23	26.300	-37,64
Zinck	1.770	1.811	-2,26	3.050	-41,97	2.370	-25,32
<b>Precious Metals:</b>							
<b>Spot Prices (US\$/oz)</b>							
Gold	894,7	831,1	7,7	743,6	20,3	833,9	7,3
Silver	13,0	13,6	-4,4	13,8	-5,5	14,8	-12,1
<b>Agriculturals:</b>							
<b>Front Month Prices</b>							
CBOT Wheat (US\$/bushel)	681,0	801,0	-15,0	691,3	-1,5	787,8	-13,5
Matif Mill Wheat (€/t)	160,5	186,0	-13,7	268,3	-40,2	251,0	-36,1
CBOT Corn (US\$/bushel)	516,3	567,8	-9,1	372,5	38,5	455,0	13,4
CBOT Soybeans (US\$/bushel)	1.090,0	1.332,0	-18,2	991,3	10,0	1.199,0	-9,1
NYBOT Sugar (US\$/lb)	12,4	12,8	-3,2	9,6	29,2	10,8	14,1
<b>Commodity indices</b>							
Reuters/CRB TR	343,2	391,7	-12,4	333,7	2,9	358,7	-4,3
S&P GSCI Energy TR	1.962,2	2.331,1	-15,8	1.630,2	20,4	1.918,8	2,3
S&P GSCI Industrial Metals TR	1.662,7	1.902,0	-12,6	2.139,7	-22,3	1.835,6	-9,4
S&P GSCI Agriculture TR	707,5	822,9	-14,0	799,8	-11,5	833,7	-15,1
S&P GSCI Precious Metals TR	1.167,5	1.102,3	5,9	1.018,7	14,6	1.133,1	3,0
AIG	167,5	189,9	-11,8	178,3	-6,0	185,0	-9,4
Rogers commodity index TR	4.165,8	4.827,8	-13,7	4.058,4	2,7	4.421,5	-5,8
<b>Steel prices (EUR/t)</b>							
EU domestic hot rolled coil	740,0	775,0	-4,5	495,0	49,5	500,0	48,0
EU domestic cold rolled coil	785,0	805,0	-2,5	560,0	40,2	560,0	40,2
EU domestic hot dip galv. Coil	837,5	880,0	-4,8	610,0	37,3	610,0	37,3

## Commodity forecasts

	30-09-08	2008				2009				AVERAGE	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2008	2009
<b>Energy</b>											
<b>(Front Month Prices)</b>											
NYMEX WTI	97,5	98	124	119	104	104	109	111	120	111	111
ICE Brent	95,5	97	123	118	103	103	108	110	119	110	110
<b>Base metals:</b>											
<b>LME 3M Prices (US\$/t)</b>											
Aluminium	2.441	2779	2995	2850	2700	2700	2800	2900	3000	2831	2850
Copper	6.440	7741	8309	7590	7100	7200	7400	7800	7800	7685	7550
<b>Precious Metals:</b>											
<b>Spot Prices (US\$/oz)</b>											
Gold	894,7	924	897	870	850	850	860	860	860	885	858
<b>Agriculturals:</b>											
<b>Front Month Prices</b>											
CBOT Wheat (US\$/bushel)	681,0	1026	838	789	790	820	825	850	860	861	839
CBOT Corn (US\$/bushel)	516,3	527	630	582	575	600	630	640	660	578	633

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