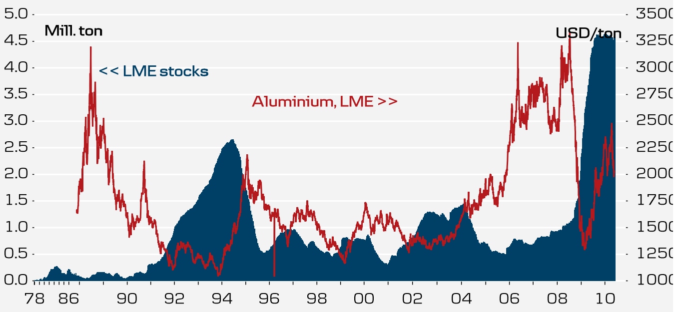
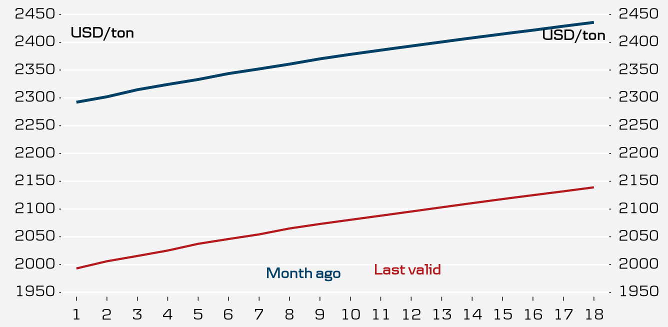
Aluminium, LME



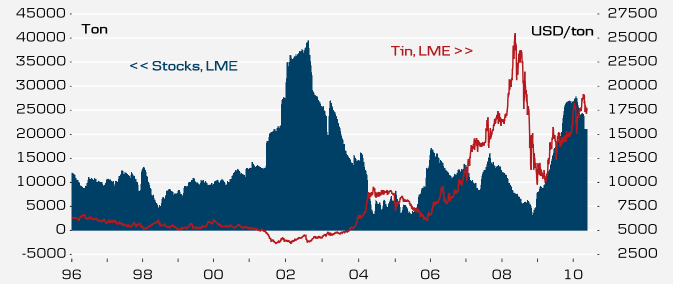
Source: Ecowin

Aluminium forward curve, LME



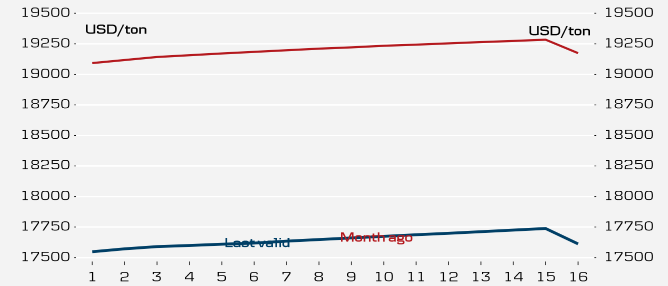
Source: Ecowin

Tin, LME



Source: Ecowin

Tin forward curve, LME

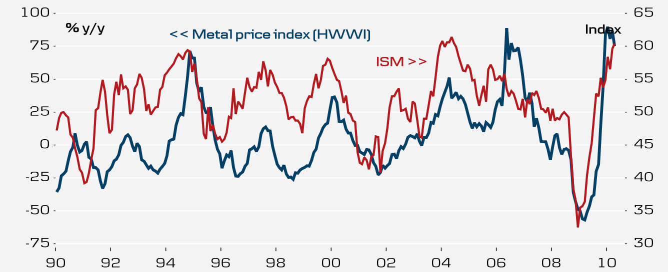


Source: Ecowin

Spread between Shanghai and LME

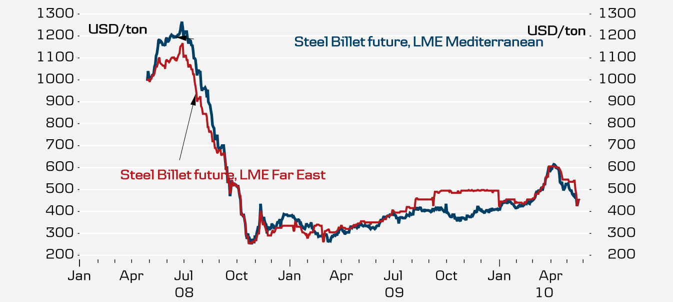
Source: Ecowin

Metal price index and the ISM



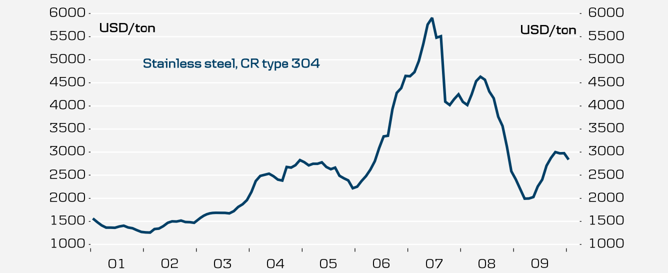
Source: Ecowin

Steel Billets, LME



Source: Ecowin

Stainless steel



Source: Ecowin

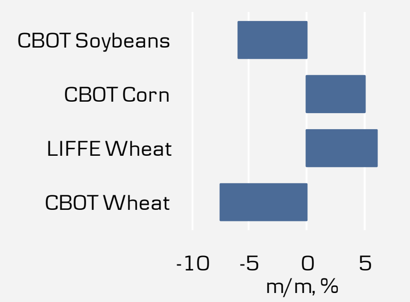
Grains: Resilient performance but with little to lose

Grains remarkably resilient

Compared with other commodities, grains have proved remarkably resilient to changes in global risk appetite. Soybeans have lost a little ground while corn has gained correspondingly. The divergence between the European (Liffe/Matif) wheat contract and its US counterpart (CBOT) can largely be explained by an almost 8% depreciation in EUR/USD since late April. However, grains have in fact had little to lose: the complex has experienced very muted price increases since falling sharply in 2008 and had not joined the recovery bandwagon prior to the recent sell-off elsewhere.

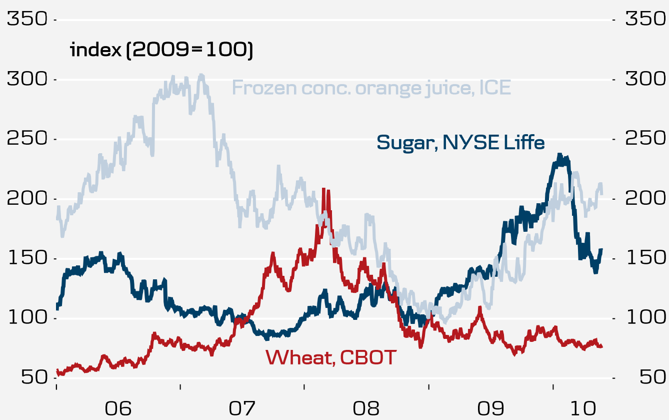
Indeed, grains are much less cyclical than other commodities, although this may be changing somewhat due to the increasing use of bio-ethanol made from sugar as well as corn, introducing a link to energy prices. Unlike grain prices which remained stable, exotics such as orange juice, cocoa, coffee and sugar rallied last year due to unfavourable growing conditions. Significantly, the surge in sugar prices ended recently as Brazil and India increased production in response.

Monthly changes



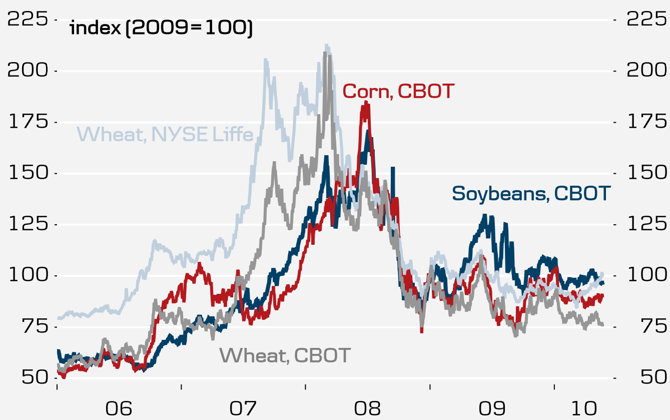
Source: Bloomberg, Danske Markets.

Exotics outperformed grains last year but weakened recently



Source: EcoWin, Danske Markets.

Grains price remarkably stable

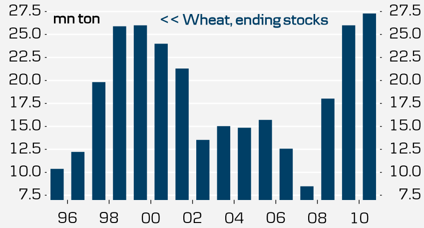


Source: EcoWin, Danske Markets.

Wheat: prices could continue to stall

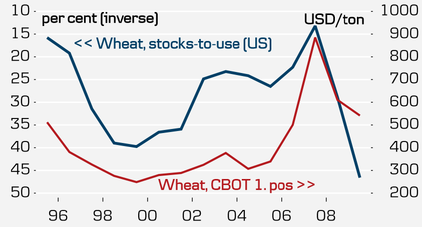
US wheat stocks are currently at all-time highs due to record harvests in recent years. With consumption broadly unchanged, this implies that the stocks-to-use ratio has surged above 40% in the US. There is a close historical relationship between the ratio, an indicator of spot market tightness, and proximate CBOT wheat prices. Raised inventories suggest that wheat probably has little further short term potential.

Wheat stocks at record highs



Source: EcoWin, Danske Markets.

High stocks-to-use weigh on prices



Source: EcoWin, Danske Markets.

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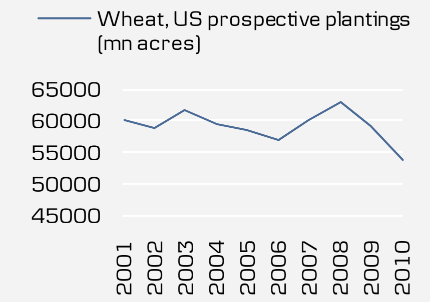
However, in the case of grains the supply reaction to price changes can happen quickly. Indeed, March WSADE data on prospective wheat plantings released by the USDA show substantially less acreage being sown with winter wheat this year. Still, recent reports on crop progress suggest that weather conditions have been constructive and that therefore the yield could improve this season, partly offsetting the decline in production that lower plantings indicate.

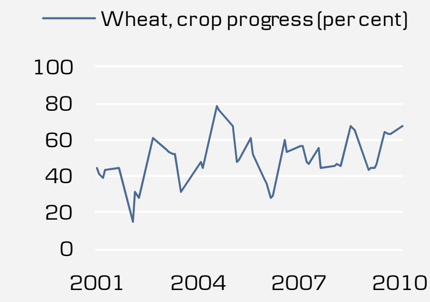
Non-commercial positioning in wheat has been net short since New Year. We are no less bearish than investors. As regards wheat, China largely produces what it consumes so we should not expect the Chinese to provide price support in the wheat market. We believe wheat prices will stall this year, although the Liffe contract could receive some tailwinds from further EUR/USD weakness as projected by our FX team. We expect average CBOT prices of USd480 in 2010 and USd494 per bushel in 2011 with corresponding Liffe prices of EUR131 and EUR132 a tonne, respectively.

Less wheat plantings in FY10.



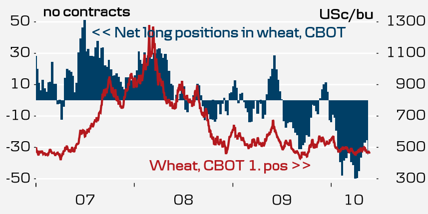
Source: Bloomberg/USDA, Danske Markets.

.. but crops progress well



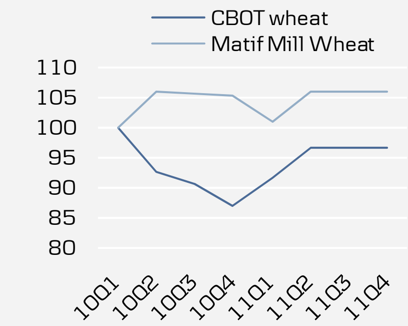
Source: Bloomberg/USDA, Danske Markets.

Speculators bearish on wheat



Source: EcoWin, Danske Markets.

Danske Markets forecast for wheat: CBOT vs. Matif Milling wheat

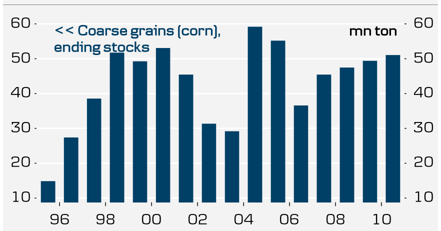


Source: Bloomberg, Danske Markets.

Corn: ethanol production to provide structural demand boost

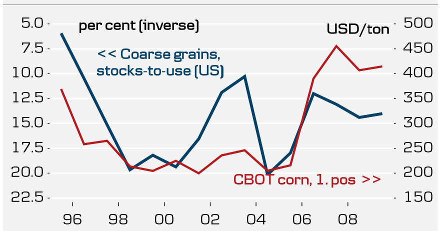
Corn prices have held up well during the recent turmoil. Indeed corn has somewhat more to be positive about than e.g. wheat. Although US stocks have edged higher in recent years, so has consumption with the stocks-to-use ratio fairly stable at around 13% over the past few years. Chinese corn imports were strong last autumn. Following a decline early this year import volumes rose once again in April.

Corn stocks have increased



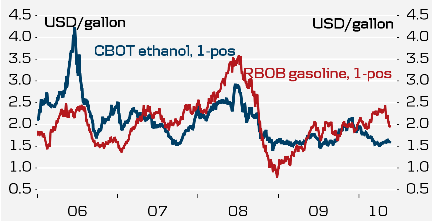
Source: EcoWin, Danske Markets.

Stocks-to-use moderate



Source: EcoWin, Danske Markets.

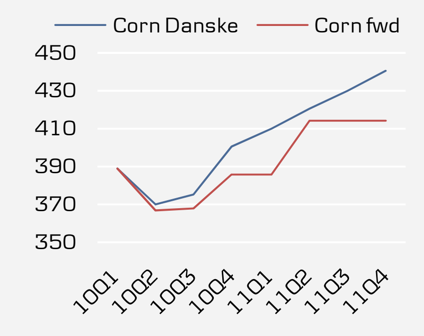
Ethanol vs. gasoline prices



Source: EcoWin, Danske Markets.

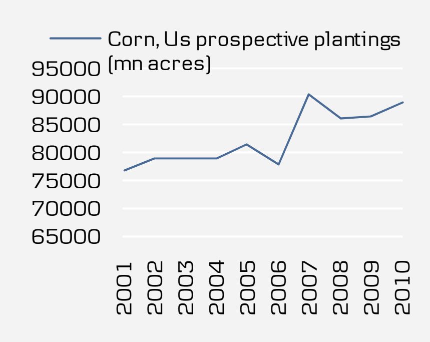
Demand for corn is undergoing important structural changes due to rising demand from ethanol production. US ethanol production has risen recently as energy prices have recovered. However, the spread between gasoline and ethanol prices has increased as motor gasoline prices have picked up. We expect this gap to close with corn prices chasing gasoline, rather than the other way around. However, as discussed in the energy section above, gasoline prices may have little further upside at this time. We expect average CBOT prices of USd384 per bushel in 2010 and USd425 in 2011.

Danske Markets forecast vs. forward



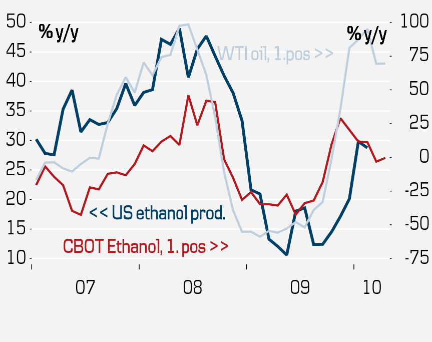
Source: Bloomberg, Danske Markets.

Corn plantings up slightly



Source: Bloomberg/USDA, Danske Markets.

Corn-energy link via ethanol

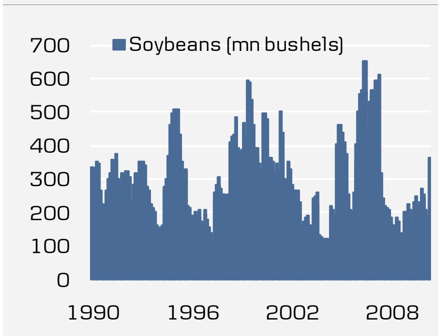


Source: EcoWin, Danske Markets.

Soybeans: stocks up but demand supports prices

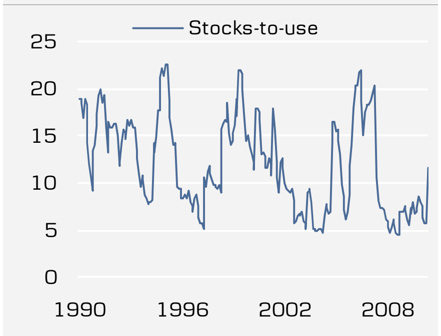
US soybean stocks are near decade-lows and stocks-to-use have been very low for some time at around only 6%. However, Latin American production appears healthy while stocks have recently begun to increase, leaving the stocks-to-use ratio to double to 12% last month with use simultaneously declining. Prospective US plantings are marginally higher this season compared with last with less acres used for wheat due to the relatively large stock overhang for that grain.

Soybeans: US ending stocks



Source: Bloomberg/USDA, Danske Markets.

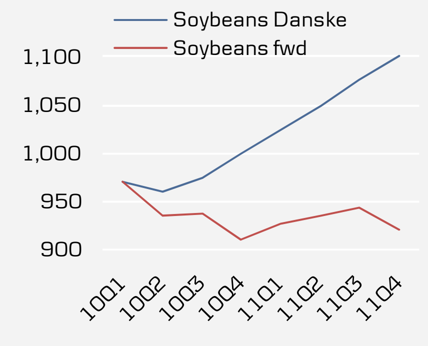
Stocks-to-use up recently



Source: Bloomberg/USDA, Danske Markets.

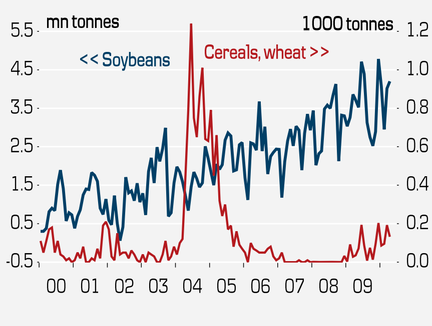
China remains the driving force for demand in the soybeans market for the time being. The country's soybean imports have been steadily rising since 2000. Biodiesel production could also provide support for demand for soybean oil going forward if a US tax credit is re-introduced. In addition, impaired production of palm oil due to adverse weather conditions may help support prices in the near term. We expect average CBOT prices of USd976 per bushel in 2010 and USd1,063 in 2011.

Danske Markets forecast vs. forward



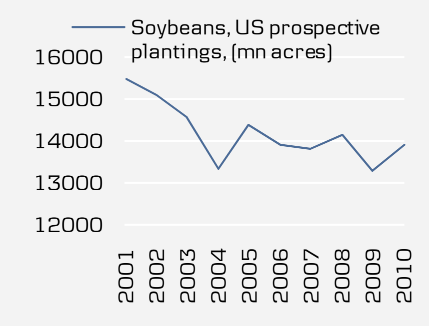
Source: Bloomberg, Danske Markets.

Chinese wheat appetite muted while imports of soybeans continue to rise



Source: EcoWin, Danske Markets.

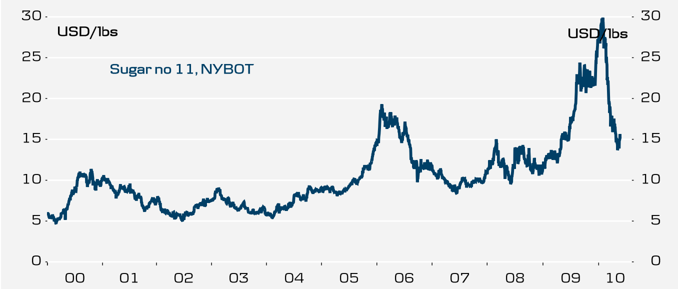
Small increase in plantings



Source: Bloomberg/USDA, Danske Markets.

Agricultural charts

Sugar

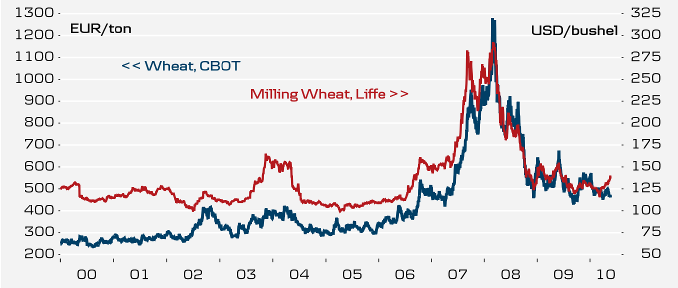


Source: Ecowin

Soybeans

Source: Ecowin

Wheat

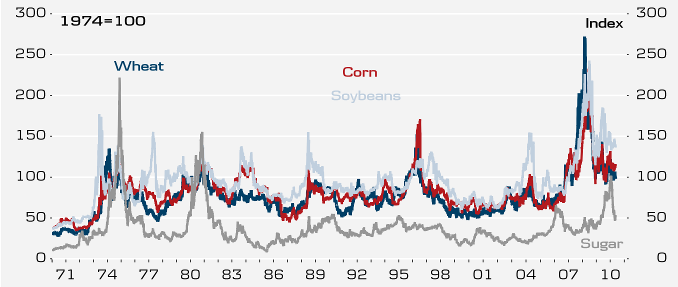


Source: Ecowin

Corn

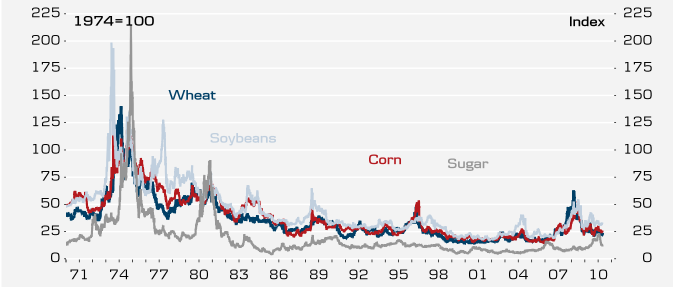
Source: Ecowin

Nominal prices



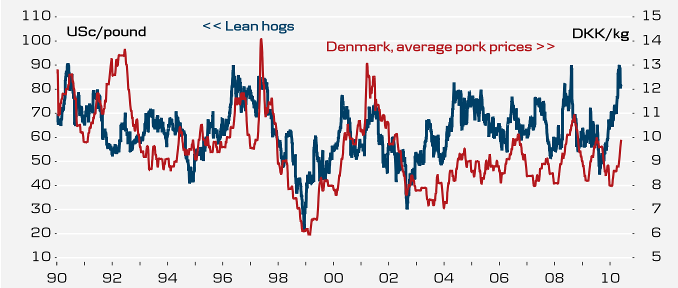
Source: Ecowin

Real price*



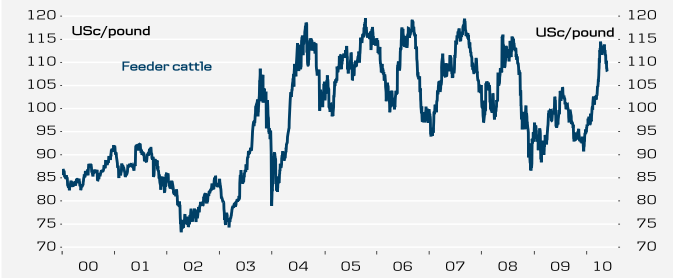
Source: Ecowin

Pig prices



Source: Ecowin

Feeder cattle



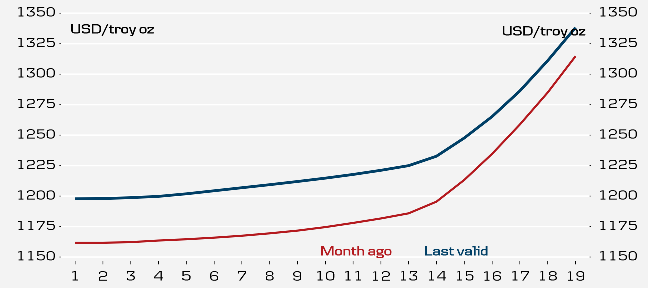
Source: Ecowin

Precious metals charts

Gold, spot

Source: Ecowin

Forward curve, Gold, Nymex

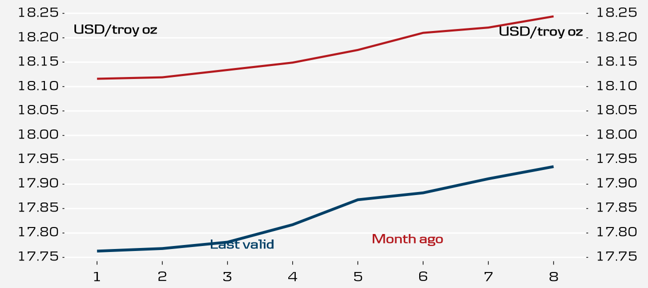


Source: Ecowin

Silver, spot

Source: Ecowin

Forward curve, Silver, COMEX

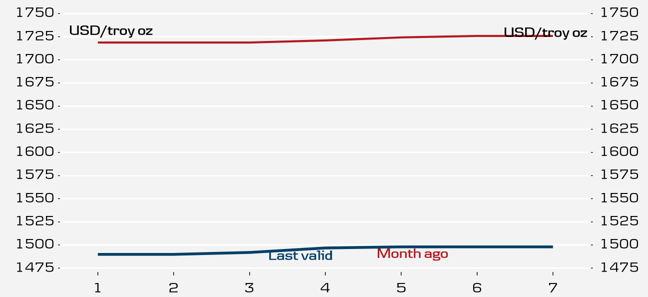


Source: Ecowin

Platinum, spot

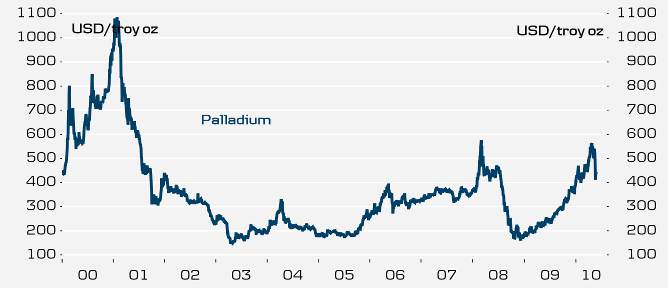
Source: Ecowin

Future curve, Platinum, Nymex



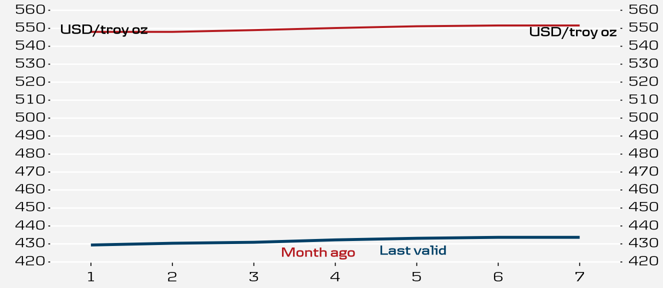
Source: Ecowin

Palladium, spot



Source: Ecowin

Future curve, Palladium, Nymex



Source: Ecowin

Historical commodity prices

	26/05/2010	Month ago		Year ago		This year	
	Price	Price	%, m/m	Price	%, y/y	Start level	YTD change, %
Energy							
NYMEX WTI 1.pos.	70.6	84.1	-16.1	62.4	13.1	79.3	-11.0
NYMEX Gasoline RBOB (Usc/gln), 1.pos.	197.1	233.9	-15.7	185.1	6.5	205.1	-3.9
ICE Brent 1.pos.	71.3	86.8	-17.8	61.2	16.5	77.9	-8.4
ICE Carbon (€/tn), DEC-09	15.5	15.6	-0.9	15.8	-1.7	12.6	23.2
Electricity Nord Pool,€, 1.month	47.2	45.4	3.9	.	-	-	.
TTF Natural Gas (€) 1st. month	17.0	13.9	22.4	10.5	61.4	13.0	30.9
Natural Gas, Nymex, 1.pos.	4.2	4.3	-1.0	3.5	19.3	5.6	-24.3
API2, steam coal, 1st month	91.3	88.0	3.8	63.5	43.8	83.3	9.7
Base metals: LME 3M Prices (US$/t)							
Aluminium	2,039	2,315	-11.92	1,451	40.50	2,229	-8.52
Copper	6,860	7,807	-12.13	4,657	47.28	7,372	-6.94
Lead	1,805	2,360	-23.54	1,446	24.83	2,433	-25.83
Nickel	21,520	27,137	-20.69	13,382	60.73	18,507	16.27
Zinck	1,909	2,440	-21.75	1,499	27.33	2,559	-25.39
Precious Metals: Spot Prices (US$/oz)							
Gold	1,213.6	1,154.4	5.1	953.1	27.3	1,099.2	10.4
Silver	18.3	18.4	-0.3	14.7	24.9	17.0	7.9
Agriculturals: Front Month Prices							
CBOT Wheat (USd/bushel)	466.8	488.0	-4.4	691.5	-32.5	566.0	-17.5
Matif Mill Wheat (€/t)	136.8	131.0	4.4	153.0	-10.6	131.3	4.2
CBOT Corn (USd/bushel)	369.0	352.3	4.8	427.5	-13.7	414.5	-11.0
CBOT Soybeans (USd/bushel)	938.0	998.8	-6.1	1,185.5	-20.9	1,039.8	-9.8
NYBOT Sugar (USd/lb)	15.3	15.7	-2.4	15.9	-4.0	26.9	-43.2
Commodity indices							
Reuters/CRB TR	251.8	278.2	-9.5	245.3	2.7	283.2	-11.1
S&P GSCI Energy TR	836.2	1,057.2	-20.9	889.2	-6.0	1,016.2	-17.7
S&P GSCI Industrial Metals TR	1,513.4	1,802.9	-16.1	1,103.7	37.1	1,706.9	-11.3
S&P GSCI Agriculture TR	498.1	522.2	-4.6	628.7	-20.8	615.5	-19.1
S&P GSCI Precious Metals TR	1,547.4	1,499.9	3.2	1,252.0	23.6	1,424.0	8.7
AIG	124.6	135.8	-8.3	121.4	2.6	139.2	-10.5
Rogers commodity index TR	2,911.6	3,289.8	-11.5	2,826.1	3.0	3,273.4	-11.1
Steel prices (EUR/t)							
EU domestic hot rolled coil	610.0	540.0	13.0	375.0	62.7	370.0	64.9
EU domestic cold rolled coil	680.0	635.0	7.1	440.0	54.6	455.0	49.5
EU domestic hotdip galv. coil	690.0	630.0	9.5	487.5	41.5	580.0	19.0

Source: Bloomberg, Danske Markets.

Commodity-price forecasts

		2010				2011				AVERAGE		
	26/05/10	1Q01	1Q02	1Q03	1Q04	11Q1	11Q2	11Q3	11Q4	2009	2010	2011
Energy: front month												
NYMEX WTI (US$/bl)	70.6	81	78	80	85	87	89	92	94	71	81	91
ICE Brent (US$/bl)	71.2	79	79	79	84	86	88	91	93	70	80	90
Base metals: LME 3M (US$/t)												
Aluminium	2,040	2,199	2,200	2,250	2,300	2,400	2,400	2,400	2,400	1,702	2,237	2,400
Copper	6,864	7,274	7,300	7,500	7,800	8,200	8,600	8,650	8,700	5,188	7,468	8,538
Zinc	1,910	2,307	2,150	2,200	2,400	2,500	2,500	2,550	2,550	1,686	2,264	2,525
Nickel	21,440	20,163	23,500	22,000	22,500	23,000	23,000	23,000	23,000	14,746	22,041	23,000
Steel	450	464	525	550	575	580	585	590	600	361	529	589
Precious Metals: spot (US$/oz)												
Gold	1,213	1,110	1,175	1,150	1,100	1,050	1,000	1,000	1,000	974	1,134	1,013
Agriculturals: front month												
Matif Mill Wheat (€/t)	137	126	133	133	132	127	133	133	133	148	131	132
CBOT Wheat (USd/bushel)	467	518	480	470	450	475	500	500	500	600	480	494
CBOT Corn (USd/bushel)	369	389	370	375	400	410	420	430	440	419	384	425
CBOT Soybeans (USd/bushel)	938	969	960	975	1,000	1,025	1,050	1,075	1,100	970	976	1,063

Source: Bloomberg, Danske Markets.

Disclosure

This research report has been prepared by Danske Research, which is part of Danske Markets, a division of Danske Bank. Danske Bank is under supervision by the Danish Financial Supervisory Authority. The authors of this report are Arne Lohmann Rasmussen, Chief Analyst and Christin Tuxen, Senior Analyst.

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