



KBC Commodities Report

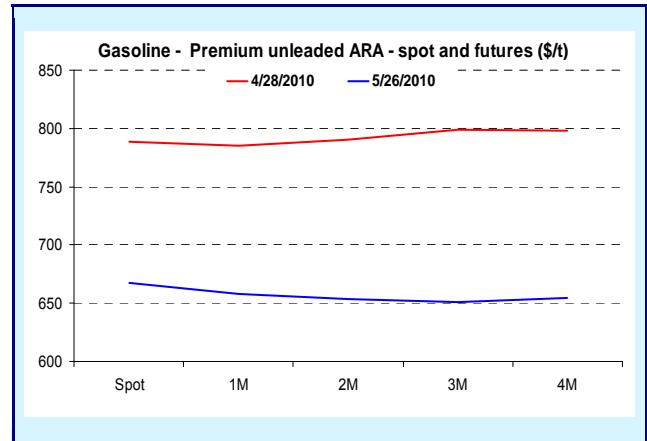
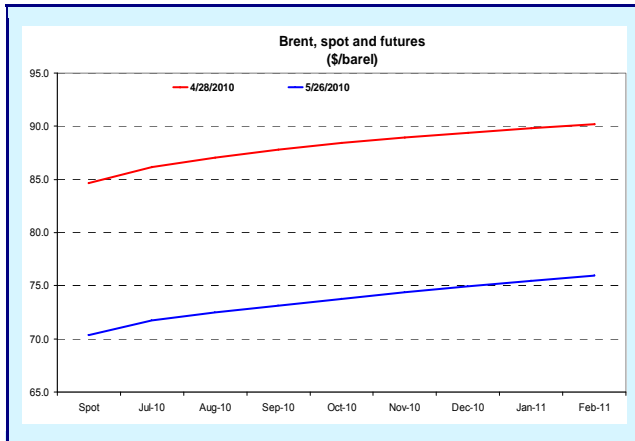
Written by CSOB Prague and KBC Brussels - More research on www.kbc.be/dealingroom

Headlines

- Crude corrects previous loss
- Gold shines as safe investment again
- Copper bounces back from steep decline

		26/5/10	25/5/10		19/5/10		28/4/10	
		Close	Close	Daily Change	Close	Weekly Change	Close	Monthly Change
Crude								
Brent spot	USD/b	70.35	66.94	5.09%	71.62	-1.77%	84.64	-16.88%
Brent - 1M	USD/b	71.16	70.32	1.19%	74.28	-4.20%	86.11	-17.36%
Brent - 2M	USD/b	71.90	71.19	1.00%	75.12	-4.29%	87.00	-17.36%
Brent - 3M	USD/b	72.55	71.90	0.90%	75.81	-4.30%	87.75	-17.32%
WTI spot	USD/b	71.50	64.78	10.37%	69.91	2.27%	83.22	-14.08%
1,0% Fuel Oil FOB Barges Rdam	USD/t	409.50	402.50	1.74%	426.25	-3.93%	488.50	-16.17%
3,5% Fuel Oil FOB Barges Rdam	USD/t	391.75	382.50	2.42%	409.25	-4.28%	459.75	-14.79%
Jet FOB Barges Rdam	USD/t	661.75	641.75	3.12%	665.75	-0.60%	758.50	-12.76%
Gasoil 0.1 FOB Barges ARA	USD/t	605.75	588.25	2.97%	612.75	-1.14%	708.75	-14.53%
Diesel 10 PPM FOB Barges Rdam	USD/t	626.75	610.25	2.70%	637.50	-1.69%	723.75	-13.40%
Base Metals - LME 3 M								
Cu	USD/t	6779	6730	0.73%	6505	4.21%	7400	-8.39%
Sn	USD/t	17650	17595	0.31%	17450	1.15%	18000	-1.94%
Pb	USD/t	1753	1745	0.46%	1756	-0.17%	2237	-21.64%
Zn	USD/t	1890	1855	1.89%	1858	1.75%	2330	-18.88%
Al	USD/t	2015	2017	-0.12%	2002	0.62%	2190	-8.01%
Aa	USD/t	1885	1851	1.84%	1880	0.27%	2050	-8.05%
Ni	USD/t	21115	21195	-0.38%	21300	-0.87%	25650	-17.68%
Precious Metals - spot								
Au	USD/oz	1210.9	1201.1	0.82%	1191.75	1.61%	1165.45	3.90%
Ag	USD/oz	18.06	17.89	0.95%	18.2	-0.77%	18.1	-0.22%
Pt	USD/oz	1521	1518	0.20%	1602.5	-5.09%	1709.5	-11.03%
Pd	USD/oz	439	438.5	0.11%	459.5	-4.46%	541	-18.85%

Brent and Distillates



On Wednesday the **crude price rose** as investors adopted a more optimistic outlook on the world economic recovery. Prices were also boosted by signs that record oil inventories may be on the decline.

U.S. EIA reported that **oil inventories at Cushing, Oklahoma, dropped by 300 kb** in the week ended May 21, the first drop at the storage hub since March. EIA also reported that total products supplied, a measure of demand, had risen to its highest level since January 2009.

However, **global U.S. oil inventories rose 2.5 mln. b** last week more than the 100 kb increase forecasted. **Gasoline stockpiles fell 200 kb**, where forecasts called for no change. **Distillate inventories fell 300 kb**, compared with estimates for a 300 kb increase.

The **Obama administration plans** to announce on Thursday a **suspension of off-shore oil drilling in the Arctic** until 2011, an Alaska senator said.

OPEC president Ecuador expects global oil prices to return to 70 - 80\$/b range after being hit by market speculation linked to a growing financial crisis in Europe, its energy minister told Reuters on Tuesday.

Bank of America Merrill Lynch sharply lowered its forecast for second half 2010 oil prices to 78\$/b from 92 \$ previously. The bank cited the crisis of confidence in European sovereign debt, a much weaker-than-expected euro versus the dollar, and slightly higher-than-expected oil supply from producers outside OPEC. The bank slashed its forecast for world oil demand growth this year by 500 kb/d to 1.5 mln.b/d on expected slower economic growth.

BP Plc told congressional investigators on Tuesday that **pressure tests on a drill pipe showed a fundamental mistake** hours before the deadly explosion that caused the Gulf of Mexico oil leak.

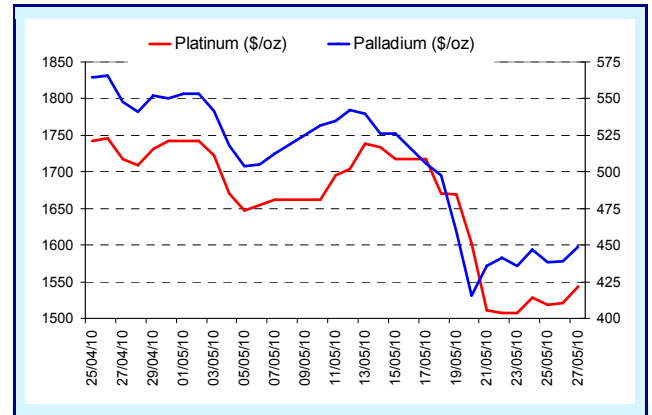
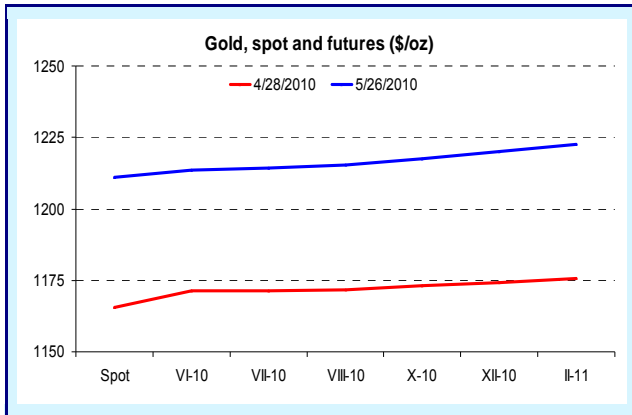
The **Trans-Alaska Pipeline**, partly owned by BP, **shut down on Tuesday** after spilling several thousand barrels of crude oil into backup containers, drastically cutting supply down the main artery between refineries and Alaska's oilfields. The pipeline normally ships about 677 kb/d. The accident comes at a difficult time for BP -holding 47% of the pipeline as it struggles to plug a gushing Gulf of Mexico oil well.

World oil demand will continue to grow through 2030, but demand that year will be about 2.5% less than previously thought due to use of renewables and higher oil prices, the U.S. EIA said on Tuesday. In its annual forecast the agency said global oil demand will average 103.9 mln.b/d in 2030, down from the 106.6 mln.b/d demand estimate in last year's forecast.

Japan's top refiner, **Nippon Oil Corp, plans to refine 2% more crude in June**, a company spokesman said on Wednesday, a switch from deep production curbs last year when demand tumbled amid a deep recession. The oil firm plans to reduce gasoline output and boost middle distillates production in response to a gasoline glut in Japan.

Japan's crude imports rose 4.3% in April from a year earlier, as demand picked up after heavy drops early last year when the nation faced its worst recession in decades.

Precious Metals



Gold prices are back above 1,200\$/oz as fears over the euro zone's debt problems drove investors to the limited number of assets deemed to be safe.

Platinum and palladium fell in Europe on Tuesday, resuming last week's downward slide, as investors were spooked by a further drop in the euro and equity markets, and as industrial end-users held out for lower prices. Nevertheless, **yesterday both metals gained**.

Sales of gold coins by the U.S. Mint have risen to their highest levels since December 2008, with coin dealers reporting that business is booming thanks to demand from investors. So far in May, the U.S. Mint has sold **158,000 one-ounce 2010 American Eagle bullion coins**, according to the agency's website. This is already more than double the full-month total of 65,000 for May 2009 even though a few business days remain in May. The same coin **sales for the year to date have reached 489,500, up 18%** from 413,200 as of the end of May 2009., the monthly total of 158,000 is already up 55% from the second-highest monthly total of the year so far, which was 102,000 in March. Dealers describe a **tightening coin market** in which buyers are holding on to the coins rather than

turning around and selling as the price of gold keeps rising.

Nevertheless, coins themselves are a rising but still-small percentage of the overall gold market. **Official coin sales amounted to 234.4 t in 2009, while total investment demand was 1,270.9 t**, according to World Gold Council data. **Jewellery was the largest single use at 1,747.3 t**.

According to Barclays Capital total **ETF gold holdings rose above 2000 t** for the first time on Tuesday and inflows this month are likely to be the second highest on record.

On the supply side, **sales of gold scrap**, which usually pick up with higher prices, remained muted in the first quarter, falling 15% from the previous quarter.

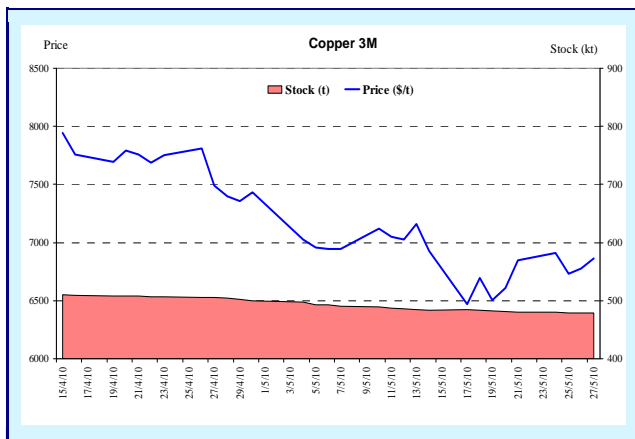
Also **mine production was 9% lower** in the first quarter, with production at Grasberg in Indonesia, the world's largest gold mine, falling 25% because of lower ore grades.

Gold holdings in the SPDR Gold Trust, the biggest exchange-traded fund backed by bullion, increased 0.3 t to 1,267.63 t as of May 26, according to figures on the company's website.

Base Metals

Base metal - Stock (t)

	24/05/10	21/05/10	17/05/10	26/04/10
Cu	479325	479575	483150	505350
Sn	20485	20555	20845	21100
Pb	190125	186800	186800	179775
Zn	617325	586650	566875	541300
Al	4573750	4578725	4511025	4551825
Aa	72260	72380	71920	73860
Ni	138444	138576	139962	145458



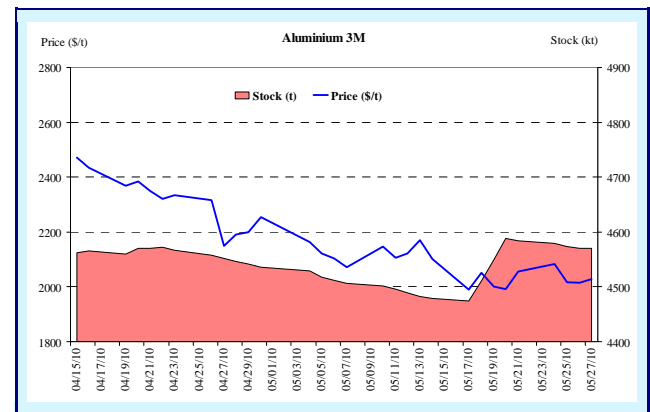
Base metals fell sharply on Tuesday, but brokers expected bargain hunting would put a floor on the market soon. Indeed, **copper bounced on Wednesday** from the previous session's steep decline, but gains looked fragile as the euro zone debt crisis hit European demand outlook.

Aluminium demand in the US and Canada (shipments by domestic producers plus imports) totalled about 4.924 bln.lb during the first quarter of 2010, 17.6% above a year ago, according to preliminary estimates by the US Aluminium Association.

Japanese shipments of aluminium products rose 28.7% in April from a year earlier, industry data showed, with robust appetite in China and Southeast Asia bolstering demand. Although it marked the fifth straight month of year-on-year climbs, April's 177,195t of shipments was down 5.1% from March, data provided by the Japan Aluminium Association showed.

Japan's output of rolled copper products jumped nearly 70% in April from a year ago, rising for the sixth straight month as demand rebounds.

Jinchuan Group Ltd, **China's dominant nickel producer**, has shut down a key nickel furnace in Gansu province for 140 days from Tuesday for repairs, the company said. The furnace produces nickel matte, a semi-smelted material used for refined nickel produc-



tion. It produced the mattes for more than 60 kt of refined nickel last year, nearly half of the company's output.

Global miner **Rio Tinto** on Wednesday predicted an **upbeat outlook for aluminium**, defying sharp slides in commodity prices and fears of a double-dip global recession.

Western world unwrought **aluminium stocks rose to 1.210 mln.t** in April compared with a revised 1.174 mln.t in March data from International Aluminium Institute figures showed.

Chile needs to hold a debate on how its state mining firm Codelco, the world's largest copper producer, **will fund a major investment program in its mines**, studying a range of alternatives including opening the firm to private investors, mining minister said. The company is eyeing **plans to invest 15 bln.\$** in its mines that will allow it to continue producing copper at current rates or higher into the second half of the century. However, the source of the financing for the program remains uncertain.

Aluminium producer Norsk Hydro will build Norway's largest plant for aluminium recycling at Karmoy with an initial capacity of 35 kt. The total investment will be around 39.5 mln.\$.

Technical Analysis

BRENT - APPROACHED FLAG BOTTOM OFF 36.20 (SEE GRAPH)



/LCOc1 (Brent Futures: 72.25 Daily charts).

New recovery high retested long term monthly breakdown of September 2008 (88.90), with drop having sent the contract near Flag bottom from 36.20 and 67.87 (see graph).

1st support area at 70.06 (daily envelope bottom), with next levels at 68.15/ 67.87 (current reaction low off 89.58 + Flag bottom/ Feb 05 low + see graph), where pause favored.

Failure to hold would see next levels at 67.34 (weekly envelope bottom), ahead of 66.49 (daily Bollinger + Starc bottoms): tough on 1st attempts.

1st Resistance area at 72.63 (daily envelope top), with next levels at 73.79 (weekly envelope top), ahead of 74.67 (daily Medium Term Moving Average↓ + broken 50 Week Moving Average↑), where pause favored.

If wrong, next level at 76.11/ 76.80 (daily Starc top/ breakdown daily May 14), ahead of 77.66 (daily Bollinger midline): tough on 1st attempts.

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