

Softs & Hards – December 10

CONTENTS

1 **Prices**

See price charts for a number of relevant commodities.

2 **The past month in review...**

Get a quick overview of the events of the past month.

3-8 **Research and expectations**

Our research includes comments on and illustrations of the supply and demand situation. The expectations of the coming quarters are also available here.

3 **Oil**

As expected, the oil price puts pressure on the upper band of the trading range and has breached the price of USD 85 twice over the past month. In the short term, we expect relatively stable prices in the range of USD 85-USD 89. In the longer term, there is further upside potential

5 **Copper**

The copper price has fluctuated in the range of USD 8,100 - 8,900 in the recent month. We expect that copper will keep up the record level for the rest of the year and expect further increases in 2011.

7 **Aluminium**

Having traded at a level close to USD 2500 a tonne in early November, the aluminium price fell in mid-November. Due to spill-over effects from the copper market and solid growth in EM, we assess that aluminium prices will rise slightly in 2011.

- We hope you will enjoy reading Softs & Hards -

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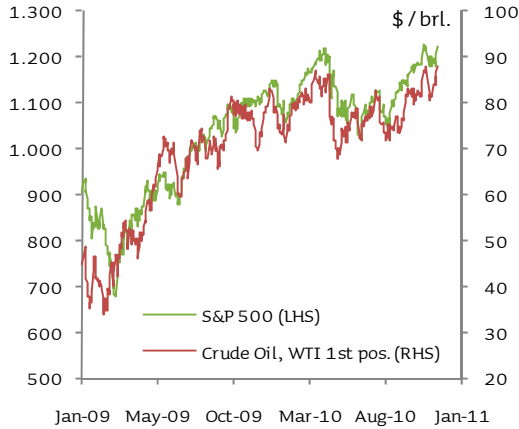
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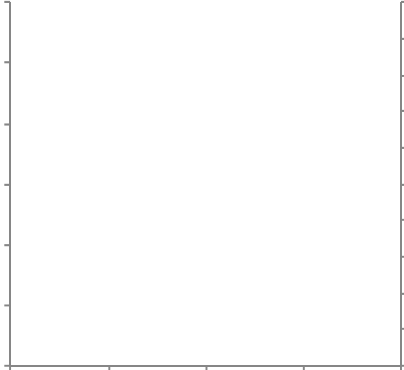
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WTI crude oil and equities



Source: Jyske Bank and Bloomberg

WTI crude oil and EUR/USD



Copper

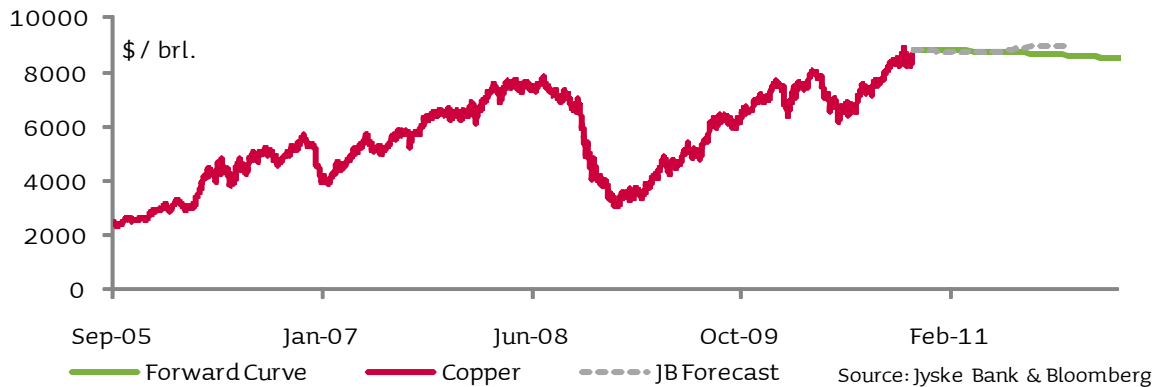
The copper price has fluctuated in the range of USD 8,100 - 8,900 in the recent month, and set a record at USD 8,858 a tonne on 9 November. In recent days, the price has increased strongly due to better-than-expected business-trend indicators from Germany, the US and China. Also, inventories are falling. The fundamental situation is strong, but we are aware that the markets seem to have priced in continued strong economic growth in China, and therefore the copper price may be vulnerable if Chinese growth slows down, for instance due to an interest-rate hike. We expect that copper will keep up the record level for the rest of the year and expect further increases in 2011.

JB forecast, copper

Period	Estimate	Futures
1 month	8.800	0
1 . Qtr. / 11	8.700	8.733
2 . Qtr. / 11	8.700	8.687
3 . Qtr. / 11	8.900	8.638
4 . Qtr. / 11	8.900	8.570

Note: Estimate shows average prices

LME Copper including JB forecast & forward curve



Fundamental assessment – demand

- Due to disappointing housing and job figures in the US, growth in demand must still come from China.
- Despite the debt problems, Europe still benefits from the German economy, which is still seeing decent growth.
- Economic growth in China is strong, which is still evident from industrial production figures and retail sales. The government wishes to see lower and more sustainable growth, which may put pressure on copper in the short term.

Investment case and price triggers

- New EFT products boost the physical demand.
- For the long term, we expect steadily rising prices due to increasing economic growth as well as continued inventory reduction.
- The copper market is very sensitive to the Chinese inventory cycle – expected inventory accumulation in 2011.

Fundamental assessment – supply

- LME stocks have shown a falling trend since March (but still markedly above the bottom from 2009).
- Copper is still the base metal, for which it is most difficult to increase production. It is expensive to expand mining capacity and the mining sector is still dominated by strikes.
- The copper production only changes slightly in step with changes in the copper price.

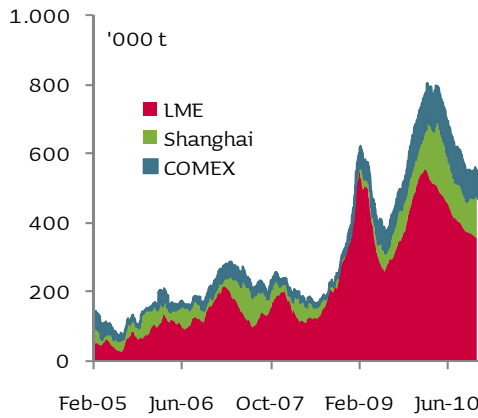
Risk factors

- If we see too high inflation figures in China, it becomes increasingly probable that an interest-rate hike will be implemented before we expect it in H1 2011.
- Debt problems in Europe will spread to the PIIGS countries and therefore the US dollar will appreciate more than expected.
- The Chinese economy will be in for a hard landing.
- The housing sector in China stagnates.

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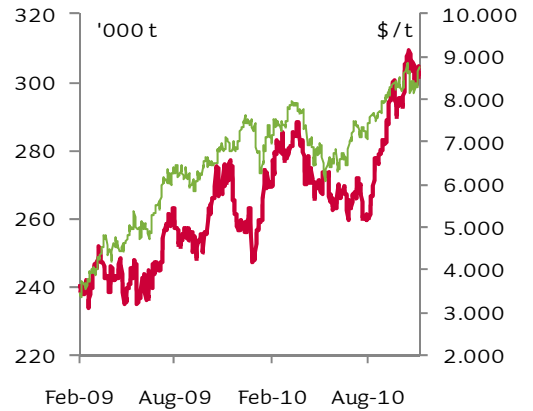
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Development in official inventories



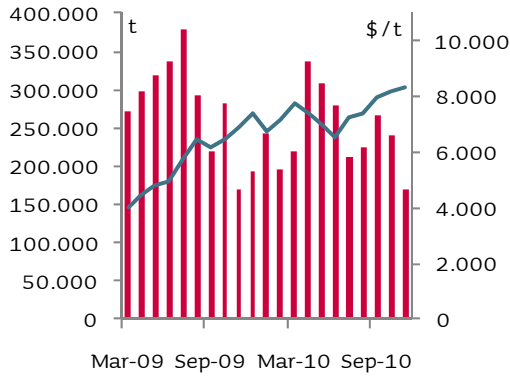
Source: Jyske Bank and Bloomberg

Open Interest



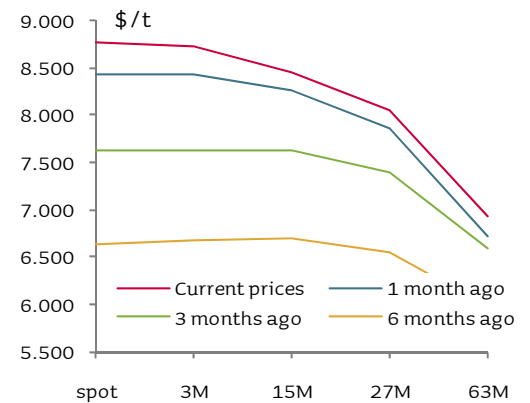
Source: Jyske Bank and Bloomberg

China: import of refined copper



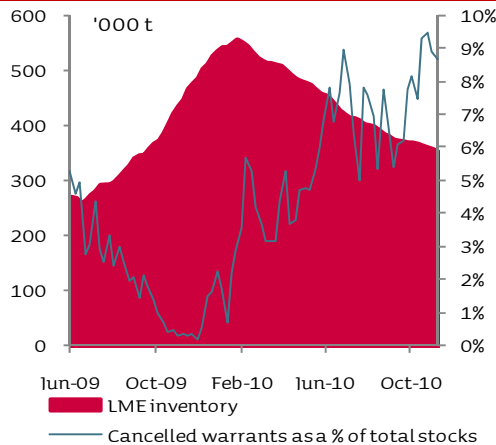
Source: Jyske Bank and Bloomberg

Forward price curve



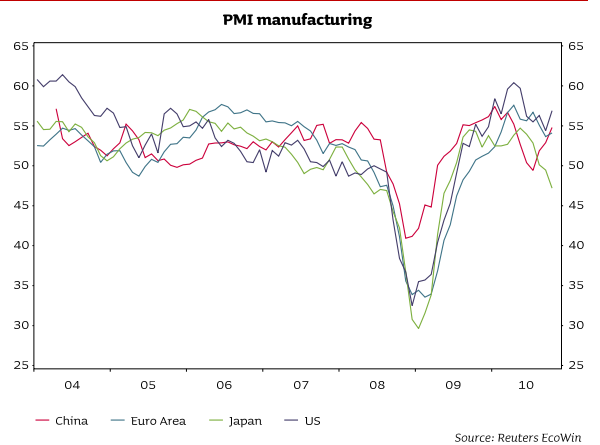
Source: Jyske Bank and Bloomberg

Inventories & cancelled warrants



Source: Jyske Bank and Bloomberg

PMI



Source: Reuters EcoWin

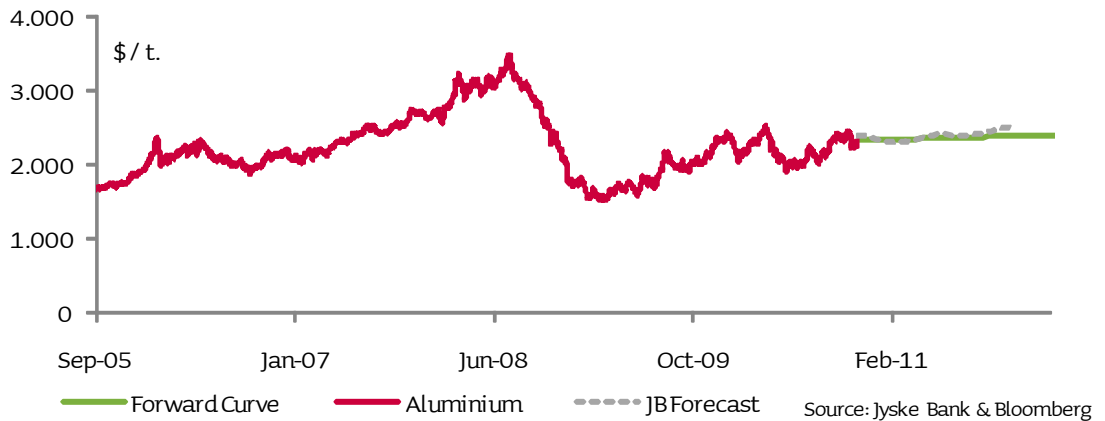
Aluminium

Having traded at a level close to USD 2500 a tonne in early November, the aluminium price fell in mid-November. To some extent this was caused by the fact that China sold aluminium from its reserves in an attempt to keep down inflation. The inventories are still high and imports to China moderate; therefore, it is unlikely that aluminium will increase to any considerable degree. The price of the light metal is, however, sustained by the fact that the marginal costs are in the range of USD 1,850 - 1,900 a tonne. Due to spill-over effects from the copper market and solid growth in EM, we assess that aluminium prices will rise slightly in 2011.

JB forecast, aluminium		
Period	Estimate	Futures
1 month	2.400	0
1 . Qtr. / 11	2.300	2.345
2 . Qtr. / 11	2.400	2.363
3 . Qtr. / 11	2.400	2.379
4 . Qtr. / 11	2.500	2.394
2011	2.400	

Note: Estimate shows average prices

LME Aluminium including JB forecast & forward curve



Fundamental assessment – demand

- China's wish to see lower, yet more sustainable growth puts pressure on aluminium in the short term, but supports the price in the long term.
- Debt problems in Europe and poor job and housing figures from the US still prevent global demand for aluminium to rise markedly.
- Cancelled warrants have fallen significantly – a sign of slowdown in the physical demand.

Investment case and price triggers

- In the short term we anticipate a stronger dollar, which may put pressure on aluminium.
- Also, in the short term, aluminium is under pressure due to lower Chinese growth and large inventories.
- In the long term, only marginal price increases are expected - in anticipation of better economic indicators in Europe and the US.

Fundamental assessment – supply

- LME inventories are still record high but a large part of the physical aluminium (up to ¾) is tied up in financing contracts, which are/have been profitable due to the rising price structure (contango), low interest rates and low inventory costs
- The price is close to the marginal costs (approx. USD 1900 a tonne), notably in China, and this may put a floor under the price. This is also the case for restrictions of energy-heavy industry.

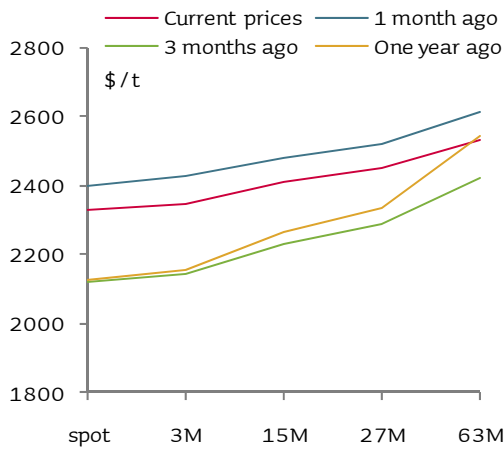
Risk factors

- China's economy will see a hard landing or the country will raise the interest rate before expected in H1 2011.
- Debt problems in Europe will spread to other PIIGS country and the dollar appreciates more than expected.
- Financing contracts will be less attractive faster than we expect, for instance because the interest-rate hikes in the US will come earlier than we expect.

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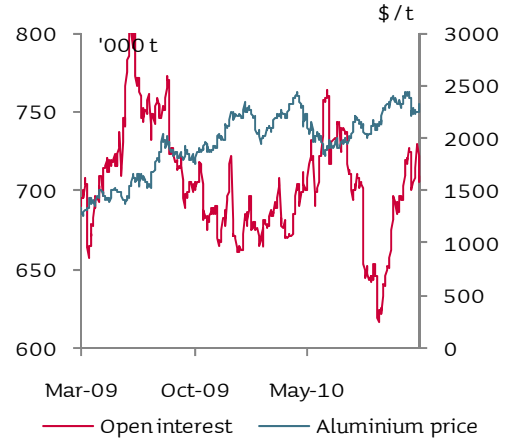
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Forward price curve



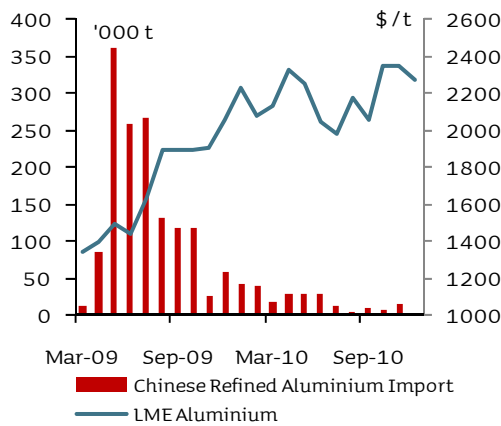
Source: Jyske Bank and Bloomberg

Open interest



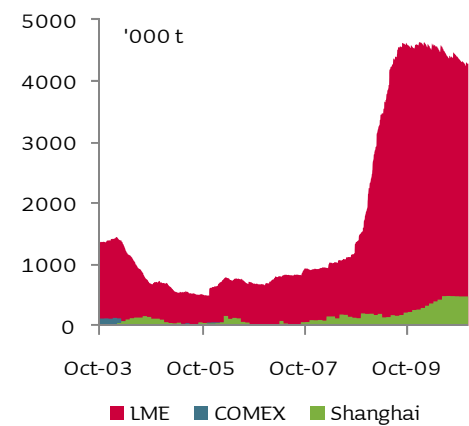
Source: Jyske Bank and Bloomberg

China: imports of refined aluminium



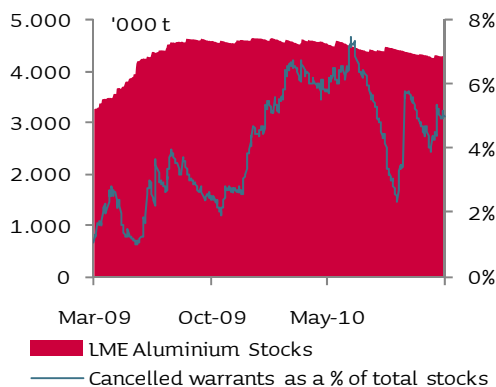
Source: Jyske Bank and Bloomberg

Official inventories



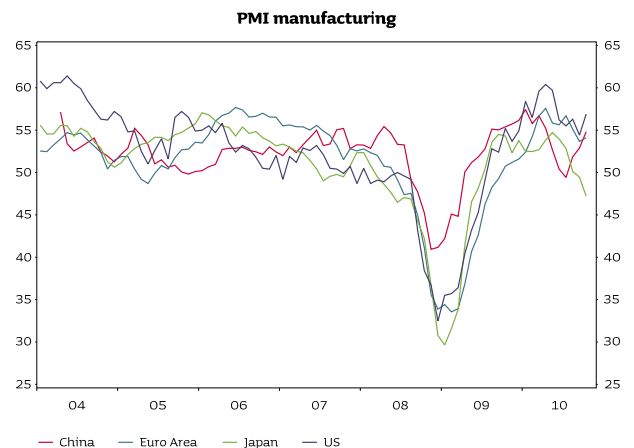
Source: Jyske Bank and Bloomberg

Inventories and cancelled warrants



Source: Jyske Bank and Bloomberg

PMI



Source: Reuters EcoWin

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