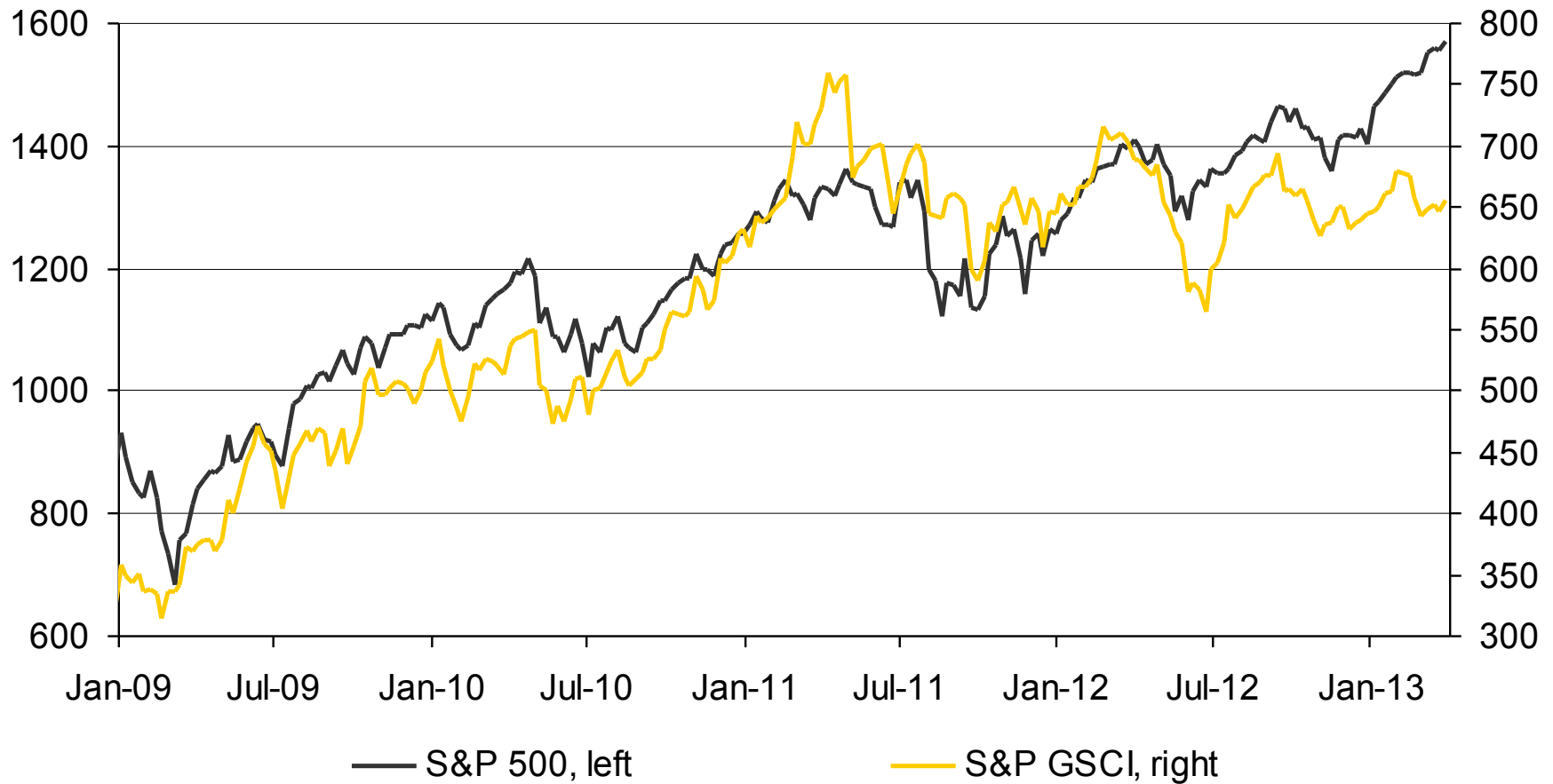




# **Outlook on the Global Commodity Markets – it's always darkest before the dawn**

Eugen Weinberg – Global Head of Commodity Research  
May 2013

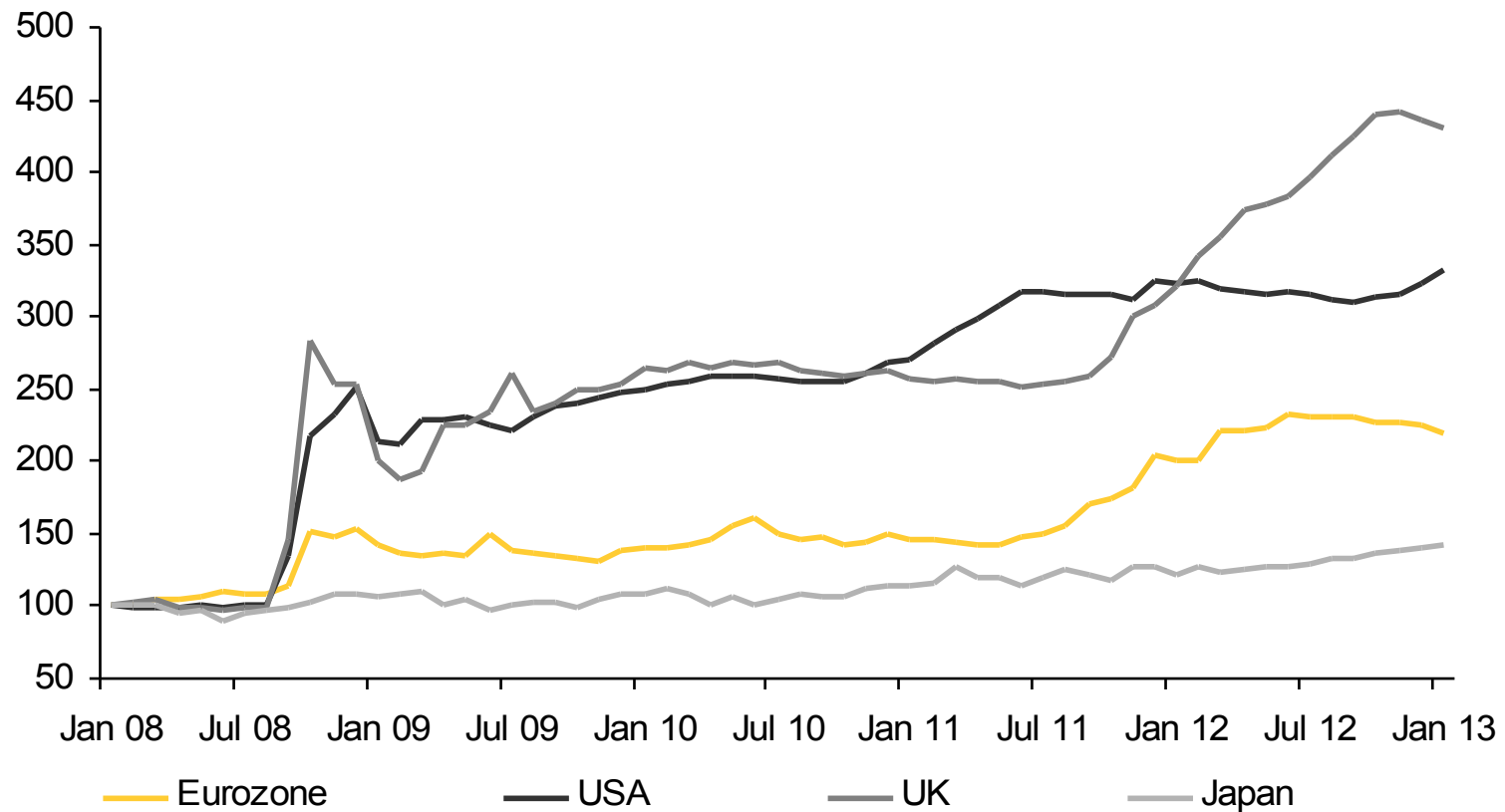
## Paradigm shift: Commodities and equities increasingly de-coupling



Source: S&P, Bloomberg, Commerzbank Commodity Research

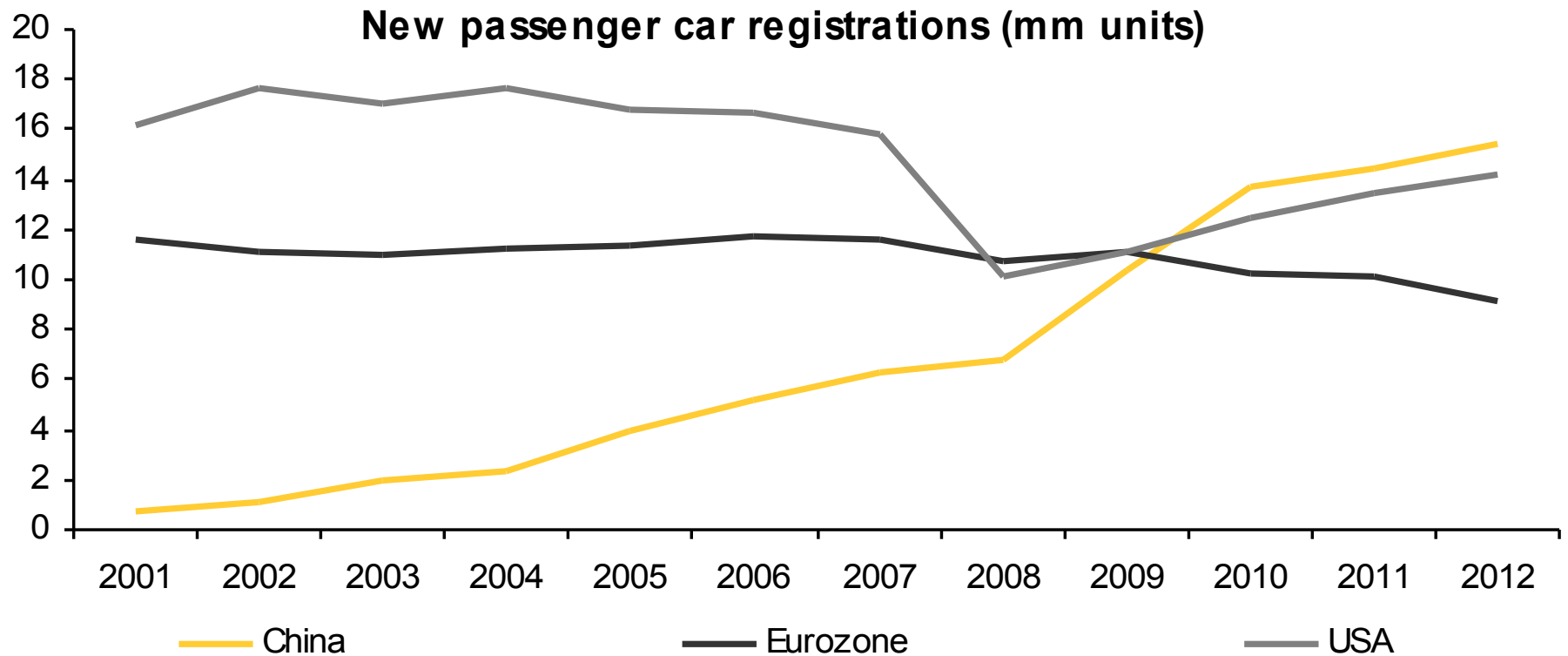
# Monetary policy: who is printing at fastest?

Monetary base, index 2007=100



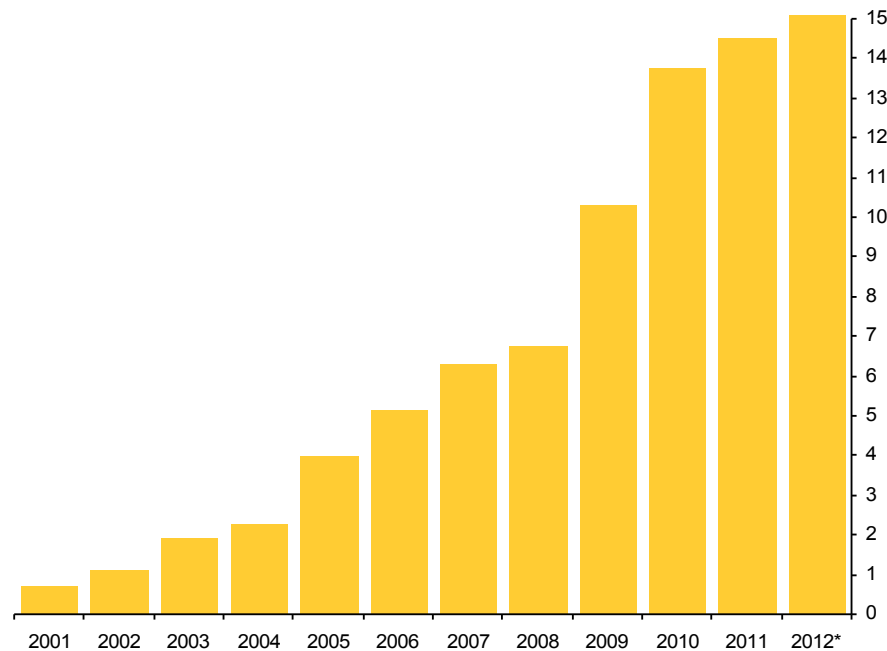
Sources: Central banks, Commerzbank Commodity Research, Bloomberg

EM demand growing at fastest with the largest price impact

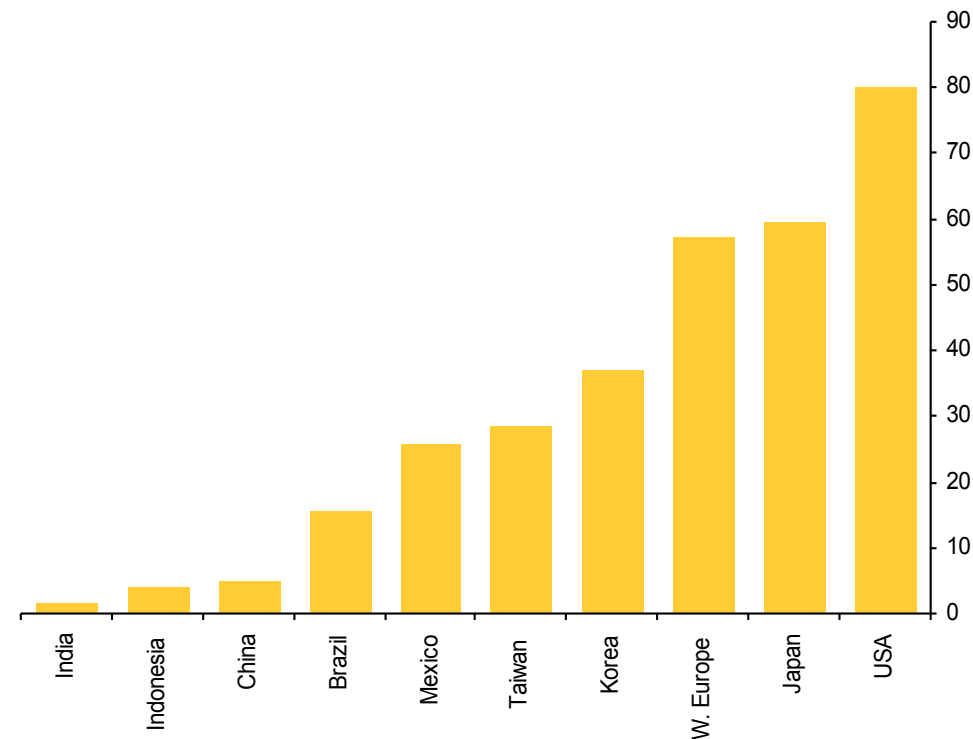


# Key drivers of the growth – China and India with catch-up potential

China: passenger cars sales (m)



Number of cars per 100 inhabitants



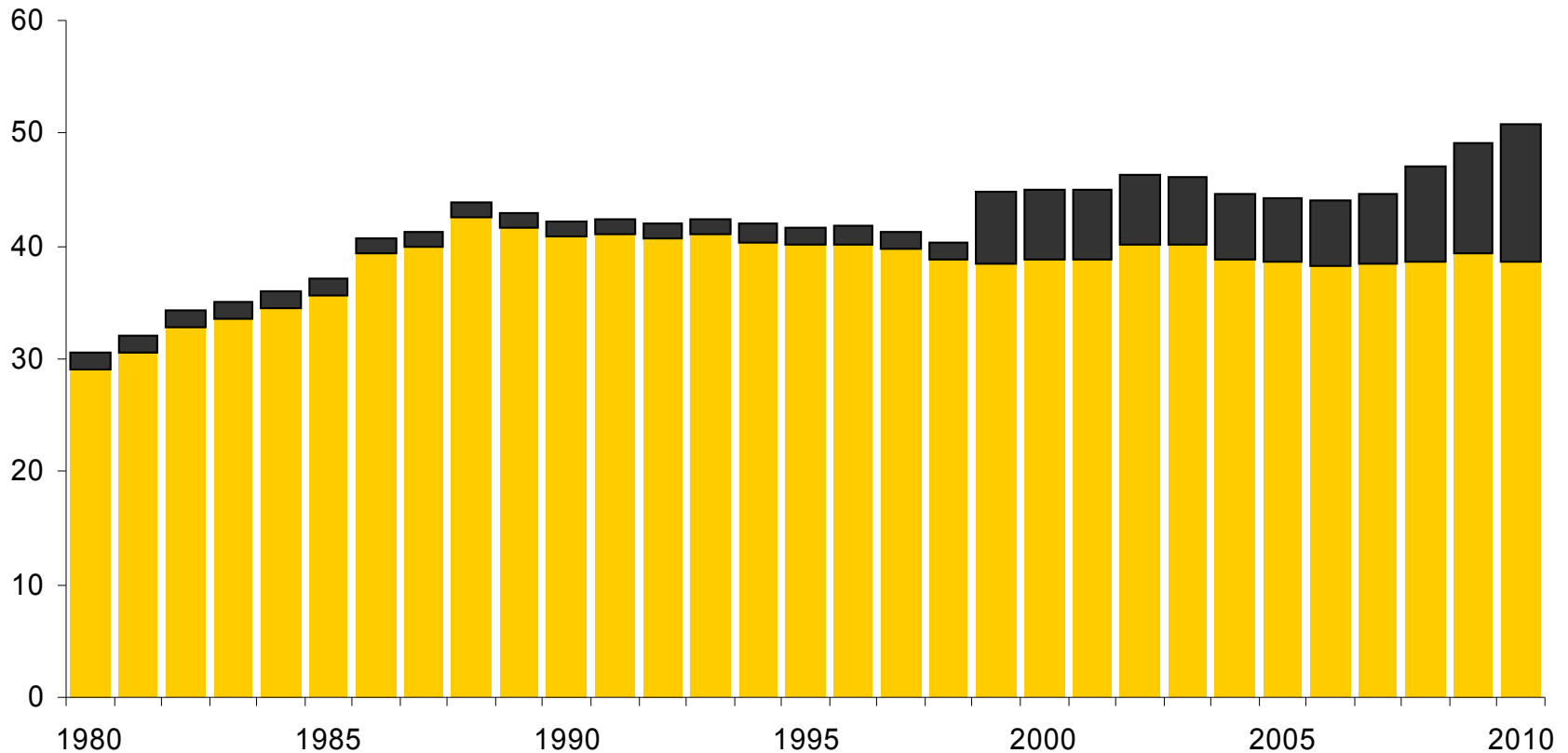
Source: China Federation of Logistics & Purchasing, National Bureau of Statistics, OECD, ACEA, CAA, Commerzbank Corporates & Markets



**Energy – revolution...  
but at what price**

# Theoretically the long-term supplies are not endangered...

## Static resources' reach for crude oil

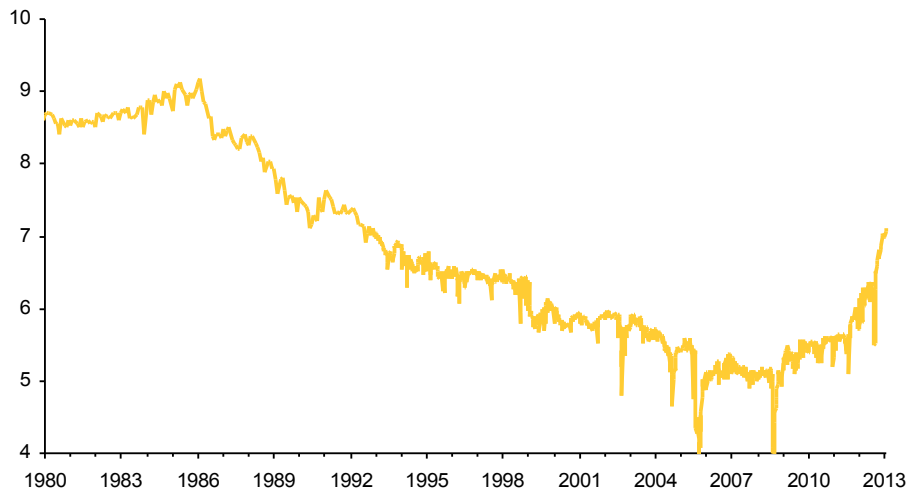


Source: BP Statistical Review

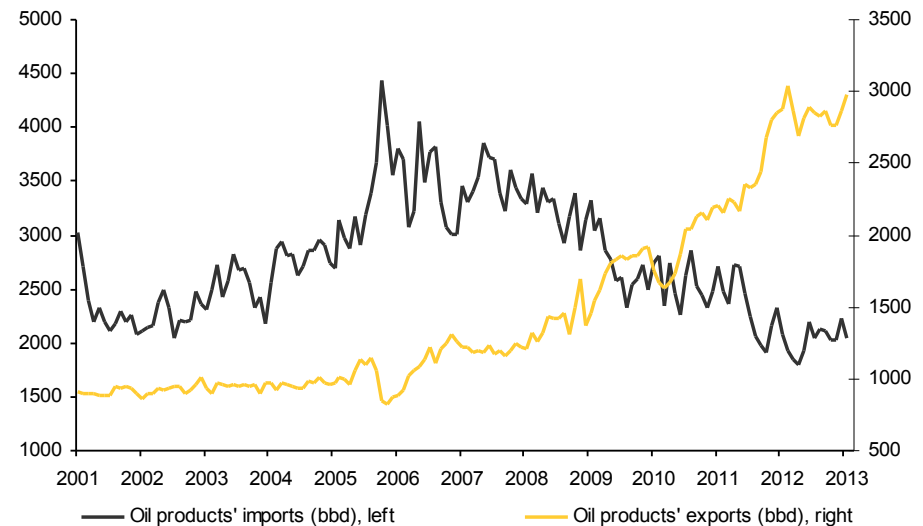
# USA is on its way to becoming the world's largest oil producer (IEA)

In 2017 the USA are going to become the world's largest oil producer ahead of Russia and Saudi Arabia

Oil output USA (mbd)



US oil products' trade flows ('000 bbd)



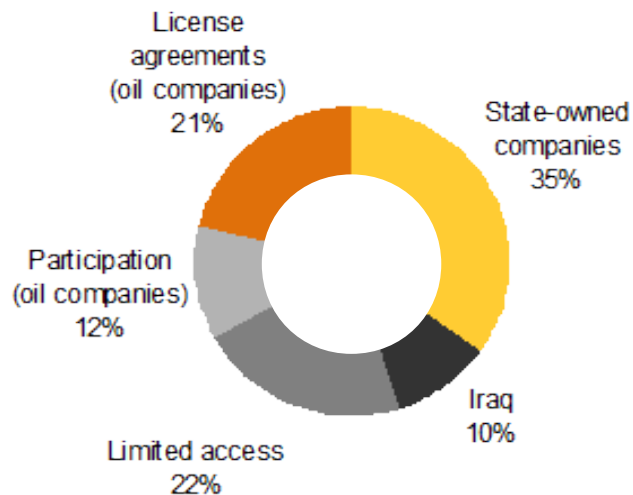
Source: Bloomberg, Commerzbank Commodity Research; Stand: Februar 2013



## ... but the allocation of reserves is quite uneven

### The OPEC commands the largest reserves and spare capacity

- › OECD countries are the world's biggest consumers, however they don't have any significant reserves
- › Resources often found in countries with high political risks

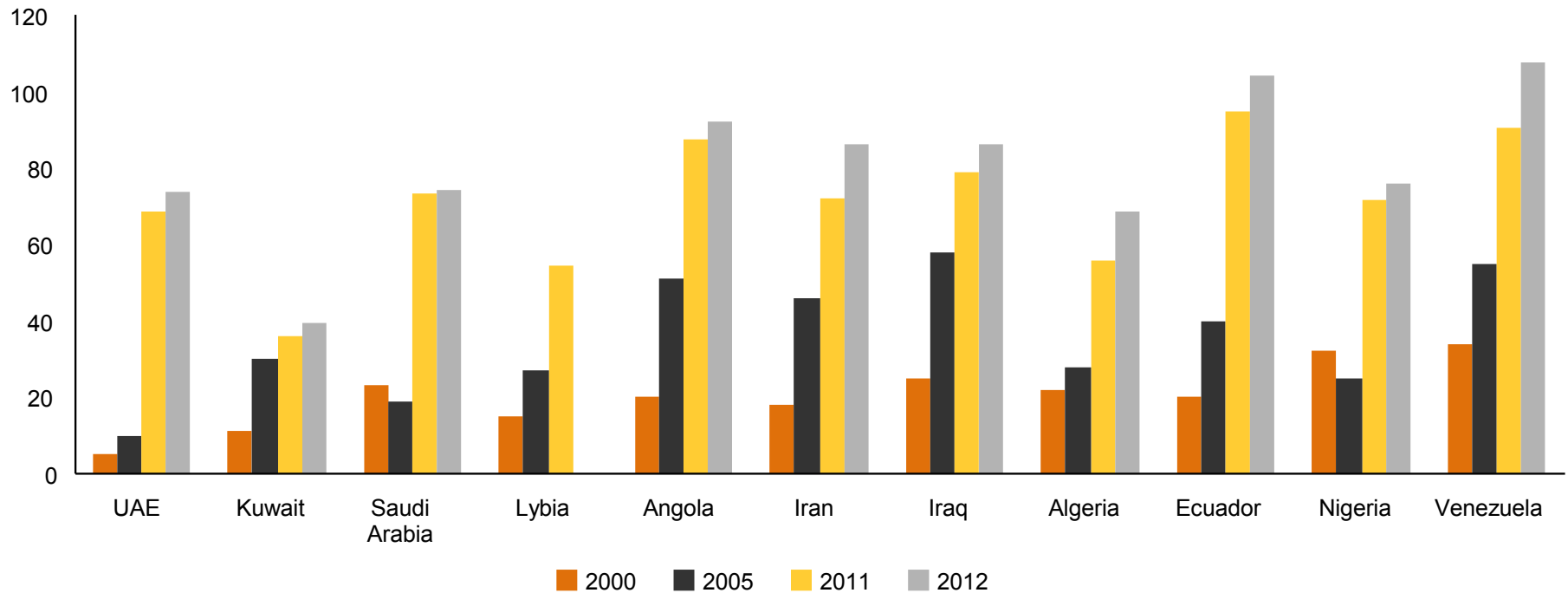


	Crude oil			Natural gas		
	Consumption	Production	Reserves	Consumption	Production	Reserves
OPEC	8%	41%	77%	14%	17%	44%
OECD	53%	22%	7%	49%	38%	9%
M. East	9%	30%	57%	12%	14%	41%
FSU	5%	17%	9%	19%	23%	31%
China	10%	5%	1%	3%	3%	1%
USA	22%	9%	2%	22%	20%	4%
<b>Total</b>	<b>85</b>	<b>85</b>	<b>1333</b>	<b>2,9</b>	<b>2,9</b>	<b>187,5</b>

- › International companies have limited access to reserves
- › High cost of oil production due to high political risks

# OPEC is concerned about the oil price, not the production costs...

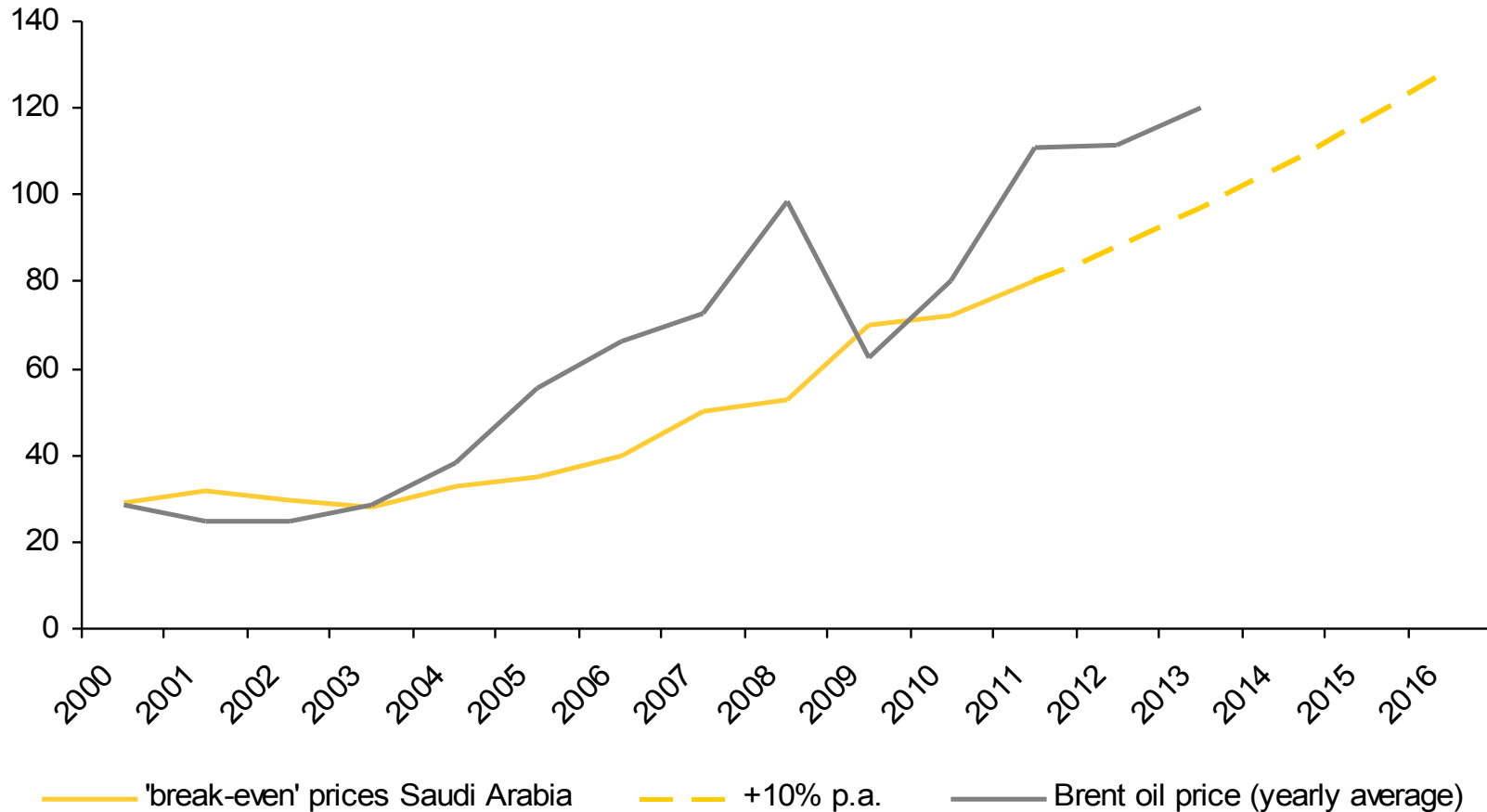
USD per barrel



**Break-even oil price necessary for balancing trade accounts.  
Higher state expenses lead to higher oil prices.**

# OPEC is a „tea bag“ – it only works in „hot water“

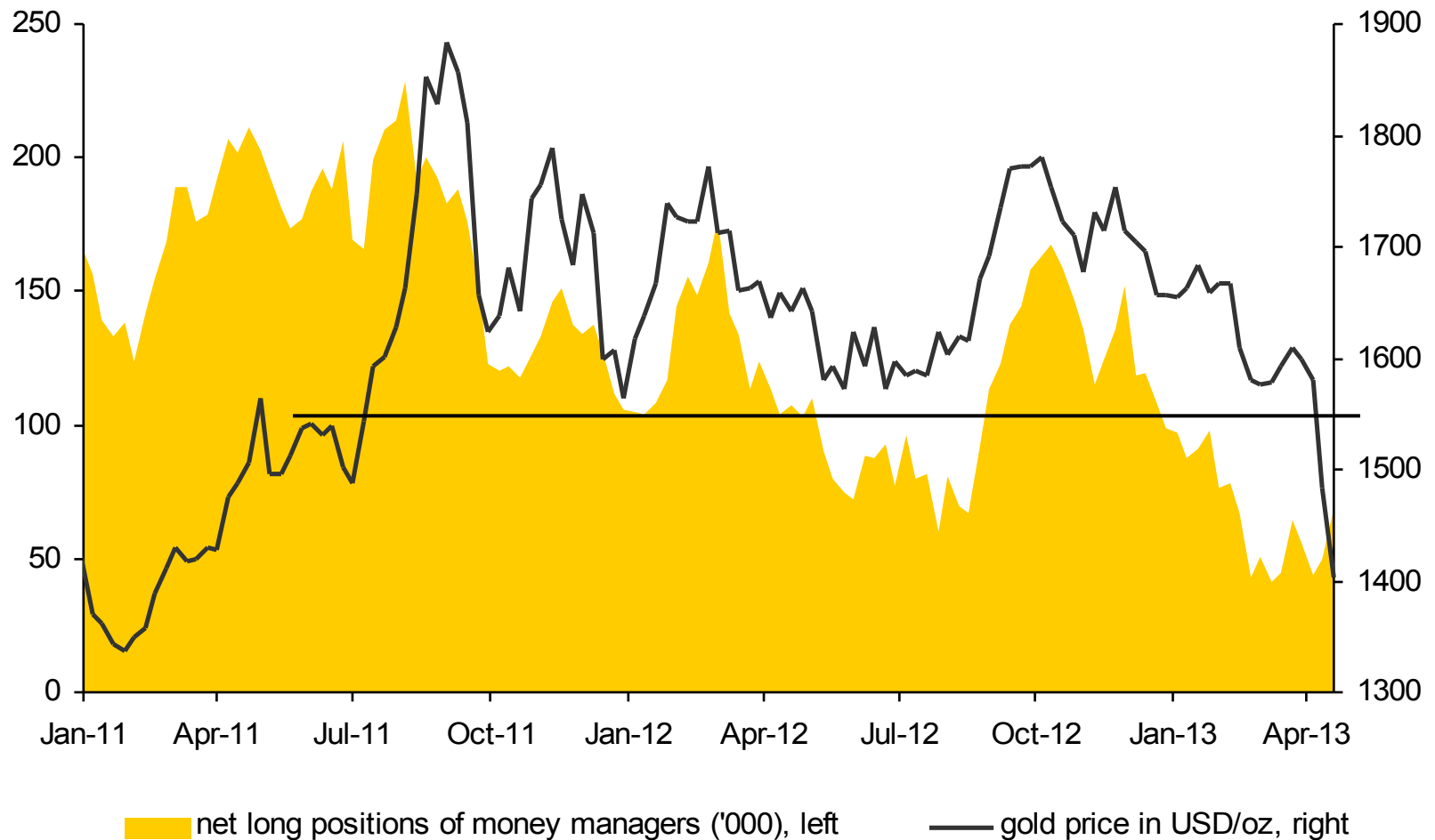
As a “swing producer” Saudi Arabia is comfortably in control of oil prices





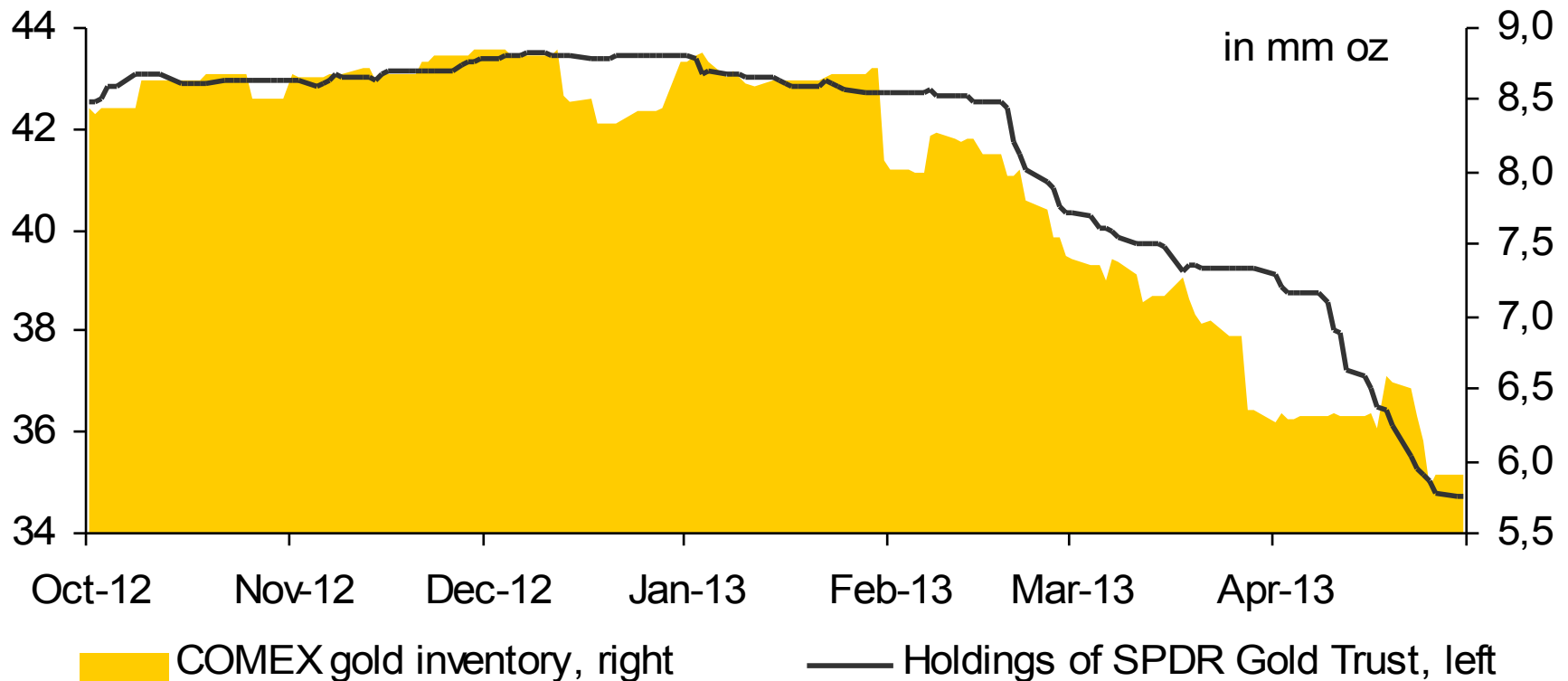
**Gold: Safe haven or  
golden handcuffs?**

## Gold “crash” mainly driven by sentiment and technical selling



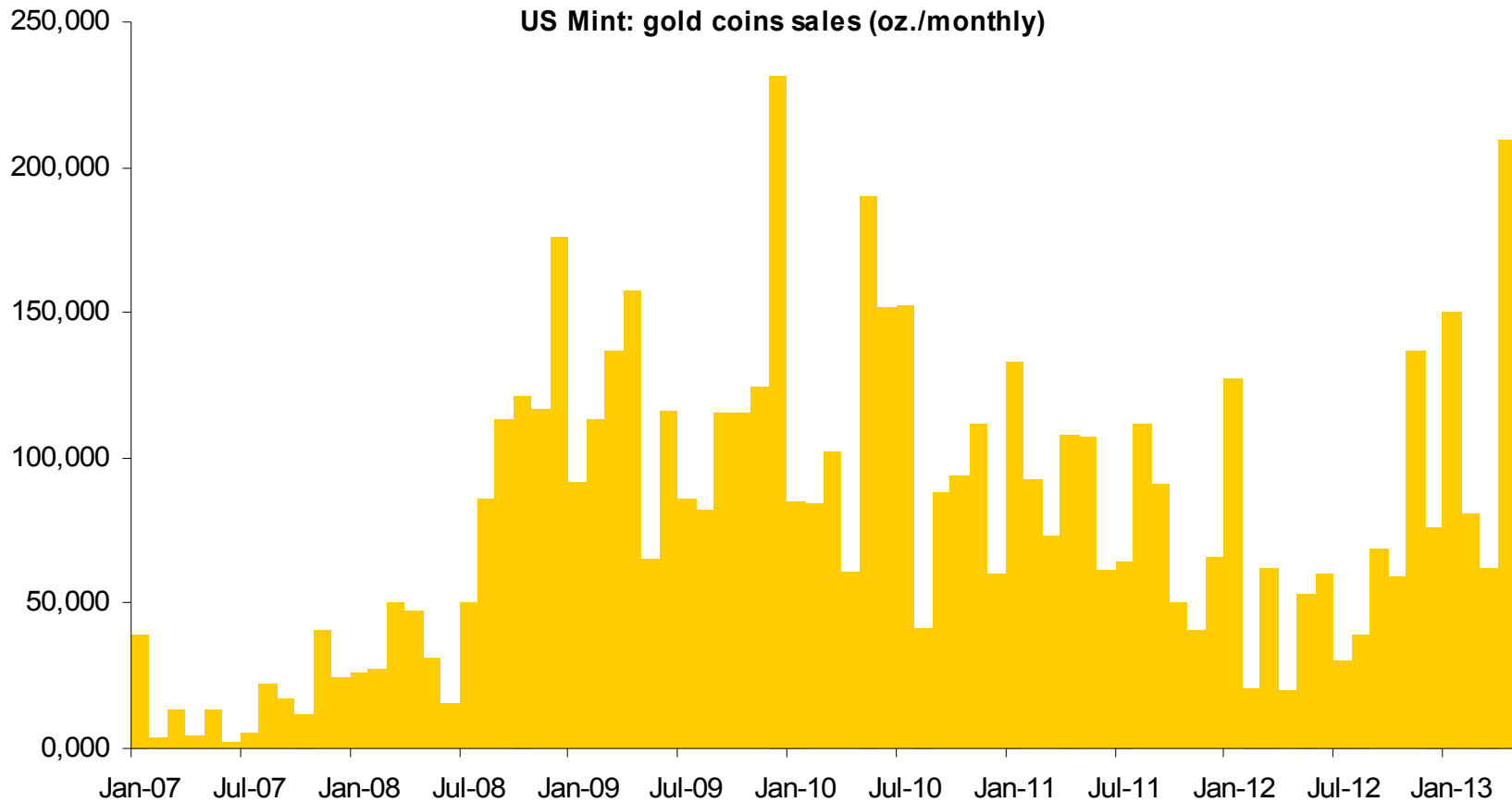
Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

## Gold price slump is accompanied by strong outflows from the physically-backed gold-ETFs and COMEX inventories



Source: COMEX/NYMEX, Bloomberg, Commerzbank Corporates & Markets

## High physical demand for smaller bars and coins, record physical premiums for coins and bars worldwide

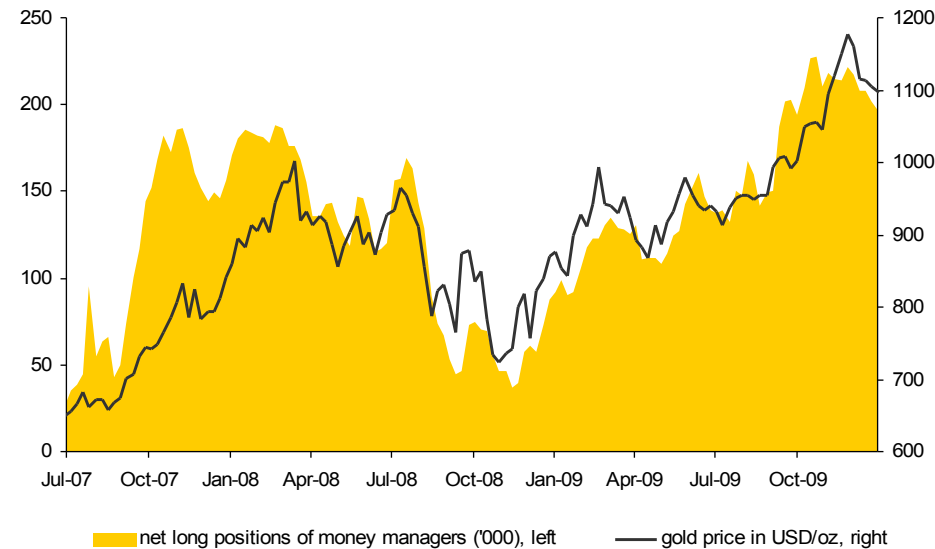


Source: US Mint, Commerzbank Commodity Research

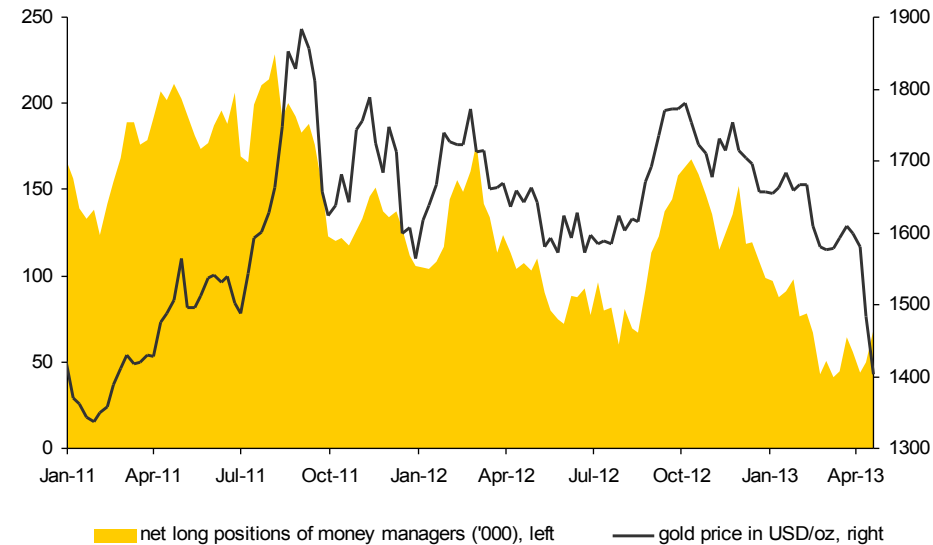
# Gold price is not a bubble (II)...

... the movement and reasoning resembles the autumn 2008 rather than 1980

2007-2009



2011-2013

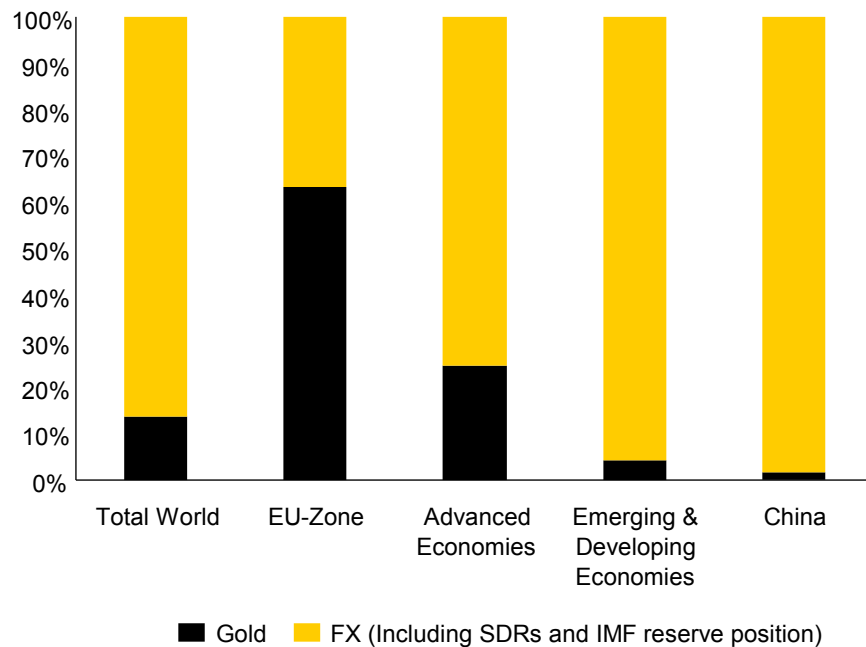




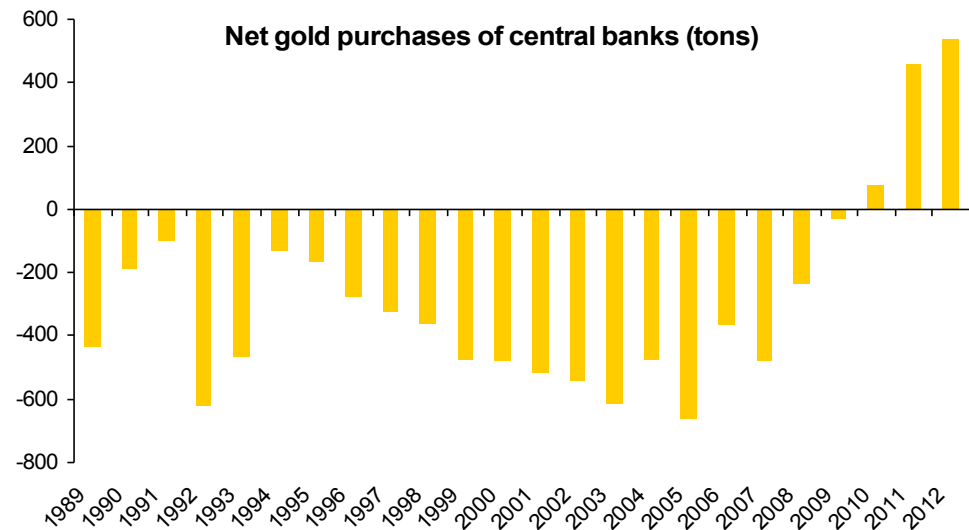
## Fundamental reasons (II): Central banks' purchases...

Central banks swing to become net buyers in 2010, CBs in EMs still strongly under-invested

Gold and FX as % of total reserves



Net buying central banks (in tons)



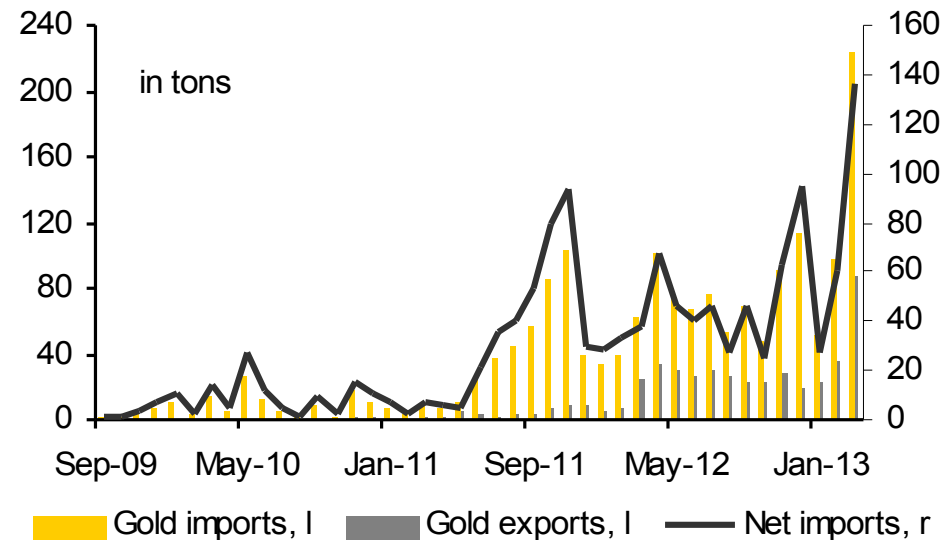
# Could China invest 5% of its FX reserves in gold?

China currently has \$3,440 billion of FX reserves

## China has an official gold reserve 1054 mt

- › Basis of a spot gold price of \$1500/oz , a 5% allocation would be equivalent to 3550 mt
- › Creates a net gold requirement of 2500 mt
- › Over the past 20 years, SNB made the most significant adjustment to its gold reserve with a total sale of 1550 mt
- › The SNB gold was sold in the open market over 8 years (with a break) with min of 113 mt pa and max of 283 mt pa
- › Average annual sale of 194 mt equivalent to ~16k mt pm
- › The most recent significant gold disposal has been made by the IMF which sold 403 mt over 2 years
- › 222 mt were sold by the IMF in off-market transactions to other CBs:
  - India (200 mt), Sri Lanka (10 mt), Bangladesh (10 mt)
  - 181 mt sold in the market over 11 months (~ 16k mt pm)
- › The answer to the question is yes but if the trade is to be executed in the open market it could take 13 years to complete

## China vs. HK gold trade (tons)



## (Super) cycle is over... Long live the cycle!

Commodities are still in long-term bull market thanks to secular factors: pent-up demand from the emerging countries, supply-side constraints, high liquidity from the central banks. However, a strong medium-term dynamics due to shorter-term business cycles.



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