



# CPM Market Views

27 February 2007

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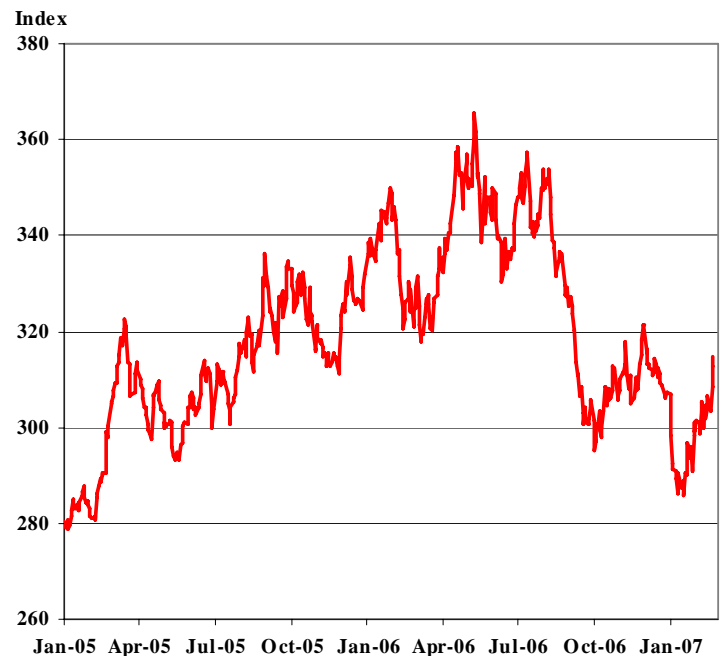
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## Commodities

The prices of most commodities rose sharply last week, primarily due to short-term speculative buying by proprietary bank trading desks and institutional investors. There were technical price chart patterns that stimulated some of the buying. The week had started with a round of short-selling, with dealers seeking to trigger some stop-loss selling in a number of commodities. When this did not happen and fresh buying appeared on the dips, the shorts reversed their trades, liquidating their earlier shorts and establishing fresh longs. This added to the upward momentum of the subsequent rise in commodities prices. Some political risk concerns over military and political developments in the Persian Gulf added to the buying.

Commodities prices fell sharply 27 February as investors rushed to liquidate positions in a rush to liquidity, given sharp declines in equity markets worldwide. This is expected to be a short-lived weakness, and prices may recover strongly yet this week.

## CRB Index



## Trade Weighted US\$



Source: Federal Reserve Broad Trade Weighted Dollar Index

## Prices

### PRECIOUS METALS

Gold	\$686.70 ▲	\$13.90
Silver	\$14.60 ▲	\$0.61
Platinum	\$1,237.60 ▲	\$27.20
Palladium	\$358.10 ▲	\$16.30

### BASE METALS

Aluminum	\$2,830.00 ▲	\$22.00
Copper (Comex)	284¢ ▲	19.55¢
Copper	\$6,231.50 ▲	\$411.50
Lead	\$1,915.00 ▲	\$149.00
Nickel	\$39,895.00 ▲	\$895.00
Tin	\$13,300.00 ▲	\$200.00
Zinc	\$3,560.00 ▲	\$165.00

### INDICATORS

DJIA	12,647.48 ▼	120.09
FT World Stock Index	417.44 ▲	1.04

### ENERGY

Crude Oil	\$61.14 ▲	\$1.75
Gasoline	\$1.76 ▲	\$0.12
Heating Oil	\$1.75 ▲	\$0.08
Natural Gas	\$7.76 ▲	\$0.25

### SOFTS

Cocoa	\$1,773.00 ▼	\$19.00
Coffee	119.45¢ ▲	3.75¢
Cotton	53.75¢ ▲	1.42¢
Orange Juice	198.1¢ ▲	2.95¢
Sugar	10.65¢ ▼	0.14¢

FT Gold Mine Index	2,480.88 ▲	49.68
CRB Index	314.63 ▲	11.17
T-Bills	5.040% ▲	0.020%

Prices as of 23 February 2007; changes from 16 February 2007.

Precious metals, copper (Comex), energy, and softs are the nearby active contract.

Base metals given for LME 3-month prices.

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## Gold

Gold prices (April Comex) climbed higher last week, reaching an intraday high of \$691.90 on Friday 23 February. This was up from an intraday low of \$659 experienced on 20 February. On 20 February prices had declined \$11.80 from the previous trading session, but held up well in the face of short selling. When prices did not fall much lower than \$659, traders reversed their positions. Prices fell sharply in after hours trading 27 February, as investors sold across markets in a rush to liquidity following sharp declines in equity prices. This pushed gold to \$663 initially. Investor interest remains strong in gold, however, and the sell-off may be very short-lived. As of 23 February combined exchange traded fund gold holdings had totaled 21.27 million ounces, up 1.25 million ounces from the amount held at the end of January.

## Silver

Silver prices (March Comex) continued to nudge higher last week, breaking forcefully above \$14. Prices rose from a close of \$13.83 at the beginning of last week to close at \$14.595 on Friday 23 February, up 5.5%. Prices sold off on 27 February, to around \$14.20 initially. Prices

could fall to \$13.75 or even \$13.25, but such drops are not expected. Prices are expected to find support and rise back in the next few days as the March Comex futures contract approaches first delivery day. Prices overall are still expected to rise further over the next couple of months. As of 23 February silver held by the iShares Silver Trust totaled 126,026,951 ounces, up 996,052 ounces from the end of the previous week.

## Platinum

Platinum prices remained strong 27 February in the face of the broad asset sell-off. Platinum closed higher for the day in New York, although weaker Asian markets saw stronger selling after New York had closed. Asian platinum markets have been demonstrating weakness in recent weeks, with selling of long-held investment and speculative holdings and weak demand from investors and jewelers. As of 26 February open interest in the April contract totaled 542,600 ounces. Nymex registered inventories meanwhile have been unchanged since the start of the year, totaling 31,900 ounces. Platinum prices seem likely to continue to rise, but a large bout of profit taking could quickly pull prices sharply lower. The amount of speculation currently in the

platinum market could potentially chop \$100 off of the price in one day. There is support for prices between \$1,100 and \$1,125. As of 24 February, year-to-date North American car and truck production totaled 2,321,277 units, down 8.2% from 2,529,663 units sold in the similar period last year.

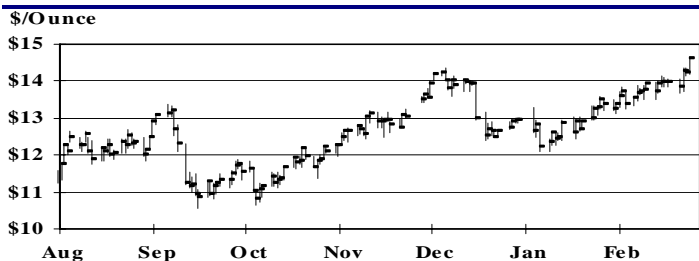
## Palladium

Palladium prices (March Nymex) surged higher last week, rising from \$339.75 at the start of the week to close at \$358.10 on Friday 23 February, up 5.4%. Prices held above \$350 on 27 February, despite speculative selling by funds nervous with their long positions. The roll from the March contract into the June contract currently is providing some support to prices. There remains a large amount of open interest in the March contract that still could potentially push prices higher. At the current pace of the roll, prices may not rise much further in the near term, however. The palladium June contract has much more room for upside, beyond this week. As of 26 February open interest in the March contract totaled 228,100 ounces. Open interest in the June contract meanwhile totaled 1,371,500 ounces.

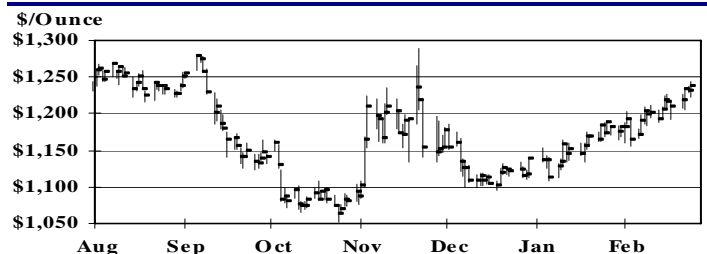
### Gold



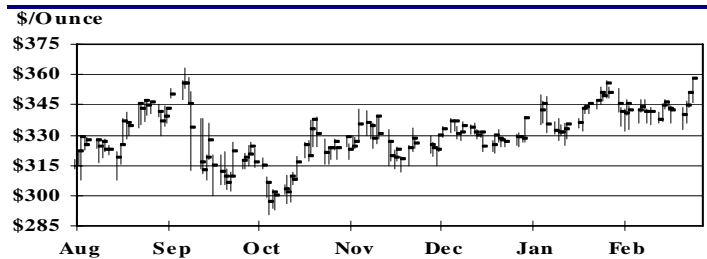
### Silver



### Platinum



### Palladium



## Aluminum

Aluminum prices (basis LME three-month) picked up late last week. Last week marked the rolling over of a large amount of open interest set for the third Wednesday of the month, prompt date, for all LME traded base metals. Additionally, a broad upward move swept across many commodities markets last week. By 23 February aluminum prices had risen to test \$2,895 during intraday trading, a nine month high. Technical buying pushed prices higher even though the aluminum market is currently well supplied. As of 23 February LME inventories rose to 784,075 mt, up nearly 3% from the previous Friday. President Lansana Conte has lifted the martial law in Guinea. No strikes are scheduled by Guinean labor unions ahead of 2 March, the date on which the President stated he would replace the present Prime Minister. This week aluminum prices may head lower as the recent rise in prices has not been based heavily on fundamentals.

## Copper

LME three-month copper prices rose last week. Speculation surrounding

increased Chinese demand for refined copper supported the move in prices. Market participants expect Chinese consumers to draw on copper supplies following the lunar New Year celebrations. Historically, during the month of March Chinese imports tend to show significant seasonal strength. Prices rose sharply on 22 February, touching both \$5,821.50 and \$6,170 on an intraday basis. The following day prices climbed to a high of \$6,335. LME inventories have risen in the past week, but at a more modest rate than experienced during late last year and the first several weeks of 2007. This week copper prices could strengthen slightly later in the week.

## Lead

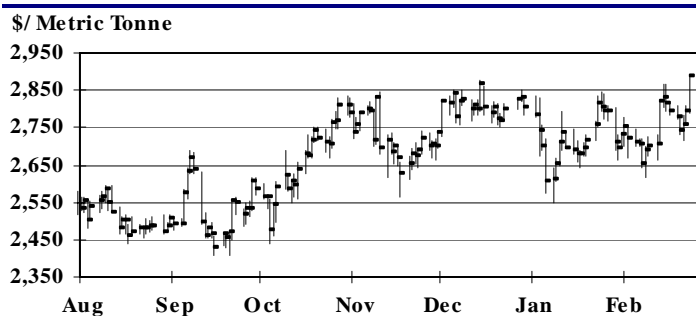
Lead prices (basis three-month) rose to record highs last week. Declining inventories fueled mounting concerns over supplies. The rise in prices was amplified by the overall bullishness in the commodities markets. Last week LME inventories declined to 32,000 mt, down 3.9% from the previous Friday. As of 23 February official three-month lead prices gained \$149 over the prior week. The lead market

has proven to be very volatile over the past four months. Market participants should watch out for profit taking this week, as prices could climb to test \$2,000.

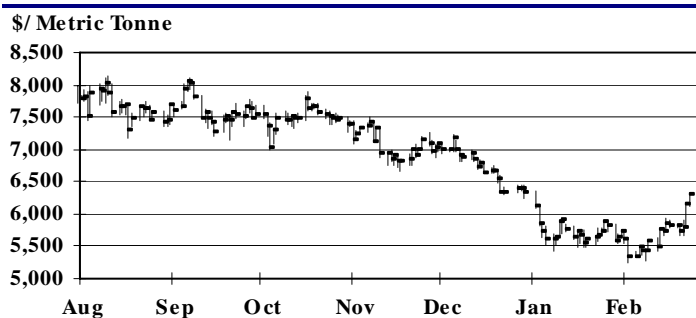
## Nickel

LME three-month nickel prices broke above \$40,000 last week. Concerns over supplies triggered the move in prices. LME inventories declined 15.3% last week to stand at 3,492 mt on 23 February. LME canceled warrants meanwhile remain high. As of 26 February canceled warrants accounted for more than 45% of total inventories. On 26 February prices touched a record high of \$41,500 during intraday trading. Nickel may rise to test new highs this week if there are large withdrawals from LME warehouse stocks. Despite record highs, prices do not seem vulnerable to large waves of profit taking, as stocks continue to linger at historically low levels. Prices have support above \$38,500 if profit taking should occur.

### Aluminum



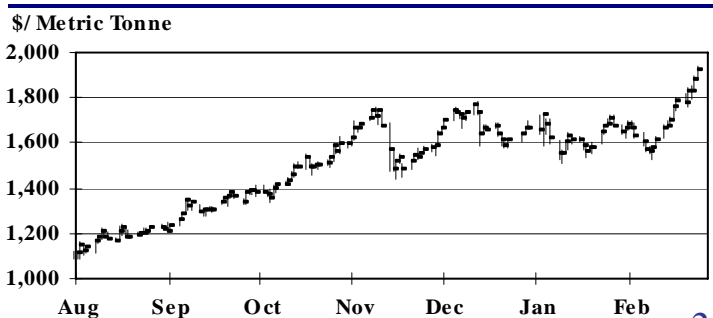
### Copper



### Nickel



### Lead



## Tin

Tin prices (basis LME three-month) climbed higher last week. On 22 February prices rose to touch \$13,950 during intraday trading. Market participants pushed prices higher over concern regarding the status of Indonesia's new export law. On Friday 23 February PT Timah, Indonesia's largest tin producer, received a new license from the Trade Ministry to export tin. This helped to relieve some concern over a further supply disruption from Indonesia. Prices fell as low as \$13,250 that day. The tin market is the most illiquid

metal traded on the LME. This week tin may trade in a sideways fashion, but prices may be easily swayed higher or lower by market participants if fresh news surrounding tin supplies from Indonesia or Bolivia is released.

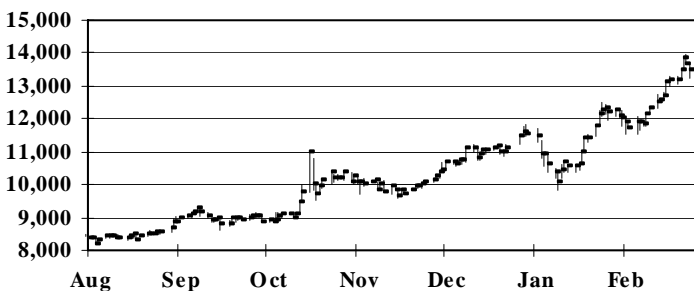
## Zinc

Zinc prices (basis LME three-month) strengthened last week. Zinc took back losses experienced during late January. A combination of high LME canceled warrants and a broad bullish outlook for commodities fueled the rise in prices. As of 26 February, LME inventories have declined every day

over the past month, with the exception of four trading days. On 26 February LME canceled warrants accounted for nearly 12% of total LME inventories. That day prices spiked higher to touch \$3,775 during intraday trading but could not maintain this level, falling back below \$3,600. This week zinc prices may edge higher later in the week, as LME inventories continue to decline. The release of strong Chinese export figures could send prices sharply lower, however.

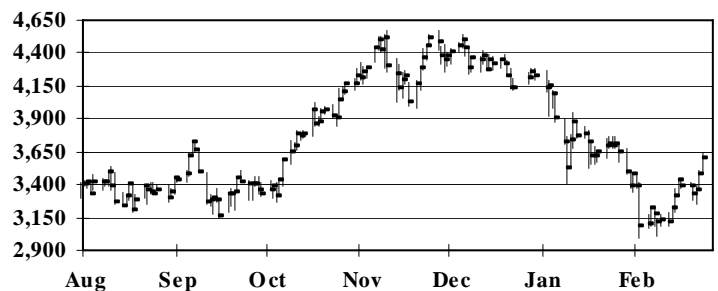
## Tin

\$/ Metric Tonne



## Zinc

\$/ Metric Tonne



## \*Energy Advisory\*

This monthly report (~20 pages) provides comprehensive coverage of the energy markets. It contains commentary, information, analysis, and near-term price projections for **crude oil, gasoline, heating oil, and natural gas** as well as the economic environment and financial markets as they affect energy prices.

### The Energy Advisory also provides:

- Projections for quarterly average prices for crude oil, gasoline, heating oil, and natural gas eight quarters forward
- Tables on weekly and historical inventories, product spreads, underground storage capacity, and open interest analysis
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- Statistical supply and demand projections at critical points during the year

Contact Adam Crown to discuss special programs related to research or Commodities Price Risk Management for energies or other commodities. [acrown@cpmgroup.com](mailto:acrown@cpmgroup.com) or 212-785-8320.

For insights to CPM Group's expertise and history assisting consumers, producers, institutional investors, and international organizations with soft commodities management please view this Cotton Hedging PowerPoint Presentation at <http://www.cpmgroup.com/Commodities-Management/research/cotton.ppt>.

## Crude Oil

Last week crude oil prices (April Nymex) finished at a seven-week high, erasing all losses incurred since the beginning of the year. At the beginning of the week market participants were generally bearish, primarily focused on forecasts of milder weather softening demand. However, by the middle of the week, bullishness was brought on by increasing political tensions arising from Iran failing to comply with the latest round of U.N. sanctions and the possibility of disruptions to crude supplies. Additional bullish sentiment was generated by tightening product inventories. On Friday 23 February the April Nymex crude oil contract settled at \$61.14, up almost 3% for the week.

This week bullish sentiment will continue to come from political tensions concerning Iran's nuclear enrichment program. The April Nymex crude oil contract may trade between \$59.50 and \$62.50.

## Gasoline

Reports of pipeline and refinery shutdowns lifted gasoline prices

(Nymex RBOB gasoline) sharply last week. A major Teppco Partners products pipeline carrying 60,000 barrels per day between the U.S. Gulf Coast and New York was closed pending an investigation into leaks. Gasoline prices also gained support from unexpectedly strong and counter-seasonal drawdowns to gasoline inventories. For the week the March Nymex RBOB gasoline contract was up 7.16% to settle at \$1.76 per gallon.

This week mild seasonal demand and adequate inventories may generate bearishness. Continuing pipeline and refinery outages may create bullish sentiment.

## Heating Oil

At the beginning of last week market participants initially focused on expectations of milder weather dampening heating oil demand. Sentiment quickly turned bullish due to a products pipeline shutdown along with political tensions arising from Iran's nuclear enrichment program. The March Nymex heating oil contract settled at \$1.75 per gallon on Friday, up 4.6% for the week.

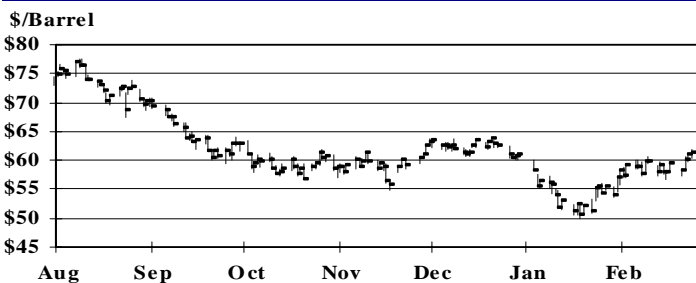
This week bearishness would be expected to be generated by milder weather. Continuing pipeline outages along with political tensions would be create bullishness.

## Natural Gas

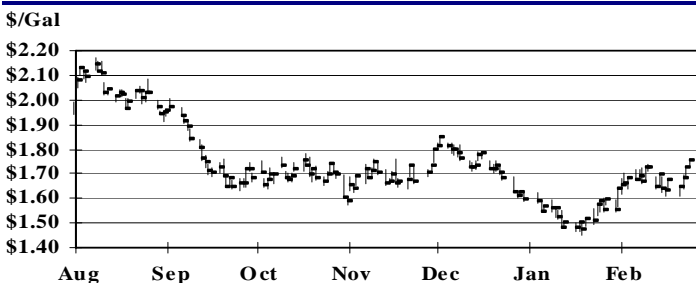
Unexpected colder weather along with higher inventory drawdowns helped support natural gas prices last week. Bearish forecasts of season-ending forecasts were challenged by the latest higher-than-expected numbers from the U.S. Energy Information Administration. The March Nymex natural gas contract settled at \$7.76 per MMBtu on Friday 23 February, up 3.4% for the week.

This week there are projections for milder weather. However, forecasters are conditioning their views by saying that there may be occasional bursts of cold weather in key natural gas consuming regions. Natural gas prices may be volatile in a sideways pattern this week.

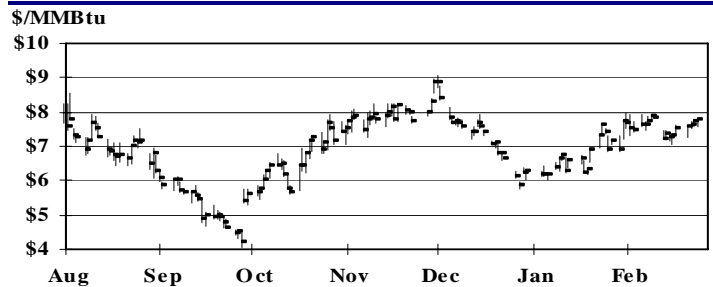
### Crude Oil



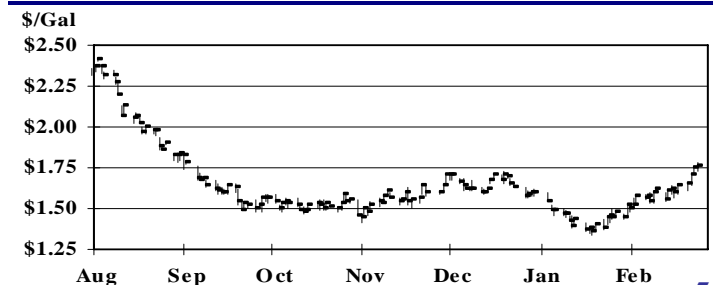
### Heating Oil



### Natural Gas



### Gasoline



## Cocoa

Cocoa (May Nybot) traded in a range of \$1,742 and \$1,800 last week. Cocoa prices faced strong resistance at the \$1,788 mark, as prices tested this level for three consecutive days. The sharpest decline in prices was experienced on 20 February when prices settled at \$1,767, down \$25 from the previous day's close. The market remains concerned about the damage that West African cocoa trees endured, due to dry weather, earlier this year. Currently weather conditions in the region have improved, limiting further damage to the mid-crop from the region. Demand for cocoa over the past few years has consistently been strong in both major cocoa grinding regions - the United States and Europe. This week cocoa prices could move in a range between \$1,720 and \$1,820.

## Coffee

Coffee prices (May Nybot) rose last week. On 22 February prices settled at \$1.2005, up 3.55 cents from the

previous day's close. The following day prices touched an intraday high of \$1.21. Prices were unable to maintain these levels and settled lower at \$1.1945, down 0.7 cents from the previous day's close. This week prices are likely to move in a range of \$1.17 and \$1.20. The underlying fundamentals for coffee remain strong with a smaller crop expected from Brazil in 2007/08 and continued strong global demand.

## Cotton

Last week cotton prices (May Nybot) Cotton prices (May Nybot) rose last week. Prices rose on all days with the exception of Wednesday 21 February. Prices settled at 52.5 cents, down 0.05 cents from the previous day's close. This week if prices are able to settle above 54 cents, they are likely to rise to the 55.3 cents level. According to the United States Department of Agriculture (USDA), U.S. export sales for the week ending 15 February totaled 378,900 RB. This was an increase of approximately 27% over the previous week. These sales figures

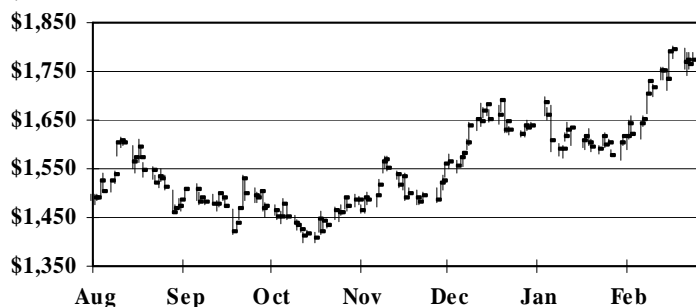
are closer to the average sales, of approximately 400,000 RB, required to meet the USDA's U.S. export target of 14.5 million bales.

## Orange Juice

Orange juice prices (May Nybot) rose last week. On 23 February prices touched an intraday high of \$2.00 and settled at \$1.981. This was an increase of 0.10 cents from the previous day's close. Speculation of damage to the orange crop from freeze conditions experienced over the weekend of 17 February coupled with expectations of a smaller orange crop in 2006/07 pushed prices higher. The USDA has currently estimated Florida's orange production at 140 million 90-pound boxes. The market expects actual output to be approximately three to four million boxes lower than this estimate, however. This is bullish for orange juice prices, which could move sideways to higher this week. Orange juice could trade between \$1.95 and \$2.03 this week.

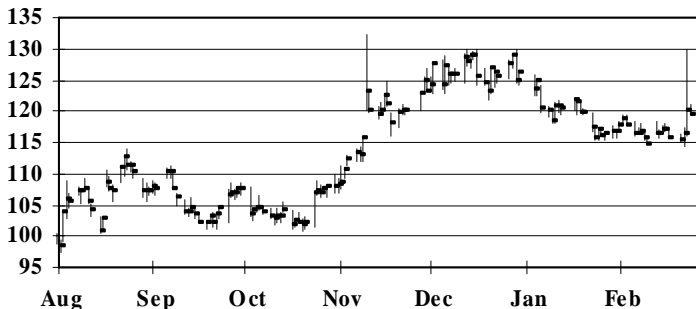
## Cocoa

\$/Metric Tonne



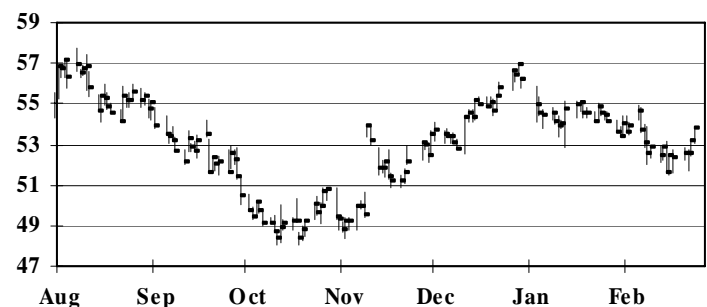
## Coffee

Cents/Lb.



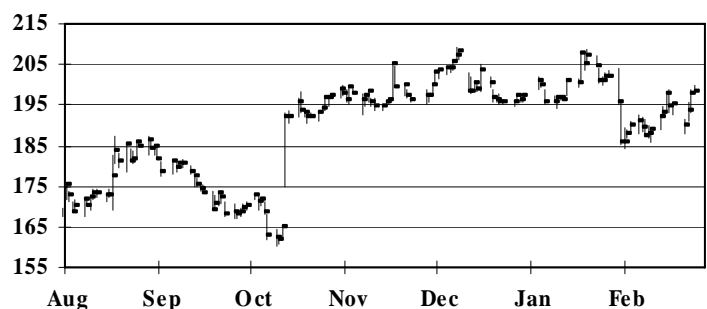
## Cotton

Cents/Lb.



## Orange Juice

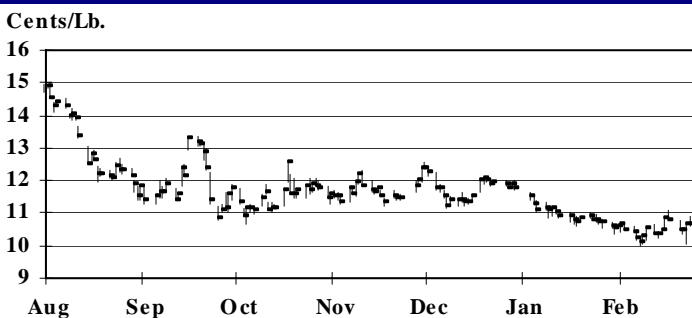
Cents/Lb.



## Sugar

Last week sugar prices (May Nybot) declined every day except 22 February. Prices touched an intraday low of 10.04 cents, but recovered from these levels, settling at 10.68 cents. This was an increase of 0.22 cents from the previous day's close. Bearish fundamentals continue to plague the sugar market; sugar is likely to trade in a 10.3 to 10.8 cent range.

## Sugar



## About CPM

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The **CPM Silver Yearbook 2007** will be released on 24 April. To purchase a copy please visit [www.cpmgroup.com](http://www.cpmgroup.com)

The **CPM Platinum Group Metals Yearbook 2007** will be released on 26 June. To purchase a copy please visit [www.cpmgroup.com](http://www.cpmgroup.com)

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**CPM Base Metals Advisory** is a monthly report covering aluminum, copper, lead, nickel, tin, and zinc.

**CPM Precious Metals Advisory** is a monthly report covering gold, silver, platinum, palladium, and rhodium.

**CPM Soft Commodities Advisory** is a monthly report covering cocoa, coffee, cotton, orange juice, and sugar.

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