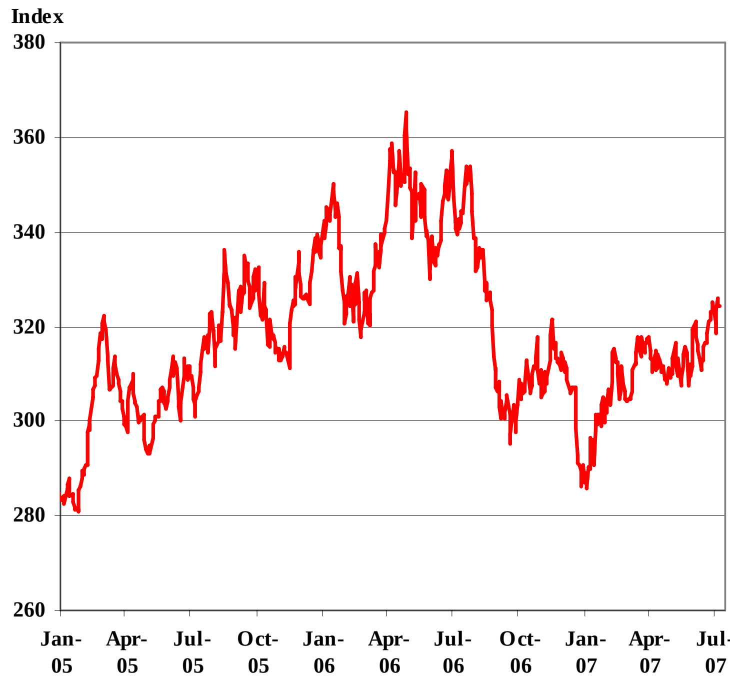
CPM Market Views

23 July 2007 www.cpmgroup.com No. III – 30

Commodities

Commodities markets staged a broad rally last week, with most basic commodities excluding natural gas and cotton rising sharply. A sharply lower dollar was a major contributor to the strength in commodities prices. CPM Group has had a more sanguine view of the dollar than the market consensus, partly based on the concept that much of the rebalancing away from dollar-denominated assets may be in place. If that were the case, the reasoning was, the dollar may move broadly sideways rather than continuing its decline. While Europe and Japan, homes to the other reserve currencies of note, are looking better as investment targets, there projected performance is not so outstanding compared to that of the United States. In retrospect, that analysis may have been too merciful for the dollar: Dollar sterilization programs continue on an on-going basis, not on capital stock but on current account dollar flows. While the shift out of dollars is lower in volume terms in such a case, the selling pressure remains heavily on the dollar. Markets are made at the margin, and the size of monthly trade flows provides a wide margin for further dollar weakness.

CRB Index



Trade Weighted US$

Source: Federal Reserve Broad Trade Weighted Dollar Index

Prices

PRECIOUS METALS			
Gold	$684.70	▲	$17.40
Silver	$13.40	▲	$0.29
Platinum	$1,346.60	▲	$19.10
Palladium	$374.75	▲	$3.30

BASE METALS			
Aluminum	$2,847.00	▲	$62.00
Copper (Comex)	370.55¢	▲	11.25¢
Copper	$8,030.00	▲	$180.00
Lead	$3,430.00	▲	$430.00
Nickel	$34,485.00	▲	$1,980
Tin	$15,450.00	▲	$1,325.00
Zinc	$3,650.50	▲	$116.50

ENERGY			
Crude Oil	$75.57	▲	$1.640
Gasoline	$2.16	▼	$0.060
Heating Oil	$2.09	▼	$0.018
Natural Gas	$6.45	▼	$0.216

SOFTS			
Cocoa	$2,099.00	▲	$24.00
Coffee	114¢	▲	4.25¢
Cotton	62.72¢	▼	5.66¢
Orange Juice	136.45¢	▲	9.5¢
Sugar	10.3¢	▲	0.43¢

INDICATORS							
DJIA	13,851.08	▼	56.17	FT Gold Mine Index	2,540.59	▲	114.96
FT World Stock Index	452.76	▼	2.94	CRB Index	324.44	▼	0.65
				T-Bills	4.82%	-	-

Prices as of 20 July 2007; changes from 13 July 2007.
Precious metals, copper (Comex), energy, and softs are the nearby active contract.
Base metals given for LME 3-month prices.

Precious Metals

Investor interest in being long all of the precious metals remains tremendously strong at this time. This should support prices in the face of any speculative selling. However, the market should not under-estimate the capacity of proprietary traders at banks and brokerage companies to continue to try to trigger panic stop-loss selling by bullish fund managers and investors. They especially like the early morning raids, entering the market with heavy sell orders at the Comex opening. This has been a characteristic across the precious metals in recent months. The selling on the opening often is followed by bargain hunting from funds, which then tends to reverse the course back toward higher prices.

Gold

Gold prices rose sharply last week, finding support in a weakening U.S. dollar, strong crude prices, and the roll from the August Comex gold contract into forward positions. On 20 July, prices reached a high of $687.60 (August Comex) before settling at $684.70. Next week, the dollar may continue under pressure, as markets wait to assess the likely course of Fed monetary policy going forward. Should the dollar strengthen, however, gold prices could be vulnerable to profit-taking. It seems more likely that prices may make a run toward $700 in the next week or so, bulled higher by continued strength in oil prices, the August Comex roll, and general investor ill-ease about political and economic trends. If profit-taking sets in earlier than expected, however, gold prices could fall back to $670 or even $660.

Silver

Silver prices rose sharply last week to close at $13.403 (September Comex) on 20 July. Strong investor demand was behind the move. Silver also traded technically and followed the lead of gold higher. The next resistance level is just below $13.50. Silver could test this level next week and trade in a volatile fashion between $13 and $13.50. Silver held by the iShares Silver Trust totaled 140.68 million ounces as of 20 July, up 1.49 million ounces from 13 July. As of 20 July, open interest in the September contract stood at 349.9 million ounces and stocks held in Comex warehouses totaled 132.1 million ounces.

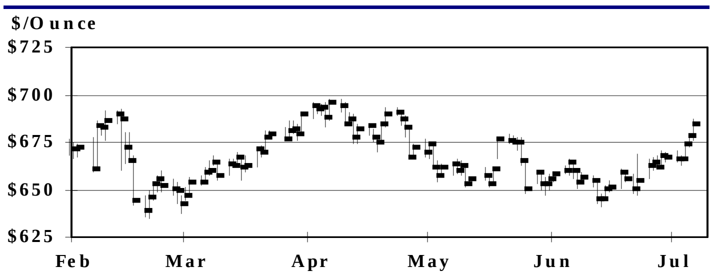
Platinum

Last week, platinum prices rose 1.4% and settled at $1,346.60 (October Nymex). News of delays in Lonplat's production expansion plans, which have led to lower than anticipated platinum deliveries in the first half of this year, helped convince investors to buy platinum last week. This was aided by Anglo Platinum's cautionary comments that its operations face a serious strike threat in the weeks ahead. These two announcements were enough to get some producers, metals dealers, and investors building inventories. Platinum prices could continue to be driven by supply concerns and move toward $1,350 this week, or even higher. Any resolution to the labor negotiations is unlikely to emerge this week. If a settlement is reached, platinum prices could deflate. This probably will not occur until after the July Nymex platinum contract open interest has rolled into October.

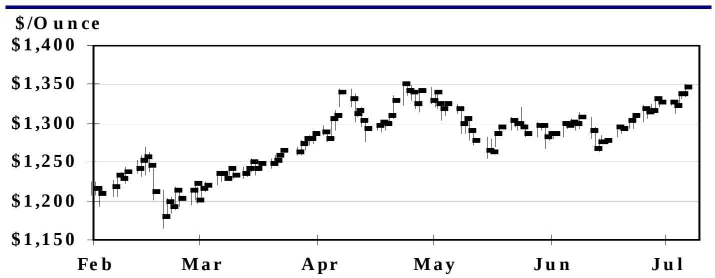
Palladium

Last week, palladium traded between $366 and $376 (September Nymex). Commodity funds held a net long position of 1,150,200 ounces as of 17 July, 29,200 ounces above the 1,121,000-ounce net long position of 10 July. Palladium may keep trading around $370.

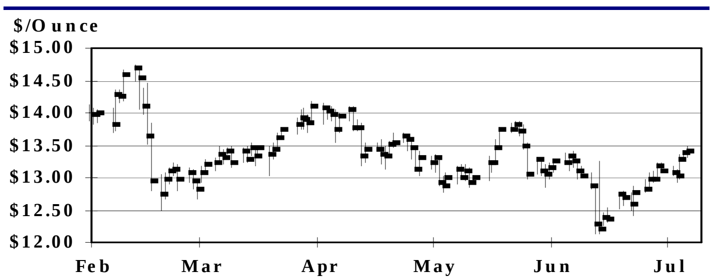
Gold



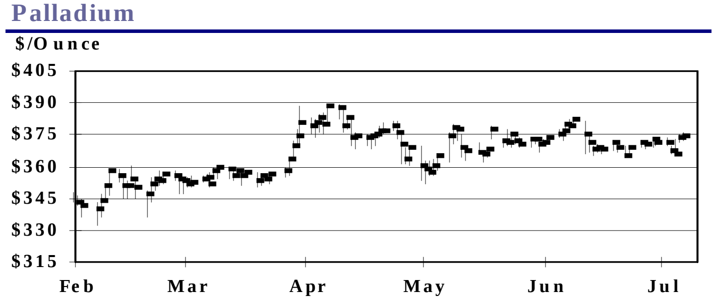
Platinum



Silver



Palladium



Aluminum

Aluminum rose last week as prices were supported throughout the base metals complex. On 20 July, prices touched their highest level since 22 May, reaching $2,870 (basis LME three-month) before settling at $2,856. Total exchange inventories increased 0.4% to 901,942 mt on 20 July from 898,094 mt on 13 July. Over this period, stocks held at LME certified warehouses declined 3,500 mt while Comex and SHFE inventories rose by 2,546 mt and 4,802 mt, respectively. According to China's National Bureau of Statistics, Chinese aluminum production rose to 977,000 mt in June, up 28.1% from June 2006 levels. This week aluminum could edge lower to trade around $2,800.

Copper

On 20 July, official LME three-month copper prices rose above $8,000 for the first time since 9 May. Prices have been rising in recent weeks on mine production concerns. In Chile, Codelco has reached an agreement with most of its outsourced workers that have been on strike since 25 June. The workers had been protesting by picketing and blocking roads to Codelco's mines until last week when protests were stopped and negotiations began. According to China's Customs General Administration, Chinese net imports for June rose 62.2% year-on-year to 97,443 mt from 41,487 mt. For the first half of 2007, Chinese net imports are up more than two-fold compared to the first half of 2006. With concerns over strike activity subsiding, copper prices could decline back toward the $7,750 level this week.

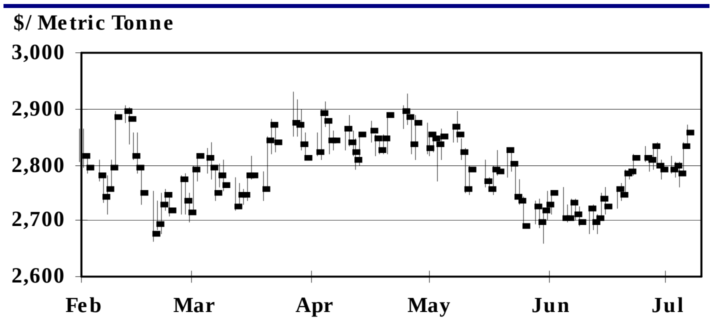
Lead

Lead prices have been hitting record highs since the middle of March and last week was no different. Lead prices rose to an intraday high of $3,500 (basis LME three-month) on 20 July before closing the day at $3,499. This was 15.5% above the $3,030 close on 13 July. LME inventories declined 3.5% from 42,025 mt on 13 July to 40,575 mt on 20 July, while average canceled warrants were 16.5% lower than the previous week. According to China's Customs General Administration, Chinese net exports of refined lead from January to June were 133,359 mt. This week, prices could edge higher but market participants should keep an eye out for profit taking later in the week.

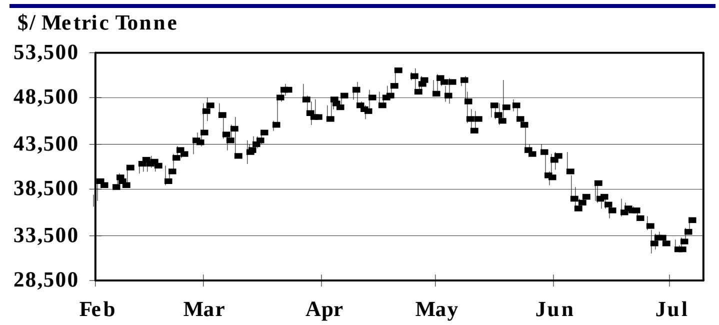
Nickel

Last week, nickel prices rose 7.5% from a close of $32,600 (basis LME three-month) on 13 July to settle at $35,050 on 20 July. Inventories held at LME warehouses rose 10.0% over this period to 11,346 mt from 10,314 mt. The spreads between LME cash and three-month prices have remained narrow during July. Through 20 July, cash prices have averaged a 0.3% premium to three-month prices. This is well below the 1.8% average cash premium in June and 5.8% averaged during May. This week, prices could decline toward the $32,000 level as low LME canceled warrants suggest that LME stocks may continue to rise in the near term.

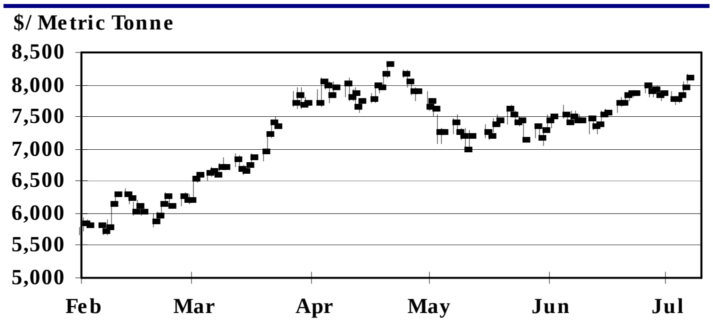
Aluminum



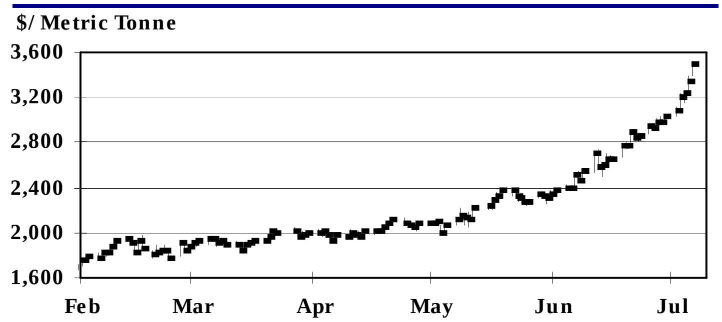
Nickel



Copper



Lead



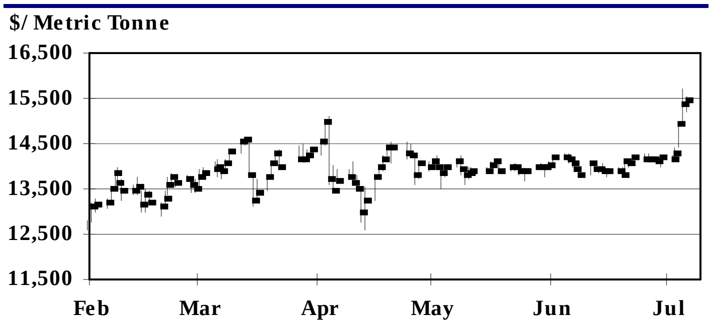
Tin

Last week, tin prices broke above the $14,000 (basis LME three-month) level, reaching an intraday high of $15,700 on 19 July. Prices increased 8.8% to $15,450 on 20 July from a close of $14,200 on 13 July. Over the same period, LME inventory levels increased 6.3%. According to the World Bureau of Mineral Statistics, the tin market calculated a market deficit of 6,700 mt between January and May of this year. Several mine strikes in Peru caused mining output to fall 9.2% in May compared to the same month in 2006. Tin prices could decrease this week on profit taking activity.

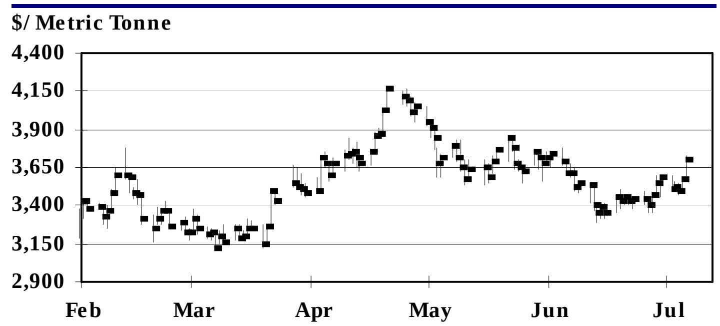
Zinc

Zinc prices rose 3.2% last week to $3,705 (basis LME three-month) on 20 July from a close of $3,590 on 13 July. Prices touched a low of $3,475 on 18 July before reaching an intraday high of $3,728.75 on 20 July. Last week, LME stock levels declined 1.3% from 68,950 mt on 13 July to 68,025 mt on 20 July. Over the same period, inventories held at SHFE warehouses increased 0.7% from 40,533 mt to 40,822 mt. According to China's Customs General Administration, net imports during June stood at 5,239 mt, down 84.4% from net imports during June 2006. This week, prices may edge slightly lower but should be supported by falling exchange stock levels.

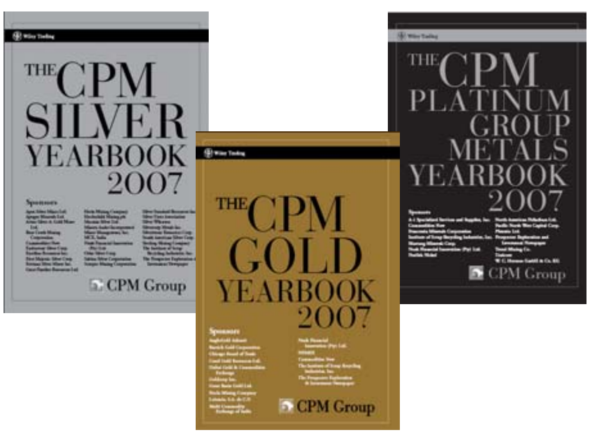
Tin



Zinc



2007 CPM Yearbooks



On June 26, 2007, CPM Group released the CPM Platinum Group Metals Yearbook 2007, the final yearbook in the company's annually released series of precious metals yearbooks. To order the Gold, Silver, or Platinum Group Metals Yearbooks visit the CPM Bookstore.

In the News

On July 11, 2007, Rohit Savant, Senior Soft Commodities Analyst at CPM Group provided commentary to Bloomberg on the coffee market. To read the full article, click on the following:

"Coffee Rises on Concern Cooler Brazilian Weather May Hurt Crops," Bloomberg

On July 10, 2007, Catherine Virga, Senior Base Metals Analyst at CPM Group provided commentary to Bloomberg on the copper market. To read the full article, click on the following:

"Copper Falls, Halting 8-Session Rally, on China Import Decline," Bloomberg

On July 10, 2007, Rohit Savant, Senior Soft Commodities Analyst at CPM Group provided commentary to Bloomberg on the sugar and ethanol markets. To read the full article, click on the following:

"Sugar Rises to 12-Week High as Brazil Increases Ethanol Output," Bloomberg

On Tuesday, June 12, 2007, Jeffrey Christian, Managing Director of CPM Group, presented on the precious metals markets at the IPMI's 31st International Precious Metals Conference:

"The Future of Precious Metals Markets" IPMI 31st International Precious Metals Conference

Crude Oil

Last week crude oil prices continued their upward climb, testing highs last seen eleven months ago and building on the gains of the prior five weeks. Some profit taking took place on Tuesday 17 July and Friday 20 July. Nevertheless, the August Nymex crude oil contract settled at $75.57 per barrel on Friday 20 July, up 4.9% for the week. Some bullishness came from a one day output cut on 19 July by France's Total at its operations in Angola. Additional bullishness came from unexpected news in the middle of the week that U.S. crude oil inventories fell 500,000 barrels in the week ending 13 July, adding support to market participants' overall expectations of future supply constraints. However, U.S. crude inventories continue to be at high levels, standing 15.8% above the seasonal average and 10% above the normal range. This week high summer product demand may continue to be supportive for prices. Bearishness may come from high inventory levels and adequate production. The September Nymex crude oil contract may trade between $72.50 and $77 per barrel.

Gasoline

In spite of refineries being run at higher throughput rates, U.S. gasoline inventories pulled back strongly by 2.3 million barrels, or 1.1%, in the period ending 7/13/2007. This news, released Wednesday 18 July, caused gasoline prices to post a one day increase of 4.5% in a week where the other four sessions saw declines. Even though gasoline inventories are 1.3% below the normal seasonal range and demand is up 1.5% over last year, the August Nymex RBOB gasoline contract declined 2.7% last week, settling at $2.16 per gallon on Friday 20 July. This week, support for gasoline prices may come from ongoing seasonal refinery weakness and low inventory levels. Some resistance may come from profit-taking. The August Nymex RBOB gasoline contract may trade between $2.10 and $2.35 per gallon.

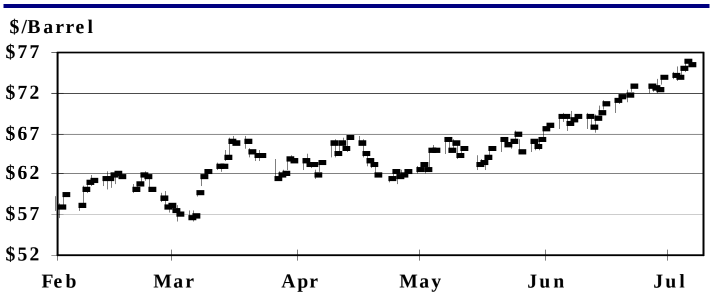
Heating Oil

Heating oil prices eased last week after posting moderate gains in the prior two weeks. Bearishness was generated by adequate supplies and moderate demand. Some support came from stocks retreating 200,000 barrels, or 0.2%, to stand just 0.3% above the seasonal average. On Friday 20 July the August Nymex heating oil contract settled at $2.09 per gallon, off 0.9% for the week. This week declining inventory levels and concerns of tight fall supplies may be bullish for heating oil prices. Moderate demand may offer some resistance. The August Nymex heating oil contract could trade between $2.00 and $2.15 per gallon.

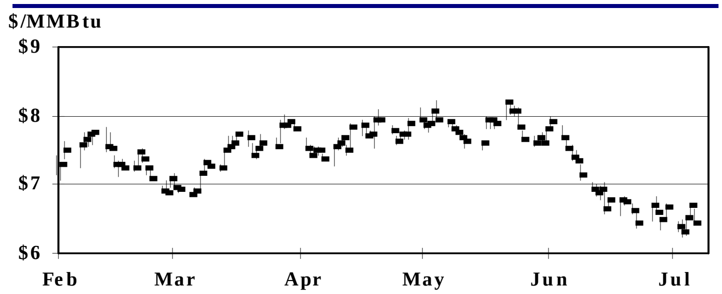
Natural Gas

Balmy weather across the United States generated bearishness for natural gas prices last week. Some support came from news that the U.S. natural gas inventory build as of 13 July, announced on Thursday 19 July, came in at 65 billion cubic feet, or 2.5%, slightly lower than expected. Overall last week, natural gas prices moved lower with the August Nymex natural gas settling on 20 July at $6.45 per MMBtu, down 3.2%. This week bearishness for natural gas prices may continue with inventories 11.1% above the seasonal range and more mild weather forecast. The August Nymex natural gas contract may trade between $6.10 and $6.55 per MMBtu.

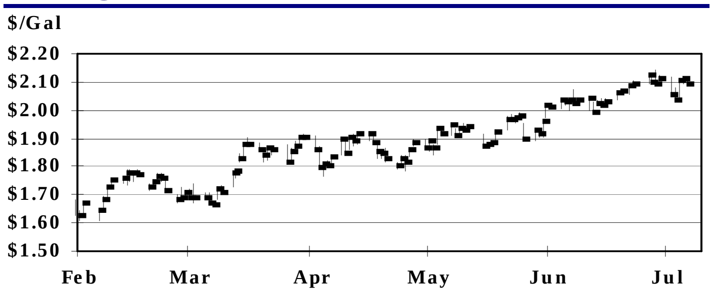
Crude Oil



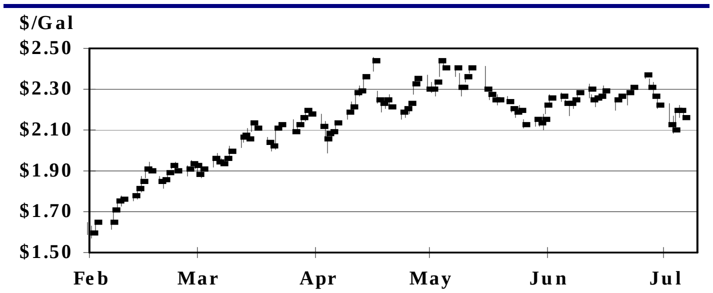
Natural Gas



Heating Oil



Gasoline



Cocoa

Cocoa prices moved in a sideways fashion last week. On 20 July cocoa prices touched an intraday low of $2,095 (September Nybot) and settled at this low, down $17 from the previous day's close. The decline in price can largely be attributed to the second quarter U.S. cocoa grind figures released that day. According to the Chocolate Manufacturers Association, total cocoa beans ground during the second quarter stood at 95,608 mt, down approximately 9% from the same period last year. The decline in grindings was a result of the sharp increase in cocoa prices since the beginning of this year. Prices in the second quarter of 2007 are up approximately 27% when compared to the same quarter last year. According to Meteorlogix rainfall in West Africa's cocoa growing region has picked up, which is beneficial for the 2007/08 main crop. Rains are needed until the middle of August to ensure a good main crop in 2007/08. This week cocoa prices are likely to decline with support at the $1960 level.

Coffee

Coffee prices rose last week. On 16 July prices settled at $1.119 (September Nybot), up 2.25 cents from the previous day's close. Threat of potentially damaging cold weather in Brazil's coffee growing region pushed prices higher last week. Meteorlogix forecast favorable harvest weather in Brazil's coffee growing region and no damaging cold weather for the first half of this week, which is bearish for prices. Temperatures could drop during the second half of the week, however. Stocks have been on the rise in Nybot monitored warehouses, which is bearish for prices. As of 20 July they stood at 4.26 million bags, up approximately 28% from the same period last year.

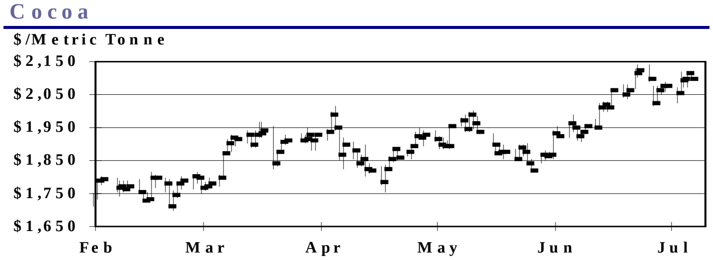
Cotton

Cotton prices declined sharply last week. On 16 July after touching a 40 month high of 68.8 cents (December Nybot) prices settled at 67.75 cents, down 0.63 cents from the previous day's close. Prices had lost 5.66 cents in net value by the end of the week. U.S. export sales data released by the United States Department of Agriculture (USDA) showed a sharp decline in demand for U.S. cotton abroad. For the week ending 12 July, export sales declined approximately 43% from the previous week to 29,400 RB. This was the lowest level during the 2006/07 marketing year, which began in August 2006. The sharp decline in demand could partially be attributed to the 30% increase in prices during the two-month period beginning in the middle of May. China's demand for cotton is expected to remain strong nonetheless, which could support export demand in the United States going forward. After touching a record high number of non-commercial long positions on 10 July, some long liquidation was seen during the week ending 17 July, which could have partially contributed to the decline. Gross long positions still are at historically high levels. This week prices could move sideways with support at 61.9 cents and resistance at the 64-cent level.

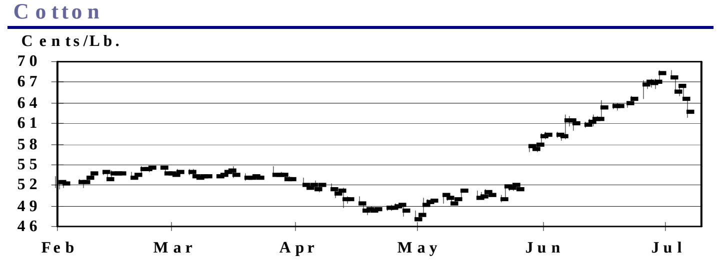
Orange Juice

Orange juice prices rose last week. On 18 July prices touched an intraday high of $1.304 (September Nybot) and settled at $1.299, up 3.3 cents from the previous day's close. Citrus greening, a potentially harmful disease, is said to be found in some of Florida's orange growing regions, which is supportive of prices. The 2007 hurricane season has been tepid thus far despite a busy forecast. Even though we have not seen any major activity this far, the peak of the season typically occurs during the first half of September. If hurricane activity picks going forward, the spread of citrus greening will be accelerated reducing the crop further. The USDA's final estimate of the 2006/07 crop stood at 128.9 million 90-pound boxes, the lowest level since 1989/90. This week orange juice prices could move sideways with support at the $1.25 level.

Cocoa



Cotton



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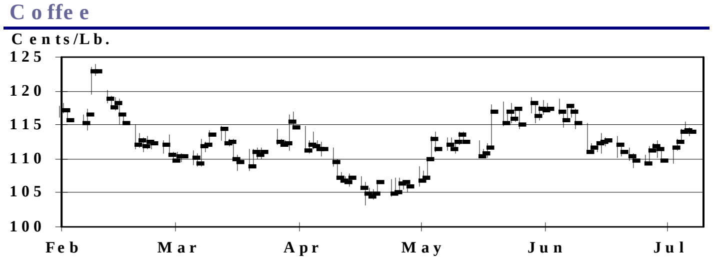
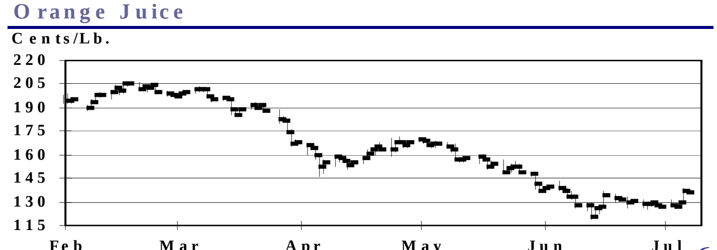


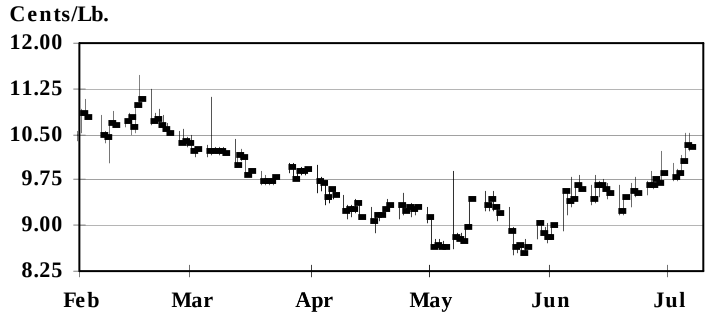
Orange Juice



Sugar

Sugar prices rose last week. On 18 July sugar prices settled at 10.11 cents (October Nybot), up 0.27 cents from the previous day's close. This was the first time prices settled above the 10-cent level since the end of March. The following day prices touched an intraday high of 10.24 cents and settled at 10.37 cents. The increase in sugar prices was largely driven by strength in energy markets, which typically sparks speculation among market participants that demand for sugar-based ethanol would rise. There is an increase in the amount of sugar cane being diverted toward ethanol production in Brazil, which further is supportive of prices. The increase in cane diverted toward ethanol is a result of weak sugar prices during the past year. Revenue generated from 1.0 mt of sugar cane, produced in Brazil, used to prepare ethanol stands at approximately $33.97. Meanwhile, revenue generated from 1.0 mt of sugar cane used to prepare edible sugar stands at approximately $31.42. The difference in revenue makes ethanol production more attractive.

Sugar



About CPM

CPM Group is a leading commodities market research, consulting, commodities management, asset management, and investment banking firm. CPM focuses on commodities markets worldwide from precious metals to tropical soft commodities. In more than twenty years as an independent company, CPM has consistently delivered unique, market-leading research and services to clients ranging from major corporations and investors to leading international organizations worldwide. As a research-driven firm, CPM delivers unbiased services to its clients across a range of services and a range of markets. CPM provides knowledge, not just information.

News and Events

The **CPM Gold Yearbook 2007** was released on 15 March. To purchase a copy please visit our website, www.cpmgroup.com

The **CPM Silver Yearbook 2007** was released on 14 May. To purchase a copy please visit our website, www.cpmgroup.com

The **CPM Platinum Group Metals Yearbook 2007** was released on 26 June. To purchase a copy please visit www.cpmgroup.com

Copies of the 2006 editions of the three **Yearbooks** are available from CPM Group or wherever fine books are sold.

Monthly Research

CPM Energy Market Advisory is a monthly report covering crude oil, gasoline, heating oil, and natural gas.

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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