CPM Group

Market Commentary

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Year-End Commodities Outlook

CPM Group's analysts and advisors are asked about our expectations for commodities markets and prices for the coming year at this point. Below is a brief overview of the company's analyses of some of the key points on which the markets currently are focusing.

Commodities have enjoyed remarkably strong price increases since the turn of the century. In 2011, prices of various commodities reached what appears to have been at least near-term peaks and have since been trending lower. CPM Group expects this downward shift in price levels to continue for many commodities, including gold, silver, oil, and various base metals, in the coming year.

Through the remainder of 2012 commodities prices appear vulnerable to declines from present levels. Investors are showing some fatigue and increasing hesitancy about remaining long many commodities. They are concerned about the effects on commodities prices of any further weakness in the economies of the United States, China, India, and Europe, both on gold and silver, and on industrial commodities.

For some industrial commodities, like platinum, palladium, and some base metals, these dips could represent compelling entry points for medium to long term long positions.

Gold and the Fiscal Cliff

Gold prices may be weak for an extended period, possibly averaging 1.0% lower in 2013 from 2012 levels. Prices averaged $1,670 this year through 17 December, up 6.3% from the similar period a year ago. Gold is expected to trade between $1,550 and $1,750 from now through February.

Investors are expected to be more price-sensitive to gold prices in 2013, a theme that began to emerge in the last four months of 2011 and now seems to be firmly entrenched in this market. This price sensitivity is expected to result in lower highs and lower lows in intraday prices throughout next year.

Some investors, and gold marketing groups, have suggested that the fiscal cliff facing the U.S. economy could be bullish for gold and commodities. Actually, it seems that the fiscal policy decisions and resolutions of these issues most likely will have negative price implications for both gold and commodities. Gold prices in fact may be supported in December by investor nervousness over the resolution of this political melodrama, but once the soap opera in Washington has played its last scenes out, the actual economic consequences may be seen as disinflationary and thus not positive for gold.

The resolution of the fiscal cliff will involve some combination of reduced government spending and increased taxes, albeit the extent of spending reductions and tax increases are uncertain. This resolution will result in an economic reality of disinflationary, possibly recessionary, pressures on economic activity. That is negative for gold and silver, as financial assets. It also is negative for industrial commodities in the medium term. The difference between a worst case scenario – falling off the cliff – and a best case scenario in which the U.S. government makes some substantive reductions in government spending and increases in taxes in a sensible way (as opposed to those outlined in the mandatory cuts and tax increases that constitute the looming cliff) is a matter of degrees. There is no bullish outcome for industrial commodities, gold, or silver, in any of the reasonably expected political and fiscal outcomes of the current budgetary talks in Washington. Because a fiscal cliff resolution is inherently negative for short-term economic growth, with the degree by which it will be negative being uncertain, we are bearish on many commodities during the first half of 2013, excluding various commodities whose fundamentals are expected to override short-term turbulence in the commodities sector.

Platinum and Palladium

South African platinum group metals mine output is declining around 12% in 2012. This loss of mine production, an anticipated 15% to 25% increase in operating costs at South African PGM mines for 2012, multi-year

Year-End Commodities Outlook (cont.)

deferments of project development, and continuing healthy growth in demand for these metals are expected to contribute to higher prices for an extended period. Platinum and palladium both are expected to perform well in 2013, however CPM Group is cautious on these markets in the near to medium term, given expectations of weak economic activity in the first half of the year.

Base Metals and China

China's government is focused on stabilizing real economic growth over the medium to long term, targeting real GDP growth of between 7.5% and 8.5%. CPM Group expects China to succeed in this effort. Demand for base metals will benefit from this stabilization, helping support prices of base metals next year. Investors in North America and Europe will be expected to misunderstand Chinese economic developments and over-react, bidding base metals prices higher.

Fundamentally, lead prices appear most likely to increase at a healthy pace next year, with the other LME-traded base metals facing annual surpluses that could keep prices flat at 2012 annual average levels.

Petroleum

Strong oil production growth from unconventional sources in the United States has weighed on WTI oil prices in 2012. This trend is likely to continue into 2013, albeit at slower rates. Stagnant to lower oil demand in most major industrialized economies could dampen some positive sentiment with regards to improving Chinese demand. Thus, WTI oil is expected to trade largely in a range of $82 and $95 in 2013. Brent oil may decline relative to WTI but stabilize at around $100 or so.