



COMMODITIES VIEWS

Vol. IV, No. 26, 30 June 2008

OVERVIEW

Investors may back off from the doom and gloom views of the U.S. dollar, economy, and stock market, which helped propel precious metals prices higher last week. A less negative view could help stabilize the dollar, and lead investors to back away from metals. Slight improvements in crude oil market supply meanwhile may lead to a brief decline in oil prices. Other markets also may see lower prices this week, reflecting various factors opening the door for slightly lower prices in the near term. The weakness in most commodities is not expected to be sharp or pronounced, but mostly should be viewed as a shorter term development. Certain markets, such as natural gas and gasoline, could see strength. The trading week will be abbreviated in the U.S. this week by the Friday holiday. This may figure in to some weakness in commodities prices, as some longs may wish to liquidate short-term trades that they have been holding rather than hold them through the long weekend. The dollar may continue to move sideways meanwhile, neither confirming some observers worst fears nor giving anyone any substantive reason to believe the dollar is about to embark on a major sustained rally.

PRICES

(Prices as of 27 June; changes from 20 June)

PRECIOUS METALS				
Gold	\$931.30	↑	3.1%	27.60
Silver	\$17.62	↑	1.3%	0.22
Platinum	\$2,059.10	↓	-0.2%	-3.30
Palladium	\$471.20	↓	-1.7%	-8.00
BASE METALS				
Aluminum	\$3,102.50	↓	-1.1%	-34.50
Copper (Comex)	387.80¢	↑	1.2%	4.75¢
Copper	\$8,500.00	↑	0.9%	79.00
Lead	\$1,820.00	↓	-2.9%	-55.00
Nickel	\$21,850.00	↓	-3.5%	-800.00
Tin	\$23,305.00	↑	2.0%	455.00
Zinc	\$1,945.00	↓	-0.5%	-10.00
ENERGY				
Crude Oil	\$140.21	↑	3.6%	4.85
Gasoline	\$3.52	↑	2.0%	0.07
Heating Oil	\$3.93	↑	3.4%	0.13
Natural Gas	\$13.20	↑	0.6%	0.09
SOFT COMMODITIES				
Cocoa	\$3,178.00	↑	1.7%	53.00
Coffee	152.55¢	↑	4.0%	5.85¢
Cotton	156.10¢	↑	94.9%	75.99¢
Orange Juice	113.65¢	↑	3.4%	3.70¢
Sugar	12.74¢	↓	-2.6%	-0.34¢

Precious metals, copper (Comex), energy, and softs are the nearby active contract. Base metals given for LME 3-month official prices.

FOCUS IV-26

PRECIOUS METALS: With the July Comex silver and Nymex platinum rolls into forward months behind the markets, some pressure may come off precious metals. Investor economic concerns may lighten up this week too, opening the door for prices to fall across the complex.

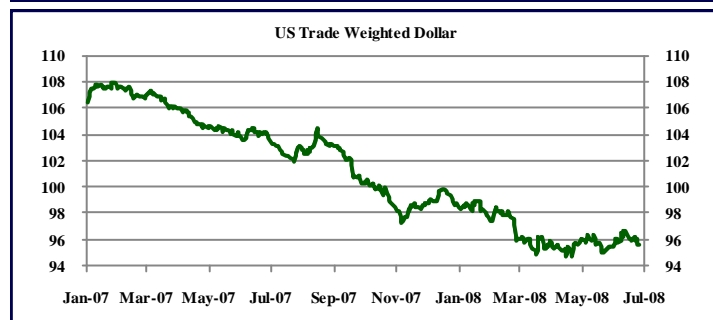
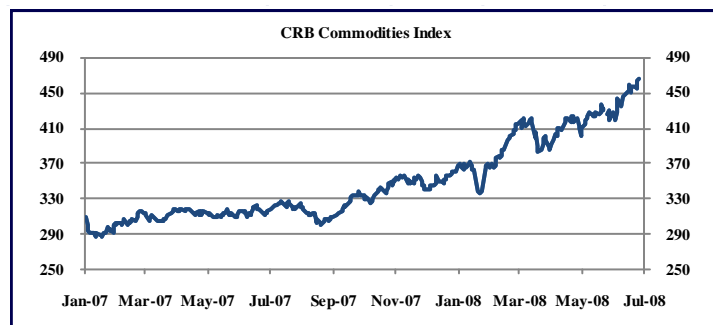
BASE METALS: On Monday 30 June unionized workers begin a nationwide mining strike in Peru. Concern over supplies may push copper prices higher this week. However, gains in copper may be limited by expectations that the Peruvian strike may be short-lived.

ENERGY: Petroleum prices could see some short term weakness on profit-taking, and speculative selling on the view that Saudi output is increasing in July. Natural gas and gasoline prices may remain strong, however, limiting any downside in crude oil prices.

SOFT COMMODITIES: Sugar prices could rise this week, with resistance at the 13-cent level. On the downside, prices could find support at 12.65 cents. At present, tightness in the U.S. corn market and firm energy prices are supportive of sugar prices.

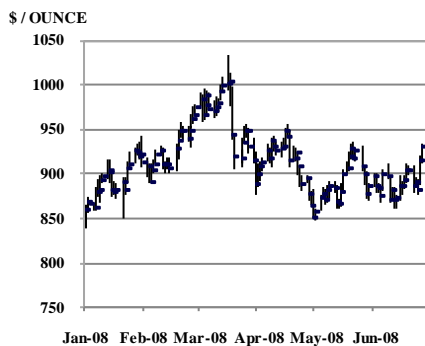
INDICATORS

CRB Index	464.40	↑	2.0%	9.02
US Trade Weighted Dollar	95.66	↓	-0.3%	-0.26
T-Bills	1.63%	↓	-9.4%	-0.17%
DJIA	11,346.51	↓	-4.2%	-496.18
FT World Stock Index	387.96	↓	-2.5%	-9.78



Source: Federal Reserve Board Trade Weighted Dollar Index

GOLD



Gold prices could fall as sharply this week as they rose last week. August Comex prices broke about the 22 May high of \$935.40 to reach \$937.70 Monday, before slumping to settle at \$926. Prices may drop back to \$900, or even lower, during the shortened trading week. Investor and fund futures buying was said to be weak on Monday, and is expected to remain weak over the next several days. Physical demand from Asian investors has dropped off in the face of the sharp rise in gold prices last week,

further undermining the recent advance. While adverse economic or financial market conditions and news could push gold higher, in the absence of any expected such developments prices may fall back below \$900 over the next several trading days. A great deal of longer term bullishness remains, but short-term bank traders and investors will continue to try to time their purchases and sales based on price chart patterns, and may decide to take profits this week.

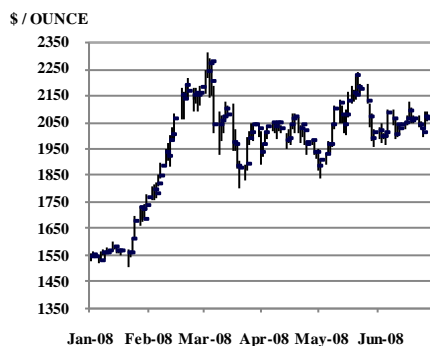
SILVER



Silver prices could break below \$17 later this week. The roll from the July to September Comex contract is mostly complete. This could take support away from silver prices. The delivery date for the September contract is two months away. Seasonal weakness is expected to set in. Prices could fall as low as \$16 before recovering. If this happens it would be taken as a buying opportunity by a large number of investor, fabricators, bank traders,

and other bargain hunters. Prices were off sharply at the beginning of last week but rose sharply by the end of the week. Similar to what has been occurring with gold, silver has been trading on a technical basis, driven by investors' economic concerns. Investment demand has eased slightly. Combined ETF holdings dropped 16,000 ounces to 267.1 million ounces by the end of last week.

PLATINUM



Platinum prices are likely to head lower later this week. The roll from the July to September Nymex contract is mostly complete. This should alleviate some of the support to prices. The supply and demand balance remains tight. Seasonally, however, prices usually decline around this time of the year. Fabrication demand from auto manufacturers is likely to ease due to the preparation for production

of 2009 car models. Prices could dip below \$2,000 this week, with possibly further weakness next week. Any major disruption in supplies from South Africa could push prices higher, however. From the beginning of the year through 23 June North American car and truck production was 6,788,507 units, down 14.6% from 7,779,752 units produced in the similar period last year.

PALLADIUM



Palladium prices could dip toward \$460 this week. Strong support is seen at this level. If prices fall below this level it may spark strong buying. Palladium prices fell 1.7% last week. Palladium may follow platinum and other precious metals prices lower. Commodity funds and institutional funds decreased their net positions from 778,100 ounces on 17 June to 740,100 ounces by the end of last

week. Prices could remain supported by strong investment and fabrication demand. Open interest in the September Nymex contract has risen over the past several weeks, to 1.5 million ounces as of 26 June. As of 27 June ETF Securities held 258,125 ounces of palladium for its precious metal and palladium ETFs, up 9.9% from 234,728 ounces held on 20 June.

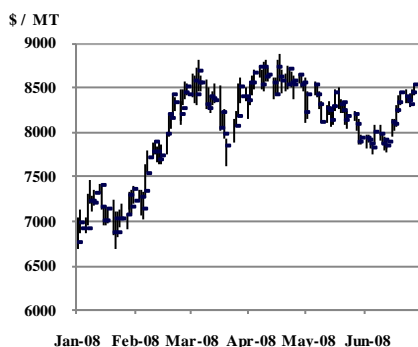
ALUMINUM



LME three-month aluminum prices may move range bound between \$3,000 and \$3,150 this week. The decline in the U.S. dollar and record high crude oil prices supported the small recovery in aluminum prices during the second half of last week. Higher prices and seasonally weak demand, amid the summer lulls for many manufacturers, have weighed on the demand for physical aluminum. Shipments of aluminum from LME warehouses have been winding down

through June. As of 27 June combined exchange inventories stood at 1,314,482 mt, up 1.3% from the previous Friday. If the U.S. dollar continues to weaken this week, aluminum prices seem likely to trend toward the upper-end of this range. However, continued strength in aluminum prices could encourage producers to make large shipments of aluminum to exchange warehouses. Higher stocks may weigh on prices, pulling them back toward \$3,000.

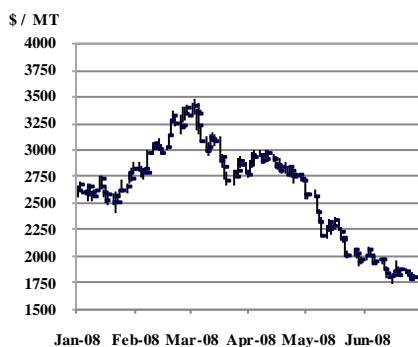
COPPER



A strike in Peru may push copper prices toward \$8,800 (LME three-month) this week. On 30 June unionized workers began a nationwide mining strike to pressure Congress to pass a bill that would lift caps on profit-sharing within the industry. The union also is demanding retirement benefits. Further gains in copper prices may be limited by expectations that the Peruvian strike may be short-lived. Interference by the Peruvian government tends to reduce the duration of union strikes. The current strike may be re-

solved by this week's end. Prices may trend lower following the conclusion of the strike, as concerns over weak Chinese import demand could chisel away at the gains in prices. Through June, copper on the SHFE traded at a discount compared to the copper traded on the LME, adjusted for the 17% VAT tax. The high differential between the two markets will likely show up as weak Chinese import demand in June's trade data. On the downside copper has near-term support at \$8,300.

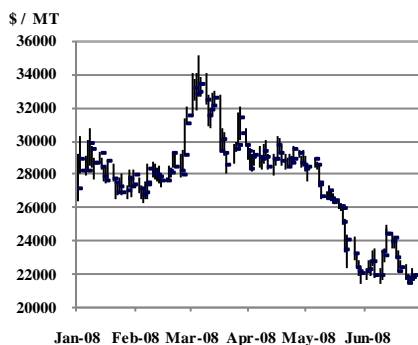
LEAD



Rising LME stocks may weigh on lead prices later this week. LME warehouse stocks have continued to rise since October 2007. As of 27 June, LME stocks amounted to 100,825 mt, up 4.6% from the previous Friday. Concerns over the national strike in Peru could offer some support to the metal at current prices. However, once the strike is resolved, further increases in stocks could push lead prices below \$1,750 (LME three-month). Market

participants are watching for additional supplies from Ivernia's Magellan mine as the company has just gained environmental approval for shipments from the mine. Shipments were suspended in October 2007 following a reported contamination of the waters surrounding the shipping port. A large amount of lead, which was held up at the port during the investigation, may soon make its way to the market.

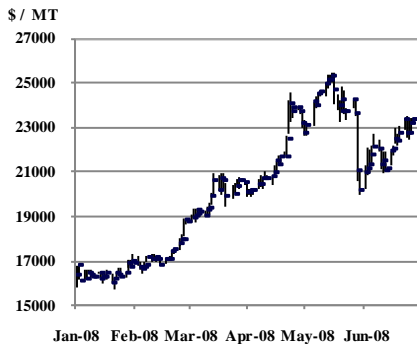
NICKEL



Nickel prices may consolidate around \$21,750 (LME three-month) this week. Despite the softer U.S. dollar and the recent disruptions in Australian supplies, nickel prices remained under pressure last week. While LME stock levels have been trending lower the past two months they still remain close to nine-year highs. As of 27 June LME inventories stood at 46,482 mt, down less than 1% from the previ-

ous Friday. Chinese stainless steel producers have yet to announce further production cuts during July. The combination of reduced nickel supplies from Australia and an uptick in nickel demand from Chinese stainless steel producers may amplify the downward trend in LME nickel stocks during the third quarter. In the interim, nickel prices may continue to move around current levels.

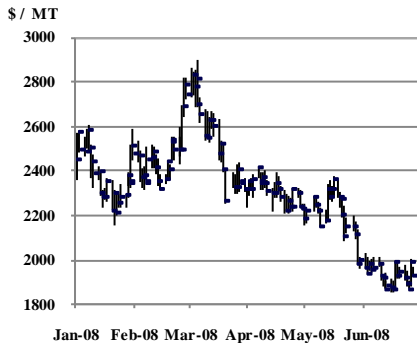
TIN



LME three-month tin prices may edge higher to test resistance at \$24,000 this week. Since late August 2007 LME warehouse stocks have continued to trend lower. As of 27 June inventories amounted to 6,765 mt, down 3.0% from levels held at the end of the previous week. In the near term stocks may remain tight. However in the medium term additional supplies from Metals X's Renison mine may help alleviate some of the present supply

constraints. Last week the company announced that it has commissioned its Renison project in Tasmania. Commercial production is expected to begin by the middle of July, with annual production projected at 8,500 mt of tin-in-concentrate. Last week, LME cancelled warrants averaged 971 mt on a daily basis. This was a 47.8% increase from the previous week's daily average.

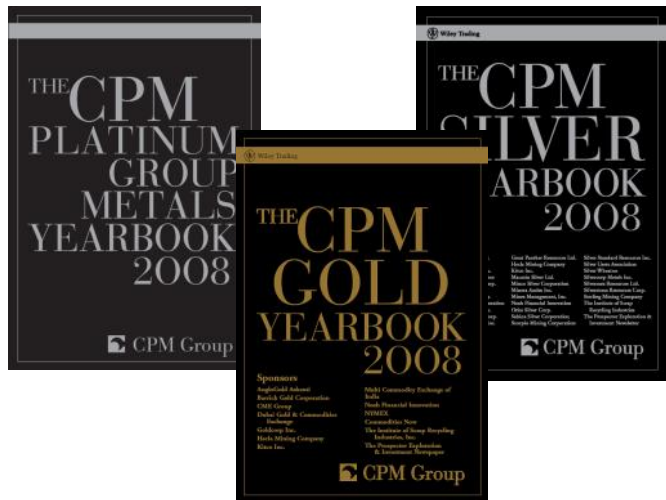
ZINC



This week zinc prices may be supported around \$1,900 (LME three-month) because of the national strike in Peru as well as potentially lower output in China. The Chinese government is attempting to reduce refined zinc production in an effort to conserve energy. The country's State Administration of Taxation plans to raise resource taxes effective 1 August. Taxes on zinc ore from first grade zinc mines will be lifted to CNY 20 per mt

from CNY 4 per mt. Chinese zinc smelters have already been struggling to obtain financing to purchase sufficient quantities of ore. This tax hike will make it even more costly for zinc smelters. On 27 June LME warehouse stocks amounted to 154,025 mt, up slightly by 1.5% from the previous week's close. Inventory levels at the SHFE remained relatively flat during the same period.

CPM YEARBOOKS



CPM Group is pleased to announce the following release dates for the CPM Yearbooks 2008:

- Gold Yearbook: 11 March
- Silver Yearbook: 29 April
- Platinum Group Metals Yearbook: 24 June

To order the Gold, Silver, or Platinum Group Metals Yearbook visit the [CPM Bookstore](http://www.cpmbookstore.com).

MONTHLY ADVISORIES

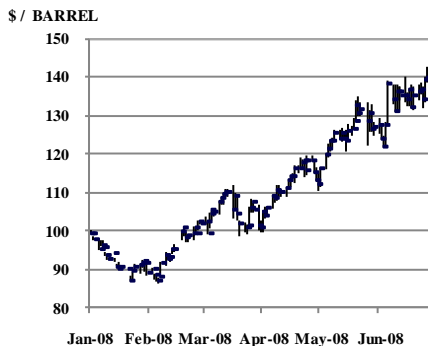
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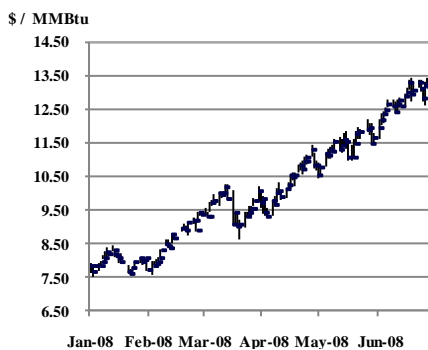
CRUDE OIL



Crude oil prices are roughly double what they were this time last year. Demand has been reduced only marginally by the sharp increase in prices. Greater weakness probably has been brought about by reduced economic activity in the United States due to macro-economic trends. Prices may drop back to around \$134 in the near term, before staging further upward moves later in July. Prices are unlikely to fall too sharply at present, with strong demand, tight supplies, and a

great deal of investor interest. Any comments from the U.S. Congress suggesting government intervention to try to push prices down could scare some investors into liquidating long positions. This could have a short-term effect on prices. Longer term, government actions may not materialize and, even if they do, investors will focus on tight market fundamentals in determining whether they wish to stay long. Saudi output should increase this week.

NATURAL GAS



Natural gas prices may form a base around \$12.75—\$13.00 this week, and seek to move forcefully above \$13.50, basis the August Nymex contract. Gas inventories continued to rise slightly last week, but stubbornly remain 15.8% below year-ago levels. Hotter weather across much of the United States is increasing demand for gas in electricity generation, while imports of liquefied natural gas continue to

run sharply below 2007 rates. LNG continues to be shipped to European and Asian markets rather than to U.S. ports, reflecting higher prices in those markets. Some market observers are beginning to cite increased long activity by institutional investors as adding to the upward pressure on natural gas; this no doubt is true, although the investor role probably is less important than physical flows.

GASOLINE



Prices for the August Nymex RBOB gasoline contract failed to top Friday's high on Monday, leading to some stale bull liquidation and fresh short selling. Prices dropped to \$3.486, which still represents near-record highs. Prices may see further weakness early this week. A spike down to around \$3.40 cannot be ruled out. As the holiday weekend approaches prices may recover to move back toward \$3.55 -

\$3.60, however. Gasoline inventories declined slightly in the United States last week. While they remain above 2007 levels, they remain relatively constricted by historical standards. Inventories are running around 22 days of supplies, higher than last year but down sharply from March. Gasoline production ran 9.027 million barrels per day in the third week of June, down 3.0% from 2007.

HEATING OIL



Heating oil prices continue to defy gravity. Prices reached \$3.9972 Monday, and appear headed higher. A move toward \$4.10 seems possible in the next week or two. Seasonally this is the weak period for prices. Inventories are at healthy levels and headed higher. Stocks actually are a bit lower than a year ago, but they are up 2.4% in the week ending 20 June. Part of the explanation may reflect greater use of distillates as a substitute for pricier

alternative fuels in power generation and other applications. Prices may come off later in the summer. A heavy sell-off could push prices below \$3.75 with a target much lower. Such a move seems unlikely to occur in the next week or so. In the short-term, prices appear more likely to be heading higher.

COCOA



This week cocoa prices could rise to test resistance at \$3,210 (September ICE). Prices could then decline, with support at \$2,950. Supply and demand fundamentals are supportive of high cocoa prices, but prices are presently in need of a correction. The decline in prices could be triggered by a strengthening of the U.S. dollar. Any decline may only last for a brief period. The market is particularly concerned about supply due to the poor

quality of West Africa's beans and the reduced output from Indonesia. The demand side of the market also is holding up fairly well, with strong demand from developing countries.

COFFEE



Coffee prices could decline this week, with support at \$1.40 (September ICE). The 2008/09 Brazilian harvest is picking up pace. This harvest is expected to be large, with current estimates hovering around 52 million 60-kg bags. At present, there also is no forecast for crop damaging frost in Brazil's coffee growing region, which is most likely to add further downward pressure on prices. Market participants could be cautious about

pushing coffee prices too low before the frost season ends in September. This is because any damage to the 2008/09 Brazilian crop could make it virtually impossible to replenish flagging global stocks, especially with healthy demand for coffee in place.

COTTON



Cotton prices could decline this week, with support at 77.5 cents (December ICE). On 30 June the United States Department of Agriculture released its acreage report, estimating all cotton plantings for 2008 at 9.25 million acres. This is a decline of 15% from 2007. This decline is slightly less than the 8.9 million acres the market was expecting cotton acreage to drop to. This is likely to weigh on prices. Weak demand for U.S. cotton also is

likely to hold cotton prices down. U.S. export sales for the week ending 19 June stood at 19,136 RB, a marketing year low. The 2007/08 marketing year ends in July.

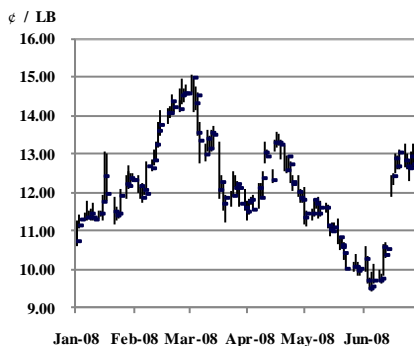
ORANGE JUICE



This week orange juice prices could move sideways, between \$1.11 and \$1.17 (September ICE). Supply and demand fundamentals remain weak. Orange juice inventories in the United States are building up rapidly and there isn't enough demand to wear these inventories down. Demand is unlikely to pick up unless there is a reduction in retail prices. Retail prices of orange juice in the United States

have hardly moved over the past few months. Prices are currently supported by potential damage to Florida's orange crop from the 2008 Atlantic hurricane season.

SUGAR



This week sugar prices could rise, with resistance at 13 cents (October ICE). On the downside, prices could continue finding support at 12.65 cents. Prices presently are supported by the potential for increased U.S. demand for sugar-based ethanol. The U.S. corn ethanol industry is likely to get squeezed for feedstock and will have to pay a high price for this feedstock, which will make the industry

less competitive against the Brazilian sugar-based ethanol industry. This could drive up U.S. imports of Brazilian ethanol. Furthermore, the price of oil is likely to remain strong in the near term, which should continue to increase the importance of ethanol in the energy mix.