Zurich, 30 March 2011

Commodity Research
Investment horizon: 6–12+ months

Research Monthly

Commodities

High risks prevail for now, but prices should resume their uptrend later in the year

Private Banking

Geopolitics is in the driver's seat – but for how long?

Since the fourth quarter 2010 a new theme has been developing in commodity markets. With increasing evidence that the economic recovery is sustainable, the focus of market participants has started to shift away from concerns about growth towards concerns about inflation. In emerging markets particularly, inflation concerns have taken center stage, in part because of the surge in food prices. As a result of this shift in focus and ongoing robust growth in economic activity, commodity prices have risen substantially. A large part of last year's price increases happened in the fourth quarter, and year-to-date the major commodity indices have achieved strong single-digit total returns.

However, in the last few weeks, the inflation theme and in fact most fundamental data have been pushed into the background. Instead there has been an increasing focus on geopolitical events and natural catastrophes, given the escalation in tensions in the Middle East North Africa (MENA) region and the terrible earthquake in Japan. These events have triggered considerable market moves, particularly in the oil market. Volatility has jumped and is now at elevated levels.

For now, we think that geopolitics will remain an important price driver in commodities and add another layer of uncertainty to the market outlook. As a result, the Investment Committee has downgraded its tactical outlook (1—6 months) for commodity markets as a whole to neutral from positive. At current prices we think that some markets— and oil in particular — include a risk premium which could fade rather quickly if MENA tensions subside.

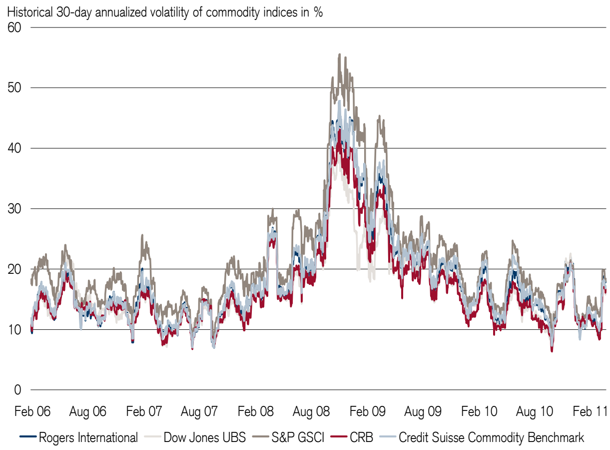
Over our strategic time horizon (6–12+ months) we think that the original inflation theme will likely come back to the forefront, with positive implications for commodity prices. Increased commodity demand from Japan due to reconstruction efforts after the earthquake should reinforce the effects of the inflation theme even further.

For now, we think the major commodity indices are likely to consolidate in a rather wide range with volatility on the high side. We expect this consolidation period to be followed by a resumption of the uptrend. However, even when the uptrend resumes, volatility will probably remain elevated if it does not go higher, because inventory levels in many markets are now at rather low levels, which increases the sensitivity of prices to even small changes in the supply / demand balance.

Highlights

- Strategy: Near-term risks in energy and agriculture are rising, but the longer-term outlook remains favorable.
- Precious metals: Low real interest rates are supportive for gold. Further gains are likely.
- Industrial metals: The seasonally weak period of the year is coming to an end. Demand is likely to rise further due to Japanese reconstruction efforts.
- Energy: Trading is likely to be rather erratic as markets are influenced by geopolitics.
- Agriculture: The planting season in the Northern Hemisphere is an event risk.

Figure 1
Volatility in commodity markets has spiked



Source: Bloomberg, Credit Suisse

Forecasts and strategy

Table 1 summarizes our tactical and strategic views and our targets for the various commodity markets, based on a weighted blend of technical and fundamental inputs. The key themes are:

- **Precious metals:** Most precious metals, but particularly gold and the platinum group metals, enjoy solid cyclical support based on strong investment interest. Gold is currently our preferred market, because cyclical support is confirmed by a strong technical picture. In platinum and palladium, the cycle is strong, but technicals warrant a more cautious stance for now. Silver is markedly overvalued, which should limit its long-term potential.

- **Energy:** In the oil market, fundamentals and technicals currently contradict each other, reflecting the political risk premium that is being priced in at this time. From a fundamental point of view, oil is too expensive, but momentum and trend remain strong. We therefore have a neutral outlook near-term and are negative longer-term.

- **Industrial metals:** In this sector most markets are not yet overvalued and have strong cyclical support from economic growth. Technicals are neutral or positive, depending on the market, resulting in a fairly upbeat overall outlook.

- **Agriculture:** Overvaluation is becoming an issue in many agricultural markets, and after the recent pull-back the technical outlook is less positive as well. Fundamentals are more supportive, but combined with overvaluation and a more cautious technical picture, the overall outlook across markets is rather mixed. Our preferred exposure is soy for both strategic and tactical horizons. Corn and coffee are also favored tactically.

Table 1: Short-, medium- and long-term commodity views

Market	Current price*			3M implied volatility*			Fundamental		Technical		Views**		Forecasts***	
	Hi/Low	Last 30 days	29/03/11	Hi/Low	Last 30 days	29/03/11	Cycle	Value	Mom.	Trend	1-6M	6-12M+	3M	12M
Gold	1437.40 / 1395.70		1418.50	17.0% / 15.5%		15.6%	↗	→	↗	↗	↗↗	↗	1450	1550
Silver	37.37 / 33.89		37.05	38.4% / 34.8%		35.6%	→	↘↘	↗	↗	↗	↘	36.00	30.00
Platinum	1849.25 / 1694.50		1741.00	20.5% / 20.0%		20.0%	↗	↘	↘	→	→	→	1850	1950
Palladium	820.00 / 698.75		755.50	34.5% / 32.5%		33.0%	↗	→	↘	→	→	↗	750	900
WTI crude Oil	105.75 / 96.97		104.79	53.3% / 30.6%		31.2%	↘	↘	↗	↗	→	↘	100	90
US Natural Gas	4.40 / 3.78		4.24	40.6% / 31.1%		31.1%	↗	↗	↘	→	→	↗	4.25	5.25
Aluminum	2648 / 2458		2648	23.6% / 21.3%		21.3%	↗	→	↗	↗	↗↗	↗	2600	2650
Copper	9915 / 9118		9585	30.4% / 26.0%		26.9%	↗	→	→	↗	↗↗	↗	10200	11000
Nickel	28990 / 24705		26600	35.8% / 33.6%		33.8%	↗	→	→	→	↗	↗	27000	30000
Zinc	2520 / 2273		2375	33.1% / 31.1%		31.1%	→	↘	→	→	→	↘	2400	2000
Lead	2716 / 2427		2687	35.2% / 34.5%		34.5%	↗	→	↗	↗	↗↗	↗	2800	3000
Tin	32325 / 28600		31560	36.2% / 35.4%		35.5%	→	↘↘	→	↗	→	↘	29000	26000
Corn	730 / 617		671.75	48.8% / 37.7%		47.4%	↗	↘↘	→	↗	↗	→	700	675
Wheat	801 / 662		737.25	49.9% / 37.5%		49.9%	↗	↘	↘	→	→	→	750	775
Soy	1408 / 1270		1361.50	28.8% / 24.0%		28.1%	↗	↘	→	↗	↗↗	↗	1450	1500
Sugar	33 / 26		27.02	51.3% / 44.5%		44.5%	↘	→	↘	→	↘	↘	26	23
Cocoa	3774 / 3057		3057	49.6% / 38.4%		41.3%	→	↘↘	↘	→	↘	↘	3200	3000
Coffee	294 / 261		261.45	39.3% / 29.2%		31.7%	↗	↘↘	→	↗	↗	→	290	270
Cotton	215 / 185		194.88	73.0% / 37.2%		37.2%	↘	↘↘	→	↗	↘	↘	175	150

Source: Credit Suisse/IDC, Bloomberg
* Data as of London close. Spot prices for precious metals, 3M forwards for industrial metals, front month futures for all other markets with band representing +/- 1 standard deviation from 30-day average.
** Views are a weighted combination of technical and fundamental inputs.
*** Forecasts as published in the latest Research Monthly - Commodities

Gold (XAU)

Outlook (6–12+ months)

Likely to continue its uptrend

Gold prices have seen some volatility in March. Prices fell below USD 1400 after political tensions in Libya escalated but recovered to previous highs toward the end of the month. With the increase in inflation expectations, real interest rates have recently fallen again. As a result, investment interest is slowly returning. With the beginning of the second quarter, gold is also entering a seasonally more favorable period of the year. We expect to see a renewed increase in investment demand over the coming months.

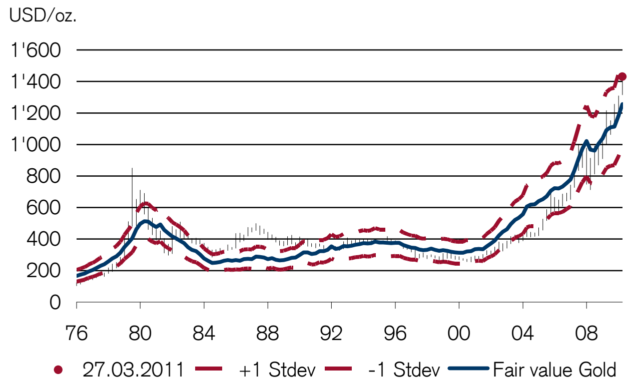
While cyclical support for gold is robust, we also think that gold is currently not overvalued. Given the downtrend in bond yields over the last few years, the fair value model suggests that gold has not risen excessively. In this context, cyclical support should be able to sustain gold prices for another push higher.

This analysis is also confirmed by the technical picture. Gold remains in a stable uptrend, and medium-term momentum has also started to re-accelerate again recently.

Given the fact that gold does not yet look expensive to us and in light of strong cyclical and technical support, we think gold could rise above USD 1500 in the coming months.

Figure 2

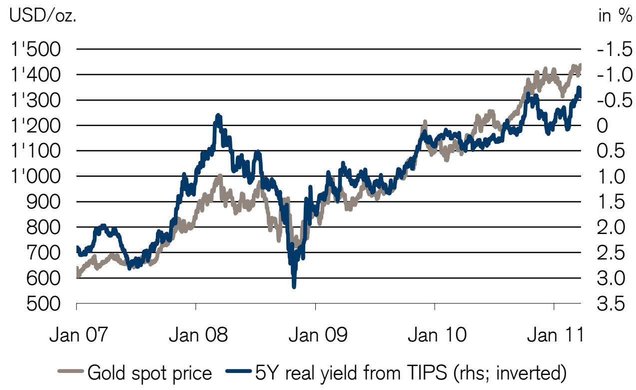
Value: Gold prices still within the fair value range



Source: Bloomberg, Credit Suisse / IDC

Figure 3

Cycle: Low real yields should attract investment demand



Source: Bloomberg, Credit Suisse / IDC

Forecasts

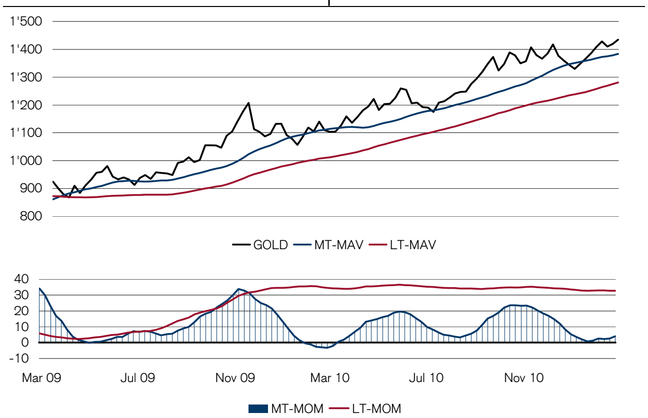
USD/oz.	29 Mar 2011	3-month forecast	12-month forecast
Gold	1418.50	1450	1550

Facts on gold:

- Gold is a dense, soft, yellow and corrosion-resistant metal. It is a good thermal and electrical conductor, occurring in veins and alluvial deposits.
- Gold is resistant to air and most reagents. Because of this, it has been used as a store of value and currency since ancient times. Until the breakdown of the gold standard, gold was used as the collateral for most currencies. Today gold is mostly used for jewelry and dental applications but also for investment purposes.
- China and South Africa are the most important gold producers. Global annual consumption of gold amounts to roughly 3,500 tons, of which about one-third is investment demand.

Figure 4

Technicals: Gold is in a stable uptrend



Source: Datastream, Credit Suisse / IDC

Silver (XAG)

Outlook (6–12+ months) ↘

Should continue to trade on the high side, but the market looks increasingly overvalued

After rallying more than 80% last year, silver has continued its uptrend in 2011, with prices rising above USD 37 in March.

Silver is largely driven by investment demand. The silver market is in a physical supply surplus. For prices to increase, this surplus has to be taken up by investors. Since silver is not a safe haven, it tends to perform well when risk appetite increases and gold is in an uptrend. Last year, these conditions were in place and silver prices rose. This year we are getting more mixed signals. While gold is still in its uptrend, risk appetite has recently deteriorated. Comparing the gold / silver ratio to risk appetite, it looks like there will be little support from this side, even if risk appetite recovers again.

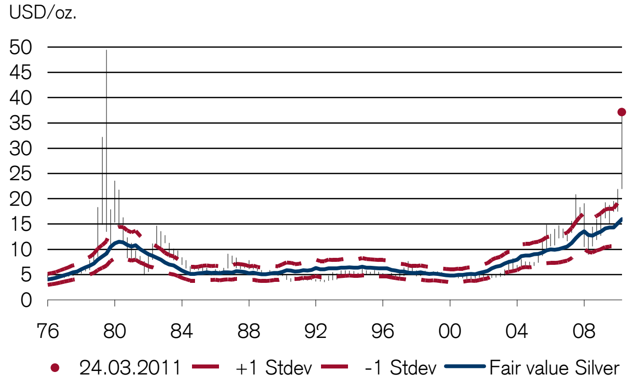
Fair value analysis points in a similar direction. After last year's rally silver is now strongly overvalued.

On the technical side, the silver market looks better. Silver has strong momentum, and the uptrend is accelerating.

Overall, silver could rise a bit further in the near term, given strong momentum. Longer-term, silver will need strong cyclical support to achieve further gains, given its overvaluation. We are not convinced whether the market will get that support and forecast lower prices in 12 months.

Figure 5

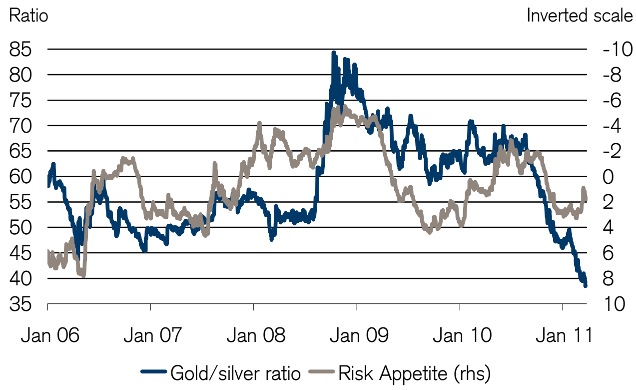
Value: Silver is among the most overvalued of all commodities



Source: Bloomberg, Credit Suisse / IDC

Figure 6

Cycle: The gold / silver ratio and risk appetite



Source: Bloomberg, CS Global Strategy, Credit Suisse / IDC

Forecasts

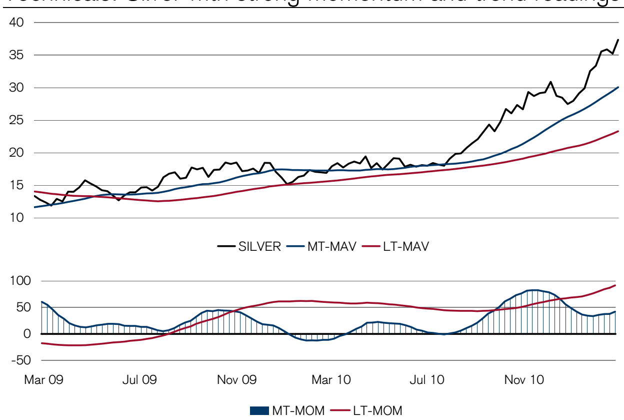
USD/oz.	29 Mar 2011	3-month forecast	12-month forecast
Silver	37.05	36	30

Facts on silver:

- Silver is slightly harder than gold but yet a very ductile and malleable metal that can take a high degree of polish. It offers the highest thermal and electrical conductivity of all metals.
- Like gold, silver was often used as a store of value and as collateral for currencies before the arrival of fiat money regimes. Today silver is used in jewelry, electrical contacts and conductors but also increasingly for investment purposes. Global annual silver consumption amounts to roughly 28,000 tons.
- The most important silver producers are Peru, Mexico, China and Australia.

Figure 7

Technicals: Silver with strong momentum and trend readings



Source: Datastream, Credit Suisse / IDC

Platinum (XPT)

Outlook (6–12+ months)

Strong cyclical support but negatively impacted by the earthquake in Japan

Before the earthquake in Japan, platinum prices were in a fairly stable uptrend. However, prices slipped after the earthquake, falling below USD 1700 at times.

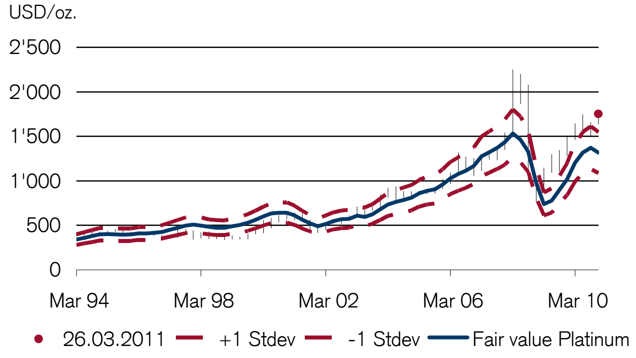
Platinum has been negatively impacted by the events in Japan. The metal is mainly used in the production of autocatalysts. Due to its large automotive industry, Japan accounts for about 15% of total platinum demand. With car production impacted by the earthquake, platinum demand and hence prices have dropped. Nevertheless, we think this will only be temporary. As Japanese car manufacturers resume production, demand looks set to rebound, which should lead to renewed price gains.

While the longer-term cyclical outlook is positive, the fair value model suggests that platinum is expensive after the rally of the last few years. Technical analysis is also rather cautious. The recent correction has damaged the technical picture, as prices have fallen below the first trend line.

Overall, platinum has strong cyclical support. However, the value analysis and technicals warrant a more cautious stance. We thus have a neutral view. The outlook would improve if platinum prices rose above the trend line resistance.

Figure 8

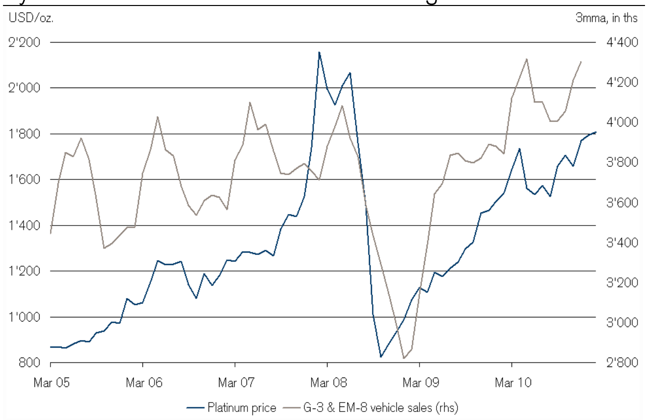
Value: Platinum prices are expensive



Source: Bloomberg, Credit Suisse / IDC

Figure 9

Cycle: Platinum should benefit from strong car sales



Source: Johnson Matthey, Credit Suisse / IDC

Forecasts

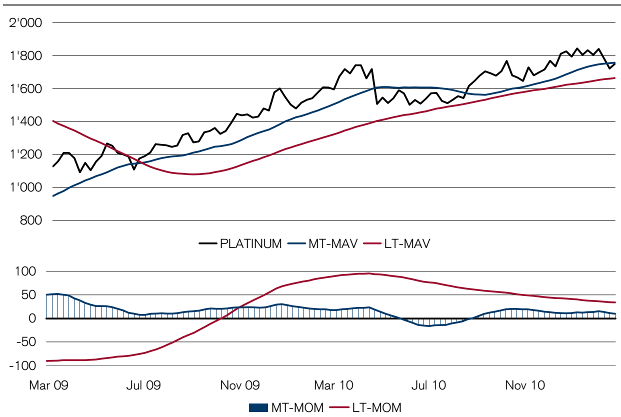
USD/oz.	29 Mar 2011	3-month forecast	12-month forecast
Platinum	1741.00	1850	1950

Facts on platinum:

- Platinum is a heavy, malleable and ductile metal. It is resistant to corrosion and occurs in some nickel and copper ores along with some native deposits. It is more expensive than gold, as it is thirty times rarer in the earth's crust.
- Platinum is mainly used for catalytic converters, jewelry, fuel cells, electrodes for use in electrolysis and electrochemical measurements, and photography. However, it is also stored for investment purposes.
- In 2008 by far the most important platinum producer was South Africa, followed by Russia, Canada, Zimbabwe, the USA and Colombia. Global annual platinum consumption amounts to roughly 220 tons.

Figure 10

Technicals: Platinum prices have fallen below the first trend line



Source: Datastream, Credit Suisse / IDC

Palladium (XPD)

Outlook (6–12+ months)

Strong cyclical support and cheaper valuation than platinum

Similar to developments in platinum, palladium prices sold off after the earthquake in Japan.

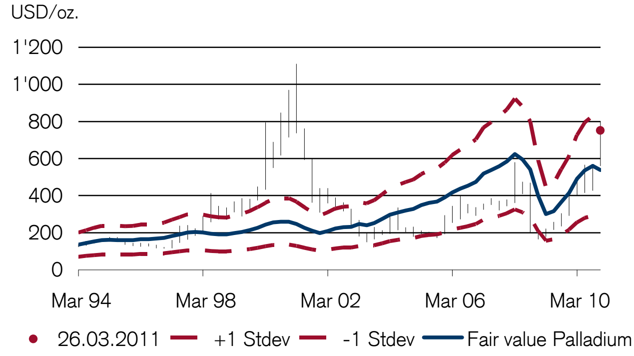
Like its sister metal platinum, palladium is mainly used in the production of autocatalysts. Accordingly, the market is negatively impacted by the production outages in Japanese car factories, although this situation is likely to be only temporary. Supply-side developments make palladium attractive, however. Russia is the largest supplier of palladium, but a significant share of Russia's palladium sales do not come from new mine production but rather from existing stockpiles. Recently Russian stock sales have declined, prompting many market participants to believe that the stocks are close to depletion. Accordingly, investment interest in palladium continues to rise.

Another factor that distinguishes palladium from platinum is valuation. In contrast to platinum, palladium is not yet expensive. In terms of technical analysis, the recent correction has damaged the chart picture somewhat, however.

Overall, the short-term outlook is neutral, due to weak technicals, but we are more optimistic longer-term. Palladium should outperform platinum. Both metals have strong cyclical support, but palladium has the more attractive valuation.

Figure 11

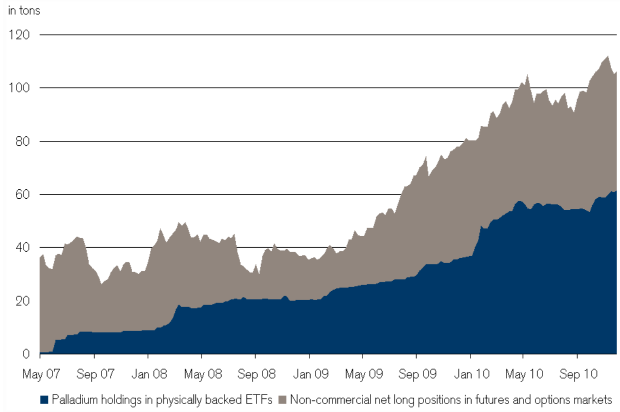
Value: Palladium is not yet expensive



Source: Bloomberg, Credit Suisse / IDC

Figure 12

Cycle: Strong investment demand supports prices



Source: Johnson Matthey, Credit Suisse / IDC

Forecasts

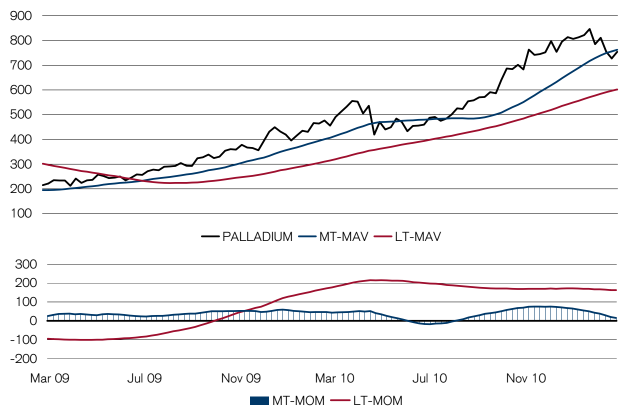
USD/oz.	29 Mar 2011	3-month forecast	12-month forecast
Palladium	755.50	750	900

Facts on palladium:

- Palladium is a rare metal that was only discovered in 1803. It is one of the platinum group metals (PGM), of which it has the lowest melting point and is the least dense. It is electrically stable, tarnish resistant, as well as resistant to chemical erosion and intense heat.
- Palladium is an efficient chemical catalyst and mainly used in the production of autocatalysts. Over the last few years palladium has also become more popular as a financial investment.
- The most important producers of palladium are Russia, followed by South Africa, USA and Canada. Global annual consumption of palladium amounts to roughly 210 tons.

Figure 13

Technicals: Palladium has fallen below the first trend line



Source: Datastream, Credit Suisse / IDC

Aluminum (XAL)

Outlook (6–12+ months)

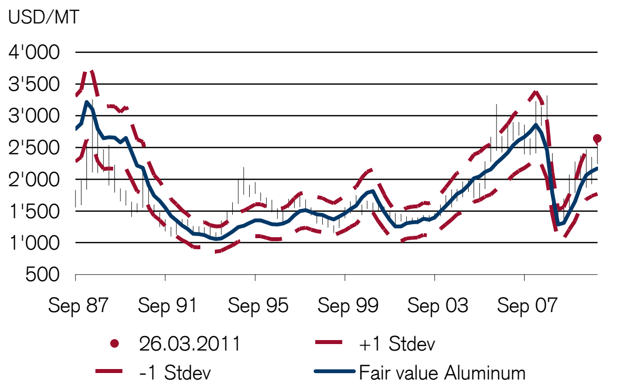
Steadily improving

Aluminum prices held up relatively well when metals markets pulled back in early March amid a dent in risk appetite. At the time of writing, prices have traded above USD 2,600 again. Geopolitical and macroeconomic risks remain at the forefront. On the one hand, demand-related concerns arising from reduced economic activity in Japan after the earthquake may cap the upside in the short-term. On the other, aluminum production exposure to the unstable MENA region (about 9% of global supply) limits the downside, in our view. In terms of supply and demand dynamics, Chinese output picked up earlier this year, as the government-imposed power restrictions were eased once again. However supply growth is unlikely to match demand growth in our view. As a result inventories should fall, providing cyclical support for prices.

Looking at our long-term valuation model for aluminum, we find that the market is only slightly expensive when accounting for current industrial production levels, inventories and opportunity costs. Technical analysis confirms the positive cyclical picture as momentum and trend indicators have remained positive despite the recent pullback. Overall we have a positive outlook for prices given strong cyclical and technical support.

Figure 14

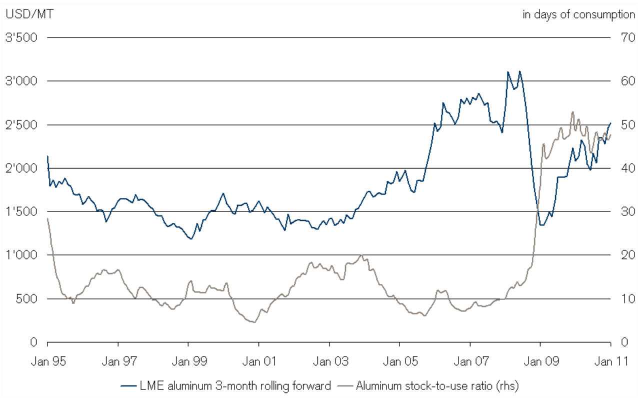
Value: Aluminum prices are just within the fairly valued band



Source: Bloomberg, Credit Suisse / IDC

Figure 15

Cycle: Aluminum inventories have peaked



Source: Bloomberg, Credit Suisse / IDC

Forecasts

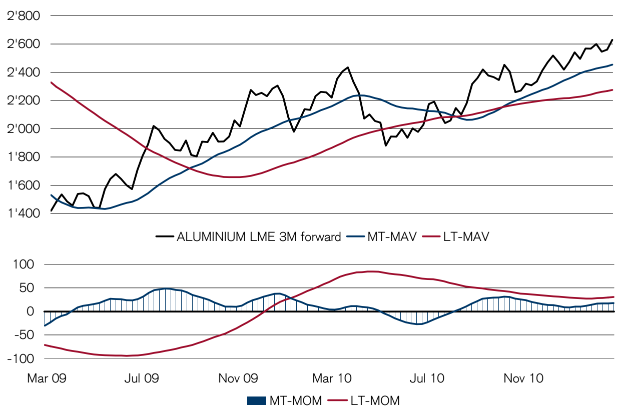
USD/MT.	29 Mar 2011	3-month forecast	12-month forecast
Aluminum	2648	2600	2650

Facts on aluminum:

- Aluminum is a very common element, yet it is a relatively new industrial metal. Since aluminum production requires large quantities of electricity the metal has only been produced for just over 100 years.
- Aluminum is lighter than other metals (one-third of copper's weight). It is malleable, ductile, easily machined, and highly corrosion resistant. It is mainly used in transportation (cars, planes, etc.), packaging (cans), consumer goods, and construction. Electrical transmission lines are other important applications.
- Aluminum is an important metal, ranking second in consumption only after iron. Global annual consumption stands at almost 40 million tons.

Figure 16

Technicals: Momentum and trend are supportive



Source: Datastream, Credit Suisse / IDC

Copper (XCU)

Outlook (6–12+ months) ↗

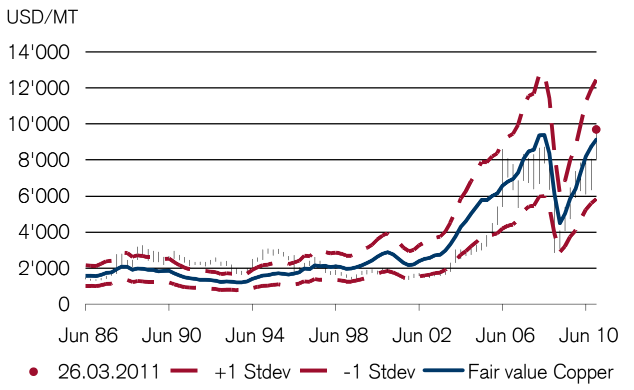
Positioning for next upleg

Copper prices pulled back from their highs around USD 10,000 into the low USD 9,000s in mid-March, when the Japanese earthquake triggered a broad-based sell-off and spurred demand fears. Japan is an important consumer of copper, accounting for 6% of world use. The outage of domestic smelting capacity may lead to temporarily reduced import demand. However, reconstruction efforts are likely to boost Japanese metal needs later on. Meanwhile, Chinese consumption has yet to pick up following lower demand in February due to the Lunar New Year period. Leading indicators such as Purchasing Managers Index (PMI) New Orders continue to suggest a favorable demand environment. The latest inventory shifts at the London Metal Exchange (LME) and Shanghai Futures Exchange (SHFE) show signs of improvement, resulting in a positive cyclical picture.

Over the 6–12+ month time horizon, we expect cyclical support for copper to strengthen further. This positive cyclical picture is supported by a positive technical trend. On the value side, we would argue that copper is not trading expensive which should make price gains easier to achieve. Given the neutral momentum reading, it might take a while before copper prices pick up again, but given strong trend and cycle our longer-term outlook is positive.

Figure 17

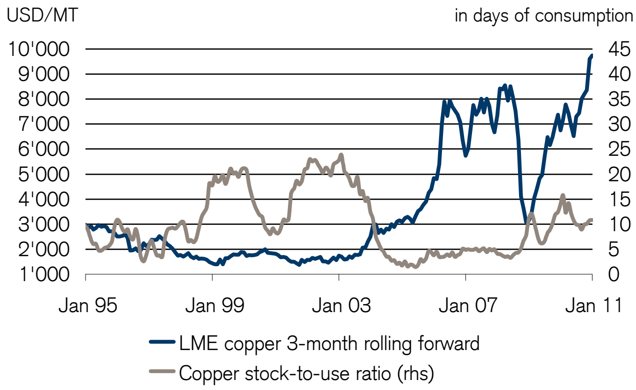
Value: Current copper prices look fairly valued



Source: Bloomberg, Credit Suisse / IDC

Figure 18

Cycle: Copper inventories show seasonal build-up



Source: Bloomberg, Credit Suisse / IDC

Forecasts

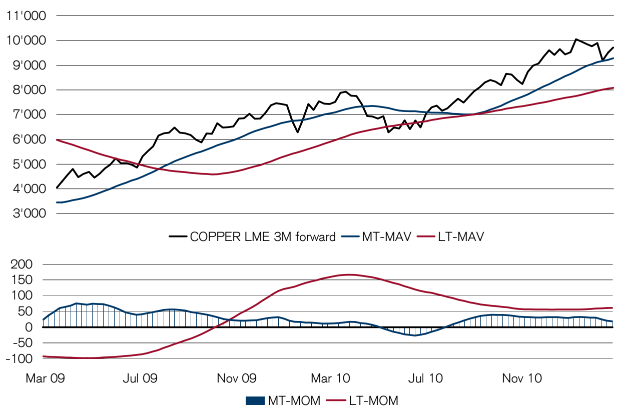
USD/MT.	29 Mar 2011	3-month forecast	12-month forecast
Copper	9585	10200	11000

Facts on copper:

- Copper is one of the oldest metals ever used. It has a metallic bronze color, is very ductile, corrosion resistant and has excellent electrical conductivity properties.
- Copper is mainly used in electrical applications such as power transmission, building wiring, telecommunications and electronic products.
- Building construction is the most important single application. Copper is one of the most important industrial metals, ranking third after iron and aluminum in consumption. In 2010, global copper consumption stood at roughly 19 million tons.

Figure 19

Technicals: Momentum has turned neutral; trend remains up



Source: Datastream, Credit Suisse / IDC

Nickel (XNI)

Outlook (6–12+ months)

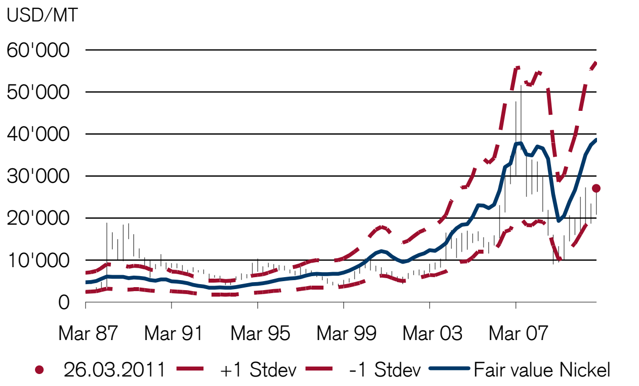
Waiting for technicals to improve

Nickel corrected sharply in mid-March, when prices dropped from above USD 29,000 to USD 25,000 before regaining some ground. Receding risk appetite and demand-related concerns due to the implications of the earthquake in Japan triggered some uncertainty. Japan accounts for about 11% of global nickel use due to its large steel industry, and hence any dent to domestic industrial production will likely be felt quite strongly. However, we think this will only have a temporary impact and reconstruction efforts are likely to boost nickel consumption over the medium term. On the supply side, renewed operation outages (Vale's Copper Cliff) and likely delays to projects may slow supply growth going forward, resulting in a positive cyclical picture.

Our fair value assessment indicates that even after the strong price gains of the past 12 months, current price levels remain below our fair value estimate reinforcing the positive cyclical view. However, prices may find it difficult to gather fresh momentum in the short term, as the latest pullback has done some damage to the technical picture. Momentum and trend readings are neutral. With a positive fundamental view and neutral technicals our overall assessment over the 6–12+ month time horizon is positive.

Figure 20

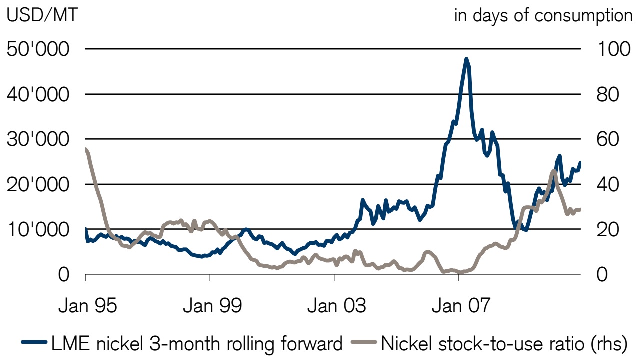
Value: No signs of overvaluation in the nickel market



Source: Bloomberg, Credit Suisse / IDC

Figure 21

Cycle: Inventory drawdown has paused but is set to resume



Source: Bloomberg, Credit Suisse / IDC

Forecasts

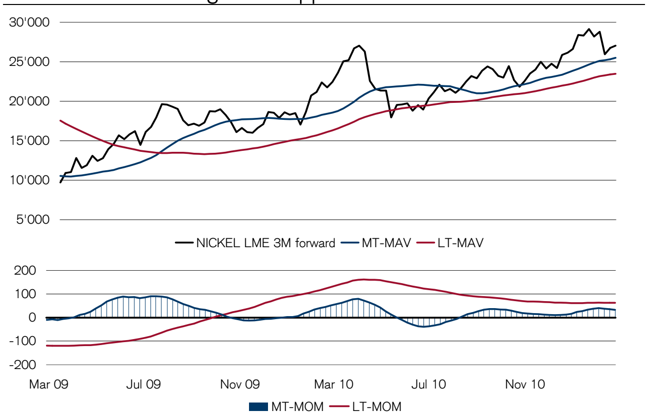
USD/MT.	29 Mar 2011	3-month forecast	12-month forecast
Nickel	26600	27000	30000

Facts on nickel:

- Nickel is a very old metal and has been used by humans for at least 2000 years. Nickel is a silvery-white metal that takes on a high polish. It is hard, ductile and magnetic.
- Today nickel is mainly used in the production of austenitic stainless steel (accounting for 65% of total use). Other uses for nickel are superalloys and nonferrous alloys, which are used in jet engines, combustion turbines and power generation stations. Nickel is also used in the production of rechargeable batteries, catalysts and coinage.
- The nickel market is rather small with global consumption amounting to roughly 1.5 million tons in 2010.

Figure 22

Technicals: Providing little support



Source: Datastream, Credit Suisse / IDC

Zinc (XZN)

Outlook (6–12+ months)

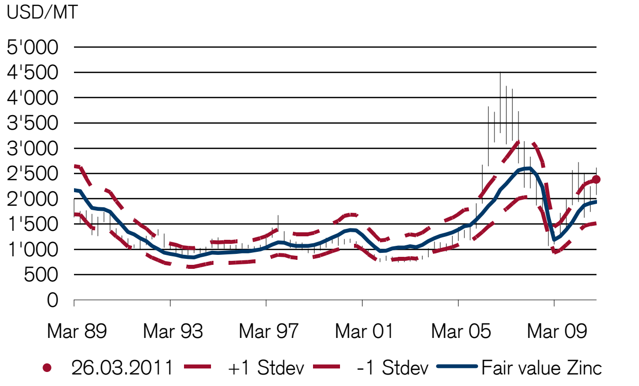
Lacking fundamental support

Zinc has remained an underperformer within the metals complex. After an unsuccessful test of the USD 2,600 resistance, prices slipped into the USD 2,300s before stabilizing. Both LME and SHFE inventories have continued to pile up, which hints at persistent oversupply. While rising global steel production bodes well for zinc demand, production continues to expand faster than consumption. Similar to lead, Chinese zinc production is seeing particularly strong year-on-year growth. Indeed, the latest figures from the International Lead and Zinc Study Group (ILZSG) show a sizeable 36 kiloton (kt) surplus in the global refined zinc market in January. In terms of the full-year outlook, reconstruction efforts in Japan may boost zinc demand in the medium term, but we still believe that the market will likely remain oversupplied.

With the market lacking strong cyclical support, the relatively rich valuation may act as an additional drag over the long term. The technical picture is also rather cautious, with both momentum and trend ratings being neutral. Overall we think risks are to the downside and forecast lower prices.

Figure 23

Value: Zinc prices are on the verge of being expensive



Source: GFMS, Credit Suisse / IDC

Figure 24

Cycle: Growing oversupply hints at downside price risks

Source: Bloomberg, Credit Suisse / IDC

Forecasts

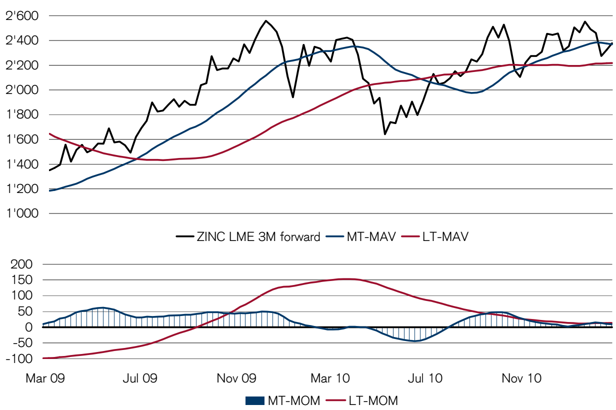
USD/MT.	29 Mar 2011	3-month forecast	12-month forecast
Zinc	2375	2400	2000

Facts on zinc:

- Zinc ores were used for making brass in China and India before it was recognized as a separate metal in Europe in the 16th Century.
- Today, zinc is mainly used to galvanize steel and other metals, accounting for roughly half of total zinc demand. Consequently, the key end use is in the construction sector. Other applications for zinc are in the automotive, electrical and machinery industries.
- Zinc is the fourth largest industrial metals market in terms of annual production volumes. Zinc is traded on the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE).

Figure 25

Technicals: No impetus, as momentum and trend are flat



Source: Datastream, Credit Suisse / IDC

Lead (XPB)

Outlook (6–12+ months)

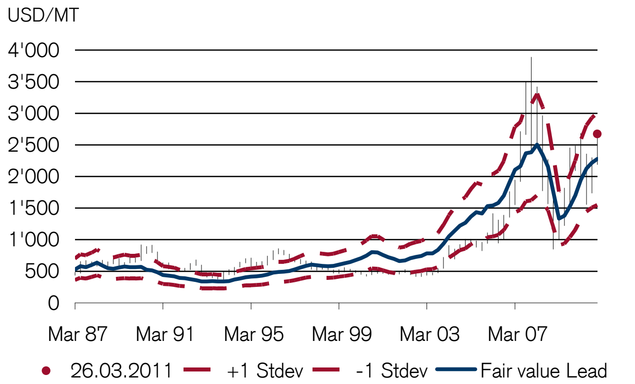
Moderate upside comes with risks

Lead prices rebounded quickly from their pullback in mid-March into the low USD 2,400s. At the time of writing, prices were attempting to cross the USD 2,700 mark. Since our last update, the inventory situation has offered signs of improvement, with moderate outflows and increasing cancelled warrants. The latest demand indications have also remained supportive. For instance, US battery shipments and Chinese apparent consumption are growing at robust year-on-year rates. However, supply growth is keeping up. In particular, Chinese mine and refined output is growing rapidly. Low treatment charges, i.e. costs for refining mine concentrate, provide additional evidence of abundant supply. On balance, the market will probably tighten this year. The cyclical picture is positive.

Supporting the positive cyclical view, our fair value estimates suggest that current price levels do not look excessive when relating them to current demand, inventories and interest rates. The positive outlook is completed by supportive technicals - with both momentum and trend being positive. We think the market is likely to break the USD 2,700- level to the upside.

Figure 26

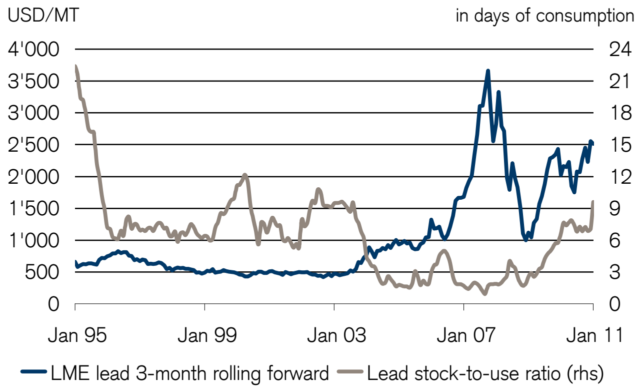
Value: Price levels do not look excessive



Source: Bloomberg, Credit Suisse / IDC

Figure 27

Cycle: Moderately positive cyclical support



Source: Bloomberg, Credit Suisse / IDC

Forecasts

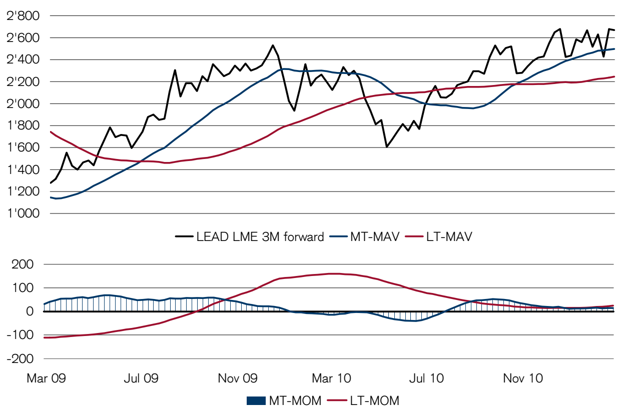
USD/MT.	29 Mar 2011	3-month forecast	12-month forecast
Lead	2687	2800	3000

Facts on lead:

- Lead is a very old metal and has been used by humans for at least 5000 years. Initially lead was used as a building material and for transporting water. With the industrial revolution the use of lead has changed dramatically. Today the most important use for lead is in batteries.
- Lead is a dense, very corrosion-resistant, ductile and malleable blue-gray metal. It is a potent neurotoxin that accumulates in soft tissues and bone over time. As a result, the use of lead outside of batteries is today rather limited, and there is legislation regulating the use of lead.
- The lead market is rather small. Global lead consumption stood at roughly 9.2 million tons in 2010.

Figure 28

Technicals: Supportive technical picture



Source: Datastream, Credit Suisse / IDC

Tin (XSN)

Outlook (6–12+ months)

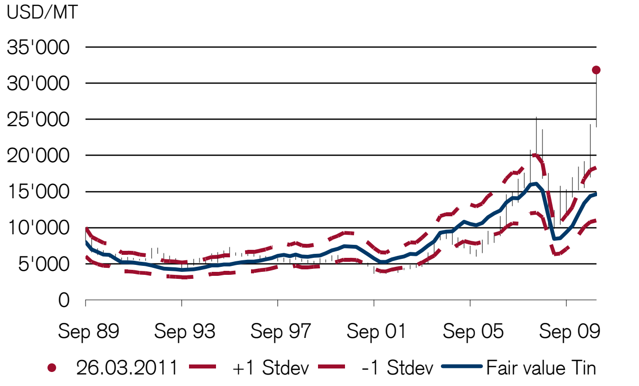
Looking expensive

From very lofty highs at USD 32,500, tin corrected by more than USD 4,000 in mid-March before regaining some lost ground. At the time of writing, prices have just climbed above USD 30,000 again. Alongside growing demand in China, the world's largest tin consuming economy, domestic production there has been ramped up further. As a consequence, China's import needs have been falling recently. At the same time, Indonesian exports have continued to struggle, as domestic mining is sensitive to weather conditions. In this context, major miners have lowered their output guidance for the first quarter. However, reduced Indonesian supply has not led to a significant tightening of the global market balance, since exchange inventories have continued to pile up. The cyclical picture is thus neutral.

Valuation also suggests that some caution is warranted. After roughly doubling since 2010, tin prices have overshot our fair value estimate quite significantly. Hence if cyclical support starts to fade further, correction risks should increase as well. Nevertheless, technical trend indicators suggest that the correction would need to be significant for the market to lose its technical support. Consolidating value, cycle and technical indicators, we take a negative stance on tin, mainly due to its strong overvaluation.

Figure 29

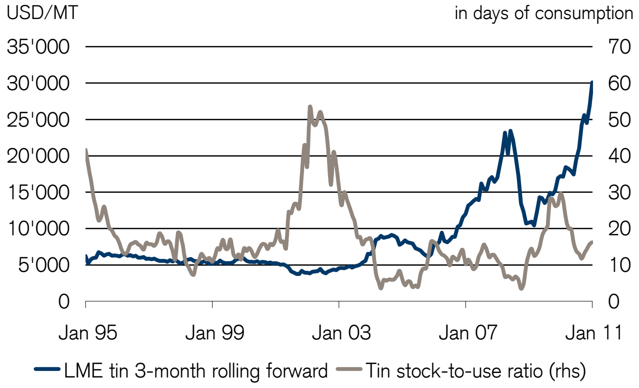
Value: Tin prices are out of line with fundamentals



Source: Bloomberg, Credit Suisse / IDC

Figure 30

Cycle: Inventory developments hint at softening demand



Source: Bloomberg, Credit Suisse / IDC

Forecasts

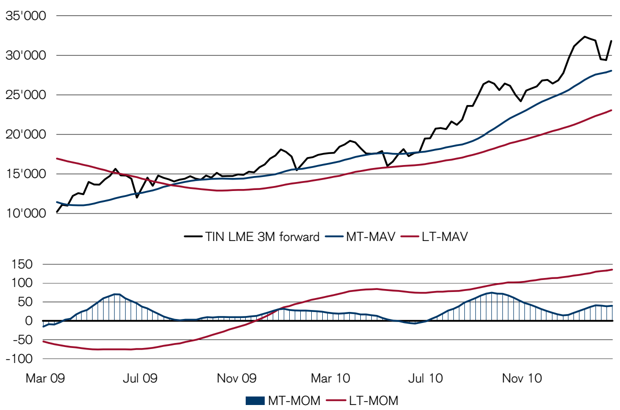
USD/MT.	29 Mar 2011	3-month forecast	12-month forecast
Tin	31560	29000	26000

Facts on tin:

- Tin is a metallic element that is soft, pliable, silvery-white and lustrous grey. It was found in bronze tools as early as 3,500 BC due to its hardening effect on copper.
- Tin is used in tinplating and soldering for electrical applications. Additional end-use applications for tin include glass manufacturing, chemicals, cans and containers, construction and transportation.
- The benchmark contract for tin is traded at the LME and is quoted in USD per metric ton. In the industrial metals complex, tin is by far the smallest market, accounting for a low single-digit share of total LME turnover.

Figure 31

Technicals: Trend continues to provide support



Source: Datastream, Credit Suisse / IDC

Crude oil

Outlook (6–12+ months)

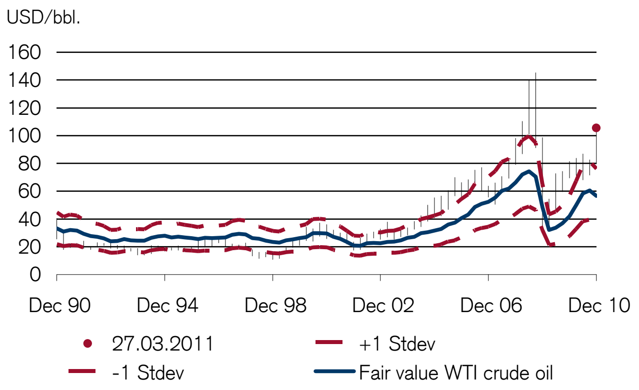
Dominated by geopolitics but fundamentally expensive

Oil prices recovered quickly from the pullback triggered by the earthquake in Japan. WTI crude oil prices have regained USD 105 and Brent continues to trade at an unusual USD 10 premium to WTI. Market sentiment remains dominated by developments in the MENA region. Military interventions by allied forces in Libya are likely to keep Libyan barrels away from global oil markets for some time yet. However, we stress that global oil supplies have remained adequate, with Saudi Arabia compensating for current disruptions. Inventories across Organisation for Economic Co-operation and Development (OECD) economies are above average, and total Organisation of Petroleum Exporting Countries (OPEC) spare production capacity is estimated at around 5 million barrels per day (mbd). Our base-case scenario suggests that the global oil supply will remain sufficient to meet demand needs. Thus from a purely fundamental perspective, we think current oil prices are too expensive. However, persistent geopolitical unrest is likely to keep the risk premium elevated for now.

Our fair value estimate, which hints at richly valued oil prices, supports our cautious cyclical view. However, a deep correction seems unlikely to occur in the near-term, since both technical momentum and trend indicators are backing current price strength. Overall, we think downside risks prevail over the long-term and forecast lower prices.

Figure 32

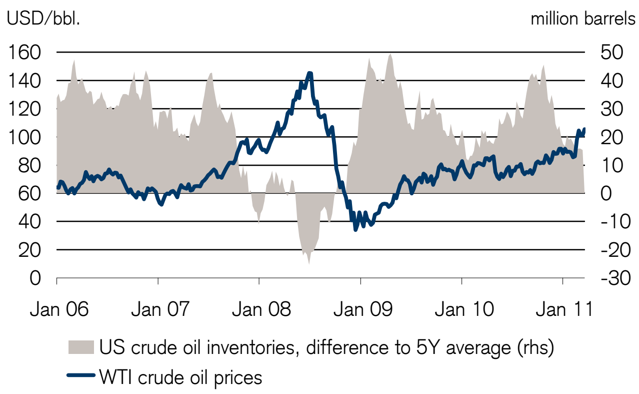
Value: Oil prices look richly valued



Source: Bloomberg, Credit Suisse / IDC

Figure 33

Cycle: US oil inventories have been drawn down but remain above average



Source: Bloomberg, Credit Suisse / IDC

Forecasts

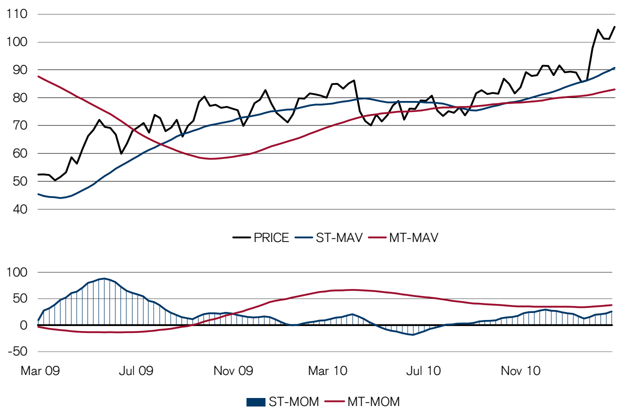
USD/bbl.	29 Mar 2011	3-month forecast	12-month forecast
WTI	104.79	100	90
Brent	115.12	106	92

Facts on WTI:

- West Texas Intermediate (WTI) crude oil is traded at the New York Mercantile Exchange (NYMEX). North Sea oil Brent is traded at the Intercontinental Exchange (ICE).
- WTI is physically delivered in Cushing, Oklahoma, which is a major crude oil marketing hub in the USA. Brent is settled based on Exchange of Futures for Physical (EFP). It has thus no specified delivery location. For Brent, cash settlement is also possible.
- Crude oil is generally used in transportation, power generation, heating or to produce other chemicals.

Figure 34

Technicals: WTI is enjoying robust technical support



Source: Datastream, Credit Suisse / IDC

US natural gas

Outlook (6–12+ months) ↗

Further room to go

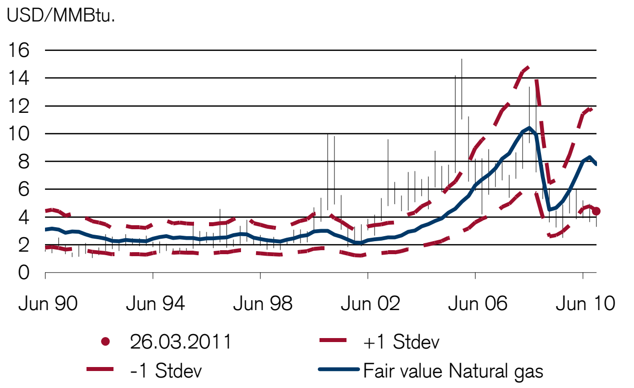
Natural gas prices have staged a strong rebound since the beginning of March from USD 3.80 to above USD 4.20. We think the recent price increase reflects the below-average storage situation in the USA, which was favored by colder-than-normal temperatures earlier in the year. Going forward, growing industrial activity in the USA should bode well for gas consumption. The cyclical picture is positive.

Outside of the USA, the nuclear crisis in Japan is expected to fuel global liquid natural gas (LNG) demand over the medium term, but US gas could be less impacted by international demand shifts, since the North American gas market is largely self-sufficient. Rising unconventional gas exploration in the USA is likely to reduce additional LNG import needs.

Similar to our positive cyclical assessment, current gas prices look attractive from a valuation perspective. Hence, we see further upside for US natural gas prices, particularly over the longer term. In the short term, a more solid base above USD 4 needs to be established for technical indicators to become additionally supportive.

Figure 35

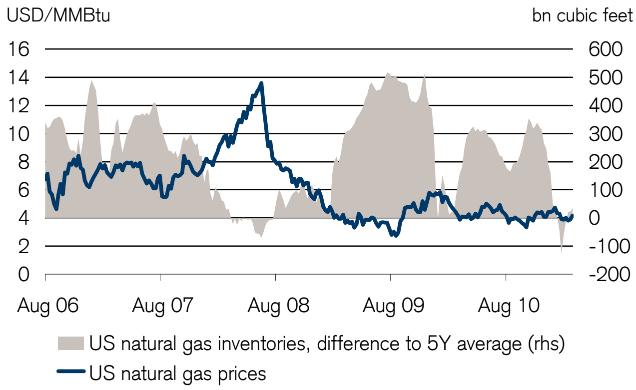
Value: Current gas prices look undervalued



Source: Bloomberg, Credit Suisse / IDC

Figure 36

Cycle: US gas inventories are below average



Source: Bloomberg, Credit Suisse / IDC

Forecasts

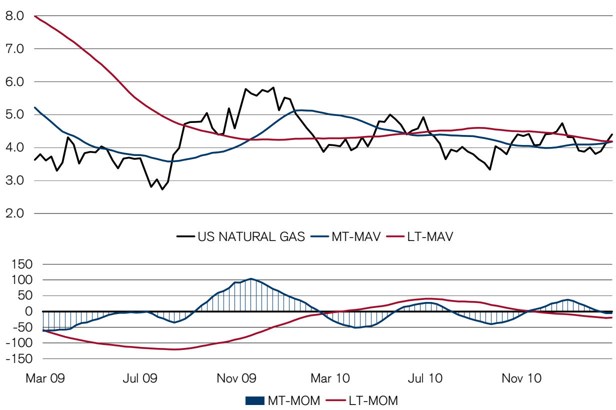
USD/mmbtu	29 Mar 2011	3-month forecast	12-month forecast
US natural gas	4.24	4.25	5.25

Facts on US natural gas:

- US natural gas futures are traded on the NYMEX in units of 10,000 million British thermal units (mmbtu). The price is based on delivery at the Henry Hub in Louisiana.
- Natural gas is a fossil fuel consisting of a mixture of hydrocarbons. Burning gas produces about 30% less carbon dioxide than petroleum and 45% less than coal.
- Gas is classified according to is hydrogen sulphide content and is extracted from conventional and unconventional sources (e.g. shale gas). Gas can be condensed to a liquid to be transported and stored.
- Sectors using natural gas: Electricity industrial (27%), residential (21%), commercial (14%), and others (38%). End uses include heating, cooling, cooking, fertilizers, paints, household and medical appliances.

Figure 37

Technicals: Have yet to improve



Source: Datastream, Credit Suisse / IDC

Corn

Outlook (6–12+ months)

Production is likely to increase, but corn market should remain tight

Corn trading has been volatile in March. Prices tumbled from above US 720 cents to US 620 cents but shortly after rebounded to around US 680 cents per bushel.

For now, the sector is eagerly awaiting the release of the US Prospective Plantings survey on 31 March by the US Department of Agriculture (USDA). The report will provide the first official estimates of the acreage distribution of spring plantings in the USA, and will allow early approximations of 2011/2012 US corn production. Earlier, the USDA released a preview of its forecasts. It estimated that US corn acreage would increase significantly this year and that 2011/2012 US corn production could reach 349 million metric tons (MMT). Based on this number however, the US corn market is looking at another tightly supplied marketing year (MY) which is creating cyclical support.

While the cyclical outlook is constructive, the heavy overvaluation of corn prices is a concern. Given current inventory levels, the sector is trading far above our fair value estimate. The technical picture has also deteriorated recently, though the long-term trend rating remains positive.

Over the short term (1–6 months), we expect corn prices to rise further, but due to the high overvaluation, our long-term view (6–12+ months) is neutral.

Forecasts

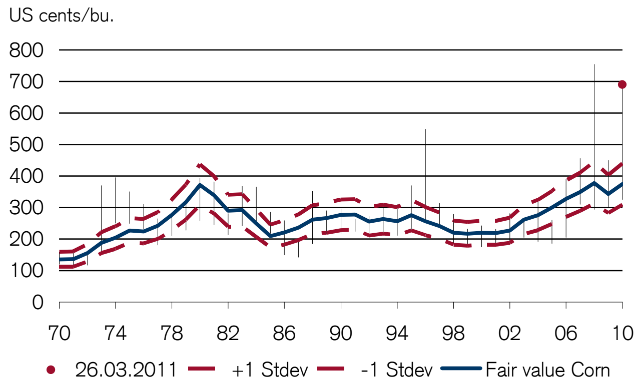
US cents/bushel	29 Mar 2011	3-month forecast	12-month forecast
Corn	671.75	700	675

Facts on corn:

- Corn is also known as maize and is the most widely grown crop in the Americas. It is part of the coarse grain family, which also includes barley, sorghum, oats and rye.
- Corn is the world's largest cereal crop measured by global production levels. Corn is used for human and livestock consumption, and the production of biofuels, mainly ethanol.
- The two most important commodity exchanges for corn futures are the Chicago Board of Trade (CBOT) and the Dalian Commodity Exchange (DCE). The CBOT contract size is 5,000 bushels while it is 400 bushels at the DCE.

Figure 38

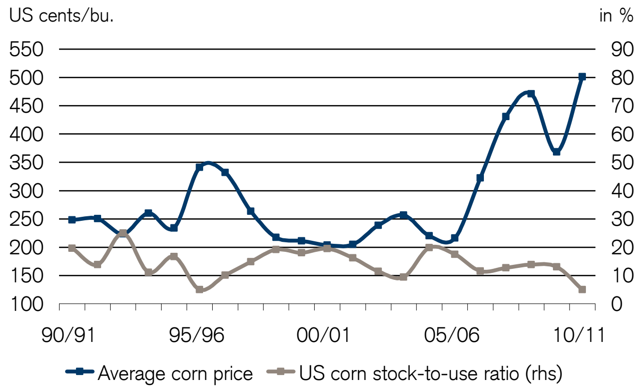
Value: Corn is currently trading at expensive levels



Source: Bloomberg, Credit Suisse / IDC

Figure 39

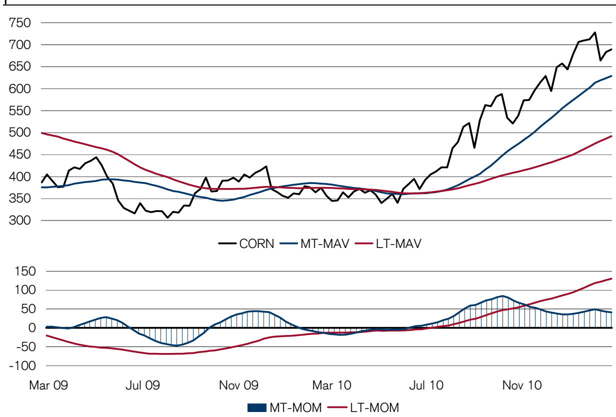
Cycle: Low inventories are positive for the sector



Source: USDA, Bloomberg, Credit Suisse / IDC

Figure 40

Technicals: Momentum is flat while the long-term trend is positive



Source: Datastream, Credit Suisse / IDC

Wheat

Outlook (6–12+ months)

Set to move higher if technicals improve

Wheat prices have corrected sharply in March, dropping from above US 800 cents to around US 740 cents.

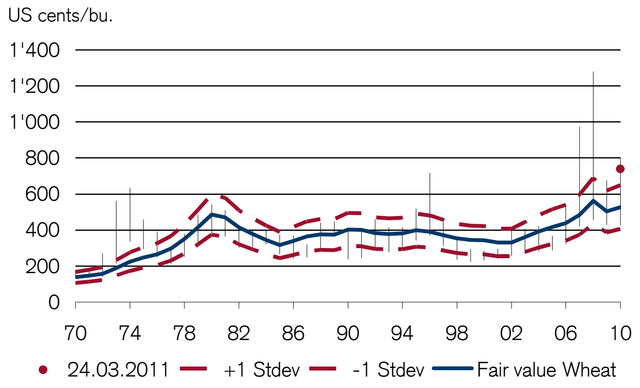
Similar to other agricultural markets, the US Prospective Plantings survey due on 31 March is the next key event for the sector. The better profitability of corn or cotton compared to wheat, as well as the still-ample inventories in the USA and globally, are likely to limit the incentive for US farmers to plant more wheat this year. Consequently the 2011/2012 US wheat supply should remain fairly stable. On the demand side, however, countries such China or Russia are likely to import more wheat to replenish their strategic wheat reserves, which were sold to offset 2010's domestic supply disruptions. On balance, we expect the market to tighten this year.

Yet, despite the sector's positive cyclical support, wheat's relatively rich valuation weighs on its long-term outlook. In the short term, the latest pullback has damaged the technical picture, and prices are lacking momentum.

For now, we expect wheat prices to continue trading in recent ranges. Improvements on the technical side would, however, brighten our tactical and strategic view.

Figure 41

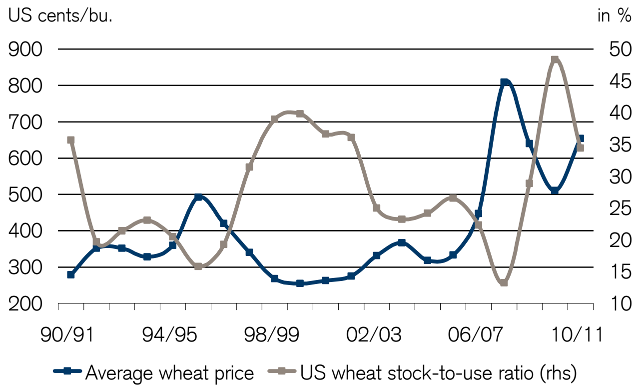
Value: Wheat prices are relatively overvalued



Source: Bloomberg, Credit Suisse / IDC

Figure 42

Cycle: US stock-to-use should continue to move downward



Source: USDA, Credit Suisse / IDC

Forecasts

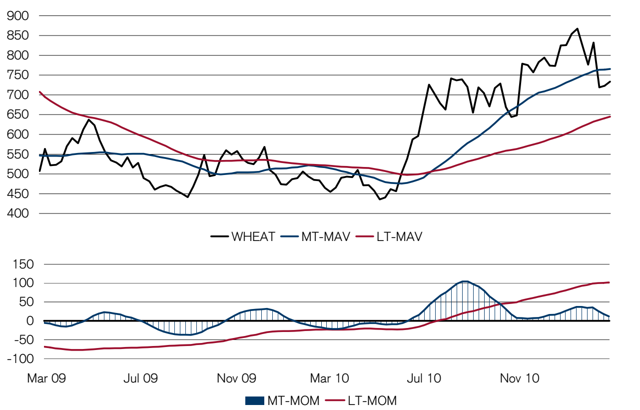
US cents/bushel	29 Mar 2011	3-month forecast	12-month forecast
Wheat	737.25	750	775

Facts on wheat:

- Wheat is a principal food grain and classified according to season, gluten content and color. The five major wheat classes are hard red winter, hard red spring, soft red winter, white wheat and durum wheat.
- Wheat flour is used to make bread, pasta, and cakes, while wheat is also used for fermentation to make alcohol.
- The main exchanges are the CBOT, the Kansas City Board of Trade (KCBT), the Minneapolis Grain Exchange (MGE) and the Zhengzhou Commodity Exchange (ZCE) in China. Prices are quoted in US cents per bushel.

Figure 43

Technicals: Little support



Source: Datastream, Credit Suisse / IDC

Soy

Outlook (6–12+ months)

Further upside

The soybean market has continued to sell off in March, with prices now trading close to the US 1350 cent mark. Market participants are eyeing the release of the USDA's Prospective Plantings survey on 31 March.

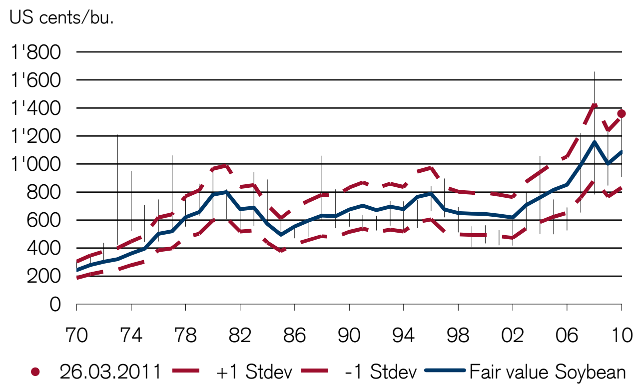
As with wheat, we expect US soybean-planted area and production to remain broadly unchanged. Early USDA estimates point to levels similar to those of the previous marketing year. On the demand side, China – the world's largest soybean consumer – is likely to remain heavily reliant on foreign soy. The USDA expects Chinese soybean imports to increase by about 5.5% in the 2011/2012 MY. Overall, our cyclical assessment on the sector remains very positive.

From a valuation perspective, soybean is only slightly expensive. Due to the recent pullback, the technical picture deteriorated somewhat but has already started to show some signs of improvement.

Given the strong cyclical support, still-reasonable valuations, and improving technicals, we expect the soybean market to remain in an uptrend. Our new soybean price forecasts suggest further upside.

Figure 44

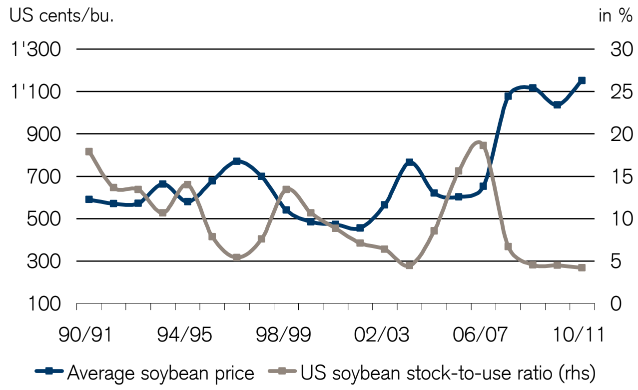
Value: Valuations are still reasonable



Source: Bloomberg, Credit Suisse / IDC

Figure 45

Cycle: Inventory prospects point to further price upside



Source: USDA, Credit Suisse / IDC

Forecasts

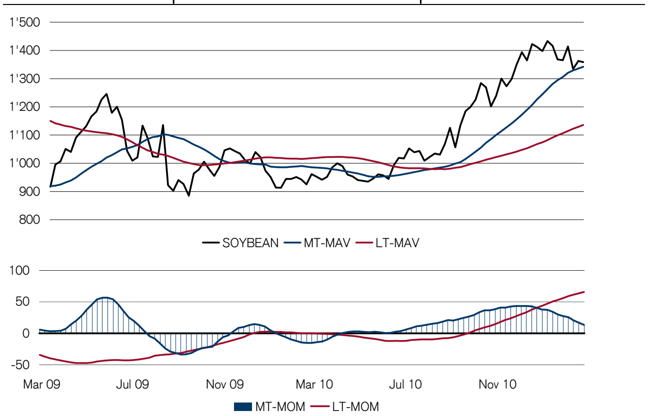
US cents/bushel	29 Mar 2011	3-month forecast	12-month forecast
Soy	1361.50	1450	1500

Facts on soy:

- Soybeans are part of the larger oilseed sector, which includes rapeseed, sunflower seed, canola and peanuts, originating from China, Japan and Korea.
- Processed soybeans are the world's largest source of protein feed and the second largest source of vegetable oil globally. Soy meal is also used as animal feed, while soy milk is used in dairy substitute products. Its industrial uses are soap, solvents, cosmetics, inks, crayons, resins, plastics and bio-diesel.
- The DCE is the largest exchange for soy in terms of volume, followed by the CBOT and the Tokyo Grain Exchange (TGE). Prices are quoted in US cents per bushel.

Figure 46

Technicals: The picture has started to improve



Source: Datastream, Credit Suisse / IDC

Sugar

Outlook (6–12+ months)

Range trading now, lower prices later

As we anticipated, there has been strong volatility in the sugar market in March. Prices dropped from their familiar US 30–33-cent price range to about US 25 cent, before regaining the US 27 cent mark. The market has been dominated by the news of India's approval of 500 kt of sugar exports as well as investor expectations for the size of actual Indian sugar production and the upcoming Brazilian supply response. For now, record low levels of inventories are keeping the sugar market tight, providing some support at current levels. Yet later on, when Brazilian sugarcane production starts entering the market, prices should start moving downward. Our cyclical assessment therefore is negative.

From a valuation point of view, sugar prices are trading slightly above fair value but remain within an acceptable range. The recent price pullback has, however, damaged the technical picture. Our medium-term momentum indicator is currently negative, while our long-term trend indicator is neutral.

Our overall assessment of the sector points to a price softening on a tactical and strategic time horizon. Sugar should hold above US 26 cents in the near term, but prices are likely to moderate as soon as the Brazilian harvest is in full swing.

Forecasts

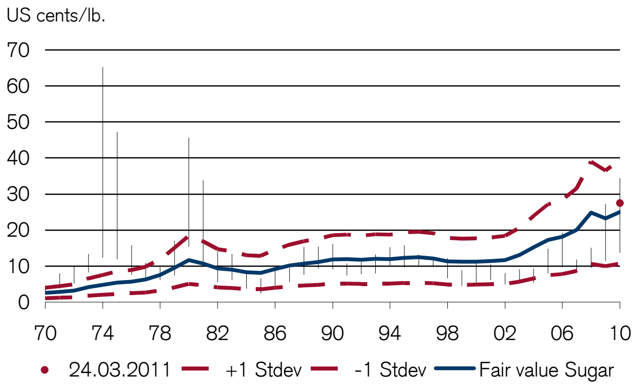
US cents/lb.	29 Mar 2011	3-month forecast	12-month forecast
Sugar	27.02	26	23

Facts on sugar:

- Historically, sugar cane originates from South East Asia, with India the first country to process it. Sugar is made from sugar cane and sugar beets. The former is grown in regions with warm climates, while the latter is typically produced in colder climates.
- Sugar cane is the largest source of processed sugar, accounting for 80% of total sugar output. Besides its use as a sweetener, sugar accounts for roughly 50% of world ethanol production. Producing ethanol from sugar cane is more efficient than from grains.
- Sugar futures are traded at the New York Board of Trade (NYBOT). The most actively traded contract is the futures No. 11 world sugar contract. Prices are quoted in US cents per pound.

Figure 47

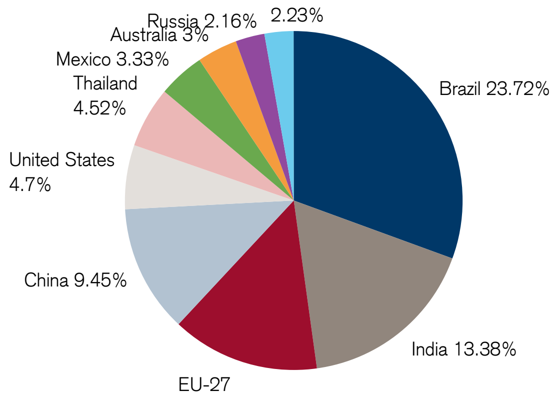
Value: Sugar price are close to fair value



Source: Bloomberg, Credit Suisse / IDC

Figure 48

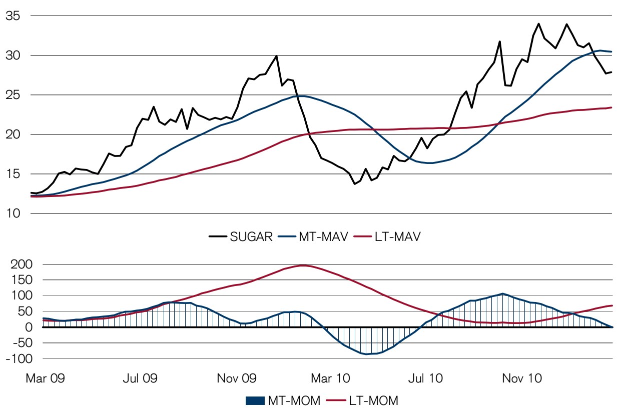
Cycle: Supply response from Brazil will be a major risk



Source: USDA, Credit Suisse / IDC

Figure 49

Technicals: The technical picture has deteriorated



Source: Datastream, Credit Suisse / IDC

Cotton (CT)

Outlook (6–12+ months)

Prices should moderate from here

Cotton prices were volatile in March. After reaching new all-time highs, prices pulled back and then rebounded to establish themselves slightly above the US 190 cents mark.

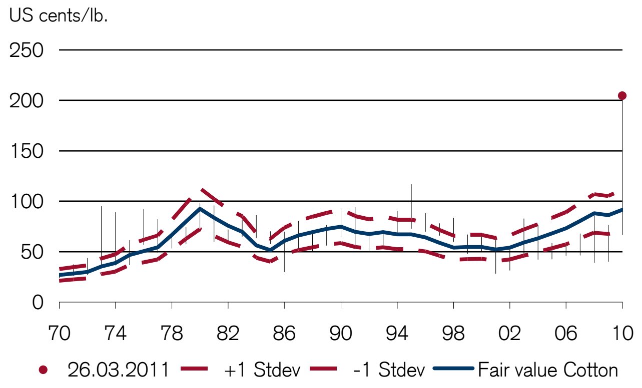
Following last year's impressive returns, we think an increase in cotton production in the USA and globally is likely. Current attractive prices should incentivize farmers to plant more cotton in the upcoming marketing year. In this context, the US Prospective Planting survey, to be released on 31 March, is expected to be of particular importance for the sector. The USDA has already forecasted an 18% increase in US cotton-planted area for 2011/2012. We think this is a fairly realistic view. Based on this scenario, the USDA has also estimated an increase in the US cotton stocks-to-use ratio from 9.8% to 15.7%. As stocks-to-use ratios and prices are negatively correlated, the price risk is to the downside.

The extreme overvaluation of the market is another worrying factor. According to our fair value model, cotton is the most overvalued commodity market under our coverage. The technical picture remains fairly supportive, however.

Combining value, cycle and technical factors, we think prices on a tactical and strategic time horizon will likely moderate from current levels.

Figure 50

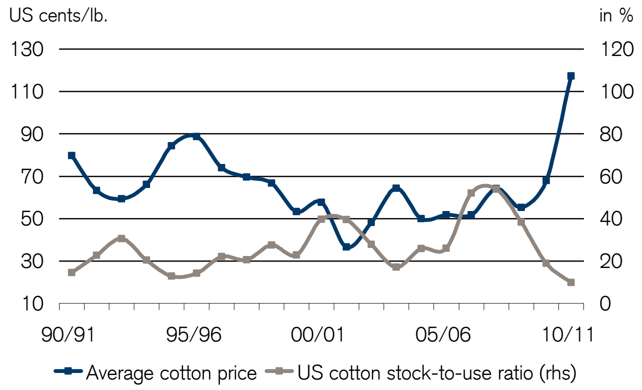
Value: Cotton is among the most expensive markets currently



Source: Bloomberg, Credit Suisse / IDC

Figure 51

Cycle: An increase in production is likely to be negative



Source: USDA, Credit Suisse

Forecasts

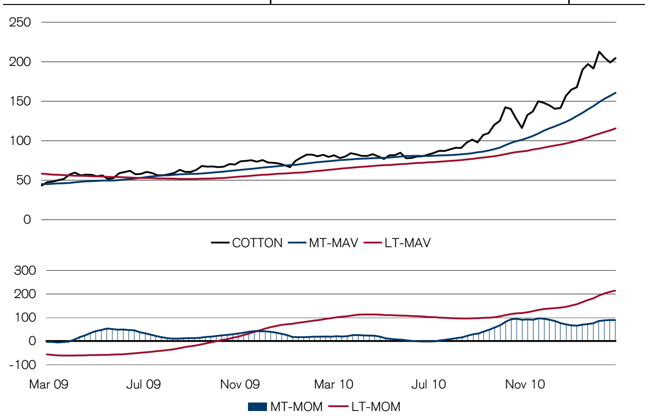
US cents/lb.	29 Mar 2011	3-month forecast	12-month forecast
Cotton	194.88	175	150

Facts on cotton:

- Cotton is the most important textile fiber today, accounting for roughly 40% of world fiber production. China is the largest consumer and importer due to its large textile industry.
- Cotton is classified according to the grade, staple – which refers to fiber length – and character of each bale. The fibers are used to produce textiles, furnishings and in industrial applications.
- Cotton futures and options are traded at the NYBOT and the ZCE. The benchmark contract is the NYBOT cotton No. 2 contract specifying delivery of approx. 100 bales of cotton (50,000 lb. net weight). Prices are quoted in US cents.

Figure 52

Technicals: The technical picture remains nevertheless positive



Source: Datastream, Credit Suisse / IDC

Coffee C (KC)

Outlook (6–12+ months)

Coffee market balance should remain tight

Coffee prices pulled back in March from levels close to US 300 cents to the mid-US 200 cents.

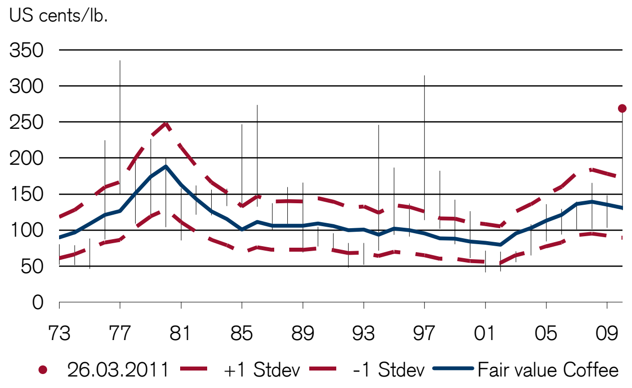
From a cyclical perspective, the outlook for the sector remains favorable. After three consecutive years of deficit, the International Coffee Organization (ICO) expects the global coffee market balance to end the 2010/2011 MY in a mild surplus. However, coffee's availability on international markets remains limited, as suggested by the low inventory levels at IntercontinentalExchange (ICE) coffee warehouses. Global coffee inventories in both producer and consumer countries have been declining for the past decade and should keep the market tightly supplied.

Looking at valuation, coffee, similar to cotton, is among the most expensive commodity markets. Positive technical indicators mitigate the risk of a sharp correction in the short term, but the rich valuation limits price upside over the longer term despite the positive cyclical picture.

On a tactical investment horizon, we think coffee prices could move higher, given the positive technical picture and cyclical support. In the longer term, however, overvaluation remains a concern and should limit the upside.

Figure 53

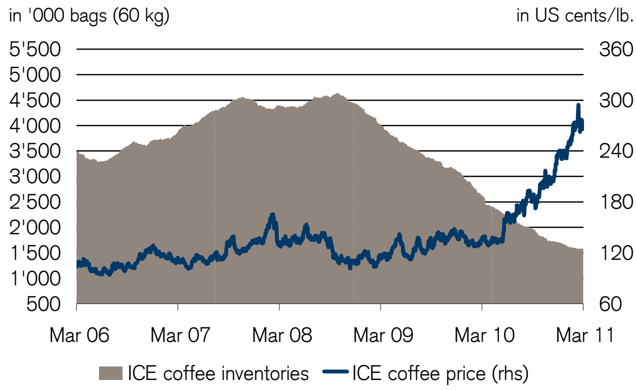
Value: Prices are very expensive



Source: Bloomberg, Credit Suisse / IDC

Figure 54

Cycle: Coffee's availability remains limited



Source: Bloomberg, Credit Suisse / IDC

Forecasts

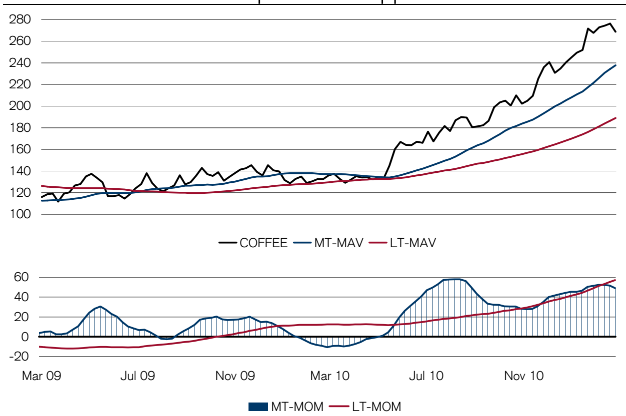
US cents/lb.	29 Mar 2011	3-month forecast	12-month forecast
Coffee	261.45	290	270

Facts on coffee:

- Coffee originates from Ethiopia and was discovered more than 2,000 years ago. Arabica and Robusta are the two main types of beans, with Arabica accounting for about 60% of world production. Arabica trades at a quality-based premium.
- Brazil and Vietnam are the most important coffee producers, while the USA and the euro zone are the largest consumers.
- Coffee is traded at the NYBOT, TGE, EURONEXT and at the Brazilian Mercantile & Futures Exchange (BM&F). The ICE-NYBOT 'C' contract specifies the delivery of 37,500 pounds of Arabica coffee. The equivalent Robusta contract has the same specifications.

Figure 55

Technical: The technical picture is supportive



Source: Datastream, Credit Suisse / IDC

Cocoa (CC)

Outlook (6–12+ months)

The evolution of the political situation will likely be key

Cocoa markets continue to react mainly to the political dispute surrounding the presidential election in Ivory Coast – the world's largest cocoa supplier. Beginning in January, President claimant Alassane Ouattara's call for a ban on cocoa exports combined with European Union (EU) restrictions on shipping activities at Ivorian ports lifted cocoa prices above USD 3700. In March, however, a potential normalization of the Ivorian export flow following incumbent President Laurent Gbagbo's decision to nationalize the country's cocoa industry caused prices to drop to about USD 3200. Given the current unpredictability of the political situation in Ivory Coast, the cyclical situation in the cocoa market is hard to assess. In terms of fundamentals, the latest figures from the International Cocoa Organization (ICCO) show that the global cocoa market should end the current marketing year with a sizable surplus of 119 k metric tons. Combining the comfortable supply situation with political uncertainty, our cyclical assessment is neutral.

From a valuation perspective, the cocoa market is expensive for the third consecutive year. Following the recent price pullback, technical analysis has also become more cautious.

With a neutral cyclical situation, overvaluation and cautious technical indicators, we think the overall outlook for cocoa looks fairly weak. We forecast lower prices on a tactical and strategic investment horizon.

Forecasts

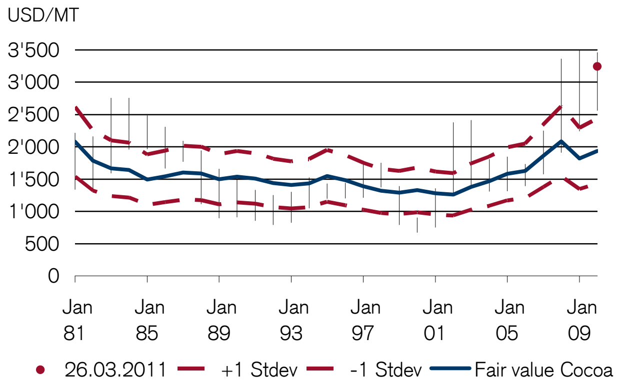
USD/MT.	29 Mar 2011	3-month forecast	12-month forecast
Cocoa	3057	3200	3000

Facts on cocoa:

- Cocoa is derived from fruit (pods) which grow on the cacao tree. Each pod holds about 30 to 40 cocoa beans, with 400 beans needed to produce one pound of chocolate. The preferred conditions for cacao trees are a tropical and humid climate. Hence, cocoa is typically grown around the equator.
- The main harvesting season starts in September and lasts a few months, but fruits ripen throughout the year. Cocoa beans are fermented and sundried before being roasted for further use.
- The benchmark contract is traded at the NYBOT and specifies the physical delivery of 10 metric tons (mt), quoted in USD/mt. EURONEXT/LIFFE also offers cocoa contracts.

Figure 56

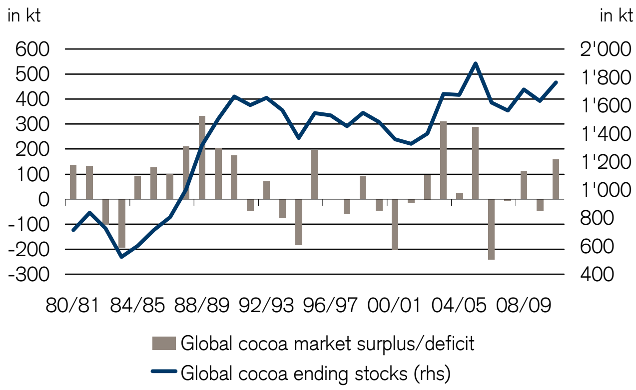
Value: Prices are richly valued for the third consecutive year



Source: Bloomberg, Credit Suisse / IDC

Figure 57

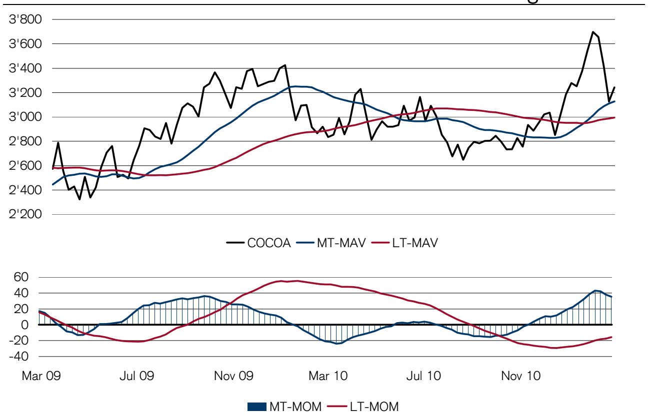
Cycle: After last year's deficit, the supply outlook is improving



Source: ICCO, Bloomberg, Credit Suisse / IDC

Figure 58

Technicals: Medium-term momentum is decelerating



Source: Datastream, Credit Suisse / IDC

Imprint

Commodities Research
Tobias Merath, CFA, Director
Head of Commodity Research
Tel. +41 44 333 13 62
E-mail: tobias.merath@credit-suisse.com

Stefan Graber
Commodity Analyst, Assistant Vice President
Tel. +41 44 333 54 43
E-mail: stefan.graber@credit-suisse.com

Karim Cherif
Commodity Analyst
Tel. +41 44 334 56 39
E-mail: karim.cherif@credit-suisse.com

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Credit Suisse
Research & Publications
P.O. Box 300
CH – 8070 Zurich

E-mail
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Abb.	**Description**	**Abb.**	**Description**	**Abb.**	**Description**
CAGR	Compound annual growth rate	EPS	Earnings per share	P/B	Price-to-book value
CFO	Cash from operations	EV	Enterprise value	P/E	Price-earnings ratio
CFROI	Cash flow return on investment	FCF	Free cash flow	PEG	P/E ratio divided by growth in EPS
DCF	Discounted cash flow	FFO	Funds from operations	ROE	Return on equity
EBITDA	Earnings before interest, taxes, depreciation and amortization	IBD	Interest-bearing debt	ROIC	Return on invested capital

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