



Weekly Market Views

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16th May 2010

Welcome to the Weekly Market Views report from DGCX, providing you with a snapshot of what's happening in the energy, precious metal and currency futures markets.

Please note that the observations and views expressed in this newsletter do not reflect the views of DGCX and are solely the view of the writer (CPM Group).

Commodities Overview

Financial markets woke up last week to a major effort by central banks around the world to stanch market concerns about European sovereign debt. European central bankers had agreed to buy government bonds from anyone who was concerned about holding them. The European central banks joined with the U.S. Federal Reserve to re-establish swap arrangements, which in essence will allow the European banks to swap their European sovereign debt assets for U.S. dollars, providing the liquidity needed in Europe. These moves do not represent a solution to the problem, but they demonstrate the extent to which major industrialized nations' governments are ready to try to calm markets through interventions. Just as similar efforts calmed markets in the middle of October 2008, allowing time for the debt crises of that time to be worked on in a more thoughtful way. Last week's efforts were not able to allay concerns toward European sovereign debt problems, however. Commodity and equity markets initially surged on news of the actions, although declined at the end of the week. As markets continue to digest what these recent actions will translate into, commodities prices should remain volatile.

Currencies Overview

Global currency markets are expected to remain volatile this week. European governments have not been able to persuade investors that sovereign debt problems have been adequately addressed. Demand for European currencies may remain low over the short term until there is firmer indication that financial and economic conditions are improving. The euro zone posted a 0.4% year-on-year gross domestic product increase in the first quarter of this year while the United Kingdom expanded at a 0.2% rate. That said, investor sentiment over recent actions from developed economy governments may continue to shift. While the recent European government bond buying program may eventually calm investors' concerns over sovereign debt problems in the near term, many nations in Europe will have to address their fiscal imbalances in the longer term. These fiscal problems are expected to take longer to address and they will likely not be resolved quickly. Recently proposed austerity plans already are facing heavy resistance in Greece, Spain, and Portugal. Developing market currencies meanwhile may be supported as economic growth in these regions is expected to remain strong.

CRB Commodities Index

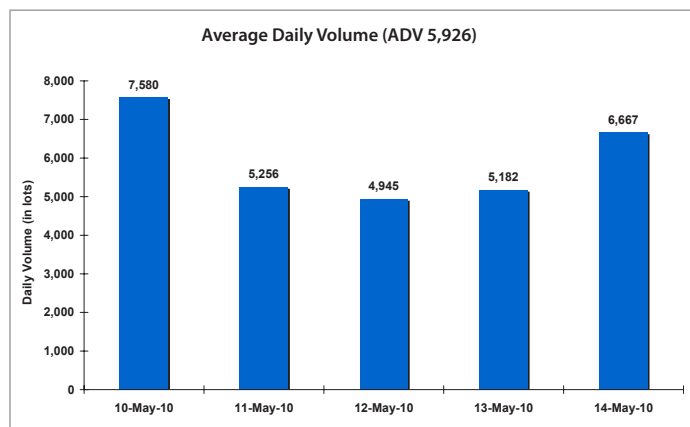


U.S. Dollar Index



DGCX Prices & Daily Volumes

Market (as at May 14, 2010)	Current Week close	Current Week close	% Change	Weekly High	Weekly Low
Gold futures (\$/ounce)	\$ 1234.20	▲	1.94%	\$ 1249.30	\$ 1185.00
Silver futures (\$/ounce)	\$ 19.280	▲	4.64%	\$ 19.650	\$ 18.370
Euro Futures (\$/Euro)	\$ 1.238	▼	-2.59%	\$ 1.310	\$ 1.237
GBP Futures (\$/GBP)	\$ 1.455	▼	-1.62%	\$ 1.505	\$ 1.450
INR Futures (\$/100 INR)	\$ 2.197	▲	0.41%	\$ 2.228	\$ 2.196
JPY Futures (\$/100 Yen)	\$ 1.085	▼	-1.08%	\$ 1.089	\$ 1.068
WTI Futures (\$/b)	\$ 71.61	▼	-4.66%	\$ 78.48	\$ 70.93





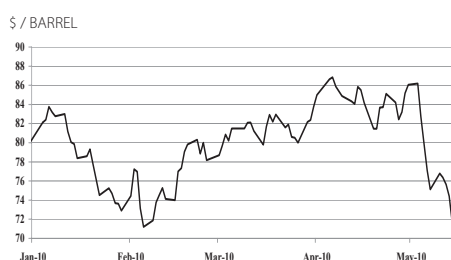
Economic Indicators

Indicator		Value	Change	% Change
CRB Index	▼	258.55	-2.77	-1.1%
U.S. Dollar Index	▲	86.27	1.82	2.2%
T-Bills	▲	0.14%	0.02%	0.0%
DJIA	▲	10,620	239.73	2.3%
FTSE All World	▲	189.90	4.41	2.4%

Source: Bloomberg data

COMMODITIES

Crude Oil



WTI oil prices may post a modest increase this week after falling below \$72 at the end of last week. The upside for prices will remain limited over the near-term due to the rise in crude oil inventories and weak market sentiment. U.S. crude oil stocks stood at 362.5 million barrels as of 7 May, up from 354.0 million barrels on 9 April, according to the Department of Energy. The oil market is not currently pricing in the ongoing recovery in North American demand. Inventories held at the delivery hub in Cushing, Oklahoma are

at record highs, which is weighing on prices. The concentrated stock buildup has caused WTI crude to trade at a discount to Brent crude. During the ten-day period between 3 May and 14 May, WTI traded at a daily average discount of over \$3, compared to an average discount of roughly \$1.25 during the preceding ten trading sessions. Spreads between sweet and sour crude streams also are narrowing. These trends may continue in the light, sweet crude oil markets.

Gold



Gold prices should be expected to remain volatile this week. If the upward momentum in prices remains intact early this week gold may top \$1,250, although prices did ease on Friday 14 May. The strong rally that began in the middle of April when prices were around \$1,130 could show signs of increased vulnerability, although this pause in prices could be just for this week. On Friday gold dipped from an intraday high of \$1,249.30 to a low of \$1,217.90 before moving back to settle above \$1,230, after having traded mostly above this level in the previous two sessions. Investment demand for gold remained strong last week as concerns

over European sovereign debt problems surged despite the European Central Bank's government bond purchasing program. Combined exchange traded fund gold holdings were a record 60.32 million ounces on 13 May, up 1.03 million ounces from end of the previous week. Last week was the second consecutive week that investors added more than 1.0 million ounces of ETF gold holdings to their portfolios since the first quarter of 2009, when the world economy was in the depths of the recession. While economic conditions may not be as severe they were in early 2009, investor concerns are mounting.

Silver



Silver prices may decline toward \$17.50 this week on profit-taking, if they are not able to break above \$20. A move below support at \$17.50 could push prices toward \$16.50. The rapid increase in prices over the past few trading sessions could result in market participants taking profits. There is healthy demand from both investors and fabricators, which should provide support to silver. Prices are benefitting from the metal's safe haven attributes and rising industrial demand.

Investors may use any decline in prices as a buying opportunity. There is a possibility that strong investor interest prevents prices from declining below \$18.75 cents. If this is the case silver could trade above \$18.75 this week. Combined exchange traded fund holdings stood at 470.4 million ounces on 13 May, up from 464.4 million ounces at the end of last week. Commodity funds and institutional investors meanwhile continue to hold large net long positions.



CURRENCIES

Euro / Dollar

DEUR (US \$ quoted in cents per Euro)



The euro may continue to be volatile this week. Last week the euro moved mostly between \$1.25 and \$1.30, although it fell toward \$1.23 on Friday 14 May before recovering. There has been a great deal of selling pressure on the euro over the past several weeks as confidence in the currency has been declining. The recent \$1.0 trillion government bond buying program by

the European Central Bank (ECB) and the International Monetary Fund announced last week and the austerity plans proposed by Spain and Portugal did little to quell investor concerns over euro zone member's sovereign debt problems. The ECB's increased liquidity measures were taken to prevent further erosion of confidence, but have actually weighed on the euro.

Indian Rupee / Dollar

DINR (US \$ quoted in cents per 100 Indian Rupees)



The rupee is likely to hold above 220 cents per 100 rupee and could try to move back above 222 cents later in the week. After having declined toward 218 cents in early May the rupee recovered last week, nearing 223 cents before easing. Concerns over sovereign debt problems in Europe overflowed into emerging markets as investors increased their purchases of safe haven assets. Investor sentiment shifted

last week, however, as fund flows leaving developing markets eased. While there should be reason for concern, given financial problems in Europe, economic activity is expected to remain robust in India. The Reserve Bank of India forecasts the country to expand at least 8.0% this fiscal year, which begins in April. Concerns over inflation meanwhile have eased slightly as it slowed to 9.6% in April from 9.9% in March.

Sterling Pound / Dollar

DGBP (US \$ quoted in cents per Pound)

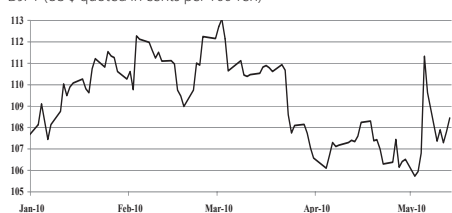


The pound may trade between \$1.44 and \$1.50 this week, although may be more inclined to test support levels. Concerns over euro zone sovereign debt issues have been influencing the pound. While sovereign debt problems may not be as severe in the United Kingdom as they are in several euro zone member nations, they are enough to weigh on the pound. This coupled with still weak economic conditions and no clear

fiscal reforms proposed yet may continue to keep the pound below \$1.50 in the near term. A stronger pound could begin to emerge if there are signs that the new coalition government is able to pass fiscal policy reforms. The Bank of England expects to keep interest rates low, however, even if these reforms are passed to help keep the economy expanding.

Japanese Yen / Dollar

DJPY (US \$ quoted in cents per 100 Yen)



The yen may continue to consolidate this week, trading between 107 and 110 cents. Volatility in the yen eased last week as it moved mostly between 107 and 109 cents, compared to the 105 to 113 cents range in the first week of May. Volatility in financial markets also eased last week, but it began to pick back up on Friday 14 May as most equity markets around the world saw their values decline. Recent concerns over sovereign debt problems in Europe do not

seem likely to derail an economic recovery, but most investors remain anxious over the near-term prospects. The yen should be supported by such concerns as it is seen as a safe haven currency and economic activity is strengthening in Japan. Gross domestic product for the first quarter of this year, scheduled for release this week, is forecast to be 1.4%, up from 0.9% in the previous quarter.

Further Information

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