Quarterly Commodity Outlook

Commodity Research
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ABN AMRO Price Outlook Q3-2012

	3-months view	*long term view (until 2014)*
WTI	↗	↔
Brent	↔	↙
Natural gas	↙	↑
Gold	↙	↓
Silver	↔	
Platinum	↔	
Palladium	↔	
Aluminium	↔	↗
Copper	↔	↔
Nickel	↗	↗
Zinc	↗	↗
Steel (HRC)	↔	↓
Iron ore	↔	↓
Coking coal	↔	↙
Wheat	↓	
Corn	↔	
Soybeans	↔	
Sugar	↔	
Coffee	↔	
Cocoa	↔	
Cotton	↓	

Energy:

Tensions in the Middle East could remain the most important driver for oil prices during the coming months. US elections may play a role for WTI prices, especially if prices continue to appreciate resulting in higher fuel prices at the pump. The EU debt crisis and economic developments in the US and China could add pressure on oil prices if they disappoint. We expect volatility to remain high but prices to trade within small ranges ultimately. Warm weather in the US triggered a rise of natural gas prices but the rally will run out of steam when autumn sets in.

Precious metals:

Our outlook remains cautious especially for the more investment related precious metals such as gold and silver. If key support level in gold prices of 1,522 is taken out, position liquidation could send gold and silver prices much lower. Higher US real yields have made gold less attractive. Palladium and silver have a large cyclical sensitivity and better economic growth prospects in H2-2012 should be supportive. Platinum continues to feel the brunt of a weak eurozone growth outlook but higher Chinese jewellery demand should support later this year.

Base metals:

Macroeconomic headwinds have a high impact on base metal price developments. The economic slowdown in China, EU and US has left their mark in H1-2012 on prices and on the macroeconomic front for H2-2012, there is a sense of rebound in China, US and even in the EU. ABN AMRO forecasts stable prices for the short-term for base metals. Long term demand from end users (producers of transport equipment, packaging, automotive and construction) will stay robust. This will support metal prices in the forecast period, but oversupply remains an issue.

Ferrous metals:

Sentiment amongst major steel end users in China is low and there seems to be little incentive for a short-term increase in activity. As a result, steel prices will ease further in the next 3 months. Market conditions are not favourable and mills must prepare themselves for more headwinds. Growth in demand of raw materials will also remain weak in 2012. Consumption patterns in China are the key factor to monitor. Looming oversupply will have a strong effect on prices and only capacity cutbacks or strict producer discipline can bring the market back more into balance.

Agriculture:

The extreme drought in the US caused soybean, corn and wheat prices to jump higher as harvest expectations are cut back significantly. More support is expected if weather conditions do not improve but some easing after the summer can be expected though. With most of the largest exporters onto the world market have either too little or too much rain, sugar prices also started to appreciate. Cocoa prices will remain below last years levels despite lower production while coffee prices will remain above the long-term average based on tight market fundamentals.

↓	decrease by 10% or more
↙	decrease between 5% and 9%
↔	price movement between -4% and +4%
↗	increase between 5% and 9%
↑	increase by 10% or more

- Short term: our three month outlook versus spot rate on July 24th.
- Long term: 2014 average forecast price versus 2012 forecast price.

FORECASTS Q3-2012 (1)

	Spot rate 24th July	Average price Q2-2012	3-months	2012	2013	2014
Energy:						
- WTI (USD/barrel)	88.27	93	95	95	105	95
- Brent (USD/barrel)	103.49	108	105	110	110	100
- Natural gas (USD/mmBtu)	3.16	2.28	3.00	2.75	3.50	4.50
Precious metals:						
- Gold (USD/oz)	1,576	1,612	1,500	1,600	1,400	1,300
- Silver (USD/oz)	2,693	29.39	27	30	-	-
- Platinum (USD/oz)	1,395	1,395	1,400	1,550	-	-
- Palladium (USD/oz)	569	564	585	650	-	-
Base metals:						
- Aluminium (USD/t)	1,838	1,982	1,900	2,100	2,200	2,250
Aluminium (USD/lb)	*0.83*	*0.90*	*0.86*	*0.95*	*1.00*	*1.02*
- Copper (USD/t)	7,413	7,878	7,700	8,000	8,500	8,300
Copper (USD/lb)	*3.36*	*3.57*	*3.49*	*3.63*	*3.86*	*3.76*
- Nickel (USD/t)	15,710	17,154	17,000	18,000	19,000	20,500
Nickel (USD/lb)	*7.13*	*7.78*	*7.71*	*8.16*	*8.62*	*9.30*
- Zinc (USD/t)	1,787	1,931	1,925	2,050	2,300	2,400
Zinc (USD/lb)	*0.81*	*0.88*	*0.87*	*0.93*	*1.04*	*1.09*
Ferrous metals:						
- Steel (global, HRC; USD/t)	593	652	600	626	580	560
- Iron ore (fines, USD/t)	131	144	132	138	125	115
- Hard coking coal (USD/t) (2)	185	206	190	198	190	185
Agricultural:						
- Wheat (USDc/bu)	880.50	609	750	700	-	-
- Corn (USDc/bu)	807.50	630	800	675	-	-
- Soybean (USDc/bu)	1,680	1,414	1,750	1,525	-	-
- Sugar (USDc/lb)	23.72	21.34	24.00	23.00	-	-
- Coffee (USDc/lb)	180.14	155	185	195	-	-
- Cocoa (USD/t)	2,322	2,281	2,250	2,350	-	-
- Cotton (USDc/lb)	84.85	90.49	75	90	-	-

(1) The 3-months forecasts is a Q3 2012 exit price. Forecasts for 2012, 2013 and 2014 are average year prices.

(2) Prime coking coal Australia,CIF

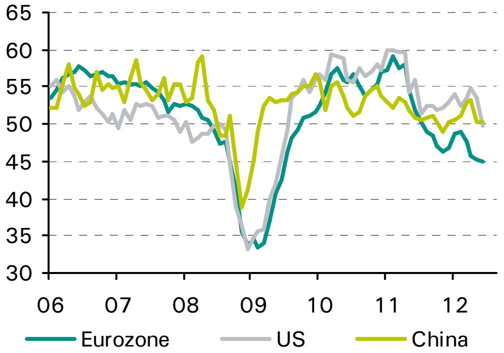
CONTENTS

Nick Kounis (Head Macro Research, Group Economics)

Macro

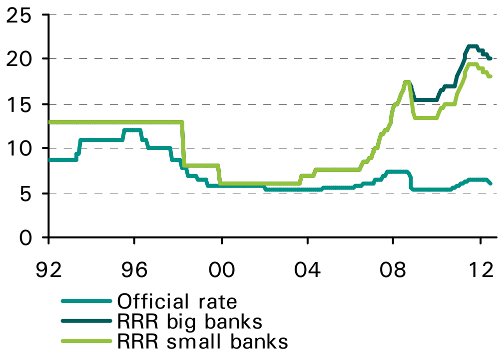
- **Global economy has regained some traction**
- **Euro crisis set to continue, but systemic risks have eased**
- **Budget cuts in the west, and China's transformation to limit pace of growth**

Manufacturing PMI-headlines



Source: Thomson Reuters Datastream

Chinese monetary policy



Source: Thomson Reuters Datastream

Macro Research GDP forecasts

	2010	2011	**2012e**	**2013e**
China	10.4%	9.2%	**8.0%**	**8.0%**
US	3.0%	1.7%	**2.0%**	**2.0%**
Eurozone	1.9%	1.5%	**-0.5%**	**0.2%**
World	5.2%	3.8%	**3.2%**	**3.5%**

Source: ABN AMRO Macro Research

Synchronised slowdown

The global economic recovery has seriously lost momentum over recent months. The global composite PMI output index has fallen to the lowest level since July 2009. The loss of momentum has been broad based, with manufacturing PMIs declining over the period in the eurozone, US, China, Japan, Brazil and India. The slowdown coincided with a flaring up of the euro crisis. Fears of an imminent Greek euro exit built following the May elections, which exacerbated concerns about Spain and Italy. The eurozone economy, which had been showing signs of stabilisation at the turn of the year moved back into contraction mode. The spillages to other countries have come from the deterioration in global market sentiment and heightened uncertainty that has made companies more reluctant to hire and invest and more inclined to reduce inventories. In addition, weaker demand in the eurozone means it has imported less from the rest of the world. This has been a particular important for the Asian economy.

Bottom could be nearing

A number of factors should help to arrest the slowdown in the near term. We are seeing another leg of the global easing cycle. The Fed has extended its Operation Twist programme, the ECB has cut its deposit rate to zero, while we have recently seen two rate cuts in the space of a month from the PBoC. The room to go further seems limited in the advanced economies, but the authorities in China and many other key emerging markets have plenty of room to step on the gas. In addition, the possibility of an imminent Greek euro exit has eased, which means that some of the uncertainties weighing on confidence could well lift. Finally, despite the recent rise, oil prices have declined over recent months, which should help purchasing power in oil consuming countries.

The stop-go recovery

We expect to see firmer growth rates in the second half of the year, led by the US and Asia, with the eurozone following with a delay. However, the pick-up looks likely to be weak. There are large budget cuts taking place in most advanced economies. In addition, while the authorities in China have considerable room to ease policy, a 2009-style bazooka looks unlikely. This reflects the authorities aim to re-balance the economy. Meanwhile, fiscal issues are likely to come into sharper focus on the other side of the Atlantic. On unchanged policies, US fiscal policy will tighten by an extraordinary 3.8% GDP next year. Although we assume a part of this will be kicked down the road, there will likely be a step up in the pace of consolidation in 2013 that could lead to another soft patch at the start of the year. In addition, European policymakers have still not done enough to get ahead of the vicious circle between budget cuts, recession, surging bond yields and rising government debt. This suggests that the euro crisis will certainly flare up from time to time, putting pressure on confidence indicators.

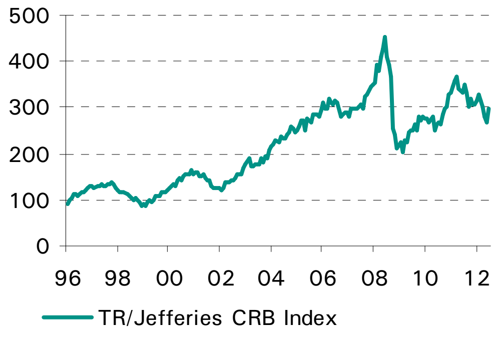
Upside to the forecast:	**Downside to the forecast:**
- Earlier return of confidence following decisive policy action	- Sovereign debt crisis spirals out of control
- Further monetary policy stimulus	- US fiscal cliff left in place
- Companies are cash-rich	- Policymakers' lack of ammunition in advanced economies

Georgette Boele (ABN AMRO Private Banking)

Commodity Top-Down

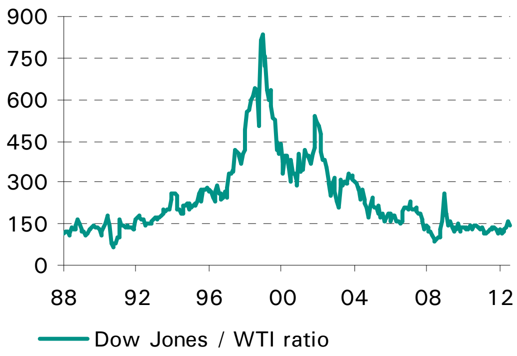
- **Neutral stance maintained, negative bias dropped**
- **More constructive overall outlook, but volatility will remain**
- **Upside is limited**

Total Return - Jefferies CRB Index



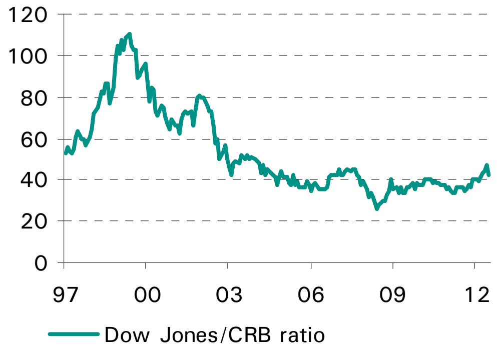
Source: Thomson Reuters Datastream

Dow Jones/WTI ratio



Source: Thomson Reuters Datastream

Dow Jones/CRB ratio



Source: Thomson Reuters Datastream

Back on May's level

Since the release of the previous Quarterly Outlook in May, the CRB index fell under heavy pressure, mainly because of the sell-off in oil prices, fear for a hard landing in China, downward adjustments in the global growth outlook, lower geopolitical fears concerning oil, and a stronger USD. This resulted in a slide in the CRB of 308 on 1 May to 267 on 21 June, or a decline of 13%. Since 21 June, the CRB index has started to recover, mainly driven by the recovery in oil prices due to renewed geopolitical tensions and expectations on lower supply. Furthermore, agricultural prices have rallied due to the drought in crop growing areas in the US and the relatively low inventory levels. The slide in base metals came to a halt as fear for a hard landing in China eased on the prospect of more monetary easing there. As a result, the CRB is almost back on levels at the start of May. The technical picture has sharply improved from negative to neutral, with a positive bias.

Negative bias dropped

Whereas the market has adjusted its outlook on the global economy downward, we are more constructive. As our head of macro economics Nick Kounis stated before, we believe that the bottom comes in sight, even if a global upswing will remain a matter of 'stop and go'. With regard to China we think that GDP growth will gradually recover in the second half of 2012, when policy measures begin to pay off. This also improves the outlook for commodities. The market has already partly priced this in. Going forward commodities will likely move in a volatile manner, in line with changing expectations about global growth. The risks of aggressive sell-offs will likely be lower, unless the eurozone debt crisis escalates and risk aversion turns into panic. In the volatile and uncertain environment a significant rise in commodity prices is not very likely, also because we foresee a further strengthening of the USD. Agricultural prices have surged aggressively and weather dynamics could result in sharp movements in either direction. As we do not expect escalation of the Iran conflict, the upside in oil prices could be limited. We have removed our negative bias and are Neutral on commodities.

Upside limited

Even though the picture for commodities is more constructive than before, on the basis of relative performance compared to equities, they remain relatively unattractive. They do not provide an income component and they move in line with equities on improved investor sentiment. Furthermore, the 'stop and go' outlook will not result in a bull run in commodity prices, with the prospect of outperforming equities. Liquidity in the eurozone given by the ECB may start to be deployed, but will only to a limited extent be beneficial to commodities. The Fed may start a new wave of quantitative easing, but such measures will be targeted and not be a general liquidity wave. So more QE by the Fed will likely have a larger impact on the equity markets than on the commodity markets. Additionally, the regulatory overhang in commodity markets will also dampen the upside.

Upside to the forecast:	Downside to the forecast:
- Large supply disruptions	- Ample commodity supply
- More resilient global growth	- Global recession
- USD depreciation	- Liquidity trap or market panic

Hans van Cleef (ABN AMRO Sector & Commodity Research)

Energy | WTI (West Texas Intermediate)

- **WTI drivers are similar to Brent's, but the price difference still remains**
- **Direction of Brent oil remains crucial, but US elections may have an effect as well**
- **US economic developments and Brent crude will determine WTI direction in the next few years**

WTI trades parallel with Brent

While one would expect differently, WTI crude is still largely driven by the same drivers as Brent crude. Although WTI is much more US-related and has its own dynamics, direction and volatility are currently closely linked to the global benchmark Brent. The difference in dynamics resulted in a huge increase of the spread between Brent and WTI before. Currently, this spread hovers around USD 15. A significant >25% decline was seen in May and June, driven by disappointing economic data in an environment of easing geopolitical tensions. WTI did found support in recent weeks based on renewed tensions in the Middle East and US Fed's Bernanke downplaying the risk of a double dip recession.

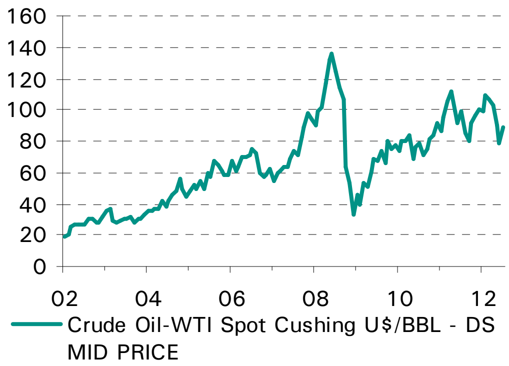
US elections could have an impact on WTI in Q3

The US elections could play an important role in the coming quarter, especially if oil prices start to rally again, which would also have a supportive impact on US fuel prices. Should tensions in the Middle East escalate – this is not our base scenario – oil prices could jump higher based on fears for supply shortages. As a result, fuel prices could rise to near USD 4/gallon again, which would increase the pressure on incumbent US President Obama to significantly lower the WTI oil price. One method could be a release of strategic petroleum reserves. With the US economy showing only a modest recovery, demand is expected to pick up slowly this year. The biggest drivers for WTI prices in the coming quarter will therefore remain similar to Brent crude: tensions in the Middle East, developments in the eurozone debt crisis and economic data in the US and China. We expect WTI to trade around USD 95 during the next months.

US energy independency will have no near term effect

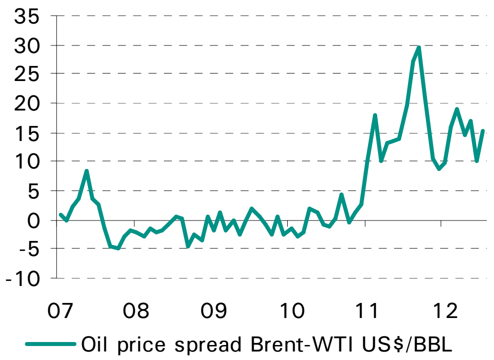
Based on increased shale oil findings, the trend of lower imports by the US will continue. This, in combination with higher energy efficiency, could make the US energy independent even within the coming decade. This will have a serious effect on the pricing dynamics of WTI crude. ABN AMRO expects the impact to be limited in the forecast period, as the US will remain a large importer. In the course of 2013, the new pipeline projects (reversal of the Seaway and Longhorn pipelines and the start of the southern leg of the Keystone XL pipeline) should start to have an effect. This will lead to more oil transports to US refineries from the storage in Cushing, Oklahoma, which ultimately will result in lower US imports. ABN AMRO expects the Brent/WTI spread to decline to approximately USD 5 (Brent still above WTI) in 2013, based on lower geopolitical tension in the Middle East and an improvement of the eurozone economic conditions, which should align Brent and WTI drivers. As a result, WTI crude will continue to trade simultaneously with Brent oil for the time being, with ample supply and modest US economic growth setting the tone for the price difference. We expect an average WTI price of USD 95 for 2012 and USD 105 in 2013.

Historical price WTI



Source: Thomson Reuters Datastream

Oil price spread Brent-WTI



Source: Thomson Reuters Datastream

Commodity Research price forecast
(USD/barrel)

	3-month	2012	2013	2014
WTI	95	95	105	95

Source: ABN AMRO

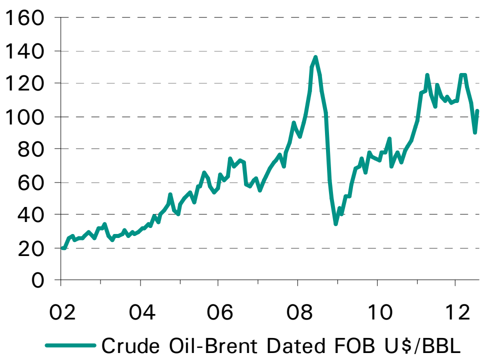
Upside to the forecast:	Downside to the forecast:
- Markets positioning for economic recovery	- Increased production of 'unconventional oil' in the US
- Possible escalation of the conflict between the West and Iran	- Renewed pressure on global economic growth

Hans van Cleef (ABN AMRO Sector & Commodity Research)

Energy | Brent

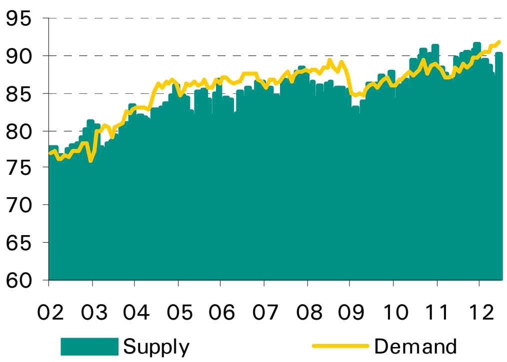
- **After a large decline in Q2, some recovery in July**
- **The effect of Middle East tensions will be countered by slow global economic growth**
- **Less geopolitical tensions and a pick-up in demand will not lead to higher – or lower – oil prices**

Historical price Brent



Source: Thomson Reuters Datastream

Global oil supply and demand (x 1mln bbl)



Source: Energy Intelligence

Commodity Research price forecast
(USD/barrel)

	3-month	2012	2013	2014
Brent	105	110	110	100

Source: ABN AMRO

Large decline in the second quarter

In the second quarter, Brent oil prices dropped more than 30% (from USD 128 to below USD 90/barrel), mainly based on lower risk premium, increased oil production leading to ample supplies, and slow global economic growth leading to lower demand. Although we expected this correction, the move went faster and further than forecasted. After setting the low at the end of June, oil prices rallied again, based on renewed hope of recovery after the latest Greece elections, the EU summit outcome and a strike in Norwegian oil production. Renewed tensions in the Middle East region – mainly related to Iran -, hope for stimulus measures in China to support economic growth and Fed chairman Bernanke's downscaling the risk for a second recession drove Brent oil back above USD 100/barrel.

Middle East tensions will set the tone in Q3

On July 1st, the US and European sanctions against Iran were activated. Ahead of the sanctions, the Iranian exports already declined. The impact on the supply side was limited, as the lower production was completely cushioned by increased production in Saudi Arabia and Iraq. In fact, the larger output resulted in ample supply, which can be used in case of escalation. The nuclear talks with the West continue, but with the sanctions in place, Iran started to threaten again to close the Straight of Hormuz. This is the most crucial transport route of 1/3rd of the global seaborne oil transport. The issue will continue to drive the oil market in the third quarter. ABN AMRO does not expect the conflict to escalate and, although it may lead to increased price volatility, a major move higher in oil prices is not likely. After all, Saudi Arabia and the UAE opened new pipeline routes to transport oil to their customers bypassing the Straight of Hormuz. Besides that, Iranian oil will still find its way to the market, as its customers need the Iranian oil as much as Iran needs to sell it. Finally, escalation of the conflict will be in nobody's interest, including Iran itself. Disappointing economic data and slow global economic growth will prevent demand to pick up rapidly. All in all, volatility will remain high but we expect prices to remain trading around USD 105/bbl.

Although conditions improve, a rally will not happen

Looking beyond the next quarter, we expect geopolitical tensions to ease in the course of this and next year. Furthermore, economic recovery will start to pick up in Europe, while the economic growth in the US and China will accelerate as well. Although we expect an increase in demand, it will not lead to significantly higher oil prices. This is because we expect a cutback in risk premium and (more than) enough oil production to cover the increase in demand. As a result, we expect Brent oil prices to trade more or less sideways in a trading range with average prices of USD 110/bbl for 2012 and 2013 and USD 100/bbl in 2014.

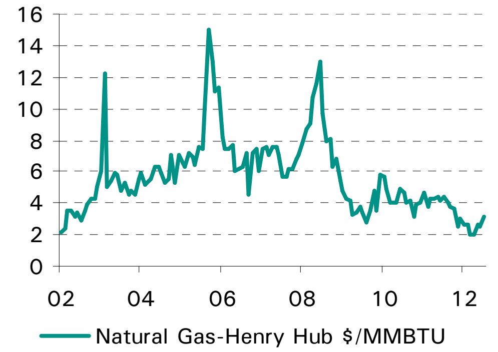
Upside to the forecast:	Downside to the forecast:
- Escalation of the Iran conflict with the West	- Tensions in the Middle-East ease faster than forecasted
- A sooner-than-expected pick up of economic growth/risk appetite	- Even higher oil production or disappointing data hurting demand
- Production disruptions due to strikes and/or weather conditions	- Release of SPR resulting in psychological effect

Hans van Cleef (ABN AMRO Sector & Commodity Research)

Energy | Natural gas

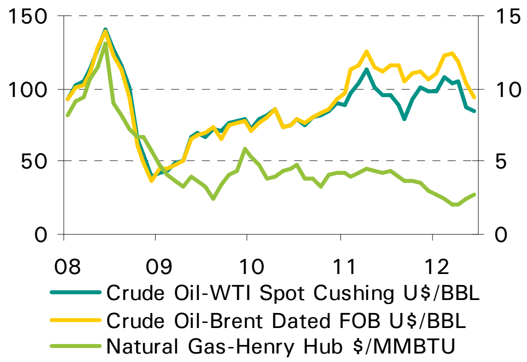
- **Increased summer demand leads to recovery of natural gas prices in the US**
- **More support is possible, but the rally will halt when autumn sets in**
- **Shale gas production will prevent gas prices to rise to above longer-term average**

Historical price natural gas



Source: Thomson Reuters Datastream

Natural gas and oil prices



Source: Thomson Reuters Datastream

Commodity Research price forecast
(USD/mmBtu)

	3-month	2012	2013	2014
Natural gas	3.00	2.75	3.50	4.50

Source: ABN AMRO

Impressive recovery after huge drop previous quarters

With the US economy picking up some speed, though still showing only modest economic growth, demand for the benchmark US NatGas Henry Hub contract (NatGas) increased. This combined with the fact that continued heat (rise in use of air-conditioning) and unexpected nuclear power plant outages led to increased gas demand, triggered an impressive price rally during the previous four months. NatGas rallied 60% from USD 1.90 mmBtu on 20 April to levels above USD 3.00 on 20 July. We should keep in mind, though, that the average price since 2000 was approximately USD 5.50 mmBtu, with peaks in 2005 and 2008 of USD 15.78 and USD 13.69, respectively.

Q3: Some stabilisation expected after Q2 rally

In our previous Quarterly Commodity Outlook we forecasted bottoming in the second half of the year. The 60% rise was much faster than expected on the back of increased demand and short positioning covering. The first signals of increased production have already shown again, now that NatGas prices have started to recover. During Q1 and Q2, production was scaled back significantly as it was often not profitable enough. Inventories nevertheless grew, due to low demand and NatGas inflows as result of other energy drilling that has NatGas as a by-product. The signals of a restarting of gas production should result in further stock building. which in turn should add a cap to the rally. Currently, the NatGas storage surplus is currently 3.2 trillion cubic feet, which is approximately 35% below the March record high level. During the next three months, a test of the important resistance zone at USD 3.20-3.32 could be very likely if the summer weather continues to support demand. ABN AMRO expects the rally to run out of steam afterwards, however. The forecast of a drier-than-average August by the US government, however, could possibly lead to more demand/support if proven correct. The huge natural gas inventories should prevent NatGas to continue its rally if the summer demand starts to fade in the course of the third quarter.

Large production will keep prices relatively low

As new techniques (hydraulic fracturing and horizontal drilling) have become available, it is clear that gas production will further increase in the coming years. As a result, ABN AMRO does not expect spectacular price rallies in the years 2013-2014 towards the high peaks noted in 2005 and 2008. Nevertheless, an increase to an average price of USD 4.50 mmBtu in 2014 is still a rally of 50%. This may seem odd, as we forecast production to increase significantly in the coming years. We should keep in mind, though, that the extra production will result in lower imports. In combination with economic recovery in the US and replacement of coal for gas by utilities, both resulting in a rise in demand, this should lead to a further recovery of the NatGas prices. We do not expect NatGas to rise to levels above the longer-term averages. Our price forecast for respectively 2013 and 2014 are USD 3.50 and USD 4.50 mmBtu.

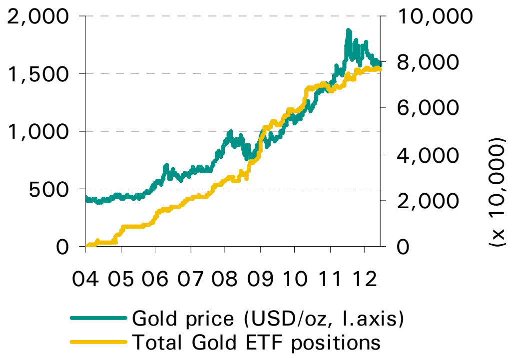
Upside to the forecast:	Downside to the forecast:
- Switching to additional gas-fired power generation	- Continued and accelerating unconventional gas output
- Extreme weather conditions (longer period of heat)	- Deteriorating economic conditions

Georgette Boele (ABN AMRO Private Banking)

Precious metals | Gold

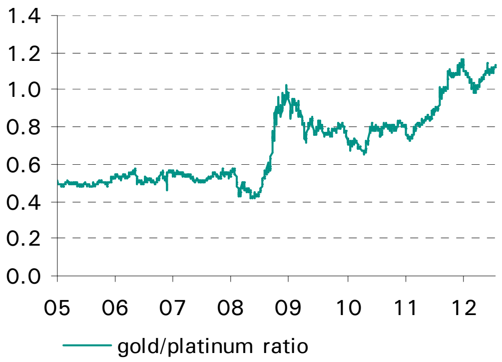
- **Duality in gold prices**
- **Jewellery dynamics could improve in H2, but the risk of position liquidation remains**
- **Higher US real yield make gold a less attractive asset**

Historical price gold and ETF position



Source: Thomson Reuters Datastream

Historical Gold/Platinum ratio



Source: Thomson Reuters Datastream

Commodity Research price forecast
(USD/oz)

	3-month	2012	2013	2014
Gold	1,500	1,600	1,400	1,300

Source: ABN AMRO

Duality

Gold has lost its safe haven appeal in 2012 and has started to behave like a risk asset. The main reason for this loss of lustre is competition within gold prices. Demand for gold via exchange-traded funds (ETF) increased sharply but has cooled due to gold behaving like a risk asset. Demand from the official sector and for bars and coins have grown notably in recent years. The former is linked to reserve diversification and the latter to fears of a systemic breakdown. These sources of gold demand were partly balanced by lower demand from the jewellery sector, owing to high prices and expected slower growth in India and China. The sell-off this year was mainly driven by liquidation of speculative positions and the sell-off in the INR.

Jewellery dynamics

Between June and mid August are no major festivities, making this a period of smaller gold demand. The Indian monsoon season (June-September) is crucial for farmers. This year the monsoon has begun poorly, but it has improved in July. The Indian Metrological Department continues to forecast a normal monsoon. A normal or a weaker monsoon will have a negative impact on gold demand. Another important variable is the INR. The currency has weakened a lot and gold prices in INR are therefore still close to record highs. This is not helpful. Gold prices in INR need to come down a lot in order to stimulate demand. In conclusion: the monsoon, the Indian growth outlook and the direction of the INR are crucial going forward. China has always shown strong appetite for gold in the past, but recently overall jewellery sales in China and Hong Kong have started to decline because of an expected slowdown of the Chinese economy. As long as investors and consumers are concerned about the Chinese growth outlook, the appetite for gold jewellery will likely be lower. A change in perception and expectations of Chinese and Indian growth will most likely result a recovery of jewellery demand.

Physical and investment demand

On the one hand, in the current uncertain environment demand for physical gold demand has increased and central banks continue to increase their gold reserves. This will undoubtedly continue, especially if the eurozone debt crisis deteriorates. But if sentiment improves, investors may start to liquidate their physical gold positions. On the other hand, we expect further pressure on gold-as-investment. Total ETF positions in gold may have topped out and non-commercial gold positions have already been reduced sharply. But if gold prices break the crucial support of 1,522, more liquidation is on the cards. Additionally, the rally of the USD - particularly driven by higher (less negative) real yields in the US - makes gold a less attractive asset to invest in. Even if the Fed decides to expand its quantitative easing exercise, the direction of the USD and the real yields is more important for the direction in gold prices. We therefore believe that more weakness is on the cards.

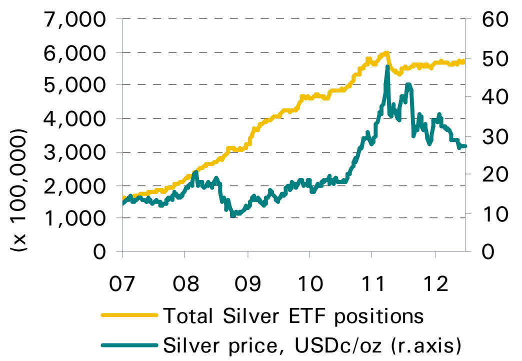
Upside to the forecast:	Downside to the forecast:
- More untargeted quantitative easing	- Higher US real yields
- Improving investor sentiment	- Strong global growth makes equities & base metals more attractive
- USD debasement	- Position liquidation

Georgette Boele (ABN AMRO Private Banking)

Precious metals | Silver

- **The cyclical gold proxy**
- **Improving global growth outlook in second half to be supportive**
- **Short-term risk remains liquidation of long-term positions**

Silver price and total ETF demand



Source: Thomson Reuters Datastream, Bloomberg

Historical gold / silver ratio

Source: Thomson Reuters Datastream

Commodity Research price forecast
(USD/oz)

	3-month	2012	2013	2014
Silver	27	30	-	-

Source: ABN AMRO

The cyclical gold proxy

Like palladium, silver prices have also weakened substantially since we released our previous quarterly outlook on 2 May. Until the end of June prices declined almost 14% but since then they have recovered somewhat. This weakness was mainly the result of deterioration in the cyclical economic outlook, leading to gold losing its shine as a safe haven asset and the cleaning of the non-commercial silver positions in the futures market. Non-commercial positions have been reduced to the lowest level in the past 7 years, whereas silver prices are still far above the low in 2008, when prices dipped below USD 10 per ounce. ETF demand has made a difference and compensated for the sell-off in June somewhat. Total silver ETF positions have increased since 10 May 2012.

Neutral for now

The two precious metals with the highest leverage to the global growth cycle are silver and palladium. Both have suffered from the downward revisions of emerging markets' (including China) growth outlook. Both will also rally sharply if and when the global growth outlook improves and sentiment becomes more upbeat. Our growth outlook on China and the US for the second half of this year is constructive and if this scenario plays out, both precious metals have room to rally. The behaviour of the USD is also an important driver, especially for silver. If the USD rally continues, as we expect it will, gold prices will likely remain under pressure and silver's upside potential will be hampered. Silver is widely seen as a gold proxy. It will only strongly outperform gold if the cyclical economic outlook is strong as well. Silver may thus be expected to outperform gold in an environment with a strong US dollar and a constructive economic outlook. We believe that this is exactly what we will have in the second half of 2012. In the short term, however, market sentiment will likely be depressed, as investors are more focused on weakening economic fundamentals and the eurozone debt crisis than an economic turnaround. Furthermore, liquidity is subdued due to the holiday season in the Northern Hemisphere.

Additionally, there remains the risk that the holders of silver ETFs become nervous if gold breaks the crucial support level at 1522. This could lead to a sharp move lower, dragging silver prices along. These ETF positions are rather sizable, so a partial liquidation could result in large market action. More quantitative easing by the Fed (not our base case scenario) should provide some support to both silver and gold, but the behaviour of real yields is also important to keep an eye on. Overall, we see more upside for silver compared to gold in the coming 3 months, but this is a relative and not an absolute performance. The gold/silver ratio could move back to the low 50s. From an absolute perspective, weak investor sentiment will likely keep silver prices under pressure in the short term. We therefore remain Neutral for the coming 3 months.

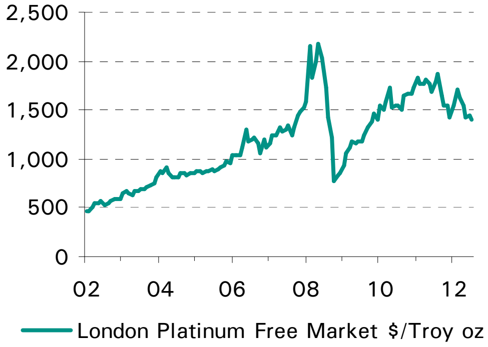
Upside to the forecast:	Downside to the forecast:
- More quantitative easing	- Liquidation of long-term positions
- More optimistic global growth outlook	- Market panic
- USD debasement	- Global recession

Georgette Boele (ABN AMRO Private Banking)

Precious metals | Platinum

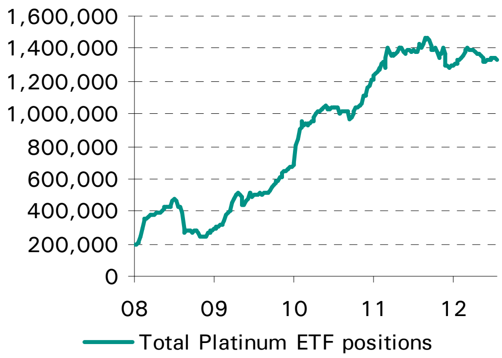
- **A weak second quarter but still a positive year-to-date performance**
- **Weak demand and substitution threat in Europe continue to hurt prices**
- **Chinese jewelry demand may pick up later this year**

Historical price Platinum



Source: Thomson Reuters Datastream

Total ETF Platinum positions



Source: Thomson Reuters Datastream, Bloomberg

Commodity Research price forecast
(USD/oz)

	3-month	2012	2013	2014
Platinum	1,400	1,550	-	-

Source: ABN AMRO

A weak second quarter

Platinum prices were under pressure during the second quarter, due to deterioration in investor sentiment and a weakening outlook for the global economy, the eurozone in particular. The reduction in total platinum ETF positions and non-commercial positions in the futures markets accelerated the sell-off in May. Since then positions have increased marginally and this has supported platinum prices, thus limiting the large downside potential. Nevertheless, investors remain wary at this point in time, because otherwise platinum prices would have showed a larger recovery. Year-to-date, platinum prices still show a positive, but modest performance.

Outlook

For the remainder of the year the following variables are crucial for platinum prices: 1) developments in the heavy duty diesel sector 2) substitution of platinum by palladium in light duty diesel vehicles 3) sentiment and economic outlook in the eurozone 4) growth outlook in China 5) safety interruptions in South Africa.

Heavy duty diesel vehicles consist of platinum-containing diesel oxidation catalysts. Demand for platinum from this sector grew strongly in 2011, much of it being due to pent-up demand for large trucks in North America. We continue to be constructive about the US and believe that North American platinum demand related to heavy duty sector will continue to grow this year.

Europe is a much more important demand driver for platinum than the US. In 2011 demand from Europe amounted to around 27% of total global demand. Traditionally, European platinum demand is strongly linked to the auto industry (catalysators), but palladium is increasingly used as a substitute, especially in light duty diesel cars. Apart from this substitution trend, the auto sector in Europe is struggling and overcapacity is norm. So demand for platinum from Europe is likely to stay weak for a longer period.

Another important demand driver is the growth outlook for China. Currently expectations are adjusted downwards, but our China economist believes that the economy will pick up again in the second half of this year. This should support consumer demand for jewellery, which is a very important factor in the overall platinum outlook. Chinese platinum demand is the highest in the jewellery segment (20.8% of total global demand in 2011); even larger than platinum demand for catalysators in Europe. Direct competition in the jewellery sphere comes from white gold. With the gold/platinum ratio still at extremely high levels, consumers may be tempted to choose the least expensive option (platinum) if jewellery demand recovers. We believe that the overall platinum picture will improve in the second half of this year, in particular due to increasing Chinese demand.

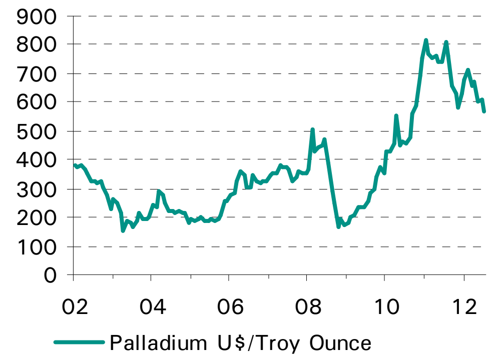
Upside to the forecast:	Downside to the forecast:
- Improving economic situation in the eurozone - Supply disruptions - Risk seeking environment and/or USD debasement	- Escalation of eurozone crisis with one or more countries leaving - Global recession

Georgette Boele (ABN AMRO Private Banking)

Precious metals | Palladium

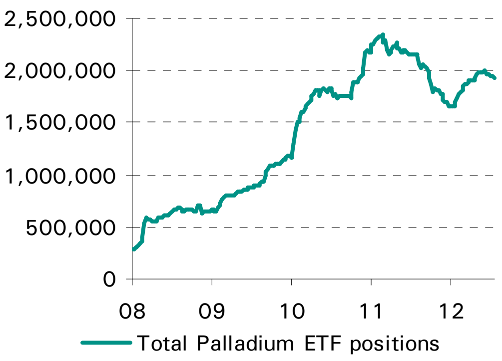
- **Weaker EM growth outlook hurt prices**
- **Investor demand likely to be positive in second half of the year**
- **Improvement in global growth outlook also to be supportive**

Historical price Palladium



Source: Thomson Reuters Datastream

Total ETF palladium positions



Source: Thomson Reuters Datastream, Bloomberg

Commodity Research price forecast

(USD/oz)

	3-month	2012	2013	2014
Palladium	585	650	-	-

Source: ABN AMRO

Pressure on prices due to weak EM outlook

In Q2 palladium prices were far weaker than we had expected. Deterioration in the growth outlook of the major emerging market countries such as Brazil, China and India, was the main reason for this. Since 2 May 2012 (the release of our previous quarterly outlook), palladium prices declined more than 15%, but they were able to slightly recover afterwards. The divergence in the build-up in total palladium ETF positions and palladium prices came to a halt in June. The sell-off was mainly driven by the liquidation of non-commercial positions on the futures market; demand from ETFs may have damped the downside somewhat. Since the beginning of June investors have started to liquidate parts of their palladium ETF positions, whereas non-commercial positions hardly grew. Non-commercial positions in palladium are currently below the 2008 low.

Overall constructive

Given the fear that China may experience a hard landing and the Brazilian and Indian economies also deteriorating, sentiment towards palladium is likely to remain depressed in the short term. Whereas non-commercial positions in palladium were sold off to a large extent, ETF positions remain sizeable. Even if prices are likely to decline in the short run, we believe that the outlook could improve markedly in the second half of this year, when the major emerging markets, mainly China, are expected to recover. If this scenario materialises, palladium prices could recover sharply. With short-term positions cut back to a large extent, renewed speculative interest in the precious metals could trigger a sharp rally.

From a supply/demand dynamics point of view the outlook looks better for palladium than for platinum. Demand from North America, Europe, China and other emerging markets remains very important for palladium. We have a constructive view of the US and we expect solid demand from North America going forward. Demand from Europe may be supported by the trend to substitute platinum for palladium in light duty vehicles. But the overall demand will likely remain weak. Palladium demand expectations from China and other emerging markets will likely improve sharply if the growth outlook for these economies improves. On the supply side, production in South Africa and Russia, and the Russian stock sales are paramount. Mining in South Africa remains a challenging exercise and supply from Russian palladium stocks will likely be lower than in previous years. Supply from recycling will likely remain strong at current prices.
All in all, we expect that investor demand, especially the speculative side, will likely pick up in of the second half of this year, in line with an improved US and EM growth outlook. We are Neutral on palladium, albeit with the risk on the upside.

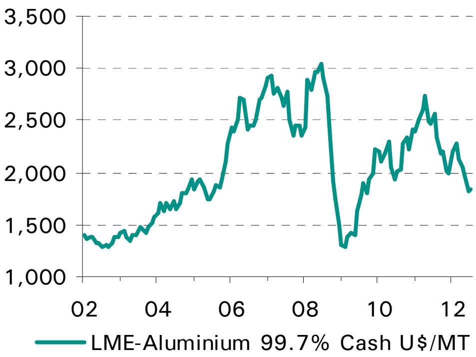
Upside to the forecast:	Downside to the forecast:
- Stronger-than-expected global economic growth	- Hard landing in China
- Supply disruptions	- Larger Russian stock sales
- Risk-seeking environment and/or USD debasement	- Global recession

Casper Burgering (ABN AMRO Sector & Commodity Research)

Base metals | Aluminium

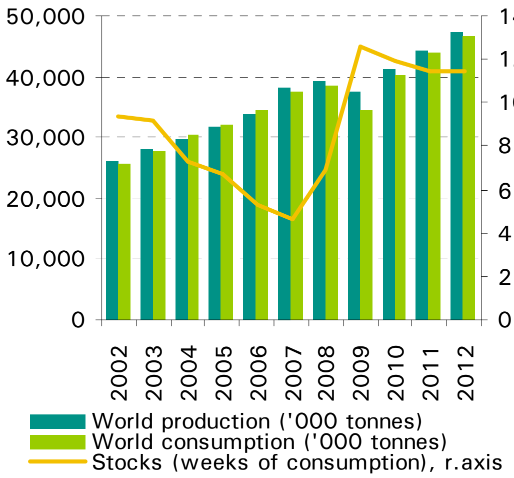
- **Sentiment is weak and brought aluminium price down to a (almost) three years low**
- **Demand will disappoint, stocks increase further and we expect price to remain flat coming 3 months**
- **Too much capacity worldwide and overcapacity will remain a structural problem for the sector**

Historical price Aluminium



Source: Thomson Reuters Datastream

Supply, demand & stocks



Source: Metal Bulletin

Commodity Research price forecast

	3-month	2012	2013	2014
Aluminium (USD/t)	1,900	2,100	2,200	2,250
Aluminium (USD/lb)	0.86	0.95	1.00	1.02

Source: ABN AMRO

Poor fundamentals weigh heavily

Sentiment is weak in the aluminium market and brought aluminium price down to a (almost) three years low. Sluggish macroeconomic data, negative economic expectations and poor market fundamentals are weighing heavily on price developments in the aluminium market. Since January 2012, aluminium price has lost almost 6%. World primary aluminium production was up 4% y-o-y in the first half year of 2012. In the same period, production increased strongly in the US (+11% y-o-y), China (+12% y-o-y) and Middle East (+9% y-o-y), while output in the EU dropped by 7% y-o-y. World primary aluminium consumption increased by 3% y-o-y. The supply-demand balance in H1-2012 was positive, with severe surpluses in China. Total reported world stocks increased by 9% y-o-y in H1-2012. A large amount of stocks is captured in warehouse financing deals, due to which aluminium becomes less available for the physical market.

Real demand not expected to pick up soon

In China there are numerous high cost aluminium smelters which are hampered at these low prices. Chinese (local) governments will continue to subsidise the domestic aluminium smelters by lowering power tariffs, in order to cut production costs and increase output. Meanwhile, in the Middle East, capacity will be expanded with the construction of new aluminium smelters. Weak sentiment and global economic turmoil are not withholding stakeholders to invest in the sector. Apparently, investors are still optimistic about future developments for the aluminium sector in the region. Demand continuous to be flat in most aluminium end using sectors for the next three months. Especially construction sectors worldwide will remain flat, but we expect also that demand from sectors such as packaging, transport and home appliances will remain subdued. And because demand will disappoint and stocks increase further, we expect aluminium price to remain flat coming three months.

Oversupply will persist in the long term

Aluminium production and consumption will continue to grow parallel to each other in the forecast period and ABN AMRO expects that aluminium price will improve marginally until 2014 from its 2012 level. In the forecast period, supply will outpace demand and the market will continue to be oversupplied. Simply put, there is too much capacity worldwide and overcapacity will definitely remain a structural problem for the sector (especially in China). However, we expect that demand from end users (producers of transport equipment, packaging and construction) will stay robust, and this will be supportive for aluminium price. Aluminium is highly energy intensive, making it sensitive to volatility in energy and oil prices. With the relative high oil prices, energy costs are expected to stay comparatively high.

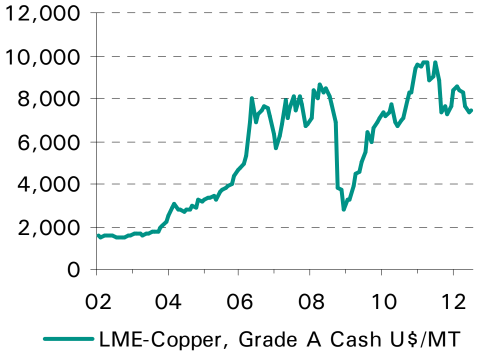
Upside to the forecast:	Downside to the forecast:
- Sentiment towards the eurozone improves, resulting in risk appetite	- Chinese construction continues deterioration
- Significant Chinese smelter cutbacks in output	- Further escalation of EU crisis and China economic slowdown
- Increase substitution demand (copper and steel)	- New projects entering the market (India, Middle East)

Casper Burgering (ABN AMRO Sector & Commodity Research)

Base metals | Copper

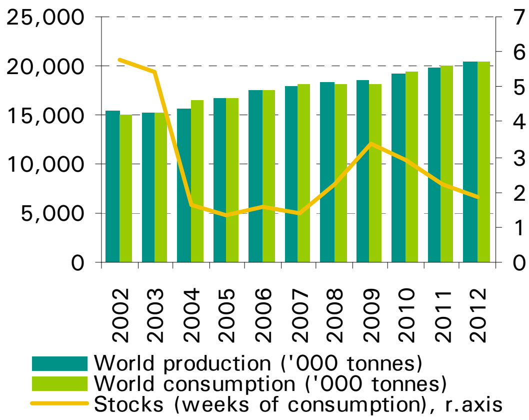
- **Despite solid fundamentals, prices decreased by 12% since their 2012-peak in February**
- **We are confident about short-term outlook and forecast a price increase from current low levels**
- **In the long term, our outlook for the copper industry remains robust**

Historical price Copper



Source: Thomson Reuters Datastream

Supply, demand & stocks



Source: Metal Bulletin

Commodity Research price forecast

	3-month	2012	2013	2014
Copper (USD/t)	7,700	8,000	8,500	8,300
Copper (USD/lb)	3.49	3.63	3.86	3.76

Source: ABN AMRO

Fundamentally sound, but economic worries persist

Fundamentally the copper market is sound. Since the start of 2012, the copper market is in deficit and stocks are still relatively low. Total reported stocks decreased by 18% y-o-y in H2-2012 and represent only 2 weeks of consumption. And while consumption increased strongly by 4.2% y-o-y in H1-2012, copper output only increased by 0.3% y-o-y in the same period. China is the biggest consumer of copper worldwide (world share of 40% plus) and remains the key market to monitor. Import demand from China for copper concentrates (in order to feed its domestic refining facilities) increased strongly by 23% y-o-y in the first five months of 2012. But despite these solid fundamentals, copper prices decreased by 12% since their 2012-peak in February. The relative steep drop in copper prices was not due to strong changes in fundamentals, but rather the result of macroeconomic worries about the Eurozone and the slowdown of the Chinese economy.

Confident on short-term future

Macroeconomic headwinds have a high impact on copper price developments. The economic slowdown in China, the EU and the US has left its mark in H1-2012 on prices. In H2-2012 macroeconomic developments (especially in developing economies) will continue to affect copper prices. ABN AMRO expects that growth will stabilise in the eurozone in Q4, while the US economy will already pick up slightly in Q3. In most emerging markets ABN AMRO foresees an acceleration of growth in H2-2012. Apart from that, the copper market is currently in deficit and is expected to remain tight for the rest of 2012. ABN AMRO is therefore confident about the copper market's short-term future and forecasts a price increase from the current low levels. Although the macroeconomic expectations for regions are positive for the copper price, we have to be aware that the uncertainty continues to be high. The financial markets also have a strong impact on the price direction, because of the active futures market in copper, and could easily affect short-term prices, regardless of fundamental developments.

Market in deficit until 2013

On the macroeconomic front, there is a sense of rebound; economic growth in China and the US is expected to accelerate in H2-2012, while uncertainty about the EU will persist, even if there is hope for a recovery in the fourth quarter. Monetary stimulus across all regions will impact metals demand in the second half year. The copper market will remain tight, as stock levels are low, whereas demand outpaces supply. ABN AMRO expects copper prices to increase during 2012 and average at USD 8,000/t. Long-term demand for copper will remain robust, with an expected recovery in construction demand and demand from new-end user growth area's (such as the healthcare sector, aquaculture and transportation). We expect the copper market to remain tight in 2013 on increasing demand. After 2013, new copper projects will boost output and supply will be growing stronger than demand and this ease the tightness and price.

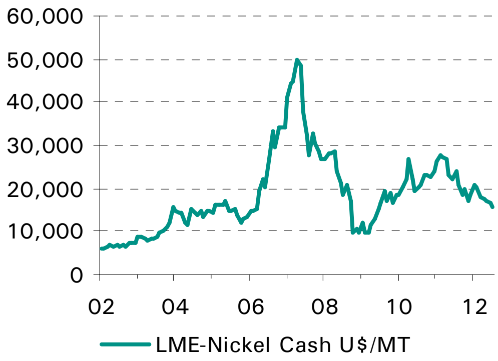
Upside to the forecast:	Downside to the forecast:
- Recovery in construction (US, EU, China)	- Risk aversion / need for liquidity increases
- Stronger-than-forecasted Chinese economic performance	- Further escalation of EU crisis and/or 'cooling off' Chinese economy
- Rising Chinese copper import requirements	- Funds scaling back their interest in copper as an asset class

Casper Burgering (ABN AMRO Sector & Commodity Research)

Base metals | Nickel

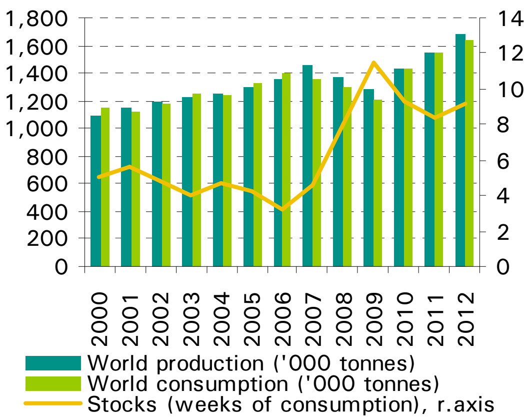
- **Nickel price lost 13.7% since January on macroeconomic woes and poor market conditions**
- **Q3 is a seasonally weak quarter for the stainless sector, and thus a weak quarter for the nickel market**
- **Long-term prospects for demand for consumer durables (in emerging economies) will improve**

Historical price Nickel



Source: Thomson Reuters Datastream

Supply, demand & stocks



Source: Metal Bulletin

Commodity Research price forecast

	3-month	2012	2013	2014
Nickel (USD/t)	17,000	18,000	19,000	20,500
Nickel (USD/lb)	7.71	8.26	8.62	9.30

Source: ABN AMRO

Stainless market conditions have worsened

Fundamental developments in the first half of this year have not been beneficial to nickel prices. The market is currently oversupplied and stocks represent approximately 8.5 weeks of consumption. The macroeconomic worries about the eurozone and the economic slowdown in China did not help either. As a result, nickel prices lost 13.7% since the start of 2012. The stainless steel sector is an important driver for the nickel market (65% of total nickel demand) and nickel demand from this industry remained subdued over the last couple of months. In the US, China and Japan real demand for stainless steel weakened further, whereas stainless production increased by 1.1% in the second quarter y-o-y. Especially in China stainless market conditions have deteriorated, with a PMI-reading below the neutral level of 50. As a result, inventories have risen on softening demand.

At current low prices, projects are mothballed

While nickel mine output grew in the first half of the year, end user demand was very weak. As a result, there is a substantial amount of ore available in the market. And because of the current unfavourable nickel prices, some mining projects have been postponed or mothballed and other operating mines have been put on an early maintenance scheme, in order to wait for better times. But in the short term, we do not expect conditions to improve much. The third quarter is normally a seasonally weak quarter for the stainless sector, and thus also for nickel. We therefore do not expect nickel demand to pick up significantly. We also expect the current surplus to increase in the third quarter. Such fundamental developments do not bode well for price improvements. But besides the fundamental changes, macroeconomic developments will also have their fair share in the direction of nickel price and some macroeconomic indicators are improving. So we hope for an improvement in nickel prices in Q4 and further.

Slight improvements in nickel price until 2014

The macroeconomic outlook for the second half of this year seems to be improving. Economic reports from China indicate that the worst is probably over and some economic indicators from the US and the EU gently point in the same direction. This will support nickel prices in the forecast period. However, the list of new nickel projects is long and keeps growing. This will result in new capacity becoming operational, but it is difficult to estimate when these projects will produce output. Demand growth until 2014 will be higher then supply growth. In volume, China will remain the world's biggest consumer of nickel (more than 40% of total world consumption), but metal demand growth in this country is expected to slow from the high growth levels in recent years. Nevertheless, we think that the prospects for consumer spending and demand for consumer durables (especially in emerging economies) will improve in the longer term.

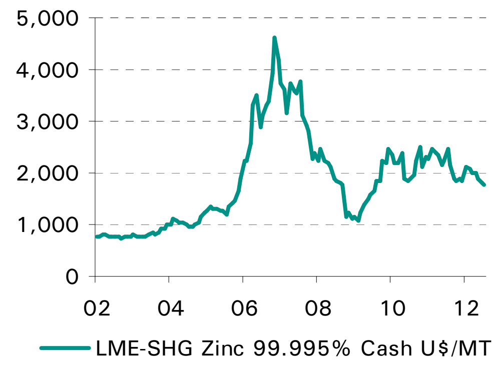
Upside to the forecast:	Downside to the forecast:
- Stainless steel capacity expansion exceeding expectations	- Funds scaling back their interest in nickel
- Supply disruptions and delays in pipeline projects	- Further escalation of EU crisis and/or slowdown Chinese economy
- Increase in Chinese imports due to ETF demand	- Substitution by stainless steel with lower nickel content

Casper Burgering (ABN AMRO Sector & Commodity Research)

Base metals | Zinc

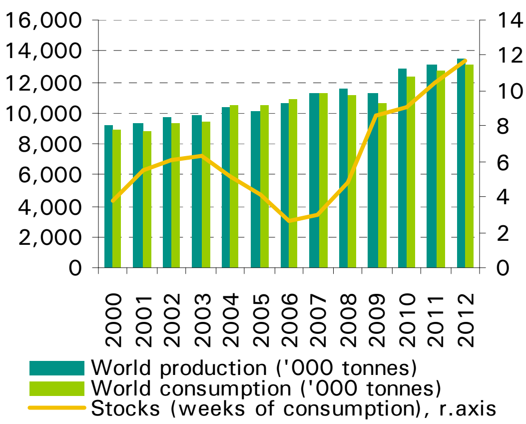
- **Zinc prices have been fluctuating between the range of USD 1,900/t - 2,400/t for almost 3 years now**
- **End user demand (construction, cars and home appliances) is expected to remain flat on short term**
- **Market conditions improve for zinc until 2014; price is expected to increase from current low levels**

Historical price Zinc



Source: Thomson Reuters Datastream

Supply, demand & stocks



Source: Metal Bulletin

Commodity Research price forecast

	3-month	2012	2013	2014
Zinc (USD/t)	1,925	2,050	2,300	2,400
Zinc (USD/lb)	0.87	0.93	1.04	1.09

Source: ABN AMRO

Prices hover around USD 1,900-2,400 for 3 years now

Zinc prices have been fluctuating between USD 1,900/t and USD 2,400/t for almost three years now. Zinc end user demand is dominated by two sectors: automotive manufacturing and construction. In most parts of the world, the demand for zinc has been weak. Especially activity from construction sectors worldwide is relatively poor. At the beginning of 2012, prices decreased from their 2011 average level and hovered around USD 2,000/t. Both world zinc smelter production and consumption were down in H1-2012 by 2% y-o-y. Zinc production in China was down by 2%, while in the US production increased by 2%. In the EU the imbalance is increasing, with production stabilising in H1-2012, while zinc smelter consumption is down by 3% y-o-y. Stocks increased strongly in the same period by 15% y-o-y. In July, zinc stocks reached a record volume of more then 1 million tonnes, reflecting the current slowdown in zinc end user demand.

Weak demand will keep zinc prices flat

So far this year, demand for zinc stayed weak in most parts of the world. Zinc prices fell by more than 15% in comparison to the peak price of USD 2,189/t in February 2011. The weakness in demand was caused by the slowdown in activity in the manufacturing and construction sectors in the EU, the US and China. The most recent manufacturing PMI's in most regions declined and ended below the 50-mark. In order to stimulate growth in the second half of this year, the Chinese government has announced some measures (infrastructural and construction projects). It remains, however, to be seen if these measures succeed in stimulating demand growth of zinc (and other base metals) significantly this year. Construction sectors worldwide are expected to remain flat, and demand from sectors such as cars and home appliances will also remain subdued. And because of slow demand, stocks will increase further. We therefore expect the zinc price to remain flat in the coming three months.

Demand growth higher than supply growth in 2013-'14

Despite the current weak sentiment and the global economic turmoil, ABN AMRO is optimistic about the future of the zinc market. We expect prices to increase from their current low levels until 2014, based on the expectation that demand growth will outpace supply growth in the forecast period. Nevertheless, the outlook on demand remains mixed, because of strong regional differences. China is the world's largest auto market; its domestic auto market is expected to grow by double-digit figures in the forecast period. In the US, the EU and Japan, car manufacturing is not expected to reach trend levels until 2013; auto sales will stay under pressure. Just as in other base metal markets, macroeconomic developments have their fair share in price developments in the forecast period. Until 2014 the macroeconomic outlook will improve and this suggests that zinc market conditions should also improve.

Upside to the forecast:	Downside to the forecast:
- Demand recovery in major zinc-consuming countries	- Sharper weakening of Chinese housing/construction sector
- Rising galvanised sheet use in China	- Substitution of zinc with aluminium in e.g. automotive die-casting
- Increasing raw materials prices and labour costs	- Position liquidation if other investments become attractive

Casper Burgering (ABN AMRO Sector & Commodity Research)

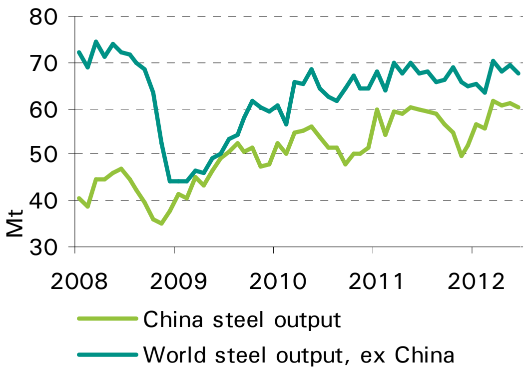
Ferrous metals | Steel (global HRC)

- **Global steel prices decreased 6% since the beginning of 2012**
- **Sentiment is low and there seems to be little incentive for a short-term increase in activity**
- **Despite the slowdown in steel output worldwide, overcapacity remains a structural problem**

Historical price Steel

Source: Thomson Reuters Datastream

Crude steel production
(per month)



Source: IISI, Thomson Reuters Datastream

Commodity Research price forecast
(USD/t)

	3-month	2012	2013	2014
Steel (HRC, global)	600	626	580	560

Source: ABN AMRO

Steel prices eased on weak market sentiment

World steel production has increased marginally by 0.4% y-o-y over the first five months of 2012. Even in China, steel output until May increased by only a meagre 1.1% y-o-y. Production in the US, on the other hand, increased by 9.2% y-o-y in the same period. In general, the global steel market is weak, market sentiment is gloomy and end user demand sluggish. Steel market conditions in Europe are especially challenging. Also, the global utilisation ratio averaged at a high of 79.4% (until May), far below its pre-crisis level in 2008 (until May), which averaged at 89%. As a result, steel prices across regions have decreased since the beginning of 2012. On average, global steel prices decreased by 6% since the beginning of 2012. Compared to the peak in March 2011, when the global price reached USD 800/t, the price has lost more than 20% already.

Sentiment is low and prices will ease further

In developed as well as in emerging economies we have witnessed a slowdown in growth. In practically all major countries, the PMI is below 50, indicating a slowdown in manufacturing activity. ABN AMRO expects that steel demand will remain subdued in the short term. End user demand will remain weak for the next three months; in particular worldwide construction demand for steel is sluggish. Sentiment amongst major steel end users in China is low and there seems to be little incentive for a short-term increase in activity. In recent months, consumption and production growth of steel in China started to slow, which indicates that the market is weak. This is also the case in Europe: steel end using sectors are showing practically no signs of recovery and we do not expect an impressive improvement in the short term. As a result, steel prices will ease further in the next three months. Market conditions are not favourable and mills must prepare themselves for more headwinds. Steel demand growth will soften, as the market is approaching the seasonal slowdown.

Oversupply puts downward pressure on prices

The production pattern of steel over a full year suggests that on average global steel output in the second half of a year will remain subdued. According to ABN AMRO, full year steel production will total 1,480 Mt in 2012, which represents a decrease of 0.7% in comparison to world steel output in 2011. Because demand from major steel users in China is slowing further in 2012, we estimate that Chinese steel output will decrease by 1.0% y-o-y in 2012. Despite the slowdown in steel output worldwide, overcapacity remains a structural problem. The looming oversupply will continue to have a strong effect on steel price developments and only structural capacity cutbacks or very strict producer discipline can bring the market back more into balance. We therefore think that prices will continue to ease in the forecast period. Long-term projections indicate that demand growth for steel will remain thin and mills will react with production cuts. Steel mills continue to have an interest in upstream integration; captive (raw materials) production decreases the exposure to price volatility.

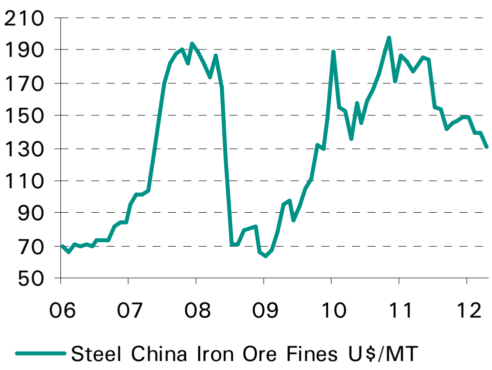
Upside to the forecast:	Downside to the forecast:
- Stimulus package by governments	- Strong decline in construction activity in China
- Strong steel demand from key sectors in EU, US	- Escalation of EU crisis and/or strong cooling off Chinese economy
- Permanent shut-down of Chinese capacity (small mills)	- Continued oversupply of steel and limited producer discipline

Casper Burgering (ABN AMRO Sector & Commodity Research)

Ferrous metals | Iron ore (fines)

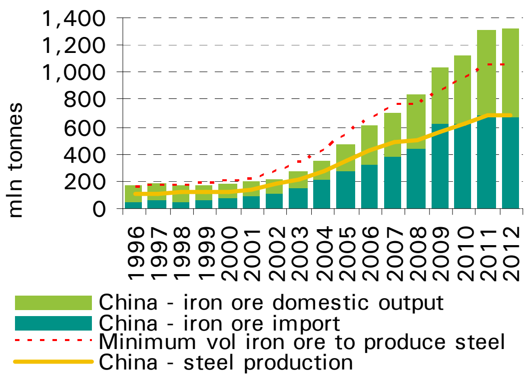
- **China increased its steel output with a meagre 1% until May and iron ore price decreased**
- **Given the current high level of stocks in China, we don't expect demand to rebound strong in H2-2012**
- **With many new projects in the pipeline, overcapacity is looming, which will depress prices**

Historical price Iron ore (fines)



Source: Thomson Reuters Datastream

China iron ore & steel production per year



Source: Thomson Reuters Datastream, ABN AMRO

Commodity Research price forecast
(USD/t)

	3-month	2012	2013	2014
Iron ore (fines)	132	138	125	115

Source: ABN AMRO

Weak steel market; price of iron ore decreased

Although iron ore imports into China declined in June by 5.6% on a monthly basis, the volume of iron ore imported y-o-y increased by 14.1%. Over the first half of 2012, the total imported volume into China increased by 9.7%. Nevertheless, iron ore prices decreased by 5% in the first half of this year, mainly due to the economic slowdown in China and the slowing construction sector. Steel production was sluggish in the first 5 months of 2012, with output stabilizing in most parts of the world. China increased its steel output with a meagre 1%. Steel production in North America increased strongly, while output in the EU and South America declined. Since the release of our previous Commodity Outlook (May 2nd), iron ore prices decreased by 6.4%.

Prices to decrease further in the short term

Growth in consumption will remain weak in 2012, but demand is likely to remain at a solid level. Consumption patterns in China are the key factor to monitor. Further deterioration of the business climate in steel end using sectors in the short term will have a downward effect on the iron ore price. The demand outlook for some steel end users in China looks favourable for the rest of 2012, with buoyant car sales and production. Car sales in the country increased 7.1% in the first half of this, compared to the same period last year. According to the Association of Car Manufacturers, vehicle sales are even about to strengthen further. But given the current high level of iron ore inventories in China, we do not expect iron ore demand to rebound strongly in the second half of this year. The Chinese economy is slowing down and demand from other steel consuming sectors such as construction and manufacturing remains subdued. Despite the monetary easing in China in order to stimulate investment growth, the market-cooling measures by the Chinese government in construction and housing will remain effective. Tighter credit policy aimed at property developers and individual buyers will temper steel demand from the construction sector.

Slower demand growth, while supply increases

Despite the short-term hurdles, China will continue to source high volumes of good quality iron ore in the long run. Domestically sourced ore is of poor quality, which, moreover, deteriorates further. Future projects for the purpose of further development of the country will ensure a solid demand base for iron ore. Supportive of this view are the planned construction and infrastructure projects mentioned in the 12th Five Year Plan and the ongoing urbanisation and industrialisation. Longer-term, however, China wants to become less dependent on external iron ore suppliers (like BHP, Vale and Rio Tinto), and will continuously try to increase its self-sufficiency rate. We expect that the pace of demand growth in the previous years will be lower in the forecast period. Capacity is expected to increase significantly in the long term. With many new projects in the pipeline, overcapacity is looming, and prices will trend downward.

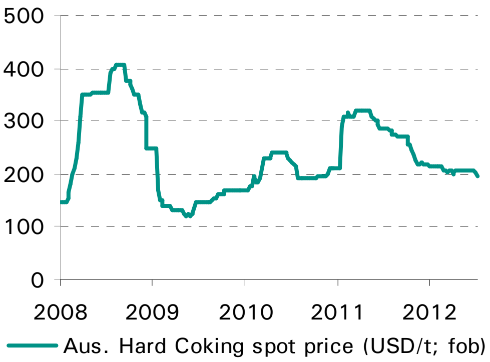
Upside to the forecast:	Downside to the forecast:
- Infrastructural problems, unfavourable weather conditions	- Strong decline in end user demand (e.g. construction China)
- Strong increase in (real) iron ore demand	- Escalation of EU crisis and/or strong slowdown Chinese economy
- Expansion of government policies limiting total exports	- Shut-down of steel capacity (small mills in China)

Casper Burgering (ABN AMRO Sector & Commodity Research)

Ferrous metals | Hard coking coal

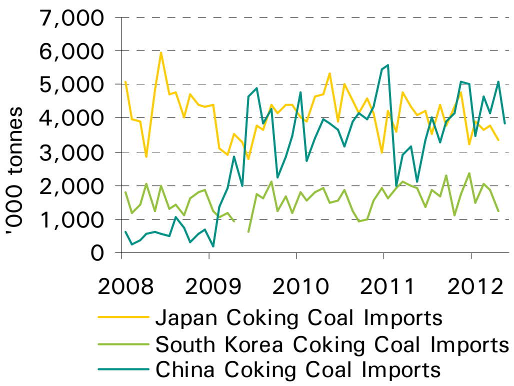
- **Downward price trend due to widespread economic uncertainty (EU and China) and volatile demand**
- **Demand will remain subdued in 2012, due to weak sentiment in steel global markets**
- **Coal markets remains oversupplied and prices will ease until 2014, but maintains relative high level**

Historical price Hard coking coal



Source: Metal Bulletin, Thomson Reuters Datastream

Regional hard coking coal seaborne import



Source: Clarksons SIN

Commodity Research price forecast
(USD/t)

	3-month	2012	2013	2014
Hard coking coal	190	198	190	185

Source: ABN AMRO

Prices trend lower on economic uncertainty

Since its high of March 2011 (USD 320/t), the price of coking coal has started to trend downward. Until November 2011 it dropped more than 30% and continued its downward path with price movements in the range of USD 200 – 220/t until July 2012. The downward trend is to the result of widespread economic uncertainty (EU and China) and a very volatile demand pattern from major coking coal consuming countries. Over the first five months of 2012, steel output in China only increased a meagre 1.1%. Historic figures show that on average Chinese steel production increases by 7-9% in the period from January-May. Import demand from Japan and South-Korea decreased strongly in the first 4 months of 2012, by 14% and 13% respectively, while demand from China increased 27%. As a result, the total imported volume from January-May 2012 in China outpaces the import demand from Japan for the first time.

Prices to ease further this year

Since the start of 2012 the coal price declined 12% already and currently hovers around USD 185/t (Australian prime). The price decline follows the downward trend in prices across the ferrous industry. Both global steel (HRC) and iron ore prices (fines) also fell since the start of 2012, by 4 and 5% respectively. With a further softening of global steel prices, high prices for raw materials are not sustainable. Steel prices keep decreasing due to weak end user demand (especially construction) and economic uncertainty in the EU and the slowdown in growth in China. For this year ABN AMRO expects that demand from major coal consumers will remain subdued, because of weak sentiment in the steel markets. At lower prices for high quality coking coal, China could intensify its strategy of buying material on price dips, but underlying real demand by mills will remain subdued in 2012. Price fluctuations due to unforeseen issues (such as weather, strikes, etc.) are quite common in the coking coal market and in our view this will continue to dominate price movements in the coming months.

Robust demand from China, but sufficient capacity

Although China has abundant sources of coking coal, the domestically mined coking coal is of medium quality. For high quality coking coal, China continues to depend on imports from abroad, notably from Mongolia and Australia. Apart from that, China's domestic coking coal supply faces other structural problems, such as mine safety issues and high mining costs. We therefore expect that China will remain an important coking coal buyer on the international markets in the forecast period. The market is oversupplied, however, and there is abundant volume available in major coking coal producing countries. Barring seasonal and unforeseen supply issues, we expect that existing and future capacity should be more than sufficient to meet demand. Prices are therefore likely to ease until 2014, but maintain relatively high level from then on.

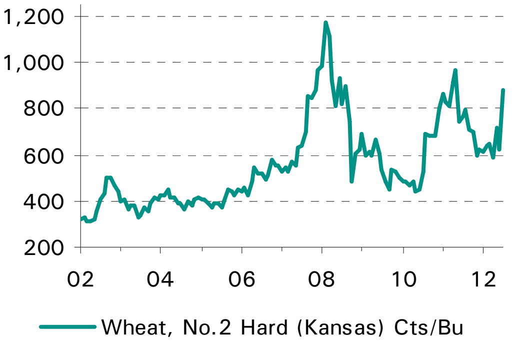
Upside to the forecast:	Downside to the forecast:
- Supply problems (due to weather) in major coal supplying countries	- Strong decline steel demand by end users (e.g. construction China)
- Other coal supply difficulties (strikes, export limits, etc.)	- Escalation of EU crisis and/or stronger 'cool off' Chinese economy
- Government coal stockpiling strategies	- Steel mills switching to (cheaper) alternatives (PCI)

Hans van Cleef (ABN AMRO Sector & Commodity Research)

Agriculturals | Wheat

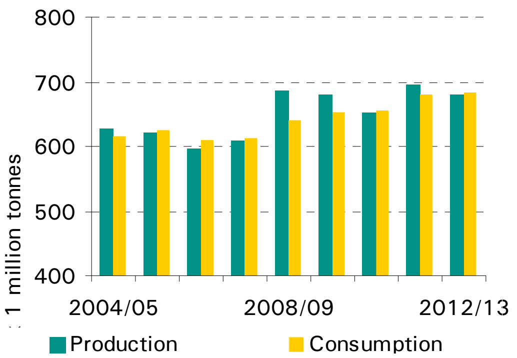
- **Wheat production to decrease in 2012/2013, back to average yields**
- **Weather-related news could continue to push prices towards 2007 high**
- **Normalizing conditions should pave the way for a correction lower later this year**

Historical price Wheat



Source: Thomson Reuters Datastream

Wheat production and consumption



Source: IGC

Commodity Research price forecast

(Cts/bu)

	3-month	2012	2013	2014
Wheat	750	700	-	-

Source: ABN AMRO

Weather related issues boost wheat prices

After a 9-month period of relatively stable prices, mainly driven by macro-economic fundamentals, wheat spot- and future prices rallied much higher. News about disappointing harvest prospects due to bad weather conditions in Russia and Ukraine, as well as the worst drought in the US Midwest since 1956, is strongly affecting the total crop outlook. As a result, wheat prices jumped from roughly USD 600 cts/bushel to levels above USD 890 cts/bushel in mid-July. This rally of more than 40% is almost similar to the strong Q3 rallies in 2002, 2007 and 2010. With supplies being relatively tight, more disappointing news about weather-related issues, possibly affecting these crops as well, could continue to push wheat prices higher. Wheat and corn prices are closely correlated. Since March 2011, corn and wheat prices were almost equal, while traditionally wheat prices traded higher as it is a primary ingredient in food products. Only during the past few weeks, wheat prices seem to increase even faster than corn prices, resulting in a higher wheat-corn ratio.

Higher prices in the near term to ease later this year

Both the US Department of Agriculture (USDA) and the International Grains Council (IGC) lowered their forecasts for global production, consumption and supplies for 2012/13. The global wheat production forecast was lowered by 6.7 and 6.0 million tonnes, respectively, which is about 4% lower than in the record production year 2011/12. Global wheat consumption – including wheat feeding and wheat food use – is reduced by 4.6 million tonnes, resulting in world ending stocks (or carry-over stocks) for 2012/13 being projected at roughly 185 million tonnes (about 10% lower than during the past three crop years). The carry-over stocks cover about 98 days of worldwide consumption. Another remarkable change in the IGC's Grain Market Report was the decline in major exporters (from 74 in 2011/12 to 58 in 2012/13).

Previous similar steep rallies of wheat prices were characterized by overshooting before easing somewhat, mostly in August and September. Especially if weather conditions do not turn for the better in the coming weeks, wheat prices could even jump to the 2007 high of USD 960 cts/bushel. However, such a rally should be short-lived and a downward correction is most likely to occur shortly-thereafter. The stress in the short term is also reflected in the forward curve, which is in backwardation (spot prices > future prices). This indicates that the market is positioned for more upside momentum in the near term, but anticipates lower prices in the coming months. Assuming that weather conditions will normalize in the coming months, wheat prices could ease back towards USD 700 cts/bushel if the crop outlook does not deteriorate any further. This may not prevent wheat prices to test the 2007 high first, however.

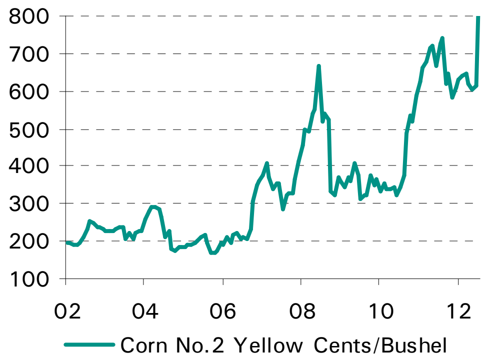
Upside to the forecast:	**Downside to the forecast:**
- Production risks due to adverse weather in production areas	- Impact of a slowing global economy
- Lower production of high quality wheat	- Above-average yields
- High correlation with corn, a higher wheat/corn ratio	- Better weather conditions lead to adjustment in crop outlook

Hans van Cleef (ABN AMRO Sector & Commodity Research)

Agriculturals | Corn

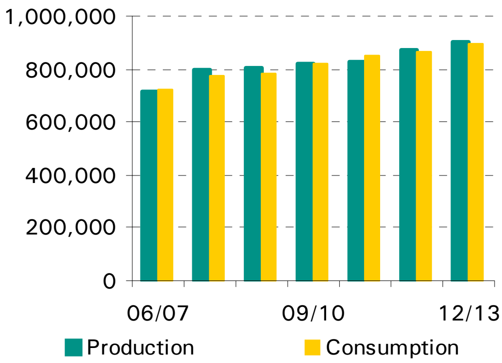
- **Corn production was set to reach record levels due to increase in acreage**
- **US drought hurts crop plantings and threats global corn production, leading to record high prices**
- **Downside is protected; risk of even higher prices remains**

Historical price Corn



Source: Thomson Reuters Datastream

Corn production and consumption
(x million metric tons)



Source: IGC

Commodity Research price forecast
(USDcts/bushel)

	3-month	2012	2013	2014
Corn	800	675	-	-

Source: ABN AMRO

US drought pushes corn prices to record levels

The highest acreage taken in use for corn production in 75 years led markets to expect a record harvest in the US, at the start of the crop planting season. Particularly in North America and China plantings increased, resulting in an expected record corn production of 917 million tons worldwide (IGC). The worst drought since 1956 dashed these hopes, however, affecting 55% of the US mainland (Reuters). Given that the US are the world's largest corn exporter, corn prices – but also those of wheat and soybeans – will likely continue to rise. Since mid-June, corn prices have been jumping higher and with a rise of more than 40% they breached the record high of June 2011 (USD 799.75 cts/bushel). CBOT Corn future prices rose by as much as the daily 40-cent trading limit for several days in a row. Already in June the US Department of Agriculture (USDA) cut its supply conditions rating to 48% from 56% and also cut its corn yield estimate by an unprecedented 20 bushels to 146 bushels per acre. Crop rates were cut from good/excellent to poor/very poor conditions. On top of that, the drought creates perfect conditions for pests that could hurt crops even more. A possible result of the lower US harvest leading to record high corn prices is a rise in inflation in the coming months. Due to the global economic slowdown leading to lower gasoline consumption, less corn is used for fuel ethanol.

More bad news will continue to affect the market

In its latest World Agricultural Supply and Demand Estimates (WASDE) Report, the USDA sharply lowered its projection for 2012/13 corn demand. It expects the largest reduction in feed and residual disappearance, projected to be 650 million bushels. CBOT Corn future prices are almost neutral for the coming year and only start to decline (backwardation) afterwards. This suggests that the stress in the coming harvest is expected to continue in the coming months, and that corn prices are not likely to decline any time soon. Weather forecasters have warned that the heat and drought will only intensify towards the end of July and possibly beyond (Reuters). It is therefore to be expected that corn prices will rise further in unchartered territory, making it extremely hard to predict further price developments. All in all, risks are clearly on the upside, and overshooting is a real possibility. ABN AMRO therefore thinks that corn prices will remain elevated in the coming months, given that supply from the coming harvest will be lower, whereas demand is only marginally easing. Our 3-month forecast is set at USD 800 cts/bushel, but this may well be too cautious. We expect future prices to ease in the coming months, with the progression of the crop year, when there will be more clarity about the final harvest data.

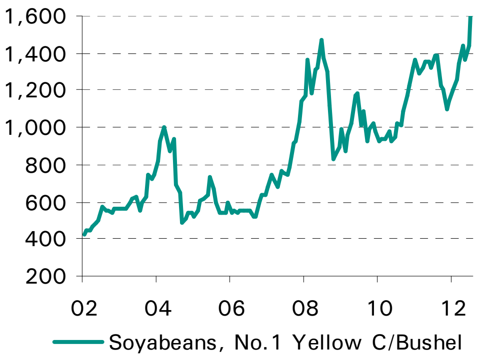
Upside to the forecast:	Downside to the forecast:
- Production risks due to adverse weather in production areas	- Corn usage for ethanol cut back further due to economic slowdown
- Lower production of high quality corn	- Better weather conditions lead to adjustment of crop expectations
- More demand for feed usage if Chinese economy picks up again	

Hans van Cleef (ABN AMRO Sector & Commodity Research)

Agriculturals | Soybeans

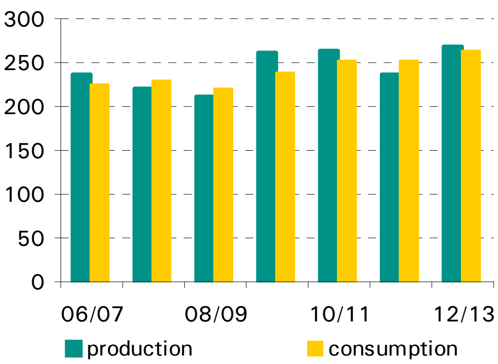
- **Soybean prices jumped to record levels, due to the extreme drought in the US**
- **Production expectations are scaled back and the risk of even lower crops increased**
- **Weather conditions should improve immediately to improve the 2012/13 crop outlook**

Historical price Soybeans



Source: Thomson Reuters Datastream

Soybeans production and consumption
(x million metric tons)



Source: IGC

Commodity Research price forecast
(Cts/bushel)

	3-month	2012	2013	2014
Soy	1,750	1,525	-	-

Source: ABN AMRO

Soybeans rallied to record highs

Soybean prices soared to record high levels in July, surpassing the levels seen in 2007/08. This steep rally is fully in line with the appreciation of corn, and, to a lesser extent, wheat, and driven by the extreme drought in the US. Soybeans rallied almost 50% so far this year, of which more than half since the start of June. The appreciation during the first half of the year was mainly driven by the low global soybean stocks, which are the result of severe drought periods in South American countries like Brazil, Argentina, Paraguay and Uruguay. The worst drought since 1956 in the US caused an acceleration in the rise of soybean prices in recent weeks, as supply from previous harvests becomes very tight and new harvests will likely disappoint. On top of that, demand – mainly from China – continues to increase. As a result, there is clearly a need for a significant increase in higher yielding plantings, in order to prevent a shortage in soybeans. The US Department of Agriculture (USDA) projected the global soybean production at 267.2 million tons for 2012/13, with almost 4 million tons lower for the total US production. The USDA also projects lower beginning and ending stocks, as well as reduced use.

Rally will continue; conditions will improve ultimately

The forward curve is in backwardation (spot prices > future prices), which clearly indicates stress at the short end of the curve. The yield was cut back from 43.9% in June to 40.5% in July. Only 34% of the crop is rated at good-to-excellent by the USDA. Also for soybeans, the current weather conditions increase the risk of a spider mite infestation, which would diminish the harvest even further (Reuters). Looking ahead, considerable uncertainty continues to hang over the market. More favourable growing conditions, especially in the US, and/or an increase of the planted acreage are needed to avoid a further decline of the already tight inventories. However, as weather forecasters do not expect an improvement in US weather conditions any time soon, more short-term upside is possible. If we take also into account that imports from the EU and in Asia (especially China, Thailand and Indonesia) will continue to expand, a significant drop in soybean prices seems highly unlikely in the near term. The positive factor is that these high prices will induce expanded planting of soybeans for the next crop season. It may be clear that forecasting a 3-month outlook - while soybean prices are quickly approaching unchartered territory - is extremely difficult. ABN AMRO expects the rally to continue, as weather conditions are not likely to improve in the near term. However, profit taking on long positions, as well as anticipation on better crops in the future, should ultimately push prices lower again. We have set our 3-month outlook at USD 1,750 cts/bushel but there is a significant risk to the upside.

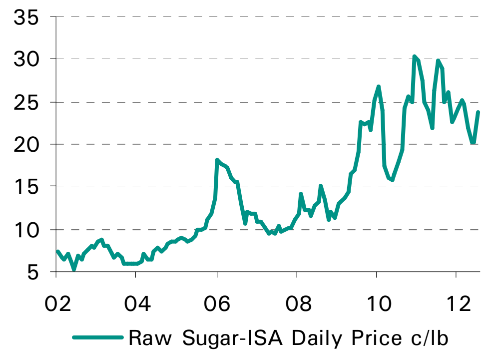
Upside to the forecast:	Downside to the forecast:
- Weather conditions deteriorate even further or cover a larger area	- Improved weather conditions result in better-than-expected harvest
- News on lower acreage for the 2013/14 crop	- Economic conditions disappoint, which hurts demand outlook
- Improved risk sentiment increasing demand for commodities	

Hans van Cleef (ABN AMRO Sector & Commodity Research)

Agriculturals | Sugar

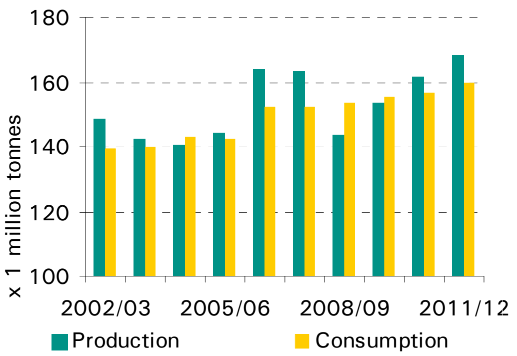
- **Unfavourable weather conditions pushed sugar prices almost out of the longer-term downtrend**
- **ABN AMRO expects sugar prices to appreciate towards USD 24c/lb in Q3**
- **Global supplies and large spot trading could cap the upside in sugar prices**

Historical price Sugar



Source: Thomson Reuters Datastream

Sugar production and consumption



Source: USDA

Commodity Research price forecast
(Cts/lb)

	3-month	2012	2013	2013
Sugar	24.00	23.00	-	-

Source: ABN AMRO

Sugar prices broke out its downward trend

Sugar prices are, together with the other breakfast commodities, less affected by the US drought, which has led to huge rallies in corn, soybean and wheat prices. Weather conditions in Brazil, the worlds biggest sugar producer, are unusually wet for the time of the year, while the first quarter was too dry. This resulted in a 30% drop in production in Brazil (UNICA). The effect of bad weather on sugar prices was significant, but not as much as with the other soft commodities. With of the world's largest production areas either too dry or too wet, benchmark sugar NO11 futures on ICE (2nd contract) rose about 20% from levels below USD 19c/lb at the start of June to levels above the upper end of the sloping trend channel at USD 23.50 cts/lb. Only a few weeks ago, higher-than-expected deliveries added to downside risks to sugar prices, as global supplies seemed to turn into a large surplus. According to the International Sugar Organisation (ISO), the 2011/12 world production-consumption balance showed a substantial gap, resulting in a surplus. This would be the first surplus since the deficits in 2008/09 and 2009/10 and the balance in 2010/11. India, which is the largest sugar consumer, imposed a 10% tax duty on raw sugar imports, but its impact on consumption is expected to be limited.

Weather conditions partly countered by high supplies

Looking at CFTC market positioning, the open interest in sugar futures is by far the largest position of all soft commodities. The commercial net positioning is significantly short, or as traders say: well priced. Since mid-July the number of non-commercial long positions has tripled, which indicates that speculators are anticipating on higher prices. Prices could remain elevated, because the unseasonable rains in Brazil, heavy rains in Australia and a delayed start of the Indian monsoon all affect the 2012/13 harvest, even if a significant part of the production cuts in Brazil is countered by increased production in Russia, Europe, Thailand, Ukraine and China. Although the adverse weather conditions in the US do not appear to have much to do with world sugar prices, there are traders who link the corn belt drought to a wider El Nino scenario, whereas speculators and hedge funds tend to buy baskets of commodities that include sugar; both are supportive for sugar prices. According to the ISO, higher production in the Far East and Australia is countered by lower production in Europe and India. As a result, there will be a significant reduction in surplus. The ISO still expects global production to outpace consumption by 4 million tonnes. Another factor affecting the longer-term outlook is that, with ethanol prices rising even much faster than sugar prices, and taking the sugar surplus into account, an incorrect signal could be send to the market, which could trigger Brazilian sugar producers to make more ethanol instead of sugar next year. All in all, we expect sugar prices to continue their rally and adopt a more neutral pattern afterwards, based on the production surplus. Our 3-month price forecast is set at USD 24.00c/lb, and some easing later on could result in an average price of USD 23.00c/lb in 2012.

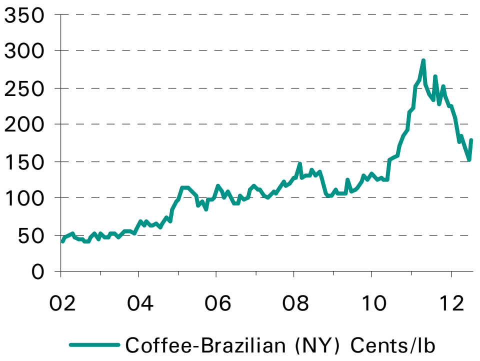
Upside to the forecast:	Downside to the forecast:
- Weather-related production risks in big production areas	- Supplies become even larger than forecasted
- Increasing import by China (partly for stock building purposes)	- Indian and/or Russian export quota's are increased
- Increase in supply disappoints; lower exports by Russia	

Thijs Pons (ABN AMRO Sector & Commodity Research)

Agriculturals | Coffee

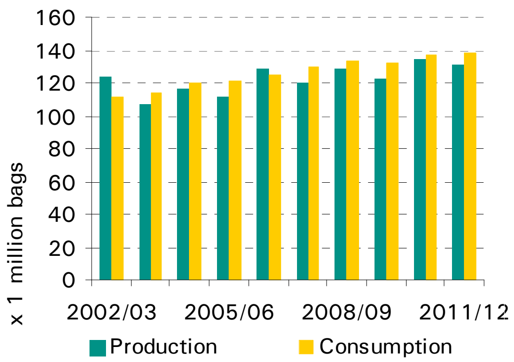
- **Supply deficit in 2011/2012**
- **No reconstitution of stocks which are at historically low levels**
- **Coffee prices will remain above the long-term average**

Historical price Coffee



Source: Thomson Reuters Datastream

Coffee: production and consumption



Source: ICO

Commodity Research price forecast
(Cts/lb)

	3-month	2012	2013	2014
Coffee	185	195	-	-

Source: ABN AMRO

Decreasing stocks in 2011/2012

In 2011/2012, global production will decrease by 2.3% to 131.3 million 60kg bags (source: ICO), contrasting sharply with trade consensus. Less favourable weather conditions will bring production levels back to below the bumper crop in 2010/2011. Brazilian production declines by 9.6% to 43.5 million bags, as this is an off-year in the biennial Arabica production cycle. Production forecasts for the other leading coffee countries are mixed. Vietnam's production is forecast to increase by 2.7% according to ICO data, while production in Indonesia and Colombia is expected to decrease. Production in Africa is improving year-on-year. The current weather situation in several producing countries may affect the quality of the beans. In 2011, global coffee consumption increased by 0.6%, below the long-term annual growth rate of 2.4%. The global consumption is mainly driven by internal demand within exporting countries, particularly Brazil, and also South East Asia, as well as other emerging markets. Coffee consumption in traditional importing countries declined due to the greater market saturation and the macroeconomic turbulence in some major importing countries. In 2011/2012, global stocks will further decline. Stocks in the producing countries are at historically low levels. The stocks-to-use ratio is at its lowest level on record.

Market fundamentals favour firm prices

Longer-term, coffee production will increase because many producing countries have expansion programmes. For 2012/2013 the Brazilian crop-forecasting agency CONAB estimates production at 50.5 million bags. This seems a conservative view; trade estimates are higher. Global coffee consumption remains buoyant, with the exporting countries showing a significant increase, followed by emerging markets. Coffee consumption in exporting countries is rising due to increasing disposable incomes, continued economic growth and a developing coffee culture. Coffee consumption in emerging markets is increasing due to a growing private consumption, rising levels of urbanisation and also a developing coffee culture. The traditional markets remain saturated and even show a small decrease due to macroeconomic developments. The 2012/2013 production and consumption forecasts point to a production surplus; global stocks will be rebuilt. In the third quarter 2012 coffee prices will remain at a historically high average level, based on market fundamentals. They will be volatile, however, because of concern about the economic/political outlook and tight market fundamentals.

Upside to the forecast:	Downside to the forecast:
- Coffee production's sensitivity to weather conditions - Frost damage in the Brazilian winter - Falling certified stocks at origin	- Downturn in the global economy - Weight of record Brazilian crop

Thijs Pons (ABN AMRO Sector & Commodity Research)

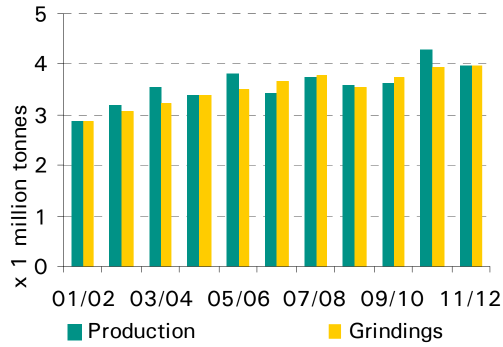
Agriculturals | Cocoa

- **Falling grindings in Europe and North America in Q2 2012**
- **Stock-to-use ratios remain healthy in spite of declining production**
- **Cocoa prices will remain on current levels**

Historical price Cocoa

Source: Thomson Reuters Datastream

Cocoa beans production and consumption



Source: ICCO

Commodity Research price forecast
(USD/t)

	3-month	2012	2013	2014
Cocoa	2,250	2,350	-	-

Source: ABN AMRO

Falling grindings in Europe and North America

In 2011/2012, global production will decline by 7% to 3.99 million tonnes (source: ICCO). Production is declining in the most important producing countries due to far from favourable weather conditions and crop diseases. Production in Ivory Coast is declining as a result of a five-month dry spell in 2011/2012. Abundant rains through June in Ivory Coast's southern and western cocoa regions have increased the risk of diseases. Output in Ghana is expected to decline due to less favourable weather conditions and a decline in smuggling beans into Ghana, despite increased minimum farmgate prices and the replacement of old trees with new high yielding hybrids. West African production amounts to almost 75% of global output. In 2011/2012 global grindings will increase by 1.8% to 3.993 million tonnes (source: ICCO), with 40.7% of world grindings being processed at the place of origin. Cocoa grinding in Europe and North America is declining, whereas grinding in the countries of origin is increasing. In the second quarter of 2012, grindings in Europe fell 17.8% and in North America 9.8%, much more than expected. Cocoa grindings in Asia rose 5.7%, driven by the strong demand for cocoa powder. The production deficit of 43.000 tonnes brings the end-of-season stocks to 1.732 million tonnes, equivalent to 43.4% of world grindings. This ratio is to remain healthy. In 2011/2012 the major factors influencing cocoa prices are declining production and weak grinding figures in Europe and North America.

Prices will remain highly volatile

In the longer term the global production outlook will be positive, generally as a result of increasing cocoa development programmes, better education for farmers and improved agricultural methods. Trees with higher resistance to diseases in conjunction with better husbandry increase the likelihood of higher crops going forward. Long-term cocoa grinding is expected to grow, due to strong demand for cocoa powder in emerging markets and the increasing demand for dark chocolate with a high cocoa content. Short-term grinding is expected to be lower due to shrinking processing margins and a slowdown in chocolate consumption in developed economies caused by the economic crisis in the most important cocoa consuming countries. In the third quarter 2012, cocoa prices will remain on current levels on market fundamentals and economic developments. Concerns about adverse weather conditions may even result in an upward price movement. Prices will remain highly volatile and at lower levels than last year.

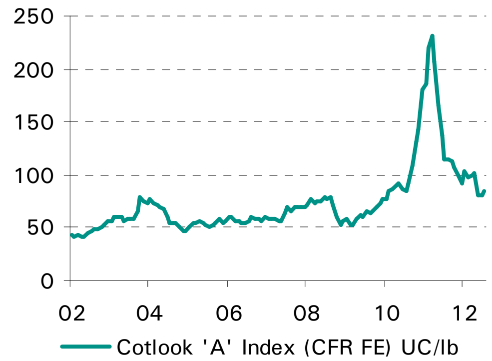
Upside to the forecast:	Downside to the forecast:
- Smaller harvest due to dry weather - High vulnerability of the cocoa crop to diseases	- Downturn in the global economy and continued poor economic growth prospects - Long-term, many smaller producing countries have ambitious expansion plans

Thijs Pons (ABN AMRO Sector & Commodity Research)

Agriculturals | Cotton

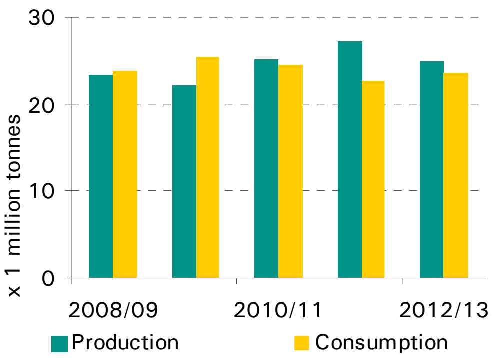
- **Increased production in 2011/2012 due to larger planted area**
- **The process of rebuilding Chinese strategic reserves is completed**
- **Cotton prices will decline, but remain above the long-term average**

Historical price Cotton



Source: Thomson Reuters Datastream

Cotton production and consumption



Source: ICAC

Commodity Research price forecast
(USDc/lb)

	3-month	2012	2013	2014
Cotton	75	90	-	-

Source: ABN AMRO

Rebuilding strategic reserves in China

In 2011/2012 global cotton production increased by 8.2% to 27.161 million tonnes (source: ICAC). Planted areas in the main producing countries increased due to the higher cotton prices vis-à-vis competing crops, such as soybeans and corn. Production rose in China, India, Pakistan and Francophone Africa. In 2011/2012 global cotton mill use decreased by 7.1% to 22.743 million tonnes. Mill use is decreasing due to the slowing world economy and also because of the high and volatile prices in 2010/2011. The global cotton trade is improving, driven by the large imports from China (+75%). China has implemented a system with minimum cotton support prices and acquired a large amount of the domestic crop to rebuild the state strategic reserves. Chinese mills have to import cotton to compensate for the shortage of domestic cotton. In contrast, imports by other countries decreased by 18%. Global stocks increased by 48% to 13.8 million tonnes due to an increasing production and a decreasing mill use, resulting in a production surplus of 4.4 million tonnes. The increase in global stocks is concentrated in China as a result of the government's purchases. About 38% of global stocks are held in China. In 2011/2012 cotton prices declined noticeably due to the second season of increasing global stocks.

Prices will decline due to increasing stocks

Global cotton production is projected to decline by 8.4% to 24.87 million tonnes in 2012/2013. The planted area will decline as a result of the plunge in cotton prices in 2011/2012. Production is expected to decrease in China, India, Brazil and Turkey and to rise in the US and Francophone Africa. Next year may also see a small recovery in mill use as a result of the lower prices. Spinners are switching back from polyester to cotton. Uncertainty about global economic developments could lower global cotton consumption, however. Global cotton trade will also decrease. The process of rebuilding the strategic reserves in China is completed and imports by China are projected to fall by 40%. In 2012/2013 production and consumption forecasts point to a production surplus of 1.3 million tonnes. Global stocks will increase to 15.1 million tonnes, the equivalent of 64% of global consumption. About 8 months of global consumption is currently stored in warehouses. The stocks-to-use ratio is at its highest level in about 30 years. In the third quarter cotton prices will decline due to the increasing global stocks and the in time arrival of rains in Texas. Cotton prices will be volatile due to concerns about the weather conditions in the producing countries and global economic developments.

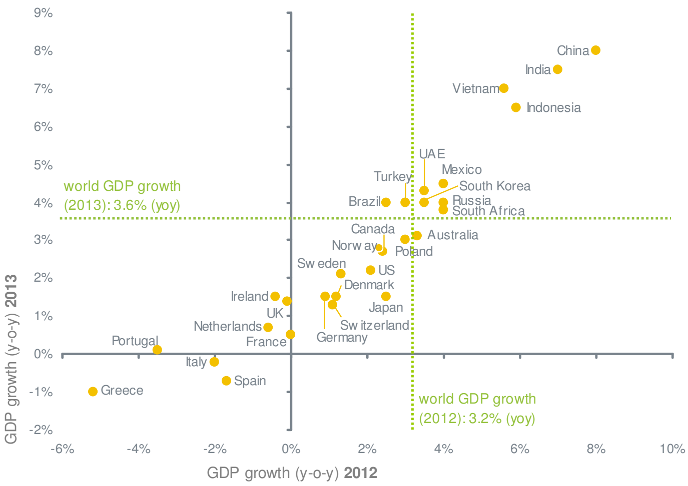
Upside to the forecast:	Downside to the forecast:
- The possibility to build buffer stocks in other countries	- Chinese policy regarding the large national reserve - Downturn in the global economy

Macro-economic data | Leading indicators supporting commodity price forecasts

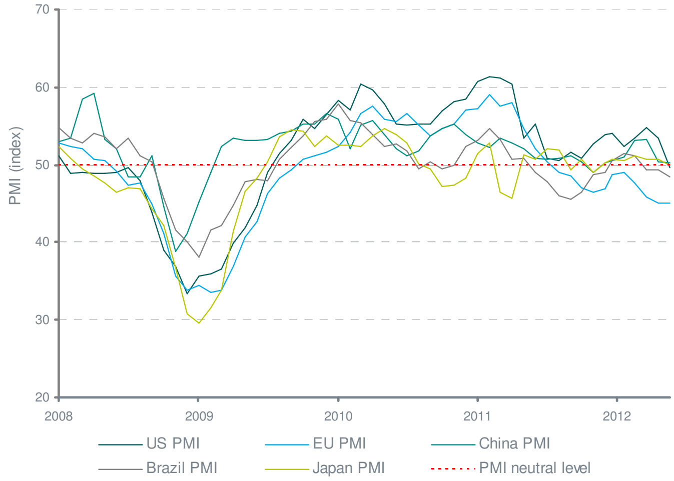
Macro-economic forecasts ABN AMRO Group Economics | Macro and Emerging Markets Research:

	GDP growth (% y-o-y)				Inflation (CPI, % y-o-y avg)				GDP per cap USD
	2010	2011e	2012e	2013e	2010	2011e	2012e	2013e	2011
US	3.0%	1.7%	2.0%	2.0%	1.7%	3.2%	1.8%	1.6%	48,147
China	10.4%	9.2%	8.0%	8.0%	3.2%	5.5%	3.5%	5.0%	8,394
Japan	4.5%	-0.7%	2.5%	1.5%	-0.7%	-0.3%	0.4%	0.6%	34,362
EU	1.9%	1.5%	-0.5%	0.2%	1.6%	2.7%	2.3%	1.4%	31,548
UK	2.1%	0.7%	-0.3%	1.3%	3.3%	4.5%	2.5%	1.8%	35,974
Germany	3.6%	3.1%	1.0%	1.2%	1.1%	2.3%	1.8%	1.7%	37,935
World	**5.2%**	**3.7%**	**3.2%**	**3.5%**	**3.6%**	**4.7%**	**3.8%**	**3.8%**	**10,922**

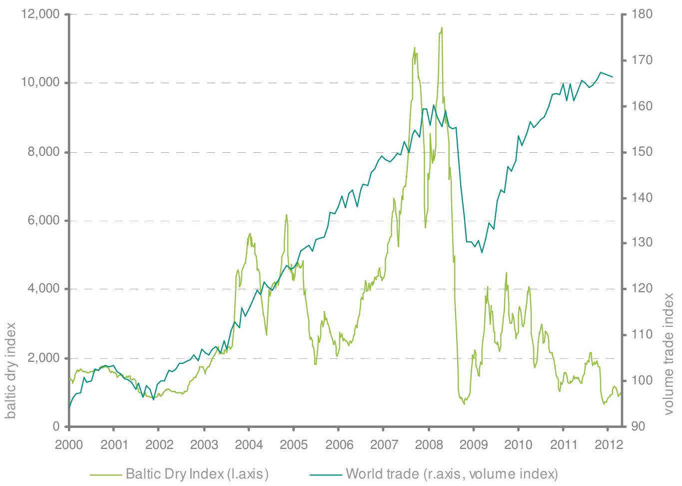
GDP forecast developed and developing countries



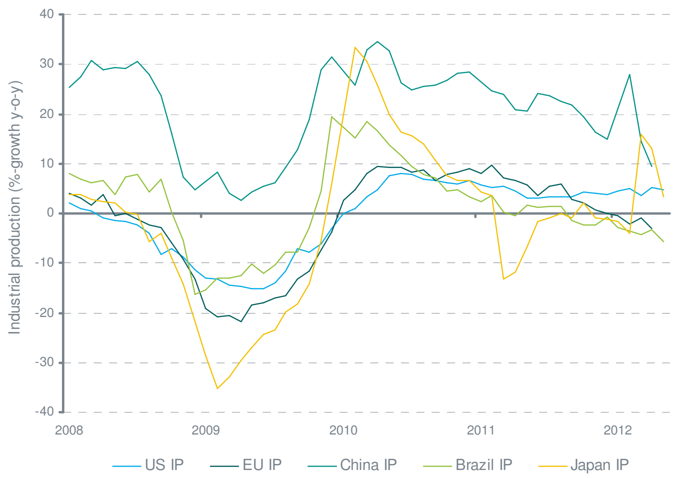
Regional manufacturing PMI



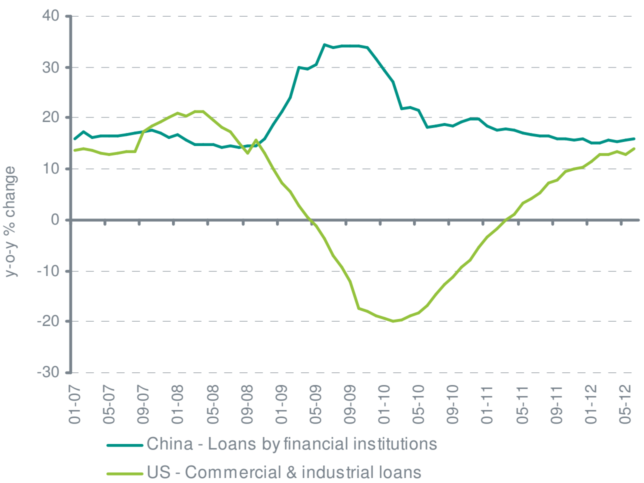
Baltic Dry Index and World trade volume



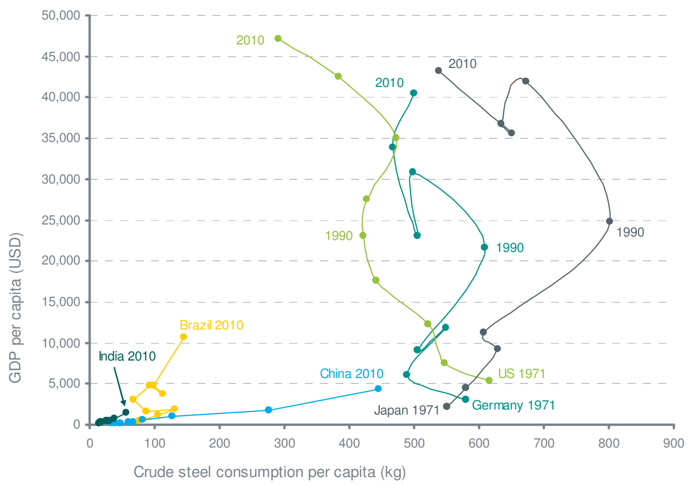
Industrial production by region



China & US: loans by financial institutions



Crude steel demand and GDP per capita per country



Consulted sources for this publication: Economic forecasts, insights and publications from ABN AMRO | Group Economics, Metal Bulletin, CRU, Commodities Now, Mining Journal, Coaltrans, Bloomberg, IISI, ISSB, NBS, IGC, IEA, Energy Intelligence, ICCO, ICO, USDA, China Mining, Clarkson Research Services, ABARE, AME, Thomson Reuters Datastream, World bank

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