

COMMODITIES COMMENTS

SPECIAL SUPPLEMENT TO Q2 REVIEW

“THE REVERSE GOLD EFFECT” OR “THE TIME WEIGHT”



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Table of Contents

<i>INTRODUCTION</i>	3
<i>REMBERANCES</i>	8
GOLG	
<i>CURRENT SITUATION</i>	
OIL	12
SOY	16
<i>CONCLUSION</i>	21

PRESENTATION OF GENERAL CONTEXT

Key points

The peculiar evolutions of commodities prices since the first liquidity stress supported by financial markets in July 2007 conducts to some type of academic reminders from the developments experienced some years ago by the gold market.

One must keep in mind that the very sophisticated commodities futures markets of today were at their beginning basic tool to regulate and , give a fair pricing according to quality issues and equitable price discovery for all participants in the process of growing and selling food products like butter, eggs, hay, wheat, corn, coffee and so on.

Some of them have kept alive these origins, despite tremendous developments in other fields, products, or concepts, the economic evolutions lead some of them very far from their basics.

The various and numerous improvements made to their organizations and approaches must not lead us to forget that the original concept has not changed and that reality implies some basic balanced effects, necessary to make the price discovery a fair image of the present economical situation encountered by the product quoted.

The disorders in the economical situation encountered at present, linked to mishandling of the fair value of real estate financing in the US are greatly worsen by the steep evolution of major commodities prices especially since February 2008.

This great disorder contested by some high figures like OPEC Chief, seems to me by itself justifying some worthwhile analysis of the elements in place. To compare then to some type of past evolutions may be able to make understand the fundamentals of the processes involved and determine the tools necessary to moderate the excesses.

Markets main characteristics

The main characteristics of the evolution of the commodities markets in the US since June 2007 are summarized by three critical elements:

The huge speed increase of the prices levels and volatilities, these evolutions gathering momentum every quarter with similar links to FED monetary decisions

The very high sensitivity to any fundamental new event, even if the foreseeable consequences seem at the limit of the noticeable impact on the global physical situation

The large amounts that are invested in the sector through various means direct or indirect with permanent flows of new money.

The very recent developments of CFTC in tightening controls to alleviate possibilities of significant market manipulations are a tools sufficient to strengthen the mounting pressure of the economic down turn



THE FULL PICTURE OF THE SITUATION

The FIRST REACTION to the COMMODITY FUTURE TRADING COMMISSION has been to without further insight, to anticipate the possible dramatic consequences of a major drop in the most important commodities traded on the US MARKET.

Some operators seem to have had a similar forecast, as the markets manifested some short lived contraction but no significant moves.

The study of the CFTC chief economist report to the Senate Comity on Home Land Security is a discovery in few words there is no significant market manipulation and the situation is fair, but the Commission will pursue its action to manage the situation and its evolutions.

COMMODITIES COMMENT

The second set of actions have been to obtain that the trades made from LONDON on PETROLEUM WTI contracts should be reported to CFTC. The agreement has been swiftly obtained.

The third move has been to fine a firm for a 1 millions \$ worth of trading at the closure of the market to try to influence the evolution of the next session.

But those moves and the highly publicized interventions of some operator like M SORROS which predicted the very soon prices collapse had no more significant effects and the prices continued their moves to new highs.

What is then the mechanism that strengthened so strongly the market, even in a prospect of more tight regulation move?

We will try to discover the main underlying trends and forces that may explain a so potent evolution

CRUDE OIL

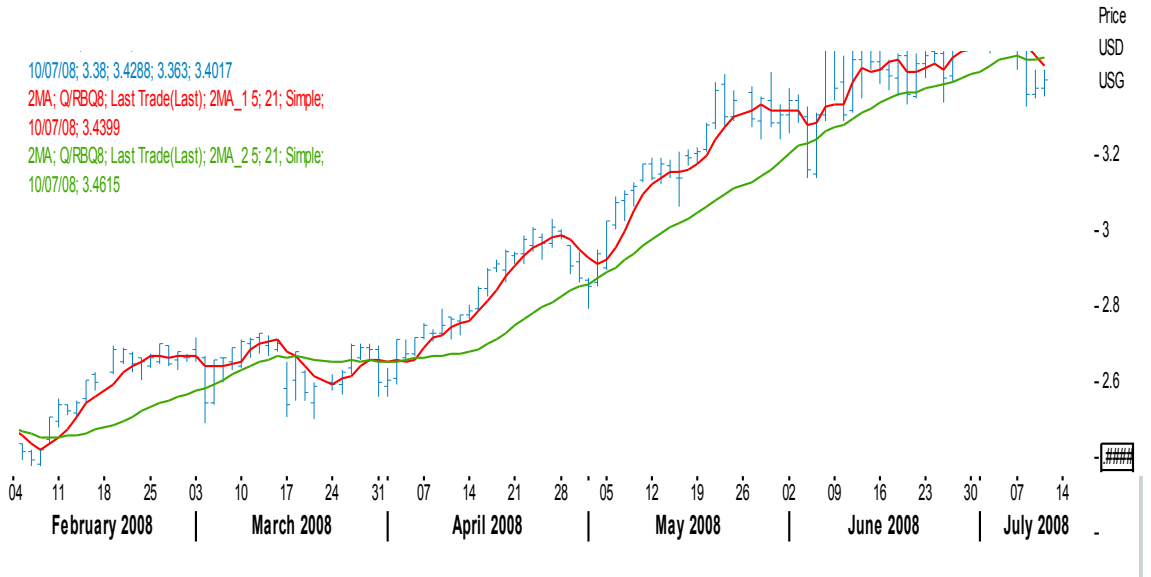
Daily CRUDE OIL NYMEX CURRENT



UNLEADED GAZOLINE

Daily NYMEX GAZOLINE RB

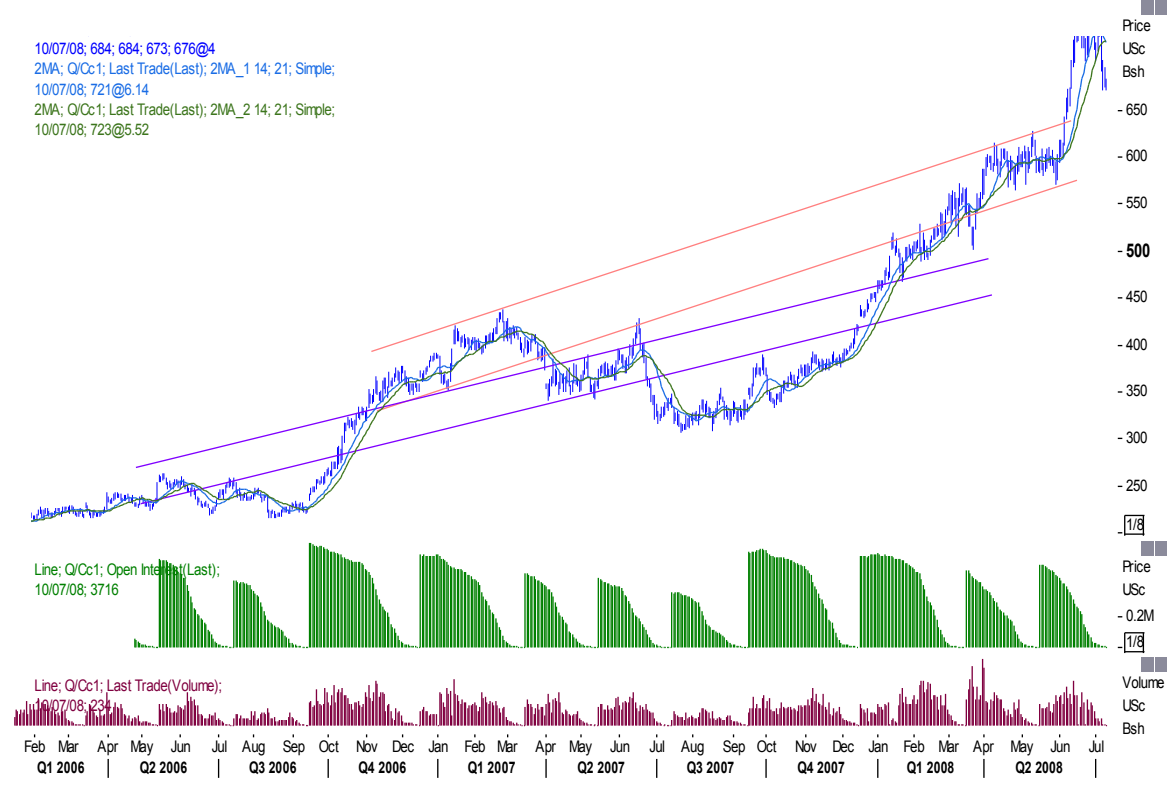
04/02/08 - 17/07/08 (NYC)



CORN

Daily CORN CBOT CURRENT

17/01/06 - 18/07/08 (CHG)



SOY BEANS

Daily SOYA BEANS CHICAGO CURRENT

13/01/06 - 10/07/08 (CHG)



WHEAT

Daily WHEAT CHICAGO CURRENT

07/11/06 - 18/07/08 (CHG)



COCOA

Daily COCOA NEW YORK CURRENT

02/11/06 - 16/07/08 (NYC)

10/07/08; 3 005; 3 005; 3 005; 3 005
 2MA; Q/CCc1; Last Trade(Last); 2MA_1 14; 21; Simple;
 10/07/08; 3 173
 2MA; Q/CCc1; Last Trade(Last); 2MA_2 14; 21; Simple;
 10/07/08; 3 120

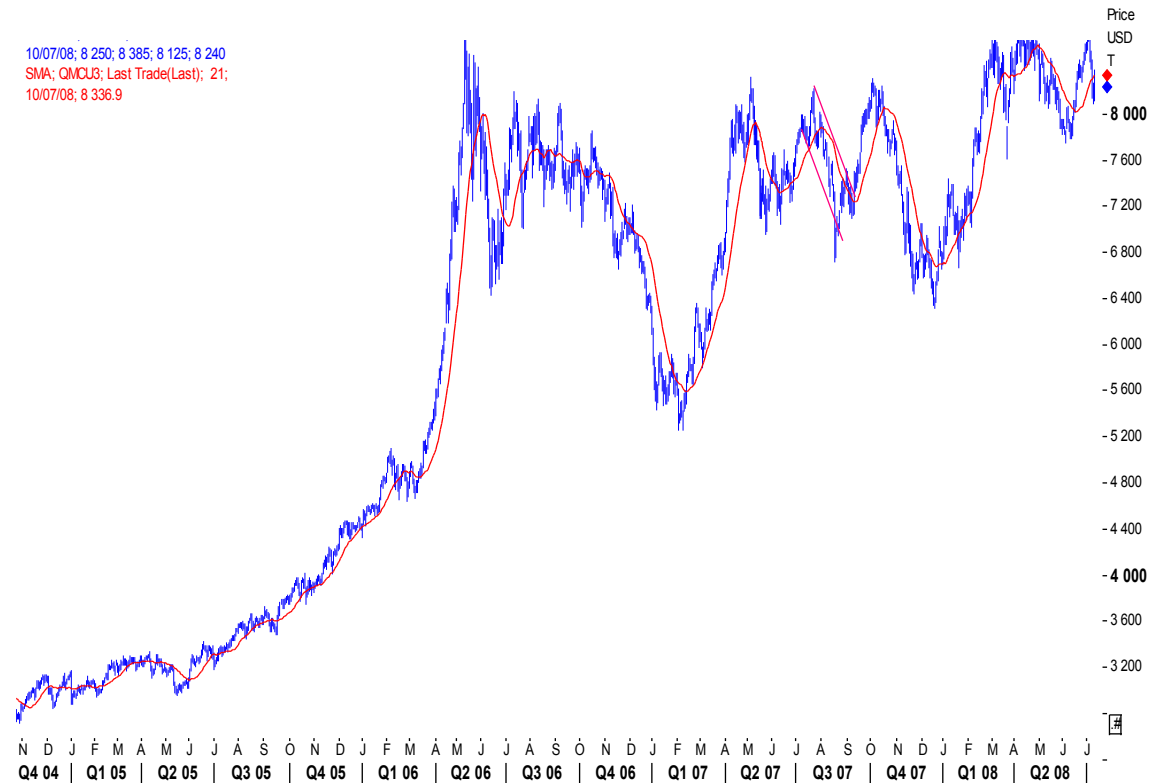


COPPER

Daily LME COPPER 3 months

13/10/04 - 18/07/08 (LON)

10/07/08; 8 250; 8 385; 8 125; 8 240
 SMA; Q/MCU3; Last Trade(Last); 21;
 10/07/08; 8 336.9



HOW TO EXPLAIN SUCH A TREMENDOUS MOVE?

REMEMBERANCES

ASHANTI GOLD faced a very significant financial challenge during 2000;

BARRICK GOLD was founded 25 years ago in TORONTO and became from a tiny company with the small heap leach GOLDSTRIKE operations, a preeminent world wide gold company.

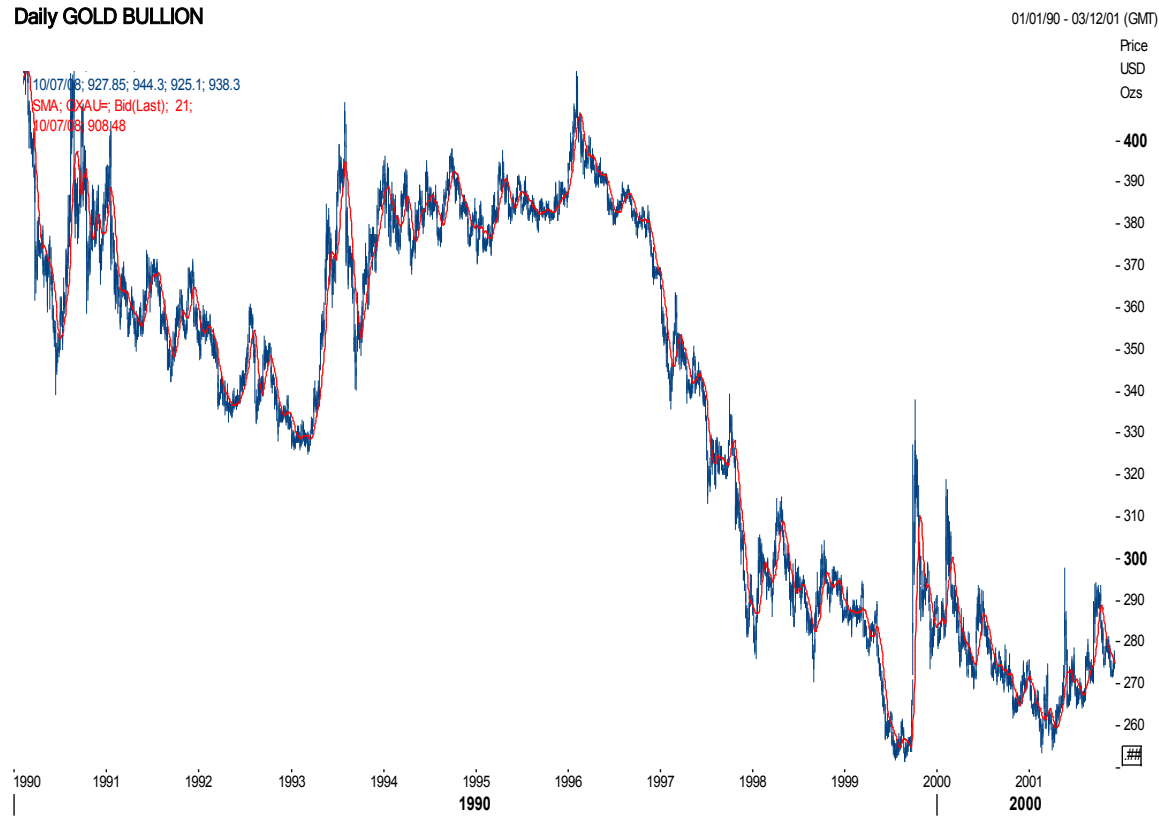
The initial success of BARRICK GOLD was obtained in using to finance its development the forward sales of its future gold production.

Doing so, it was able to leverage at a discounted cost the necessary funds to invest both on technical improvements and to ambitious acquisitions.

Its example was followed by its competitors that heavily sold the future production in the market.

As the success followed they increased progressively the tenor of those sales. The resulting impact on prices level became progressively a heavy weight as sales that were encompassing until 10 to 15 years of production outpaced the buying appetite that was, for industry needs, centered on a one year tenor despite the remnants of the currency links.

Daily GOLD BULLION



During the 1996 to 1999 period gold bullion price collapses from 417\$/oz to 252\$/oz.

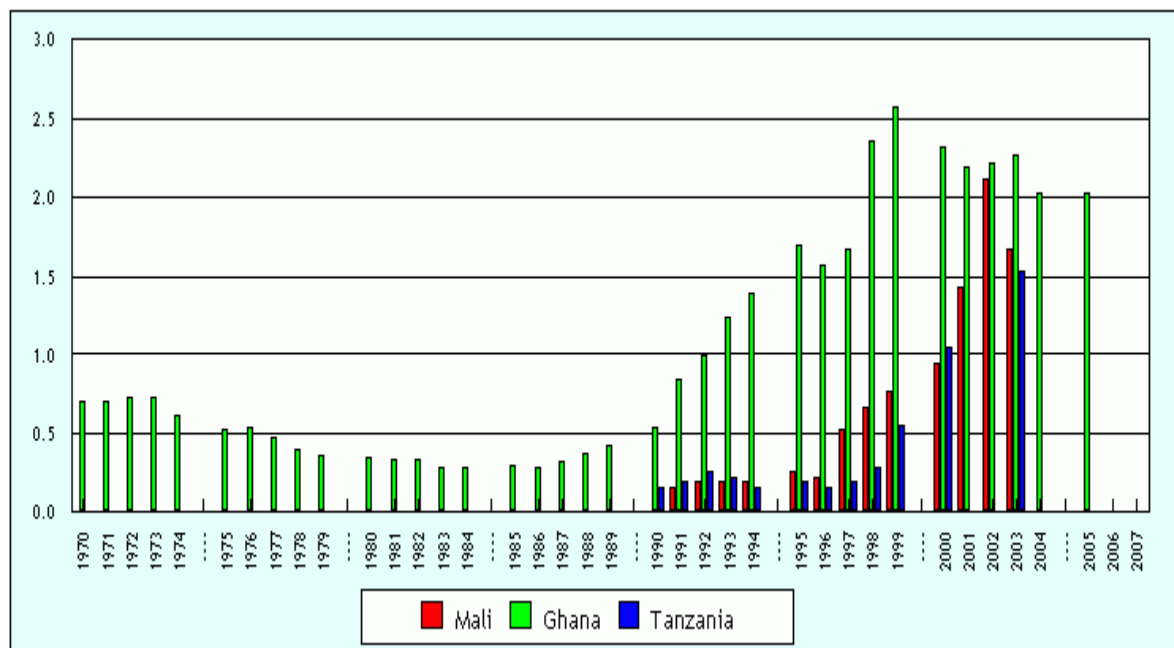
This heavily bearish trend led to questioning on the impact of the forward sales on prices evolution. This point had benefited of a significant number of academic studies since the first the beginnings of the use of this mean of leveraging balance sheet, without significant consequences on the used of such a so easy process.

In that trend, if my memory doesn't fail or change the order of the events, in May 1999, the British Treasury announced a possible sale of 50% of the Central bank Gold reserves. That prospect led to a rapid collapse of the prices level from the 290 range in May to the 250 range in September 1999.

The announcement on the 26th of September by fifteen European Central Banks of a five year moratorium on their gold sales induced a strong upward reaction seen on the graph above. That move was not without consequences on trade positions and led even to some noticeable difficulties on the NYMEX option market execution processes.

For the hedged gold producers the situation was for some time dramatic as the strong reversal induced massive margin calls and high liquidity difficulties.

These events led for Ashanti Gold to the liquidity crisis mentioned earlier. Base of the idea of this demonstration, that led for the GHANEAN COMPANY to be sold to ANGLO GOLD after various lengthy negotiations with LONMIN and to become the present ANGLO AGLO ASHANTI LTD;



.SOURCE GOLD SHEET

As you can see the mine had to finance its development was stuck by large short position when the reversed trend took place.

The modification that led to the present bullish situation took some time to be sweetened as we can quote as an example the situation in 2002 of BARRICK GOLD which presented still a 1076 millions USD of potential losses from these long term hedges.

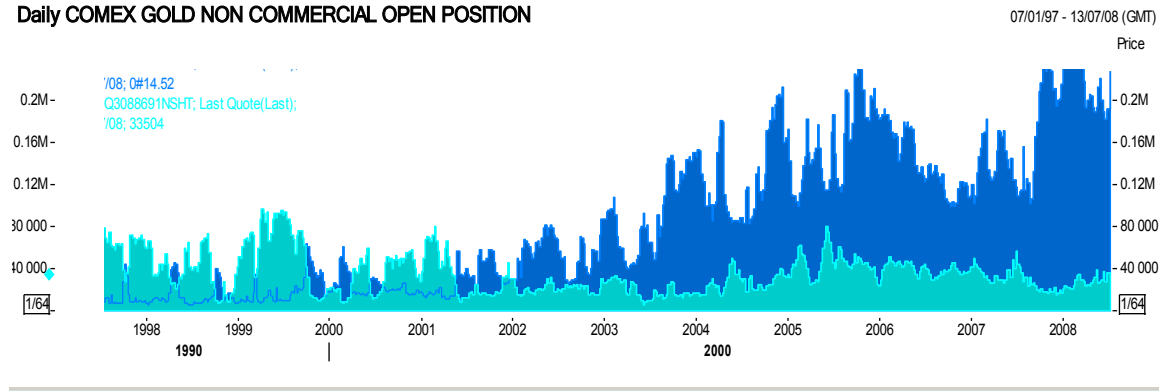
The upper graph shows that despite the information effect of the central Banks statement the weight of previous short contract was still felt one year later.

Despite this pressure on prices, the impact for gold was significantly lessened compared to other commodities, as most of the gold trades are made through the bullion market which is a forward market without significant possibilities to conduct arbitrages and futures strategies. That distinctive feature did not protected prices from the weight of long term commitments on the deliverable contract prices but put a technical break on volatility.

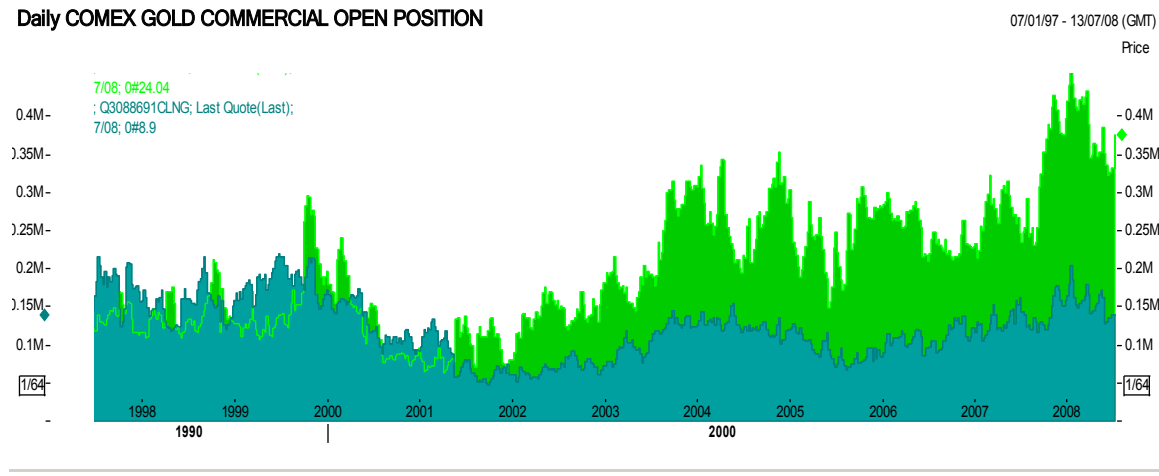
HOW THE MARKET REACTED?

The study of the evolution of the open position since these event is very significant with reduction of the short of the commercial short in the early 2000 to return to the previous scheme since mid 2003 with a significant burst since mid-august 2007.

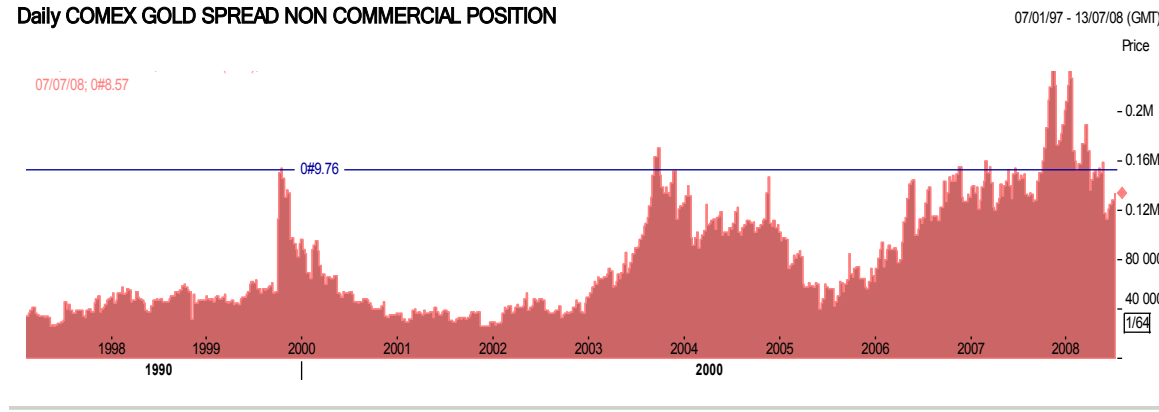
Daily COMEX GOLD NON COMMERCIAL OPEN POSITION



Daily COMEX GOLD COMMERCIAL OPEN POSITION

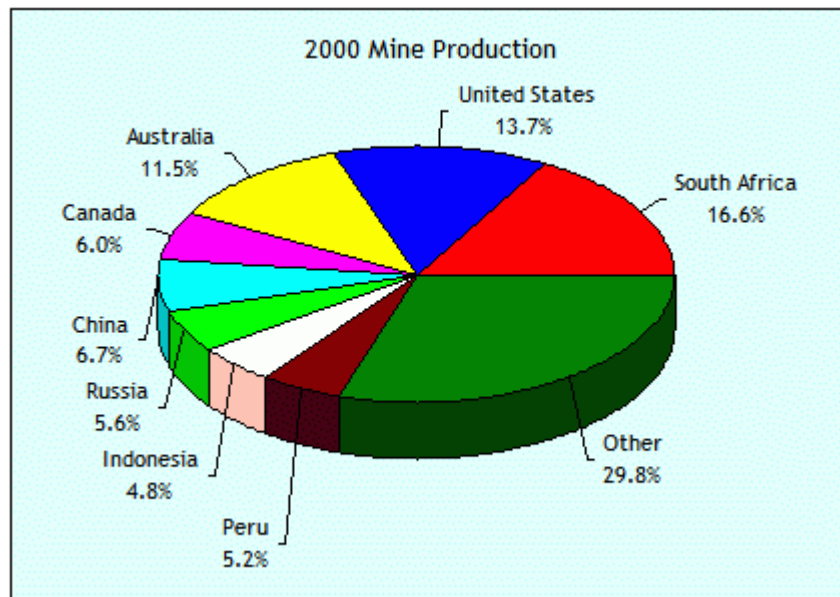
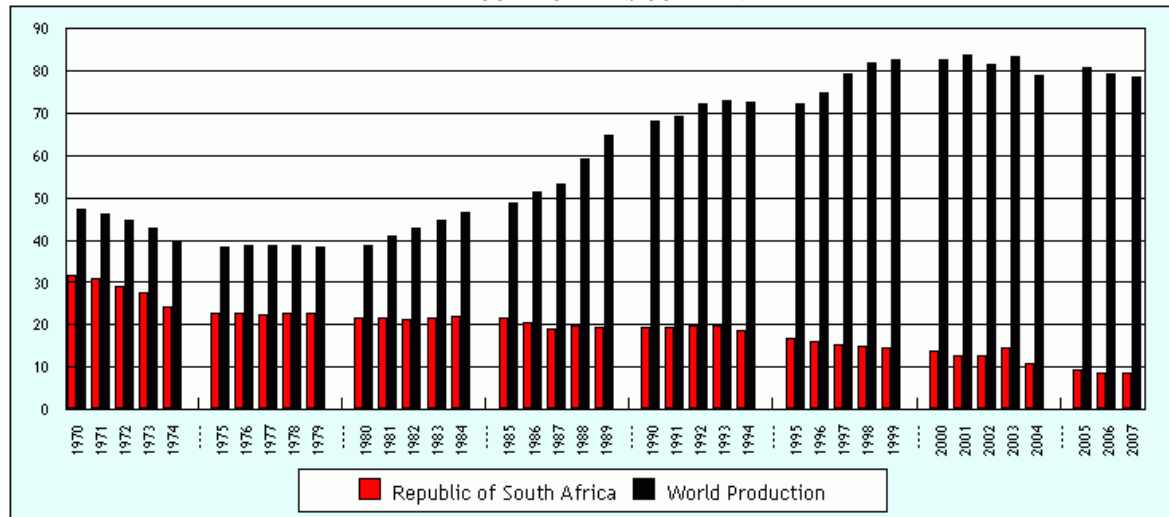


Daily COMEX GOLD SPREAD NON COMMERCIAL POSITION



The evolution of the spreads non commercial positions reveals the arbitrage made between short terms and long terms commitments and may be assimilated as an increase of what is call in bank financing the transformation risk.

COMMODITIES COMMENT



The open position level in September 1999 on the COMEX gold contract of 49.1 millions oz as compared to a total production of the year of 82.4 millions oz. was 60% for a tenor of two month. The respective position on BULLION MARKET clearing report was of 37.1 millions oz on one month tenor

This proportion compared to the situation in 2002 when BARRICK GOLD were still massively short from previous commitments shows a reduction from the 330/320 000 contract range to 120/125000 range. A return to normal without significant time effect was induced by a 62% reduction of the open position. The respective position on BULLION MARKET clearing report was of 17.8 millions oz one month tenor (-52%).

As the gold prices were severely hit, the petroleum prices trend was on the recovery. This evolution, in my opinion gave some help to weather the difficulties of the gold market, as major buyers are Middle East petroleum producing countries, helping the relatively fast recovery, as shown on the graph below

Daily CRUDE OIL NYMEX CURRENT

01/01/90 - 31/12/01 (PAR)



We so post as an intermediate conclusion the ratio between open positions to production for gold is roughly for COMEX in the range of 20 to 25% for normal market situation, the excess do exist when this ratio reaches 60% as shown by the above price evolution.

CURRENT SITUATION OF COMMODITIES MARQUETS

In order to follow the pace of CFTC enquiries, I will concentrate my demonstration on the petroleum and soy markets to give a very distinctive view of similar phenomena, while the demonstration is also worth for gold.

PETROLEUM

According to the INTERNATIONAL ENERGY AGENCY, the evolution of oil production and consumption are the summarized in the following tables

Global Oil Demand (2006-2008)

(million barrels per day)

	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008
Africa	3.0	3.0	2.9	3.0	3.0	3.1	3.1	3.0	3.1	3.1	3.1	3.1	3.0	3.2	3.1
Americas	30.4	30.4	31.0	30.8	30.6	31.1	31.0	31.2	31.3	31.1	30.4	30.9	31.1	31.1	30.9
Asia/Pacific	25.4	24.3	23.9	25.0	24.6	25.4	24.9	24.4	25.7	25.1	26.3	25.4	24.9	26.2	25.7
Europe	16.7	16.0	16.3	16.4	16.4	16.0	15.7	16.1	16.4	16.0	16.0	15.9	16.1	16.2	16.0
FSU	4.0	3.8	4.1	4.2	4.1	4.1	3.9	4.2	4.3	4.1	4.1	4.0	4.3	4.4	4.2
Middle East	6.1	6.1	6.5	6.2	6.2	6.4	6.5	6.7	6.4	6.5	6.7	6.8	7.1	6.8	6.8
World	85.6	83.6	84.6	85.7	84.9	86.1	85.1	85.6	87.1	86.0	86.6	86.1	86.5	87.9	86.8
Annual Chg (%)	1.0	1.2	1.4	1.5	1.3	0.5	1.8	1.2	1.7	1.3	0.6	1.2	1.0	1.0	0.9
Annual Chg (mb/d)	0.8	1.0	1.2	1.3	1.1	0.4	1.5	1.0	1.4	1.1	0.5	1.0	0.9	0.8	0.8
Changes from last OMR (mb/d)	0.19	0.19	0.21	0.17	0.19	0.15	0.16	0.17	0.14	0.15	-0.04	0.06	-0.18	-0.14	-0.08

COMMODITIES COMMENT

OPEC Crude Production¹
(million barrels per day)

	Mar 2008 Supply	Apr 2008 Supply	May 2008 Supply	Sustainable Production Capacity ²	Spare Capacity vs May 2008 Supply	Capacity end-2008	Current Target
Algeria	1.39	1.38	1.38	1.40	0.02	1.45	1.36
Indonesia	0.87	0.86	0.86	0.86	0.00	0.85	0.87
Iran	4.02	3.90	3.87	4.02	0.15	3.93	3.82
Kuwait ³	2.59	2.60	2.63	2.63	0.00	2.65	2.53
Libya	1.76	1.75	1.73	1.80	0.07	1.81	1.71
Nigeria ⁴	2.01	1.84	1.90	2.47	0.58	2.67	2.16
Qatar	0.84	0.83	0.85	0.93	0.08	0.96	0.83
Saudi Arabia ³	9.09	9.06	9.20	10.65	1.45	10.95	8.94
UAE	2.54	2.65	2.66	2.85	0.19	2.87	2.57
Venezuela ⁵	2.35	2.32	2.36	2.50	0.14	2.40	2.47
OPEC-10	27.45	27.19	27.43	30.10	2.67	30.54	27.25
Angola ¹	1.77	1.83	1.88	1.88	0.00	2.05	1.90
Ecuador ¹	0.50	0.50	0.50	0.50	0.00	0.50	0.52
OPEC-12	29.72	29.52	29.81	32.47	2.67	33.09	29.67
Iraq	2.41	2.40	2.50	2.50	0.00	2.50	
Total OPEC	32.12	31.91	32.30	34.97	2.67	35.59	
<i>(excluding Indonesia, Iraq, Nigeria, Venezuela</i>					<i>1.95)</i>		

1 Angola joins OPEC effective 1 January 2007, Ecuador from December 2007.

2 Capacity levels can be reached within 30 days and sustained for 90 days.

3 Includes half of Neutral Zone Production.

4 Nigeria excludes some 0.5 mb/d of shut-in capacity.

Source IEA

The total estimated consumption is in the range of 85 millions bbl/d and production OPEC and non OPEC in the range of 83 millions bbl/day.

Revisions to Non-OPEC Oil Supply
(million barrels per day)

	Last Month's OMR				This Month's OMR			
	2007	2008	07 v 06	08 v 07	2007	2008	07 v 06	08 v 07
North America	14.27	14.14	0.06	-0.12	14.27	14.14	0.06	-0.12
Europe	4.95	4.57	-0.23	-0.38	4.95	4.58	-0.23	-0.37
Pacific	0.62	0.78	0.04	0.16	0.63	0.73	0.05	0.10
Total OECD	19.84	19.50	-0.13	-0.34	19.84	19.45	-0.13	-0.40
Former USSR	12.77	13.07	0.52	0.30	12.77	13.08	0.52	0.31
Europe	0.13	0.12	-0.01	-0.01	0.13	0.12	-0.01	-0.01
China	3.73	3.84	0.05	0.11	3.73	3.83	0.05	0.10
Other Asia	2.68	2.74	-0.03	0.07	2.67	2.71	-0.03	0.04
Latin America	3.85	4.09	0.01	0.24	3.85	4.07	0.01	0.21
Middle East	1.65	1.59	-0.09	-0.06	1.66	1.59	-0.08	-0.07
Africa*	2.55	2.62	0.05	0.07	2.51	2.56	0.02	0.05
Total Non-OECD*	27.37	28.08	0.50	0.72	27.33	27.96	0.47	0.63
Processing Gains	2.07	2.13	0.04	0.06	2.07	2.13	0.04	0.06
Other Biofuels	0.40	0.65	0.15	0.25	0.33	0.49	0.08	0.16
Total Non-OPEC*	49.68	50.36	0.55	0.68	49.58	50.04	0.46	0.46

OMR = Oil Market Report

* adjusted to exclude Angola and Ecuador throughout

If we consider the normal tenor of payment and the average time between loadings to delivery, the need for commercial hedge should be in volume of 3,700 to 3,800 millions bbl for a medium tenor of 45 days from loading to delivery, if all production is hedge which is not the case as Majors generally do not hedge their production.

Daily CRUDE OIL NYMEX CURRENT

24/07/06 - 11/08/08 (PAR)

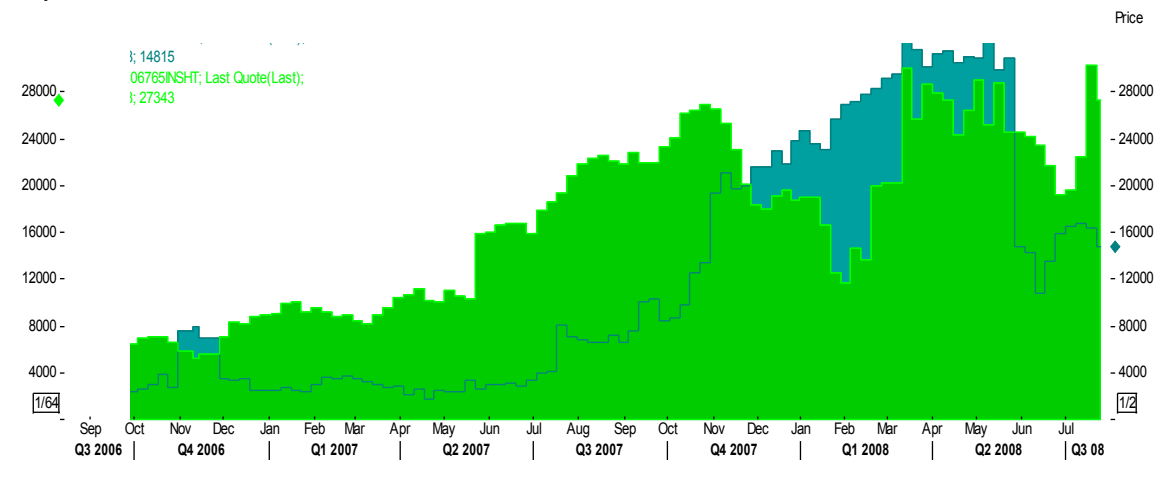


The price evolution is marked by frequent reversals is strongly linked to financial interest and liquidity decisions that gives opportunities to hold or increased market positions as volatility induced potential heavy margin call financing needs.

If we consider now the level of crude petroleum volumes traded on NYMEX only and its evolutions on the following graphs reporting the gross and net open position declared to CFTC by type of operators;

Daily CFTC WTI FINANCIAL NON COMMERCIAL OPEN INTEREST

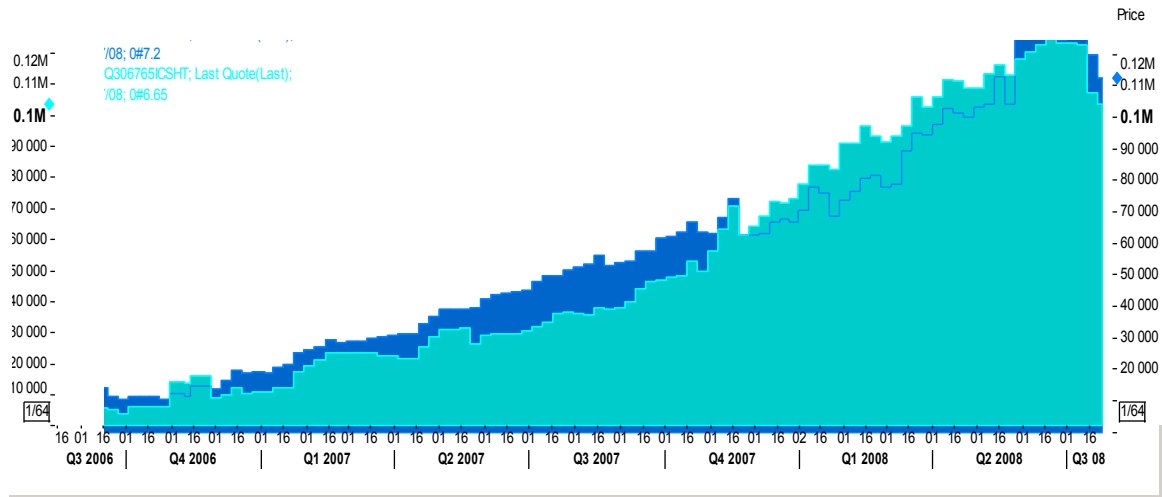
15/08/06 - 31/07/08 (GMT)



The increased level of activity is a blatant phenomenon that incompass all types of operators.

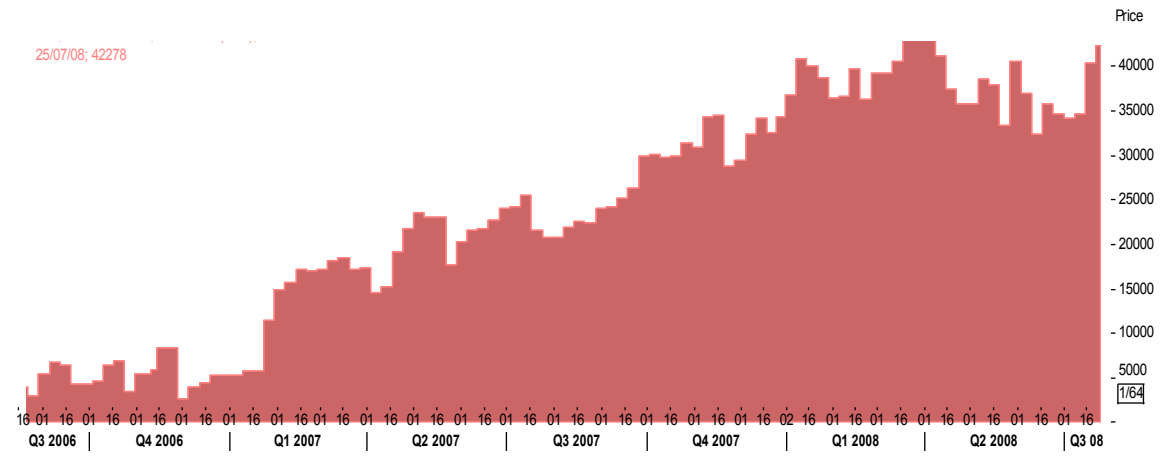
Daily CFTC WTI FINANCIAL COMMERCIAL OPEN INTEREST

15/08/06 - 31/07/08 (GMT)



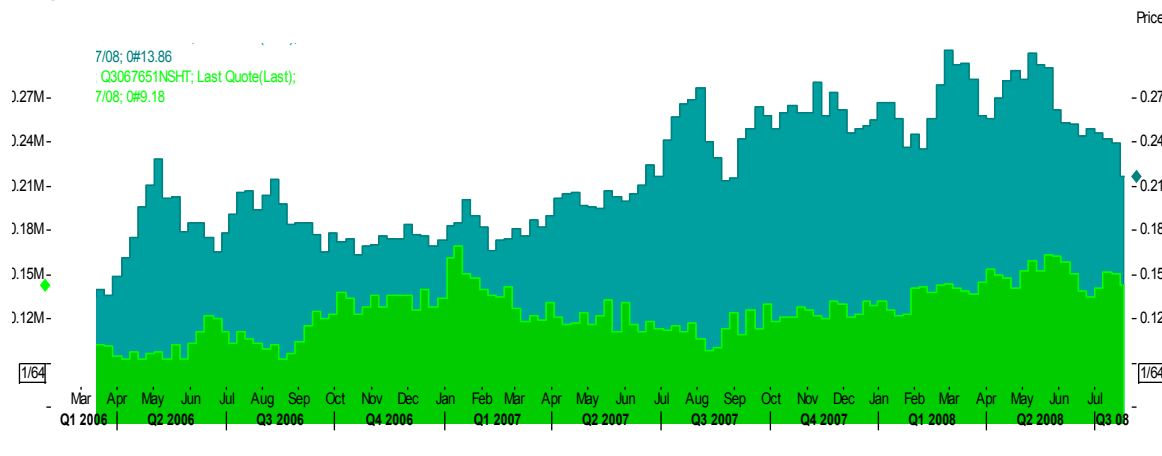
Daily CFTC WTI FINANCIAL NON COMMERCIAL SPREAD

15/08/06 - 31/07/08 (GMT)



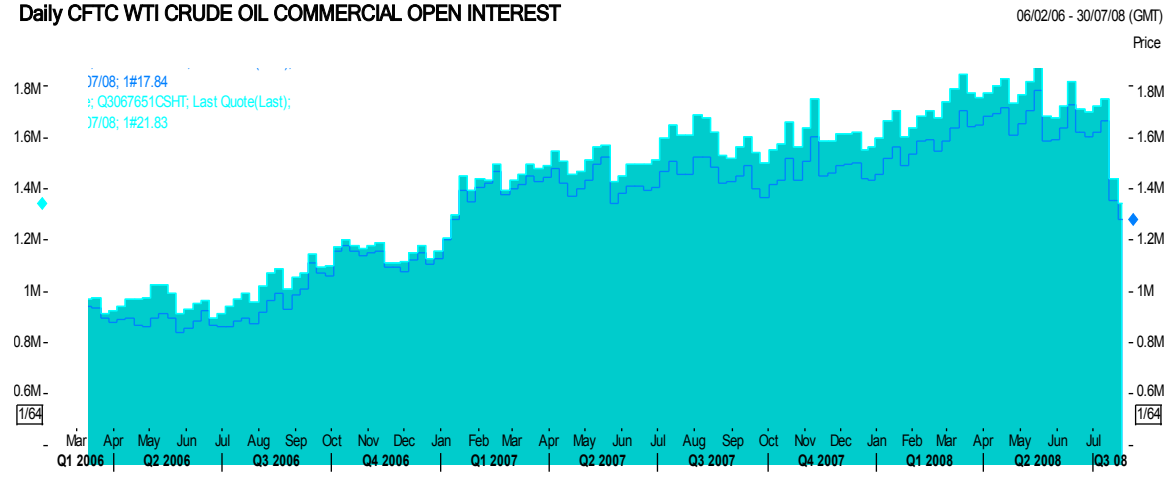
Daily CFTC WTI CRUDE OIL NON COMMERCIAL OPEN INTEREST

05/02/06 - 31/07/08 (GMT)

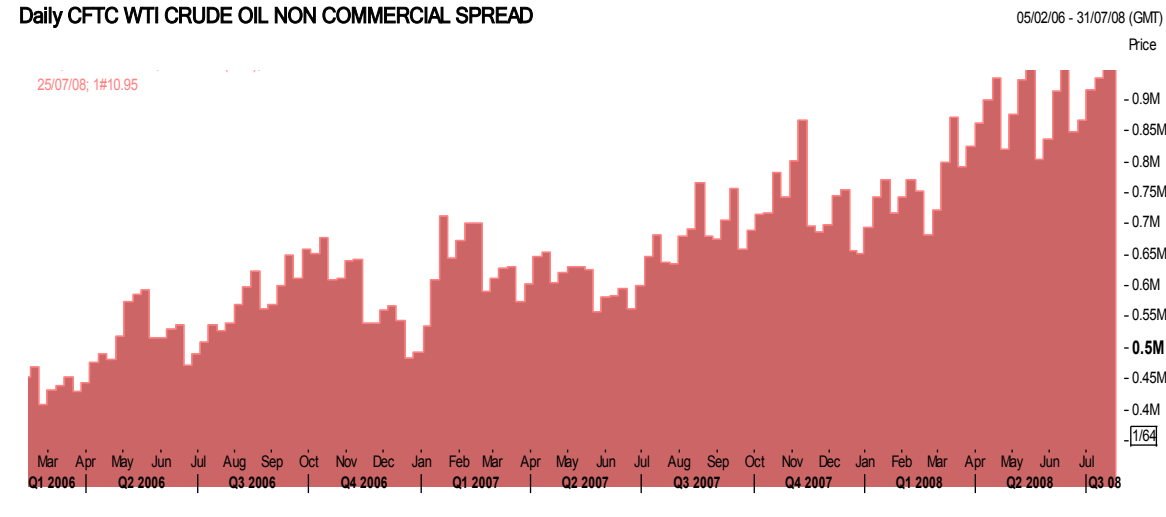


COMMODITIES COMMENT

Daily CFTC WTI CRUDE OIL COMMERCIAL OPEN INTEREST



Daily CFTC WTI CRUDE OIL NON COMMERCIAL SPREAD



One can first observe a considerable increase of the commercial and non commercial position in volume followed by the same type of evolution for the spreads.

Posting as a coherent approach to reveal tendencies, that the gross positions volume either short or long are sufficient to measure the normal physical activity and liquidity arbitrage necessary to equilibrate the market liquidity, we observe that between early 2006 and July 2008, the WTI financial contract's volumes increased from 21,000 in 2006 to 195,000 contracts (+828.6%) and the WTI contract the progression is from 1,580,000 to 3,120,000 (+103.2%).

In terms of physical equivalent of those positions are for WTI FINANCIAL 21,000,000 bbl to 195,000,000 and for the LIGHT CRUDE 1,580,000,000 bbl to 3,120,000,000 bbl or an increase from 35.5 millions bbl/day or roughly 43% of the production to 73.7 millions bbl/day or 89% of the production level.

In terms of value the increase is worth 240 billions USD, ie a figure in the range of the last estimated increased of long term investments in commodities for the period.

This tendency of dedicating increased assets to the commodities market is especially felt on the US markets where the progression is coupled with a continuous increase in volatility.

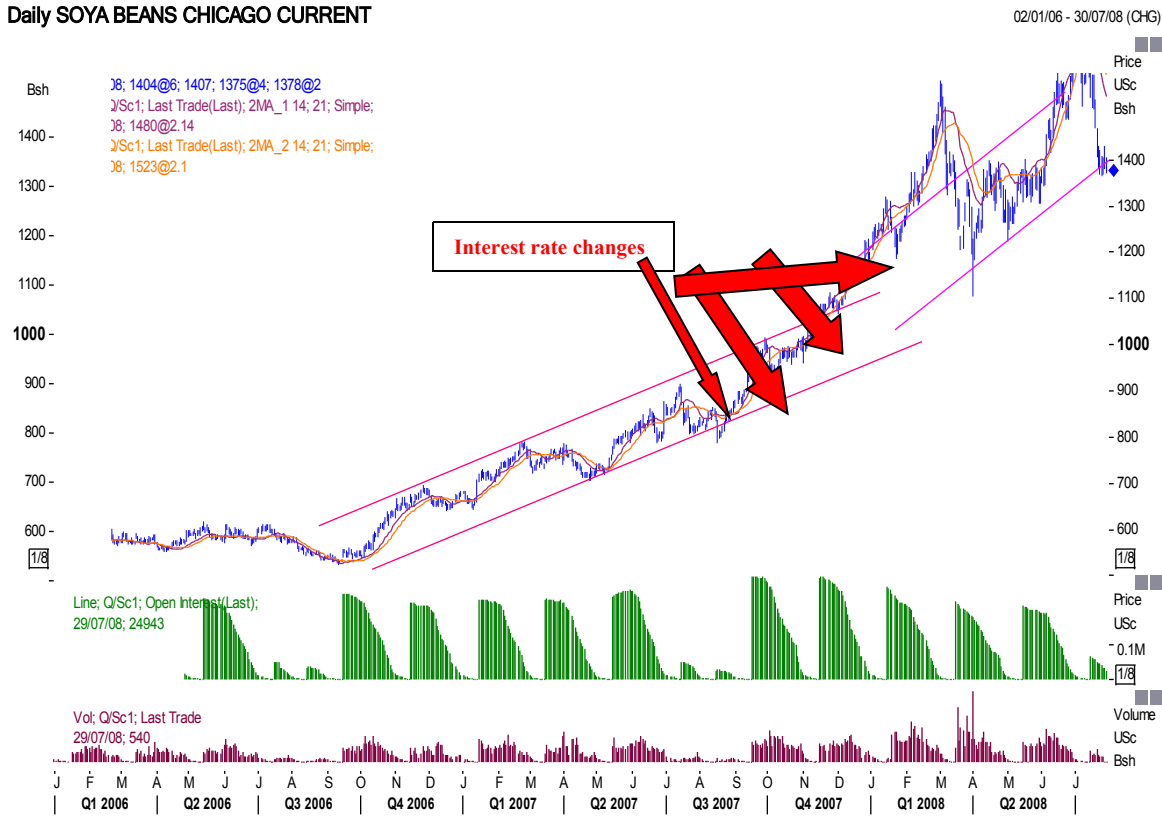
As we can see confirming the conclusion of CFTC the market was not cornered but the combination of increased volumes traded on the market is correlated with prices increases.

The traders, producers and financial operator increased tremendously their turnover while the same evolution was not followed at the production level, and marginally for the net exposure.

SOY

If we consider for confirmation the soy market on the same period

Daily SOYA BEANS CHICAGO CURRENT



We observe the same type of reaction link to the FED liquidity and interest decisions.

On the volume of activity on the market there is also a considerable increase of the commercial and non commercial position in volume followed by the same type of evolution for the spreads.

Posting as above that a coherent approach to reveal tendencies, is given by the gross position volume either short or long and sufficient to measure the normal physical activity and liquidity arbitrage necessary to equilibrate the market liquidity, we observe that between September 2006 and July 2008, the soy beans contract's volumes increased from 355804 in 2006 to 607051 contracts (+70.6%)

In terms of physical equivalent of those positions are for soybeans to 1779 millions bu to 3,035 millions bu or an increase from 48.4 millions T roughly 21% of the world production to 82.6 millions de T roughly 35% of the world production level. (cf infra USDA report)

COMMODITIES COMMENT

World Soybean Supply and Use 1/
(Million Metric Tons)

Region	Supply		Use				Ending stocks	
	Beginning stocks	Production	Imports	Domestic Crush	Total	Exports		
=====								
2006/07								
World 2/	53.35	236.56	69.08	196.12	225.26	71.27	62.46	
United States	12.23	86.77	0.25	49.20	53.20	30.43	15.62	
Total foreign	41.12	149.79	68.83	146.93	172.06	40.84	46.85	
Major exporters 3/	33.56	114.00	2.05	66.75	71.31	37.24	41.06	
Argentina	16.47	48.80	1.99	33.59	35.09	9.56	22.61	
Brazil	16.73	59.00	0.05	31.11	34.02	23.49	18.28	
Major importers 4/	5.83	17.76	55.50	58.92	74.31	0.52	4.26	
China	4.57	15.20	28.73	35.48	45.40	0.45	2.66	
EU-27	0.74	1.23	15.29	14.67	16.09	0.05	1.12	
Japan	0.26	0.23	4.09	2.93	4.31	0.00	0.27	
Mexico	0.04	0.08	3.94	3.99	4.02	0.00	0.04	
=====								
2007/08 (Estimated)								
World 2/	62.46	218.80	75.97	205.10	232.19	76.20	48.84	
United States	15.62	70.36	0.27	50.08	51.67	31.16	3.41	
Total foreign	46.85	148.44	75.70	155.02	180.52	45.03	45.43	
Major exporters 3/	41.06	114.80	2.62	70.93	75.54	41.76	41.18	
Argentina	22.61	47.00	2.45	36.10	37.62	12.20	22.24	
Brazil	18.28	61.00	0.15	32.50	35.45	25.20	18.78	
Major importers 4/	4.26	15.52	61.28	61.79	77.36	0.42	3.27	
China	2.66	13.50	34.40	38.40	48.43	0.35	1.78	
EU-27	1.12	0.72	15.30	14.76	16.10	0.05	1.00	
Japan	0.27	0.23	4.05	2.86	4.26	0.00	0.29	
Mexico	0.04	0.08	3.85	3.90	3.94	0.00	0.03	
=====								
2008/09 (Projected)								
World 2/								
June	49.26	240.67	76.22	208.36	239.44	76.29	50.41	
July	48.84	237.80	76.38	207.33	237.87	76.28	48.87	
United States								
June	3.40	84.50	0.22	50.08	54.77	28.58	4.78	
July	3.41	81.65	0.27	49.80	54.31	27.22	3.80	
Total foreign								
June	45.86	156.17	76.00	158.28	184.67	47.72	45.63	
July	45.43	156.15	76.11	157.53	183.56	49.07	45.06	
Major exporters 3/								
June	41.68	119.20	2.72	72.98	77.99	44.28	41.33	
July	41.18	119.20	2.83	72.18	76.86	45.63	40.72	
Argentina	Jun	22.14	48.00	2.50	38.00	39.54	11.15	21.95
Jul	22.24	48.00	2.65	37.20	38.74	12.20	21.95	
Brazil	Jun	19.37	64.00	0.20	32.50	35.83	28.55	19.20
Jul	18.78	64.00	0.16	32.50	35.50	28.85	18.59	
Major importers 4/								
June	3.19	18.07	61.14	62.77	78.73	0.44	3.23	
July	3.27	18.07	61.14	62.78	78.75	0.44	3.30	
China	Jun	1.76	16.00	35.50	40.80	51.05	0.38	1.83
Jul	1.78	16.00	35.50	40.80	51.05	0.38	1.86	
EU-27	Jun	0.91	0.77	14.20	13.55	14.97	0.05	0.87
Jul	1.00	0.77	14.15	13.55	14.97	0.05	0.91	
Japan	Jun	0.32	0.23	4.10	2.92	4.34	0.00	0.31
Jul	0.29	0.23	4.05	2.84	4.26	0.00	0.31	
Mexico	Jun	0.03	0.10	3.64	3.71	3.74	0.00	0.03
Jul	0.03	0.10	3.64	3.71	3.74	0.00	0.03	

1/ Data based on local marketing years except Argentina and Brazil which are adjusted to an October-September year. 2/ World imports and exports may not balance due to differences in local marketing years and to time lags between reported exports and imports. Therefore, world supply may not equal world use. 3/ Argentina, Brazil and Paraguay. 4/ Japan, China, and EU, Mexico, and Southeast Asia (includes Indonesia, Malaysia, Philippines, and Thailand).

Source USDA 08/12/07

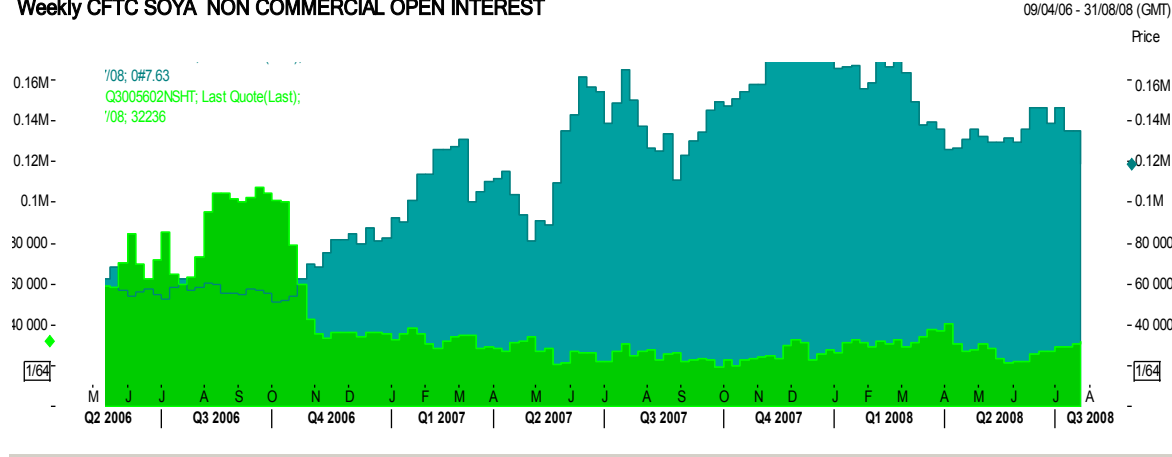
In terms of value the increase is worth 17.5 billions USD, significant but far less than the crude figures but a time weight equivalent to nearly the world ending stocks.

COMMODITIES COMMENT

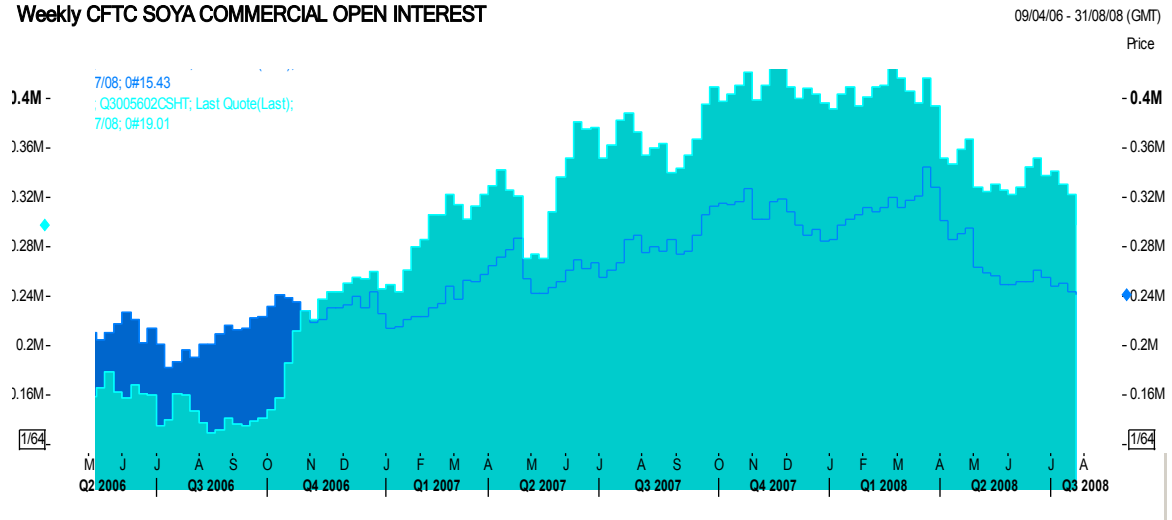
This tendency of dedicating increased saving to the commodities market through index funds is especially felt on the US markets where the progression is coupled with a continuous increase in volatility.

On the soybeans market also traders, producers and financial operators increased tremendously their gross exposures while the evolution was not followed at the production level by similar increases, but between commercial and non commercial the gap increased tremendously for the net exposure.

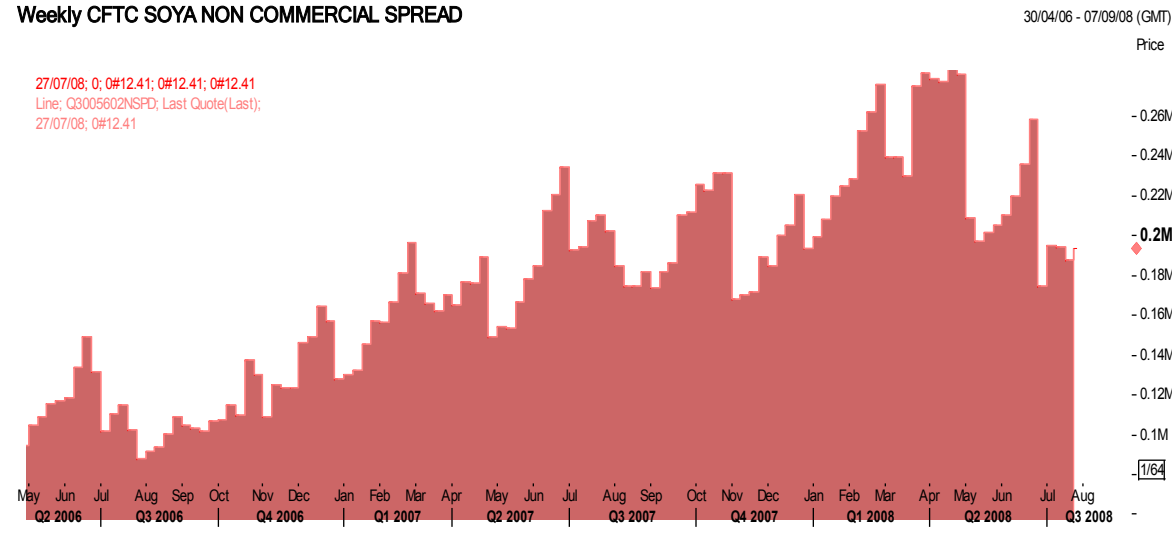
Weekly CFTC SOYA NON COMMERCIAL OPEN INTEREST



Weekly CFTC SOYA COMMERCIAL OPEN INTEREST



Weekly CFTC SOYA NON COMMERCIAL SPREAD



HOW SUSTAINABLE IS THIS EVOLUTION?

Traditionally, the commodities markets are characterized by huge volume but thin margins. In that field they cannot compete in term of return to industrial or service operators.

This one of the reason why the investment are made only on high pressure on prices and why there is a very cyclical evolution tendency.

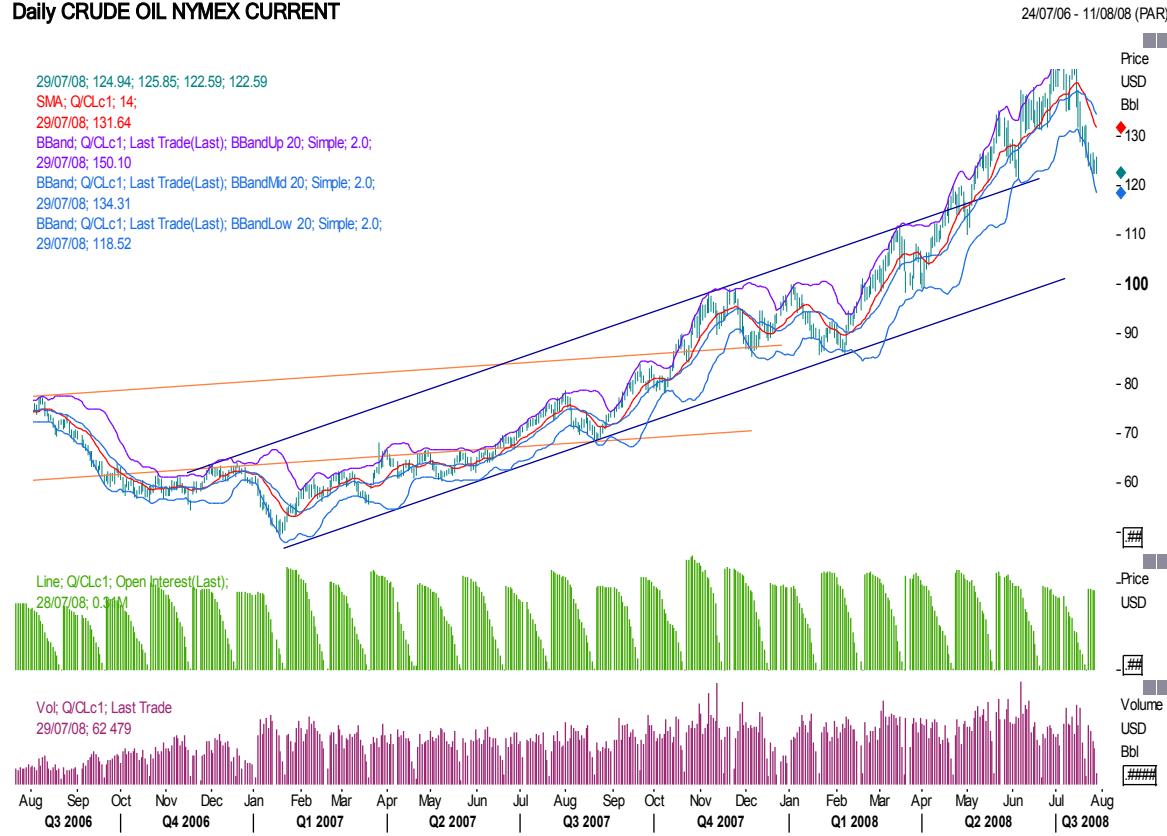
It is particularly the case for agricultural products and why no significant investments have been dedicated to improve African performances for example.

In that respect how financial investors can extract returns on those assets and what is the explanation of the commodities index funds success?

The only way to explain this is to extract margin from volatility.

The following Bollinger bands shows how the increased volatility gives additional margins and add to the security of the investment pushed by the favorable structure of limited security/strategic stocks that the economic management of just in time delivery rules brings.

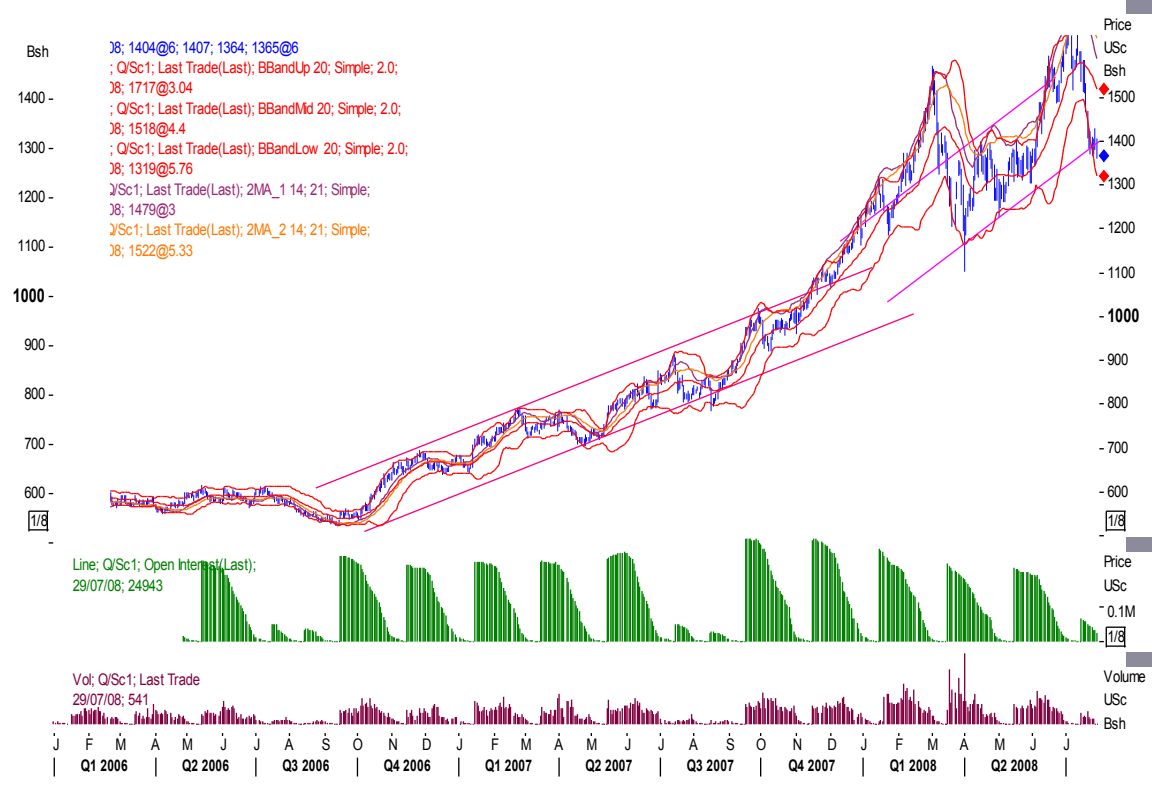
Daily CRUDE OIL NYMEX CURRENT



The volatility opportunely increased since August 2007 and the evolution were boosted since February 2008, when after two quarter the strategies tested in the third and fourth quarter 2007 proved efficient and that the implied liquidity risk, was cushion by the FED support to banks liquidity.

Daily SOYA BEANS CHICAGO CURRENT

02/01/06 - 30/07/08 (CHG)



EXPLANATION CONCLUSION

The support to liquidity and more significantly the steep decrease of interest rates offered the opportunity to financial operators to bet at limited cost either on trend or on volatility on commodity market.

They try the scheme in July and successful extend progressively their intervention on all the commodities futures markets, even if those were no very liquids, as their net exposures are limited by CFTC RULES

The commercial operators followed the suit and despite some clashes like the cotton incident that cost some dear situations to producers and traders, the continuous up trend was favorable for all the operators.

What is the process involved if every operator complied with the markets rules and controls. In my opinion considering the effects of the long term forward sales on gold prices, the increased turnover of regular buy and sale volumes had the same effect as high money rotation as on inflation rates.. This acceleration was fed by the increased volume that add momentum in inducing a longer producing period to close the gap by physical deliveries

And the long terms strategies of index funds gave a sustained stability to the process that leads to prices to be inflated by their normal market price. This process increased with every new inflow of new money that accelerated the turnover steep speed and fed the volatility.

As numerous experts stress the necessity of tightening of regulations and promote the limitation of the access of some kind of operators some move are in process. They are not in my opinion the adapted answers to the problem of change in the tight and fragile equilibrium pose by a future market in its function of liquidity and efficient and representative price discovery as a factor of good economic monitoring.

We both need short term arbitrage and sustained investments to stabilize cost of excessive volatility not linked to economical events.

COMMODITIES COMMENT

But like monetary policy we need for the sake of consumer welfare to monitor inflation.

For that sake I suggest to modify the tenor of contract commodities future market to those of the economical needs in the transformation process, and then to limit the increase of the speed of increase of the gross market position.

For the problem of long term investments in commodities asst a class of asset as such; these investment must be limited to existing or short range future production (crop prefinancing).on the traditional future market.

New range of product must be implemented to manage the long term tenor, based on specific contracts, in order to cope with the investments needed linked to future productions (cocoa or coffee planting, mine development)

They should be protected either on a roll over basis of the one/tow seasons future crop or one/two years of estimated future production and the index funds split in two categories and affected either to short real production or to investments to those real investment and to their potential value.