



From Goldman Sachs : The Commodity Carry Basket: Crude, Corn and Base (CCB)

Go long the Commodity Carry Basket (Crude, Corn and Base), opened at 100 on 05 Dec 2012, with a target of 112 and a stop on a close below 94, currently at 100.

To take advantage of this increasing carry in key commodity markets, we recommend opening an equally weighted position in GSCI-style rolling front month indices in petroleum, corn and, for base, copper less aluminum.

Crude: long the S&P GSCI® Petroleum Index

Corn: long the S&P GSCI® Corn Index

Base: long the S&P GSCI® Copper Index against short the S&P GSCI® Aluminium Index*

*we use the 4th month rolling to avoid occasional front month tightness

Near-term fundamentals remain very tight in crude oil, corn and copper, which reinforces our more positive view on near-term prices. In oil it is the combination of Iranian sanctions, low inventory cover and limited spare OPEC production capacity that drives the near-term tightness. In copper it is robust growth in Chinese construction completions, a pick-up in Chinese property sales, and a modest rebound in ex-Chinese demand that should underpin demand through mid-late 2013. While we also expect copper mine supply growth to accelerate to above-trend growth in 2013, this is unlikely to shift the market into a noticeable surplus until 2014.

For corn, our forecast for lower US production in the face of resilient demand requires prices to rise further to prevent inventories from falling to critically low levels. While the upside potential for soybeans is greater should weather in South America deteriorate further, we have a stronger conviction that corn prices are too low. Further corn price rises should follow a rally in soybean prices, as corn cannot afford to lose acreage ahead of next spring's US planting season. Net, this near-term tightness in oil, corn and copper should support backwardation more broadly across these three commodities. Finally, our forecast is for aluminium to remain in surplus and trade in contango, with market specific price risks skewed to the downside; we have added this as a short to take some of the market risk out of the basket and take advantage of the persistent contango.