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COMMODITIES CORNER

What Will Sizzle -- And Fizzle

By ANGIE POINTER

Metals are up, natural gas is down. What it means.

DJ-AIG Commodity Indexes

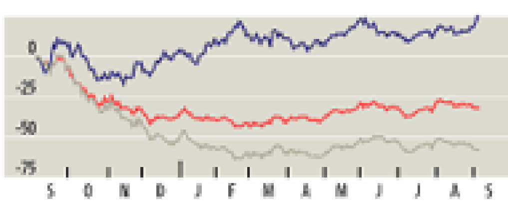
COMMODITIES HAVE FLICKERED TO LIFE again after last year's burn- out, but as 2009 winds down, some markets will sizzle -- while others fizzle.

Industrial metals, such as copper, were among the first to reignite. According to Standard & Poor's, the industrial-metals component of its GSCI Total Return Index is up 55.11% for the year as of Sept. 1, while the overall index only shows a 2.06% gain year-to-date.

Coordinated global economic-stimulus plans helped trigger increased demand for metals in China -- and recently in the U.S., with the just-completed "cash for clunkers" program -- says Bart Melek, commodities strategist with BMO Capital Markets. He suggests the slow-burning rally will continue as metal-intensive businesses replenish depleted inventories.

Gold typically sees an end-of-year bounce from holiday jewelry purchases. This year, "discretionary spending just isn't there," Melek says. But, he adds, "gold is still a wise investment, given longer-term expectations for increasing inflation and U.S.-dollar weakness."

DJ-UBS COMMODITY INDEX



Best-performing and worst-performing sectors over the past year using DJ-UBS Commodity index as benchmark.

While metals look to heat up, natural gas has flamed out. The natural-gas component of the S&P GSCI is down 60.92% year-to-date, and analysts expect excessive supply, brought on by new extraction technologies and reduced demand due to the recession, to continue through year end. "Short run, it's going to be very difficult to turn this market around," says Phil Flynn, senior market analyst at PFGBest Research, adding that natural gas will take off only with Mother Nature's help -- either a hurricane in the Gulf, or an "extremely" cold winter.

Flynn isn't counting on a year-end crude-oil recovery, either. Government-stimulus packages "artificially inflated" crude in 2009, he says -- so when they are removed, oil prices should sink, possibly to below $50 a barrel.

Grain and oilseed markets are like hot coals waiting for a shot of lighter fluid. Frost will be the critical question for the next few weeks, as an early freeze could cut U.S. yields and lift prices. But even if frost holds off, says Shawn Hackett, president of Hackett Financial Advisors, yield estimates are too high and markets will readjust, due to lower production.

As the harvest winds down, a battle for acres will break out, in which crop prices get pushed up in an attempt to sway future planting decisions, analysts say. Cotton may have a starring role in this year's fight, due to years of acreage decline and dwindling U.S. and world supplies, Hackett observes. Cotton may have to climb above 70 cents a pound -- 17% above current levels -- by spring to woo farmers, he suggests.

Coffee typically sees a surge in the fourth quarter due to increased consumption during the Northern Hemisphere winter, and Hackett says decreasing global coffee supplies may turn up the heat. Sugar's white-hot run is unlikely to continue through year end. The rally, set off by crop problems in India and Brazil, has devolved into a pure momentum phenomenon, analysts say; the only question is when the fire will burn out.

GOLD PRICES SHONE AS investors sought safey and currency alternatives; the December contract rose 3.95% on the week, to $996.70, on Nymex's Comex.

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