

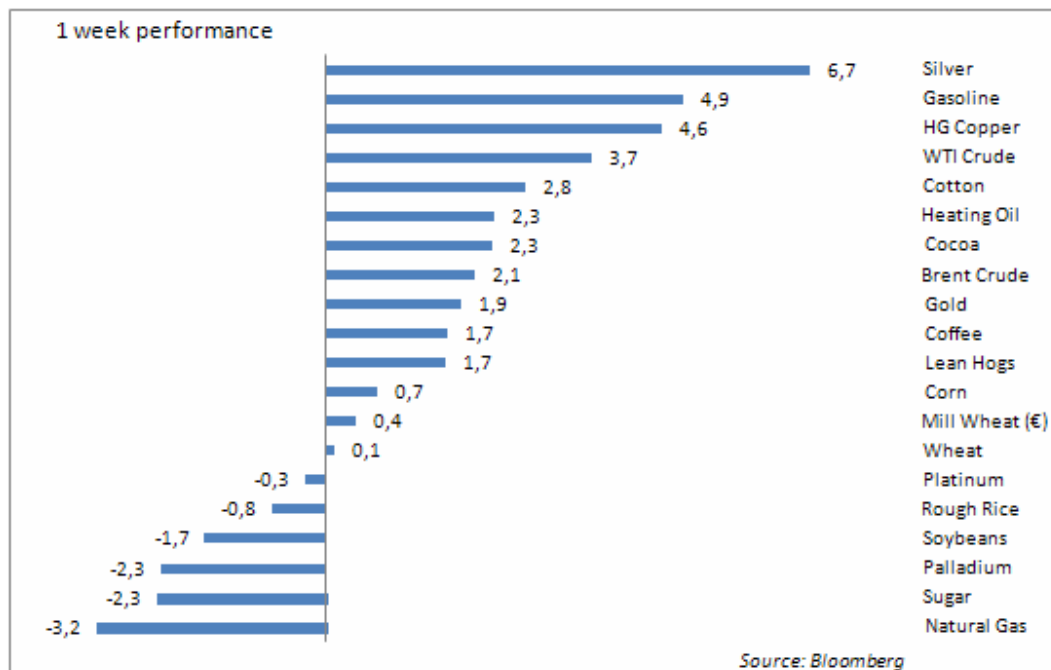
## Has gold left its safe haven status behind?

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Over the past week sentiment towards riskier assets improved ahead of the monthly U.S. job report. In Europe two central banks provided further stimulus while officials showed increased willingness to support the banking sector after one bank in particular came very close to the edge.

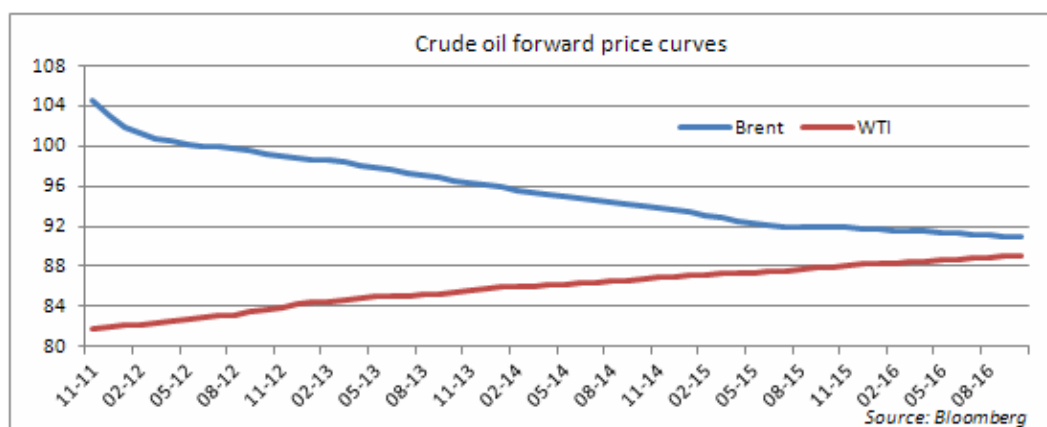
Despite the somewhat improved sentiment commodity markets continue to be driven by risk aversion stemming from the financial crisis and the focus on a global economic slowdown. The market seems to be caught between two chairs for the time being as fundamentals have not supported parts of the recent sell-off while a recession, if it materialises, will trigger an even bigger sell-off just like 2008-09. The dollar has stabilized after its recent rally and it has helped commodities to recover also taking into account how Hedge Funds have halved their long exposure over the last few weeks.

The Reuters Jeffries CRB index rose for the first week in a month as the energy sector especially staged a strong comeback on hopes that further stimulus will reduce the risk of a U.S. recession. Industrial metals also received a welcomed boost with copper staging a strong rally after having fallen by one third since early August.



### Drop in U.S. stockpiles supportive for oil

The dramatic sell-off in crude oil over the last couple of months seems to be at odds with fundamentals as tightness in especially Brent crude is not yet being off-set by the expected slowdown in demand and increased Libyan production. The price of WTI crude reached a one-year low at 75 dollars per barrel before a surprisingly large weekly drop in stockpiles triggered a sharp recovery signalling the emergence of a new 10 dollar trading range with resistance now located at 85. U.S. crude stockpiles compared with the five-year benchmark average dropped to the lowest level since November 2008 while inventories at Cushing, the delivery hub for NYMEX WTI crude dropped to the lowest level in 18 months. This support the narrowing spread between WTI and Brent in the months ahead as the graph below shows.



The Brent crude forward curve is still pricing in reduced demand as the economic slowdown takes hold and this will continue to be the main focus in the weeks ahead giving us a limited upside potential. Further price falls below 100 dollars on Brent crude, which is currently being priced in, will create problems for some OPEC members and Russia which requires high prices to balance its budget and this will increase the likelihood of Saudi Arabia removing excess production to balance prices.

### Gold just another commodity – for now

The price of gold has settled into a range between 1,685 and 1,585 as it tries to recover from the recent sell-off. What has been interesting to observe is how the trading behaviour has changed from a safe haven play, more towards a commodity that moves in line with other riskier assets such as oil and stocks. The presence of physical buying at the lower end of the established range should help cushion any attacks on the downside.

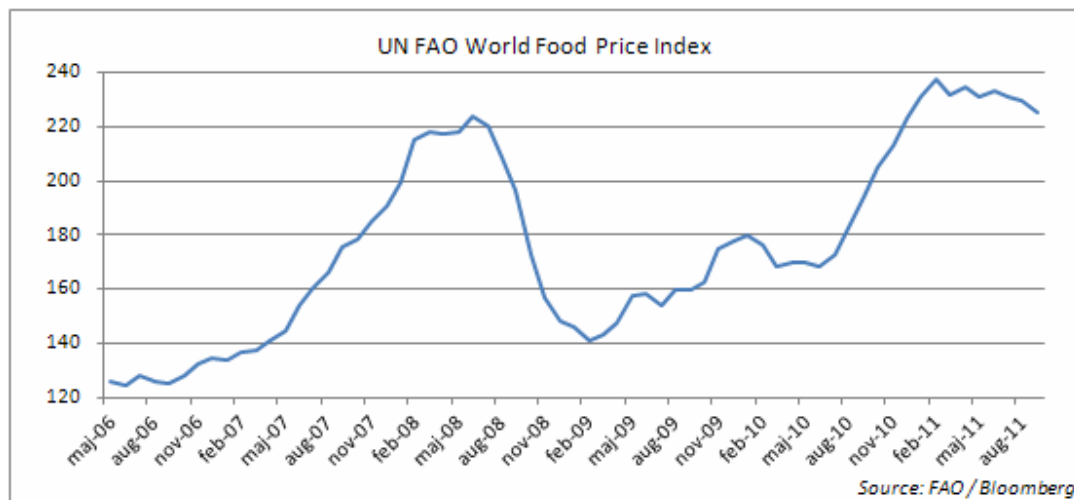
This return, at least for now, to “just another asset” has helped other metals such as platinum and especially silver to outperform gold. Platinum at one stage traded at a discount of 10 percent to gold compared with an average premium of 30 percent over the last five years. Given this massive underperformance we could see a relatively large recovery bounce once the perception of the global economy improves.



Financial flows are holding the key as investment demand for gold through ETFs and especially futures has been reduced by 500 to 2,700 metric tonnes during the last couple of months. Before this demand and safe haven interest returns further upside above 1,700 dollar seems limited unless we see an unexpected sharp sell-off in the value of the dollar.

### Food inflation easing further in September

The dramatic declines seen across different agricultural commodities in September have filtered through to the United Nations Food and Agriculture Food Price Index. In total 55 commodities are included in the Index which averaged 225 points in September, a two percent decline from August and a 5.5 percent decline from the peak reached in February but still higher than the value of 195 points during September 2010. The decline was lead by sugar (-3.8%), cereals (-3.0%) and oils (-2.3%).



### Grain prices stabilising after rout

The price of CBOT December corn rallied strongly after finding demand below 6 dollars per bushel which coincided with the July low. This followed a 26.5 percent correction during September where focus dramatically switched from supply worries to signs of demand destruction triggered by a stronger dollar and lower domestic demand. Speculative long positions

have now been much reduced and talk that China may be falling short of a record 5 to 10 million tonnes also helped stabilise the price.



Next week the United States Department of Agriculture (USDA) on October 12 will release its latest World Supply and Demand report for corn, wheat, soybeans and cotton. This will be viewed with much interest given the scale of the sell-off during September.

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