

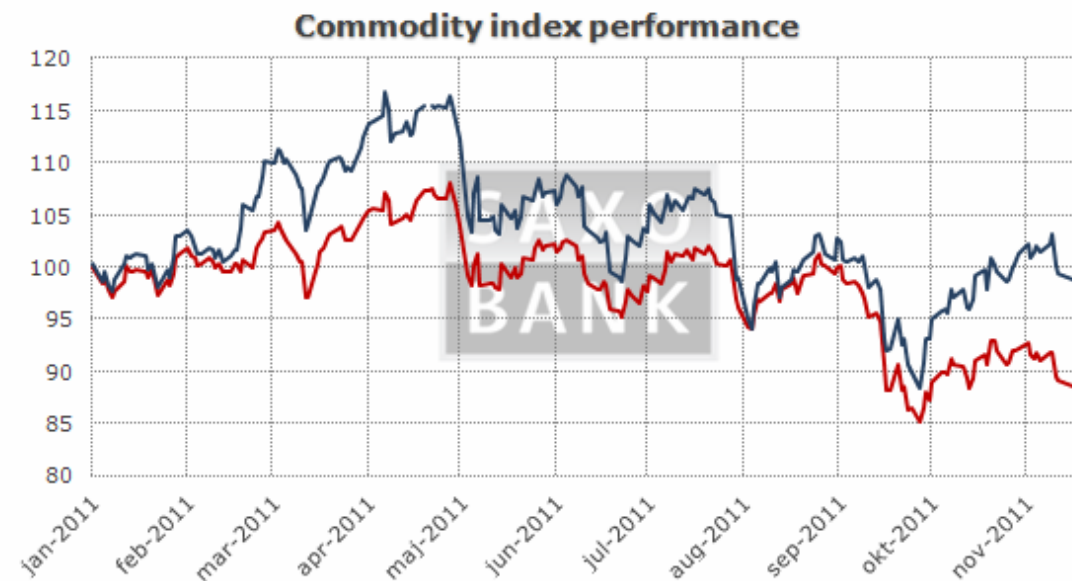
Commodities sold as liquidity rules

The financial stress in global markets continues unchecked and the longer it takes before a resolution to the European debt crisis is found the higher the risk of a global recession re-emerging. This has resulted in the near-term demand outlook for commodities being lowered and prices have suffered as a consequence.

Many traders have begun to scale back early due to year-end considerations and investment funds have been deleveraging speculative positions, as a result of banks reducing credit lines. On this basis further headwinds cannot be ruled out during the coming weeks, also considering the continued dollar rally which erodes support for commodities traded in dollars.

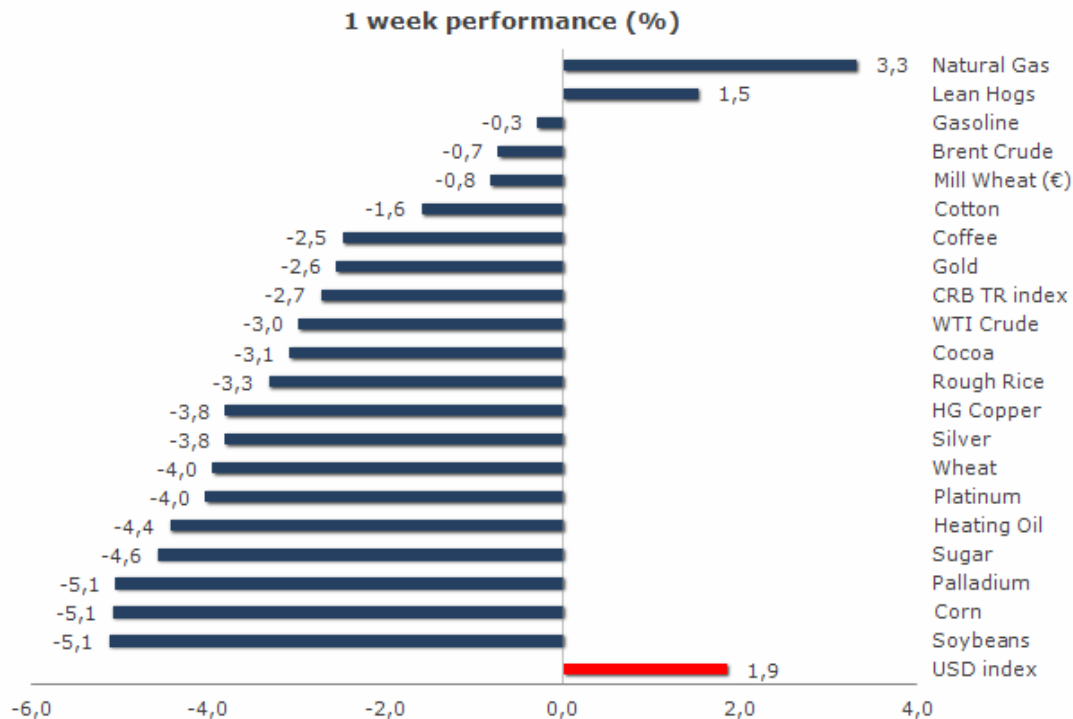
The global Purchasing Managers Index on manufacturing which is a good forward-looking gauge for economic activity is also pointing towards near-term weakness with softer data from China this week adding to the uncertainties about the outlook.

The two major commodity funds, the S&P GSCI and DJ UBS are both trading into negative territory for the year, more so for the latter as it has a much bigger exposure to agriculture and metals (the two sectors which have suffered the most during the last few months).



Source: Bloomberg and Saxo Bank Strategy & Research

The Reuters Jeffries CRB index lost 2.7 percent over the week on a broad based sell-off which primarily hurt dollar sensitive commodities like corn and soybeans. US exporters are struggling to compete with cheaper products from other regions, especially South America where the Brazilian real has weakened by more than 15 percent over the last six months. Broad-based dollar buying continues with the dollar rising 1.9 percent versus a basket of major world currencies.



Scramble for liquidity hits gold

Gold continues to struggle heading for its second straight weekly drop. It has failed to make any progress despite an escalating crisis and central banks still being very active buyers in the physical market and investments through ETFs having reached a new record high of 2,350 tonnes. ETF investors are generally considered to have a much longer investment horizon and it underpins the belief that gold will continue to perform well in the months ahead. As we mentioned last week the biggest danger to gold near term stems from the general state of risk reduction currently happening across most asset classes combined with ongoing dollar strength.

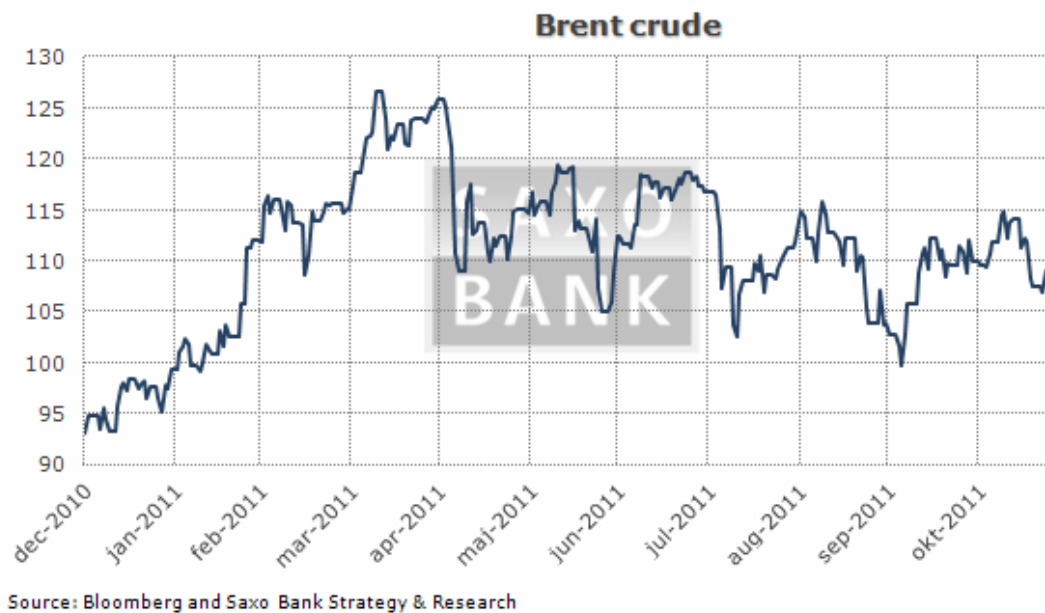
The technical picture however remains weak as long as the price stays below 1,710 and the risk is currently pointing towards further weakness with a break below 1,665 pointing towards 1,600 which represents previous lows and the 200-day moving average. The dollar is currently approaching overbought levels against most major currencies and an overdue correction would lend support to gold.

Oil supported on call for Iran oil ban

Crude oil headed for its second weekly loss on concerns that the worsening debt crisis in Europe will trigger a recession which, if materialised, could have a serious consequence for demand and future oil prices. Prices however held up relatively well as a significant geopolitical risk premium related to Iran continues to build. France has called for a European ban on Iranian oil over its still unknown intentions with its nuclear programme. This carries the risk of escalating the tension between Iran and the outside world. Iran effectively controls the Strait of Hormuz,

through which roughly a third of seaborne oil cargo from the Middle East pass and further escalation of the tensions and subsequent impact on oil prices could not happen at a worse time for consumers given the economic crisis.

Demand for oil and bi-products in particular, especially diesel going to China, continues at healthy levels despite all the macro-economic headwinds. This supports the backwardated shape of the Brent oil curve with the price of oil for prompt delivery trading higher than forward prices. Support is currently located towards 105 on Brent crude with a break below opening up for a move towards 100 dollars.



Industrial metals suffering the most

The price of everything from copper to nickel continues to suffer as the economic outlook worsens. The LME composite index is currently down nearly 24 percent on the year with all components having suffered heavy losses during 2011. The leading mining companies have performed even worse with the Bloomberg World Mining Index being down almost by one third in the year to date.

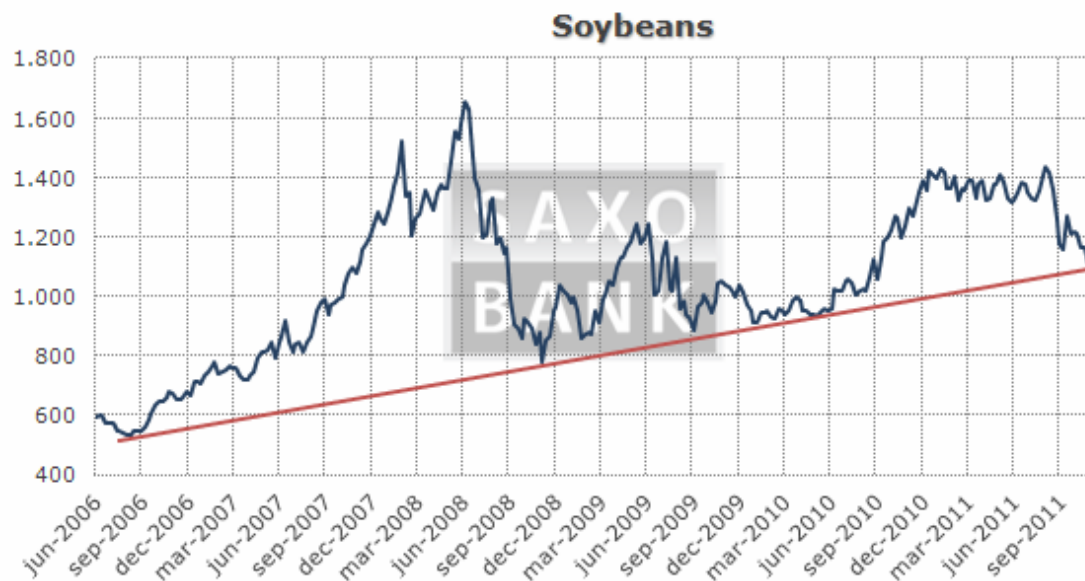
Copper, the most traded of the metals, headed for a fourth weekly drop as the deteriorating outlook and stronger dollar continued to erode support for the sector. Demand for copper, especially in Asia, remains strong with LME copper inventories having fallen eight weeks in a row. Further price falls could therefore be met by additional buying from that region, thereby cushioning the fall. Support on high grade copper for March delivery will be looking for support towards 315 cents per pound ahead of even stronger support towards 300 cents.

Soybeans close to multi-year support

The sell-off in grain and soybean markets continues with speculative longs continuing to come under attack. US export sales of soybeans and corn are well behind previous projections as the

stronger dollar has lead to a drop in demand from China which instead has been buying at more competitive prices from South America.

The price of front month soybeans is getting close to multi-year support at 1095 and a close below this level could signal further losses ahead. Hedge funds and other large investors have turned outright bearish on the soybean complex for the first time in more than three years. On that basis further dollar strength may be required to trigger additional selling.



Source: Bloomberg and Saxo Bank Strategy & Research

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