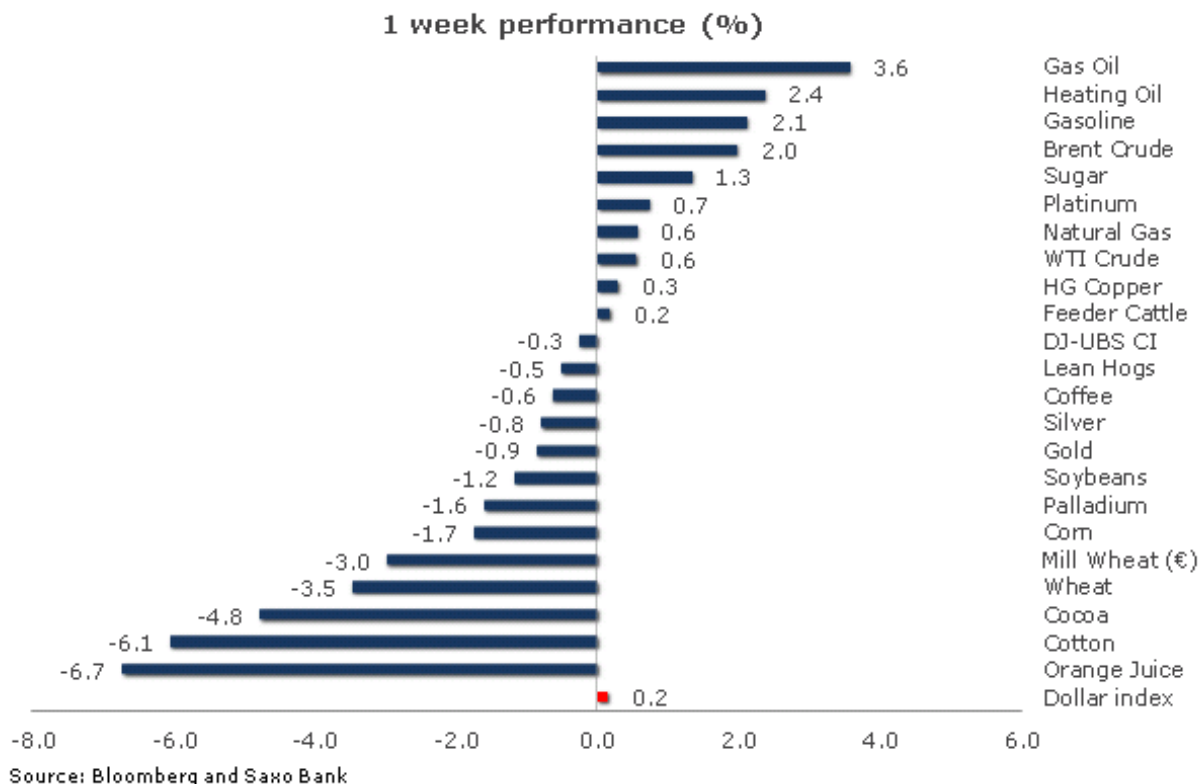


## Commodities mixed: energy benefits from cold, gold waiting for next theme

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The Greek bailout package that should have been put in place by now continues to attract attention across financial markets. All week the talk about an imminent agreement helped support stocks and drove the dollar to the lowest level in two months, before the sentiment turned late Thursday after Eurogroup sent the Greek delegation back to Athens demanding additional cuts and reassurances, something that looks increasingly unlikely to achieve.

Commodities had a mixed week, with energy prices getting lifted by the extreme cold weather across Europe and improved economic outlook while agriculture commodities saw some light selling. The DJ-UBS index, which comprises 20 major commodities, fell 0.3 percent over the last week and is currently up 3.2 percent year to date.



### Gold looking for the next theme

The strong rally in precious metals during January seems to have run out of steam, at least for now and further consolidation is needed before the eventual push higher. Even an 11 percent cut in margin for holding gold on the COMEX futures exchange failed to lift sentiment. Investments through exchange traded funds, which is viewed as long term holdings, have risen by 40 tons from a recent low to a near record of 2,388 tons while hedge funds have been slow in rebuilding speculative longs.

Technically gold found support at 1,710 but the subsequent rally ran out of steam ahead of the recent high with sellers emerging around the 1,750 level. The steep uptrend from December 30 has been broken signalling consolidation and the likely test of support in the 1670-80 area.



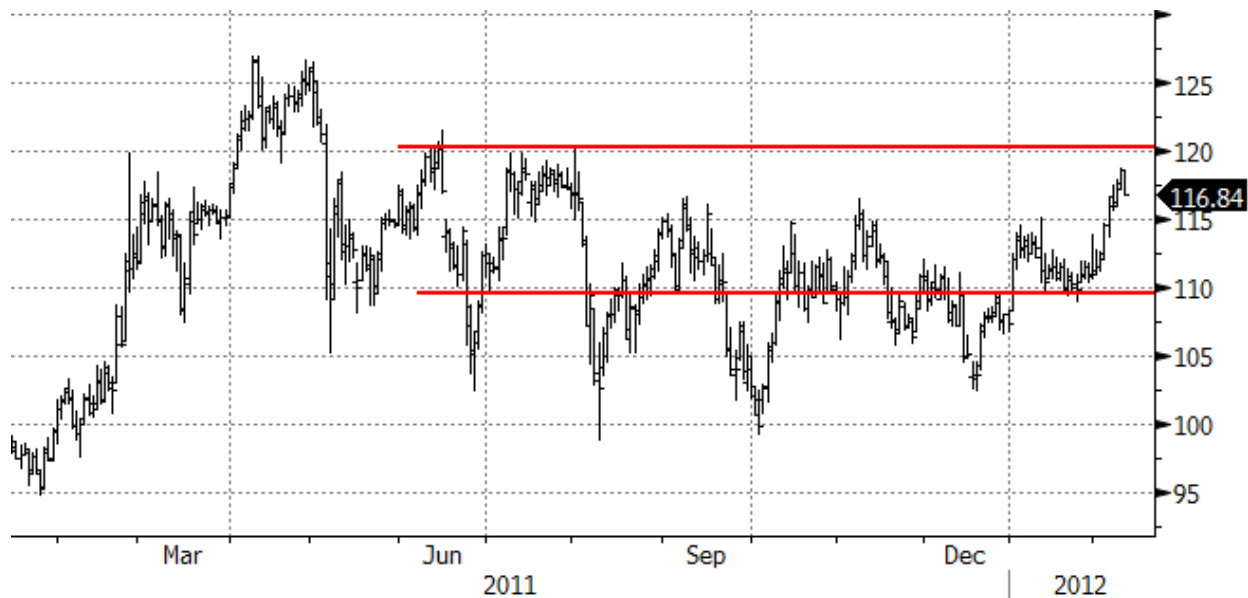
*Spot Gold - Source: Bloomberg*

#### **Platinum discount to gold fading**

Platinum has outperformed gold by 8 percent since the beginning of the year and this week moved closer to price parity. After historically having traded around a 25 percent premium over gold, platinum in early January dropped to a discount of 15 percent before recovering to the current discount of 4.5 percent. Being an important industrial commodity primarily used in automobile production, platinum has been finding support from the recent improvement in economic activity combined with supply disruptions in South Africa, the largest producing country. A prolonged strike and subsequent loss of production would help reduce the surplus of platinum thereby supporting the price.

#### **Seaborne Brent outperforms landlocked WTI crude**

Brent crude hit a six month high this week and came close to 120 dollars per barrel, above which fundamentals are likely to weaken further and eventually trigger demand destruction just like we saw during the middle of last year. The drivers of the price of Brent crude, the benchmark for global oil transactions, are elevated winter demand in Europe, Iranian embargo beginning to be felt with Asian refiners looking for alternatives to Iranian crude oil and a general stronger than expected demand from emerging economies. This tight supply-demand balance has caused the price of Brent crude for immediate delivery to rise above future prices, a situation called backwardation.



*Spot month Brent Crude – Source: Bloomberg*

Technically Brent crude should be finding some tough resistance ahead of 120 dollars per barrel, especially after having rallied 10 dollars since January. Some consolidation now seems in order with the month long trading range between 105 and 115 having been moved 5 dollars higher. Initial support for the week ahead will therefore be centred on 115.

Meanwhile WTI crude, the US land-based variety, continues to trade at a deep discount to Brent crude as deliveries into the US Midwest continues to rise. This is because strong Canadian production has no other place to go other than Cushing, Oklahoma, the storage and pipeline hub for crude oil in America. This week WTI crude recovered back towards 100 dollars per barrel but most likely only due to the fact that Brent crude pulled it higher as it reached a six month high.

#### **UN FAO food price index rose in January**

Agriculture prices generally moved higher recently and this was reflected in the UN FAO Food Price Index for January. The index, which measures the monthly change in international prices of 55 food commodities, rebounded in January averaging 214 points, a near 2 percent increase from December. This was the first monthly increase since July 2011 but it still leaves the index 7 percent lower than the same time last year. All the five different commodity groups that the index is comprised of registered gains, particularly oils followed by cereals, sugar, dairy and meat.

#### **Crop demand and supply outlook triggers profit taking**

A US government report on the global supply and demand outlook for wheat, corn and soybeans were generally benign, with the impact of adverse weather in South America and Eastern Europe not being worse than already expected. Wheat prices fell and headed for its first weekly drop in four after the report predicted that world supplies would climb to a record. Profit taking in corn and soybeans also was also seen after the strong rally seen this past month. Further cuts to South American corn and soybean crop estimates however are expected after high temperatures and dryness caused irreversible damage to crops across the region. This should provide both crops with support should the prices fall on further position adjustments.

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