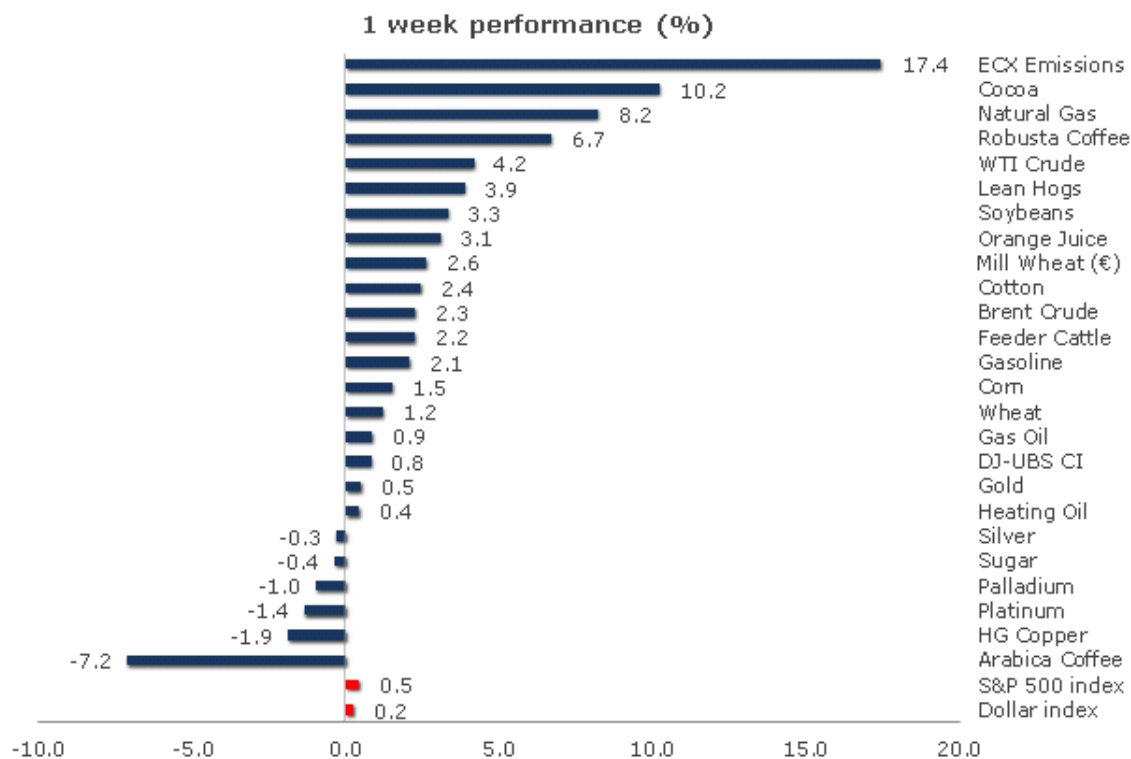


## Oil rallies while metals take a breather

*Ole S. Hansen Head of Commodity Strategy*

Oil markets received most of the attention this week with Brent crude trading back above 120 dollars per barrel as several geo-political events collectively increased the risk of supply disruptions. The rally among industrial metals came to a halt due to weaker Chinese demand while a dramatic narrowing of the price gap between espresso and filter coffee caught some headlines.

The DJ-UBS commodity index rose 0.8 percent as gains in energy were off-set by a slide in industrial metals with the LME Metals index falling by 3 percent while precious metals traded sideways. The dollar notched up small gains as investors continued to go hot and cold on the Greek bailout and the S&P 500 reached a nine month high as the US economy continued to improve.



## Copper pauses as Chinese demand slows

Industrial metals which have rallied strongly during the last three months experienced a quick reversal this week as data from China pointed towards slowing demand. Considering China

consumes more than 40 percent of most industrial metals news that smelters were increasing exports due to soft internal demand helped trigger the reversal. The metals which saw the biggest retracements were lead and zinc while the price of High Grade Copper briefly traded below the recent lows before consolidating. A move below 2.85 dollars per pound on the front month contract could signal a deeper correction towards 2.70.

### Precious metals waiting for the next trigger

Gold and silver continue to consolidate while searching for the next trigger. Direction has increasingly been dictated by economic data with positive news encouraging “risk on” trades supporting equities and commodities, including gold. The well-defined trading range between 1,700 and 1,760 held once again with a 40 dollar move in either direction expected once it breaks.



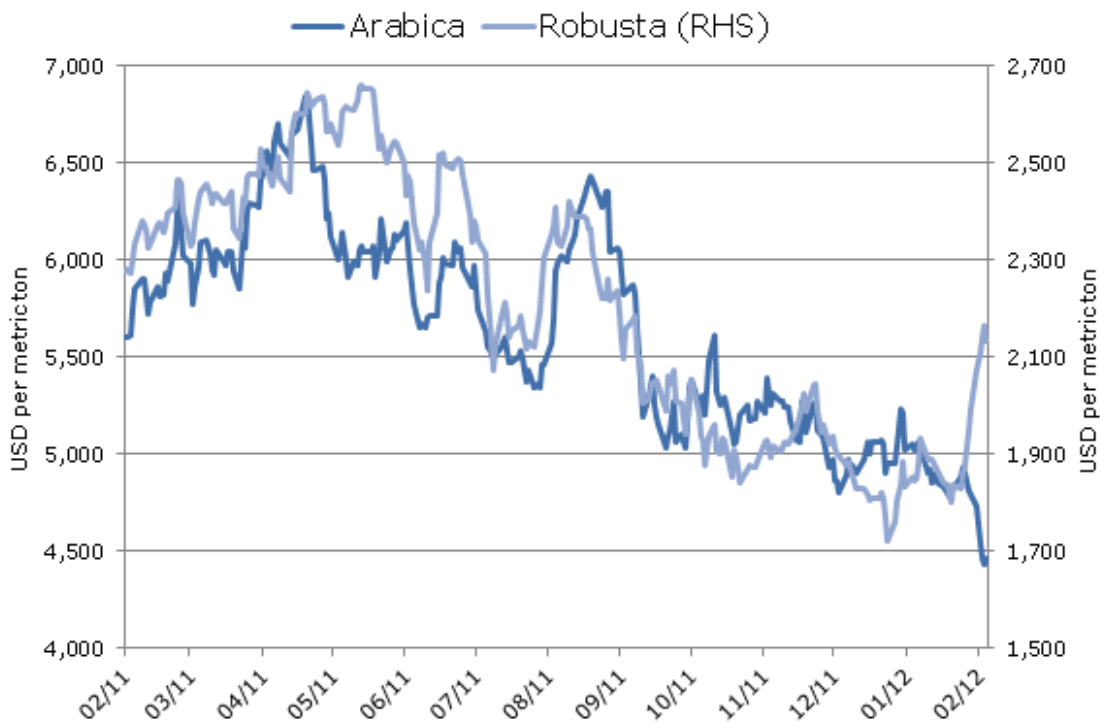
### China overtaking India as top gold consumer

The World Gold Council (WGC) in its annual report estimated that China in 2012 would overtake India as the biggest consumer of gold as both consumer demand and central bank buying would continue. The council also believes that China's central bank made significant gold purchases during the last quarter of 2011 where prices generally hit a soft patch. This goes to show that major setbacks in the gold market are likely to be met by continued strong physical demand, especially from China as the central bank continues to build its gold holding in order to diversify its currency reserves. Central Banks in general expanded their gold reserves in 2011 by adding 440 tonnes, the most in almost 50 years and according to the WGC a similar amount could be bought in 2012 with the higher price not acting as a deterrent.

**Coffee qualities move in different directions**

The price difference between the two different qualities of coffee has narrowed dramatically during the last few weeks. While the price of high quality Arabica coffee has fallen 12 percent year to date Robusta coffee, the lower and more widely consumed quality, has rallied by 20 percent. Prices had been falling steadily into January as the outlook for a bumper crop in Vietnam, the world's largest producer of Robusta, had speculators selling themselves short in expectation of lower prices in the future. As it turned out Vietnam shocked the market when it announced a sharp reduction in the amount it exported during January and it raised worries about shortages as the two other major Robusta exporters, Indonesia and Brazil, usually only begin their harvests in April and July respectively.

The rally and subsequent outperformance will undoubtedly run out of steam soon but not until short positions have been covered and food producers and trading houses manage to secure supplies. According to analysts, this year's Vietnamese crop is still expected to be a record and the feeling is that farmers there held back supplies in order to achieve higher prices, something that seems to have worked out spectacularly.



Source: Saxo Bank and Bloomberg

**EU Carbon allowances rally on reduced supply**

The up until recently depressed market of carbon emission allowances received a welcome boost this week which put further distance to the sell-off during 2011 where the price halved on European recession fears combined with oversupply of allowances. The gains which represent the biggest weekly gain in six months occurred after the region's politicians took steps towards reducing the overhang of supply with the current surplus expected to reach more

than 1 billion metric tonnes by the end of the year, threatening the system's ability to curb carbon emissions.

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