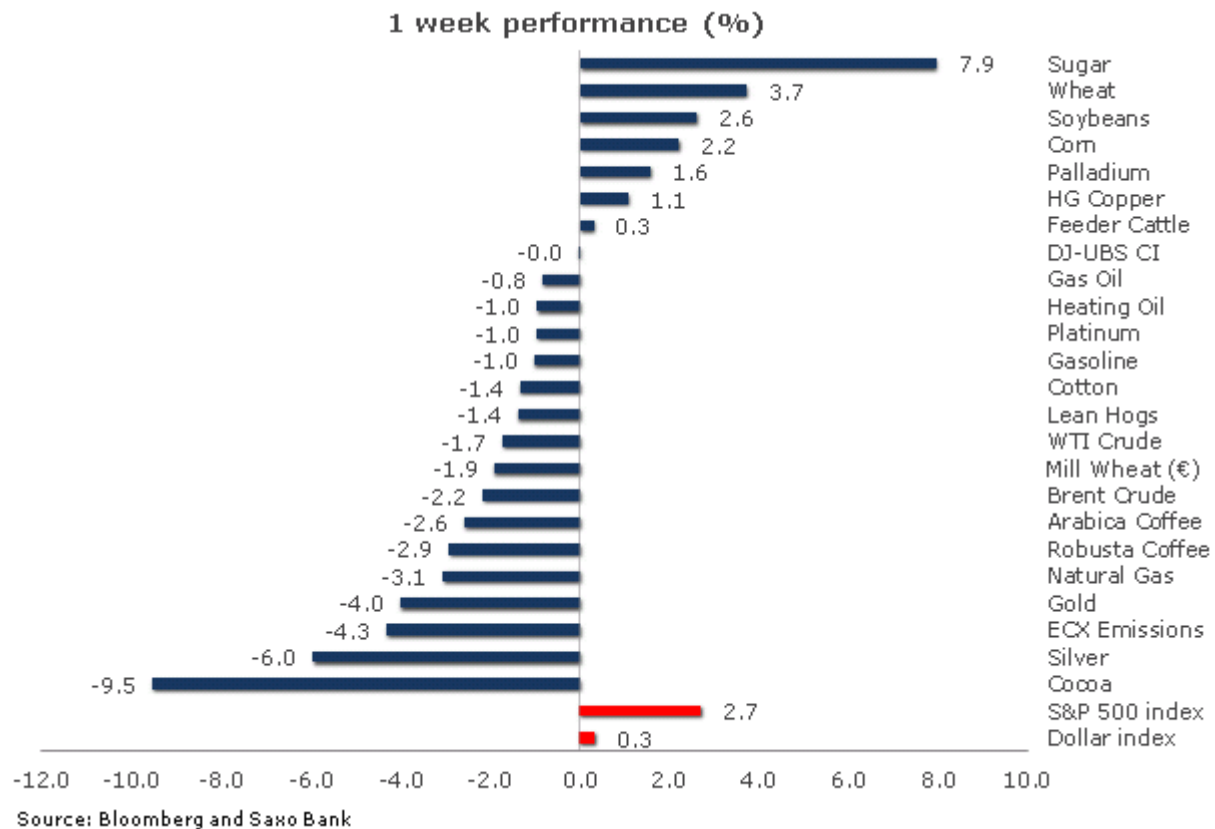


## QE fade hurts gold; correction ahead for oil?

The week-long rally in stocks continued last week as US economic data keeps on improving, while little direction was gained from the dollar which traded mostly sideways. The DJ-UBS commodity index was flat on the week with the agriculture sector seeing strong gains, driven by sugar and soybeans. Precious metals suffered on diminishing support from further quantitative easing and platinum moved above gold for the first time in six months while some light selling hit the energy sector following talks about the release of strategic reserves.



## Oil lower on talk about SPR release

The main price driver this week was news from Washington Thursday that the US and the UK are contemplating releasing strategic petroleum reserves (SPR) in an attempt to lower current high prices. Although later denied by the US it however sends a signal to oil traders that attempts might be made to guide prices lower. At this time where the market is as much driven by psychology and worries about the unknown, given the lack of real shortage of oil in the market, this could help level the playing field and potentially trigger a correction as speculative investors decide to reduce long exposure.

As the average US retail gasoline price, currently at USD 3.83 and up 20 percent since December, keeps rising ever closer to the important four dollar per gallon mark it potentially

carries the risk of disrupting President Obama's re-election chances. Mounting frustration of motorists in the US, who consume nearly 10 percent of global oil production, could become a very hot potato as the peak driving season approaches with some estimating the price could reach 4.3 dollars per gallon (114 cents per liter) compared with the 2008 record of 4.1 dollars.

Brent crude nevertheless continues to settle into its new and relative tight range around the mid 120's. If prices remain unchanged we will by next week oil will have been above 120 for a longer period than during the Libyan crisis in 2011. This clearly indicates how delicate the situation is being viewed this time. Despite Saudi Arabia saying that extra oil will be made available many have serious doubts as to how much more spare production capacity (oil that can be made available within 30 days and maintained for 90 days) they have available.



Brent crude is likely to stay above USD 120 per barrel but continued discussions about the release of SPR and no additional news from Iran could potentially trigger some more profit taking and a move below the mentioned band of support between USD 119 and USD 121 now carries the risk of a setback towards USD 116.50.

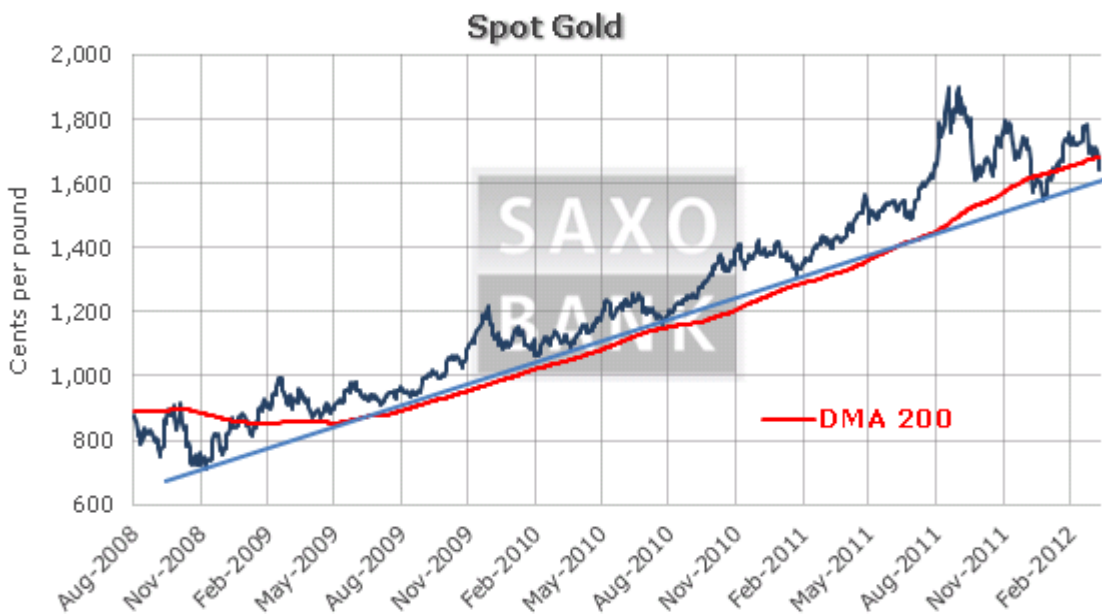
### Gold lower on upbeat assessment of US economy

Many strategists continue to see good prospects for gold in 2012 but one of the few events that could change this outlook, the return of central bank tightening of monetary policy, attracted some attention this week and caused additional weakness to the price of gold and silver. The US Federal Reserve unsurprisingly kept monetary policies unchanged at its FOMC meeting but it provided a more optimistic outlook for the US economy, saying that the pace of growth in coming quarters would be stronger than previously expected. This projection has once again lowered the expectation for additional quantitative easing and raised doubt about whether the Federal Reserve will maintain rates at low levels until 2014 as previously announced in January.

Gold sold off as a consequence and reached 1,635, the lowest level in two months, while silver fared even worse trading as low as 31.62. Platinum investors meanwhile jumped on the growth story and bought the white metal at the expense of gold and in the process took the price back above gold for the first time in six months. Whether platinum will manage to build on this recent move remains to be seen, but it is worth pointing out that the average platinum price premium over gold in the past five years has been around 25 percent, compared with the 15 percent discount that was reached in early January.

### Keep an eye on bond yields and 1,600 support

Support for gold could eventually come from the bond market. Should we continue to see the 10-year yield on US government bonds, currently at 2.3 percent, rise further it could bring back talk of QE3 as the Federal Reserve is eager to keep home loans from rising further which combined with higher gasoline prices could hurt the consumer and economic recovery. Critical support in the week ahead lies at 1,600 on spot gold which is the trend-line support from the 2008 low. A lot of gold liquidation has already been done with speculative accounts last week reducing longs by 22 percent, the biggest weekly drop since 2004. The behaviour among long-term investors in exchange traded products and the potential physical demand for return probably remains the key as to when support can be re-established.



Source: Bloomberg and Saxo Bank Strategy & Research

### Soybeans lifted by declining South American supply

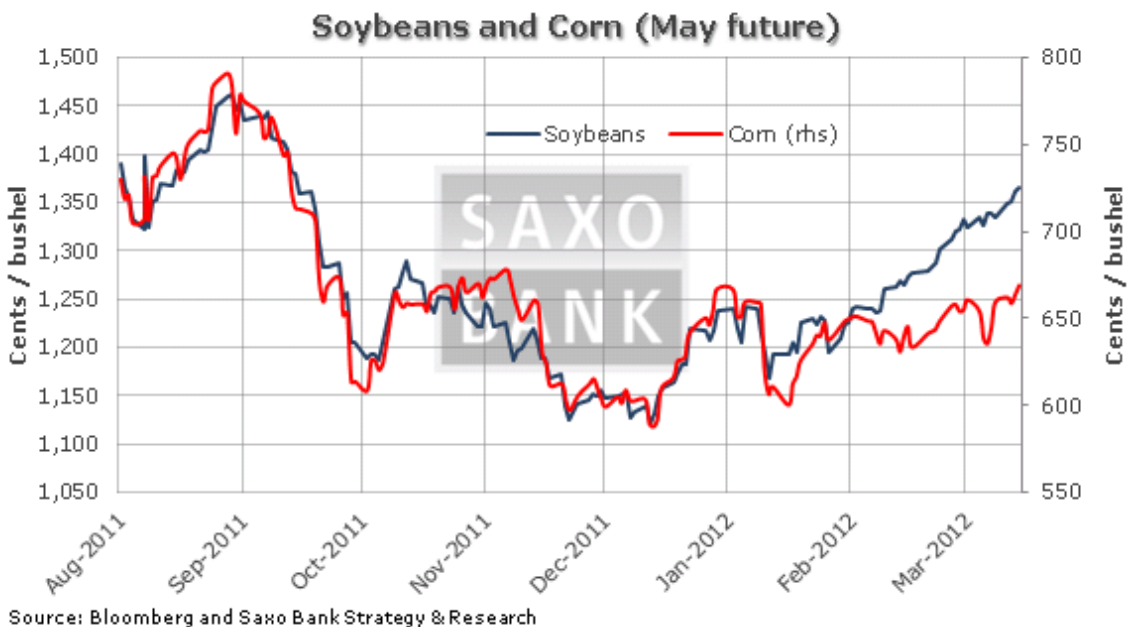
The DJ-UBS Grains index which represents the price developments of US wheat, corn and soybeans has rallied by 17 percent since it made a recent low in December. This rally has almost

exclusively been driven by soybeans where a month-long rally has seen it trade back up to a six-month high and it is currently showing a gain of 14 percent in 2012.

The rally has been triggered by concerns about a reduction in the expected size of the Brazilian harvest due initially to dry conditions and now reports about crop fungus. Brazil, the world's largest exporter of soybeans, could see its harvest reduced by 4 percent to 67.1 million tonnes according to a local forecaster. Reduced South American supply translates into higher export demand for US produced crops and prices have rallied as a consequence. Additional support has come from China, the world's biggest buyer of soybeans, as demand according to local traders, is expected to rise by 4 million tonnes to 56 million tonnes this year.

Weekly data from the Commodities Futures Trading Commission (CFTC) shows that speculative trading accounts have reversed their exposure to the soybean complex (soybeans, meal and oil) from a short of 45k contracts of futures and options in December to a long of 241k contracts today, still a quarter less than what was seen during the peak one year ago.

The price of the May futures soybean contract, also called old crop, currently trading at 13.65 has moved back into the 13 to 14.5 dollars per bushel range where it spent almost 10 months in 2011. History looks likely to repeat itself while we wait for additional news from South America and of US farmers' planting intentions.



### **Corn being dragged along**

The price of new corn crop (for December delivery) has underperformed soybeans by 13 percent since the beginning of the year as the main focus has been with soybeans. But as we approach the new planting season some US farmers could be tempted to switch planting to soybeans at the expense of corn, which should be supportive for corn due to the impact on current supply and

demand projections. Tight supplies of old crop has seen the May futures contract breach its 200 day moving average triggering additional technical buying.

### **Sugar in a sweet spot**

The price of sugar raced ahead this week as confidence returned to the market following a 10 percent correction during the early parts of March. Once previous resistance at 24.25 cents per pound gave way commercial buyers, trade houses and speculative accounts all got in on the action and chased it four percent higher in just a couple of trading sessions. The drought in Brazil, mentioned previously, has also raised some questions about how big the new Brazilian crop is going to be. However with the outlook for a healthy global surplus of sugar this year further upside seems limited and resistance should be found ahead of the February high at 25.80.

### **Cocoa moves in the other direction**

In another dramatic move the price of cocoa dropped 9 percent on the week to the lowest level in a month as previous worries about supply shortages in 2012 came under revision as rain helped boost crops in West Africa and Ghana and Indonesia which both raised their production estimates. Speculative accounts are currently net short of only 5.5k contracts but behind this number we see a relatively large long position and the reduction of this have undoubtedly helped drive prices lower.

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