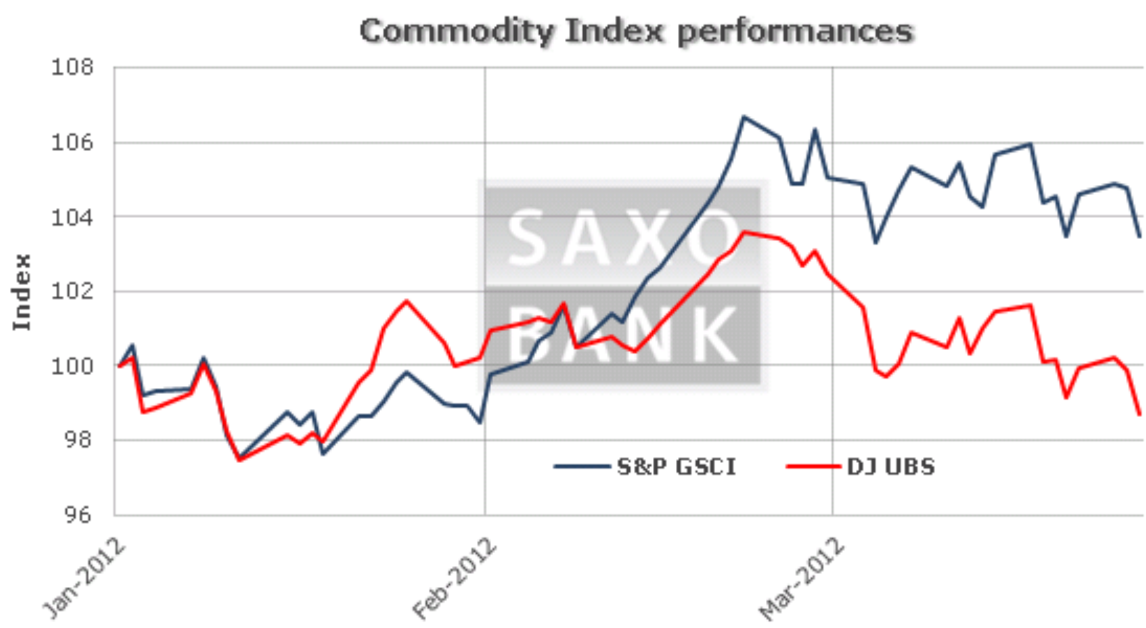
## Q1 winners and losers: Gasoline prices rise, natural gas prices plummet

As the first quarter of 2012 comes to a close, we take a look at the winners and losers during the first three months. It was a quarter that was driven by geopolitical risk, sovereign debt worries and contradicting signs on the economic progress of different regions. While the US stock market roared ahead - regaining pre-Lehman levels in the process - Europe was left in the doldrums and Asian economies began to worry about the implications of an increasingly visible Chinese slowdown.

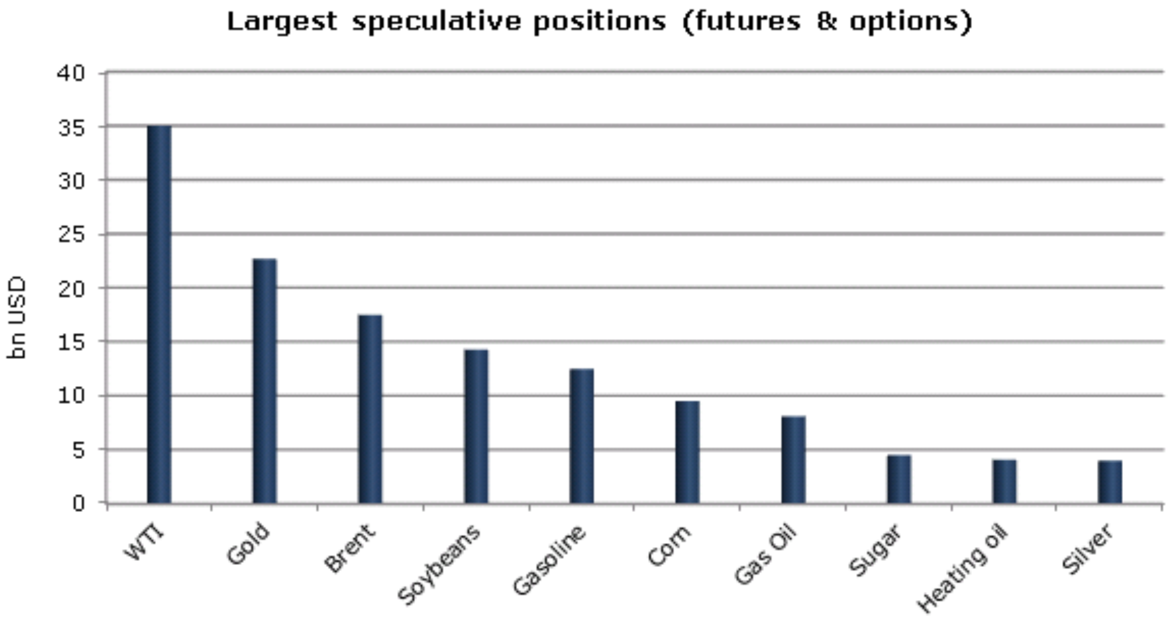
The two major commodity indices showed generally weak returns, as performance began to suffer during March. That's when it became apparent that China, which represents more than 40 percent of global consumption and more than 50 percent of global consumption growth, was slowing down. The S&P GSCI returned 1.7 percent primarily due to its 68.4 percent exposure to the energy sector - excluding natural gas - while the broad-based DJ-UBS index lost 2.9 percent due to an overall poorer performance in agriculture and a combined 11 percent exposure to the two biggest losers, coffee and natural gas.



Source: Bloomberg and Saxo Bank Strategy & Research

**Speculators rebuilt exposure**

The general selling of commodities towards the back end of 2011 had left hedge funds and other speculative traders with much reduced positioning entering into 2012. As geo-political tensions rose and sovereign debt worries eased and drought hit key agricultural areas they began rebuilding long positions almost doubling exposure during the quarter thereby helping to move prices along. As seen below out of the ten biggest speculative positions half relates to the energy sector while the biggest mover among the rest has been soybeans.



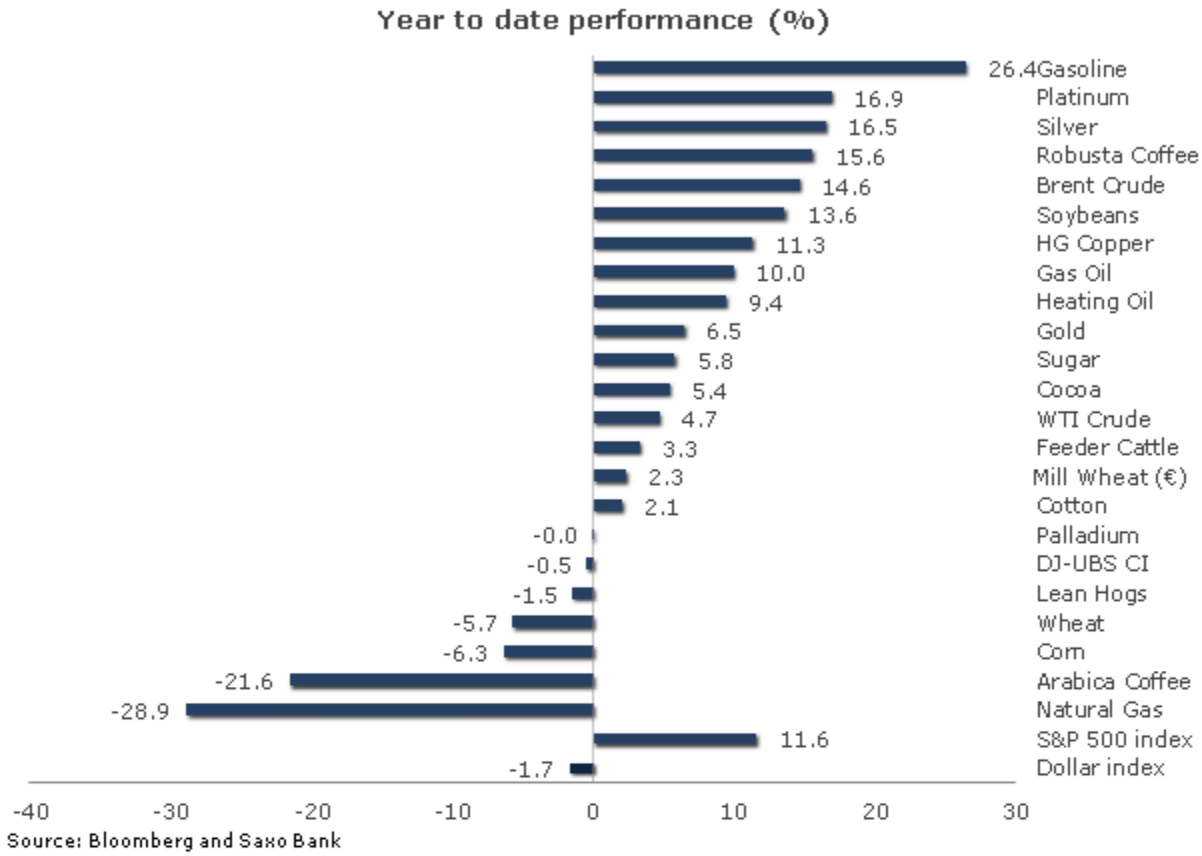
Source: Saxo Bank, CFTC, ICE, Bloomberg

**Gasoline** rose by more than one quarter, supported by rising crude oil prices and reduced refinery capacity in the north eastern US, as they were not able to pass on the higher costs for crude oil onto gasoline consumers. The price of retail gasoline has nevertheless risen by 20 percent during the quarter and is currently getting close to the psychological 4 dollar per gallon mark. With the price expected to rise further as we approach the summer and peak driving season demand, this could become a very hot topic, considering the US election is now only months away and for President Obama this could prove a big obstacle for being re-elected.

**Natural gas** meanwhile scraped the bottom, losing 29 percent and reaching the lowest level in more than ten years as the shale gas revolution continued to add supplies into a system where demand has been sluggish due to above-normal winter temperatures.

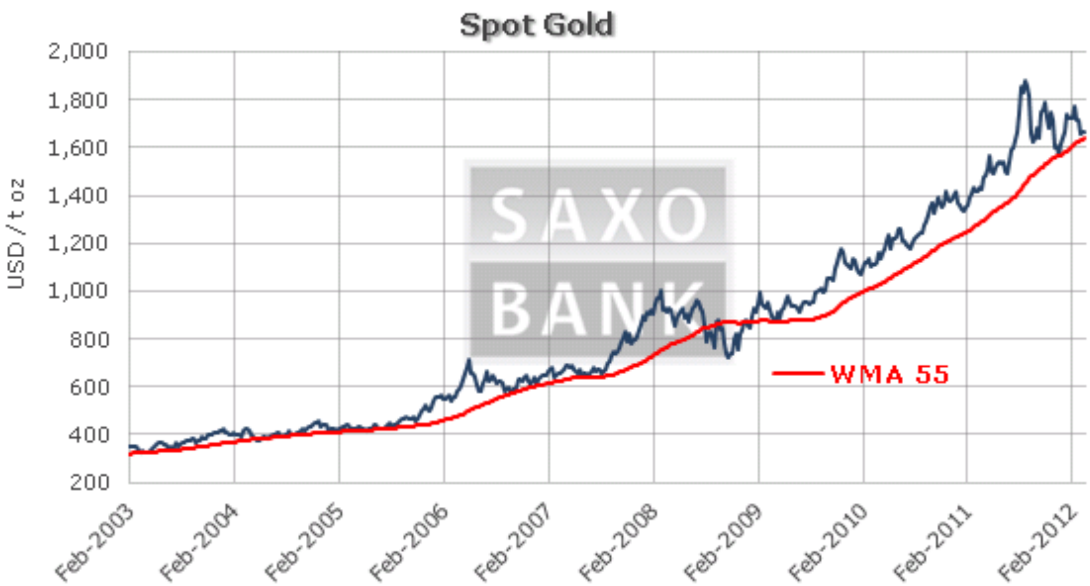
**Crude oil** prices on either side of the Atlantic saw a big difference in performance as WTI crude underperformed Brent crude by nearly ten percent, which resulted in the spread between the two widening to a near record of 20 dollars. The reasons behind the poor performance of WTI are well known, and with dwindling global production and supply outages among major and minor producing countries, the true cost of oil is currently best reflected in that of Brent.

Brent crude remains stuck around 125 dollars per barrel, with continued talks about the potential release of strategic petroleum reserves and soothing words from Saudi Arabia having only a limited impact on prices. Higher prices, meanwhile, carry the risk of slowing global demand, as consumers will begin to reduce spending. This has so far kept prices from rising further, despite continued focus on Iran and its diminishing levels of export.




**Industrial metals** rose strongly at the beginning of the year, due to expectations for strong demand combined with supply problems triggered by labour disputes and adverse weather. The recession in Europe and the lowering of growth projections in China stopped further advances, and sideways trading has been seen for the past few months. Copper nevertheless managed to return a respectable 11.3 percent while the London metal index returned 7.3 percent.

**Gold and silver** both headed for a quarterly advance, the first in a year for silver, which finished strongly in the top three. This week gold once again jumped on the hopes for additional US stimulus, almost reaching 1,700 before sellers once again took it lower. Following a strong start to 2012, gold has been hit by several rounds of risk reduction by hedge funds, as they have looked elsewhere for better opportunities. Investments through exchange traded products remain resilient, although some reduction has also been seen during March. Technically gold is trading just above important support at 1,639, which is the 55 week moving average line. This line has only been broken on a few occasions over the past ten years, and a weekly close below could signal further losses although - as the below chart also shows - every time a break has happened the price has relatively quickly managed to recover and move higher.



Source: Bloomberg and Saxo Bank Strategy & Research

**Corrections in grains ahead of government reports**

Corn and wheat suffered big losses this week ahead of two important reports from the US Department of Agriculture (USDA) which would shed some light on quarterly stock levels and farmers planting intentions for the coming season. The ability of the USDA to wrongfoot the market probably caused much of this risk reduction, with fund managers worried that projections would prove incorrect as has been seen on numerous occasions this past 12 months. Recent mild weather has also caused some confusion as to what crop farmers would plant. Soybeans are very attractive due to high prices, but as they are planted later, farmers could be tempted to get going early which would benefit corn.

| USDA | Event | Period | Survey | Actual | Prior | Unit |
|---|---|---|---|---|---|---|
| Corn | Quarterly stocks | 1Q | 6,171 | 6,009 | 9,462 | 1000 bushels |
| Soybeans | Quarterly stocks | 1Q | 1,380 | 1,372 | 2,366 | 1000 bushels |
| Wheat | Quarterly stocks | 1Q | 1,227 | 1,201 | 1,656 | 1000 bushels |
| | | | | | | |
| Corn | Prospective Plant | 1Q | 94,800 | 95,864 | | 1000 acres |
| Soybeans | Prospective Plant | 1Q | 75,300 | 73,902 | | 1000 acres |
| Wheat | Prospective Plant | 1Q | 57,500 | 55,908 | | 1000 acres |
| Rice | Prospective Plant | 1Q | | 2,561 | | 1000 acres |
| Cotton | Prospective Plant | 1Q | 12,960 | 13,155 | | 1000 acres |

*Source: Saxo Bank, Bloomberg, USDA*

**Soybeans to remain supported**

As it turned out the report did not fail to surprise, especially with stock levels in all three crops falling by more than expected while the planted acreage for both wheat and soybeans being lower. The corn acreage will increase to the largest for 75 years which will leave the new crop contract vulnerable relative to other crops. The lower soybean acreage could keep prices high over the summer despite having seen the price rally by 14 percent already this year. One word of caution is that the report was compiled nearly one month ago so continued strong prices during March may have persuaded some farmers to switch their intentions, something that will only become apparent later this spring.

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