

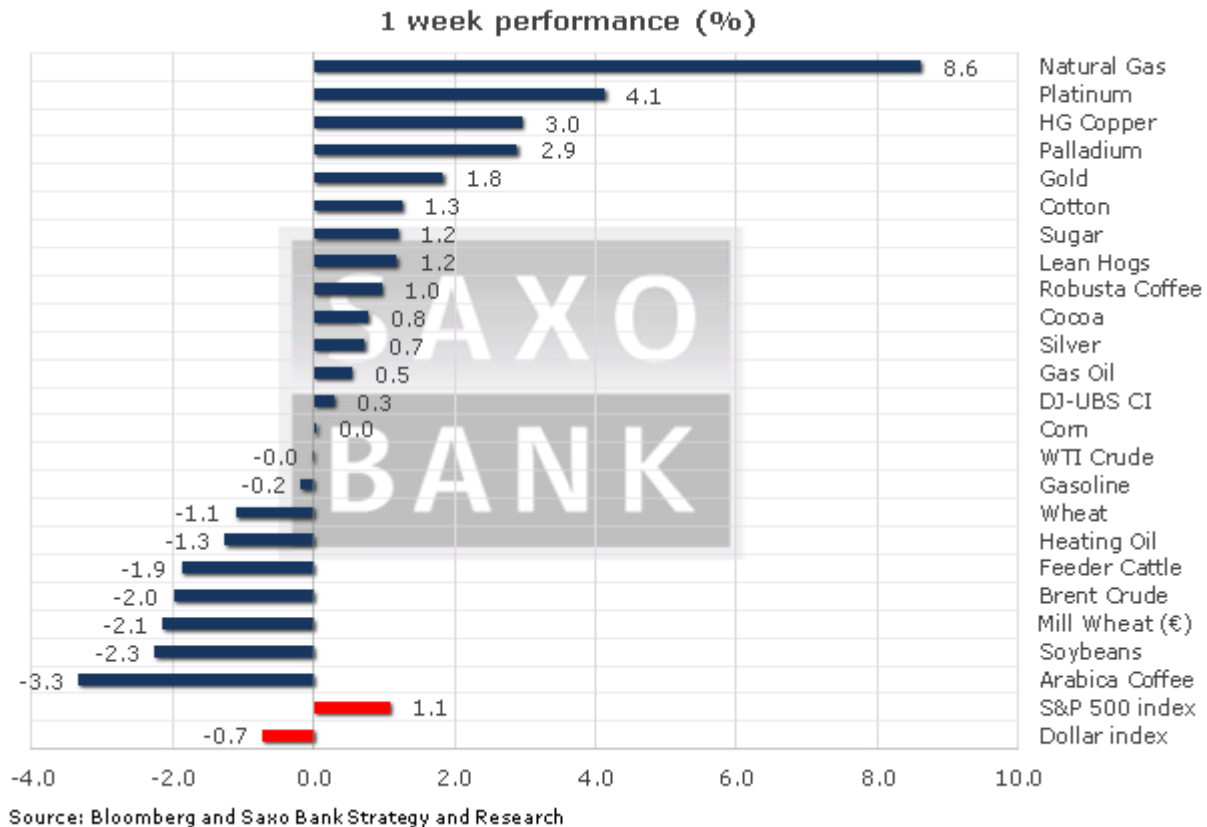
Commodity in standby position

Ole S. Hansen, Head of Commodity Strategy

Financial and commodity markets witnessed limited trading activity last week with many focussing on adjusting or possibly reducing exposure ahead of the crucial vote which could determine the future of Europe and the common currency.

For the second week in a row the Euro clawed back some of the recent losses, primarily due to short covering and in anticipation of new political initiatives. A boost was also received from sources claiming that global Central Banks stand ready to provide liquidity in a co-ordinated action in the event the election triggers aggressive risk aversion.

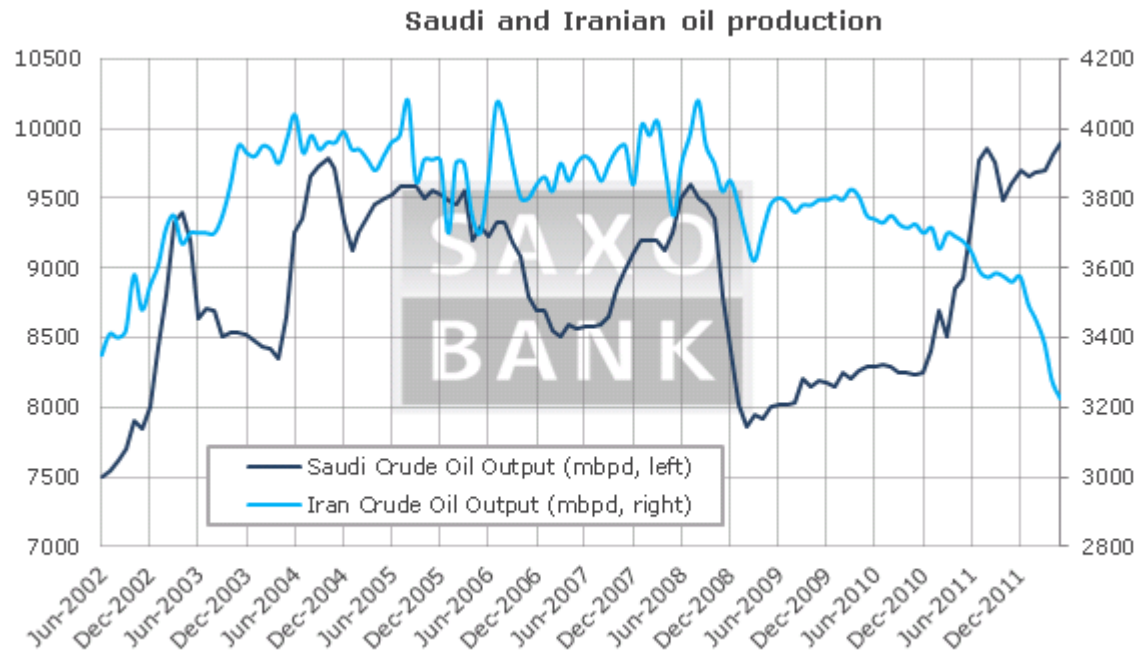
The DJ-UBS commodity index was almost unchanged on the week led by gains in natural gas and metals while some agriculture products, such as coffee, soya beans and wheat pulled it the other way.



OPEC opt for status quo

Oil Ministers from the Organization of the Petroleum Exporting Countries (OPEC) met in Vienna amid much attention given the recent dramatic sell-off in oil markets. A call for Saudi Arabia to cut production over fears that oil prices could collapse even further was eventually rejected and in a statement OPEC mentioned the downside risks facing the global economy as the reason for maintaining the production target of 30 million barrels per day (mbpd) thereby accepting the fact that daily output currently runs at nearly 32 mbpd.

Although OPEC showed a united front in the end, there is no doubt that production levels in the months ahead will unilaterally be decided by Saudi Arabia which is still worried about the impact on supplies from the Iranian embargo that begins on July 1 and the expected seasonal pick-up in demand going into the third quarter. Iran is one of the countries suffering the most from the sell-off in oil prices as the sanctions, as seen below, are beginning to impact their production levels even though they have claimed that their export remains the same as before.



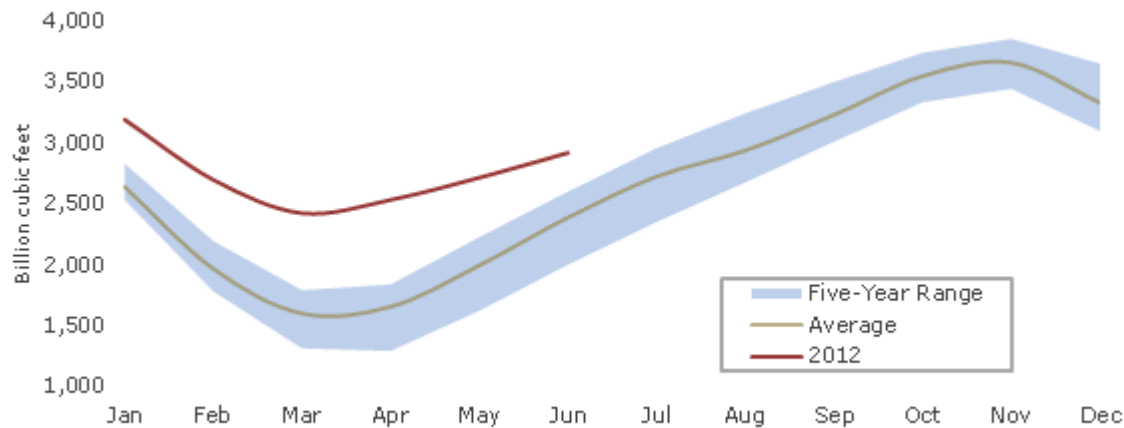
Source: OPEC, Bloomberg and Saxo Bank Strategy & Research

Brent Crude spent most of the week trading sideways near the recent lows following a failed attempt to rally during the previous week. This now leaves the front month contract in a 96 to 102.50 range but with uncertainty about the future of Europe and slowing economies in China and the US any upside attempts for now look futile. On a positive note the speculative selling pressure from long liquidation, which has been a major force during the sell-off, should begin to ease with net longs having been brought back to more manageable levels. But just like worries about 150 dollar per barrel of oil kept the market supported back in March talks of 50 dollars now - should the global economic outlook deteriorate further - will cause nervous trading over the summer.

Natural gas surges as storage build slows

The weekly US government storage data report surprised the market when it said that stockpiles only rose 67 billion cubic feet compared with an expected gain of 75 billion. The price of prompt natural gas jumped 14 percent, the biggest daily increase since September 10, 2009, to close just below USD 2.5 mbtu.

Working Natural Gas in Underground Storage



Source: DOE, Bloomberg L.P., Saxo Bank Strategy & Research

A floor in the market now seems to have been established but whether this is the beginning of a rally that many investors have been looking for is still too early to say. It is generally believed that in order to continue to see the coal to gas switching, which has been a significant factor in reducing the surplus, the price needs to stay preferably below 2.5 and not higher than 2.75 until the end of the injection season. With the US summer comes increased consumption of gas by electric generators as cooling demand increases. Just how the temperatures develop over the coming months compared with previous years will be an important driver for natural gas prices.

Gold showing signs of strength

The price of gold but also copper and platinum has been showing signs of strength over the past week. The confidence in gold has been rising with the last couple of setbacks being halted by willing buyers who believe that central banks will provide additional stimulus as global economic growth continues to slow. In India, the world's biggest consumer, the price in Rupee surged to an all-time high on a combination of currency weakness and buying by jewellers ahead of the coming marriage season. Overall physical demand from Asia however remains sluggish amid a slowing economic outlook for India and high prices. Any signs of physical activity, albeit small in the greater scheme of things, tend to have a positive psychological impact on traders.

However, we need to see a sustained break above the recent high at 1,640 in order put the worries about a deeper correction to rest. At least we have now seen a major band of support between 1,540 and 1,560 being established ahead of the crucial line in the sand at 1,520.



Source: Bloomberg and Saxo Bank Strategy & Research

Platinum and copper rally

Platinum has rallied more than four percent since the beginning of the month and has outperformed gold in the process as producers have reacted to the outlook for slowing demand from the automobile industry by cutting production. The price ratio between gold and platinum, which is a favoured alternative way of trading the two metals instead of individually, has seen platinum's discount to gold reduce to around 9 percent compared with an average premium of 23 percent over the last five years.

Copper rose on a combination of rising imports from China, the world's largest consumer, and speculation about additional stimulus being provided by the US Federal Reserve as a slowing economy recently has made such a move more likely. Much of the focus has been on dwindling demand but until new mining capacity becomes available towards 2013/14 the supply side will also be challenged thereby helping to support prices.

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