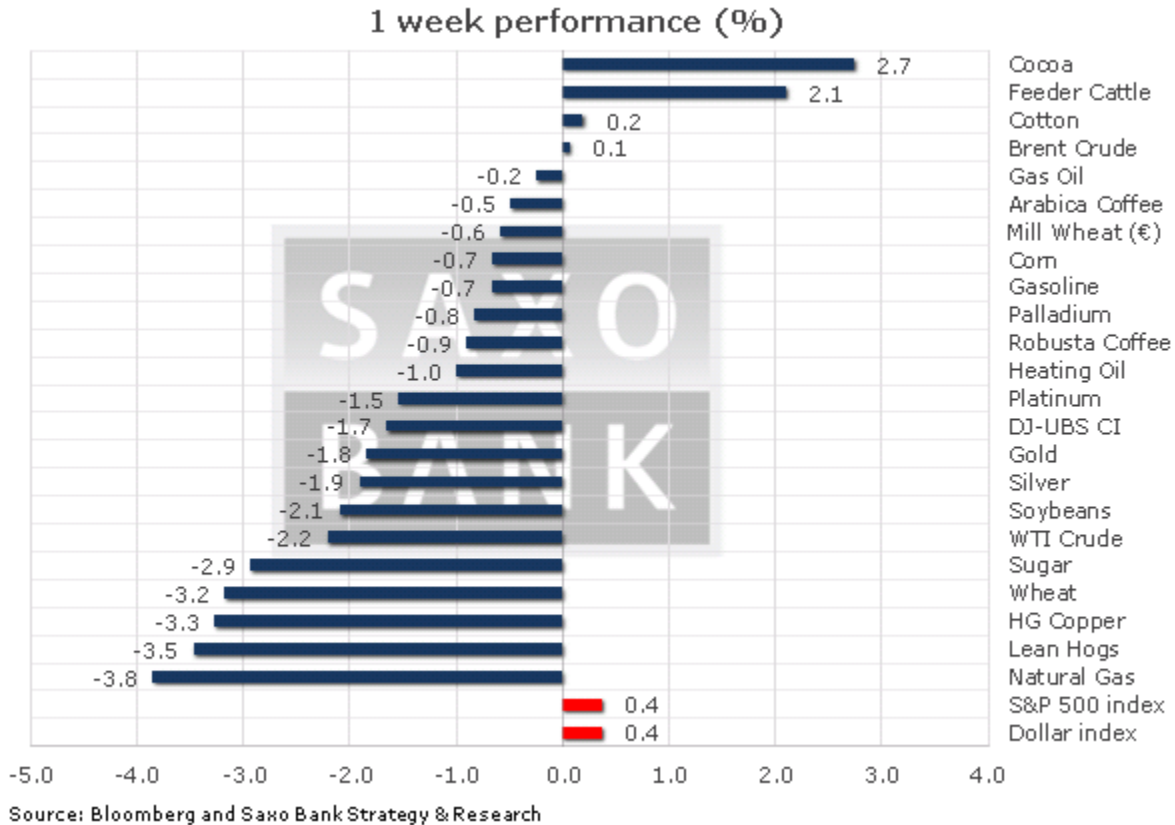


Commodities correcting after strong rally

Ole S. Hansen, Head of Commodity Strategy

The dollar rallied and financial markets retraced following the European Central Bank meeting in which Mr. Draghi failed to live up to his strong “whatever it takes” statement the previous week. Much of the rally which this comment had triggered was given back, and while the markets may have been left underwhelmed, he did open the door to a new round of policy action. The north south divide which is quite evident within the central bank may slow the progress and some initiatives may require accept from individual parliaments.

After an impressive five consecutive weeks of gains, the DJ-UBS Commodity index went into reverse, with all the major sectors showing negative returns. Industrial metals suffered the most, with copper reaching the lowest level in six weeks, followed by the energy sector, where a return to normal US weather triggered some selling of natural gas.

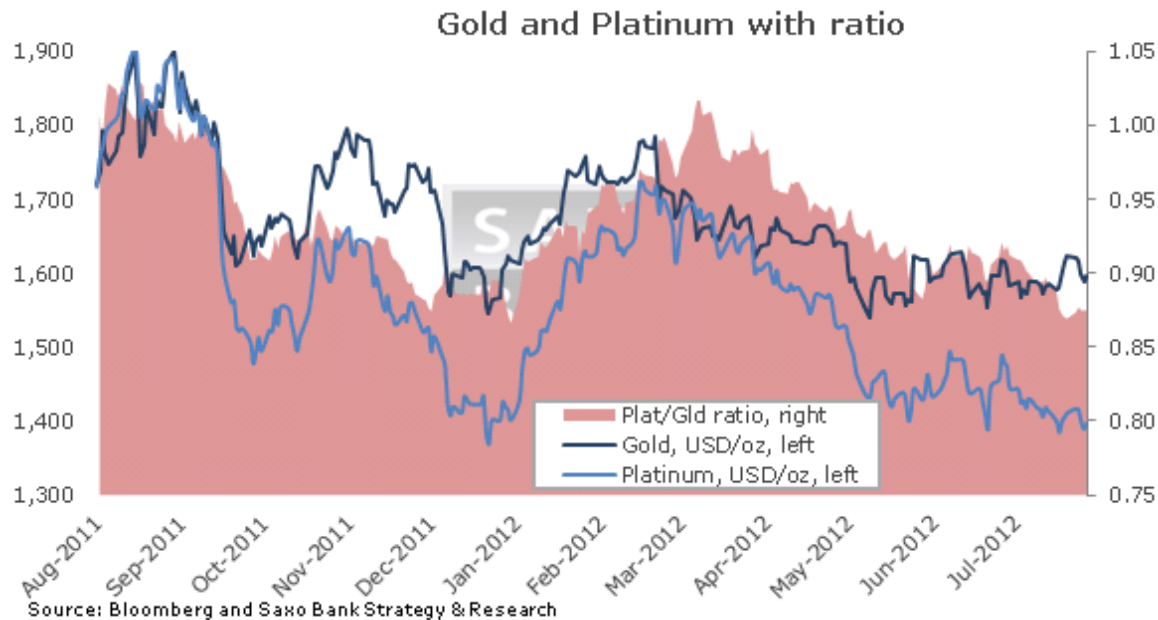


Gold investors left disappointed once again

With no immediate chance for additional stimulus, either in Europe or the US, gold traders once again were forced to reduce exposure, as the weaker Euro helped drag the gold price lower. Resistance towards 1640 remains firm, and having suffered losses back below 1600, the search for support begins once again, as seen several times over the last three months. Short-term risk points towards a test of support, initially the trend line at 1566, followed by the June 28 low at 1548.

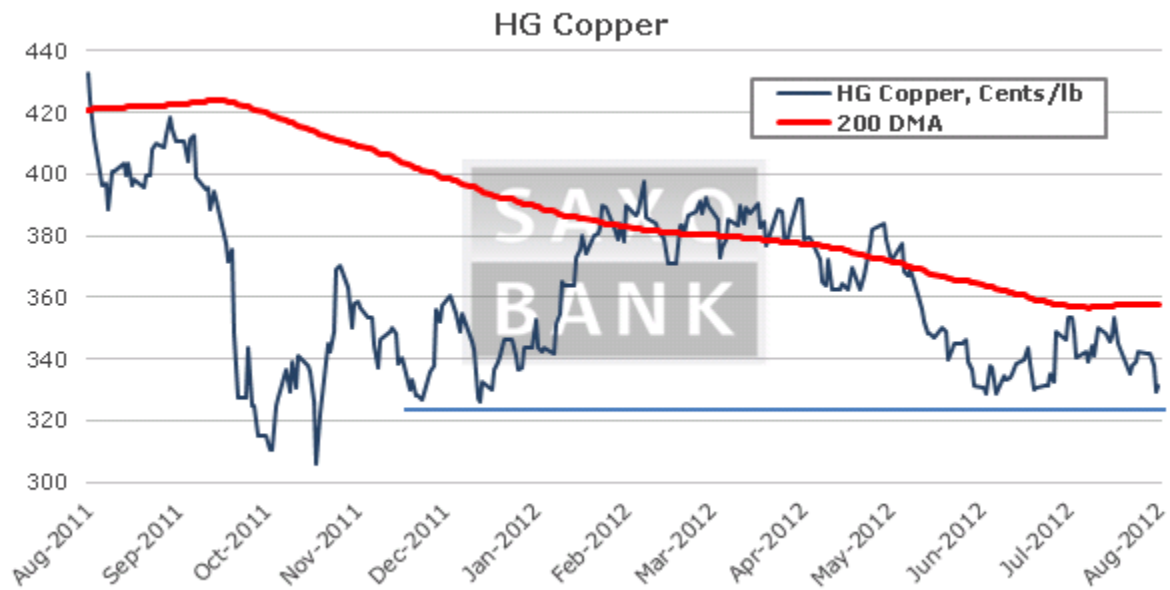
The debt crisis in Europe is still a major concern to investors, and with ten-year bond yields in countries like Spain back above the unsustainable level of seven percent, the safe-haven demand for gold is unlikely to go away. A correction and the likely re-emergence of support could possibly be the best outcome in coming days, as investors need reassurance that support from physical and speculative buyer's remains firm. The strong correlation to the Euro cannot be ignored and the developments on that front will be key decider as to the next move in gold.

While gold has remained stuck in its range during these past couple of months platinum has been drifting lower towards support at USD 1380, this despite decent Chinese demand and a price which at current levels is below the cost of production. Platinum has historically been priced higher than gold but has now for year been trading at discount and reached the lowest ratio since January this week.



Copper weak on shrinking Chinese activity

The price of copper has moved lower in recent sessions, first on the back of lower manufacturing activity in China and then from lack of additional stimulus in Europe and the US. With copper a major component in construction and manufacturing, continued signs of a global slowdown have left speculators holding a sizable net short position in control. Major support can be found in the between USD 3.25 and 3.20 ahead of the 2011 low at USD 3.0.

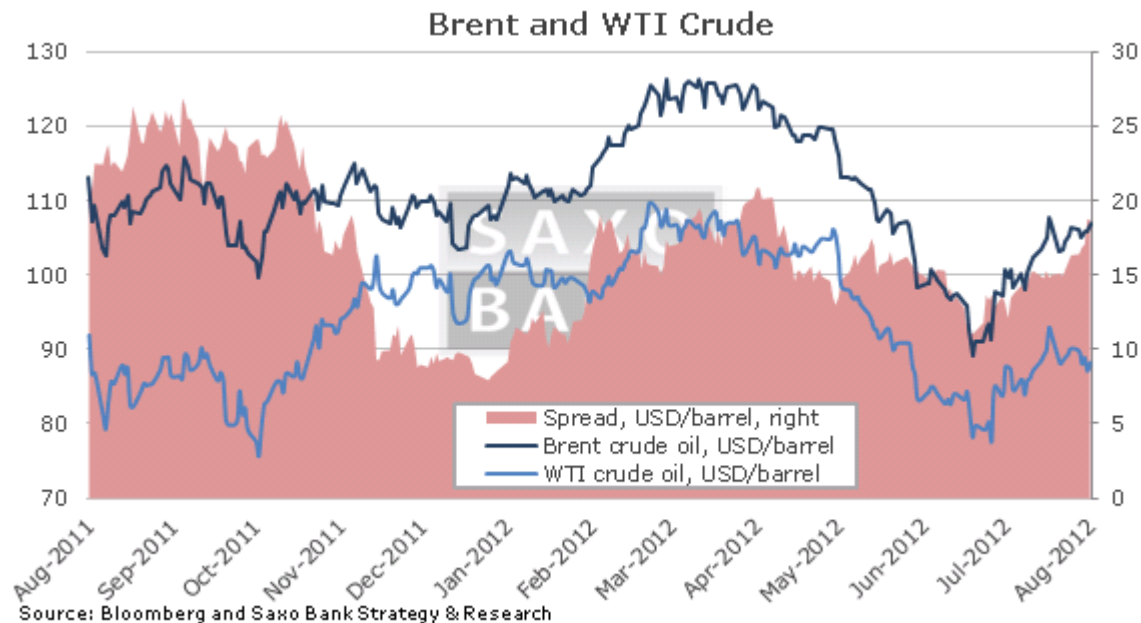


North Sea supplies creating havoc with Brent crude pricing

It has been a relatively quiet week in oil markets, with the recent established range for both WTI and Brent crude capping the market. But while Brent crude trades near the high of its current range, WTI has been left lingering near the lows. This discrepancy is clearly depicted in the spread between the two global benchmarks, with the Brent premium over WTI having widened to almost 19 dollars.

North Sea supplies have been dwindling in recent months, with upcoming rig maintenance in September putting further pressure on production. Meanwhile in the US, production from shale and increased imports from Canada has left the market well supplied and WTI has suffered as a consequence.

Geo-political risks are still a present danger to overall supplies, but these should continue to be offset by slowing demand both from developed and emerging economies. This leads us to believe that continued range trading will prevail in the weeks ahead, with the outside chance of Brent testing the July high at 108.18 on continued signs about reduced supply from the North Sea.



US grain markets saw lower prices for a second straight week, as high prices and the strong dollar have led to a slowdown in exports. Crop conditions are still not showing any signs of improving, and as for corn, any rain now will be too late to significantly change the outlook for a diminishing crop. The extreme volatility in recent weeks has left many traders nursing losses and caused bouts of fatigue, so activity is expected to slow down as we approach the next major crop report from the United States Department of Agriculture on August 10.

In Russia the Agriculture Ministry said that the outlook for this year's harvest had worsened, but still insisted that there would be an exportable surplus of 10 million tons of grains. The downgrade of the upcoming harvest nevertheless brought back memories of August 2010, when Russia shocked the market by its decision to ban exports despite reassurances to the opposite.

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