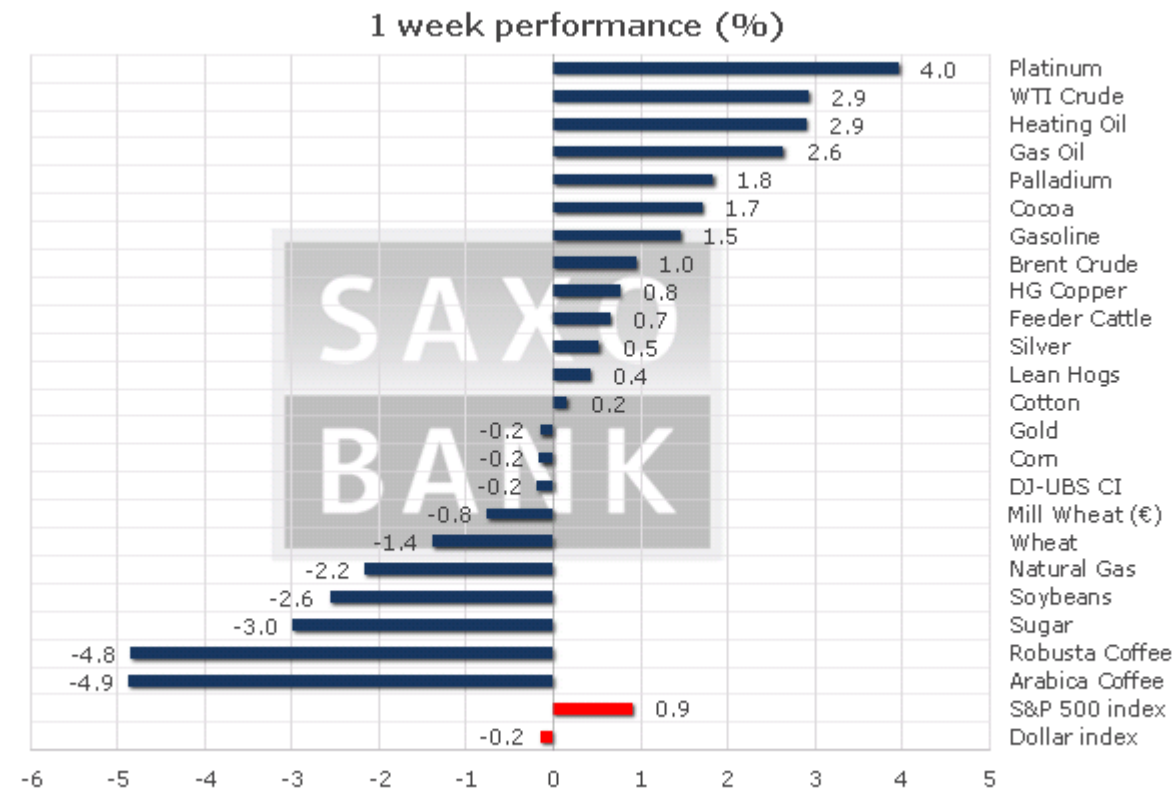


Platinum spikes on strike massacre; crude oil hits 3-month high

The markets are generally quiet this time of year, even more so this August, as investors await key events over the coming weeks which can set the agenda and direction for the remainder of the year. The annual economic policy symposium at Jackson Hole at the end of August is one such event. This two-day meeting has been used in the past by the US Fed chairman to announce important decisions, such as QE2 back in August 2010. In September we have an ECB meeting, the German Constitutional Court making its ruling on the legality of the Eurozone's permanent bailout fund and the Dutch election.

The S&P 500 almost reached a multi-year high, while multi-month highs were seen elsewhere as worries about the Eurozone debt crisis and the global economic slowdown receded. Markets are clearly pinning their hopes on supportive news coming from the above-mentioned events. The US economy, in particular, has stood out from the rest, with some early signs that the economy is beginning to recover from its mid-cycle slowdown, just like we saw in 2011.

Commodity markets had a quiet week, trading a bit softer following weakness in agriculture, in particular coffee, along with industrial metals, especially aluminium which reached a three-year low. Platinum rallied as production by the third largest platinum producer in South Africa was halted, after a strike among mine workers turned into a massacre.



Source: Bloomberg and Saxo Bank Strategy & Research

Crude oil at highest level in three months

The price of Brent crude continued to rally, reaching the highest level in more than three months with worries about an Israeli airstrike on Iran adding support at a time when supplies from the North Sea are well below production levels from previous years and Iranian sanctions are further reducing availability. The tightness in the spot market from lower levels of supply was witnessed this week during the monthly roll-over in the Brent crude futures market. The premium of the expiring September contract over the new front month of October moved above 2 dollars per barrel, the highest level between the two front futures contracts since the Libyan war in Q1 2011 left refineries scrambling for supplies.

Validity of rally being questioned

As a result of this rise, consumers in Europe and other regions, with relative weak currencies versus the dollar, have seen the price of oil move up close to the record highs seen in March. Speculators have begun to increase the number of long positions following the April to June blowout that left many suffering heavy losses. Many have increasingly been questioning the validity of such a strong recovery in oil prices, given the lack of recovery in the global economic activity. It also raises the question of whether Brent crude can hold onto its newly-found status as a global benchmark, considering that only a small percentage of global oil actually originates from the North Sea.

Release of strategic reserves may once again be considered

There is no doubt that much of the rally from the June lows has been triggered by the embargo on Iranian oil exports. This will worry politicians in the countries that introduced these sanctions and which are now left with near-record high oil prices at a time of weak economic activity. A move to release oil from strategic reserves in order to calm the markets may now be considered once again and would involve the US and potentially other members of the International Energy Agency (IEA) such as UK, France and Germany.



Brent crude oil, first month continuation, USD/barrel - Source: Saxo Bank

Having recovered more than 65 percent of the Q2 sell-off, Brent crude is currently overbought and should, if no additional geo-political worries emerge, run into some profit-taking from holders of long positions well ahead of resistance at 116.5. Support can be found at the 200-day moving average at 111.30, which coincides with trend line support from the June low.

Platinum rises to a six-week high following mine violence

The white metal has been underperforming gold for more than a month and has during that time been struggling to stay above key support at 1,380 USD/ounce. That was until Thursday, when a six-day strike at a Lonmin's Marikana mine in South Africa - which had already led to several deaths - escalated into a massacre after police killed 35 striking workers. Lonmin Plc, the world's third biggest platinum producer, operates the mining complex, and it quickly closed down production. This has raised speculation that the expected production surplus could be reduced should other major operations in South Africa be infected. South Africa accounts for more than 60 percent of all global platinum production.



Spot platinum, USD/oz. – Source: Saxo Bank

Platinum helps to lift gold and silver

The platinum price has rallied four percent over the last week and is set for its first weekly gain since June, while the multiyear high discount level to gold has shrunk by more than four percent in a matter of days. The move in platinum seems to have lifted the whole sector, with both silver and gold recovering after reduced hopes for QE3 earlier in the week saw some selling of both metals. Gold is back above 1600 and once again has its sights on critical resistance at 1625 followed by 1640. A break of the latter is required in order to establish momentum and attract speculative investors, such as hedge funds, back into gold following months of reduced involvement from these important drivers of gold.

Coffee in a nine-day slump

Both Arabica and Robusta coffee fell sharply this week, with the high quality variety falling nine days in a row in its longest slump since 2010. Dry and favourable weather conditions in Brazil, the world's largest producer, has seen its harvest gathering pace following a difficult start in June when rain reduced the pace and quality. Since then pickings have been gathering pace, thereby increasing available supplies to the market. Further price weakness also came from a US report which showed that stocks of Green Coffee had risen to the highest since September 2009.



Arabica Coffee, Dec 12 futures, Cents/lb. – Source: Saxo Bank

The speculative community had closed their net long positions before the most recent onslaught. This should provide some support, especially as we approach the June lows at 154 cents per pound on ICE Arabica coffee.

Grain markets trading sideways ahead of harvest season

Following the US government report recently confirming the dramatic impact on US grain production following the worst US drought in decades, the price on the three key crops have lost their upside momentum but stabilized near the highs. Attention has now turned towards the upcoming harvest and for any signs of reduced demand following the strong rally into August. Wheat in both Paris and Chicago is being supported on speculation that much reduced exports from Russia will increase export demand from other regions. Soybeans yield and production levels may still manage to improve, as rain has been forecast for the US Midwest next week.

Any improvement in weather will be too late for corn, as the harvest is approaching fast. Talks about reducing the ethanol mandate could reduce the amount of corn going towards fuel and help lower prices, but for now prices are being supported, despite reduced momentum, by the continued expectations for tight global supplies.

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