

Commodities higher in September as stimuli raise hopes for recovery

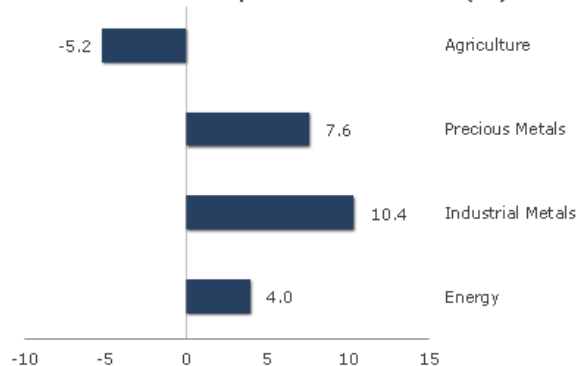
September was generally a strong month for riskier assets such as commodities following the announcement of additional quantitative easing measures from the US Federal Reserve Bank and the Bank of Japan plus the European Central Bank's clear statement to do whatever it takes to save the Euro. Speculative investors in currency futures turned their net dollar exposure from long to short as it continued to weaken, especially against the euro and this weakness also helped lend a hand to the euro's rally. Looking ahead some raised focus on China in the coming weeks can be expected as they finally pencil in the date for their 18th Party Congress on November 8 when the strategy for the next five years will be presented.

Overall sector performance

The Commodities with a cyclical nature such as industrial metals performed the strongest as the extra stimuli once again raised hopes that demand would begin to show signs of improvement despite the headwinds from global economic data which continued to disappoint. Precious metals also did very well as the money press and low interest rates for longer support the sector, not least silver and platinum. Crude oil is headed for the strongest quarter this year, despite losing ground in September, resulting in the energy sector ranking third place amongst all commodity sectors, primarily supported by a strong rally in natural gas and gasoline.

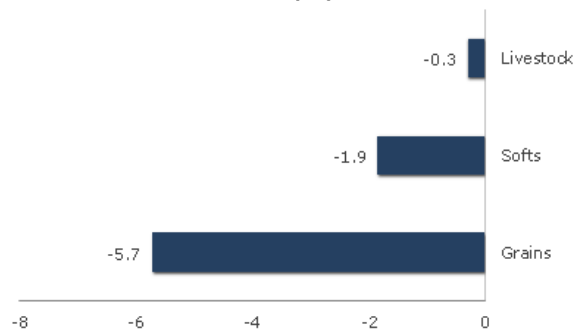
The agriculture sector and especially grains ran into some heavy selling as all the supportive news following a difficult US and Russian growing season was priced in and attention turned towards the coming crop season in South America and Australia.

1 month sector performance - DJ-UBS (%)



Source: Bloomberg and Saxo Bank

1 month agriculture Subsector performance DJ-UBS (%)



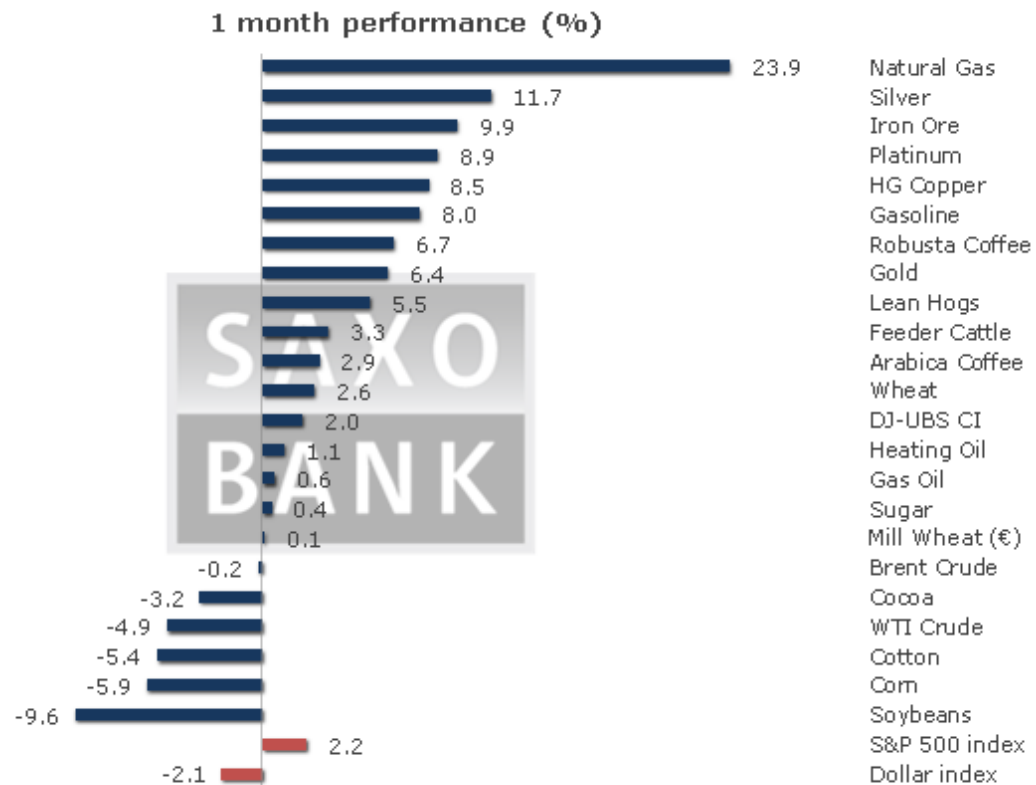
Source: Bloomberg and Saxo Bank

Natural gas and silver outperformed

On the individual energy commodity level natural gas had a strong month as the continued switch from coal to natural gas has seen increased demand, which in turn is helping to bring storage levels back in line with seasonal averages for the amount of gas stored in underground caverns across the US. Silver and gold were also strong performers, both putting in their best quarterly performance in more than two years as quantitative easing saw the return of hedge fund buying.

Correction hits corn and soybeans

At the other end of the scale was corn and soybeans which both reversed some of their strong gains from July and August as the hype surrounding the dismal US and Russian crop season faded and speculative positions were scaled back as attention turned to the outlook for South American and Australian summer crops while favourable US weather has helped winter crop planting get under way. Wheat did relatively better supported by speculation about when rather than if Russia, the world's third biggest exporter, will be forced to restrict exports. A US government report which confirmed the low stock levels did return some support and could indicate that the correction is running out of steam.



Source: Bloomberg and Saxo Bank Strategy and Research

Gold emerging stronger following correction

Following a period of sideways trading gold was in need of a correction in order to test the underlying strength of the month-long rally. This test occurred mid-week when a combination of quarter-end selling by producers and short selling by day traders fishing for stops gave enough supply to push it back below 1,750 support, at which point frenzied stop loss and option related selling by high frequency and algorithmic funds drove it to a low of 1,737 USD/oz. But as seen on previous such occasions buy orders were lined up and the recovery has been pretty impressive. We have once again set our sights on the resistance area between 1,790 and 1,802 which now stands in the way for a renewed attempt on the 2011 high of 1,921.

Gold preferred over silver on lower volatility

Silver, as always, is worth keeping a close eye on as it tends to rise and fall much faster than gold and it has indeed been outperforming gold during the last month as QE3 speculation intensified. It is however worth pointing out that the speculative long positions in futures have more than quadrupled in just three months which helps to explain the erratic moves experienced during corrections. With our projection for additional gains in precious metals into 2013 we continue to favour gold over silver, not necessarily from a performance point of view but more due to the high volatility in silver which can make unavoidable corrections feel pretty painful.



Spot Gold, USD/ounce – Source: Saxo Bank

Crude oil undecided

Following a recent sell-off in crude oil (which hurt WTI more than Brent) on continued above seasonal stock build in the US, price action has stabilised. Brent crude is currently trading around the important 200-day moving average after reaching a two-month low in the previous week. Weak economic fundamentals have once again been outweighed by geo-political worries as both Israel and Iran put their case to the UN general assembly this past week. While Iran continues to claim that it's nuclear ambition is purely for civilian purposes, Israel told the assembly that an Iranian nuclear bomb could be built by next year and that action to prevent such a situation was being considered. The rebound in oil was also helped by a fairly positive reception of the Spanish budget for 2013 which, for a short period at least, helped general risk sentiment in the market and thus weakened the dollar.

Additional support came from gasoline which rallied to the highest level in a month on concern that refinery outages on the US East Coast helped erode stock levels in the Northeast US to the lowest since 1990 when the Energy Information Administration began keeping records. The

delivery point for RBOB Gasoline (Reformulated Gasoline Blendstock for Oxygen Blending) is the New York harbour which helps to explain the price spike in this particular gasoline futures contract.

While the above mentioned factors have all been adding support to a market where speculative traders are still predominantly holding long positions, and as such are keen to protect these, we believe that the near-term outlook for demand will fail to provide support and make additional gains hard to achieve. This is basically due to the current level of global growth, combined with softer oil fundamentals heading into the last quarter. We believe that prices could eventually ease off and potentially average between 105 and 110 dollars per barrel for the remainder of the year.

From a technical perspective the 200-day moving average is currently at 112 USD/barrel (coinciding with the average price of Brent crude year to date) and is the level to keep an eye on, as seen below.



Brent Crude, First month cont., USD/barrel – Source: Saxo Bank

Grain market approaching support following correction

During September the agriculture sector was the worst performing commodity sector primarily due to a decent correction in grains following several months of strong gains after a dismal growing season in US and Russia. Quarterly stock data from the United States Department of Agriculture on the last day of the month however helped stabilise prices. Corn benefited most from the report. It has seen its stock drop to 988 million bushels, the lowest level since the 2003/04 season. Wheat stocks also came in lower than expected at 2,104 million bushels.

This data shows how precariously low stock levels are as the northern hemisphere heads into winter. It should ensure elevated prices until we begin to get an idea of coming production levels in South America and Australia.

Wheat has been the best performer on a relative basis in recent weeks as market participants continue to expect that Russia sooner, rather than later, will have to restrict exports. Such a restriction is likely due to a dismal season which has seen crop output drop to a lower level than during the 2010 season when excessive heat and wildfires caused damage to production and eventually triggered an export ban.



CBOT Corn, December 12, USD/bushel – Source: Saxo Bank

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