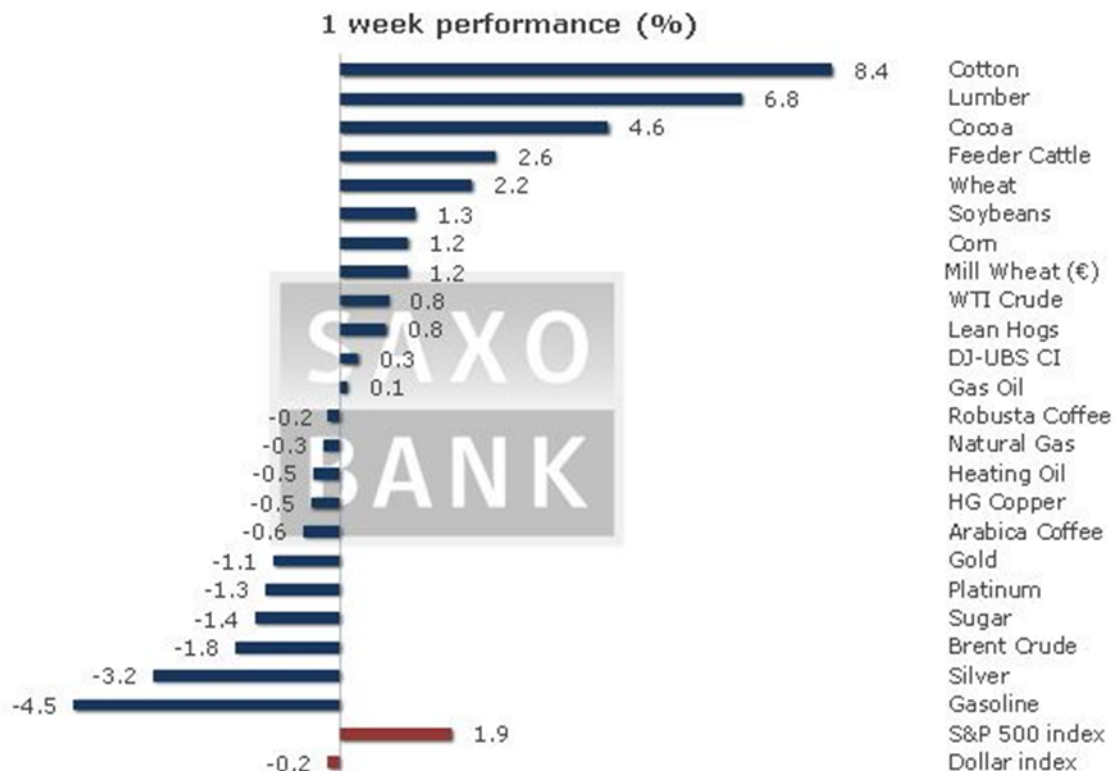


Gold retreats as economic data improves – Oil range bound

The macro economic outlook continues to show signs of stabilisation with US data, especially on house building activity, beginning to get a bit of traction. China's economy slowed for a seventh quarter but signs of a pick-up in Q4 could indicate the worst may be over in the world's second largest economy. Meanwhile in Europe the EU summit saw politicians reach an accord on a banking union and further integration although much work and sorting out of disagreements remains.

Overall these events helped to weaken the dollar which once again moved back above EUR 1.3000 while stock markets saw gains with the S&P 500 coming close to an almost five-year high, having recouped most of the previous week's losses. The November US election and fiscal cliff together with geo-political uncertainties remain some of the key drivers over the coming weeks.

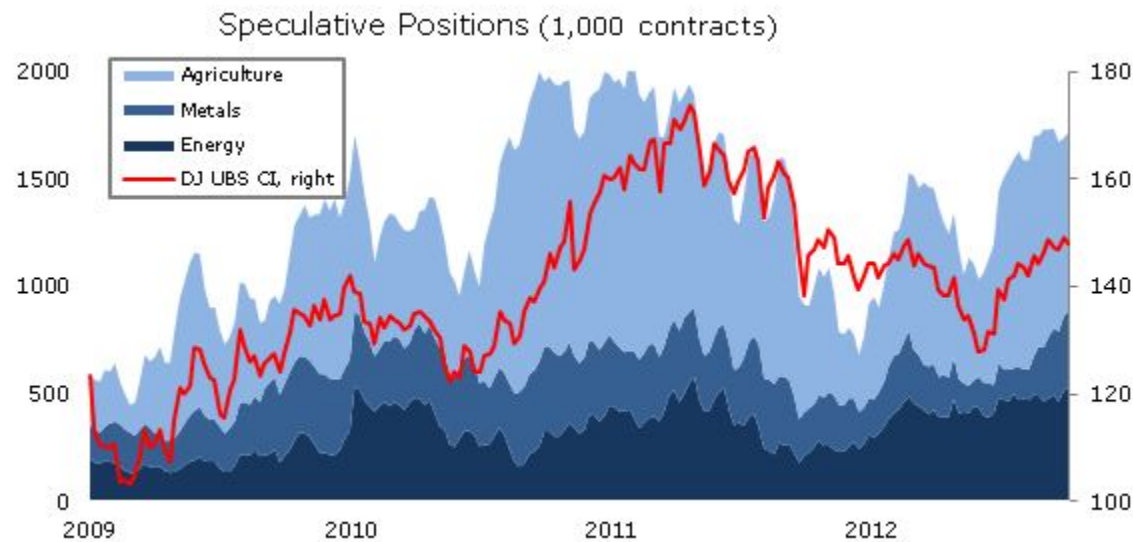
The broad based DJ-UBS Commodity Index rose for the second week in a row but is currently up just five percent during 2012, still a little better than the three percent return on the energy heavy S&P GS Commodity Index. Most of the gains occurred within the agriculture sector with cotton, lumber and cocoa especially sticking out while losses were driven by gasoline, silver and coffee.



Source: Bloomberg and Saxo Bank Strategy & Research

Speculative positioning remains elevated

Despite the overall lacklustre performance of the two major commodity indices the speculative positioning across 24 US traded commodities remains elevated with the net-long number of futures and options contracts currently standing at 1,718k contracts compared with 908k at the beginning of the year. The energy and metal sectors have roughly seen a doubling of contracts during this timeframe while the agriculture sector has risen by 150 percent, not surprisingly led by grains given its strong performance over the last six months.



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

Gasoline the main mover as crack spread collapses

With the major crude oil contracts range bound the attention in the energy sector turned to gasoline which lost some of the support seen recently as refineries ramped up production. This resulted in a collapse of the crack spread which is the price which measures the profitability of refining crude oil into products such as gasoline. Natural gas traded sideways around USD 3.5 per term with the weekly injection of gas into storage signalling a new record in terms of gas availability over the coming winter extraction period which begins in a few weeks' time. On this basis and with the peak winter month of February already trading above USD 4 per term further near-term upside looks questionable with weather developments holding the key.

Precious metals suffering from buying fatigue

Following a strong eight-week rally in gold which has seen speculative positioning more than double to 24.4 million ounces investors have increasingly been suffering from buying fatigue which raises the risk that a near-term clear-out of weak long positions may be required before another attempt at the important USD 1,800 per oz. can be initiated. Silver is leading the way having lost some nine percent from its recent highs while on-going concerns about developments in South Africa see platinum as a reluctant downwards follower.

Cotton and lumber the best performers

Performance amongst the different agriculture sectors was mixed with especially soft commodities showing solid gains. This was led by cotton which rose to the highest level since May after stockpiles monitored by the ICE Futures US exchange dropped to the lowest level in 10 years. Hot and dry weather this summer in the US, the world's largest exporter, has reduced the amount of cotton available for delivery at the futures exchange due to erosion of the fibre quality. US Lumber, the third best commodity performer this year behind soybeans and wheat, rallied by 6.5 percent as US home building rose to its fastest pace in four years. This comes at a time where beetle infestation is troubling producers and reducing the availability of pine trees creating some tightness in supplies.

Brent crude remains near its 2012 average.

Oil markets have been generally trading quietly over the last couple of weeks with Brent crude lacking the drive which could take it away from its current range with most of the action remaining close to the 200-day moving average at 112.20 which coincides with the average price of 2012 so far. Its premium over WTI crude has however contracted as WTI rallied above USD 90 per barrel as supplies from Canada were reduced due to the temporary closure of a key pipeline. The spread however remains elevated due to strong demand for North Sea oil, especially from Korea.

Overall the crude oil market remains well supplied but also finely balanced as spare capacity, especially from Saudi Arabia remains low and leaves little room to cope with any major supply disruption. The inability of the price of especially Brent crude to reflect the current levels of adequate supplies is primarily due to the on-going geo-political concerns, currently involving Turkey versus Syria and Iran versus Israel. Goldman Sachs, one of the major advocates for higher prices in recent years, cut its 2013 forecast to USD 110 per barrel from USD 130 /barrel citing a continued strong rise in unconventional US and Canadian production.

We continue to hold a slight negative bias on the near-term price development of Brent crude and would expect the 116 level to halt any advances to the upside leaving the door open for a test of support located at 108.50 followed by 107.00.



Brent Crude Oil, first month, USD/barrel – Source: Saxo Bank

Gold retracing as economic data improves

Precious metals have remained under pressure following the recent failure to break through resistance at 1,800 USD/oz. which so far has capped market advances three times during the last 14 months. A combination of improved US economic data such as the most recent unemployment report and a pick-up in housing activity together with a dramatic rise in speculative long positioning over the last eight weeks has unnerved those trading purely on the back of support from quantitative easing. While we still believe the break above 1,800 is not a question of if but when, one should not ignore the possibility that gold needs to see a deeper correction before buyers will feel incentivised enough to move back in.

Support from physical buyers has been muted but support from the world's two largest consumers (China and India) could emerge on the back of a rise in the value of the Chinese Renminbi over the last month and the upcoming Diwali festival season in India, which both have the potential to support physical demand from these two important participants in the global gold market. For now though financial investors through ETFs and futures hold the key which decides the direction of the metals with the market having become a bit one-sided in recent weeks. Alas, a better buying opportunity may present itself over the next couple of weeks.

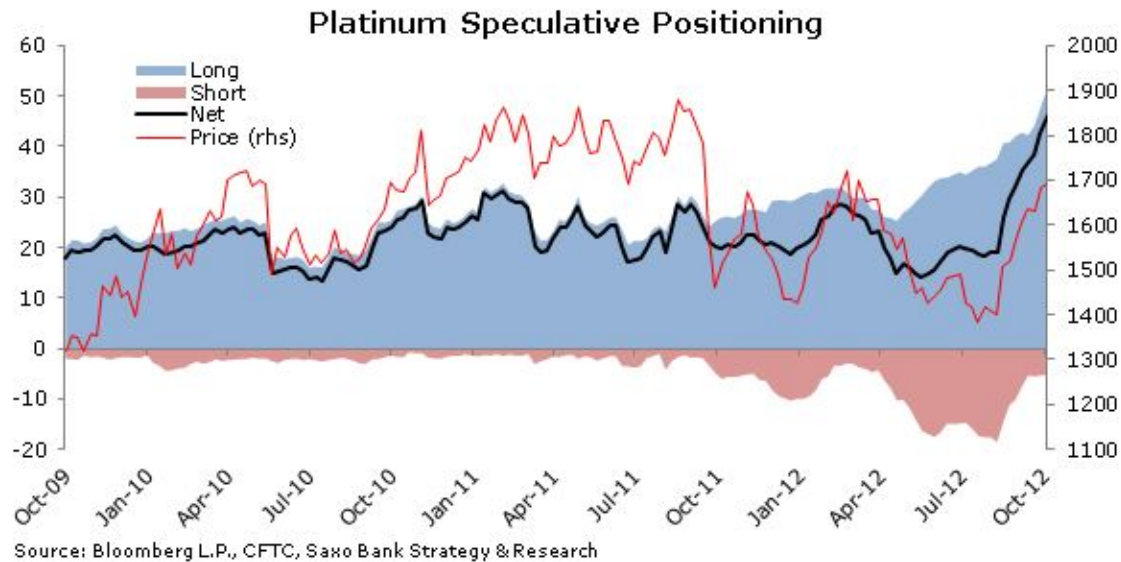


Spot Gold, USD/oz. – Source: Saxo Bank

The first major level of support can be found at USD 1,693 before the very important USD 1,661 level which coincides with both the 50 percent retracement of the May to October move and the 200-day moving average. If the underlying market sentiment is as strong as we believe it to be that level will most likely not be re-visited and can therefore be used as a level below which further long liquidation should be considered.

Platinum suffers from large speculative overhang

Platinum also succumbed to selling despite developments in South Africa which continues to support the white metal. In contrast we have seen speculative positioning which for the seventh consecutive week has set new record highs, with the current net-long position more than twice the average seen over the last three years. Compared to such numbers platinum will most likely underperform gold during a correction phase even though the current situation speaks for a risk premium to be applied to the price of platinum.



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