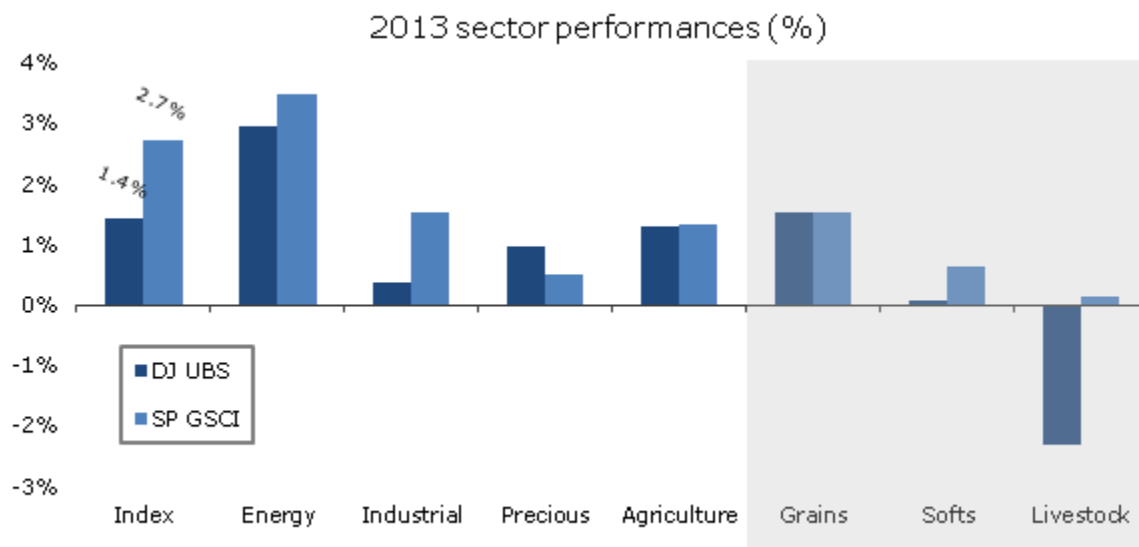


## Oil higher, Softs are mixed, Gold slides and all are outclassed by equities so far in 2013

Sentiment towards riskier assets remains at elevated levels, having been driven by expectations that the global economy has turned the corner. This continues to support commodities, with the energy sector led by crude oil showing a particularly strong return so far in January. Improved economic data from Europe's powerhouse – Germany; additional quantitative easing measures in Japan; a postponement of the US fiscal debt ceiling negotiations and a weaker US dollar has all played their part.

Most of the positive action, however, has been seen across other assets, especially stock markets, where the MSCI World equity index of leading companies has reached its highest level since July 2008. The positive momentum witnessed in commodities especially during the last couple of weeks has so far only managed to pull the energy-heavy S&P GSCI commodity index up to a three month-high and a 2.7 percent return so far this January compared with 5.2 percent on the above mentioned MSCI World index. As evidenced by the chart below, gains have been seen across the major commodity sectors with the only spot of weakness being livestock, a sub component of agriculture. The difference in performance between the two indices comes down to differences in exposure to specific commodities within the different sectors.

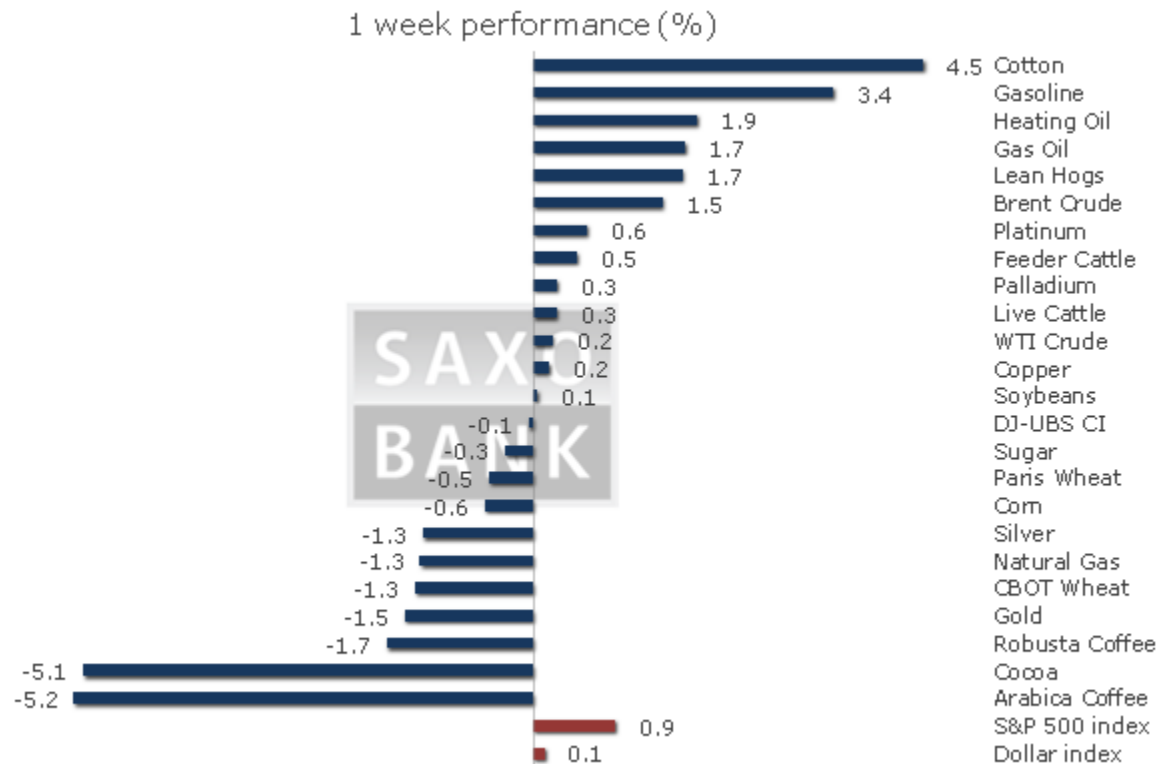


Source: Bloomberg and Saxo Bank

## Soft commodities best and worst performers

Soft commodities take the top and bottom places in this week's performance table. The top performer is cotton which has seen the longest rally in two years on expectations that some cotton farmers in the US, the world's largest exporter, will turn to more profitable crops such as corn and soybeans this coming season thereby reduce the available supply. At the bottom we find coffee and cocoa with the latter falling to a six-month low on reports that the Ivory Coast and Ghana, two of the world's biggest producers were adding supply by selling some of next season's crop at a time of falling demand especially from Europe. Arabica coffee, meanwhile, has seen a reversal of its attempt to create positive momentum, falling by five percent in just one session on news that a group of producing countries in South America had exported 15 percent more during the fourth quarter of 2012 than in the same period the previous year. Speculative traders still hold net-short positions and with news of an outbreak of

Roya fungus across Central America production could be negatively affected which leaves the price exposed to short-covering.



Source: Bloomberg and Saxo Bank

### Economic outlook and momentum carries energy prices higher

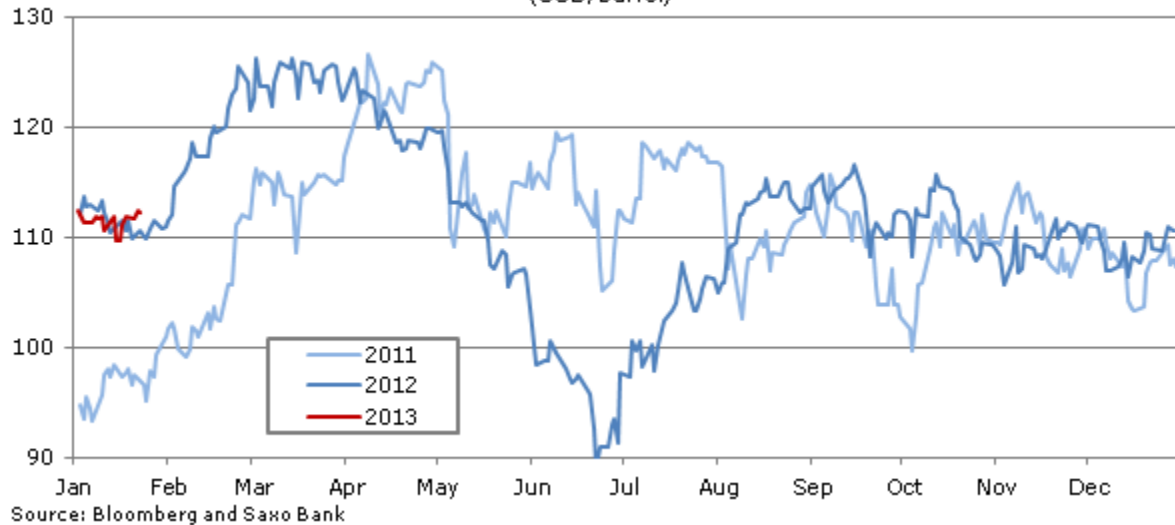
The price of RBOB gasoline was also strong on raised expectations that available stock levels in the US could dwindle over the coming weeks as refineries enter the season of repair and maintenance which could last until May at which time production is ramped up ahead of the summer driving season. Heating oil rose as colder than normal weather across the northern parts of the US raised demand at a time where inventory levels on the US East Coast are 47 percent below average for this time of year.

As already mentioned, the best performing sector at the start of 2013 has been the energy sector which just like the previous two years has kicked off with solid gains. This time around, the advance came primarily on the back of raised growth and demand expectations from the world's two biggest consumers – the US and China - as geopolitical worries have so far been subdued. Brent crude rose to a three-month high while the premium over WTI crude rose to 17.5 USD/barrels from a recent low of 15 USD/barrel. The widening was driven by news that the recent expansion of the Seaway pipeline from Cushing to the refineries on the Mexican Gulf had not been able to carry the expected 400,000 barrels per day. However the technical issues which have reduced the flow are expected only to be temporary and once back to normal, Brent premium has the potential of coming under some downward pressure once again. The overall strength of the market did help WTI crude on its way to record the strongest run of weekly gains since 2009 during which time it has rallied by more than 12 percent.

Brent crude oil remains stuck in a 105 to 115 USD/barrel range within which it has traded for the last six month. Momentum and investor sentiment remains positive which could now carry it forward to test the top of this range despite limited fundamental support for such a move. But while the dollar remains on the defensive and economic data continues to improve such a move seems to be the road of least resistance.

### Brent Crude Oil Seasonality

(USD/barrel)



### Gold lower as 1,695 resistance refuses to give way

The precious metals sector was mixed with platinum and palladium continuing to find buyers as the fundamental outlook supports both. Meanwhile, gold and silver ran into trouble again, especially after gold spent five days attempting and failing to break above resistance at 1695 USD/oz. This led to some disillusioned traders holding long positions bailing out thereby sending the yellow metal lower through important support at 1662 USD/oz which is the 200-day moving average.

### Gold



The fact that gold has failed on several occasions to attain what is supposed to be the real level of resistance - currently the 1701.5 trend-line connecting the highs from October and November - tells us a story about fading investor confidence because the global growth outlook, especially in the US, continues to improve. The expected announcement by the Bank of Japan of further measures to kick start the economy failed to provide support and the market is now left once again in trying to build enough confidence to climb higher. The near-term key will be US economic data as a continued improvement raises the risk of the US Federal Reserve stepping away from its stimulus measures earlier than expected. The leveraged trading community are holding relatively light net-long positions but while they now have cheaper levels to re-enter our feeling is that they would rather wait until we move above 1700 USD/oz than engaging at current levels where the immediate outlook once again looks uncertain.

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