

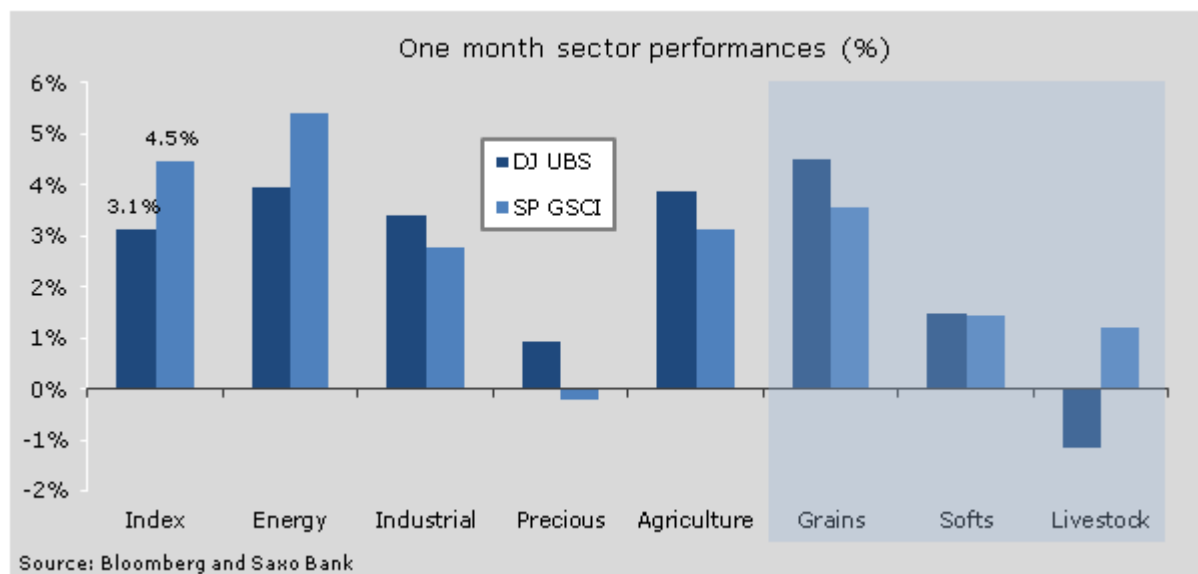
Strong January for commodities led by energy while gold needs a catalyst

Most of the major global commodities have begun 2013 with solid gains with both the major indexes showing strong returns, especially the energy-heavy S&P GSCI index due to strong performances in gasoline and crude oil. The drivers were numerous and the main ones were increased economic growth expectations, reduced political risk premiums, and continued aggressive monetary policies and, not least, a weaker dollar against most currencies apart from the JPY which weakened dramatically during January.

Some rotation out of bonds and gold

Increased growth (both realised and expected) will naturally spur expectations about a change in the loose monetary policies currently being applied by some of major economies, especially the US. Such a change - when it happens - could prompt some uncertainty among investors. Some bond markets and possibly gold have already seen an impact from such forward expectations as some investors have rotated out of bonds and gold and into equities during the past month.

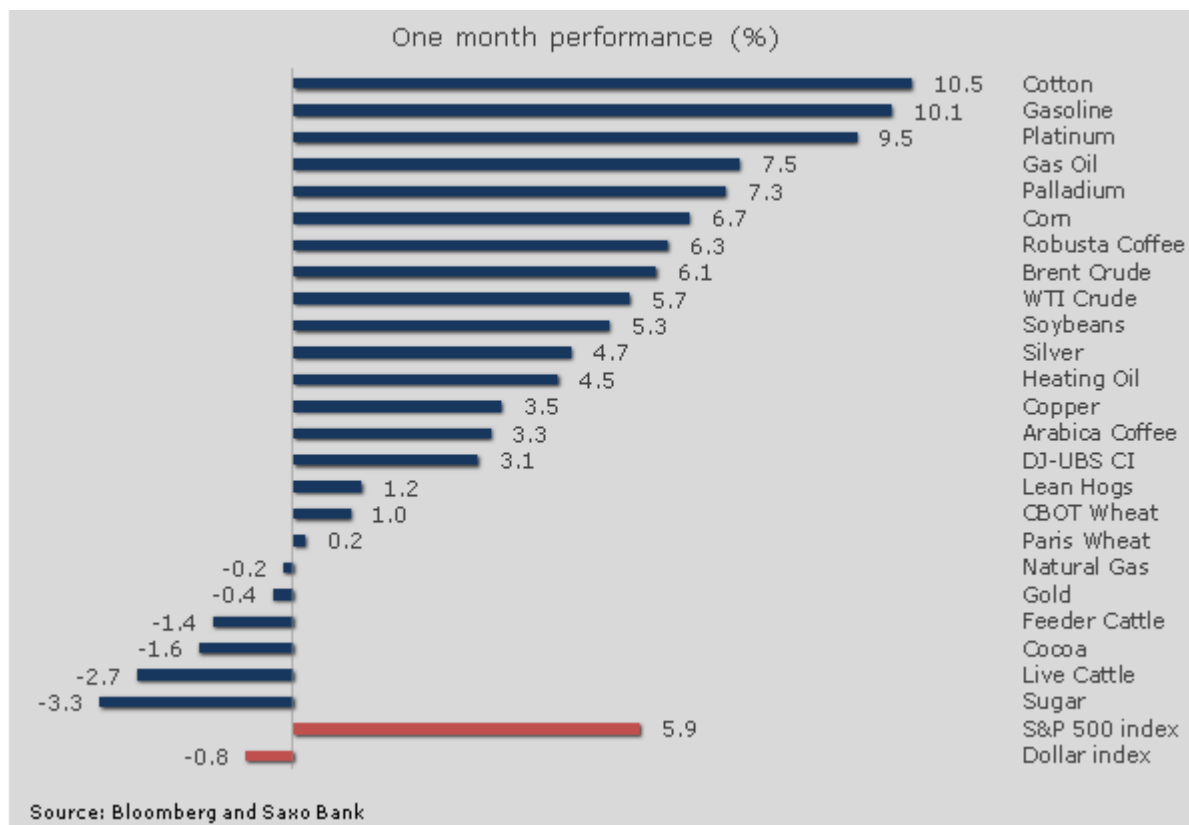
However, as long as some or all of these drivers remain in play commodity investors see little reason to reduce an overall long exposure. This will obviously carry the risk that some of these markets will overextend themselves and subsequently run into profit-taking but such a scenario could still be weeks away if the previous three years are anything to go by. The average return for February on the broader based DJ-UBS commodity index has been 2.6 percent from 2010 to 2012.



RBOB Gasoline was a strong performer during January mainly because of technical reasons on concerns that inventories on the US East Coast would dwindle from already low levels during the coming weeks as refineries swing into their annual maintenance and repair season. During the previous couple of years, very high refinery margins due to the availability of cheap WTI crude oil which could be refined into products priced on the back of more expensive Brent crude, meant that many refineries kept up production eventually culminating in an urgent need for maintenance this year.

Another strong performer was **Cotton** due to the outlook for lower supply from the US - the world's largest exporter - this summer as farmers switch to more profitable crops. The demand side has been kept up by China's National Cotton Reserve Corporation (NCRC) which through massive purchases has reached an inventory level from where it can influence domestic prices. At recent auctions, the price at which the NCRC sold cotton back into the market has been at a sufficiently high level to make US export profitable - hence the rise in prices during January.

The prices of key crops such as **corn** and **soybeans** began to climb in January following a dramatic sell off during the second half of 2012 as the supply outlook improved. While we wait for the new planting season to begin on the Northern Hemisphere the focus has switched to weather developments in South America where wet conditions in Brazil has stalled the soybean harvest while dry weather has negatively impacted corn and soybeans crops in Argentina. Should this dryness persist both crops could see higher prices over the coming weeks as speculative investors will continue to rebuilt net-long positions after having reduced them dramatically during the last quarter of 2012. This past week we saw the downtrends from last year's highs being broken on both crops which could signal further gains ahead. March soybeans could be targeting 15 USD/bushel while March corn could be heading towards 7.62 USD/bushel.



January proved another disappointing month for investors in **natural gas** as the price once again, just like last year, succumbed to selling pressure as US winter temperatures once more were milder than seasonal averages. This reduces demand and the speed at which inventory levels are drawn, thereby raising the spectre of once again having too much gas in storage once the injection season begins inside a few weeks.

Sugar has been the worst performer as large harvests in Brazil and India have kept a lid on any attempt to follow other commodities higher because of expectations for a global surplus in 2012/13. Near-term we see the potential for some support returning to sugar despite the headwinds created by the large harvest. A bottom on the chart could be forming within a descending wedge on the NYB-ICE sugar futures for March delivery and this, together with a switch to positive momentum (also seen this past week) has the potential of triggering some short covering among money managers holding the biggest net-short in more than five years. The Brazilian government has announced that it will allow the ethanol content in gasoline to rise to 25 percent from 20 percent starting 1 May which could add to the demand for sugar.



Source: Saxo Bank

Gold succumbs to US data watching

The lack of investor conviction currently seen in gold has resulted in traders swinging from hot to cold depending on which piece of economic news has emerged from the US. The chart below gives a clear picture of what has been driving markets this past week and it shows how obsessed the market has become in trying to guesstimate the thinking process within the walls of the US Federal Reserve. While we wait for a convincing catalyst to drive this market higher (still our preferred direction of gold) there is a danger that opportunistic sellers may succeed at times in driving it lower which invariably triggers renewed long liquidation.

The US job report on Friday was a tad weaker than expected but still showed that job creation continues at a good pace. The unemployment rate move higher and away from the Federal Reserve's target and this gave gold and especially silver a lift on the assumption that loose monetary policies would not go away anytime soon. Technically, gold is stuck between 1700 and 1650 with many of the more speculation-driven investors patiently waiting for a break either side before committing to the market.

Silver has shown some teeth given its dual role as an investment and an industrial metal. This has helped the metal to outperform gold with the market being very focused on the current outlook for growth in US and China. The ratio between the two has moved to the lower end of the range for the past month with one ounce of gold costing 52.4 ounces of silver compared with 55 a month ago.



Gold hour chart – Source: Saxo Bank

Crude oil stepping up a gear as geopolitics is added to the mix

WTI crude was on track to record its eight consecutive week of gains having rallied by 17 percent during the last couple of months. Brent crude however recorded the biggest rise as a late January outperformance saw its premium over WTI rise to 19.50 USD/barrel due to a return of some geopolitical focus related to tension across the Middle East.

Just like the previous two years, crude oil rallied during January with Brent crude trading up towards the higher end of the trading range that has prevailed since last August. Technically, both crudes are currently seeing strong positive momentum that has resulted in money managers' speculative net-long positioning continuing to rise. This could pose a challenge into February as the rally needs continued supporting news to thrive, especially when Bollinger bands and RSI points towards the need for a correction.



Source: Saxo Bank

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