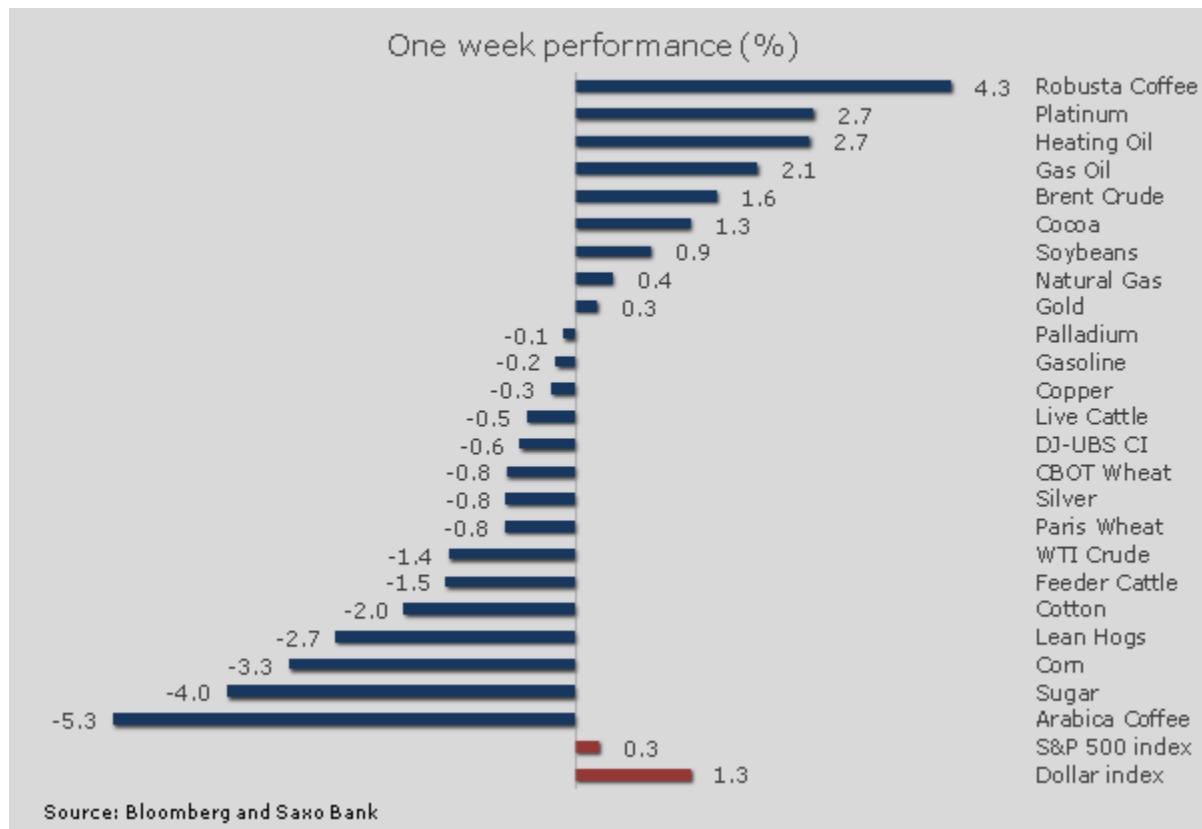


### Brent's ascent towards USD 120/barrel raises growth worries again

Commodities were generally lower during the past week as the strong January rally gave way to an element of caution as the need for consolidation had been building. Economic data, especially from China, continue to support the growth story but the re-emergence of political risk associated with Spain's potential political scandal and upcoming Italian election together with the talk of a currency war helped slow progress.

On the issue of currency war, attention turned to the ECB President and his attitude to the current strength of the euro, especially against the yen. At his bi-weekly press conference, Mario Draghi did not disappoint as he managed to send the euro lower by saying that a strong euro could lead to lower inflation which the market interpreted could result in lower rates and less support for the euro.

The stronger dollar helped trigger some additional profit-taking in commodities with Brent crude especially being one of the exceptions. Geopolitical worries continued to support the global oil benchmark as focus on the tensions between Iran and the West will not go away. Gold traders, meanwhile, took comfort in the fact that a key support level withstood any downside selling attempts over several days. The spread between high and low quality coffee narrowed to a four-year low as they went their separate ways due to a monster Arabica crop in Brazil and Columbia pressuring its price while demand for the cheaper blend supported Robusta. Platinum reached its highest level since September 2011 on supply concerns while sugar fell to near its lowest since August 2010 as a global supply glut is likely to occur for a third year in a row.

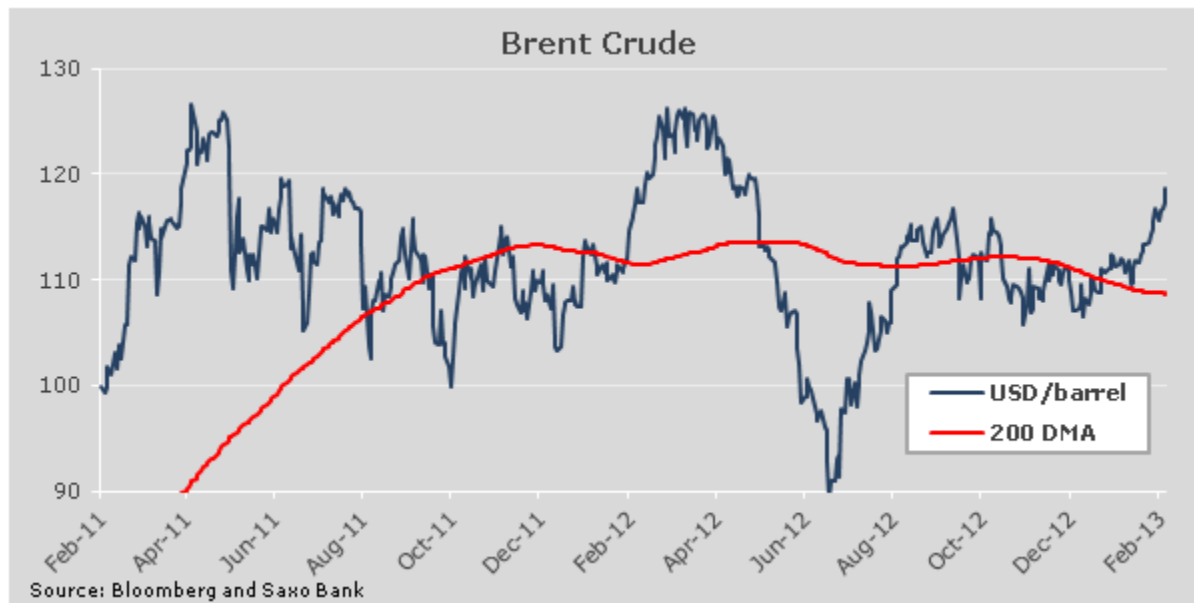


**Brent continues higher while WTI is left behind**

Brent crude oil, which has rallied non-stop over the last three weeks, reached and breached the September high at USD 117.95/barrel on a wave of continued investor buying as momentum remained strong. The early-2013 rally (a copy of what happened in the previous two years) has mainly been led by expectations of increased demand as the global economy puts in a tentative recovery, particularly the world's two largest consumers – the US and China. In addition, the heightened geopolitical risk because of the situation in Syria and Iran means that the direction of least resistance has so far been up. A continued rally towards 120 USD/barrel once again carries the risk of upsetting the rising growth expectations and verbal intervention from either the IEA or Saudi Arabia could soon be heard.

WTI crude oil failed to keep up with the rally in Brent crude as bottlenecks in the domestic transportation system still prohibit oil from flowing freely from the producing regions, both in the US and Canada. The focus here is obviously Cushing in Oklahoma which, despite seeing a small reduction in storage levels this week, continues to have a large overhang of supply. This is preventing WTI crude, which is delivered into Cushing, from following Brent crude higher and as a consequence the discount to Brent crude has risen back to almost 22 dollars from a recent low at just 15 dollars. The fact that geopolitical risk is primarily priced into Brent crude because of its role as global benchmark further underscores WTI's underperformance.

Saudi Arabia has been cutting production over the last couple of months, most likely in response to reduced domestic demand. This is being viewed by many as bullish for oil prices as less supply could help drive the price of oil even higher. However, with Saudi Arabia's stated preference for a price closer to 100 dollars per barrel rather than the USD 120/barrel we are now approaching, we believe that the Kingdom's response to demand and its increase in spare capacity will help as buffers against potential supply disruptions elsewhere.



The biggest near-term threat to Brent crude's continued move higher is the speculative community itself which has accumulated a record net-long position. This position, measured as a percentage of total open interest, is approaching levels which both in 2011 and 2012 proved unsustainable and led to major

corrections. Momentum on stock markets has also been slowing and with the potential trouble brewing in Southern Europe, the question is how much further this rally will go before the urge to take some profit exceeds hopes for additional gains.

Technically WTI crude has formed support at USD 95/barrel while a mini correction in Brent crude was met with support at USD115/barrel before it continued its ascent, Brent now has the potential of challenging the psychological level of USD 120/barrel.

### Gold range bound as the trigger remains elusive

Gold has remained range bound for the past couple of weeks, not swaying too far away from its 200-day moving average, as seen in the chart below. The down trend, which has existed for four months, is currently offering resistance at 1690 dollars per ounce and this is the level which needs to be breached before any uptrend can resume. Several headwinds need to be negotiated for this to happen, such as lack of inflationary pressures despite massive amounts of monetary stimulus being applied. Fears of quantitative easing in the US being scaled back earlier than expected also need to be allayed for an uptrend to resume. On a positive note, we have seen gold remain stable despite the dollar rally which followed Mario Draghi's comments on Thursday and this points towards continued resilience among investors looking to buy on dips.

Technically, gold has now stayed within the boundaries determined by its 55-day and 200-day moving averages for eight days. This raises the likelihood of a price extension once that range, which is currently between 1664 and 1681, gets broken. As the markets in China and across the Far East close down for their Lunar New Year celebrations, activity over the coming week will be much reduced leaving the gold and other markets exposed to choppy price action. A break out of the above mentioned range should trigger a move to 1690 ahead of 1710 or down to 1652 ahead of 1626.



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