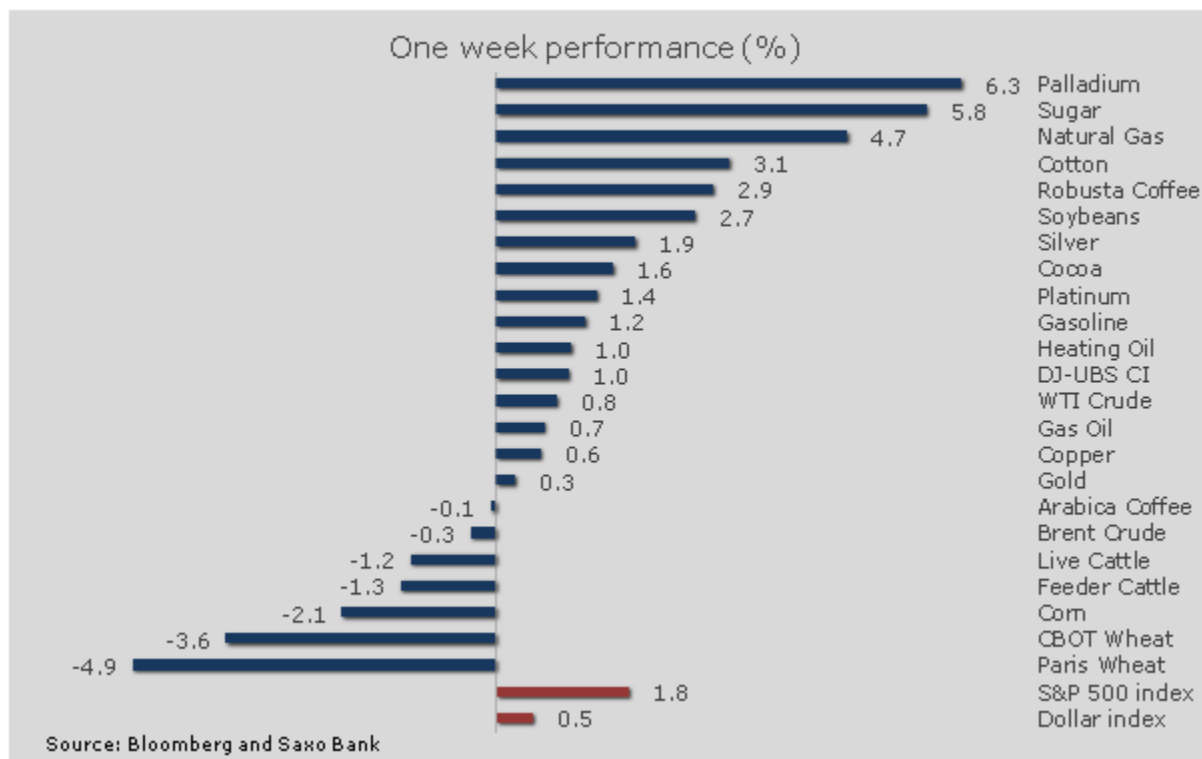


## Commodities shake off brutal February

The week saw several commodities establish a base following the onslaught during the last couple of weeks of February. Driving the improved sentiment was the continued “risk” on sentiment, with cheap money primarily being put to work in equity markets while core bond markets in Germany and the US saw prices retrace as signs of an economic recovery takes hold and pushes worries about currency wars and debt crisis further down the agenda. The US unemployment rate dropped to a four-year low as 236,000 new jobs were created during February, giving equities a further boost but causing additional trouble for precious metals.

The death of Hugo Chavez raised speculation about if and when Venezuela would again open up to foreign investment, which could help it tap into the biggest-known oil reserve in the world and raise output, which has fallen by almost one-third over the past 10 years. While the futures market currently expects Brent crude to trade about 91 USD/barrel in 2020, the OECD came out with an interesting prediction of 190 USD/barrel this week, raising the bar quite considerably above where other energy agencies are seeing prices going. They cite increased demand in emerging economies, such as China and India, which producers will not be able to respond to despite the natural reduction in demand coming from better utilisation.



The energy market did not react to this and other news as the recent sell-off has brought prices and speculative net-long positioning closer towards current fundamentals. A return to range-bound conditions is now expected, although some downside risks still persist given the direction of investor positioning. Natural gas was the exception as weekly draws from underground storage facilities continue at good pace compared with recent years. This is due to an increase in demand on the back of higher industrial demand, seasonal cold weather and the general switch from coal to gas seen during the past

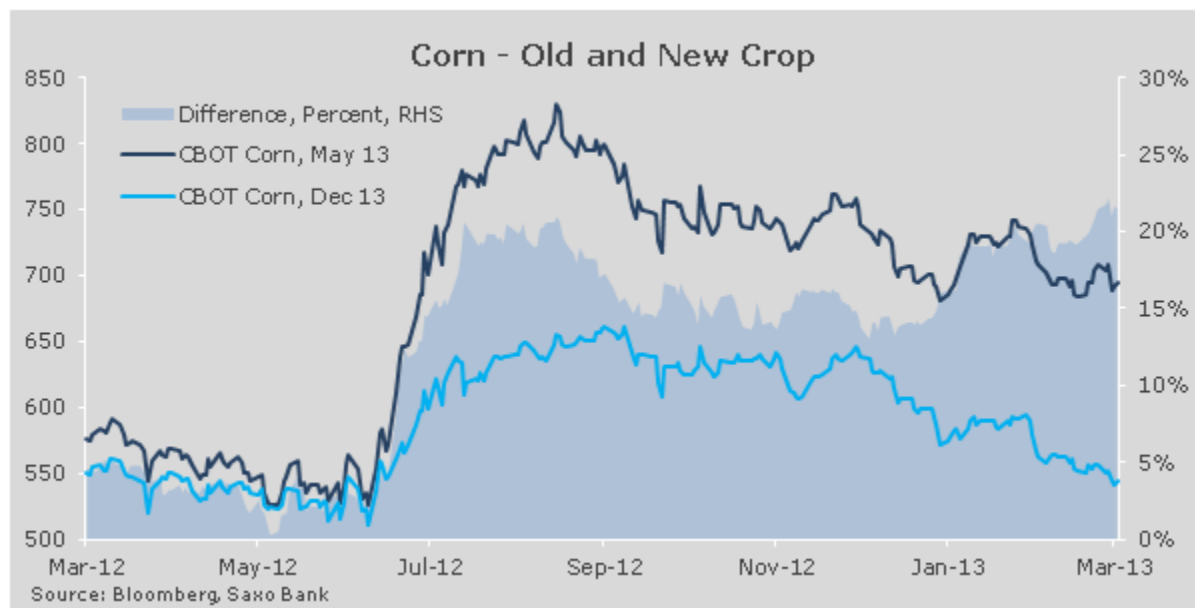
year. This reduction in inventories has reduced worries about a repeat sell-off similar to what began about this time last year, when the price at one stage slumped below 2 USD/MMBtu.

Platinum and especially palladium prices rose as they reacted positively to the improved investor sentiment outperforming both gold and silver as the positive fundamental outlook tried to reassert itself following the correction. Palladium jumped by more than six percent and is currently the best performer among the metals with gold, silver and copper more focused on trying to establish a floor under the price.

#### Grain fundamentals pointing towards a year of plenty

Wheat prices in both Chicago and Paris together with corn, all for delivery this spring, were some of the big losers as the grain markets are gearing up for what could be a summer of plenty. Weather permitting, the expected levels of production from this coming season's harvest across the Northern Hemisphere points towards record quantities being produced. The new crop prices are already reflecting these expectations with the price of corn (see below) and soybeans for delivery late in the year currently trading at discounts of 22 and 13 percent relative to current spot market.

In the near-term, however, the market still has to deal with the tightness in current (old) crop inventories. Given the unknown impact from potential weather disruptions during the coming planting season, much weaker prices from here seems unlikely with corn for May delivery having support around 6.8 USD per bushel. Also during the week, traders had been gearing up for the monthly supply and demand report from the United States Department of Agriculture on Friday. Ahead of the report, traders had sold corn and bought soybeans on expectations that old-crop corn inventories would be higher due to lower demand while soybeans would see further tightness due to lower South American production and exports.



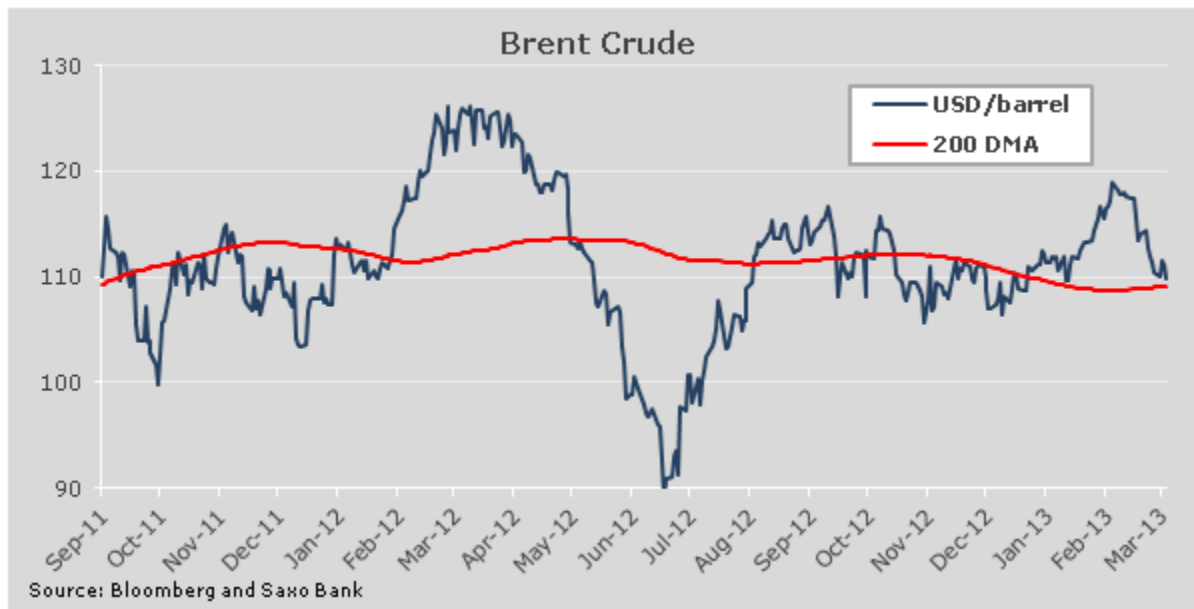
**Sugar rally may end two-year downtrend**

The sweetener rallied to a four-month high this week on the back of a forecast for improved fundamental support. If sustained, it could ultimately lead to a break higher from the downtrend, currently at 19.05 cents/lb, which has been in place since it reached a high of 35 cents/lb back in February 2011. The jump happened on the back of congestion at Brazil's main ports, where almost 200 ships are waiting to load corn and soybeans. Such congestions could lead to a delay in the shipments of sugar later this quarter, while a potential removal of an ethanol tax may lead to a bigger percentage of sugar cane being used for fuel production instead of sugar.

**Ample supply keeping crude oil under pressure**

Crude oil markets failed to move higher despite the continued improvement in US job data with ample supply both stateside and elsewhere keeping a lid on prices. Supply disruptions in the North Sea, a supporting feature earlier in the week, was resolved and with refineries going into seasonal maintenance demand will slow, further adding to available inventories. Another drag on prices could come from the continued dollar strength with several major currencies such as the Euro, Sterling and Yen continuing to be put under pressure by a resurging dollar.

Brent Crude has now returned to the range where it spent most of the time during the second half of 2012, with near-term support at 109 USD/barrel, which is the 200-day moving average followed by 108 USD/barrel. Resistance has been established just above 112 USD/barrel and it would probably need a geo-political event to break that level considering the near-term weaker fundamentals due to refinery maintenance.

**Gold: real rates supports, but the dollar does not**

With a strong catalyst to drive precious metals still remaining illusive gold and silver are both on the slide again following a couple of days of sideways trading, during which time silver in particular showed signs of life. Gold held in Exchange Traded Products continues to reduce: since Friday, it has dropped almost 20 tonnes to 2,486 tonnes, down from 2,632 tonnes at the beginning of the year, according to Bloomberg. Hedge fund owner John Paulson, who currently holds the biggest position in the SPDR Gold Trust (GLD), received some attention on news that his Gold Fund lost 26 percent during the first two months as gold and related mining stocks suffered



News that another central bank, this time South Korea, bought 20 tonnes of gold during February did not have much of an impact on the negative sentiment currently engulfing precious metals. Several of

the major bullion houses have been busy reducing their price forecast over the past couple of weeks, which further added to the negative sentiment. US unemployment triggered another automatic sell reaction, just like we have seen on several occasions lately, with algorithmic traders having their programmes currently designed to automatic sell into strong economic data.

The downside focus still remains firmly on the previous lows seen during 2012, while resistance above 1,620 USD/oz. needs to be broken to see some positive momentum return. Support for gold is normally generated during times of reduced real interest rates (bond yield minus inflation) as the cost of holding gold is reduced. Recent reductions in US five-year real yields, however, have so far failed to attract any attention despite current levels, which, when last seen, triggered the rally in gold to 1,800 USD/oz.

All is not lost for gold, but it makes sense to lower future expectations given the current economic climate. We see the current price area as a potential near-term low within the established 250 USD/oz. range, but will keep an eye on signs of further liquidation of ETP holdings together with the dollar as it has the potential of strengthening further (chart above). We are also acutely aware that further weakness below 1,550 US/oz. could trigger further losses from long liquidation and technical traders going short.

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