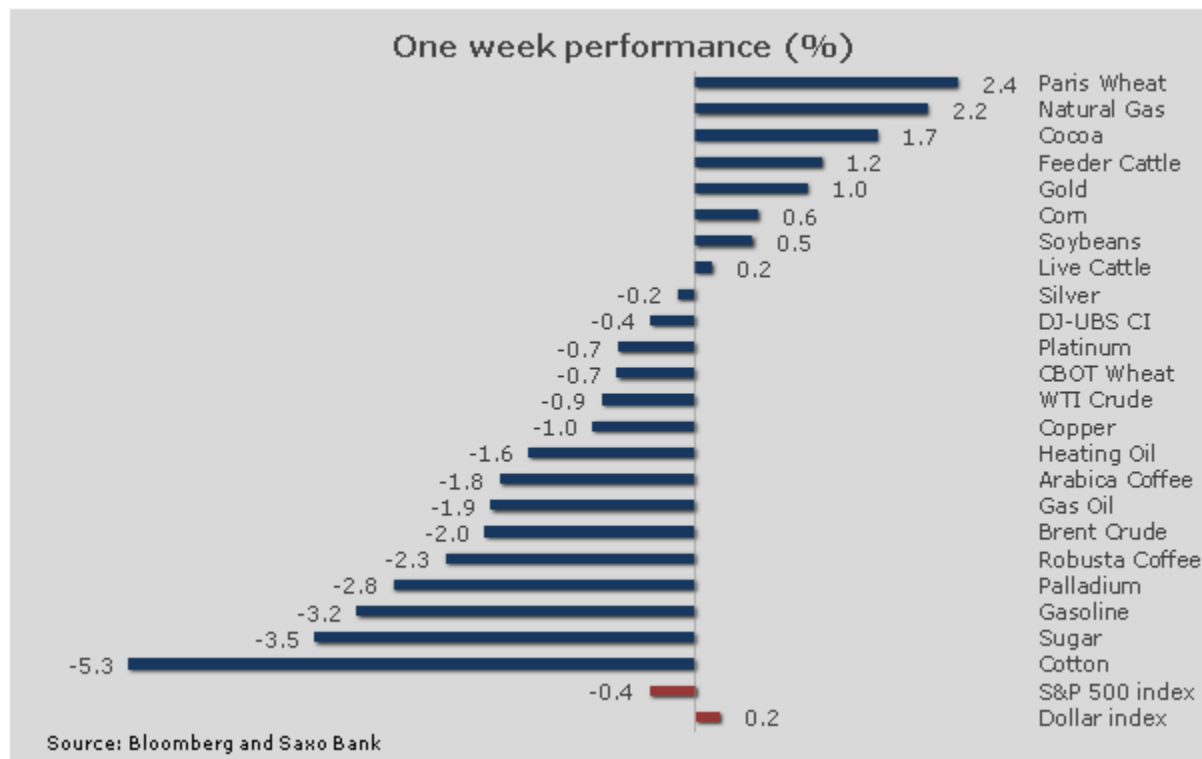


## Cyprus impact on commodities

The Eurozone debt crisis came back to the fore this week with the crisis in Cyprus sending waves of uncertainty across global markets, including commodities. Adding to the negative outlook for Europe we saw weaker PMI data from the whole area and from France in particular. This shows how the former growth divide between north and south has now become a divide between the core nations of France and Germany. Staying with PMI, a pick-up was seen in both China and the US which partially helped stock markets to shrug of the Cyprus news, also given the nation's tiny overall contribution to the Eurozone economy.



Copper failed to bounce on the uptick in PMI readings from the world's two largest consumers of the metal as pressure was added by worries over Cyprus as well as continued weak economic data in Europe. During the week, it touched a seven-month low corresponding to a ten percent drop since the February peak. The near-term outlook for copper remains neutral to bearish with high inventory levels and a pick-up in supply keeping a near-term lid on any upside attempt.

Wheat prices in both Chicago and Paris rebounded as tight supplies in Europe and relative cheapness to corn in the US have triggered a pick-up in export and feed demand. The coming planting season could see the biggest US corn acreage since 1936 according to a Bloomberg survey. The World Grain Council expects this will lead to a nine percent rise in production to a record 927 million tonnes which should go a long way to replenishing depleted inventories. The dramatic rise in production is already reflected in forward prices with the price of this summer's crop trading at a 22 percent discount to current (old crop) prices, up from 19 percent one month ago. Soybeans supplies are also sufficient but current bottleneck

issues at Brazilian ports have delayed shipments of what is a record crop. This has led some buyers, China being one, to seek supplies from US instead thereby supporting the price.

Softs had a bad week, led by cotton, coffee and sugar. Despite the drop in cotton it is still one of the best performing commodities in 2013 and the long overdue correction was triggered by news that US farmers may be tempted by the 17 percent rally this year to plant more cotton than previous expected. At the same time China, which has been accumulating 10 million tonnes into state owned reserves over the past two years, has now signalled its intent to sell up to three million tonnes back into the domestic market over coming months.

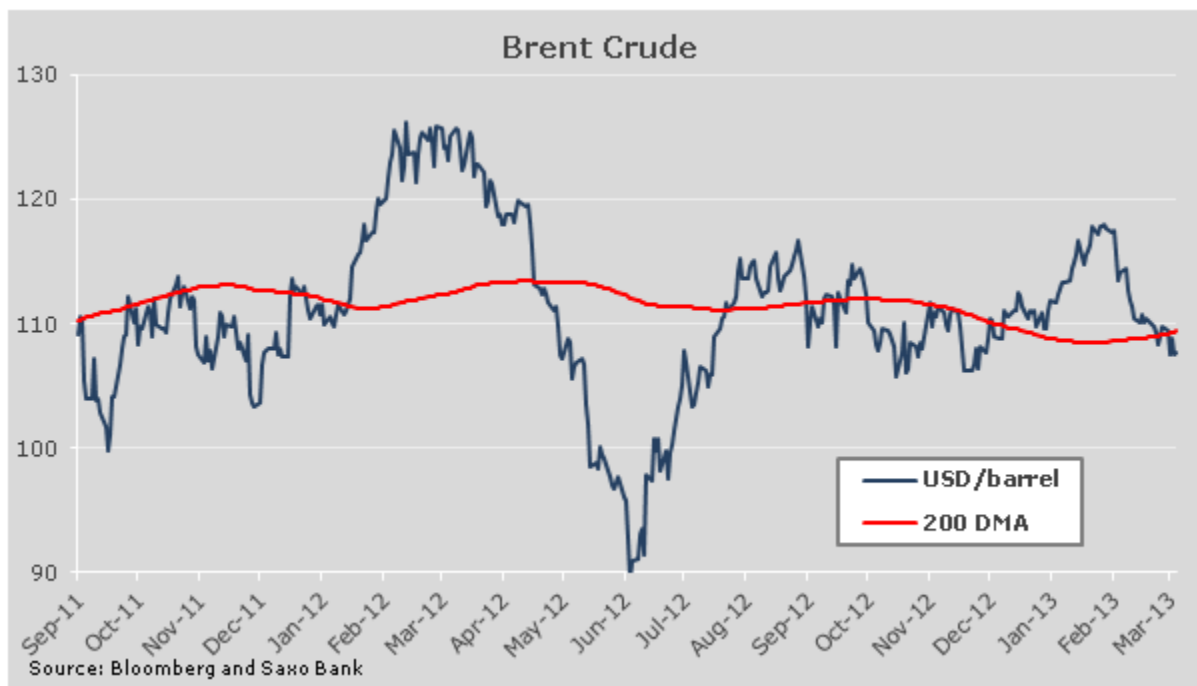
The price of Arabica high quality coffee prices trades at the lowest level in almost three years as Brazil - the world's top producer and exporter - is expected to produce a record-sized crop during the 2013/14 off-year season. Brazil's coffee production alternates between off-year and peak year production and with demand concerns in Europe together with continued ample supplies from last year's peak production the price has been under some pressure. The price could eventually begin to find support to the relief of producers on a combination of a price which increasingly looks oversold and discounting a worst case scenario together with the premium over Robusta coffee having fallen to the lowest level since 2008.



Precious metals received what so far has been a muted safe-haven boost. Gold managed to climb back above USD 1600/oz but has so far found the 1620 level too difficult to crack. It nevertheless managed to record a third consecutive week of gains, the longest weekly rally in six months. In the process it outperformed both silver and platinum with the latter now once again trading at a discount to gold while silver trade at its cheapest level relatively since August. A cause for concern were the continued reduction in holdings through Exchange Traded Products, an important investment barometer, where another week of reduction, the sixth in a row, occurred despite support from rising prices and the contagion risk from Cyprus. Looking ahead, the focus remains on Cyprus and the near-term risk is one of

price correction if the situation does not escalate further. A break either side of the 1600 to 1620 range could signal the next 30 dollar move with the next key level of resistance being 1650 followed by 1665 while support is located at 1567.

Brent crude recorded a sixth week of losses and has now returned to the lower end of the USD 105 to USD 115/barrel range which has prevailed most of the time since last August. Lower demand due to refinery maintenance, Cyprus uncertainty, increase supplies from the North Sea and Sudan combined with a continued reduction in speculative longs by hedge funds, have all played their part in bringing about the current weakness. Divergence in performance between WTI and Brent crude is also a continuing feature as the spread between the two has contracted to its lowest since last July. Near-term some additional weakness cannot be ruled out, but with the current range looking like 107 to 109.5 support should not be far away.



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