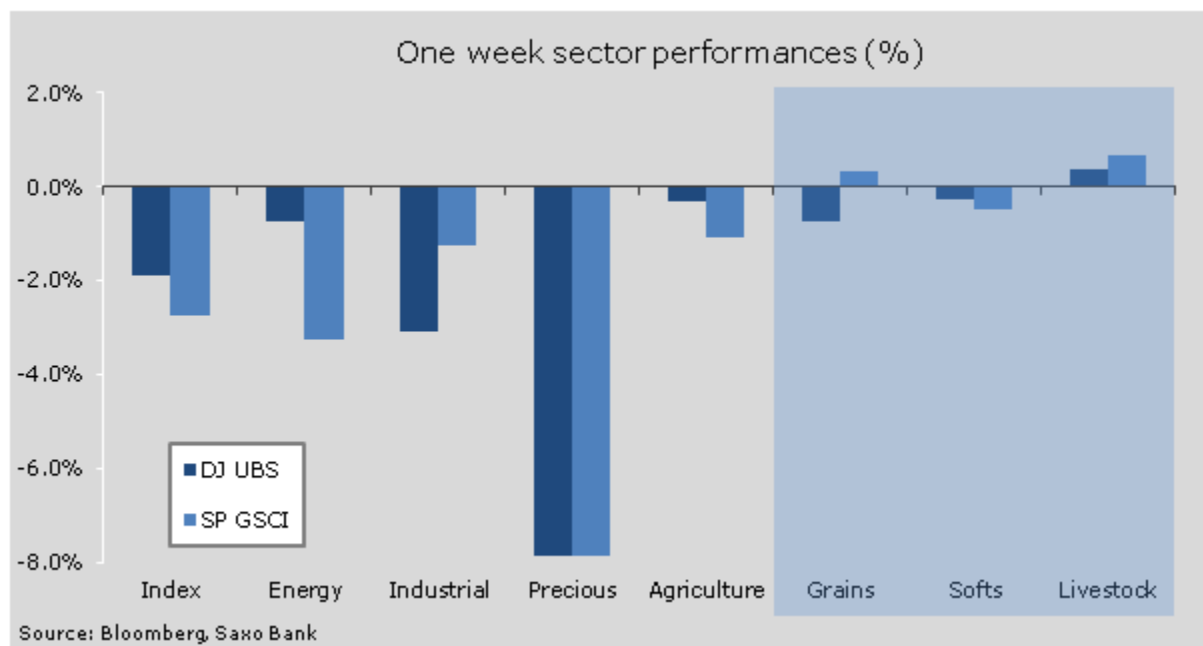


Commodities stabilising after the rout

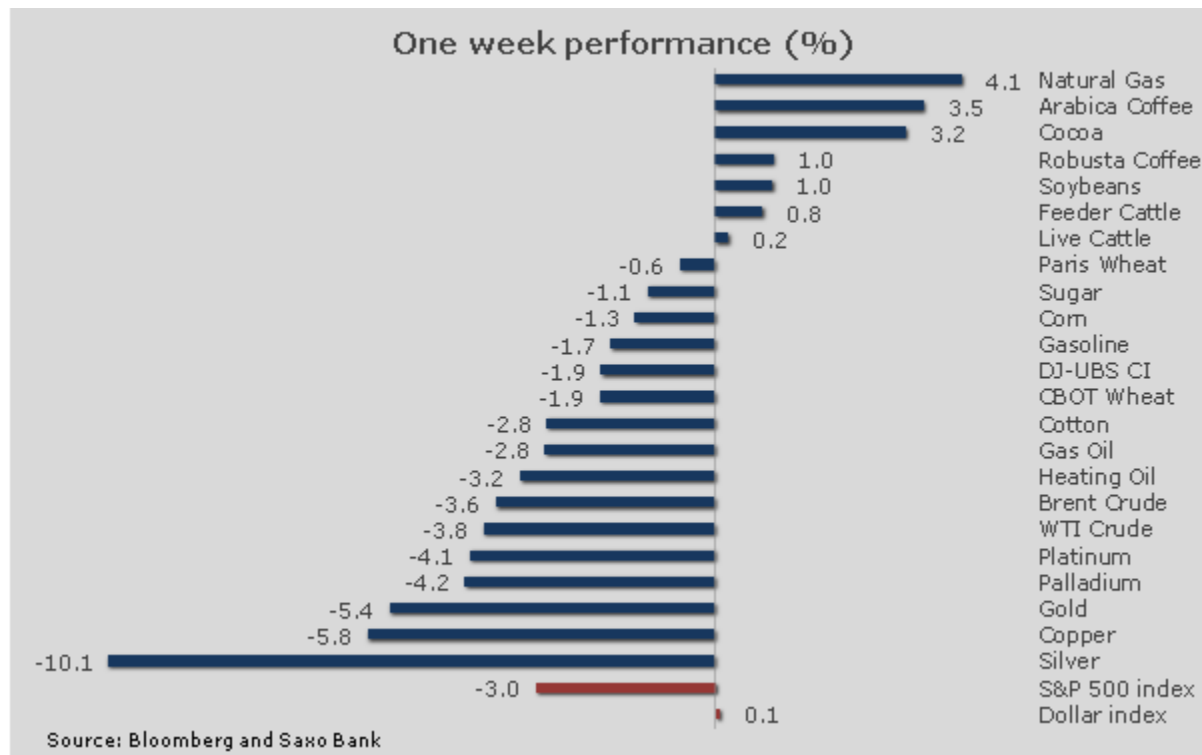
The dramatic sell-off in gold, which could best be described as a once in a lifetime event, attracted most of the interest over the week. Other commodities also suffered some major setbacks as signs of slowing growth in China and the US and the recession in Europe raised concerns about demand for many key commodities at a time of ample or even growing supply. As the end of the week approached, some price stability returned but nervous trading will continue over the coming weeks during a quarter that has proved to be a difficult one, especially for the energy sector in recent years.

As the table below shows, most sectors were hurt by the risk adversity, which also spread to other asset classes, especially stocks. At one stage, the DAX slumped by 2.7 percent in a matter of minutes on Wednesday, a move that it has yet to recover from. Gold led the rout following the failure to hold onto support at 1,525 USD/oz. Traders and investors are now much divided about the precious metal's near-term outlook, with the technical picture pointing towards a potential move to as low as 1,150 USD/oz, while others are looking to get involved at levels last seen almost two years ago.



The UBS-Dow Jones index, in which billions of dollars are invested, has seen a slump of 14 percent since its peak in September last year. This move has accelerated during April as economic data deteriorated and the prospect for a bumper crop this summer eroded support for key crops.

Chinese growth in the first quarter of this year ended up lower than expected, which helped to put additional pressure on industrial metals and crude oil. The price of copper, historically a good gauge for global growth and demand but somewhat distorted in recent years given the overreliance on Chinese demand, is currently down by more than 20 percent from its 2012 peak, a level that generally signals it is entering a bear market.



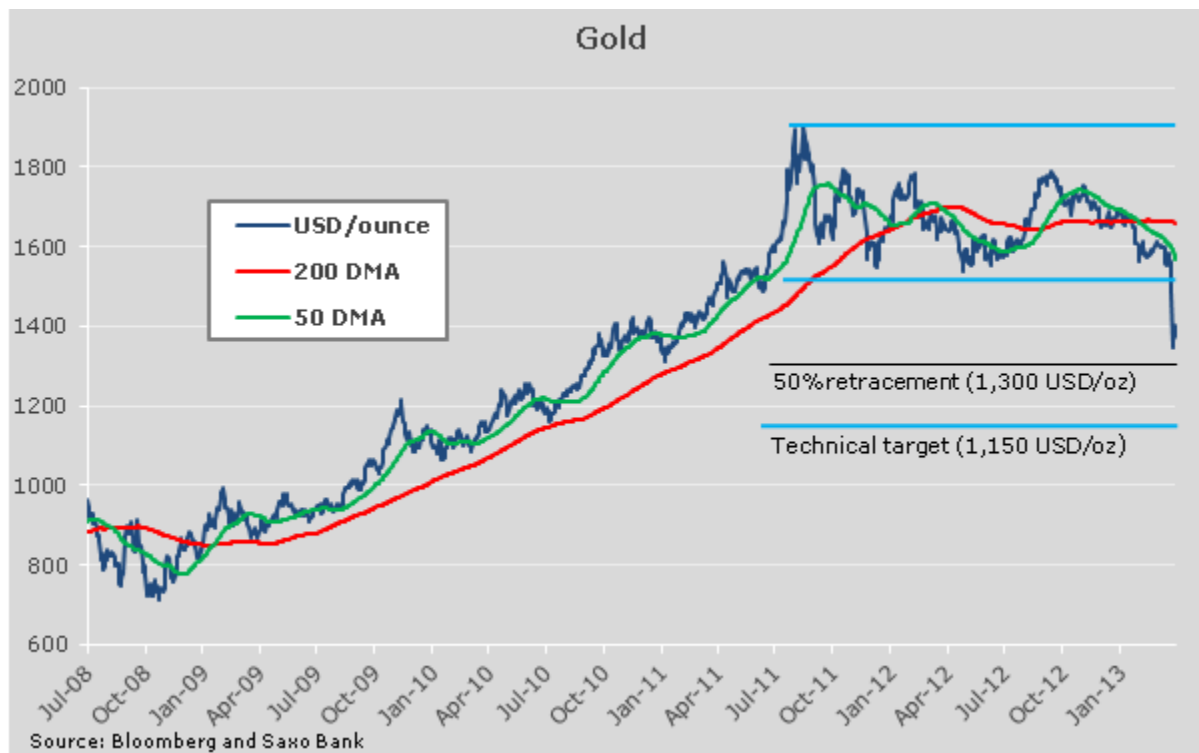
Natural gas jumped to a 21-month high on Thursday following the release of weekly inventory data that showed a smaller than expected built in stockpiles. Colder than normal weather for this time of year, combined with a general higher demand, meant that the first injection of the year following the winter extraction period was lower than expected. This has left overall inventories at 1.7 trillion cubic feet, almost one-third lower than the same time last year. This has helped the price of natural gas to recover strongly in recent months, making it the best performer among the major commodities with a year-to-date gain of more than 30 percent.

Other positive performing commodities apart from natural gas were the non-cyclical commodities mostly belonging to the agriculture sector. These were led by **Cocoa**, which made a new high for 2013 as demand from Europe and the US has shown signs of recovering, especially in North America where processing rose for a second month. This helped to reduce some of the overhang of supply that up until March had kept the price under pressure. Hot and dry weather earlier in the year in Ghana and the Ivory Coast may have taken its toll on the current cocoa crop, thereby lending additional support.

All metal groups retreating

The five worst-performing commodities all belonged to the metal sector, with industrial, precious and platinum group metals (PGM) all coming under some severe pressure. Copper dropped below USD 7,000 per tonne on the London Metal Exchange and suffered the worst weekly decline since 2011 as global growth worries and the sell-off in neighbouring metals removed support. Hedge funds were already, before the latest round of selling, holding the biggest net-short position since at least 2006 and this will undoubtedly have risen further during the week. Silver, which received a double hit from both being an industrial and investment metal, fell to its relative weakest level against gold since September 2010. At current prices one ounce of gold buys 60 ounces of silver, up from 50 ounces at the end of 2012, when the growth outlook was a lot rosier.

Following the historic two-day sell-off, which sliced USD 213 of the value, gold spent the rest of the week making some tentative attempts to recover but for now with the multi-year rally behind us, some nervousness will persist that the worst may not be over. The coming days and weeks will be very important as this has now become a war of nerves. Will investors in Exchange Traded Products continue to scale back investments, having only begun reducing in February while hedge funds began pulling out back in October? Or will the current slowing economic climate together with a pick-up in physical demand trigger some support and eventually provoke hedge funds to reduce short positions? While the technical picture points towards a target of 1,150 USD/oz we look for support eventually to emerge towards 1,300 USD/oz while any recovery from here will be met with fierce resistance at the old floor of 1,525 USD/oz.

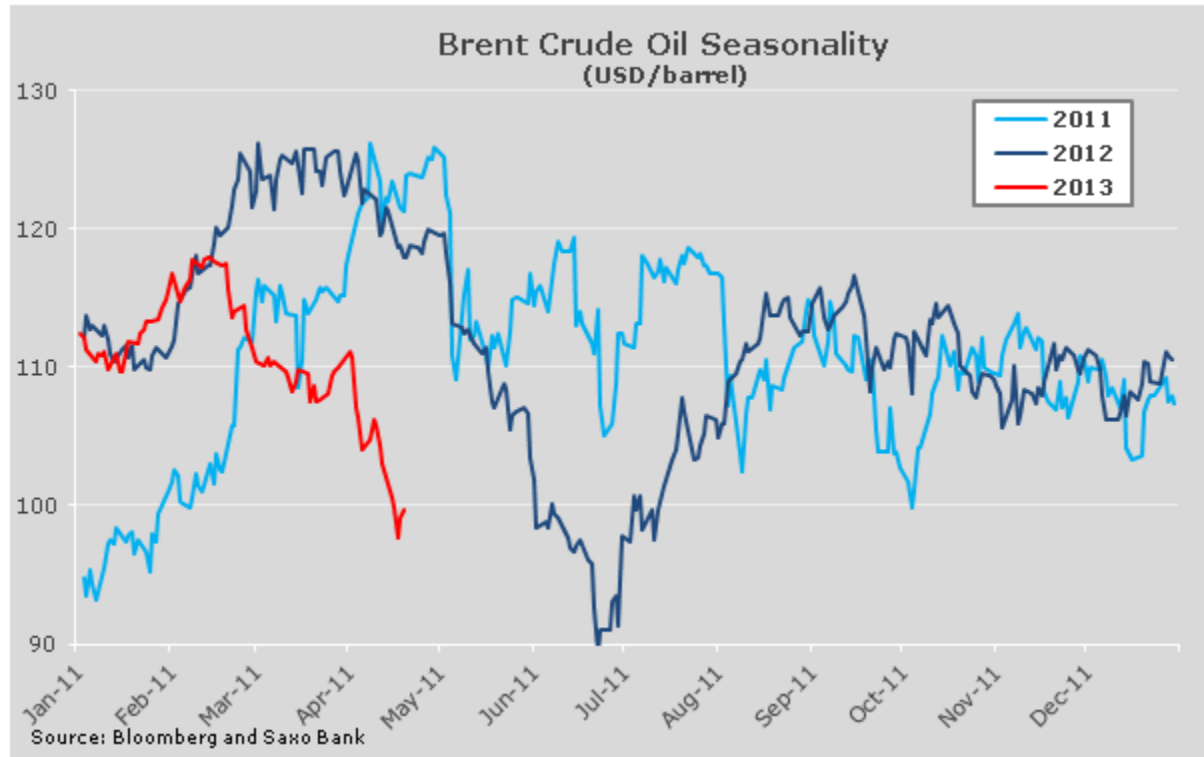


Brent crude latching onto USD 100

Crude oil weakness has been a feature during April, one month earlier than the previous two years, and once again the selling has been triggered by speculative traders building unsustainable long positions in anticipation of rising demand from elevated growth prospects. With recent data, especially those from China, having shown signs of weakness oil prices have slumped with no geo-political situation currently posing any danger to supplies. Looking at recent history, the second quarter has posed a challenge for oil prices in both 2011 and 2012 – and 2013 is no exception. There is a general belief that seasonal demand will pick up over the coming month and with OPEC having seen the price of its crude oil basket drop below 100 USD/barrel, for only the third time in three years, some verbal intervention may not be far away.

Oil markets are currently well balanced but only due to OPEC, which continues to produce above its stated daily target of 30 million barrels per day. With Saudi Arabia having been successful in getting oil

prices down to USD 100, it they may now switch its focus to avoid any additional weakness from here. Once again, verbal intervention could, if unsuccessful, be followed up by a cut to production, which should go a long way to hold the price close to USD 100. The geo-political risk premium often associated with oil prices has almost been removed and although no current threats exist, several potential hotspots could quickly change this perception. Negotiations with Iran over its nuclear intentions continue to yield no result and the ongoing destabilisation of Syria poses another threat.



The price of Brent crude barring any geo-political event has few upside potentials over the coming weeks, with the price now most likely to settle into a range of about USD 100 before eventually making its way back up towards its two-year average at USD 111 later, but possibly not before July. Rising demand from the Middle East during the summer oil-burn period to cater for increased electricity demand and a general healthy demand from places such as Latin America should help the recovery as we head into the second half of 2013.

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