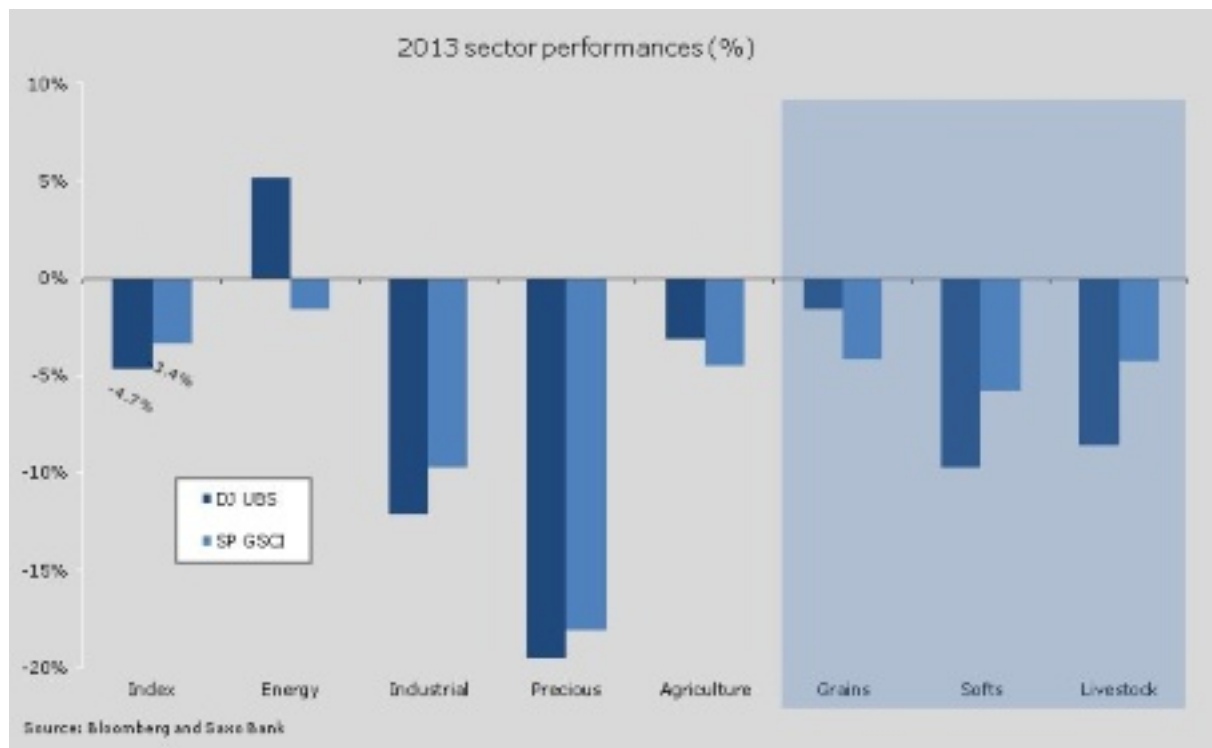


Weakness in Chinese data creates bumpy road for commodities

Commodity markets had to deal with several pieces of news and events this past week. Of these the most important were the weaker than expected Manufacturing PMI from China, the mini crash in the Japanese stock index together with comments from Ben Bernanke, the chairman of the US Federal Reserve about continued asset purchasing. Cyclical commodities, such as energy and industrial metals which rely on growth to spur demand fell after the manufacturing data from China pointed towards continued weakness. This once again brought about talk of whether the super cycle that commodity markets have witnessed in recent years and which primarily was driven by rising demand from growth in emerging economies, especially China, was coming to an end. The dollar reached the highest level since July 2010 against a basket of currencies and this also created some headwinds.

Precious metals scrape bottom

The year has so far shown negative returns for both the Dow Jones-UBS and S&P Goldman Sachs index. These are two of the world's most followed indices by investors seeking passively managed exposure to the sector. All sectors are showing a negative return with the odd one out being the energy sector in the DJ-UBS index which can be explained by a relatively large exposure in natural gas, the top performer both this past week and year to date. Precious metals scrape the bottom this week as weakness in silver - down one-quarter and gold down 17 percent - more than off-set better performances in platinum and especially palladium.



Precious metals survived an early scare last Monday when silver dropped by 10 percent in a matter of minutes before rallying to end the day higher. Such levels of daily volatility can be expected as the tug of war between buyers and sellers continues to escalate with traders currently very uncertain about where markets are headed from here. Overall, both metals managed some small gains as the mini-crash in

Japan Thursday and soothing words from Ben Bernanke the day before triggered some buying interest in both metals.

Supply issues in corn, wheat and soybeans

The agriculture sector saw very different performances between crops and soft commodities. All three key crops - soybeans, wheat and corn - rose as supplies left over from the drought-plagued 2012 harvest continue to dwindle, especially triggered by strong US export sales. New supply from the coming crop season will not be available for another few months leaving a major price gap between the cost of what buyers pay for prompt delivery compared with delivery later this year. Examples of this are in soybeans and corn where the new crops are trading at 17 percent and 19 percent discounts respectively to current old crop prices.



Oil - high inventory levels

Oil markets are currently well supplied with inventory levels in the US near the highest level since 1931 as domestic production continues to rise while Chinese demand is showing signs of not growing by the amount initially anticipated. These developments combined with the continued recession in Europe have despite the risk of a geopolitical event kept the price of oil, both WTI and Brent Crude, near the lower end of their current ranges - especially Brent Crude which remains the global benchmark for a large proportion of physical oil transactions. WTI crude oil's discount to Brent crude oil has seen a sharp reduction during the past months but with inventory withdrawals from Cushing, the delivery point for WTI Crude oil, slowing over the past couple of weeks a further tightening much below 7.5 USD/barrel seems unlikely at this stage.



Global growth concerns should help contain the price of Brent Crude near the lower end of its current range with the chance that further weakness could see it trade back down below USD 99 per barrel before finding support. Resistance above 105 has now been confirmed on a couple of occasions during the past month leaving room for the upside limited at this stage.

Gold - outlook remains negative

Gold and silver markets took some comfort from Ben Bernanke's comment that it would be a major concern to pull back from quantitative easing too early and that more progress in job creation had to be seen before such a pullback from asset purchasing could be considered. The mini-crash in the Japanese Nikkei on Thursday, however short-lived, also created a sense of flight to safety lending both markets some support. Up against this the continued reductions of gold held in exchange traded products, especially by institutional investors, remains a concern and reduces the upside potential. Together with this we have seen hedge funds build up the largest short position on record. Although this shows the current negative approach to gold among many of these investors it could also have a significant positive impact on prices if the outlook turns more favourable as short covering will follow.



For the outlook to turn more positive the double bottom on the charts, which is currently in the making, needs to be confirmed. For that to happen traders using technical analysis would want to see the price climb back above USD 1430 per ounce which represents a 61.8 percent retracement of the recent sell-off.

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