

Strong week for commodities with gains seen in all sectors

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19/08/2013

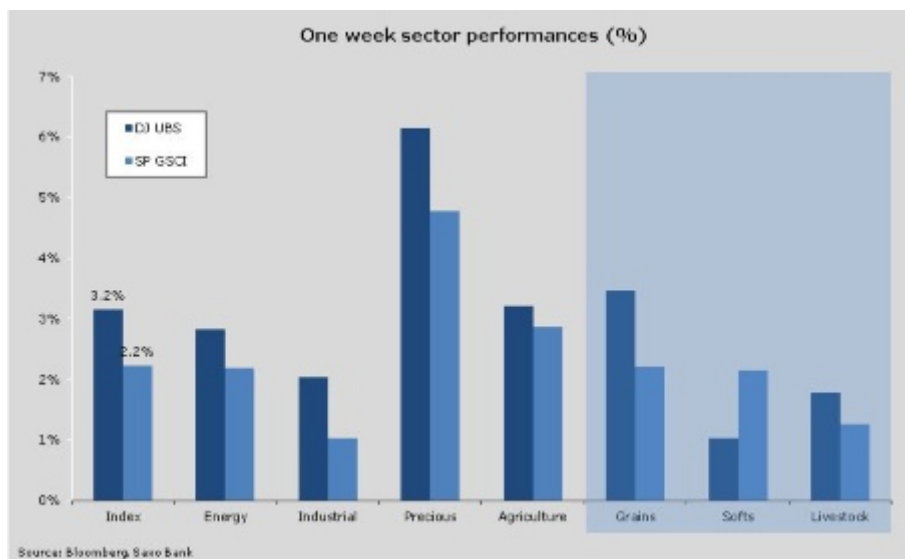
Last week saw the strongest weekly commodity performance since September 2012 due to a renewed sell-off in bonds which resulted in shaky equity markets. With market expectations increasing for the Federal Reserve to start scaling back its asset purchases from September 18, financial markets have struggled. The yield on US 10-year government bonds rose to the highest level in two years this week. As a result, global equity markets fell, just like they did in June - which was the last time we saw a major rise in bond yields.

Precious metals - best performing sector

Commodities held firm for several reasons. Surprisingly though, the best performing sector was precious metals which despite rising bond yields and talk of Fed tapering managed to strongly rally. Silver, in particular, returned to the state of technically being in a bull market, having rallied by more than 25 percent from its June 28 low.

Supply disruptions boost energy markets

Energy markets are supported by supply disruptions in Libya and the political crisis in Egypt while industrial metals continue their positive momentum, following signs of stabilising growth in China and signs of the end of recession in Europe. The agricultural sector also contributed to the positive return with corn and soybeans taking the lead following downward revisions to this year's production.



Silver the star

The star performer was silver which continued to rally for a second week carried by momentum and technical buying from CTAs and Hedge Funds. The result being an impressive 27 percent rally from the June lows with almost 20 percent having been added over the past couple of weeks alone. This

means it is now in a bull market which occurs when a price rallies more than 20 percent from its previous low. Improved sentiment in industrial metals, led by strong aluminium and zinc rallies - on the back of rising Chinese imports - provided the main driver for silver's increase.



Gold benefits from silver's gains

Gold has continued to benefit from the strong rally in silver, so much so that a host of gold negative news has failed to make an impact with the rally taking it through resistance at 1350 dollars per ounce to 1373, the highest level in almost two months. Flows in Exchange Traded Products are on track for the first weekly increase since February. This happened during a week where official filings on holdings in the SPDR GLD ETF for Q2 showed how institutional investors were aggressive sellers throughout the quarter. Looking ahead, gold may have some additional upside from here reaching 1415 and potentially even as high as 1450 over the coming months based on the assumption that early Fed tapering is now discounted with any change in this expectation signalling support. But first of all we need to see support around 1350 being confirmed, followed by a break above 1370,6, which is the 61.8 percent retracement level of the May to June sell-off.

Spot Gold



Lower production expectations support corn and soybeans

Corn and especially soybeans found support from two separate reports both pointing towards lower than previously expected production for autumn. Meanwhile, greater than expected US acreage was abandoned this spring as wet weather conditions prevented farmers from sowing their crops on time. The immediate focus however concerns the current weather conditions which are too hot and too dry in places. This adds to the risk of a smaller than expected crop and prices have moved higher. In turn, this has forced hedge funds to reduce bearish positions which for corn had reached record levels.

Oil market dynamics changing

Brent crude oil is once again trading around 110 dollars per barrel which represents the average price over the past two years but also the highest oil price in four months. A combination of supply disruptions from Libya and the crisis in Egypt has lent support at a time of seasonally strong demand from refineries. The strike and unrest at Libya's key oil ports has resulted in a significant drop in exports while the renewed unrest in Egypt once again raises concerns about the safe passage of 4.5 million barrels per day which passes through the Suez, either by sea or pipeline.

The fact that these events have not triggered a much stronger rally than what has been seen on previous occasions gives an indication of how oil market dynamics could be changing, primarily due to increased non-Opec production. Supply disruption during the Libyan war in 2011 and the introduction of an embargo against Iran in 2012 both triggered price spikes above 125 dollars per barrel, a level we are still far from seeing and expecting. Hedge funds are firmly of the belief that both WTI and Brent crude oils have further upside potential considering they are holding near record net-long positions in both crude oil futures. Demand from refineries will reach a seasonal peak within the next few weeks after which time elevated prices will be difficult to sustain unless the geo-political situation continues to worsen. Brent crude could potentially reach 114 dollars per barrel during this time before easing back towards and below 110 dollars.

