

## Commodity focus fixed on Syria after strong August performance

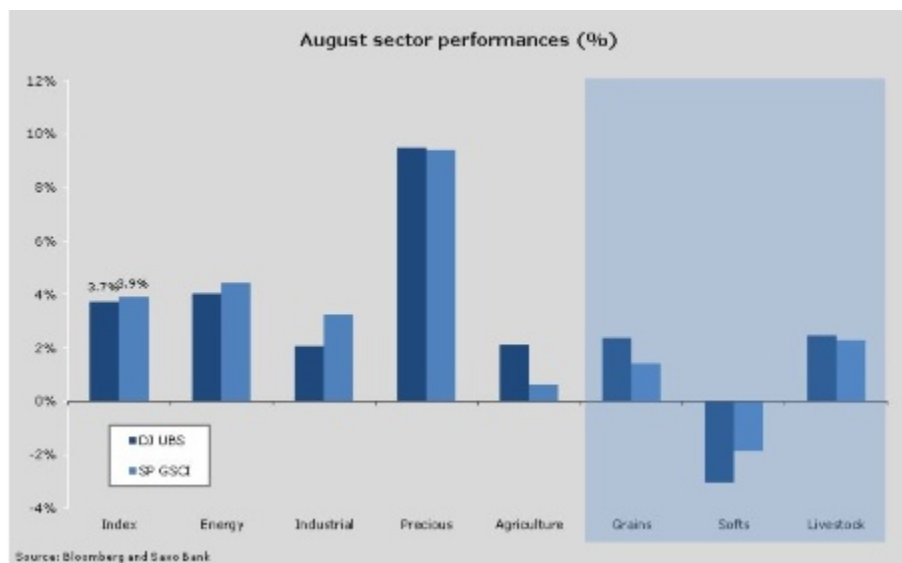
There were two overriding themes providing direction in commodities this past week. The tensions in Syria escalated on the back of worries that Western governments would commence airstrikes at President Bashar al-Assad's regime together with escalating selling of emerging market currencies.

Brent crude reached the highest level since February as fears grew that oil supplies from the region could be disrupted while gold reached USD 1,434/oz on safe-haven buying and short covering.

### UK vote on Syria

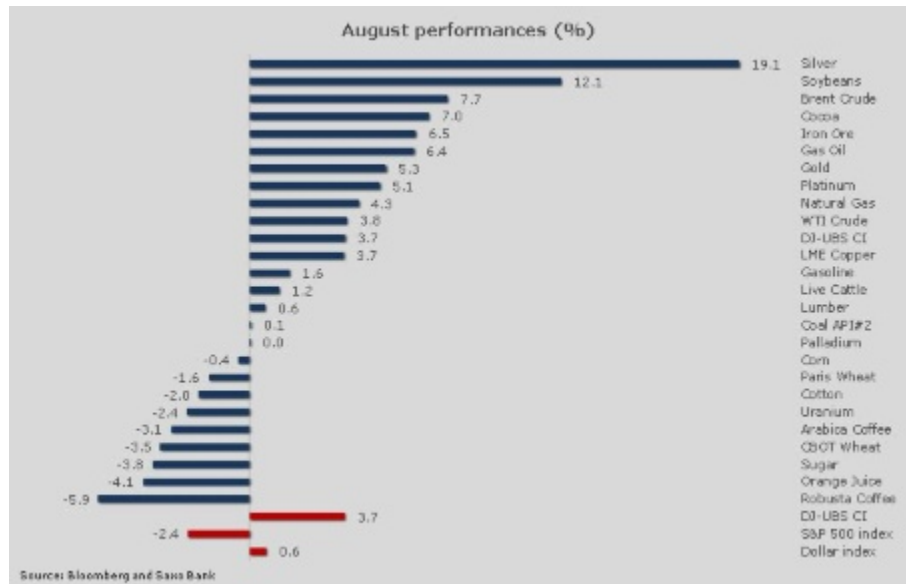
Some profit-taking on both commodities were seen as the week came to a close especially after the UK parliament rejected any immediate Syrian action which puts into doubt whether US is prepared to go it alone without its closest ally. With tensions still running high, the theme will continue to impact markets over the coming weeks but as September begins the focus will also turn to the US Federal Reserve which on September 18 is expected to announce a change/tapering of its asset purchase program.

Given the current sensitivity in financial markets with regard to this, the Fed will be very keen to stress that tapering will not mean tightening as it tries to curb the recent rise in interest rates which has been a major factor in sending emerging market currencies into a tailspin.



August saw the best overall monthly performance in a year with the DJ-UBS commodity rising for a second month in a row. All sectors but especially precious metals and energy contributed the most to this performance with individual performances being led by silver, soybeans and Brent crude.

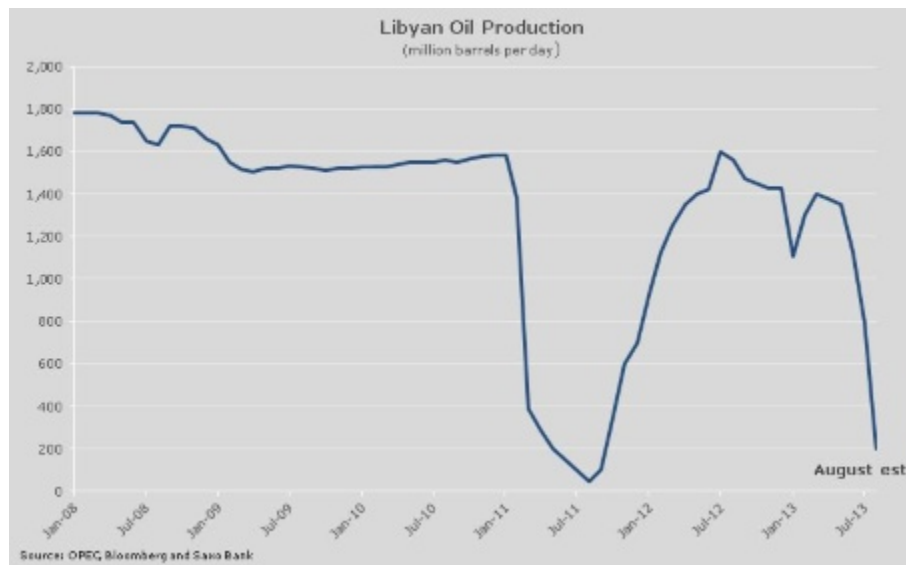
Soft commodities such as coffee and sugar scraped the bottom having failed to join the positive momentum witnessed in other commodities.



### Libya's the immediate concern

Oil markets are once again for a third year in a row engulfed with worries about supply disruptions related to geopolitical problems in the Middle East and North African area. While the crisis in Syria may spread beyond its borders should western governments decide to get involved, the situation that poses the biggest problem currently is the continued disruption of Libyan crude exports.

Recent reports suggests that the country's daily output has dropped to as low as 200,000 barrels compared with 1.4 million back in March.

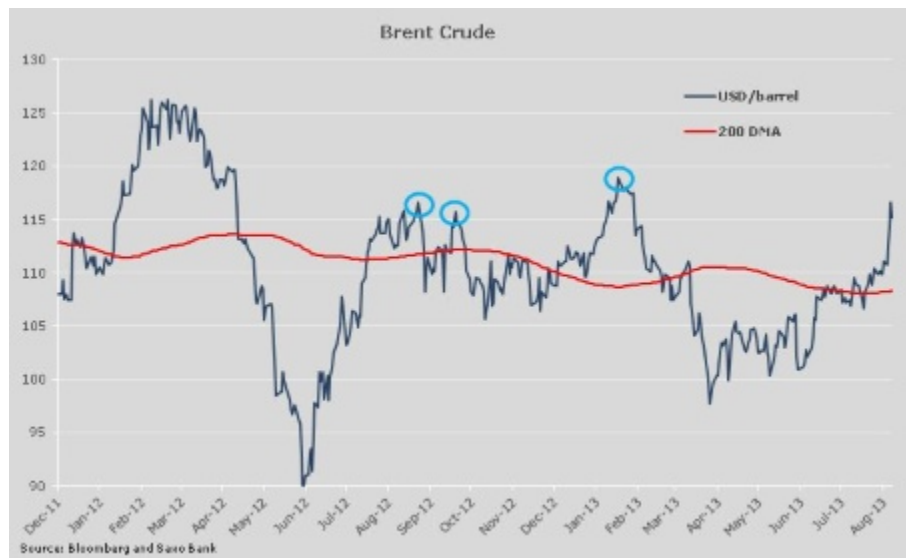


### Opposing camps

As a result of this we have seen Brent crude rally above USD 117/barrel. Syria is not a major oil producer but the civil war has put two of the major OPEC members, Iran and Saudi Arabia, on opposite sides.

If OPEC supplies were to be disrupted further, short-term price spikes could be seen despite the timing of year where refinery demand is expected to slow down. Over the last year we have witnessed three price spikes above USD 115/barrel and they have all led to an immediate correction of a minimum ten dollars.

With traders already holding what increasingly looks like an overextended net-long position the risk of another sharp correction is growing. But such a move would require further easing of tensions together with signs that demand has begun to taper off, something that is expected to begin towards the second half of September.



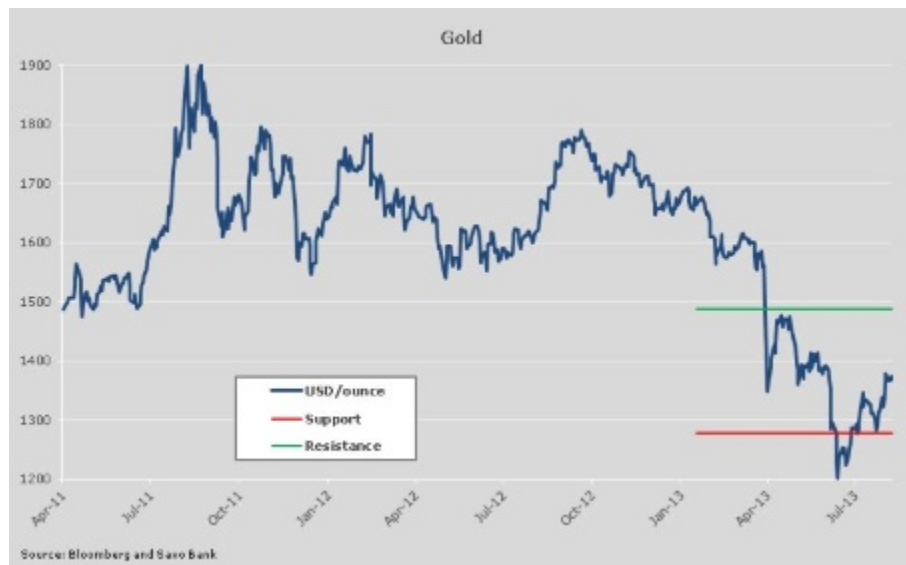
A prolonged reduction in Libyan oil production, which normally accounts for two percent of global output, will continue to support higher than normal oil prices with the expected slowdown in demand towards October only having a somewhat off-setting impact.

On that basis, Brent crude oil is likely to remain at the upper end of its 2013 range of USD 110-119/barrel. However, any quick solution with regard to Syria and/or a pick-up in Libyan exports carries the risk of a sharp correction keeping in mind how the positioning by hedge funds and money managers have become increasingly one-sided during the past few months.

#### **Gold momentum fading**

A safe-haven bid helped gold top the USD 1,400/oz level this past week but with the US Federal Reserves potential announcement of tapering only a couple of weeks away, further upside at this stage seems limited. Our Q3 target of USD 1,450/oz has almost been met and in order to see further progress from here, the geopolitical situation and/or the US growth expectations need to deteriorate. However we also believe that the worst period of selling in gold over the past decade is now over following signs of a pickup in investment demand during August, something that has been absent all year.

Support remains at USD 1,350/oz with a break below signalling a deeper consolidation back towards USD 1,277/oz while upside resistance can be found at USD 1,434/oz before the critical level at USD 1,488/oz which, if broken, would represent a 50 percent retracement of the October to June selloff.



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