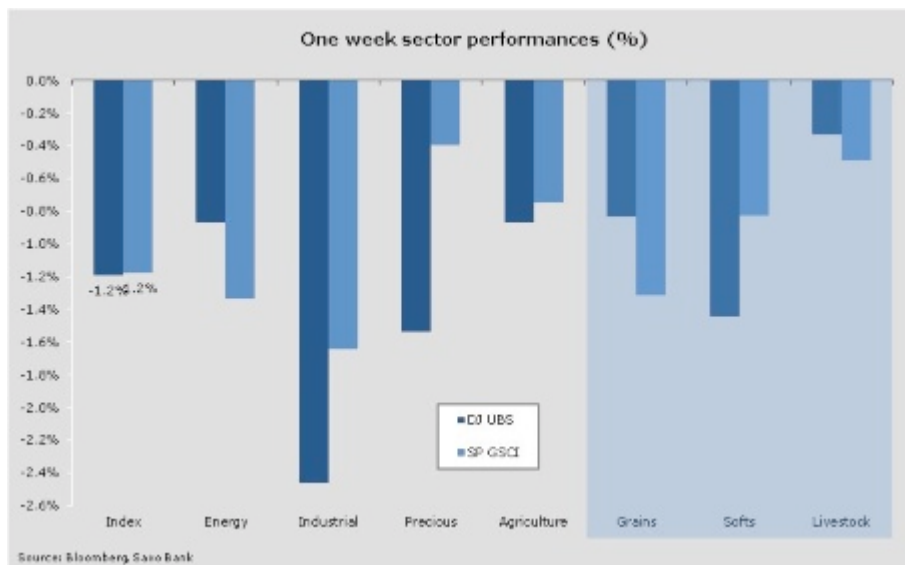


## Brent crude lower while gold struggles to make sense of things

While global investors were trying to get a hold of Twitter shares ahead of the much-hyped, but also very successful initial public offering, the European Central Bank took most market participants by surprise when it halved its official rate. The cut was in response to falling prices which pose a risk to the fragile recovery within the euro area. Adding to the mix, we saw US quarterly growth and job creation surprise to the upside and it all helped to send the euro lower, especially against the Japanese yen and the US dollar.

Commodities traded in negative territory for a third week in a row with the DJ-UBS commodity index reaching the lowest level in almost 3½ years. Rising supply without a corresponding pickup in demand has triggered falling prices across all three sectors and most commodities are currently showing a negative year-to-date return, with cocoa and palladium the exceptions.



### Industrial metals under pressure, precious metals supported

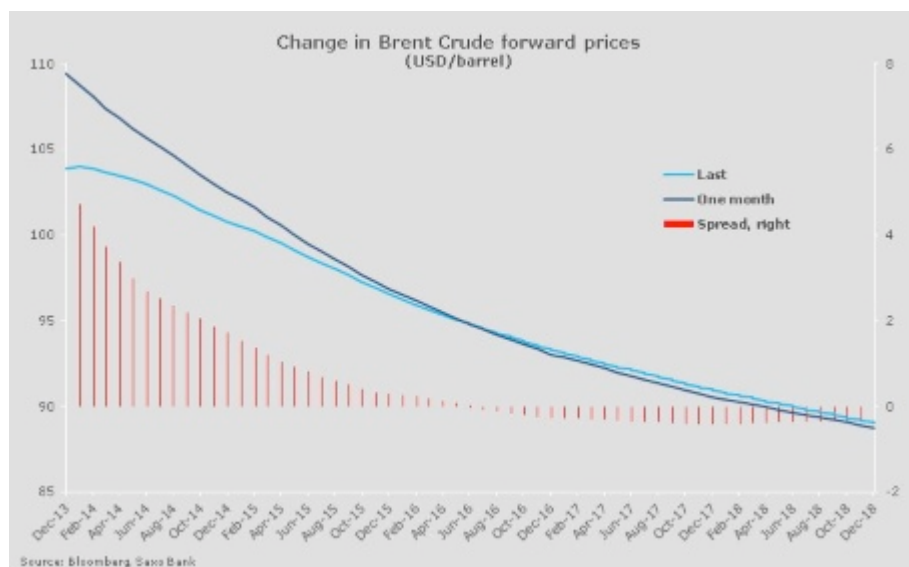
At sector level industrial metals dropped the most while precious metals held up reasonably well as different signals (news wise) pulled the metals in opposite directions. Ultimately though both gold and silver remained stuck within their established ranges but with a negative bias.

Key crops were lower led by CBOT Wheat and Corn as a US government report late Friday was expected to confirm the dramatic turnaround in inventory levels following a near-perfect US growing season. The energy sector saw both crude oils lower with Brent Crude falling the most thereby reducing the premium over WTI crude as the reduced supply tightness witnessed in the US has now spread to the European benchmark.



### Brent Crude falls to a four-month low as tightness evaporates

The price weakness experienced in WTI crude during the past month has spread to Brent crude and this has resulted in the spread between the two crude oils contracting back below USD 10/barrel. A combination of softening conditions in the spot market, continued long liquidation by speculators, the Geneva talks between Iran and Western nations and finally the stronger dollar have all played their part in helping to maintain the negative momentum in both crude oils.



### Opec highlights shale oil threat

Opec highlighted in its annual World Oil Outlook some of the changing dynamics brought about by the increased production of shale oil. Opec expects it could loose almost 8 percent of its oil market share in

the next five years as competition from non-Opec producers continues to increase. Opec continues to see oil demand rise over the coming decades mainly due to an increase in fuel-based means of transportation, especially in China and India. Increased demand will be met resulting in Opec forecasting an average price of USD 110/barrel until 2020, similar to the price level we have become used to over the past three years.

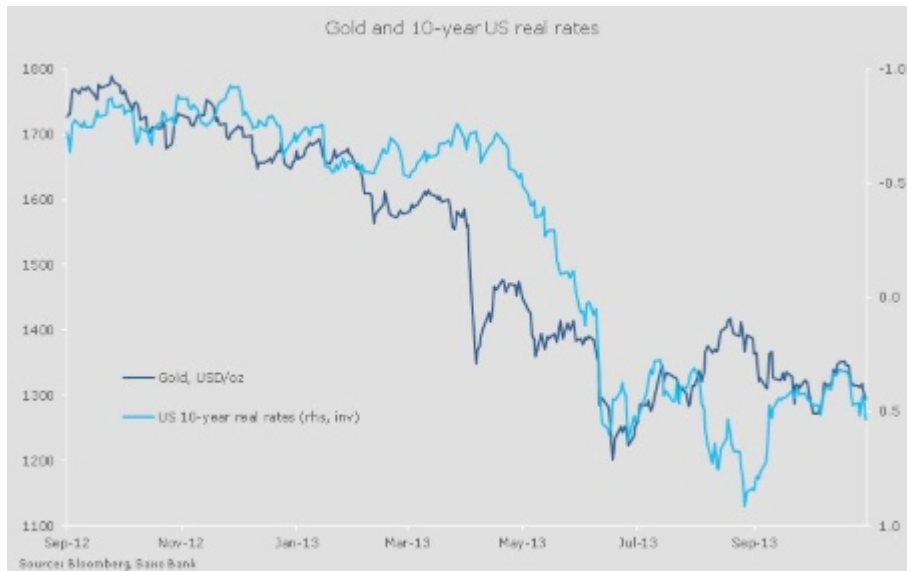
There are increased hopes of a potential breakthrough in negotiations between Iran and Western governments in Geneva. Whether the talks will lead to an imminent increase in Iranian oil exports remains doubtful, however. Nevertheless, the ongoing negotiations will continue to be closely watched as an increase in Iranian exports, together with a normalisation in Libya, would almost certainly force Saudi Arabia to cut its production in order to ensure that price stability is being maintained at, and preferably not below, USD 100/barrel.

Momentum in both crude oils remains negative. Until we see demand pick up further losses can not be ruled out with USD 100/barrel in Brent crude in sight. WTI crude has returned to trade around USD 95/barrel corresponding to the average price over the past three years. As US refineries begin to come on line again after maintenance work and their turnaround towards winter production, demand for WTI Crude is expected to pick up. This could apply some additional downside pressure on Brent crude oil's current premium over WTI.

#### **Gold and silver under pressure as US data improves**

Both gold and silver remained range bound for most of the week as traders tried to seek answers to several key questions. The stronger-than-expected pickup in US third-quarter GDP and US job creation further removed support but without triggering a major push to the downside. The key question concerns when the US Federal Reserve will begin to reduce its monthly asset purchases, with the latest economic data having increased the likelihood of a December start.

The direction of the dollar, which has strongly recovered, especially against the euro during the past couple of weeks, is another area of uncertainty with a continued move higher in the greenback creating headwind. Juxtaposed with this we see the potential for a long overdue correction in US equities where the S&P 500 is currently showing an almost 25 percent rise in 2013. The move below support at USD 1,294/oz, following the stronger-than-expected October US jobs report, points towards some additional weakness in the coming week, possibly towards last month's low of USD 1,252/oz. Any signs however of equity selling, and/or dollar weakness, may lend support. As usual, one eye has to also remain on bond yields. The continued rise in yields, following the October lows, leaves little room to the upside, at least at this stage.



### US government report seen confirming a bumper crop

Late on Friday the US Department of Agriculture was expected to confirm the complete reversal of US inventory levels of key crops this coming winter. A record corn crop is expected to drive the expected stock levels (prior to next year's harvest) to the highest level in nine years, compared with currently the lowest level in 17 years (before the current crop was harvested). As a result we have seen the price of CBOT corn drop to the lowest level in three years and almost halve from the record levels witnessed last year. One supporting factor for corn may be the potential for short covering by speculators, who as of October 29 held the biggest net-short position on record.