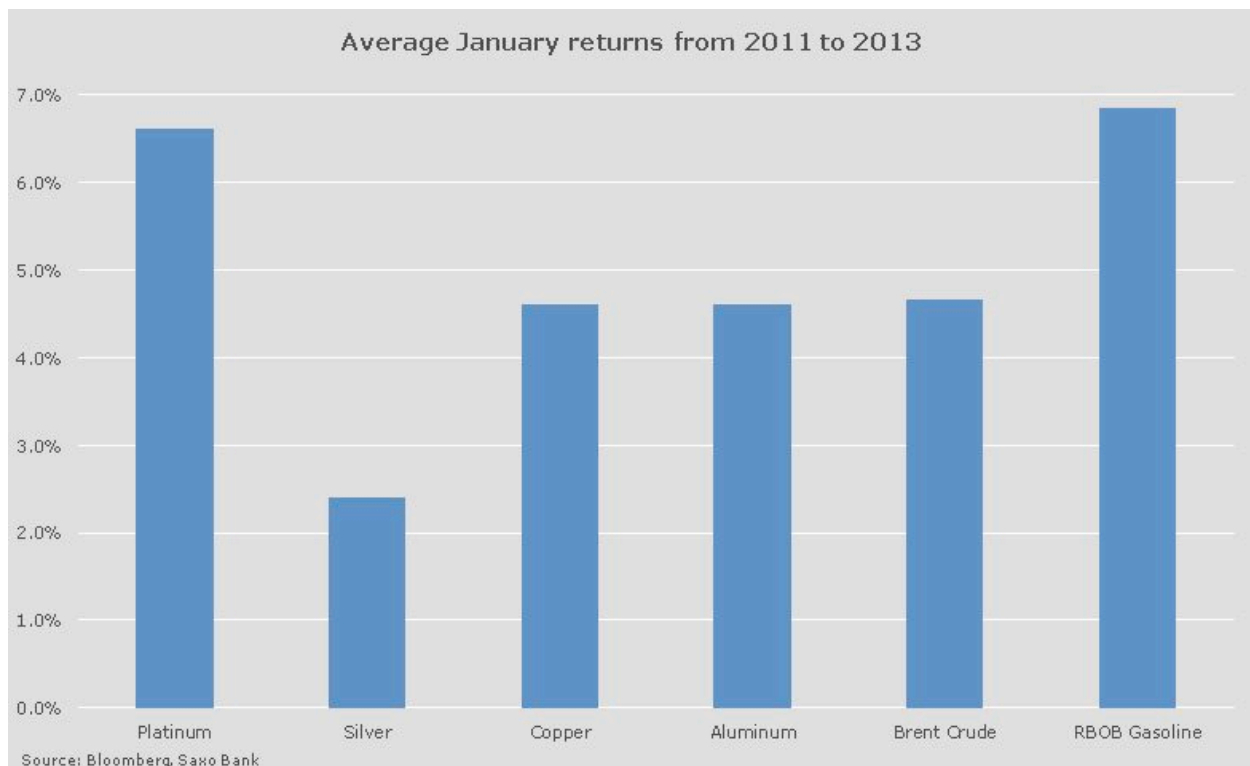


# Flying start for precious metals — not so for crude oil

By Ole Hansen, Head of Commodity Strategy, Saxo Bank A/S

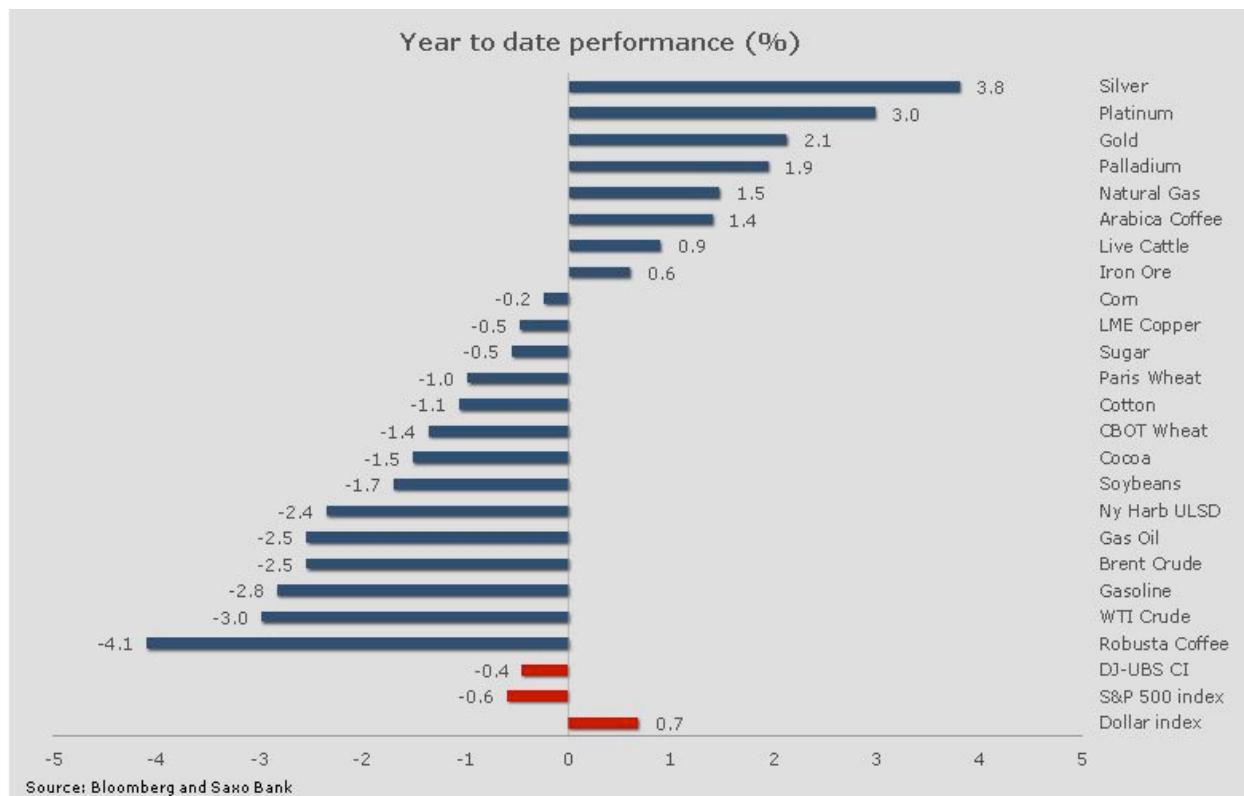
The first (and truncated) trading week of 2014 kicked off with gains for gold and silver, some of the biggest losers in 2013, while the energy sector relinquished some of its gains from the last few weeks of December. As we enter the new year growth expectations are elevated with global manufacturing activity in December running at its best level since April 2011.

Will history repeat itself and result in another strong January performance for the fourth year in a row for key commodities such as platinum, silver and copper to Brent crude and gasoline? The early signs are supportive for the metals but often we have seen the price direction during the first few trading days of the year turn out to be the wrong one. The energy sector, however, could be the one struggling the most to achieve the same positive results with the current lack of any major geopolitical issues together with increased supply, especially from North America and the potential resumption of Libyan exports all keeping a lid on prices.



Source: Bloomberg and Saxo Bank

As the table below shows the past week has seen rising prices among all the precious metals with silver on top followed by platinum, gold and palladium. The DJ UBS precious metals index lost more than thirty percent in 2013 with silver and gold being the biggest casualties. That move last year signaled the abrupt halt to gold's multi-year rally which since 2001 had yielded an average annual return of close to 15 percent. At the bottom of the table several energy futures can be found, especially gasoline and the two crude oil contracts of Brent and WTI.



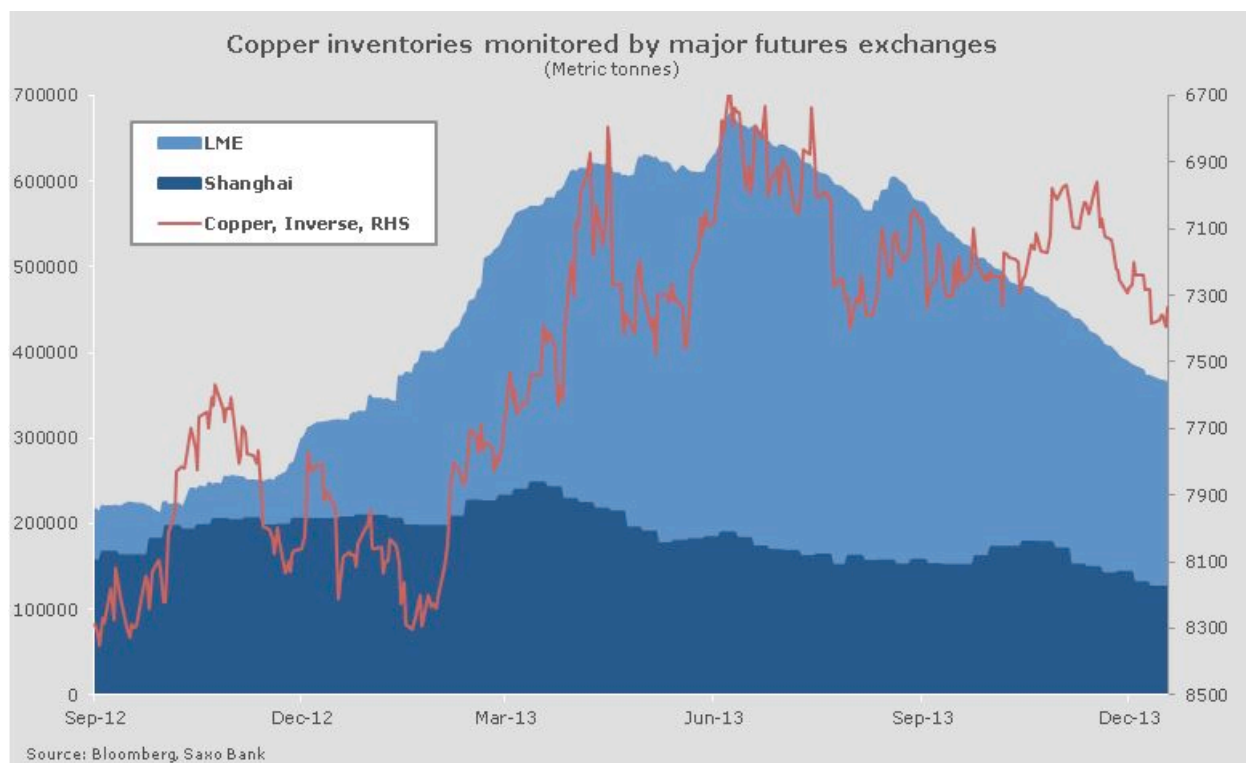
Source: Bloomberg and Saxo Bank

**Robusta coffee** dropped by the most in almost two years as it continue to be sold on the expectation of a record production from Vietnam, the world's largest producer of this particular bean. Up until mid-December farmers in the country had been holding back production in the hope of achieving higher prices but as soon supplies began to be delivered for export the price quickly began to correct and so far more than 50 percent of the November to December rally has been given back.

**Copper** was one of the best performing commodities in December as it reacted to rising growth prospects in the US and sustained growth prospects in China, the world's two largest consumers.

Supporting the move has been the continued drop in inventories at warehouses monitored by the two major futures exchanges in London and Shanghai.

Inventories on the London Metal Exchange and the Shanghai futures exchange both fell to the lowest in a year according to the most recent data from December 31. With the focus on copper in recent months having been mostly centered around the prospect for increased availability of supply, the continued pick up in demand as evidenced through the drop in inventory levels has forced traders to switch their focus. Having reached a six month high some profit taking can now be expected, not least on the expected outlook for increased supply over the coming months which will help rebuild inventory levels.



Source: Bloomberg and Saxo Bank

### Gold finding support from physical demand and short covering

The yellow metal was on track for its best weekly performance since October not least helped by reduced selling appetite as a new trading year began. On the last trading day of 2013 sellers went looking for stops below the recent low at USD 1,187/ounce but the failure to breach the 2013 low at 1,180/ounce quickly attracted some buying interest and since then some additional buying has moved it back above 1,200/ounce and into relative safety.

The buying so far this year has been most noticeable in Asian trading hours which has raised expectations that demand from the region will remain firm again this year. The premium paid for taking immediate delivery of gold in China has risen to USD 23 an ounce which is almost USD 7 dollars higher than the average during December and the lifting of some import restrictions on December 31 by the Reserve Bank of India could also spur renewed demand. Additional support has come from stabilising bond markets after the recent sell-off which resulted in US 10-year bond yields reaching a 2.5 year high.

### Spot Gold:



Source: Saxo Bank

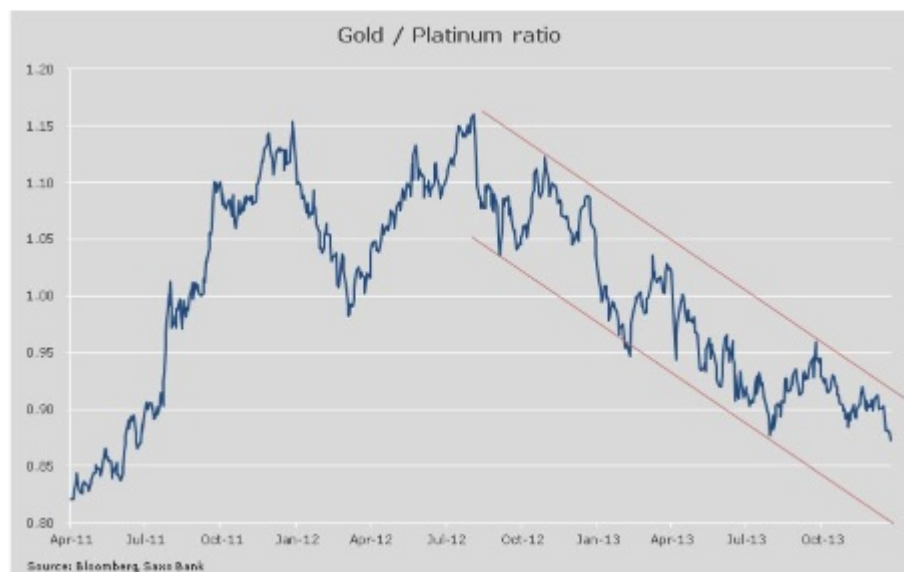
Speculative short selling by hedge funds increased almost four-fold by 5.7 million ounces during November and December and the failed selling attempt and the subsequent bounce will have rattled a few weak shorts and helped the rally along. Whether it will be enough to see the price move back above the key resistance at USD 1,268/ounce remains doubtful also considering that flows in Exchange Traded Products have remained negative during the first few trading days of 2014.



Source: Saxo Bank, CFTC, Bloomberg

### Fundamentals supporting platinum

Platinum has kicked off the year with strong gains which has resulted in the premium over gold rising to 13 percent which is the highest level since July 2011. A global supply deficit combined with the risk of labour unrest in South Africa, the world's largest producer, and China's attempt to expand its clean air efforts by focusing on reducing vehicle emissions, could all play into the hands of those looking for investments in this sector.



Source: Saxo Bank, Bloomberg

### **Crude oil support reduced as supply looms**

The two global crude oil benchmarks of Brent and WTI ran into heavy selling during the first week of January. Key to the move lower was the lack of speculative buyers who had been supporting the price in order to achieve a good end of year result, together with a rising dollar and not least the news from Libya that a three-month strike at the 300,000 barrel per day facility of Al Sharara will be lifted. The strike will, however, resume again in two weeks if several key demands are not being met by the government. The oil-rich eastern part of the country is still not showing any signs of progress towards resumption of production and thus we continue to see Libya's production falling far short of previous levels.

Libyan oil production has been running at a fraction of its capability since last summer after protests at production sites and key ports broke out. From a post-revolution peak at 1.6 million barrels per day in July 2012, production began to slow and during the past couple of months it has hovered around just 200,000 barrels per day and this has been one of the key reasons behind the price support for Brent Crude during this time.

During December, Brent Crude has twice tried and failed each time to gain a foothold above USD 112/barrel and with this latest development resistance at that level has increased further. January, as mentioned earlier, has proven very profitable for investors in Brent Crude over the past three years, during which time it has been averaging a return of 4.6 percent. The combination of raised growth expectations and not least elevated geopolitical concerns help drive prices higher during this time.

As we begin 2014 the outlook for oil supply and demand looks very well balanced and supply growth may actually exceed demand growth for the first time in a number of years, not least due to the continued increase in non-OPEC supply especially from non-conventional production techniques in North America. Against this outlook, the upside potential for crude oil seems limited, but stubborn supply disruptions have so far kept the market supported. If the latest news from Libya results in a normalisation of supplies from the country holding Africa's largest reserves this should eventually help the price of Brent Crude to settle into a lower range than what has been seen in the previous couple of years.

**Brent Crude, first month cont.**



Source: Saxo Bank

The selling of Brent Crude was halted ahead of support at USD 107.50/barrel being its 200-day moving average but the subsequent bounce is now expected to run out of steam ahead of USD 110/barrel with the most likely outcome being the establishment of a new range where support can be found at USD 105/barrel ahead of USD 103/barrel, the November low.