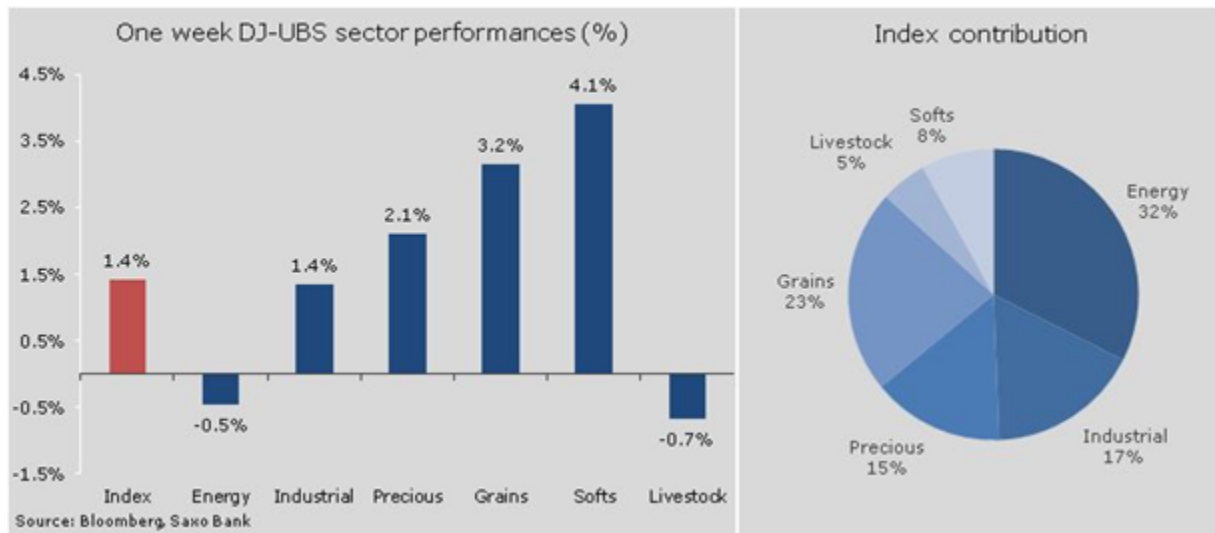


Agriculture sector helps deliver strong start to February

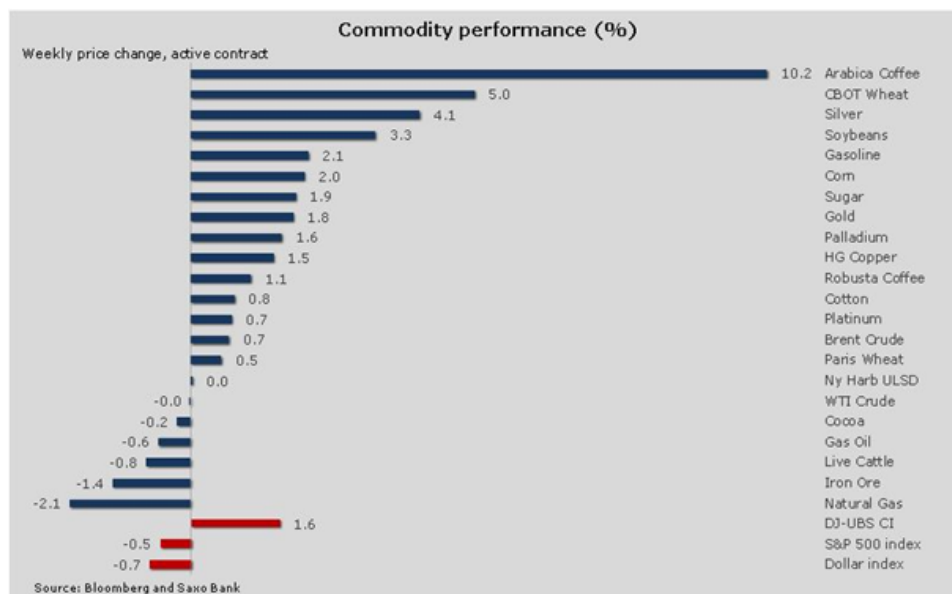
By Ole Hansen, Head of Commodity Strategy, Saxo Bank

- **Agricultural sector ends two-months of negative momentum**
- **CBOT wheat gets boost from cold snap in US**
- **Gold waiting for trigger to determine direction**

The commodity sector witnessed a strong beginning to February with most of the gains being driven by the grains and softs sectors while both metal sectors also made a positive contribution. Global stock markets stabilised after a very weak beginning to 2014 not least assisted by improved US economic data and after emerging market currencies found a bid after recent heavy losses.



Weather-related issues were the main contributor to the biggest gains as a cold snap in North America and very dry conditions in South America lent support especially to Arabica coffee and CBOT wheat. As a result, positive momentum as seen through the DJ-UBS Agriculture index returned to the agriculture sector for the first time since early December.



Copper posted its first weekly gain this year on optimism that developments especially in US will continue to support demand at a time of rising supply for this key industrial metal. US economic data continue to improve while Shanghai copper rose after traders returned from a week long New Year holiday. Stockpiles of copper in warehouses monitored by the London Metal Exchange also provided some support as they continue to shrink. Inventory levels have fallen to 308,000 tonnes, the lowest in 13 months and less than half of the June 2013 peak at 678,000 tonnes. The cost of taking immediate delivery has also been rising which normally signals limited or reduced availability of supply. The High Grade Copper futures contract for March delivery has bounced from a two-month low at USD 3.175/lb and could now make a move towards 3.27 or possible 3.30 before resistance once again will make further advances difficult to achieve.

CBOT wheat received a boost from the cold temperatures currently sweeping through the key production areas of the US. This is similar to the support that has been witnessed in the energy sector where demand for natural gas and distillates has been running well above normal levels this past month. The freezing temperatures are now showing signs of causing damage to the winter crop after the US Department of Agriculture in report on February 3 reduced the percentage of the crop in Kansas likely to be in a good condition from 58 to just 35 percent. The outlook for a bumper global wheat stockpile had up until January 28 triggered a buildup of a major net-short position in CBOT wheat of 62,500 futures contracts and the closing of many of these short positions helped drive the five percent gain in the price.



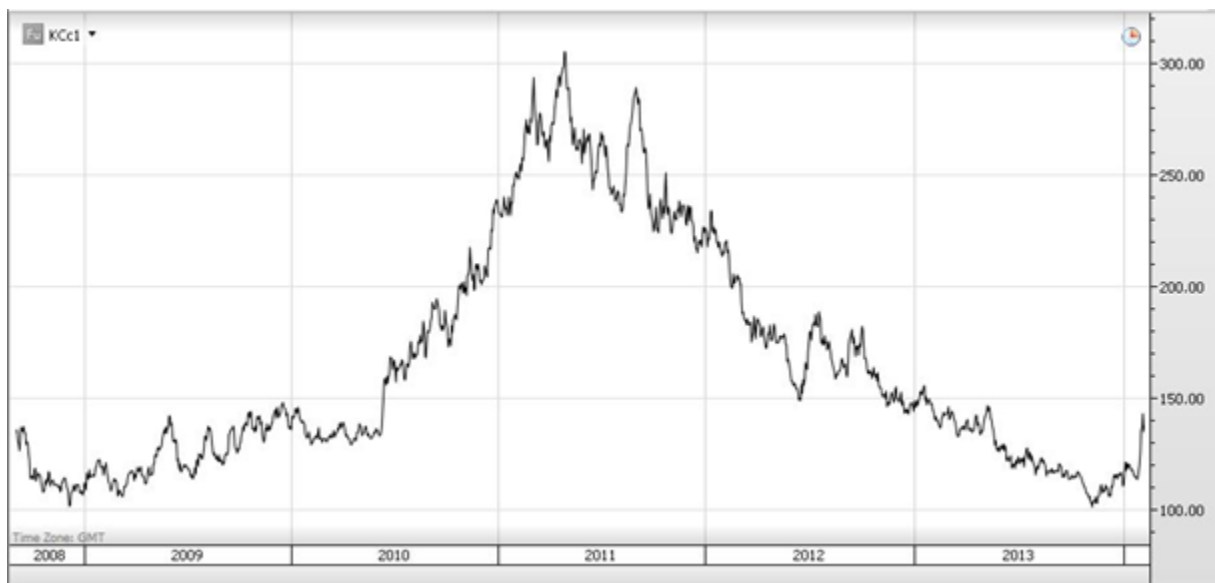
A cold snap in the US is affecting crops and boosting the CBOT wheat price. Photo: Wirepec \ Thinkstock

Both Arabica coffee and sugar received a strong boost from the very dry weather conditions currently sweeping through the southern regions of Brazil. Sugar reached 16.38 cents/lb before retracing on profit taking after posting the longest rally in four months on the back of worries that crop yields in Brazil could be reduced as a result of the current heatwave. Bloomberg has reported that Brazil had the hottest January ever and the least rain in 20 years. Hedge funds have been a significant driver behind the rally after changing their position from a net long of 200,000 contracts in October to a net short of 58,657 on January 28.

Arabica Coffee did receive most of the attention within the soft sector as it rose by more than 10 percent thereby continuing to build on the change in sentiment witnessed since the news about crop damage caused by the adverse weather in Brazil began to emerge. After reaching a nine-month high, the price retraced on news that rain could reach the region later this February, but the realisation that more than one month of drought will have caused some damage lend support into the weekend. After reaching a seven-year low at 100 cents per pound last November the price had

slowly began to recover only to accelerate over the past week and the price could now be targeting the 150 cents per pound level.

Arabica Coffee, first futures month cont.



Source: Saxo Bank

Brent crude has spent most of the past five weeks within a two dollar range while WTI crude oil has moved higher buoyed by strong domestic demand related to the coldest winter in many years and the recently improved pipeline infrastructure within the US which has begun to reduce stockpiles at Cushing, Oklahoma, the delivery hub for WTI crude traded on NYMEX. As a result much of the activity has been related to the arbitrage between the two benchmarks and as a result of the better WTI crude performance, the spread has stayed below USD 10/barrel for the past week.

Recently we have seen weaker-than-expected PMI data from China and this combined with the recent turmoil in many of the emerging economies could see demand growth being negatively impacted over the coming months. This would further help to limit the upside potentials for both crude oils over the coming weeks and months considering an expected strong rise in non-OPEC production in 2014. Domestic US demand will also be negatively impacted by the refinery-turnaround season during which time refinery demand normally reached the lowest level of the year.

Gold continued to grind higher with traders still looking for a driver or an event that eventually could take the price out of the established range between 1,231-1,280 USD/oz. Traders have been presented with several good excuses to take the market higher over the past few weeks as emerging market turmoil, weakness in DM stocks, lower bond yields and a somewhat weaker dollar all supposedly should be supportive for gold but have not proved to be so. Recent data covering the speculative positioning by hedge funds still points towards short covering as one of the main driver behind the current strength, but until a sustained break emerges, many traders will still be viewing higher prices as good entry levels for selling the market. A close above USD 1,272 could prompt a change in sentiment and help drive the price higher towards the next key area of resistance at USD 1,308 while a similar move back below USD 1,230 will put the focus back on the downside.



Source: Saxo Bank