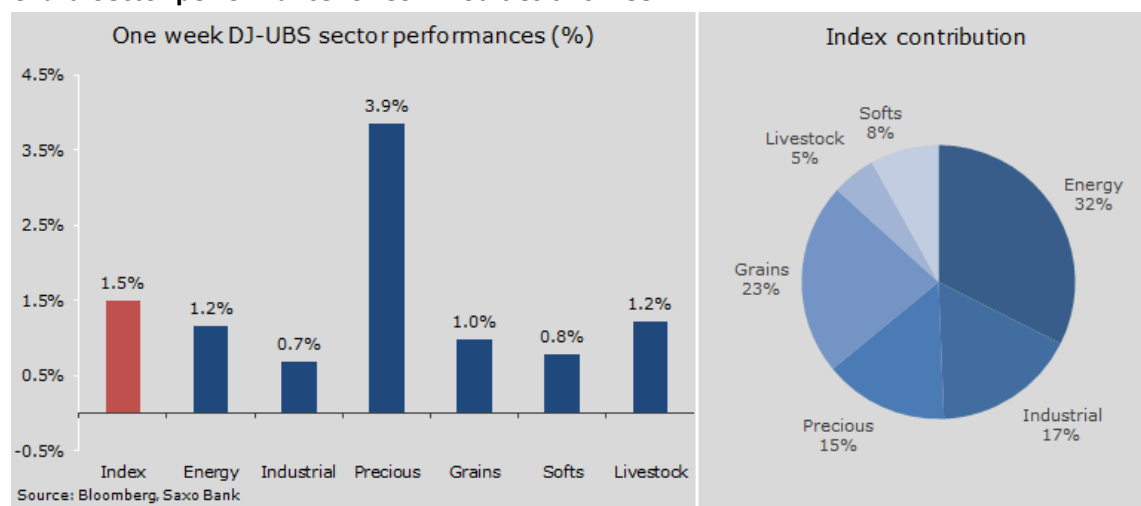


Precious metals lead broad commodity strength this week

By John J. Hardy, Saxo Bank

On a broad basis, commodities were strong this week, particularly in the precious metals sector, where gold and silver made very pronounced gains and challenged key technical levels. Contributing to the broad commodity strength, which saw all sectors higher on the week, was a weak US dollar that traded lower in the wake of the Fed's Yellen's first major appearance in semi-annual testimony before Congress. A big retail sales miss also weighed on USD sentiment and boosted risky and precious assets on the possible implications for Fed policy. Meanwhile, menacing winter weather saw spot natural gas ripping higher on the week.

Chart: Sector performance for Commodities this week

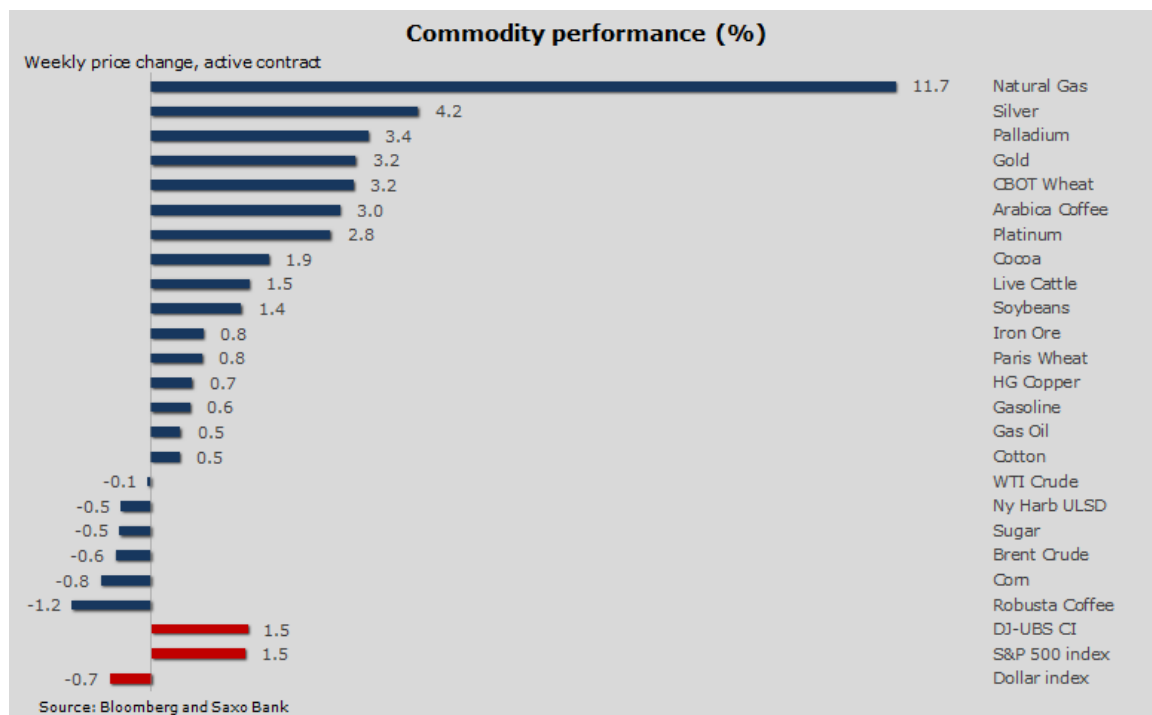


In the individual breakdown below, we can see NY natural gas taking the top spot on another round of extreme weather conditions in the most populated areas of the US while inventory levels remain perilously low. Otherwise, as shown in the sector breakdown, the precious metals took the next three spots.

Gold blasted higher this week, rallying well above 1300 dollars/ounce by Friday morning, and thus moving just above its 200-day moving average (currently around 1303) for the first time in almost exactly a year. Weak US data has contributed to the market beginning to place bets that the Fed may have to abandon the taper at some point, encouraging rising asset prices and hurting the US dollar. Surging physical demand in China has been there all along as a backdrop as well.

Significantly, silver finally abandoned the flat and incredibly persistent 19-20.50 range by Friday morning as it poked its head just short of 21 dollars/ounce by Friday morning, and thus the highest level since mid-November. It is just short of its 200-day moving average near 21 dollars/ounce and a further technical level lies at 21.50. This is a key break until proven otherwise.

Chart: Individual breakdown of commodity developments this week



Energy markets in the US remain squarely in focus on yet another wave of extreme winter weather blasting the northeastern and eastern portion of the country, which is the most heavily populated. The front March Natural Gas contract pushed back above the 5.00 dollar level in very volatile trading. Meanwhile, daily closes in the back months have remained capped by the technically significant 4.65 area, which is a 100% extension of the previous rally from the November lows. The March to April roll is a seasonally critical one as the timing of the US winter's end is at stake. These two months could continue to swing wildly as they have recently as weather forecasters hold the market in their thrall. Inventories are at their lowest level for this time of the year in 10 years for key areas of the country and with yet another large draw last week of -237 BCF before another round of cold extremes hit this week. Traders will need to tread carefully as the risk of a combination of low inventories and an unusually long winter could stretch prices and spreads in wild swings. The timing of the switch to building inventories from drawing on them will be critical.

WTI Crude was about flat for the week but is still trading at very high levels just under 100 dollars a barrel and thus close to the highs of the range since October as cold weather remains a focus rather than risks to demand from spotty and inconsistent US data. The irony here could be that weather is both boosting energy prices and weakening the economic data, which would normally act as a headwind on prices. Products were generally higher on further draws on inventories. The WTI/Brent spread shrank to its lowest level by later in the week, at just below 8.50 dollars/bbl., since last October on the North American weather focus. US Crude stocks have come off their lows and remain at the upper end of their

five-year range, though distillates and propane are extremely low on exceptional demand driven by cold weather.

The front CBOT wheat contracts rallied strongly on fears that the coldest US winter in recent memory may be inflicting further damage on winter wheat crops. 2013 ended with short speculative positions in CBOT wheat near historic extremes – so there is room for a further squeeze in wheat depending on weather developments and from the positioning risk. The bigger mover here from the weather has been KC Hard Winter Wheat, where the March contract is trading at a 77 cent premium to CBOT wheat, a rather elevated level historically, though the winter and spring of 2011 saw this spread move to well over a dollar, and the weather related damage to the winter crop could see this spread continuing to widen.

Arabica coffee has consolidated in a rather tight range this week after last week's moonshot that was driven by fears that unseasonably warm dry weather in Brazil may have inflicted some damage to the crop there as well as the whiplash in speculative positioning. Technically, the chart showed an orderly consolidation this week which one might argue is a flag formation that could lead to another push higher in the week or two ahead if the front months can find buyers above 145 cents/lb.

Source: Saxo Bank