# Commodities advance for third week on the back of adverse weather

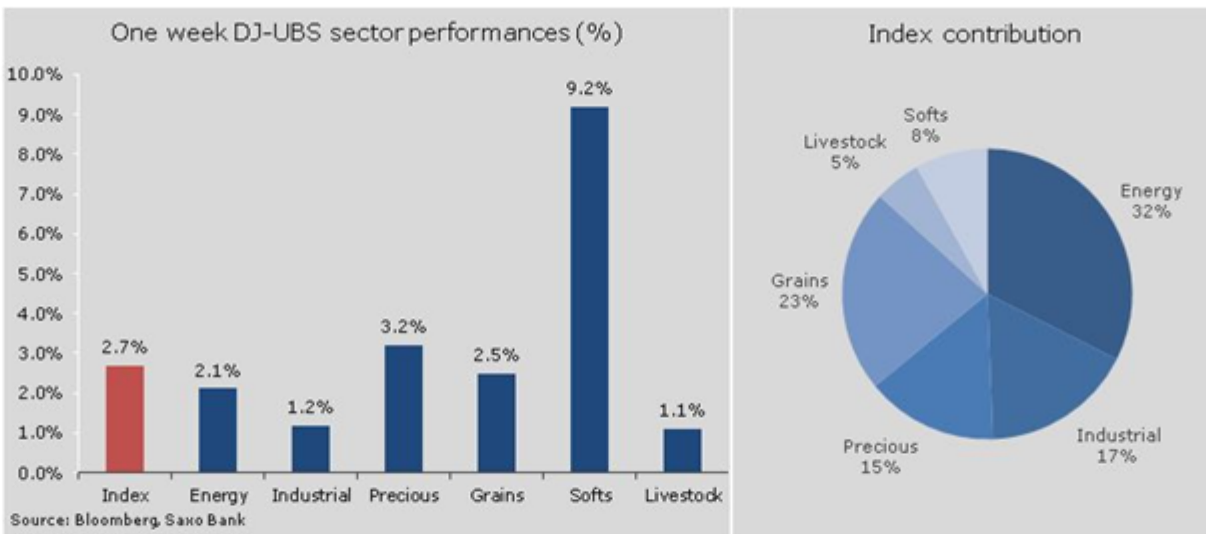
**Head of Commodity Strategy / Saxo Bank**
**Denmark**

RECOMMEND COMMENT

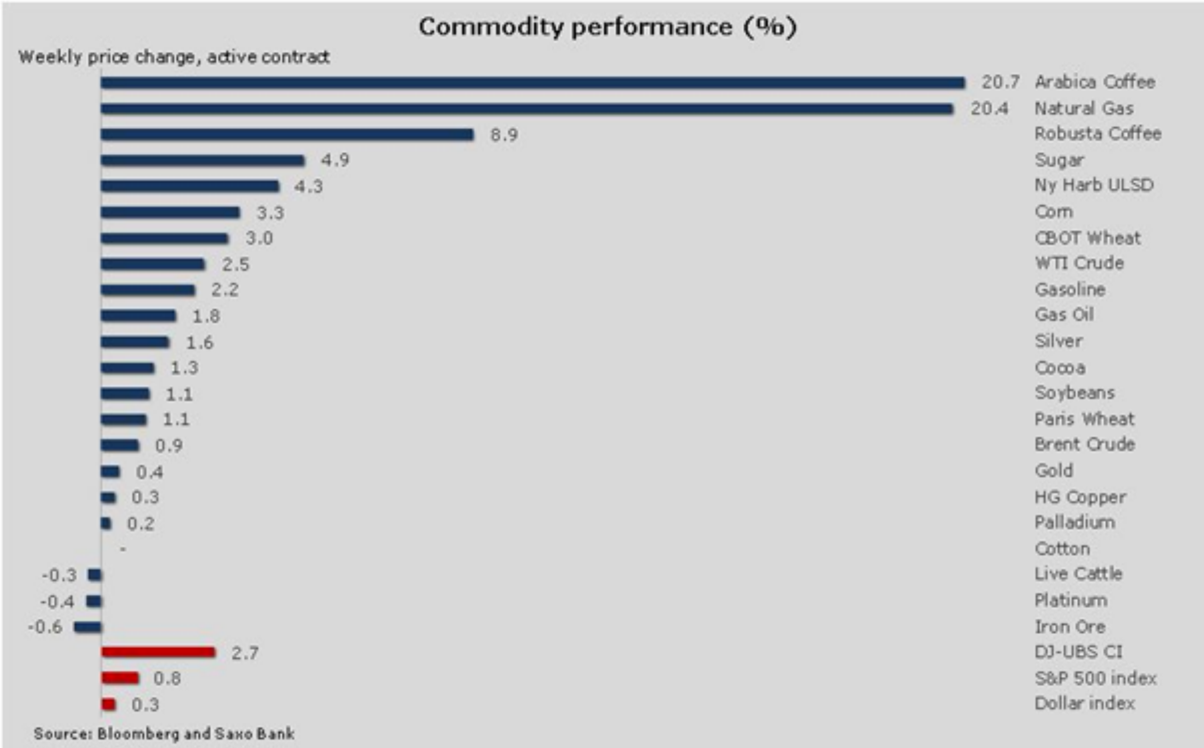
**• Commodities advance led by agriculture, precious metals**
**• Coffee hits 16-month high after 50% rally in 2014**
**• Gold, silver consolidating recent gains**

By Ole Hansen

Commodities showing strong gains for a third week with positive performances seen across all sectors, not least agriculture where coffee and sugar were strong performers followed by precious metals. Growth-dependent commodities such as energy and industrial metals also showed a positive return but were held back by another decline to a seven-month low in Chinese manufacturing confidence.




Adverse weather across the Americas continues to be one of the main contributors to the current gains with extended and very cold winter in the US supporting natural gas, heating oil and, as a consequence also, WTI crude. The cold weather across the US Midwest has also raised concerns about reduced production of wheat due to winter kill. Turning the attention to Brazil, the extraordinary rally in Arabica coffee continued for a second week and the hottest January ever. The least rain for the period in 20 years has led to the lowering of production forecasts for coffee, sugar and soybeans.




Coffee reached a 16-month high after rallying more than 50 percent this year. The ICE exchange where Arabica coffee futures are traded responded by raising the margin on holding coffee futures by 65 percent in order to encourage speculative traders to liquidate positions or take profit. The current combination of technical and fundamental support has made it easy for speculative traders to drive the price higher but even if we should see a sizable drop in production, the market is still not tight thanks to the very good crops we have seen in recent years.

We should not forget that coffee until November had been in a downward spiral lasting more than two years. The price during this time the price lost more than two-thirds in value primarily on the back of increased production. The first technical target on this move is 180.4 cents/pound which represents a 38.2 percent retracement of the sell-off from 2011 to last November.

**Arabica Coffee first month cont.**

Source: Saxo Bank

Gold and silver spent the week consolidating their recent strong gains. Momentum and technical traders have returned to the buy side and are waiting for the driver to carry the metals higher. A failure to find such a driver leaves both metals exposed to some long liquidation should the 200-day moving averages at 1,302 and 21.02 respectively give way.The news during the week has been mixed with the impact from the US Federal Open Market Committee supporting continued tapering offset by weaker economic data. Consumer demand which has been the key driver at the beginning of the year has begun to slow in respond to higher prices. Recent data points towards a softening in demand from China and Japan with the premium paid for taking delivery on the Shanghai Gold Exchange dropping to 2 USD/oz after some days rising above 15 USD/oz during the early parts of January.

Holdings in Exchange Traded Products have failed to pick up despite the much improved sentiment lately and this does not bode to well for a sustained move higher at this stage. Until we see that change, gold will struggle to find enough support to move decisively higher leaving the most likely outcome for 2014 to be a year of range-bound consolidation following the dramatic sell-off last year. Technical levels to look out for are support at 1,302 USD/oz the 200-daily moving average remains the first line of defence. Resistance is at 1,337.8 USD/oz, the 61.8 percent retracement of the August to December sell-off.

**Spot gold**

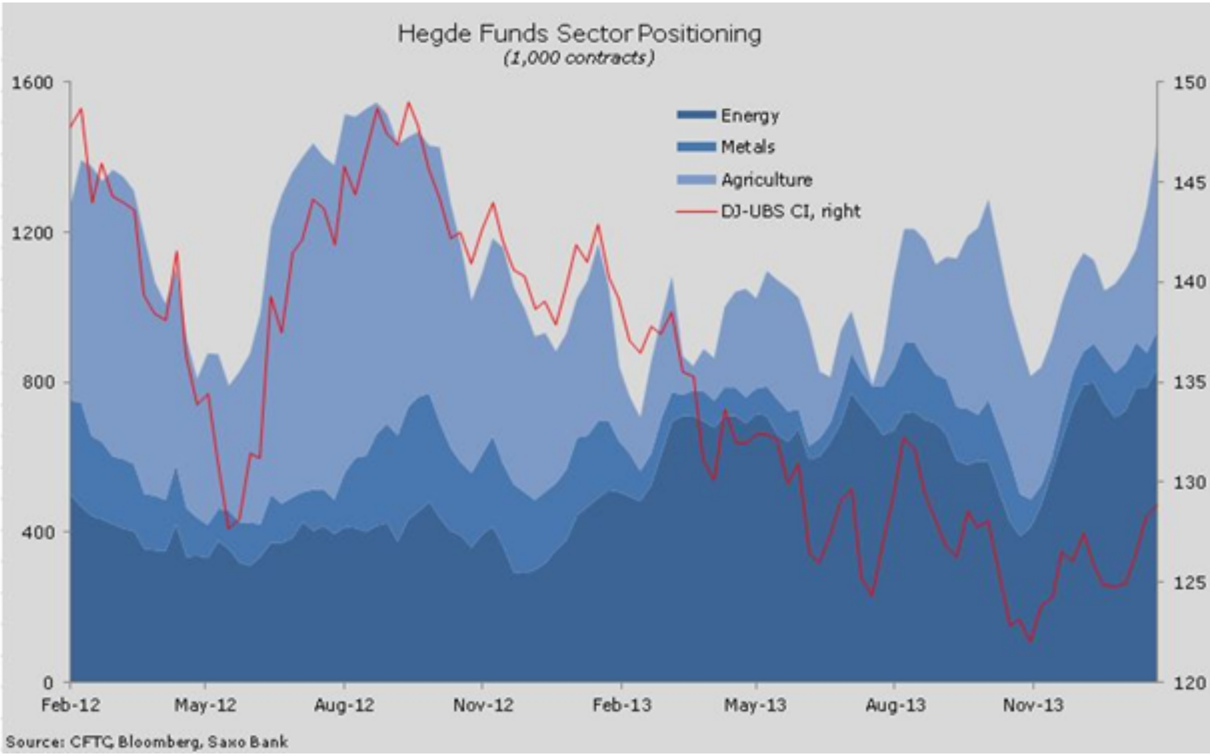

Source: Saxo Bank

WTI crude broke above 100 USD/barrel for the first time this year as it headed for a sixth weekly gain and in the process narrowed the discount to Brent crude to USD 7/barrel. Colder-than-usual US weather continues to support strong refinery production due to increased demand for heating oil and the ongoing removal of the supply glut at Cushing, Oklahoma due to improved pipeline infrastructure has given WTI and edge over Brent.

The North Sea variety and current global benchmark is caught between the potential negative impact of a slowing China on one side and what continues to look like chronic supply disruptions in Libya, Nigeria and South Sudan. The escalating violence and tension in Venezuela is currently just below the radar and could become an additional supporting factor if it begins to impact the country's ability to export its crude oil.

The refinery maintenance season which normally reduces demand for US crude this time of year has yet to emerge due to the continued demand for distillate products but as we move towards March, things should begin to normalise and potentially cap further advances unless the geo-political situation continue to deteriorate.

Hedge funds were behind the curve at the beginning of the year and since then, they have been an important driver of the current rally. In just six weeks, the speculative net-long position across 24 major commodities has jumped by 28 percent. During this time, the grain sector exposure has gone from a net-short of 11,000 contracts to a net-long of 202,000 contracts, softs from 86,000 to 113,000, and energy from 798,000 to 840,000. The metal sector has seen a reduction from 106,000 to 98,000 contracts but this been caused by 51,400 contracts net-selling of copper while precious metals has risen strongly.




*Ole Hansen, Saxo Bank's head of Commodity Strategy, is a specialist in traded futures with a particular focus on commodities. Read more of his commentary here on our social trading site.*