

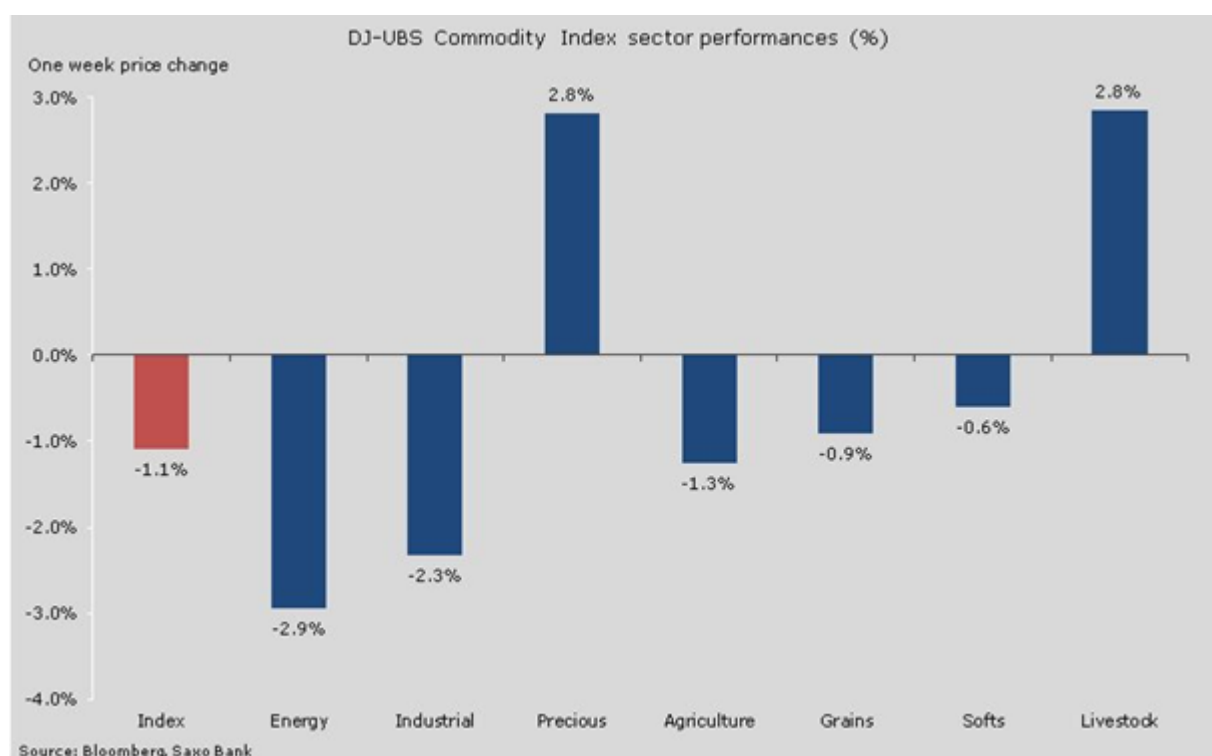


THE SPECIALIST IN TRADING AND INVESTMENT

Hellerup, 14 March, 2013

Gold rises on Ukraine but copper and oil fall on China concerns

Commodities suffered its first reversal in six weeks as concerns over Chinese economic growth and rising US stockpiles of crude oil soured sentiment across these key sectors. The crisis in Ukraine supported precious metals while creating demand for safe-haven currencies like the Swiss franc and the yen. This emerging-risk adversity has removed the attention from better-than-expected US economic data and resulted in rising bonds at the expense of stocks.



The agriculture sector recorded its first weekly loss in seven as profit-taking hit commodities such as soybeans, corn and sugar. Soybeans ran into some long liquidation from traders and hedge funds after China, the world's largest global buyer from key exporting nations such as the US and Brazil cancelled some shipments due to low domestic demand. Wheat on the other hand ended up as a top performer together with coffee on continued, but until now unfounded worries, that Ukraine and Crimean production could suffer this coming season due to the current crises.

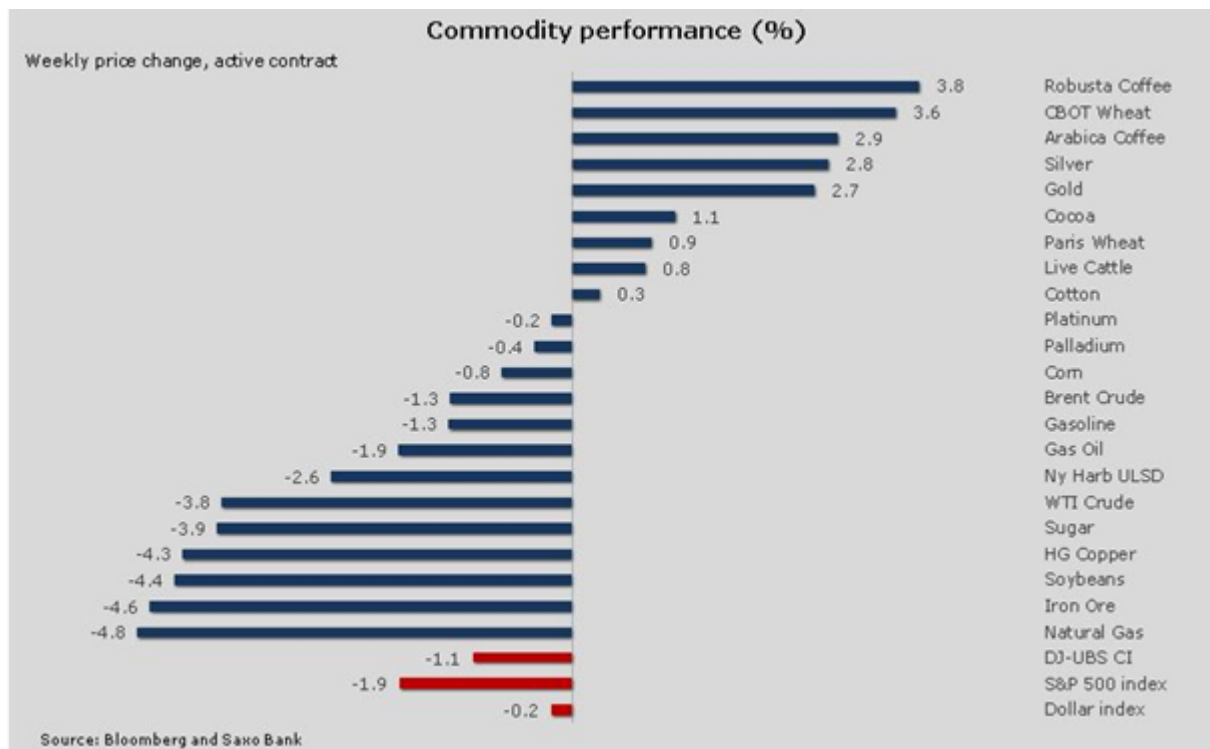
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WWW.SAXOBANK.COM SAXO BANK A/S Philip Heymans Allé 15 2900 Hellerup Denmark

Telephone: +45 3977 4000 Telefax: +45 3977 4200 Reuters Dealing Code: SAXO Cvr. nr. 15 73 12 49 info@saxobank.com



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Copper hits 44-month low on China outlook

Industrial metals, apart from nickel which reached a one-year high, have seen some of the biggest losses over the past week as worries about China's ability to maintain its role as a driver for increased demand has been put into question. Trade data for February, which showed a sharp drop in imports of key commodities such as copper, iron ore and crude, has led to a rout in the market for industrial metals with the London Metal Exchange metal index down by 6 percent during the week. Copper has been on the slide for the past four weeks but the sell-off this week has been particularly aggressive with the metal reaching a 44-month low while on track for its biggest weekly loss since last April.

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Source: Saxo Bank

Copper inventories at warehouses in China are currently at levels not witnessed since the historical highs in late 2012. An undisclosed but significant share of Chinese copper has been used as collateral to borrow dollars at a low rate. The proceeds were then converted into high-yielding renminbi, lent in the shadow banking sector or simply used as collateral to obtain finance. The recent surprise weakening of the renminbi and a bond default has raised concerns about potential losses on these trades and this is the driver behind the current weakness as traders ultimately worry that an unwinding of some of these deals could unleash unwanted copper into an already oversupplied market.

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China may have earned a reputation as the globe's workshop, but poor demand for copper recently has seen the industrial metal hit a 44-month low. Photo: jacus \ Thinkstock

Crude oil gets a knock from rising US inventories, reduced China imports

The near-term outlook for WTI crude oil has continued to deteriorate since the Ukraine spike on March 3. A slump in Chinese crude oil imports in February combined with rising inventory levels has left a record net-long hedge fund position exposed to a correction. The technical break back below the 200-day moving average on the front-month futures contract at USD 100/barrel, triggered some additional weakness which could now lead to the creation of a new sub 100-dollar range with support at USD 96.50/barrel. The weekly US inventory report showed a seventh consecutive weekly rise in crude oil inventories, this time by 6.2 million barrels which was considerably more than the market had been expecting. The rise was driven by reduced demand from refineries as they exit winter production and begin maintenance and the turnaround towards gasoline production.

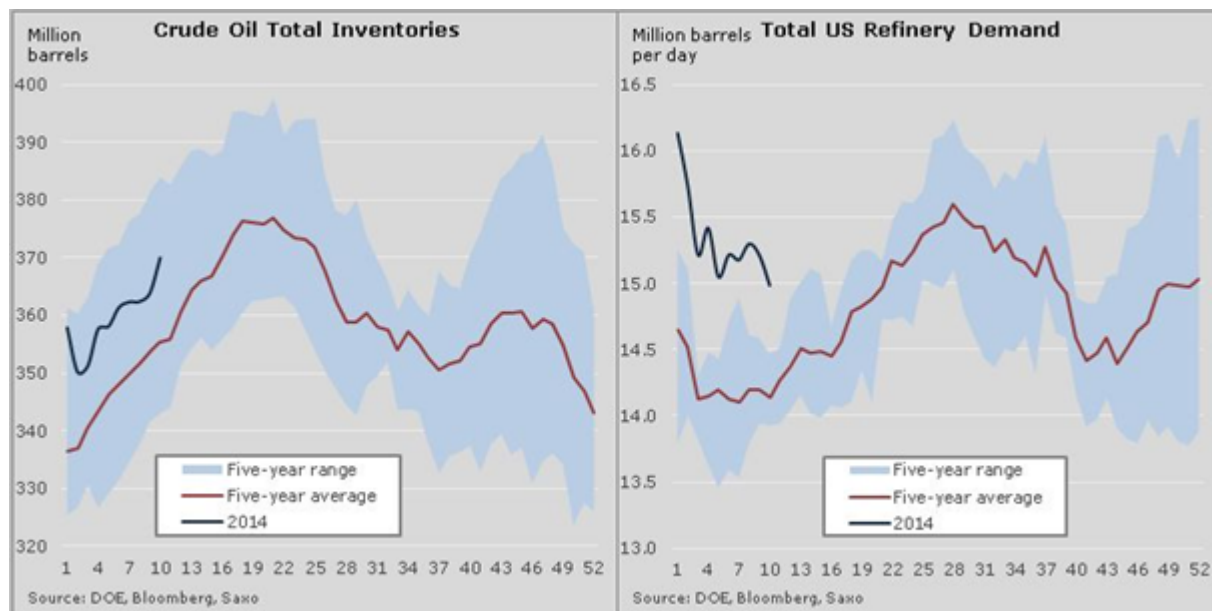
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Adding downside pressure was surprise news from the US energy department that it was planning to release a modest five million barrels of crude oil during April from its strategic reserves in order to test the distribution system. The timing of the announcement raised a few eyebrows considering the current breakdown in relations between Russia, which needs a high oil price, and the US over Crimea and Ukraine. While supply disruptions continue to keep oil from the market, production elsewhere has jumped. Most noticeably in Iraq, which, according to the International Energy Agency, saw its February production rise to the highest level in 30 years. Easing sanctions against Iran, meanwhile, saw its production rise to a one-year high. These developments together with a continued rise in US and Canadian production should ensure a well-supplied global market over the coming months but for now, disruptions elsewhere and geopolitical concerns keep the price relatively well supported.

Positive momentum carries gold to the next level

While other commodities have been showing signs of running out of positive momentum, gold continues to steam ahead. The yellow metal is being carried forward by traders looking for an alternative investments during this period of raised uncertainty, not least due to the ongoing and potentially escalating crisis in Ukraine and Crimea. The combination of a weaker dollar and falling stocks and lower bond yields all played into the hands of those maintaining a bullish stance. Once resistance at 1,355 USD/oz was taken out, gold moved swiftly on towards the next area of resistance at 1,383 USD/oz, subsequently breaching that mark at approximately 1300 GMT Friday. Those who have already bought gold are not finding any reasons to depart with their profitable positions at this stage unless we have a change in sentiment resulting in a move back below 1,355 USD/oz. For now the uptrend remains intact and beyond 1,383 USD/oz, the next physiological milestone at 1,400 USD/oz is waiting.

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Investors in exchange traded products backed by physical gold have increased their holdings for a third week in a row while tactical investors in futures, such as hedge funds, on March 4 were holding bullish bets of almost 12 million ounces, the highest since December 2012. Silver managed to keep up with the gains in gold despite the headwind being created by the worries that a Russian/US sanction battle could trip up the global economy and hurt demand for industrial metals including silver.

Head of Commodity Strategy at Saxo Bank **Ole Sloth Hansen**

Email: olh@saxobank.com

Phone: +45 3977 4810

Ole Sloth Hansen is a specialist in all traded Futures, with over 20 years experience both on the buy and sell side. Hansen joined Saxo Bank in 2008 and is today Head of Commodity Strategy focusing on a diversified range of products from fixed income to commodities. He previously worked for 15 years in London, most recently for a multi-asset Futures and Forex Hedge fund, where he was in charge of the trade execution team. He is available for comments on most commodities, especially energies and precious metals.

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