



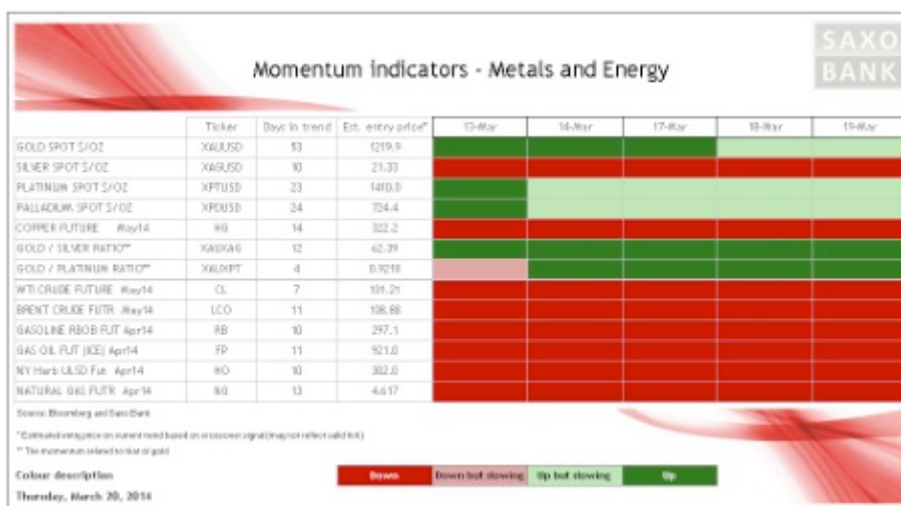
THE SPECIALIST IN TRADING AND INVESTMENT

Hellerup, 20 March, 2014

Gold drops to three-week lows after Fed statement

The double dose of reduced focus on Ukraine after last weekend's referendum in Crimea and yesterday's relatively hawkish Federal Open Market Committee (FOMC) statement has put gold back on the defensive. So much so that the positive trend we have witnessed since the early days of January could now make way for a period of consolidation. The energy sector is all red on our short-term momentum monitor as the memory of strong winter demand continues to fade.

Gold, which stopped just shy of USD 1400 on Monday following the Crimean referendum, is seeing the longest losing streak since last November. Safe haven bids dried up as the feared escalation failed to materialise, and yesterday the US Federal Reserve chairman Janet Yellen delivered a statement after the FOMC meeting that turned out to be more hawkish than the market had been expecting.



At the moment of writing, this gold has returned to 1322 USD/oz, which represents trendline support from the December 31 low. Given the current pressure to reduce exposure there is an increased risk that a retest of the 200-day moving average, currently at 1298 USD/oz, could be tested as well. The increased net-long positioning by hedge funds during the past three weeks has primarily been driven by [short covering](#) with no new buying having been seen since the week commencing February 24. The strong physical demand from China that kicked off the rally in January has been subdued since the price broke above 1300 USD/oz. with domestic XAU9999 on the Shanghai Gold Exchange trading at a discount to XAU.

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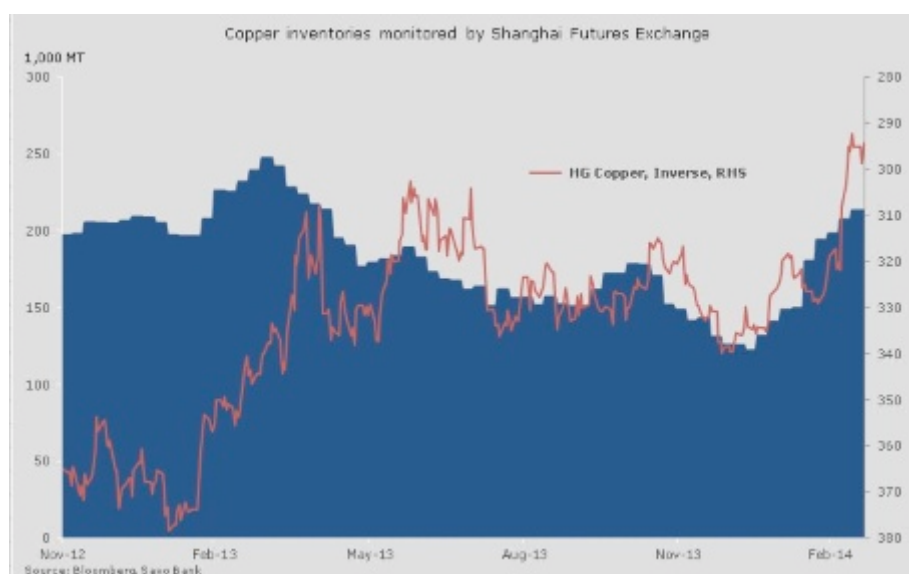


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However, the current strained relations between Russia and the West and the uncertainty surrounding them may provide gold with enough support to avoid a drop back below 1300 USD/oz. Another potential positive driver could be the signs of renewed weakness in stocks. However, against this, rising bond yields and a stronger dollar could provide some additional headwind.

Copper continues to consolidate after the dramatic sell-off that recently saw the price of both High Grade and LME copper fall to their lowest levels since 2010. HG Copper (HGK4) is currently stuck in a relative tight range between 2.9 and 3.0 USD/lb. The market worry is about what is going to happen to the rising stockpiles monitored by the Shanghai Futures Exchange, as they have risen by 70 percent since December (Bloomberg) despite the weakest start for China's industrial output since 2009.



Source: Bloomberg, Saxo Bank

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With China accounting for nearly 50 percent of the global demand for copper the developments there are being watched closely. The risk of a continual slowdown does not bode well as it is happening at a time during which global production has begun to rise. Out of 24 US traded commodities, copper is the only one where hedge funds currently hold a net short position. This may eventually add some support should the price manage to climb back above resistance at 3 USD/lb

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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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