



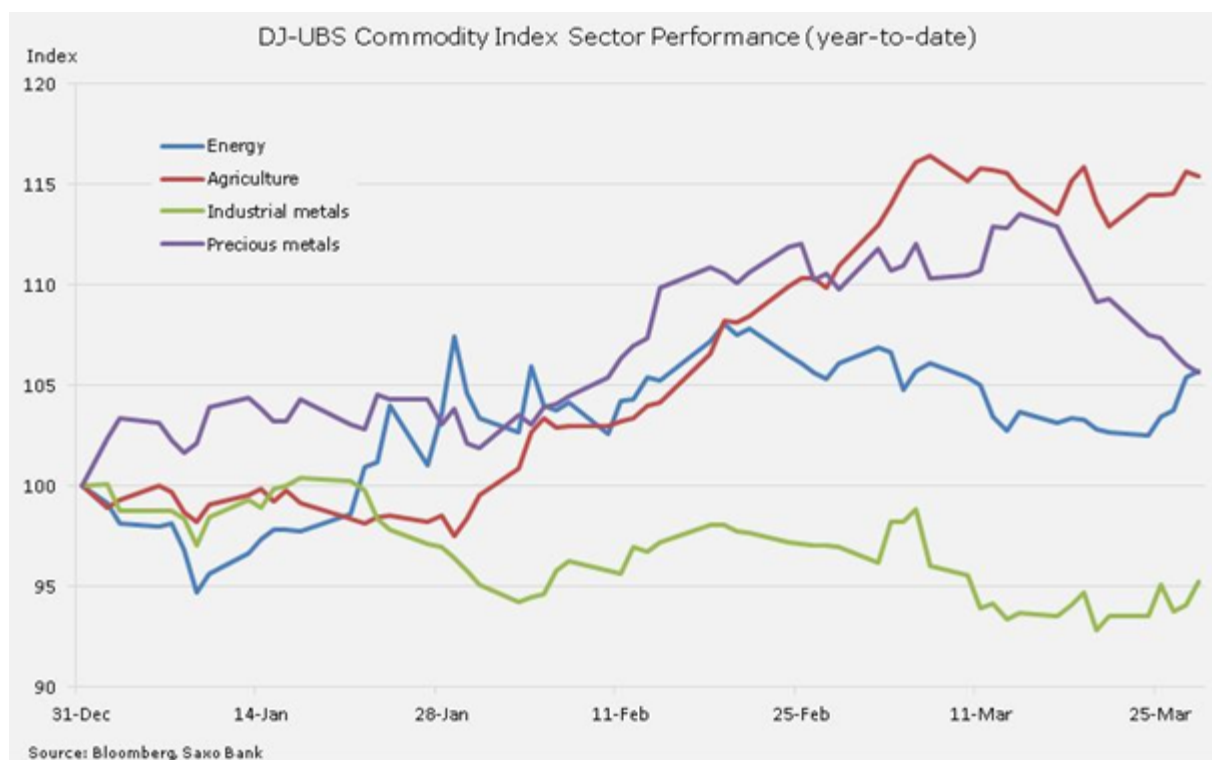
THE SPECIALIST IN TRADING AND INVESTMENT

Hellerup, 28 March, 2014

Commodities stage fightback from the mid-month wobbles

Following a mid-month wobble, commodities approached the end of the quarter on a strong note with individual positive performances coming from all sectors apart from precious metals which continued to adjust to easing safe-haven demand and the recent hawkish signal from the US central bank. Attention next week will continue to focus on developments between Russia and the West together with the monthly release of US payroll data on Friday.

The energy sector was supported by the continued drop in inventories at the US storage hub in Cushing, Oklahoma together the ongoing supply disruptions in Libya and Nigeria to mention a couple. Geopolitical uncertainty arising from the crisis in Ukraine leaves little appetite for selling at this stage. Industrial metals received a boost from Chinese-stimulus hopes with copper making a tentative recover from a 3.5-year low also on signs that demand may slowly begin to improve.



Agriculture commodities recovered strongly, not least soft commodities where talk about the potential impact of a new El Niño weather event later this year supported sugar and coffee. Crop markets are gearing up for two very important government reports on Monday which historically have created a great deal of volatility.

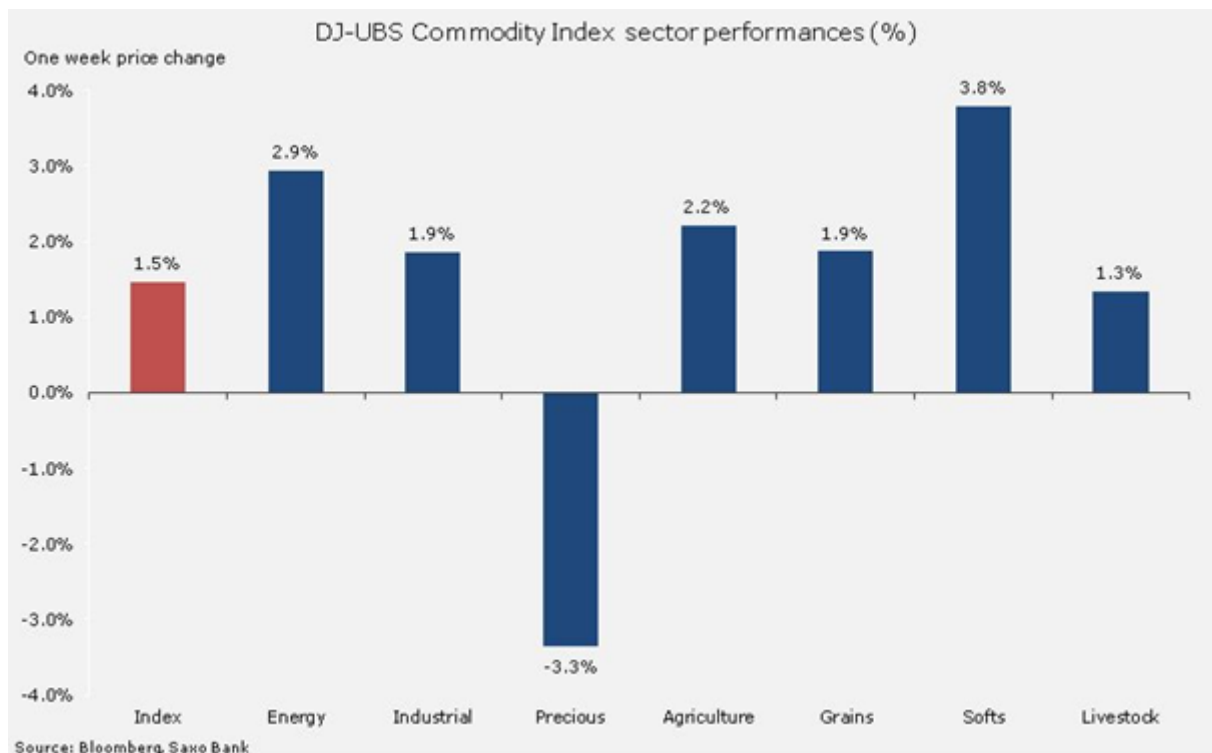
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Precious metals accounted for most of the negative performance over the past week and what was initially driven by gold weakness on reduced safe-haven demand and a hawkish US central bank later spread to palladium which after failing to penetrate USD 800/oz. ran into long liquidation from funds who had been betting on reduced supplies from Russia, due to sanctions, and South Africa, due to strikes. Both these factors remain supportive for palladium considering the importance of these two producers but limited liquidity in this metal can often become its biggest adversary, especially during corrections.

Natural gas recovered as total inventories in underground storage facilities slumped to the lowest since 2003 below 900 billion cubic feet. Inventory levels have slumped following record heating demand this winter and it has left current inventories some 50 percent below the five-year average. Natural gas is normally stockpiled from April to October and then withdrawn from November to March to help meet peak winter heating demand.

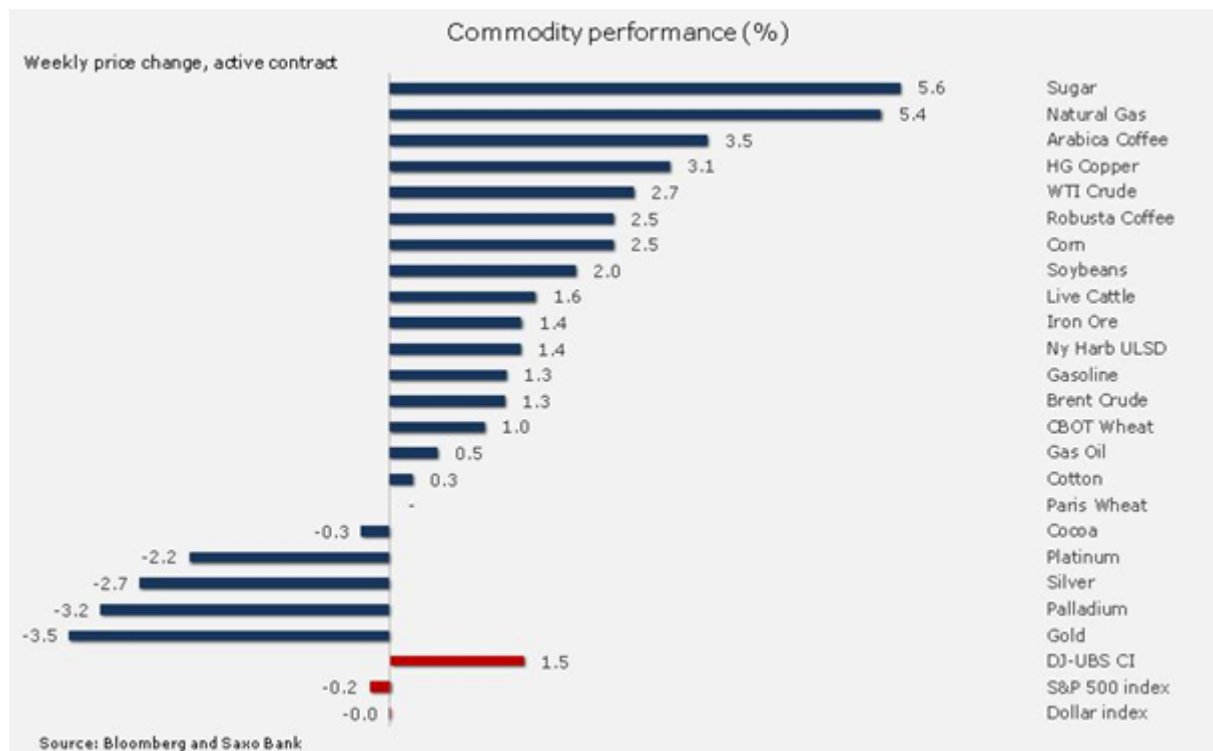
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Sugar supported by El Niño

Sugar recovered strongly from a mid month sell-off which was driven by long liquidation after rain returned to the drought-stricken production regions of Brazil. The turnaround this week was driven by renewed concerns that the weather phenomenon El Niño may return later this year and create difficult growing conditions among several major producing nations across the southern hemisphere. Reports of increased Indian demand and drier-than-normal conditions in Thailand also lend support to the price. The El Niño creates abnormal warming of the Pacific Ocean that causes droughts in some areas and flooding in others and it could return at a time where global agriculture prices have already rallied strongly this year because of existing droughts in large commodity growing regions from Brazil and California to Southeast Asia.

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Grain reports to set Q2 tone

Two key US government reports from the Department of Agriculture — covering estimates for prospective planting and quarterly stocks — will be released March 31 and, if recent history is anything to go by, some fireworks in soybeans, corn and wheat can be expected. The March quarterly grains stocks figures will indicate the current pace of demand for the 2013/14 season, while the Planting Intentions Report will offer the first surveyed look at which acreage US farmers will allocate to the different crops during the 2014/15 season.

In corn, the previous three reports have yielded daily price moves on the May futures contract well above 5 percent. Staying with corn, the current estimates from a Reuters survey are pointing towards a planted acreage range between 90 and 94 million acres while stocks range between 7 and 7.5 billion bushels. With expectations ranging so widely, we could once again see volatility spike higher. The downside probably poses the biggest risk considering the current elevated speculative net-long positions, especially in corn and soybeans. However, so far, we have not seen any major signs of long-liquidation, with hedge funds and money managers happily maintaining a bullish strategy, especially in corn and soybeans where the net-long is either at or near the highest in more than a year.

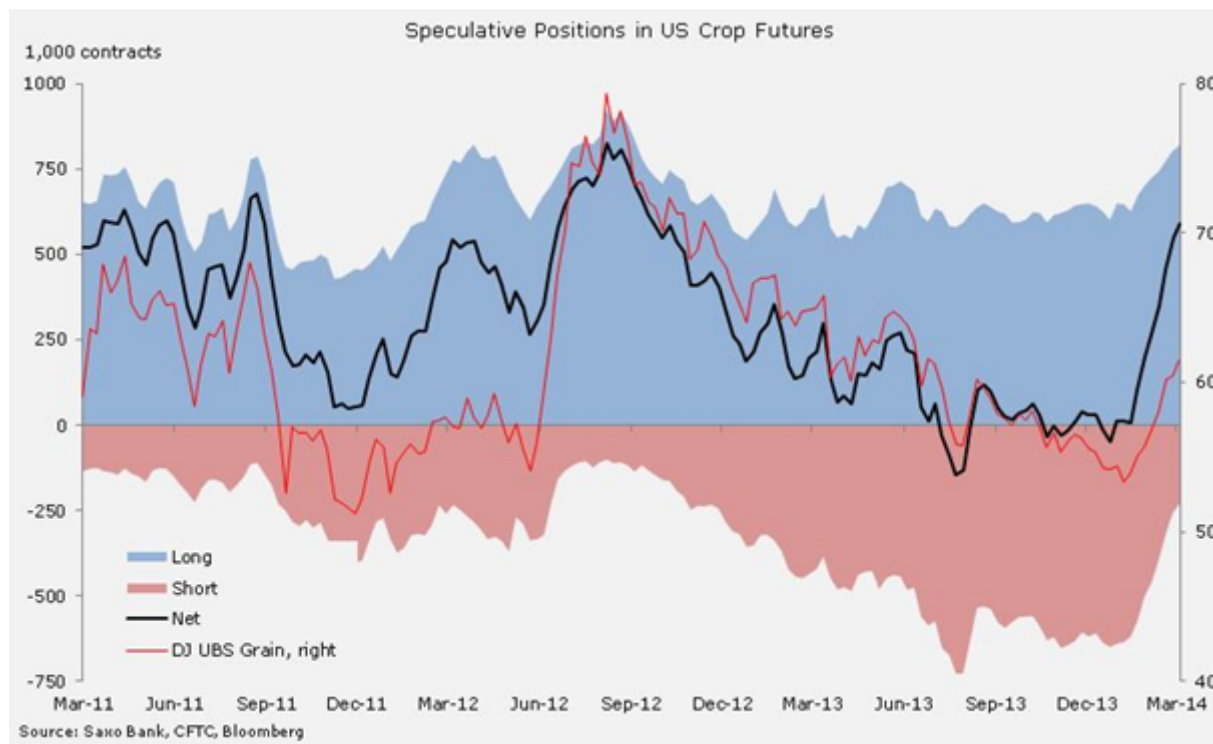
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Crude supported by Cushing, geopolitics

WTI crude oil made it through technical resistance at 100.30 and reached the highest level in more than two weeks. The main driver behind this positive performance can be found at the delivery hub for WTI crude oil futures in Cushing, Oklahoma. Improved pipeline infrastructure from the hub to the refineries along the Mexican Gulf has resulted in supplies falling to a two-year low thereby reducing the bottleneck which at several stages over the past couple of years, drove WTI crude to trade at a double-digit discount to Brent crude. As a result of this current focus on Cushing inventories, WTI crude performed stronger than Brent crude despite the North Sea variety and current global benchmark receiving support from supply disruptions and geopolitical uncertainty. The strong build up in inventories in the Mexican Gulf area which currently stands at a record of 200 million barrels and the planned April release of US oil from Strategic Petroleum Reserves (SPR) should however help limit the current upside potential in both crude oils.

Copper climbing on stimulus speculation - gold bulls rattled

Speculation that China may step in with another round of stimulus to boost economic growth may help stabilise the price of HG Copper which slumped to a 3.5-year low during March as news and economic data from the world's biggest consumer of industrial metals continued to deteriorate. Silver followed gold lower but benefited relatively against the yellow metal from this boost to copper with the XAUXAG ratio dropping to 65.4 after recovering from a seven-month high earlier in the week.

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Copper may finally be coming out of its descent to a 3.5-year low. Photo: Thinkstock

Gold's 100 dollar drop in less than two weeks has rattled the bullish sentiment that prevailed since the beginning of the year. Safe-haven demand and momentum buying above 1,300 USD/oz drove gold to an 18-month high on March 17 but the subsequent hawkish tone from the US Federal Reserve at its most recent Federal Open Market Committee meeting together with a lack of physical demand has left many speculative traders nursing losses and in need of reducing their exposure. Having dropped back below the technically important 200-day moving average, gold is back looking for support, something we believe will now be found in the area between 1,280 and 1,262.

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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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