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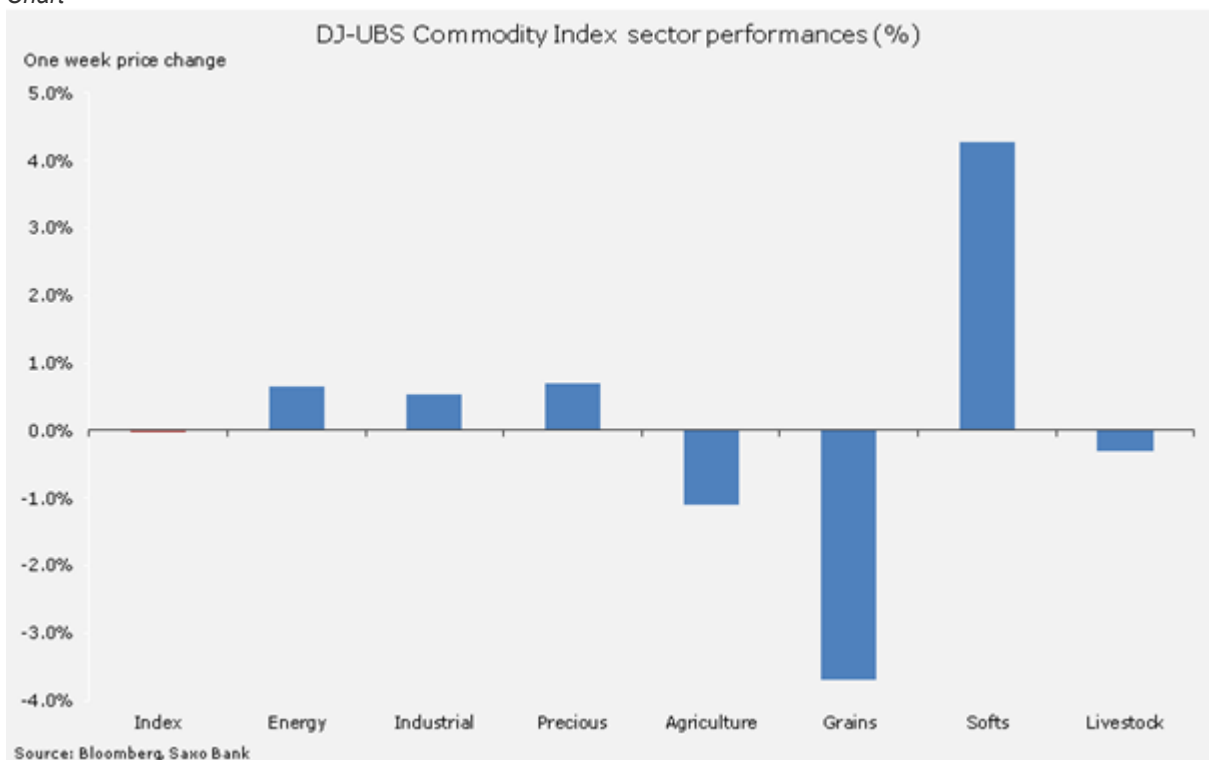
Hellerup, 16 May 2014

## Agriculture sees most action in quiet week for commodities

By Ole Hansen

Commodities were mixed over the past week and this resulted in an almost unchanged performance of the broad based DJ-UBS Commodity index. The dollar continued its slow recovery on the back of raised expectations that the European Central Bank would step in and lower official interest rates, as growth and inflation continue to slow within the Eurozone. Global growth, which ultimately remains the key driver for commodity demand, is showing signs of being less robust. That leaves the overall performance of key industrial and energy commodities in doubt while weather worries may continue to support the agriculture sector.

*Chart*



The energy sector was supported by worries over Ukraine and tight Cushing supplies. Industrial metals were mixed as recovering copper and aluminium prices were offset by tumbling Nickel prices after the recent strong rally ran out of steam. Precious metals were higher, led by platinum group metals as the 16-week miners' strike in South Africa shows no signs of ending. Gold remains range-bound around 1300 as investor interest and confidence remains low, leaving it to short-term traders to set the tone. The agriculture sector was all over the place, with the price of wheat and corn suffering from long liquidation after a recent government report removed some worries about tight supply. This, together with improved US planting weather, saw US farmers plant an area of corn the size of Denmark and Sri Lanka in just one week. Against this weakness, we saw a strong recovery in sugar and coffee as the outlook for Brazil and a potential El Niño return rekindled support.

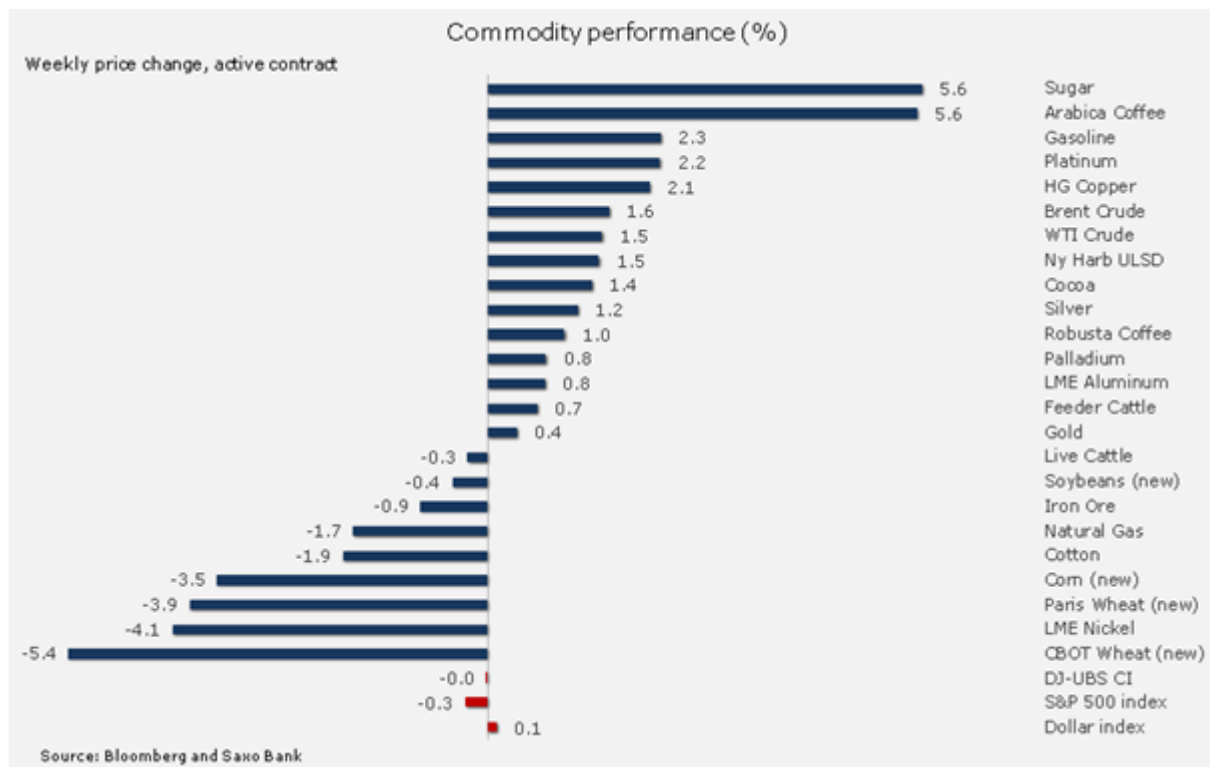
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The cost of Arabica coffee surged once again after the second correction this year after the dramatic rally in February ran out of steam. This confirms that coffee remains in an uptrend as it continues to find support from a lower Brazilian supply, after a severe drought in January hurt its prospects. The harvest is currently ongoing, and while we wait for news about the actual yield we expect the price to remain supported within its 180 to 220 cents-per-lb range. Sugar was the best performing commodity as current supply fundamentals and potential weather issues for the 2014/15 season kept the price supported.

At the bottom of the scale, we find CBOT wheat, which fell seven days in a row following a US government report that pointed towards ample global supplies. This, combined with the rise in the dollar, has left prices in Chicago at a disadvantage to cheaper alternatives from other global production regions. Therefore, the price had to adjust lower. Corn prices also fell as improved planting conditions triggered a massive response from US farmers. During the week of May 12, that area the size of Denmark and Sri Lanka was planted. From being 7 percent behind the planting pace of the past five years, it went 5 percent ahead in just one week. New crop wheat for December delivery has traded back down to 700 cents per bushel from a high of 765 earlier this month. Key support is located between 686 and 678. Corn, also for December delivery, has taken out the April lows as an elevated speculative net-long, more than double the size of the three average, which has been putting some pressure on the price.

Gold continues to find itself firmly stuck in a range as investor conviction remains low despite several items of supporting news recently, such as lower EU Q1 GDP and the potential for lower rates next month. The deteriorating growth outlook in Europe has seen safe German government bonds once again being favoured over the likes of Italy and Spain. In China, worries about the property sector and rising bad loans held by banks have so far failed to trigger any pick-up in physical demand while an election victory for the BJD in India may potentially help stabilise the economy. It could also lead to the removal of import restrictions in gold. All in all, many conflicting pieces of news are being presented to the gold traders and, as a result, we are seeing many sidelined at the moment. This leaves daily turnover much reduced as the appetite for chasing the price does not exist at this stage.

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Technically, the price is caught between two trend lines at 1309 and 1281 respectively, but to see a change in sentiment either way, a break either above 1315 or 1268 needs to be seen.



Crude oil markets remain torn between the focus on record US inventories and the (slow) return of exports from Libya on one side, and support from the ongoing crisis in Ukraine on the other. Both of these concerns have arisen alongside a forecast from the International Energy Agency about a pick-up in demand during the second half of 2014. This expected demand pick-up is in line with the other big oil market forecasters of OPEC and the Energy Information Administration, which is looking for a rise in demand following a period of refinery maintenance. Adding to the demand is the need for OECD to rebuild stocks while robust demand from China will be driven by the need to increase its strategic reserves.

What also created a great deal of attention was a comment from the US Energy Secretary Moniz that a lifting of its 41-year-old export ban of crude oil was "under consideration". If carried out, this could result in a significant reshaping of the global oil market and prices as it would be viewed as bullish for WTI crude oil relative to Brent. The reason that the consideration is being made has been caused by the incredible rise in US crude inventories as the shale oil revolution continues to gather pace. Storage tanks along the Mexican Gulf are filling up fast as the increased pipeline capacity from Cushing - the delivery hub for WTI crude futures in New York - has led to a major shift in oil inventories. The refineries along the Mexican Gulf are not that well-g geared towards coping with the light sweet variety that the US produces and are still dependent on the imports of heavier qualities. This is increasingly leaving millions of barrels of domestic produced crude with nowhere to go, hence the consideration to resume exports.

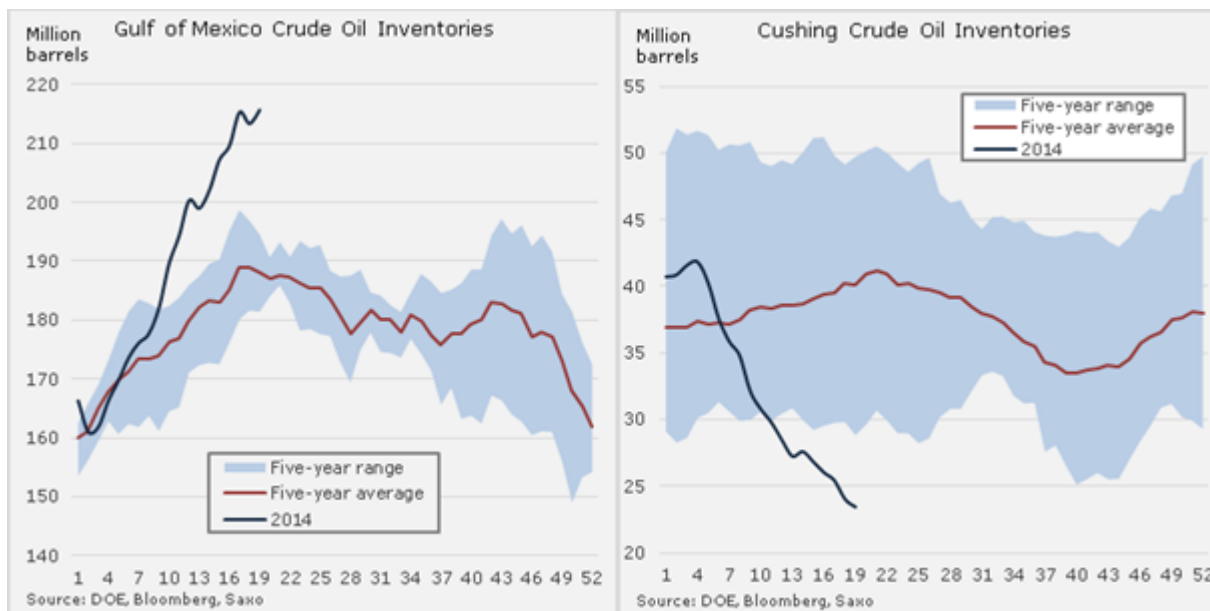
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Both crude oils remain range-bound and that situation look set to continue. While May has shown a negative return on Brent and WTI Crude for the past four years, the months of June and July are historically stronger months for oil prices as refineries maintain and increase fuel production. These expectations, together with a continued geopolitical risk, should keep the prices supported. However, as supplies remain ample, the upside continues to look limited.

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