



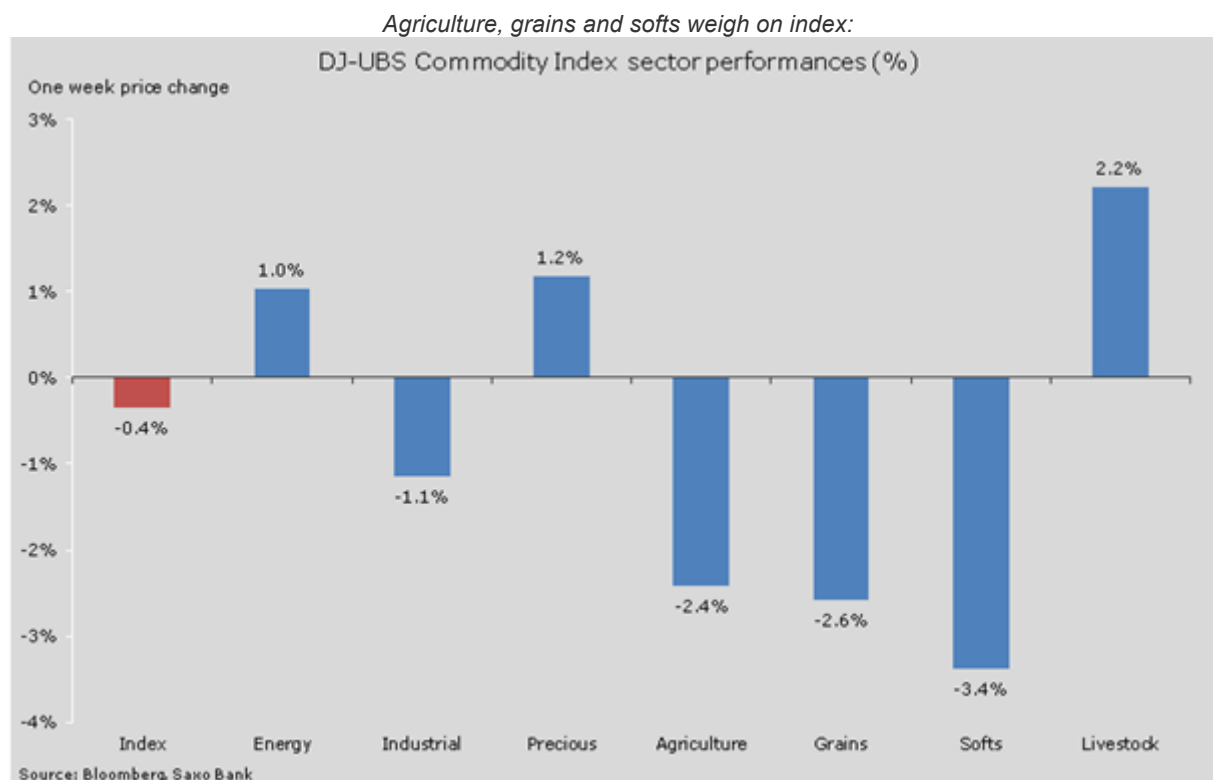
THE SPECIALIST IN TRADING AND INVESTMENT

Hellerup, 6 June 2014

Energy and precious metals on top as the ECB provides a boost

By Ole Hansen

While stock markets continued their ascent, not least helped by the latest bout of central bank stimulus and another strong US job report, commodity markets saw a very limited reaction. The agriculture sector was preoccupied with very a healthy production outlook for many agriculture commodities, industrial metals focused on China where financing deals once received negative attention and the energy market was range-bound apart from natural gas, which climbed. Precious metals received a small boost as short positions were scaled back following the rate cut and subsequent dovish announcements from the European Central Bank.



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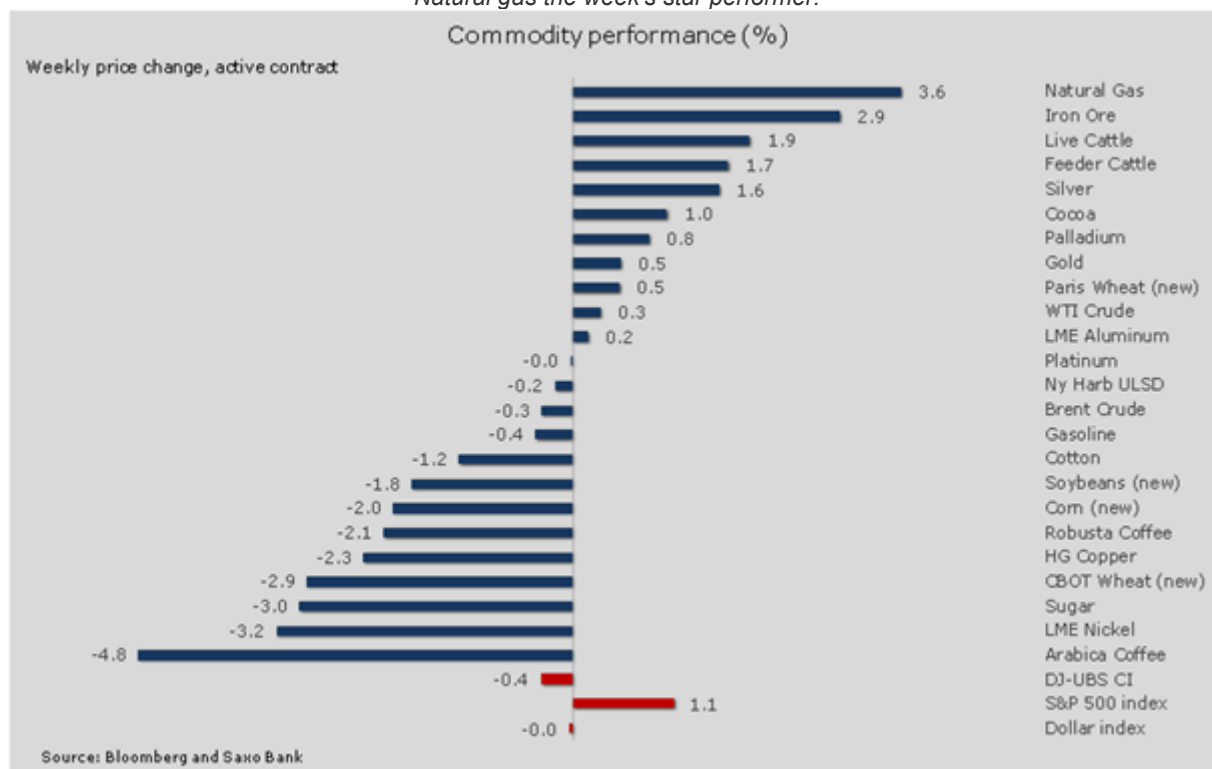
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Natural gas the week's star performer:



A sixth consecutive week of losses within agriculture commodities has resulted in the price of the DJ-UBS Agriculture index retracing more than half of the dramatic rally that was seen between February and March. The loss of 2.4 percent over the past week was driven by Arabica coffee which has fallen by almost one-quarter in just two weeks and Chicago wheat which fell in 17 out of the last 20 trading days, the longest losing streak in 20 years. As a result of this, world food prices fell for a second month in May with a basket of 55 food items dropping by 1.2 percent. This drop was primarily driven by falling dairy prices as rising production in New Zealand has helped prices retrace from a February record. Grain prices, as mentioned, fell on the outlook to increased global production, while sugar prices rose.

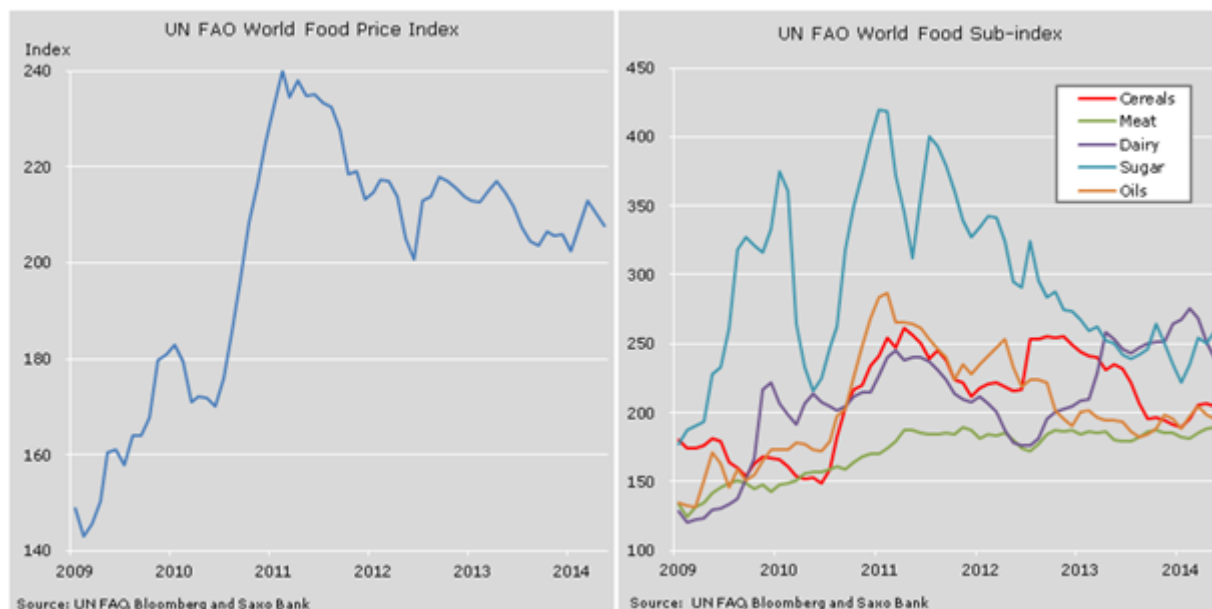
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Industrial metals ran out of steam with HG copper recording a second weekly drop on renewed worries about the strength of Chinese demand. A weaker than expected gauge on manufacturing activity together with a probe into the use of metals for obtaining loans rattled the copper market. Chinese authorities have begun an investigation into allegations that several companies used the same copper and other industrial metals held in Qingdao as collateral for loans. This could ultimately led to a further clampdown on lending practices and increase the supply of key commodities such as copper as companies could be forced to sell commodities that would otherwise have been tied up in financing deals.

Official copper inventories in China have been sharply reduced over the past couple of months and this has raised concern about tightness in the market. However, while deliverable stocks held by the Shanghai Futures exchange has dropped to 92,000 tons it is estimated that China's unofficial copper stocks could be as high as 700,000 tons as financing deals increasingly has been taking copper off the market.

CBOT wheat remains under pressure amid a favourable crop outlook which is currently spreading across the world and this has driven a 17 percent sell-off over the past month, the longest losing streak in two decades. Reduced fears about Black Sea disruptions this summer, combined with perfect growing conditions in both Europe and the US, has left the price under pressure and forced hedge funds to scale back their net-long exposure and producers to hedge their production.

June tend to be a very volatile month as the new crop price (December future) is very receptive to any changing weather outlooks which the 13.5 percent rally in 2012 and the slumps of 8 percent and 25.5 percent in 2013 and 2011 bears witness to. The price, currently at 635 USD/bushels has moved into much oversold territory, so while momentum remains very negative, look out for a bounce over the coming week. Any recovery, however, should be used as a new selling opportunity unless the weather outlook begins to turn less crop-friendly.

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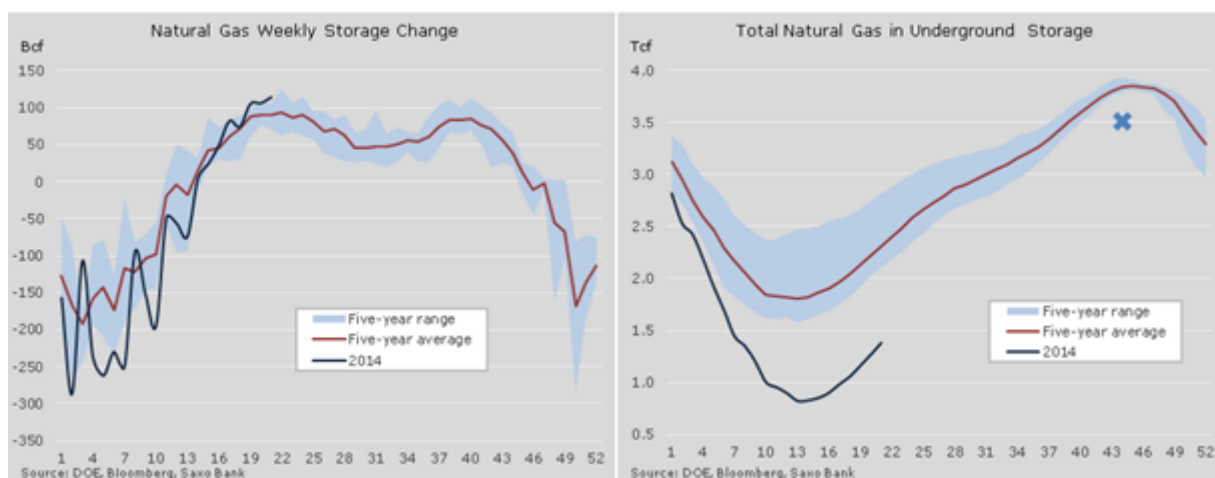


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Natural gas rose to a four-week high as seasonally hotter US weather could increase demand and slow the buildup in inventories. Total US inventory levels are still more than 40 percent below the five-year average following a very cold winter which triggered a sharp rise in consumption. This helps to explain why the price remains well supported despite six weeks of bumper production and injections which has been well above what could be expected for this time of year.

Following the dramatic winter spike, the price of the spot month future has not swayed that far away from the 4.55 USD/therm, the average price since February 25. In order to reach the relative safe level of 3.5 tcf (trillion cubic feet) before the end of October, the price of gas needs to remain high enough to encourage power plants to switch from gas to coal. At the same time, the weather need to remain normal or milder as it reduces the demand for electricity towards cooling. As temperatures rise above the seasonal norm over the coming weeks we could see the price react by going higher, but for look for resistance at 4.85 USD/therm which represents the top of the range which has prevailed since February.



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WTI crude is currently stuck mid-range between 100 and 105 USD/barrel and this has resulted in the one-month volatility moving back towards a multi-year low. US inventories are falling as refinery demand rises but the numbers suggest that some of this rise is to meet increase export demand. The continued reduction in inventories at Cushing (the delivery hub for WTI crude oil futures), continue to lend some relative support to WTI crude over Brent with the spread currently hovering between 6 and 7 USD/barrel. Brent crude found some support from a potential rise in refinery demand as the price of both diesel and gasoline rose, thereby increasing the margin which has been under pressure recently. The geopolitical landscape remains stable with the current sense of easing tensions surrounding Russia and Ukraine, while in Libya hopes are still raised that supplies may eventually start to increase despite the country's very uncertain political situation.

Gold and silver: My only prediction before the expected rate cut announcement from the European Central Bank on Thursday was that it would surely move the price of gold outside the 10 dollar range which had prevailed all week. In the end the rate announcement failed to do that and it was not until the press conference where additional measures was introduced that the yellow metal finally showed signs of life. Just like the EURUSD it broke to the upside as short positions were covered but any significant follow-through failed to materialise. This goes a long way to describe the current confidence crisis which has descended on both metals.

During the week of May 30, money managers had increased their gross short futures position by 72 percent, the biggest weekly jump in six months, and that left the market exposed to short-covering once the price moved back above 1248 USD/oz. The speculative positioning also helps to explain the big jump in silver with gross shorts being at a record high on May 30.



Short covering, however, does not provide potential buyers with a big enough reason to get involved at this stage. So while US data continue to improve and stock markets continue to scale new highs, any upside beyond 1272 USD/oz seems limited unless we see a renewed slump in bond yields together with a weaker dollar. Silver once again found support

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ahead of the multi-year low at 18.22 USD/oz and it could potentially try to build on this over the coming days not least considering the above-mentioned gross short position which undoubtedly is being scaled back at the time of writing this.

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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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