Oil dips, gold resilient despite US economic cheer

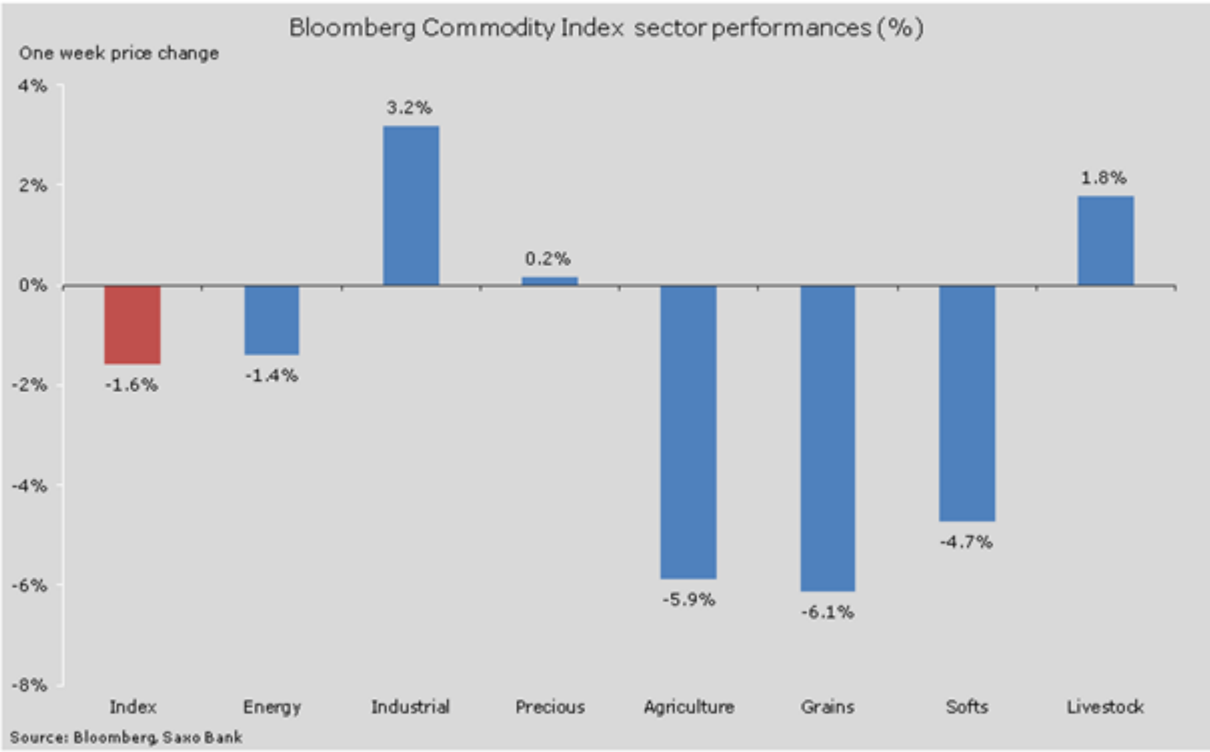
- **Bloomberg Commodity Index falls for second consecutive week**
- **Oil droops as Iraq fears fade and Libya is poised for export resumption**
- **Outlook to bumper corn and soybean crops in the US dent prices**

By Ole Hansen

Commodities kicked off the second half of 2014 with a mixed performance across some of the major sub-sectors. The Bloomberg Commodity Index (formerly DJ-UBS) nevertheless fell for a second week in a row due to heavy losses in crops including corn and soybeans together with soft commodities such as sugar and Arabica coffee. Precious metals were higher despite the adversity stirred up by another strong US jobs number which strengthened the dollar and sent stocks and bond yields higher.

The energy sector fell for a third consecutive week as worries related to Iraq faded and two major Libyan export terminals reopened for business after a year-long blockade was lifted.

Industrial commodities, led by nickel and copper, were the major winners with copper seeing a third weekly rise. Continued signs of improved economic growth from the world's two biggest consumers, China and US, at a time of falling inventories, saw the metal break higher through technical resistance to reach a four-month high.



Palladium was another winner as the price rose to a 13-year high on expectations of continued strong demand from car manufacturers at a time of dwindling supplies following a five-month strike in South Africa, the world's second largest producer after Russia. According to insiders, the supply deficit will rise to a record this year on a combination of strong industrial demand for catalytic converters and investment demand through exchange traded funds backed by the metal, which have risen to new highs.

Cattle futures in the US continue to rally on short supply with Americans paying the most ever for their Fourth of July holiday barbecue. Texas, the top producing state, together with California, have seen rising drought problems and this has forced ranchers to reduce herd sizes. In addition, this year's very cold winter reduced the availability of pastures and forced another herd cull in affected areas.

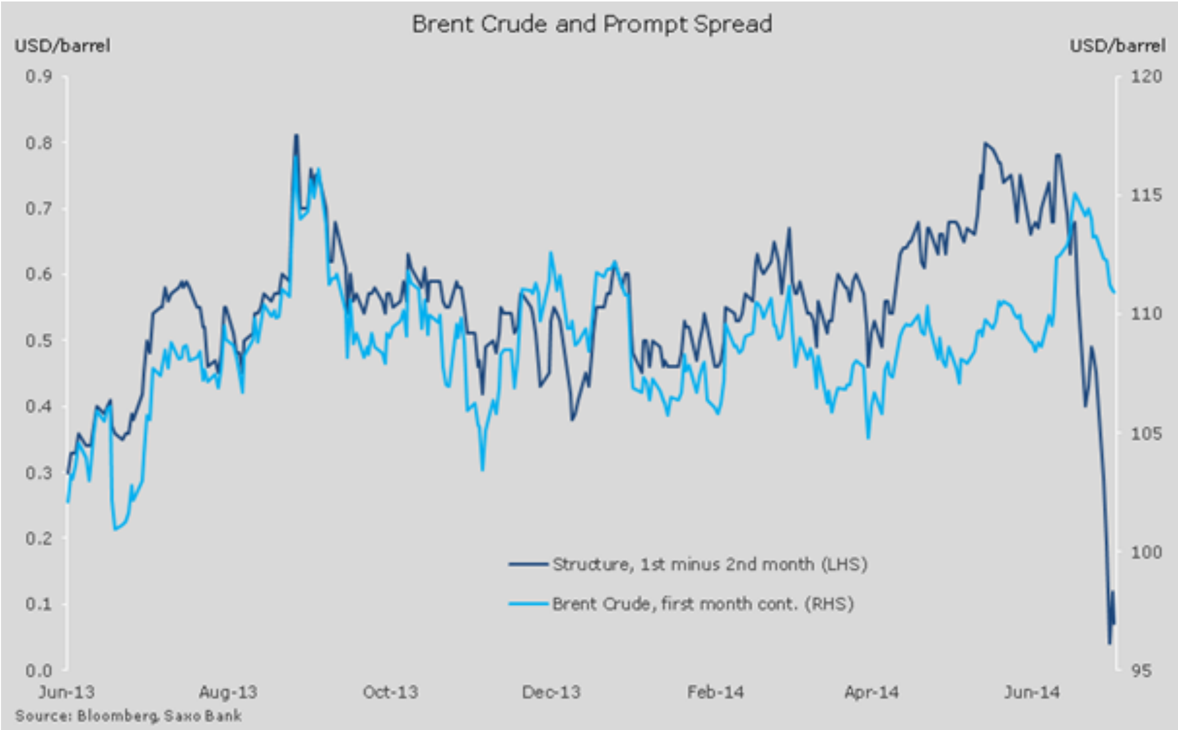
Gold hit a multi-month high during the week as it continued to shrug off the potential price negative news from the US where monthly job creation continues to gather pace leading to speculation about an earlier-than-expected start to the rate tightening cycle.

This week's strong jobs report saw stocks reach a new record while bond yields and the dollar rose and all of these could eventually obstruct gold's further progress. But so far the appetite for gold seems to be on the rise with holdings in exchange traded products backed by physical gold seeing a couple of days with healthy inflows, while speculative traders such as hedge funds recently increased their net-long position in gold futures by the most since 2007.

For now, the metal remain range bound between 1300 and 1331 USD/oz and as traders swap their trading screens for shorts and shades activity will begin to slow. This is not necessarily something that will bring calm to the market with the average performance of gold during July and August the past five years showing 3 and 5.5 percent respectively. A close above 1331 USD/oz could open the way for a move towards 1370 USD/oz followed by the the March high at 1392 USD/oz.

Brent crude and WTI crude oil fell for a second week as the risk of Iraqi oil disruptions faded and more importantly, news from Libya that two of its major oil terminals were finally going to reopen following a year long blockade. This shifted the focus somewhat from the risk of supply disruptions which drove oil prices higher during June to the potential for increased supplies over the coming months, not least from Libya where the Es Sider and Ras Lanuf ports are once more under government control. These two terminals have a combined capacity to ship up towards 560,000 barrels per day. The ports handover means that Libyan exports could resume some time in the near future (barring a setback) and exports could rise above 800,000 barrels per day, the highest since July 2013.

As a result of this and increased shipments from the North Sea this July the front month spread between the first and the second futures month on Brent crude oil has collapsed from 88 cents backwardation (1st month above 2nd month) to flat in just a few weeks. Such an easing of the front month spread does not paint a picture of tight supply and at the same time it has eroded the potential profit being made from the rolling of a record net-long speculative position into a falling backwardation.



Brent crude broke support at 112 USD/barrel and WTI crude at 104 USD/barrel and both are now at risk of a deeper correction towards 109.40 and 103 respectively. Strong seasonal demand from refineries in the US and a renewed inventory reduction at Cushing, the delivery hub for WTI crude, would favor an outperformance of WTI over Brent crude.

The price of key crops such as corn and soybeans traded on the Chicago Board of Trade (CBOT) plunged on Monday following the release of two reports from the US Department of Agriculture. Both the quarterly stock report and the latest update on planted acreage surprised the markets with the stock report showing domestic stockpiles of grains as being significantly bigger than what was forecast. Soybeans received some additional selling pressure from an upgrade to the planted acreage which will help remove the tightness that kept prices supported throughout last winter and spring.