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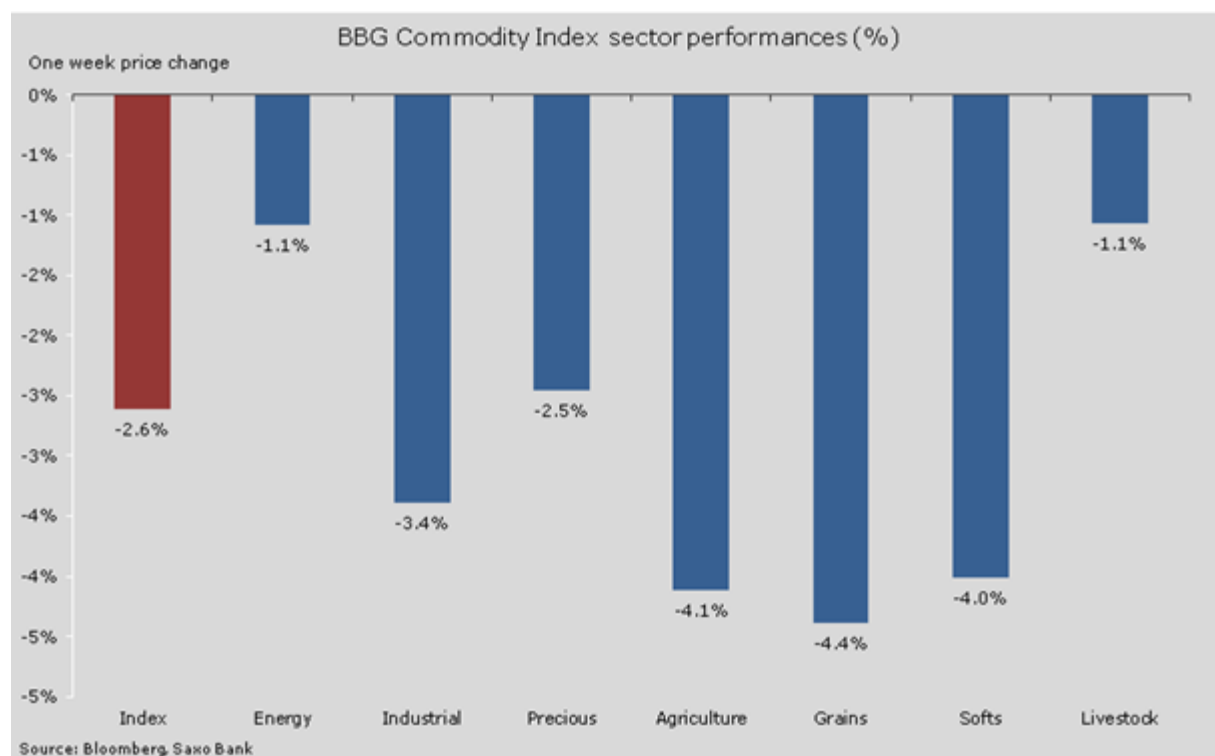
Rising supply and slow growth saps commodities support

By Ole Hansen

The broad-based BBG Commodity Index has fallen to a five-year low after another week of heavy selling across all sectors. The drivers behind the current weakness stem from the continued increase in supplies of key commodities, from iron ore and copper to crude oil and corn. The increase in supply is reaching the market at a time of slowing demand due to uncertainty about the strength of economic activity outside the US.

Effect of rising dollar

The adverse impact on commodities from a rising dollar has added another negative dimension recently, and while euro selling paused in the past week the focus has switched to other currencies such as the AUD and JPY.



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Metals sink further

Industrial metals were down more than 3%, almost removing the gains that had built up during the previous four weeks. Nickel and zinc, which up until this week had been two of the strongest performers, ran into profit taking. Nickel in particular came under some selling pressure after speculation of a new threat of supply disruptions from the Philippines failed to materialise.

Zinc saw the biggest one-week drop in two years following a period of strong gains driven by an increase in speculative net-longs held by hedge funds, together with supportive news that stockpiles monitored by the Shanghai futures exchange had fallen to a five-year low.



Energy demand lacks spark

It was a very busy week in the energy market. Reports from the Organization of the Petroleum Exporting Countries, the International Energy Agency and Energy Information Administration all point towards rising supply and slowing demand growth. The IEA also reported that Saudi Arabia's exports fell to the lowest levels in three years in August as demand from China and Europe slowed. The supply glut that has been building internationally during the summer has been created by the combination of a remarkable slowdown in demand and rising production, not least from Libya and North America.

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Brent crude has fallen to a two-year low as it feels the impact of geopolitical events in Russia and the Middle East. Photo: Spencer Platt \ Thinkstock

As a result, Brent crude traded down to a two-year low before finding support at 96.75 USD/barrel while WTI crude saw a quick three-dollar rally after a break below 91.25 USD/barrels was rejected after new geopolitical worries. Europe and US announced another round of sanctions against Russia while the Russian Foreign Ministry claimed US bombing against IS militants inside Syria would be 'a gross violation of international law'.

The spread between WTI and Brent crude reached a two-month low with the narrowing a result of the diverging outlook for demand of the two global benchmark. While oversupply and weak spot prices continue to pressure Brent crude, robust refinery demand in the US for WTI crude has resulted in spot prices continuing to attract a premium over forward prices.

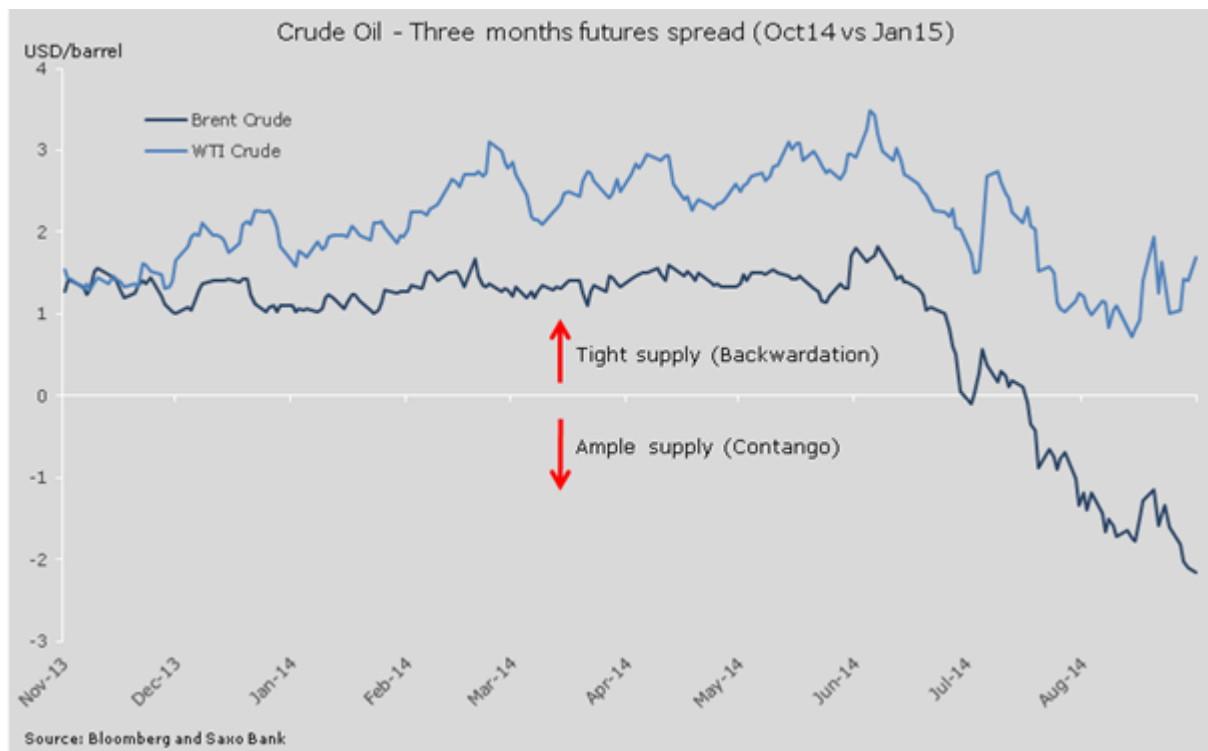
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Precious metals still failing to shine

The general negative sentiment in metals hit Platinum Group Metals (PGM) the hardest with palladium losing more than 6%, with owners of overstretched long positions all trying to reduce exposure at the same time. Given the often limited liquidity in this sector, such periods of long-liquidation can be very painful and often result in the price overshooting. Once the market stabilises new buyers will find their way back into a metal where the fundamental outlook remains better than many others, with supply worries a constant threat at a time of rising demand from the automobile industry.

Gold and silver both suffered another week of losses and technical levels were broken. Silver is now once again hovering just above a multi-year low. Weakness in other metals, the strong dollar – which is now widely believed could go even higher – rising bond yields and worries whether the US Federal Reserve could turn more hawkish on its interest rate expectations have all played their part. This sector has now become increasingly oversold, raising the chance of a small recovery. However, ahead of the Federal Open Market Committee meeting next week, traders seem most content holding short positions given the heightened risk that the meeting may yield a more hawkish statement from the Fed's chair, Janet Yellen.

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Spot Silver - Source: Saxo Bank

Crop prices tumbling

The agriculture sector was concerned about rising supply, with all of the major crops suffering another week of losses. This came after a US government report from the Department of Agriculture projected that the corn and soybean harvest would produce above-expected results. Revisions are now expected to bring global inventories of corn, oilseed and wheat to record highs causing prices to tumble to four-year lows.

	USA 2014 (Million bushels)	USA 2015 (Million bushels)	Change	Global 2014 (Million metric tons)	Global 2015 (Million metric tons)	Change
Corn	1246	2002	61%	169	190	12%
Soybeans	140	475	239%	67	90	34%
Wheat	590	698	18%	186	193	4%

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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

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charge of the trade execution team. He is available for comments on most commodities, especially energies and precious metals.

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