



THE SPECIALIST IN TRADING AND INVESTMENT

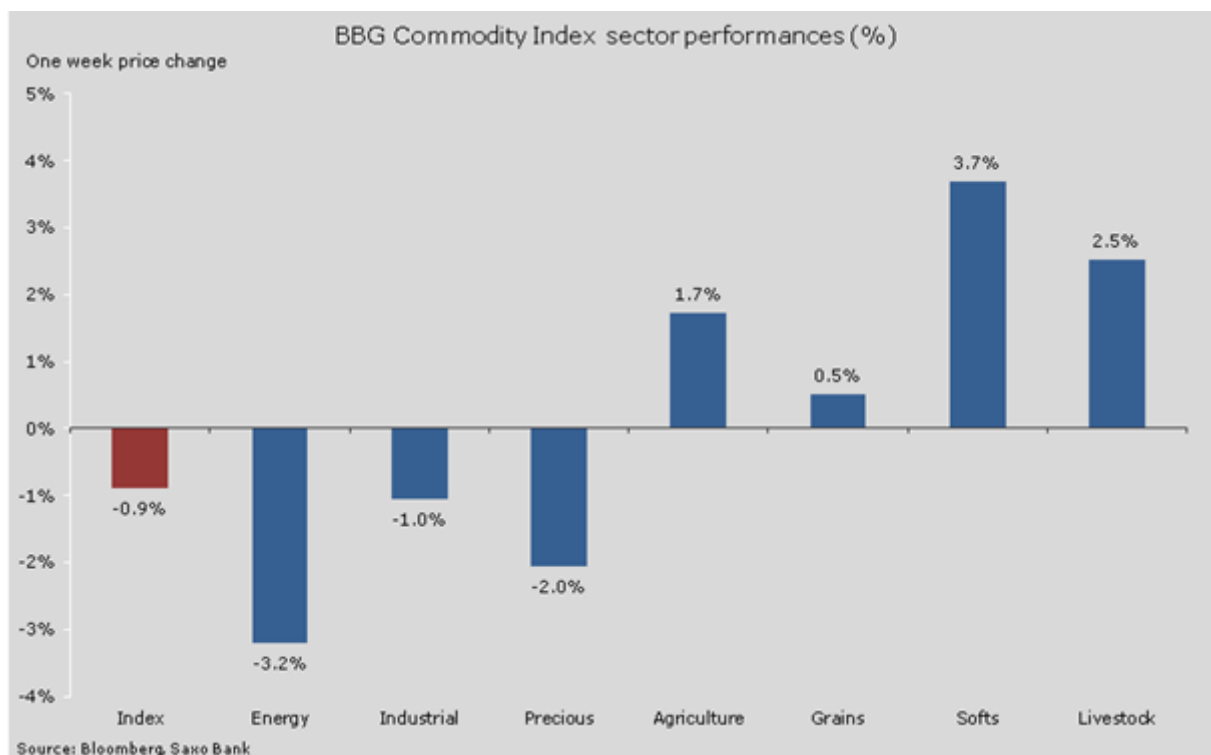
Energy plunge continues as supply weighs

Commodity markets remain on the defensive with rising supply in many key commodities continuing to apply near-term downside pressure to prices.

That, not least, is also due to current concerns about a slowdown in global growth and its potential negative impact on demand at a time where the dollar continues to go from strength to strength.

The adversity created by the current rise in the dollar looks set to be theme that will stay with us for the foreseeable future with analysts currently expecting the greenback's ascent to continue.

Some are now even talking about the rate against euro to return to parity which would represent a more than 25% appreciation from current levels.



The past week was no exception with regard to commodity weakness with the broad-based Bloomberg Commodity index reaching a new five year low. Since the rout began back in July this index has fallen in all but just three weeks.

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Bullish bets near six-year low

This dramatic change in sentiment towards the sector has also resulted in a sharp deterioration in the number of bullish bets hedge funds and large money managers were carrying.

After reaching a record net-long position on 24 US traded commodities back in April, these investors have since reduced their bullish exposure to the lowest since early 2009.

This was a time when the world was struggling with recession and a sharp drop in demand following the Lehman Bank collapse. At the moment hedge funds are holding a net-short position in eight out of the 24 commodities, not least ULSD (heating oil), HG copper, soybeans, wheat and sugar.



The energy sector was the hardest hit with the price of WTI and Brent crude reaching 17- and 27-months lows.

The market continues to adjust to lower near-term price expectations due to a continued rise in supply at a time where demand has struggled to keep up.

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Brent crude especially has come under pressure in recent weeks as a supply glut in the Atlantic basin has put other crude oils such as Dubai and Oman under pressure as well.

With Brent's premium over these lower quality crude oils contracting, Saudi Arabia announced that it has cut the price towards Asian clients by more than expected during November.

Apart from improving the competitiveness against Brent, the price cut was also viewed by traders as a sign that Saudi Arabia are not currently prepared to hand over market share to other OPEC producers such as Iraq and eventually also Iran when sanctions are lifted sometime in the future.

As long as this uncertainty about how OPEC will deal with the current supply glut exists, the risk of further losses can not be ruled out.

Brent has fallen almost 20% since the IS militant scare back in June and this level is often used as the threshold through which a market is viewed as being in a bear market.



The airline industry will greatly welcome the fall in the oil price. Photo: Thinkstock

Strong coffee

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Soft commodities such as cotton and especially coffee ensured a strong week for the sector.

The cost of Arabica coffee jumped to the highest since April as current dry weather in Brazil has raised concerns about next years crop.

This follows on from the drought this January that triggered a sharp down revision in this year's production and which so far has seen the cost of coffee rise by almost 90% year-to-date.

The grain index comprising wheat, corn and soybeans is on track to record its first weekly gain in ten weeks after both corn and soybeans reaching new multi-year lows earlier in the week.

The recovery however has been driven by wheat futures, both in Paris and Chicago, in response to signs that Russia may be reluctant to sell out what is a near-record crop.

Russia is normally one of the world's top exporters but a recent run-up in domestic prices may trigger export curbs in order to prevent the cost of feed towards poultry and livestock from rising further.

Fickle nickel

A sharp sell-off in nickel during the past five weeks has tipped the sector as a whole back into negative performance on the year.

Worries about tight supplies earlier this year triggered a very strong second quarter rally in nickel, but since then we have seen inventories rise to a record as the Indonesian export ban have failed to trigger an expected tightness in the market.

As a result the price of nickel has now entered into a bear market as the losses since the May peak has exceeded 20 percent. The outlook for 2015 however still looks promising so we would expect to see buyers return soon following the speculative washout.

HG copper for December delivery is testing support just below 3 USD/lb and the risk is rising that a break through this level could signal a deeper correction over the coming month.

Gold traders engaged in a major battle at 1,200 USD per ounce

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Precious metals remain under pressure and when it comes to gold the main negative driver has undoubtedly been the continued rise of the dollar. Potential bulls should therefore consider gold against other currencies such as euro, yen or possibly even the Aussie dollar.

Following the stronger than expected US job report on Friday which sent the dollar to a fresh high gold erased the 2014 gains.

The drop to 1200 USD per oz triggered a major battle between sellers and buyers with several million ounces swapping hands in the hour following the announcement.

Gold priced in dollars will remain under pressure until we see a correction in either stocks or the dollar or begin to receive some news about the [Swiss Gold referendum](#) in late November,

Silver lining

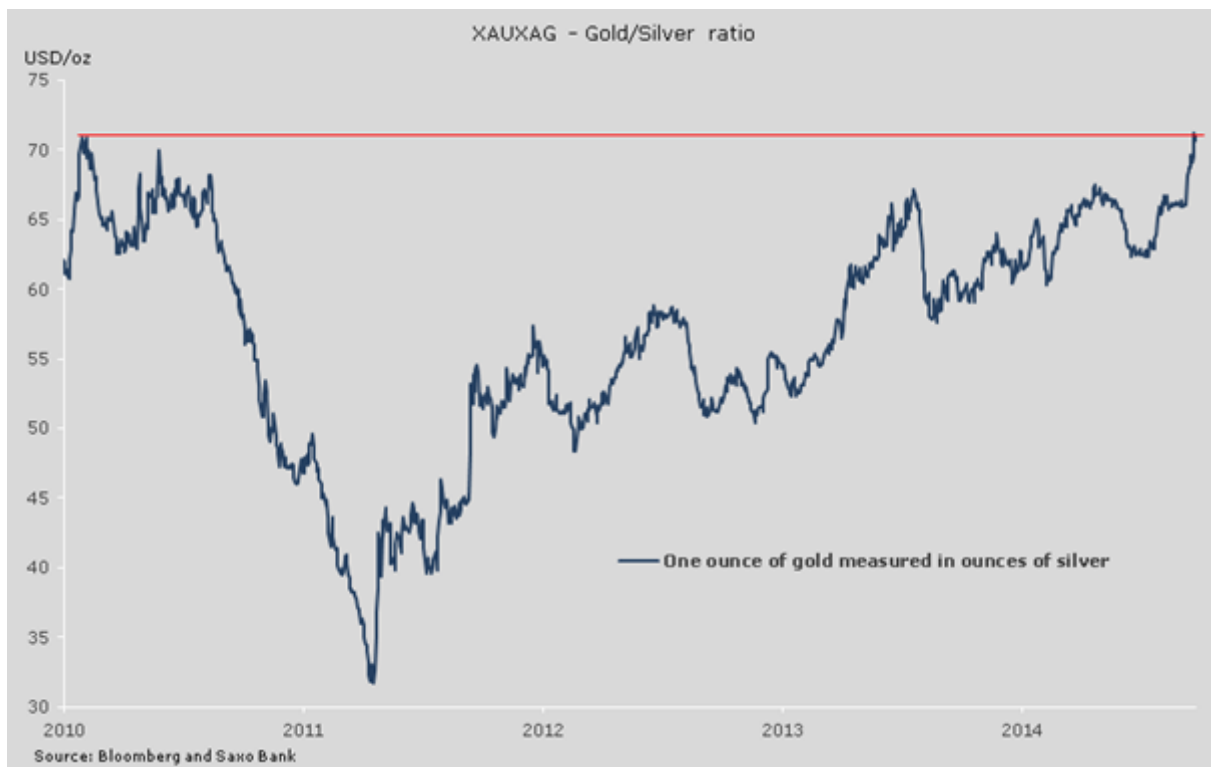
Silver however is the story of the week as we are continuing to see retail demand for the semi precious metal, especially through exchange traded products where holdings rose to a new record despite the recent dismal performance.

While hedge funds having moved from a record net-long back in July to a net-short as of September 23, investors in exchange traded funds backed by silver has seen a continued rise in holdings.

Silver also reached the relative cheapest level to gold since 2009 as the ratio traded up to 71.2 ounces of silver to one ounce of gold.



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Momentum in silver remains negative and it raises the question as to where all this buying is coming from and what kind of pain threshold these investors have.

The feeling is that most of this buying has been done by retail investors who view the metal currently priced at one-third of the level it traded at back in 2011 as being a long-term attractive bet.

The risk is obviously near term that continued weakness may lead to some of these now under-water positions being scaled back, thereby adding to the negative trend which the continued selling from hedge funds have helped to establish during the past couple of months.

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Traders continue to be on the defensive as prices slip to the downside. Photo: Thinkstock

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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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