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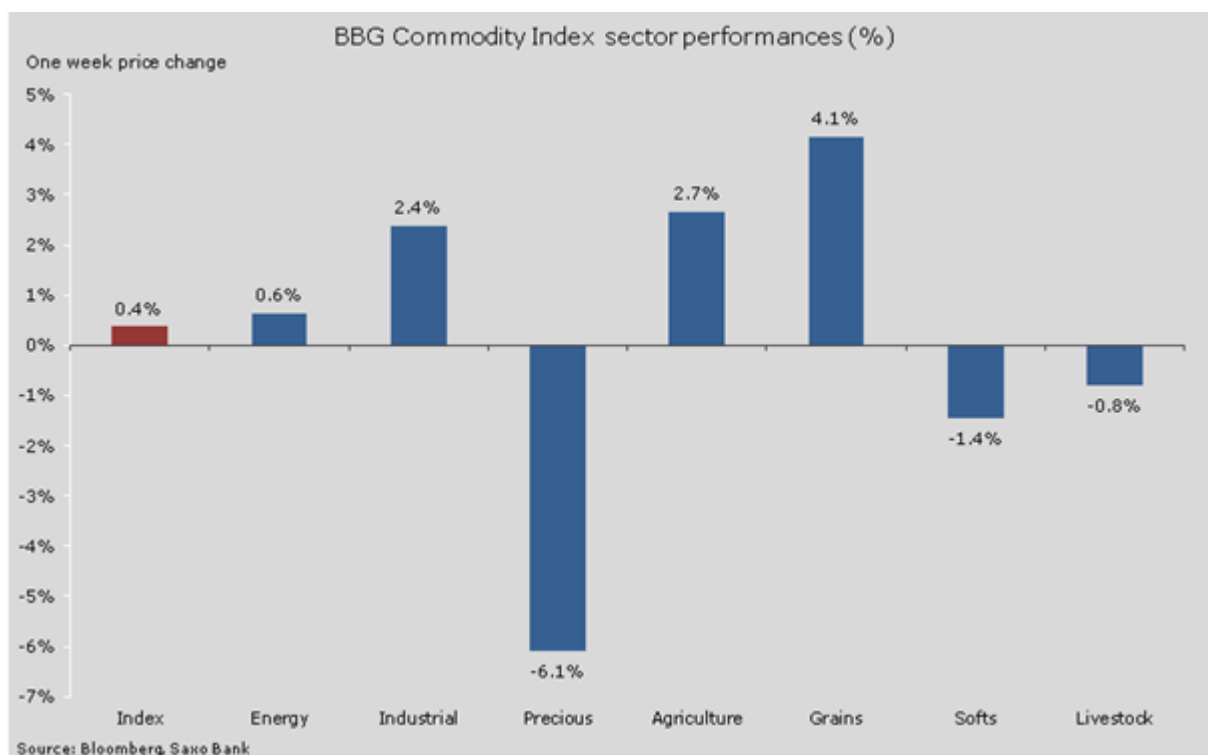
Bigger risk appetite rubs shine off precious metals

Global stocks continue to recover from their early October sell-off while the dollar has begun to show signs that it is preparing to resume its month-long rally that has been on pause since early October. The major surprise of the week, however, was left to the Bank of Japan which confounded expectations on Friday by announcing another expansion of its quantitative easing programme.

With this increase in money printing coming just days after the US Federal Open Market Committee pulled the plug on its QE3 programme (as expected) a major move in USDJPY was ensured. The move from the Bank of Japan was triggered by the central bank's unease over the recent undershooting of inflation, largely due to falling energy prices.

As a result, global financial markets enter November supported by an elevated level of risk appetite. Traders are getting back into the dollar, particularly against the Japanese yen which fell to a six-year low while a break below 1.25 against the euro would confirm a wider support for the Greenback. Stock markets also received a strong boost with the S&P 500 trading back to record territory just a couple of weeks after it was staring into the abyss.

Against this backdrop we saw a relatively strong month-end finish for the commodity sector despite the headwind being created by the stronger dollar. Heavy losses earlier in the month, particularly in crude oil, did however result in a fourth consecutive month of losses, the longest losing streak since the price collapse back in 2008. Most sectors finished in the black on the week with precious metals being the most noticeable exception as the near-term outlook deteriorated after some significant technical levels were broken.



Natural gas rose strongly as forecasts for below-normal temperatures in the eastern half of the US next week could increase demand for heating. Weekly inventories, however, continue to rise at a healthy pace leaving ample storage levels ahead of the peak consumption season. On that basis further upside beyond 4.10 USD/therm seems limited at this stage.

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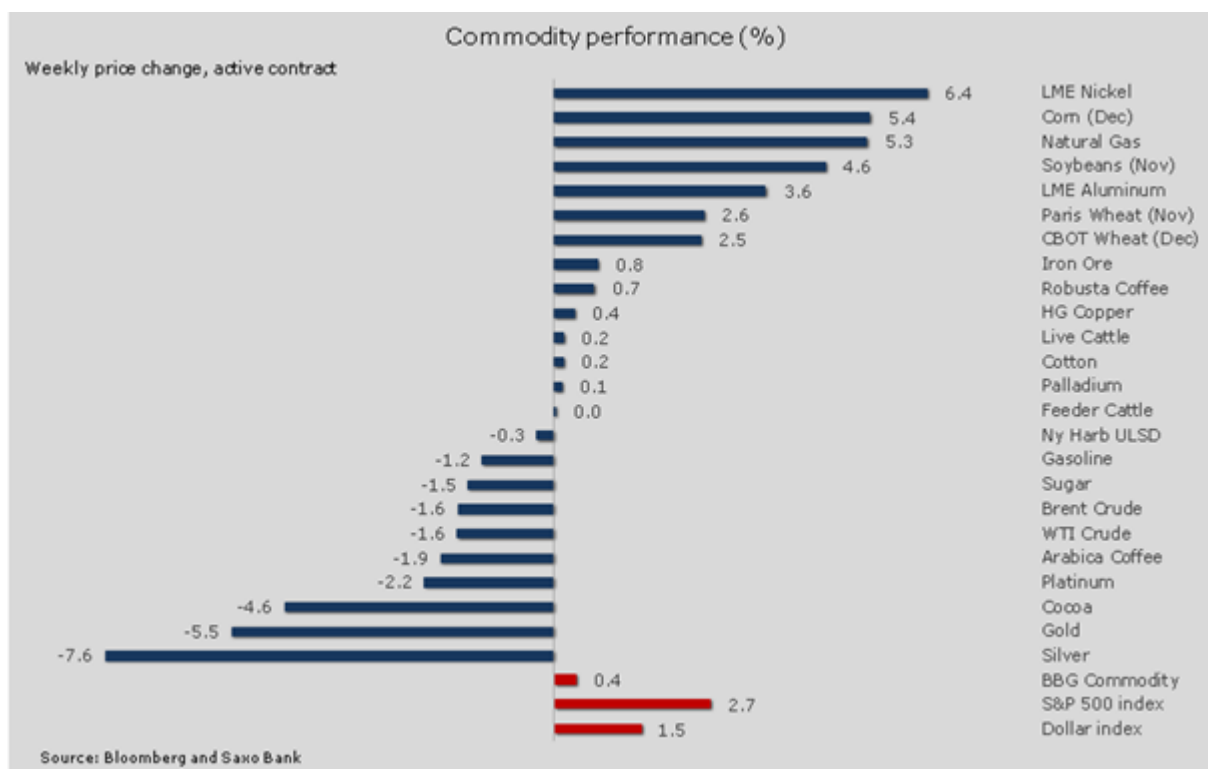


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The **grain sector** comprising the soybean complex, corn and wheat had another phenomenal week, the fifth in a row. This is especially due to a very strong rally in soymeal that pulled the whole sector higher on concerns about delayed arrivals of new supply to crushers because of rail congestion together with strong export demand.

After the market close on Wednesday the Chicago Board of Trade raised the margins, thereby making it more expensive to hold open positions in soymeal futures, and this helped trigger a reversal. A record crop of corn and soybeans is about to hit the market so further upside potentials from here look increasingly difficult to achieve.

Industrial metals, not least nickel and aluminium received a filip from the unexpected monetary stimulus boost from Japan and adding to this a small rise in Chinese manufacturing PMI, the near-term outlook for the sector improved. This despite the obvious headwind being created by a potential resumption of the dollar rally. Copper also found support from a planned strike at the world's third largest mining complex at Grasberg in Indonesia. If no agreement on safety issues is found a strike involving 11,000 workers may begin on November 6.



Crude oil stabilising but negative trend remains

Both WTI and Brent crude oil were boosted by the verbal intervention by the secretary general of OPEC. He said he expected that shale oil production would be reduced if oil remained around 85 USD/bbl and that should lead to a pickup in demand for the cartel's oil in the longer term.

However, the fact that he also indicated that no major reduction from OPEC can be expected in the near term returned the focus to the current supply surplus. Not helping the negative outlook was data from the US Energy Information Administration that showed domestic crude oil production had risen to its highest level since at least 1983. The increase in US inventories is currently also reducing the tightness in the spot market and that reduces another incentive to stay long at this stage.

Crude oil has stabilised but until we see the seasonal pickup in demand (which is still some weeks away), or a reduction in supply, the risk remains that the current downtrend will continue. The next area of support for WTI crude can be found between 75 and 77 USD/bbl.

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Source: Bloomberg, Saxo Bank

Bank of Japan action tipping gold over the edge

Precious metals were hurt badly this week after the US FOMC ceased its asset purchase programme and attention turned to when interest rates will rise. The dollar rallied and the S&P 500 hit record territory once again. Gold's weakness was exacerbated by the negative impact of rising risk appetite following the surprise announcement from the Bank of Japan. That change also highlighted the continued reduction in inflationary pressures which is now being lowered by the dramatic weakness in energy prices in recent months.

Last year the dramatic sell-off during the second quarter was only halted when support was found at 1180 USD/oz. Two subsequent attempts, one last December and the latest less than a month ago also failed. But the surprise announcement from the Bank of Japan and the subsequent sharp risk on move in the yen and global stocks tipped the price over the edge and many sell stops were triggered.

What was not helping gold was the fact that during a two week period up until October 21, hedge funds and money managers cut their short positions in the shiny metal by 1.4 million ounces while increasing longs by 2.4 million. The adjustment of positions back towards a more bearish stance by these investors have now been adding to the selling pressure.

The technical outlook for gold has deteriorated following this latest move. After gold was rejected at 1183 USD/oz on October 6 it managed to reach the 61.8 percent retracement level around 1253 USD/oz. The subsequent move to a new four-year low would indicate a resumption of the sell-off which otherwise has been on pause for the past 16 months. The trading behaviour over the next week or so has suddenly become incredibly important as a failure to regain USD 1180 USD/oz could indicate that the price needs to go lower.

The support level to look out for now is first of all 1159 USD/oz, the July 2010 low, followed by 1088 USD/oz which if reached would complete a 50 percent retracement of the 10-year rally from 2001 to 2011.

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Source: Bloomberg, Saxo Bank

With gold once again looking for supporting news to hang onto the Swiss gold referendum on November 30 could increasingly become the event that either could sink it or let it swim. The referendum, if voted through, would force the Swiss National Bank to increase its gold reserves by a sizeable amount over the next five years. So far the polls have given the yes camp some 44 percent of the votes which by many has been viewed as a weak starting point. Both parliament and the central bank are firmly against a yes vote and it is expected that a very strong no campaign will be put in place which could reduce support for the bill.

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Risk on. Who needs safe havens when the BoJ opts to print trillions? Photo: Paolo Toffanin

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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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