THE SPECIALIST IN TRADING AND INVESTMENT

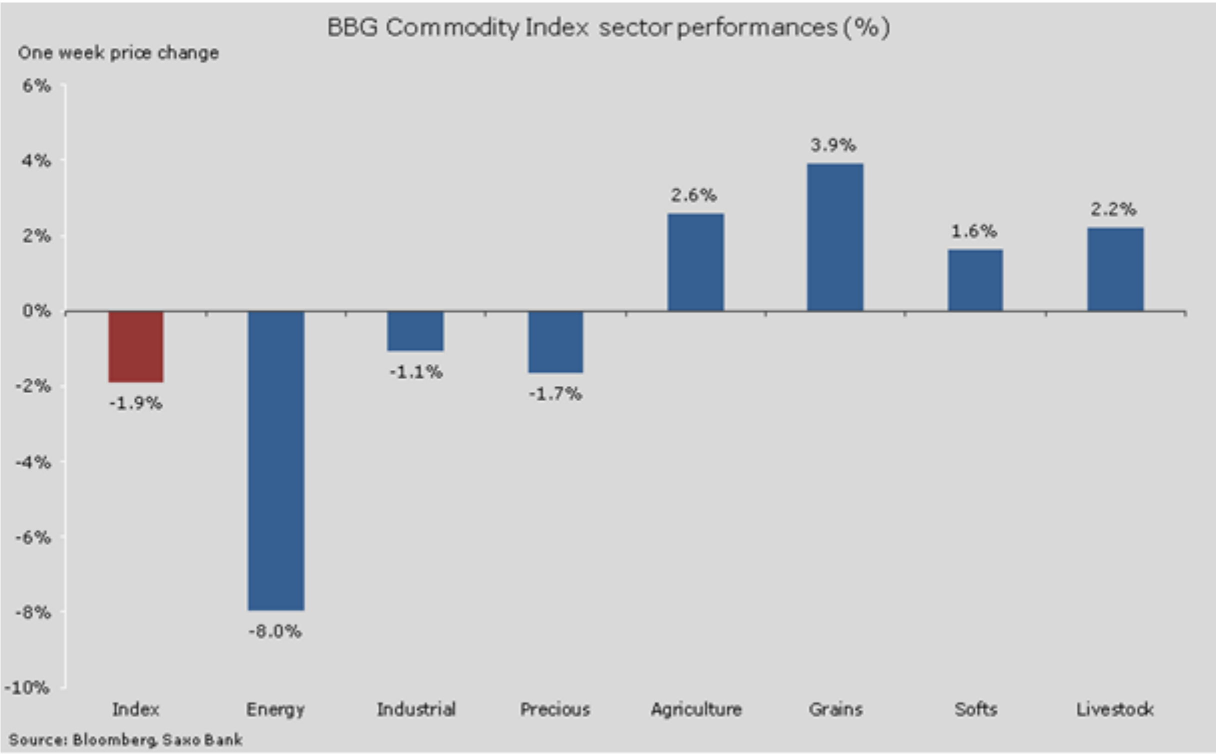
Energy sector suffers another horrendous week

The energy sector remains under siege from sellers and over this past week we saw the worst losses for this sector since June 2012. Brent crude, the global benchmark, lost around 8% while WTI crude was heading for its longest run of weekly losses in almost three decades.

The paradigm shift we have seen in oil markets over the past couple of months is currently being allowed to continue without any clear sign yet of how the rising supply glut is going to be dealt with.

Elsewhere, it was a relatively calm week across some of the major markets, with the S&P 500 reaching a new record while the dollar continued its ascent most noticeably against the Japanese yen.

However, oil producing countries such as Russia and Venezuela suffered heavy losses on bonds, stocks and currencies as oil revenues continue to dwindle at an alarming rate. Russia came under some additional selling pressure related to renewed geopolitical worries in Ukraine.



Source: Bloomberg, Saxo Bank

The grains sector resumed the rally that began in early October and this week it was wheat and corn that took the lead. The current cold spell in the US, which last week triggered a dramatic rally in natural gas, have raised concerns about crop kill in those areas uncovered by snow. Soybeans reached a three-month high on continual strong demand for animal feed both in the US and abroad but fell back as profit-taking hit soymeal.

Industrial metals traded near the lower end of its current range on weaker-than-expected Chinese manufacturing activity while iron ore continue to hover near a five-year low as steel demand in China remained weak.

Source: Bloomberg, Saxo Bank

Gold stabilising but bears have control below USD 1180/oz.

Precious metals stabilised above key support at USD 1090/oz but with the price of gold staying below USD 1180/oz, sellers have so far not found any reason to change their view that the downside path remains the one with least resistance. Total holdings in exchange traded products backed by physical gold has slumped to 1618 tons, the lowest since May 2009 when gold was trading around USD 960/oz.

The current lack of physical demand from Asia was highlighted in the Q3 Gold Demand Trends from the World Gold Council this week. Global gold demand fell by 2% in the third quarter and the drop-off in Chinese demand was particularly big as it fell by 37%, compared with the same period last year.

The dramatic sell-off during the first half of 2013 was only halted when Asian buyers stepped in and bought the yellow metal during the third quarter. A similar rescue mission has so far not been seen following the recent drop to a new four-year low.

Only a move back above key resistance at USD 1180/oz. could trigger a rethink among hedge funds who held a near record short position during the week of November 4.

Falling crude oil prices create foundation for recovery

WWW.SAXOBANK.COM SAXO BANK A/S Philip Heymans Allé 15 2900 Hellerup Denmark
Telephone: +45 3977 4000 Telefax: +45 3977 4200 Reuters Dealing Code: SAXO Cvr. nr. 15 73 12 49 info@saxobank.com

The energy sector continues to attract most of the attention, with both WTI and Brent Crude oil falling to levels unseen since 2010. A rising supply glut, which is expected to rise even further into 2015, has put a lot attention on OPEC and its ability to manage prices. Currently, there does not seem to be any clear consensus as to how the cartel should deal with what is increasingly becoming a major crisis for many members.

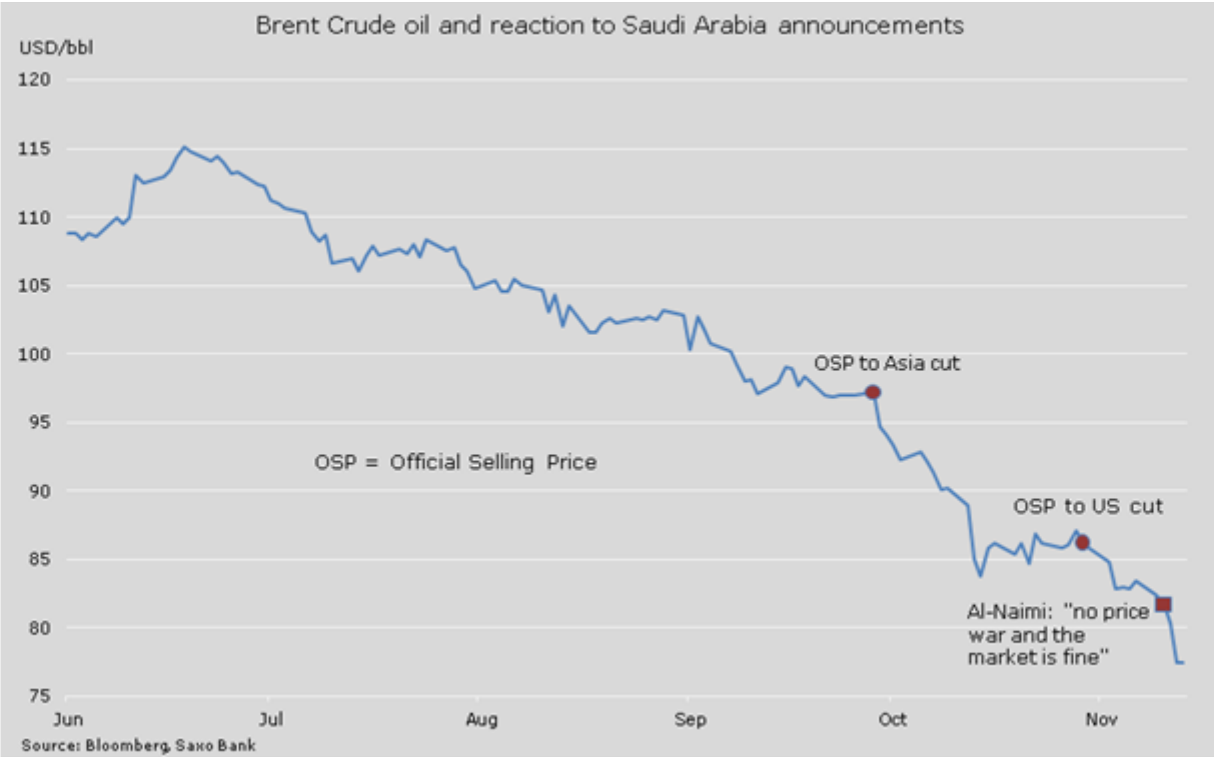
While Saudi Arabian oil minister Ali bin Ibrahim Al-Naimi says the oil market "is fine", prices continue to drop to record lows. Photo: Tomasz Wyszołmirski \ iStock

The continued drop in oil prices has increased the potential for some action being announced at the November 27 OPEC meeting and this should help slow down the selling, with traders running the risk of being caught out by a surprise announcement.

Saudi Arabia is OPEC's biggest producer and the country that most nations look to for action when global supplies become either too tight or too loose. Recent actions and comments from the Kingdom have so far failed to soothe the market. In fact, taking a look at the price action in Brent Crude following three of these, we see the negative impact these had on the price.

Whether intended or not, the market currently believes that Saudi Arabia should prioritize market share above market stability. As long as this perception exists global oil prices may struggle to find support.

WWW.SAXOBANK.COM SAXO BANK A/S Philip Heymans Allé 15 2900 Hellerup Denmark
Telephone: +45 3977 4000 Telefax: +45 3977 4200 Reuters Dealing Code: SAXO Cvr. nr. 15 73 12 49 info@saxobank.com



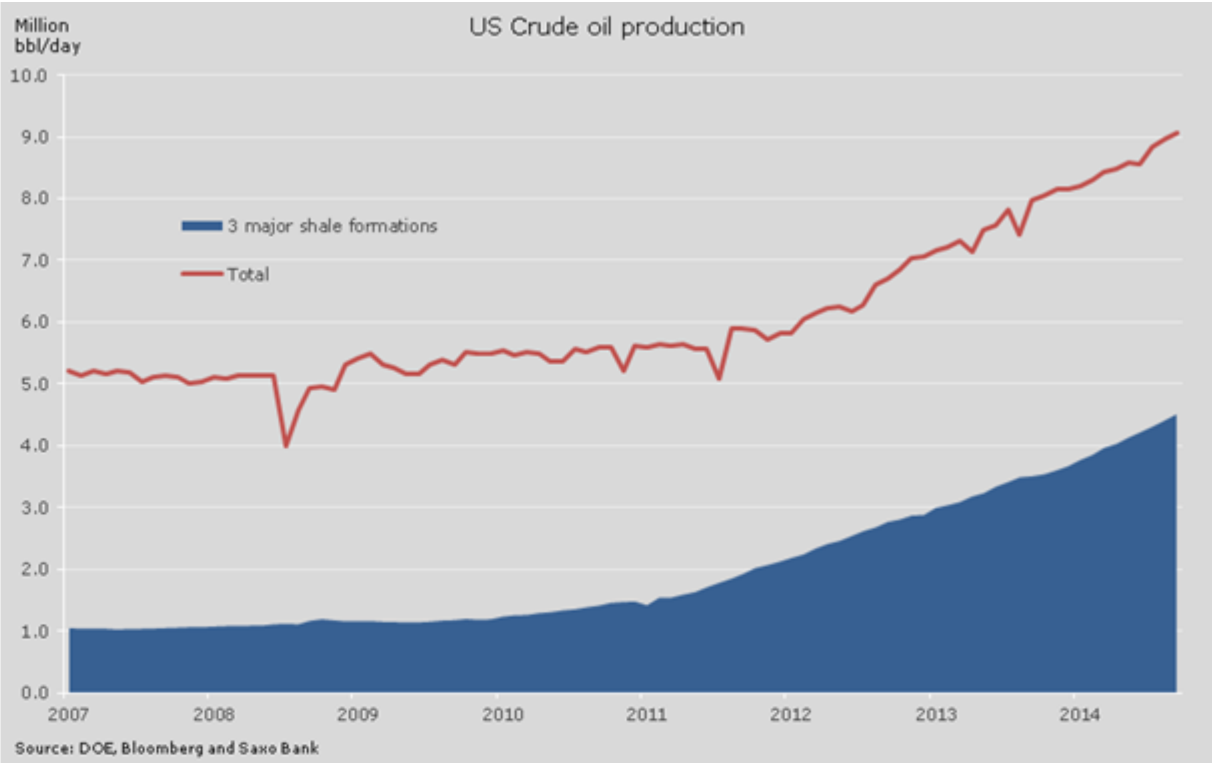
Source: Bloomberg, Saxo Bank

US crude production reaching new heights

The North American shale oil boom does not appear to be slowing, according to the International Energy Agency, at least not in the short term. The agency believes that continual innovation and efficiency gains have brought break even prices down further. As an example, it estimates that most oil production from the Bakken shale formation in North Dakota remains profitable all the way down to USD 42/barrel.

As a confirmation of the limited near-term impact of falling prices, the US Energy Information Administration announced that US crude oil production now exceeds nine million barrels per day for the first time in more than three decades.

WWW.SAXOBANK.COM SAXO BANK A/S Philip Heymans Allé 15 2900 Hellerup Denmark
Telephone: +45 3977 4000 Telefax: +45 3977 4200 Reuters Dealing Code: SAXO Cvr. nr. 15 73 12 49 info@saxobank.com



Head of Commodity Strategy at Saxo Bank **Ole Sloth Hansen**

Email: olh@saxobank.com
Phone: +45 3977 4810

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.