



THE SPECIALIST IN TRADING AND INVESTMENT

Commodities react to King Abdullah's death, ECB QE

Following hot on the heels of the Swiss drama, attention turned this week to the European Central Bank where expectations held that something big was underway. In the end, ECB president Mario Draghi did not disappoint and the unleashing of a major quantitative easing programme sent the euro down to an 11-year low against the dollar while stocks and bonds rallied.

Commodity markets took the sharp rally of the dollar on the cheek with precious metals putting up another strong performance. Gold priced in euros was the winner, both on the week but also in terms of its overall performance so far this month.

Both Brent and WTI crude oil have settled into a five dollar range and price negative news that US inventories had reached an 80-year high was offset by news that Saudi Arabia's King Abdullah had died and Crown Prince Salman had taken over.



*Abdullah bin Abdulaziz al-Saud was King of Saudi Arabia since 2005.
Photo: Sebastian Meyer \ Getty*

King Salman, however, very quickly made it clear that he vowed to maintain the same approach as his predecessors and also to keep current ministers in place – including Ali Al-Neimi, who has controlled the important oil ministry since 1995.

Business as usual also means that Saudi Arabia will most likely ensure that the current oil policy (i.e., keeping production higher than what is required in order to maintain market share) will be kept in place for as long its necessary.

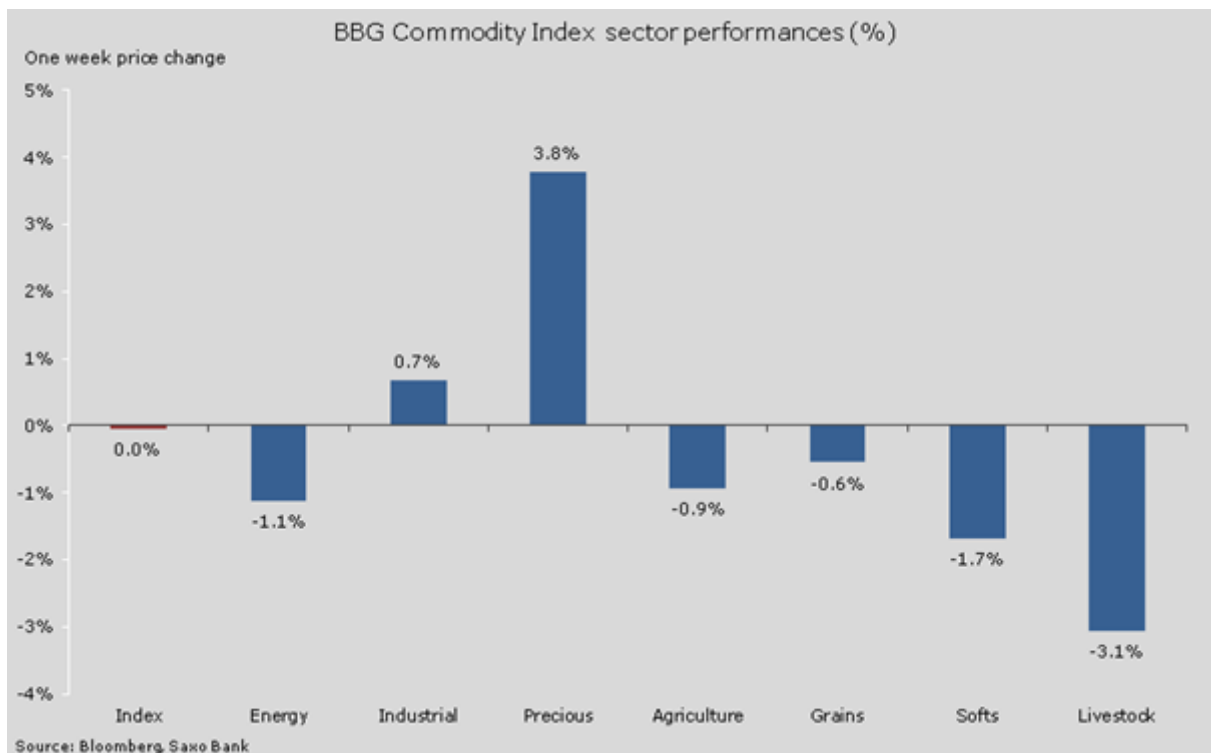
The Bloomberg commodity index of 22 leading commodities was close to unchanged with gains in both industrial and precious metals offsetting losses in energy and agriculture.

COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

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 SPECIALIST IN TRADING AND INVESTMENT



The winner this week – and the year, for that matter – is gold priced in euros. A clear indication that investors have begun to reconnect with the yellow metal can be seen in data that depict the holdings of gold in exchange traded products.

Since the dramatic decision by the Swiss National Bank to let CHF find its own level against the euro, total holdings in exchange traded products backed by physical gold have shot up by 40 tonnes, the biggest jump since September 2012.

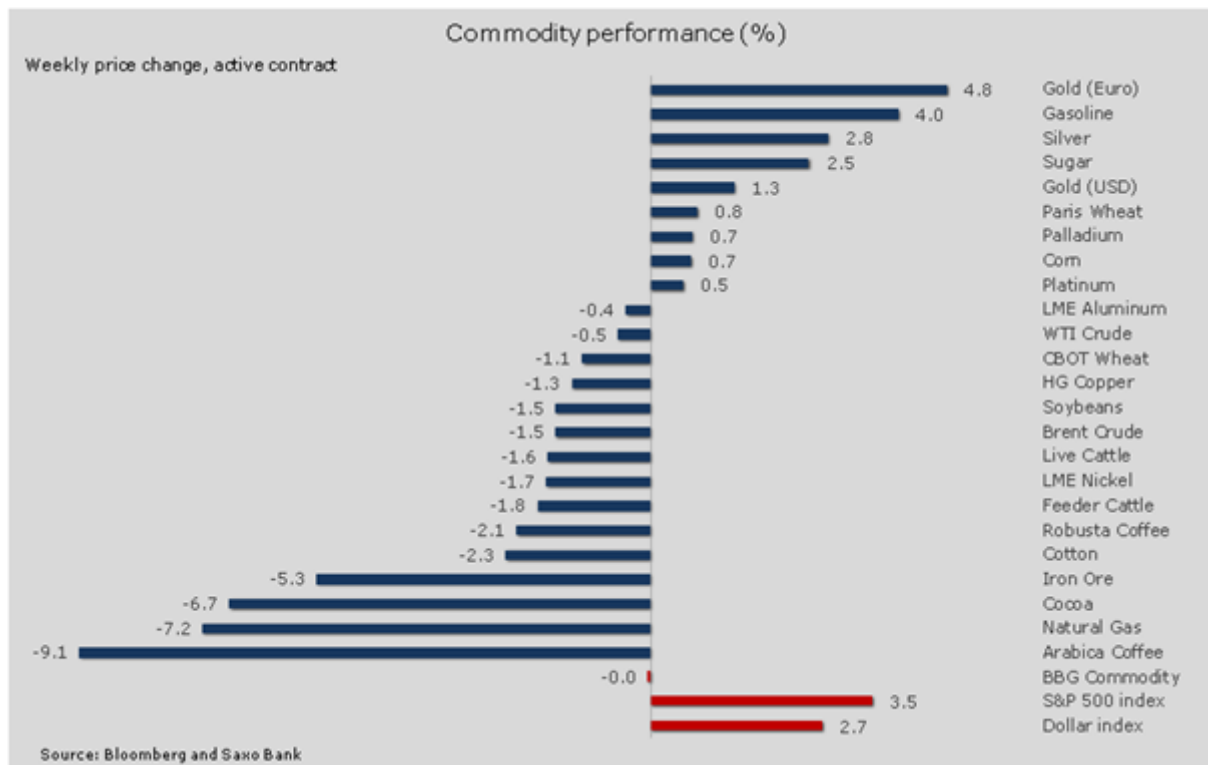
COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

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 SPECIALIST IN TRADING AND INVESTMENT



Sugar was another strong performer as the drought in Brazil's key growing region continues to worsen. During the first half of January, the region's total rainfall amounted to half of the average established over the past 20 years. Arabica coffee was one of the biggest losers on the week as it slumped to key support at \$1.6/lb. Such a move makes little sense considering the potentially damage the Brazilian drought could wreak on the high-quality bean.

Gold and oil continue to attract most of the attention for the time being. Crude oil does so because, after more than halving in value since last June, investors are increasingly looking for a bounce. Meanwhile, gold and silver have been racing out of the starting block against the odds, just like they did last year.

As a result of this, we are seeing major investor flows moving back into both the energy and precious metal sectors. So far this year, investors in USD-denominated exchange traded products have piled \$1.8 billion into energy ETFs with the two biggest recipients being the United States Oil Fund (USO) and ProShares Ultra Bloomberg Crude (UCO).

COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

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 SPECIALIST IN TRADING AND INVESTMENT



Interest in oil ETFs continues to rise. Photo: iStock

This buying is on top of another \$3 billion in net inflows during the final quarter of last year. During the same time, hedge funds have been increasing their net-long position in crude oil and currently these bullish bets amounts to more than 450 million barrels.

As mentioned earlier, precious metals have also seen a sizable pick-up in demand with \$1.3 billion flowing in so far this year. Almost all of this increase has benefited the world's largest gold ETF, the SPDR Gold Shares (GLD).

While buyers trading through ETF's only emerged during the past couple of weeks, we have seen hedge funds actively buying gold for the past two months with close to 10 million ounces (\$12 billion) being bought during that time.

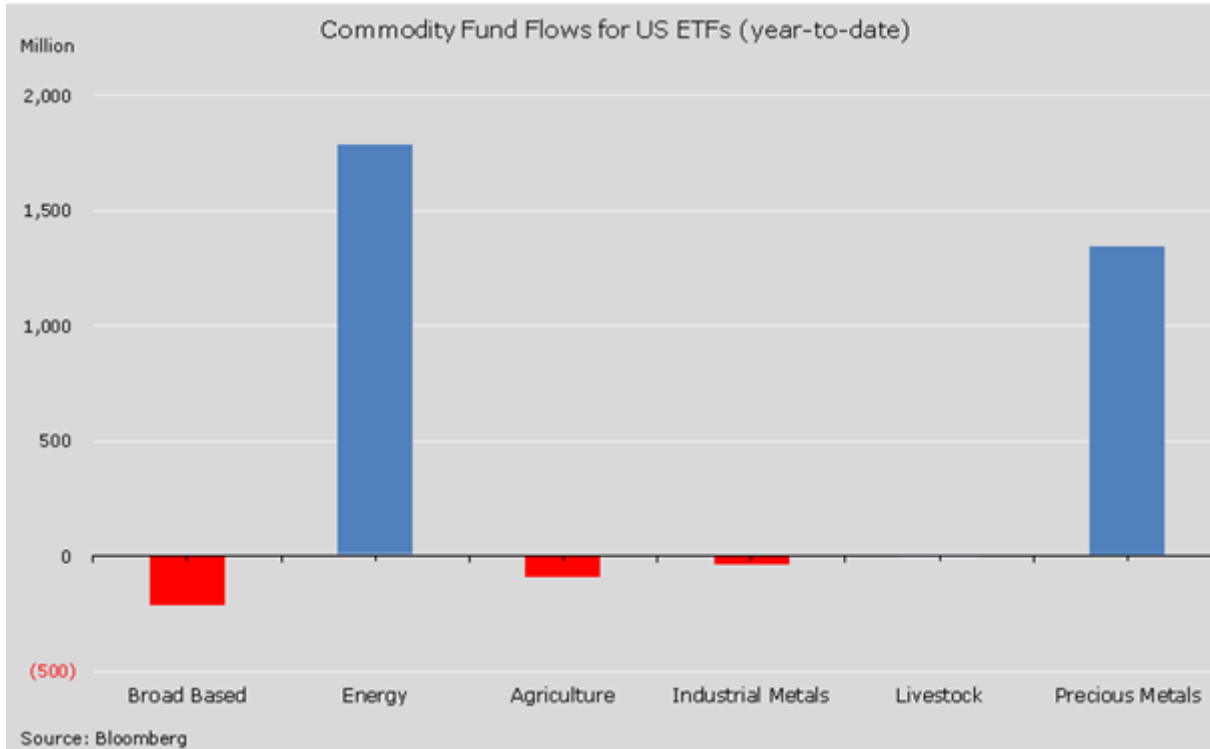
COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

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 SPECIALIST IN TRADING AND INVESTMENT



Death of Saudi King creating some temporary uncertainty

Oil prices rose Friday following the news of the death of Saudi Arabia's powerful King Abdullah. Being the supplier of 10% of the world's crude oil, such news is bound to cause some uncertainty in the market and as a precaution we saw short crude oil positions being scaled back.

Saudi Arabia's new King Salman is 79 years old and reported to be in poor health and this is raising the prospect of him being a transitional figure before the next-in-line Crown Prince Muqrin (his 69-year-old brother).

Saudi Arabia plays a very important role in the global oil market and within Opec. It is one of the world's biggest producers (and Opec's biggest by far) and therefore it has a very strong voice within the cartel. Its weight within Opec derives from the fact that it is the only country with the ability to significantly increase or decrease production.

However contentious it may be among some members, Opec's current strategy of keeping production high in order to suppress the price and eventually trigger a reduction in supply from non-Opec producers will most likely not be impacted by these events. King Salman has announced that its "business as usual" and that key ministers will stay in their jobs. This includes the powerful oil minister Al-Neimi, who many suspect to be the real architect behind the current strategy.

US inventories rising to an 80-year high following a huge weekly addition

Another reason behind the relatively subdued reaction to the death of King Abdullah is the current focus on rising supplies. The latest US inventory data ensured that this focus remains, as inventories rose to the highest in 80 years for this time of year following a weekly rise of more than 10 million barrels.

As a result, we are now seeing relatively bigger selling pressure on WTI with the prompt spread moving deeper into contango while the discount to Brent crude has moved out from zero to almost \$3 in just one week.

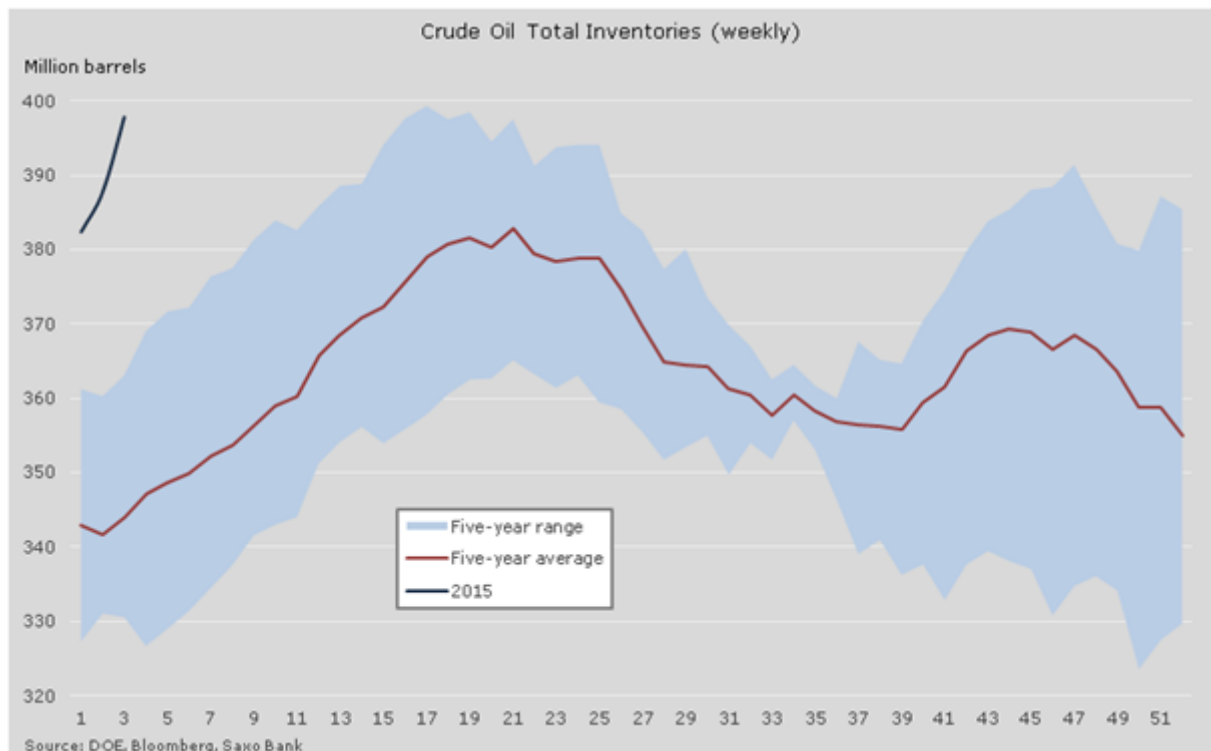
COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

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 SPECIALIST IN TRADING AND INVESTMENT



And the winner is: Gold priced in euros

Following the dislocation between the rising dollar and gold at the beginning of December last year, we have favoured exposure to gold against the euro. The prospect of a rising dollar made it difficult to see much upside for XAUUSD and on that basis, a positive view on gold was best expressed through being short euro and long gold, i.e. XAUEUR.

Since EURCHF was slaughtered last week, the focus has been firmly placed on a big QE announcement from the European Central Bank. This, of course, is exactly what we got and with XAUUSD trading stable around \$1300 despite the almost horizontal rise of the dollar, XAUEUR rose to the highest level since April 2013.

At the current price close to 1160 euros, this particular gold cross has retraced more than half of what was lost during the 2012 to 2014 sell-off.

A market where bond yields continue to be compressed (and where many are turning negative) will add support to alternative investments, such as gold. The focus on when the US Federal Reserve will raise its interest rate have not gone away, but given developments over the past month, the market is shouting louder and louder each day that the Fed is wrong in its current projections.

At the moment, a gap of 65 basis points has opened up between where the Fed sees rates at the end of 2015 and where the market is pricing it to be.

Gold priced in euro

COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

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 SPECIALIST IN TRADING AND INVESTMENT



Source: Saxo Bank

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

Email: olh@saxobank.com

Phone: +45 3977 4810

Twitter: @ole_s_hansen

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.

COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

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