

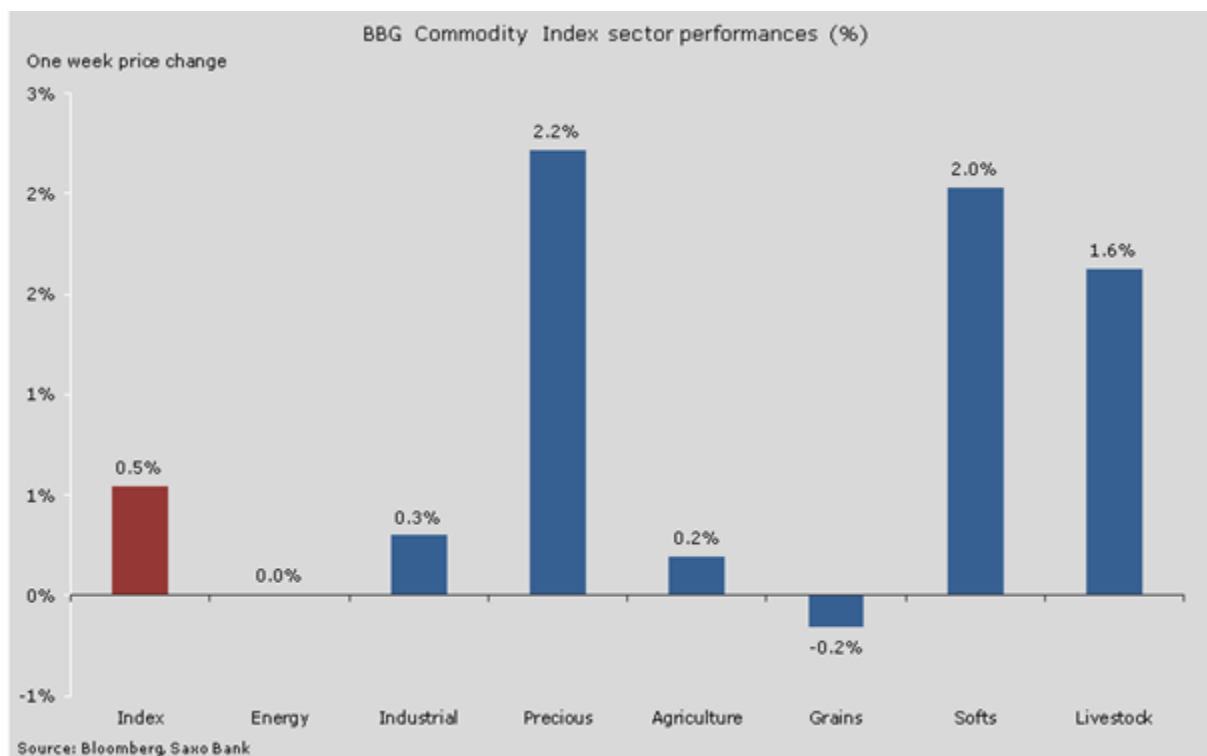


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## Precious metals enjoy boost from dovish FOMC

The Federal Open Market Committee meeting on Wednesday was the highlight of this week. A lot of attention is currently being given to the US Federal Reserve as speculation about when and by how much it will raise its official Fed Funds rates. The statement by Fed chair Janet Yellen left the door open for a rate hike in September but at the same time the committee turned more dovish on how much rates need to rise.

A sharply higher dollar against most other currencies, a subdued inflation outlook combined with a recent host of weaker-than-expected economic data provided the ammunition for the change in tone. The result was a big risk-on move into stocks and bonds, while the dollar experienced a couple of hours of turmoil, especially EURUSD, which had its second most volatile day ever.



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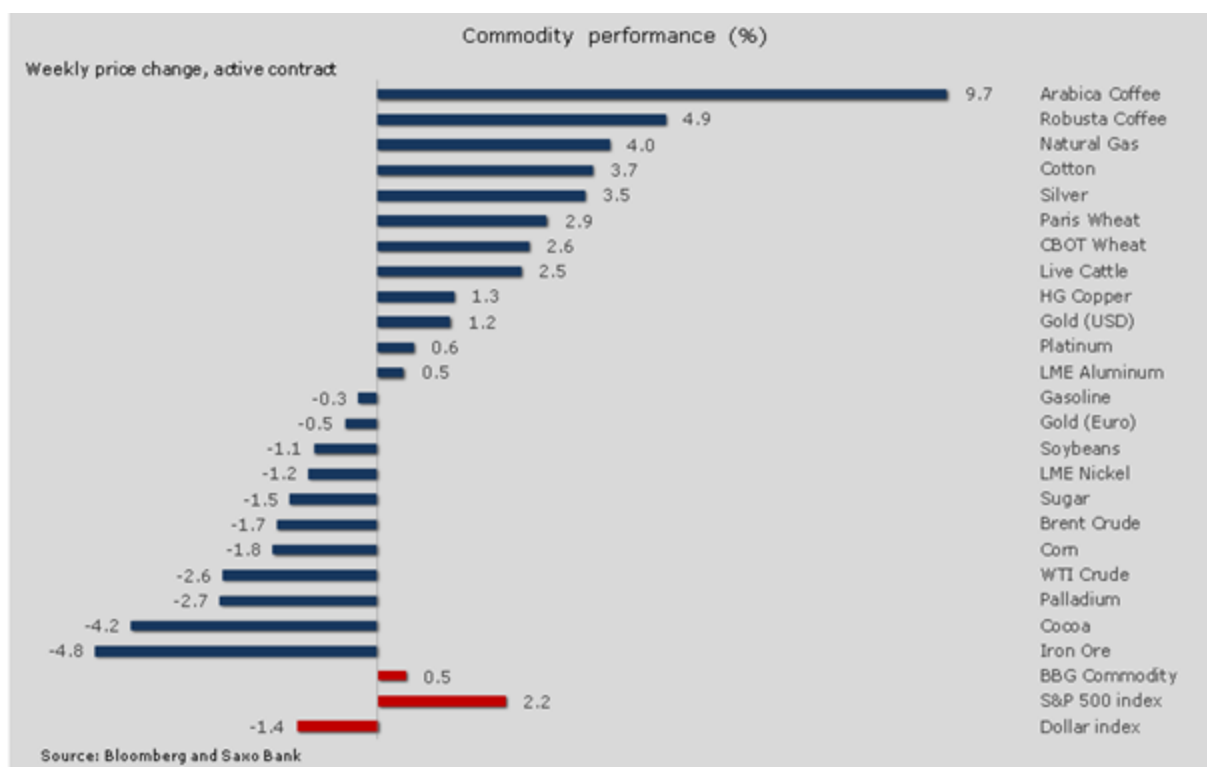


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A weaker dollar and falling bond yields returned some support to precious metals, with gold and silver enjoying the first positive week in three. Soft commodities were the best performing sector, with Arabica coffee and cotton both jumping higher as the dollar triggered short covering.

Industrial metals were higher as copper moved back to the top of its current \$2.6 to \$2.7 range as the world's second largest mine in Indonesia remained shut for a fifth day due to strike action.

The grain sector failed to benefit from the weaker dollar as the attention among traders, farmers and consumers is increasingly turning towards a key report on March 31. Each year the agriculture industry eagerly awaits the USDA's Prospective Planting report, which provides the first survey-based (82,000 farmers) estimates of US farmers planting intentions for the coming year.



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### Gold and silver getting a lift from Yellen

Gold and especially silver staged a comeback following the Federal Open Market Committee meeting on Wednesday. Although a rate hike is still on the cards, Fed chair Janet Yellen seems to have joined the ever increasing crowd of central bank doves across the world.

A subdued inflation outlook, a rising dollar and recent weakness in economic data may sway the Fed from going too aggressive on rates. and this was music to the ears of gold bulls.

Gold rose for the first time in three weeks after, just like in November and December, having struggled to make it much below the \$1,145/oz to \$1,150/oz area of support.

From a technical perspective, no significant levels have been broken to the upside and this leaves the near-term outlook pointing towards some consolidation, with the outlook now more balanced than just a week ago.

The steep downtrend from the January high offers resistance at \$1,182/oz, which coincides with the 50% retracement of the latest selloff. A break above this level could then signal a move toward \$1,193/oz, a level through which we believe the metal will struggle to break at this stage unless some renewed risk adversity related to Greece begins to make an appearance once again or the dollar retracement continues.



Source: Saxo Bank

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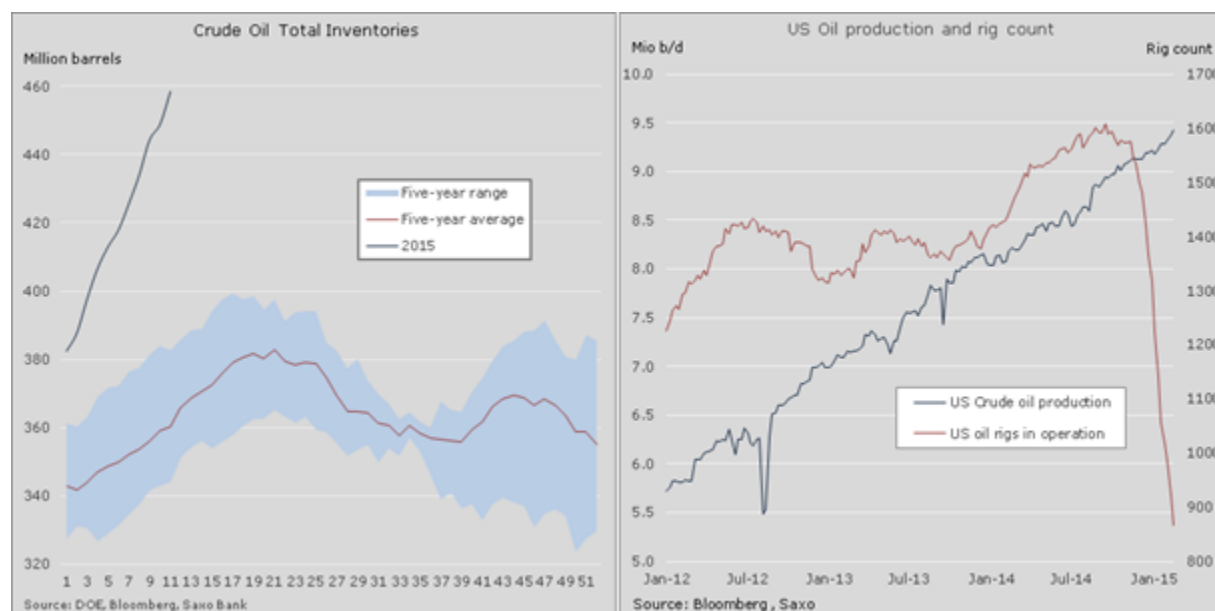
### Energy sector still troubled by rising supply and lack of response from producers

Crude oil, like most other commodities, received a boost from the dovish FOMC statement Wednesday. The recovery, however, proved temporary once again with the attention turning to the bearish oil fundamentals highlighted in the weekly US inventory report.

Last week, the rise in US inventories once again exceeded expectations and the addition of 9.6 million barrels took the total to another multi-decade high of 458mn barrels, some 100mn barrels above the five-year average.

Inventories at Cushing, Oklahoma, the delivery hub for WTI crude oil futures, continue to rise, and with speculation about the risk of hitting capacity levels, this data has been receiving some increased attention. The rise of 2.9mn barrels took the total to a new record at 54.4mn barrels.

Cushing inventories have soared by 69% this year as the shale oil boom continues to boost US production.



Despite witnessing a near-halving in the number of US oil rigs since last October, US production nevertheless continues to rise and last week it reached a 30-year high at 9.4 million barrels/day.

WTI crude oils discount to Brent did not expand further on the back of this price negative news in the US as news from around the world also added some selling pressure to Brent crude, the global benchmark.

In Libya, exports have against all odds been picking up again. While it may still only be temporary the increase from 200,000 barrels per day in February to 500,000 barrels per day currently will nevertheless add to the global supply glut.

European and Asian refineries are about to enter their annual season of maintenance which should negatively impact demand during April and May. The rise in crude oil stocks, due to reduced demand from refineries, during this time last year helped trigger the big sell-off.

Other potential negatives from a demand perspective is news that China, after building strategic reserves at a breath-taking pace, may temporarily be running out of capacity to store. Over the coming months this could slow demand from the world's biggest importer of crude until such time where additional storage facilities have been completed.

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Finally, we still have the potential for a nuclear deal being struck between Iran and the G6+1 group of nations. The Iranian government has stated that following an agreement it is prepared to increase exports by up towards one million barrels per day within a few months.

Despite seeing an end of week bounce all of the above still points towards lower crude oil prices in the near term and only a major reversal of the dollar's upward trend, a slowdown in US production or a geopolitical event may help stop the slide.



*The global supply glut of oil continues at a pace. Photo: iStock*

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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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