

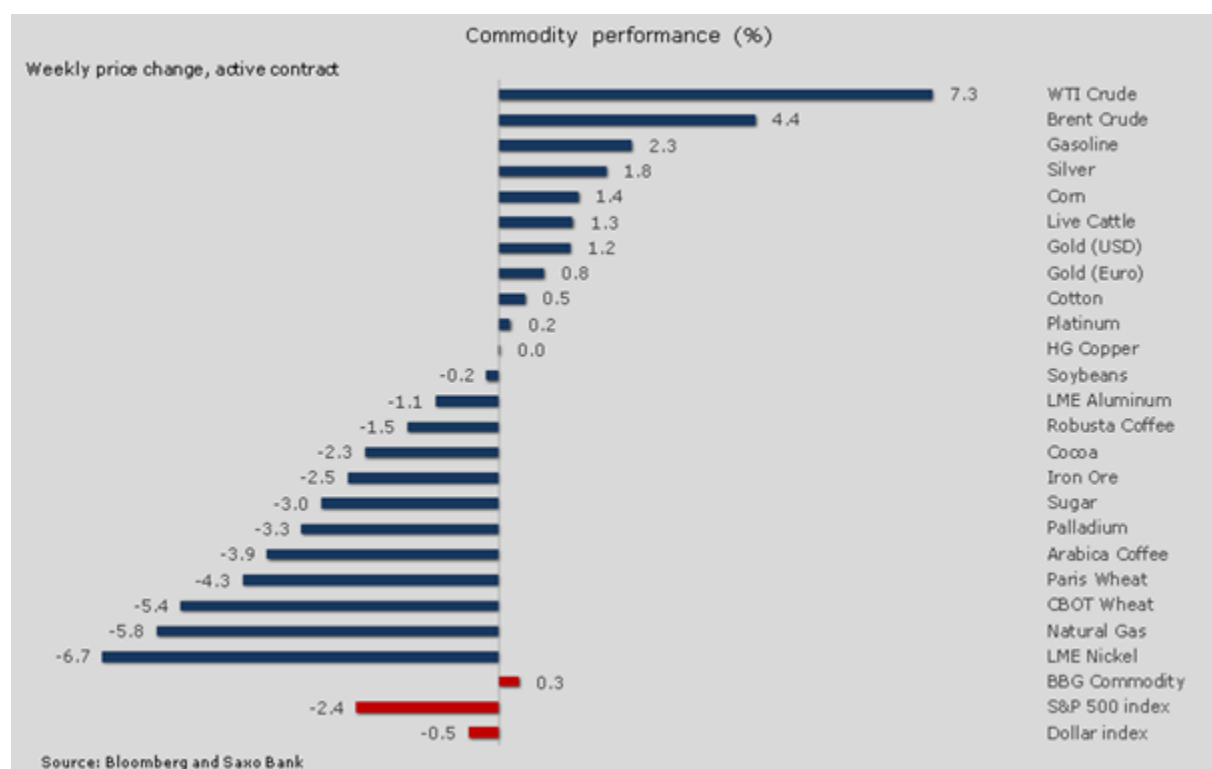


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Commodity focus turns to Yemen

Commodity market focus switched to the Middle East this week as Yemen became a battleground between Shiite rebels and a Saudi Arabian-led coalition of 10 Sunni-ruled nations. The country's close proximity to Saudi Arabia, the world's largest oil exporter, and its strategic location on one side of the Bab el-Mandeb, the fourth busiest shipping lane for crude oil in the world, raise worries about potential disruptions.

As a result, the energy sector received a boost with WTI and Brent crude occupying the top of the leader board. Safe haven flows and the dovish signal coming from the recent US Federal Open Market Committee meeting helped precious metals to recover further with gold seeing the longest stretch of gains since August 2012.



Industrial metals were lower with nickel leading the way while copper received a short-term boost from mine disruptions in Chile before turning lower once again. Iron ore futures in the Far East slid 4% on Friday as worries about global oversupply from the big producers continue to put smaller companies under pressure.

The agriculture sector were mixed with the key crops of wheat, soybeans and corn getting ready for a big report on March 31. The "Prospective Planting" report from the US Department of Agriculture will shed the first light on which and how much crop US farmers intend to plant during the coming season. The sector has been under pressure so far this year with the rising dollar and ample global supplies putting downward pressure on US crop prices in order to compete on the global market.

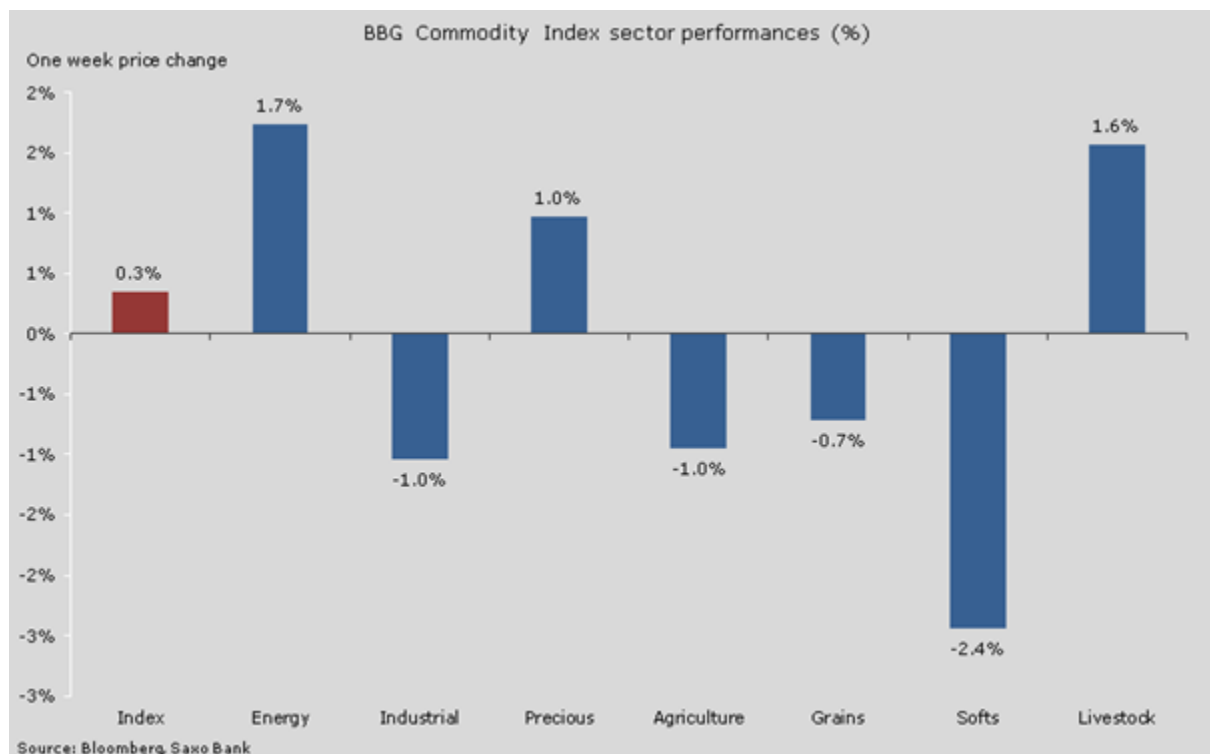
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Crude oil: Middle East disruptions versus record US supplies

The recent and price negative focus on rising global supplies, not least in the US, took a back seat this week to events unfolding in Yemen. Shia Houthi rebels earlier in the week forced President Hadi to flee the capital. This triggered a strong response from a 10 nation Sunni coalition led by Saudi Arabia. They launched airstrikes saying that they were defending the legitimate government of President Hadi while the US said it was providing "logistical and intelligence support".

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Saudi Arabia's military intervention raises the stakes in a simmering Mid East conflict. Pic: iStock

Why is unrest in Yemen a problem considering the country supplies less than 0.2% of global oil output? The country's close proximity to Saudi Arabia, the world's largest exporter, and its strategic location on one side of the Bab el-Mandeb, the fourth busiest shipping lane for crude oil in the world, raise worries about potential disruptions.

Furthermore, the bombardment of Yemen ratchets up the existing Middle East tensions between the Shia camp of Iran and Syria and the rest, which are predominantly Sunni controlled. On top of this we once again have the US and Russia supporting different sides of a conflict.

Crude oil, which had already been moving higher following the recent dollar weakness, spiked on the news but failed to hang onto the gains. WTI reacted most strongly, despite another bumper rise in US inventories and this can be explained by the speculative positions held by hedge funds in the futures market.

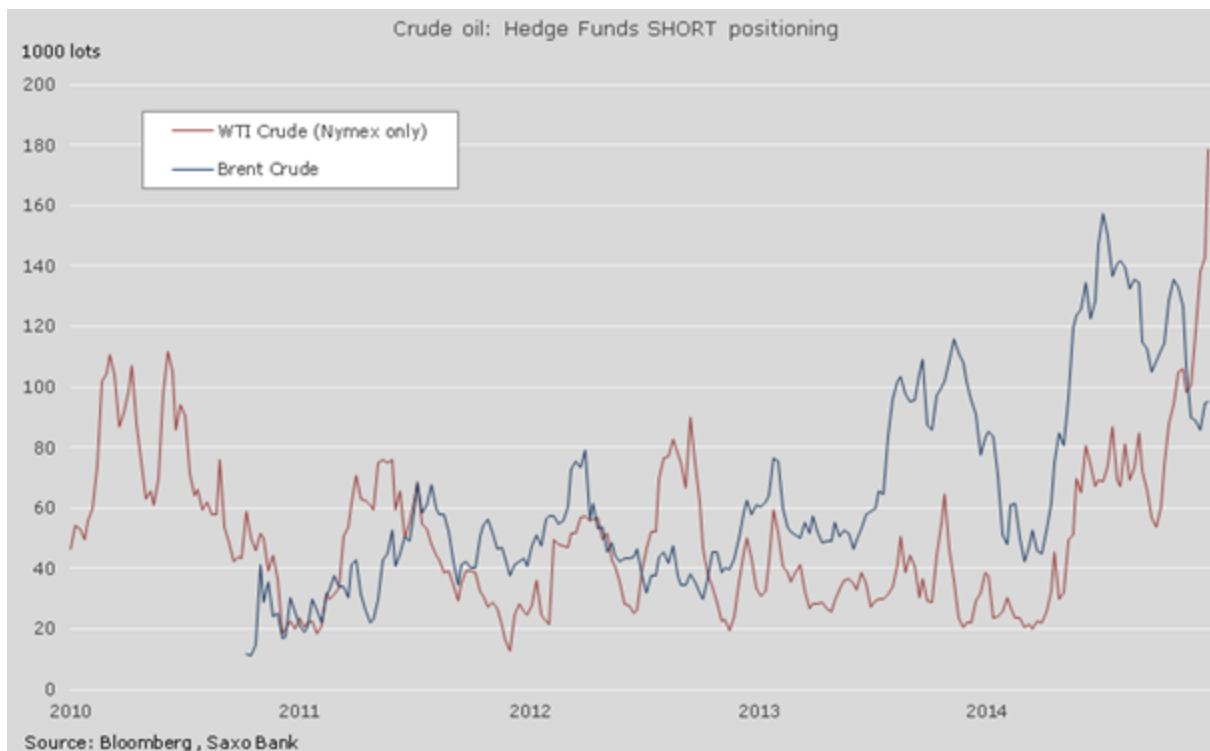
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During the week ending March 17 the speculative short position in WTI had reached 178,000 lots or 178 million barrels while in Brent crude it only stood at 95,000 lots. Most of the recent move has therefore been attributed as much to short covering as to worries about a potential supply disruptions, not least considering how well supplied the global market currently is.

The chart below gives an indication of how small the reaction to Yemen has been so far compared with some of the other major geopolitical events during the past few years. Once again the overhang of supply, not least in the US should help cushion a potential escalation and leave the near-term risk skewed to the downside.

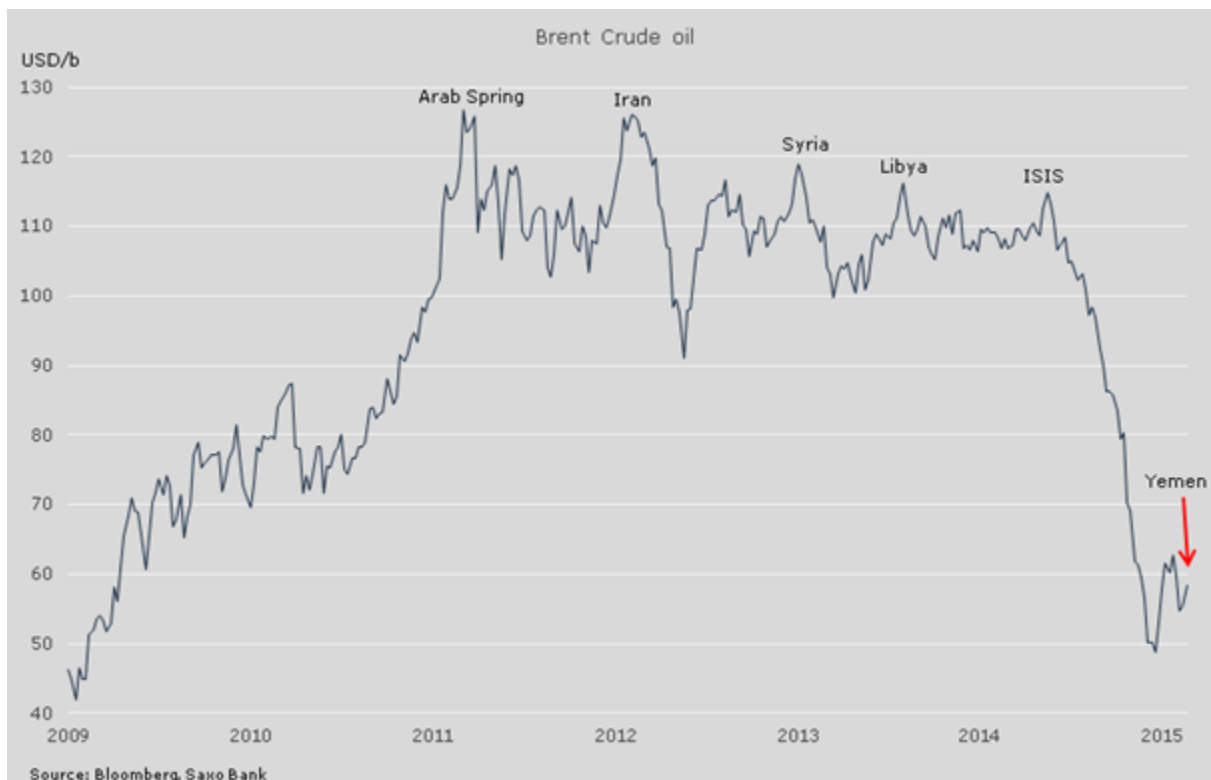
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The WTI crude oil future for May delivery is currently trading within a 10 dollar range between \$44 and \$54. It will take a further escalation in order for the price to challenge the higher end of this range with global supply expected to rise further over the coming weeks.

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Source: Saxo Bank

Gold in need of consolidation to feed a further rally

The sentiment towards gold has continued to improve following the third rejection below \$1150 since November. The latest rejection was triggered by the surprisingly dovish statement following the latest FOMC meeting on March 18. Since then we have seen the dollar, bond yields and to a certain extent stocks move lower and these three developments have all been supportive.

Short covering from those money managers who on March 17 held a near record short position helped drive the rally and the Yemen crisis helped it along to reach a three week high at \$1220. Investors using exchange-traded products to gain exposure to gold, meanwhile, have continued to reduce holdings. This follows a strong increase of 85 tons back in January most of which were initiated above \$1250. The subsequently sell-off despite the recent recovery has resulted in 60 tons being sold back out.

Silver once again managed benefit to an even greater extent than the other metals and it remains the best performing metal so far this year, currently up by more than 8%. As a result, the ratio to gold is once again testing 70 with a break below signalling some further near-term silver outperformance.

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While gold has returned to positive momentum the firm rejection at \$1223 resistance could indicate the need for some additional consolidation. The fact that the recent EURUSD strength hit a brick wall above 1.10 could also indicate that the dollar may resume its rally after consolidating for a couple of weeks.

Although the dollar is by no means the only driver of precious metals at the moment some renewed strength could trigger some profit taking on gold and potentially take it lower towards \$1172.

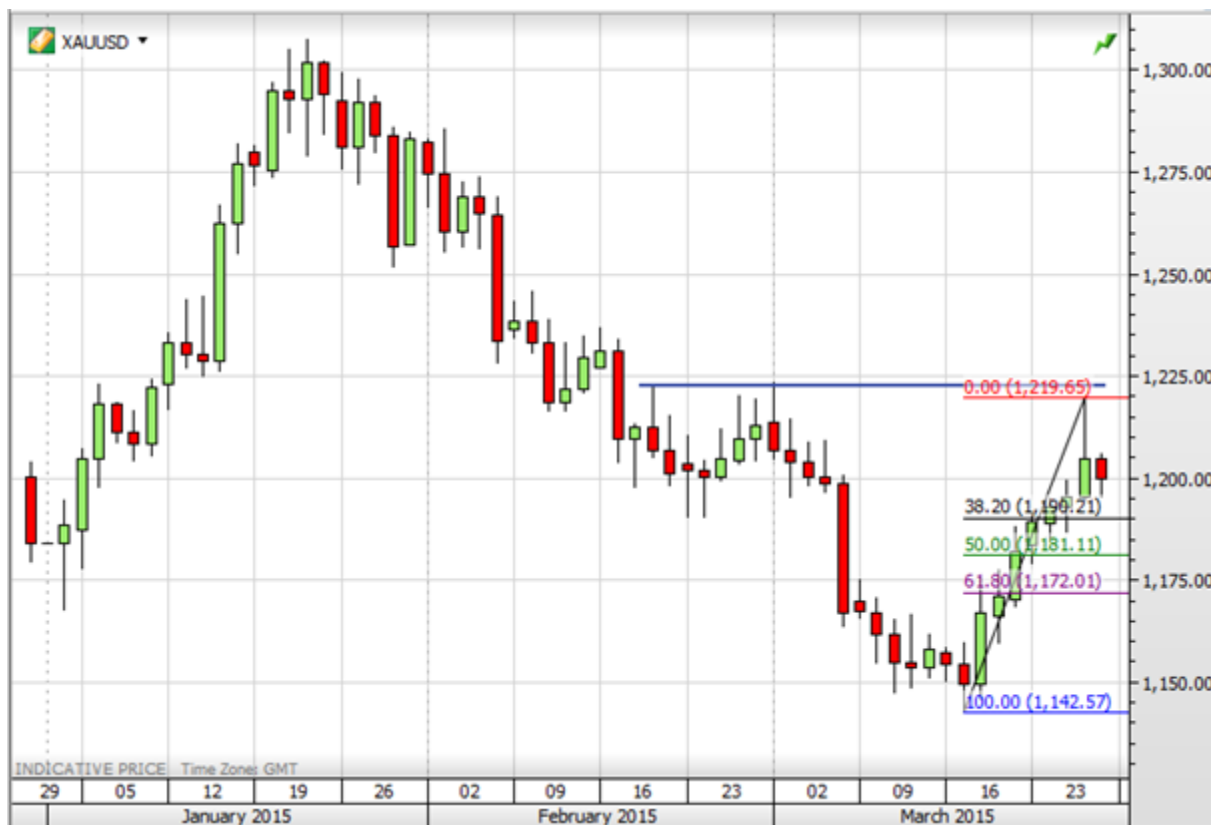
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Source: Saxo Bank

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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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