

WCU: Commodities boosted on April rebound

- **Bloomberg Commodity Index bounces back strongly in April**
- **Dollar makes first monthly retracement since last June**
- **Iron ore, bounces back from decade lows to hit near two-year high in April**
- **Gold stuck in tight range through April around \$1,200/oz zone**

By Ole Hansen

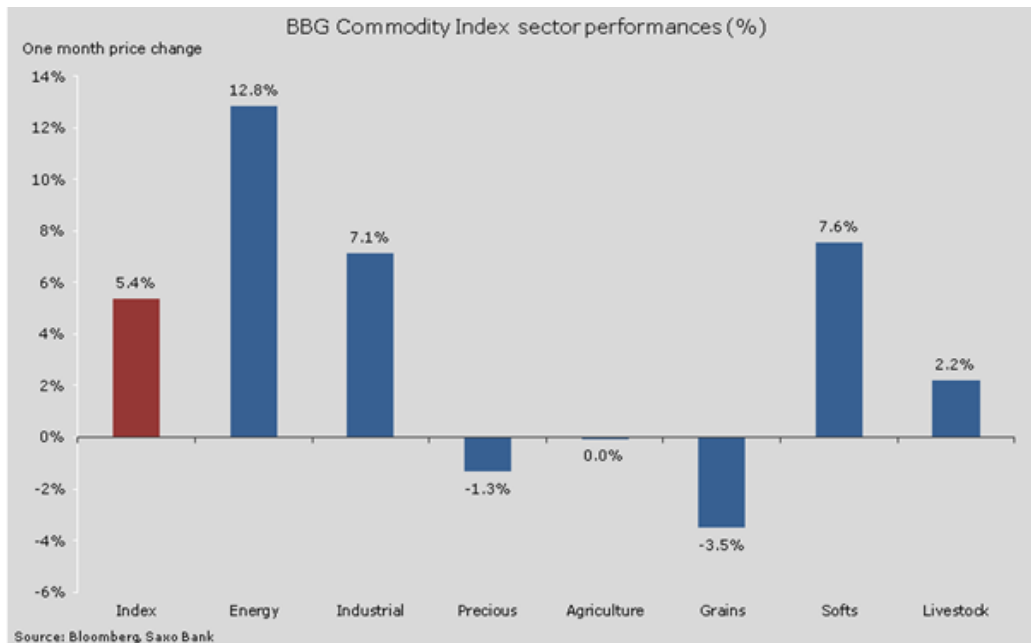
Having reached a 12-year low in March, the Bloomberg Commodity Index of 22 leading commodities bounced back strongly during April. Gains were primarily led by a continued recovery in crude oil and gasoline, while nickel and zinc were the main drivers behind the gains among industrial metals.



Momentum, for now, is telling us the crude oil market can go higher. Photo: iStock

The dollar made the first monthly retracement since last June and against the euro it fell to a two-month low. Bearish bets against the 19-nation shared currency have been close to record levels for several weeks so a correction was overdue and a break through the technical level at 1.1050 provided just that. Against a basket of major currencies the Greenback retraced by more than 3%, which also helped the improved performance across the commodity sector.

Agriculture commodities were unchanged with a price recovery in sugar and cocoa being offset by continued selling of grains, not least wheat and corn, which both ended up at the bottom of the performance table.

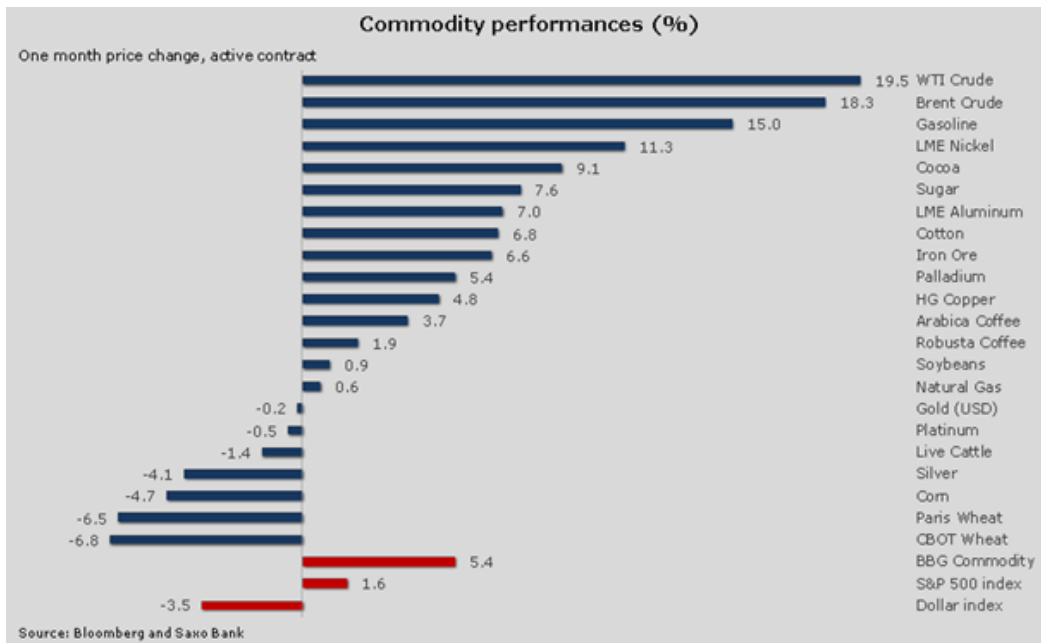


Source: Bloomberg/Saxo Bank

Iron ore, just like crude, experienced a decent change in fortune during April. After beginning the month at a decade low it ended up with one of the best performances in almost two years before some weakness returned. The change in sentiment was driven by supply news related to BHP Billiton's decision to slow the pace of its expansion amid slowing demand from China. This led to some speculation that Rio Tinto, the other iron ore giant would follow suit.

April turned out to be a very frustrating month for gold traders with a relative tight range of \$20 either side of \$1,200/oz offering several false breaks in both directions. This final week was particularly choppy with gold prices posting their biggest one-day gain since early January but subsequently failed to hold the upper end as resistance at \$1225 proved too hard to break. As a result the price ended up almost where it began at the beginning of the month.

Following the recent FOMC meeting the focus in precious metals is squarely back on US data watch. The Federal Reserve brushed aside the recent weakness in economic data as being temporary and if it is proven right and economic data begin to show signs of improvement, the market will once again begin to move the closer the expected date of the first rate hike in more than a decade. Movements in bond yields and the stock market are other drivers which cannot be ignored at this stage.

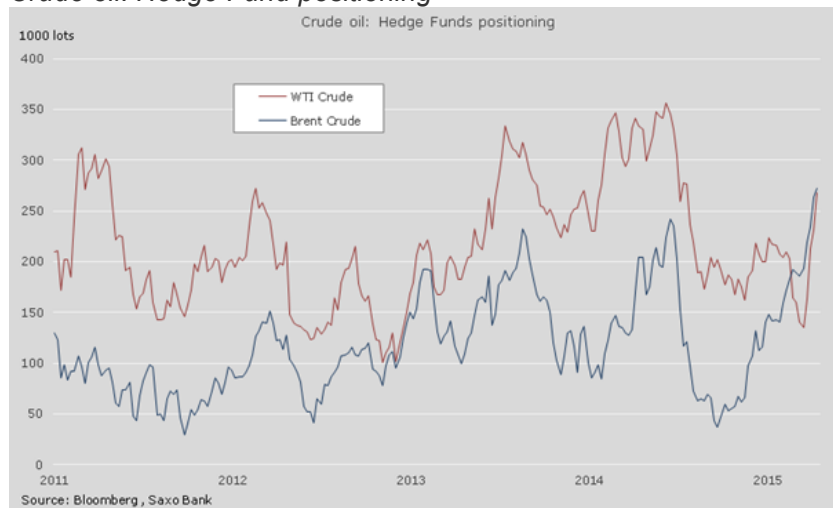


Source: Bloomberg/Saxo Bank

Crude oil, both WTI and Brent crude were the two best performing commodities this April as they headed for the biggest monthly gains since May 2009. Signs of slowing US production combined with geopolitical worries related to Yemen helped drive prices higher. US inventories remain very elevated just below 500m barrels while OPEC countries, as well as Russia, continue to pump at full speed. A sharp recovery at this stage will be counterproductive as it could trigger an earlier than expected revival of the US shale oil industry.

Speculative longs, especially in Brent crude, have reached what can only be described as extreme levels and this will increasingly be posing a downside risk to markets. Momentum is your friend and for now momentum is telling us the market can go higher, but be aware of the bullish bets which could unravel the positive mood should the sentiment or technical outlook suddenly change.

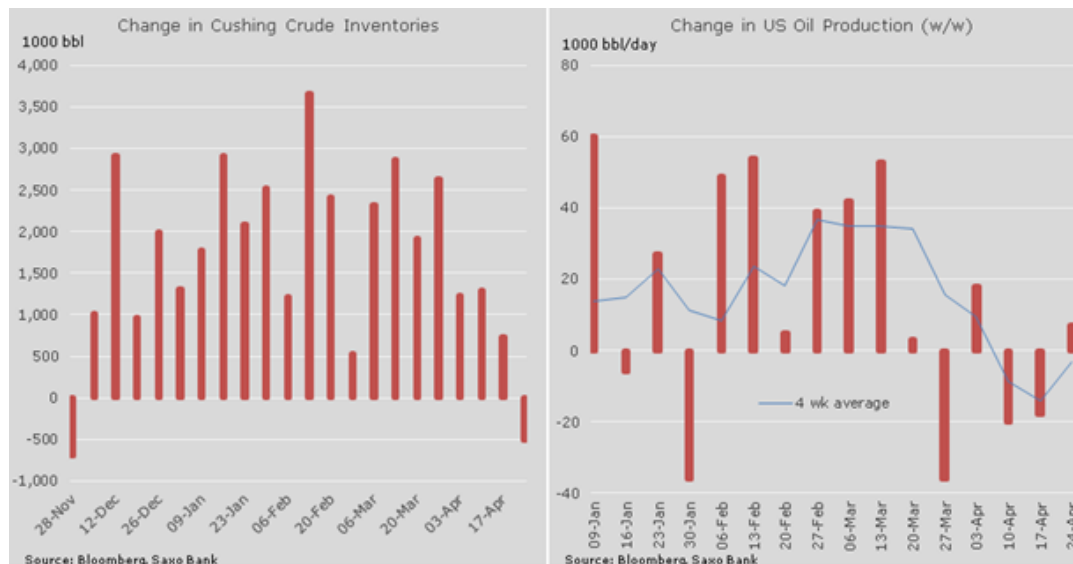
Crude oil: Hedge Fund positioning



Source: Bloomberg/Saxo Bank

The latest boost to crude oil prices was provided by the weekly US inventory report which showed the first stockpile reduction at Cushing, Oklahoma since last November. This was taken as a further sign that inventories countrywide will eventually cease to build as production slows.

Change in Cushing Crude Inventories / Change in US oil production



Source: Bloomberg/Saxo Bank

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While US production may finally be slowing the same cannot be said for Opec, where April production, according to a Reuters survey, climbed to its highest since 2012. The jump was driven by near-record supplies from Iraq and Saudi Arabia as the cartel's biggest producers are jostling for position ahead of a potential return of Iranian oil later this year. At 31m barrels per day the cartel is currently producing about 1.5m barrels per day more than what is estimated to be required during this time.



Gold was stuck in a tight range around the \$1,200/oz through April. Photo: istock

-- Edited by Susan McDonald

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