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WCU: A crazy week for commodities and financial markets

By Ole Sloth Hansen, Head of Commodity Strategy

Crazy and at times terrifying price swings were what financial markets offered traders and investors this past week. It was the culmination of the angst that swept into global markets following the Chinese devaluation on August 10.

Global stock markets, emerging market currencies and commodities experienced a roller coaster week that in the end left many questions unanswered and one in particular: Is this it?

Market volatility since China announced its first devaluation on August 10

Instrument	10-Aug-2015	28-Aug-2015	Change	Change (%)	Vol (30D, ann.)
FX					
USDCNY	6.2097	6.3896	**0.1799**	**2.90%**	6.3%
EURUSD	1.1019	1.1253	**0.0234**	**2.12%**	12.6%
USDJPY	124.63	120.82	**-3.81**	**-3.06%**	11.4%
USDCAD	1.3001	1.3290	**0.0289**	**2.22%**	8.9%
AUDUSD	0.7413	0.7134	**-0.0279**	**-3.76%**	11.8%
USDZAR	12.6537	13.2627	**0.6090**	**4.81%**	11.1%
USDTRY	2.7795	2.9237	**0.1442**	**5.19%**	9.7%
USDRUB	62.9487	67.0980	**4.1493**	**6.59%**	27.3%
USDBRL	3.4376	3.5673	**0.1297**	**3.77%**	17.5%
Equities					
S&P 500	2100	1974	**-126**	**-6.01%**	24.8%
Euro STOXX 50	3675	3263	**-412**	**-11.21%**	32.9%
DAX 30	11600	10250	**-1351**	**-11.64%**	32.4%
China A50	11380	9263	**-2118**	**-18.61%**	61.1%
Nikkei 225	20790	19050	**-1740**	**-8.37%**	30.3%
Bonds					
UST 2Y	109.391	109.609	**0.219**	**0.20%**	1.1%
UST 10Y	127.016	128.266	**1.250**	**0.98%**	5.5%
Commodities					
Gold	1103.80	1125.70	**21.90**	**1.98%**	12.9%
WTI crude	44.96	42.18	**-2.78**	**-6.18%**	48.8%
Copper	240.00	232.65	**-7.35**	**-3.06%**	25.9%

Source: Bloomberg

Chinese growth worries, a supposed "currency war" and US rate hike expectations all became too much for worried investors, many of whom had long been calling for a correction in the major stock markets for some time.

Once it hit, it hit with a force that was last seen during the financial crisis in 2008. US investors woke up on Monday to find their stock market limit down before a single cash trade had been executed.

Among all this mayhem, commodities also took a hit – not least growth-dependent raw materials such as oil and industrial metals. WTI crude oil dropped below $40/barrel while Brent crude, the global benchmark, dropped below $45/b.

This took it close to the lows seen when global demand fell off a cliff during the 2009 recession.

By the end of the week, some normality had resumed but volatility remained, particularly in crude oil which jumped by 10% Thursday, the largest one-day leap since 2009. Gold disappointed many as the mayhem and weaker dollar failed to drive it through resistance at $1,170/oz.

Most of the outperformance was seen against its fellow metals such as silver (where the ratio moved to an eight-year high of 80) and against platinum where it reached a record premium of almost 19%.

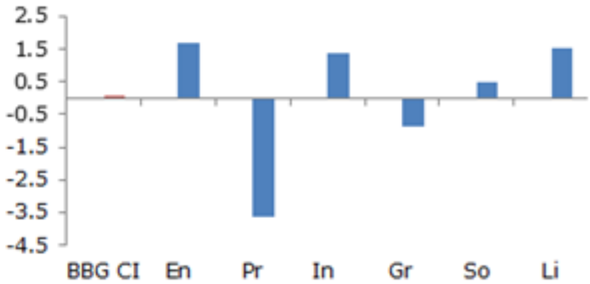
In the end, a strong recovery in energy left the Bloomberg commodity index almost unchanged after hitting a new 16-year low. Gains in energy, industrial metals and softs helped off-set losses in precious metals and grains.

Biggest movers in Commodities (One week)

Winners in %		
Sugar #11	OCT 15	5.9
WTI Crude oil	OCT 15	4.2
White Sugar (Ldn)	OCT 15	3.7
Brent Crude oil	OCT 15	3.5
Cocoa (Ldn)	DEC 15	3.2
Gas Oil	OCT 15	3.2
NY Harbor ULSD	SEP 15	2.4
LME Zinc	3 mth	2.2
LME Aluminum	3 mth	2.0
Cocoa (NY)	DEC 15	1.9

Losers in %		
Gasoline RBOB	SEP 15	-6.2
Silver	DEC 15	-5.9
Cotton	DEC 15	-5.9
Lumber	NOV 15	-4.2
Gold	DEC 15	-2.9
Wheat CBOT	DEC 15	-2.7
LME Nickel	3 mth	-2.6
Coffee Arabica	DEC 15	-2.4
Platinum	OCT 15	-2.0
Milling Wheat Paris	DEC 15	-1.8

Bloomberg Commodity Index	0.1
Energy	1.7
Precious metals	-3.6
Industrial metals	1.4
Grains	-0.9
Softs	0.5
Livestock	1.5



Source: Bloomberg, Saxo Bank

In the soft sector, positive momentum returned to sugar as buyers responded strongly after seeing the price hit a new seven-year low. A pick-up in the value of both the Brazilian real and the Indian rupee help support the sweetener as well as near-term weather concerns in Brazil where the harvest and crushing season has started.

Key grains such as wheat and corn remain under pressure from rising supply and the International Grain Council added to the negative sentiment by revising world grain stocks to their highest in nearly 30 years following the end of the current season.

Following a couple of weeks where precious and semi-precious metals performed relatively well following the July selloff, the whole sector was hit hard this past week. Gold especially raised a few eyebrows as it failed to benefit from the volatility surge and slumping stocks.

If that was not enough, the US dollar also went into reverse as multiple long positions capitulated to the surging euro and Japanese yen.

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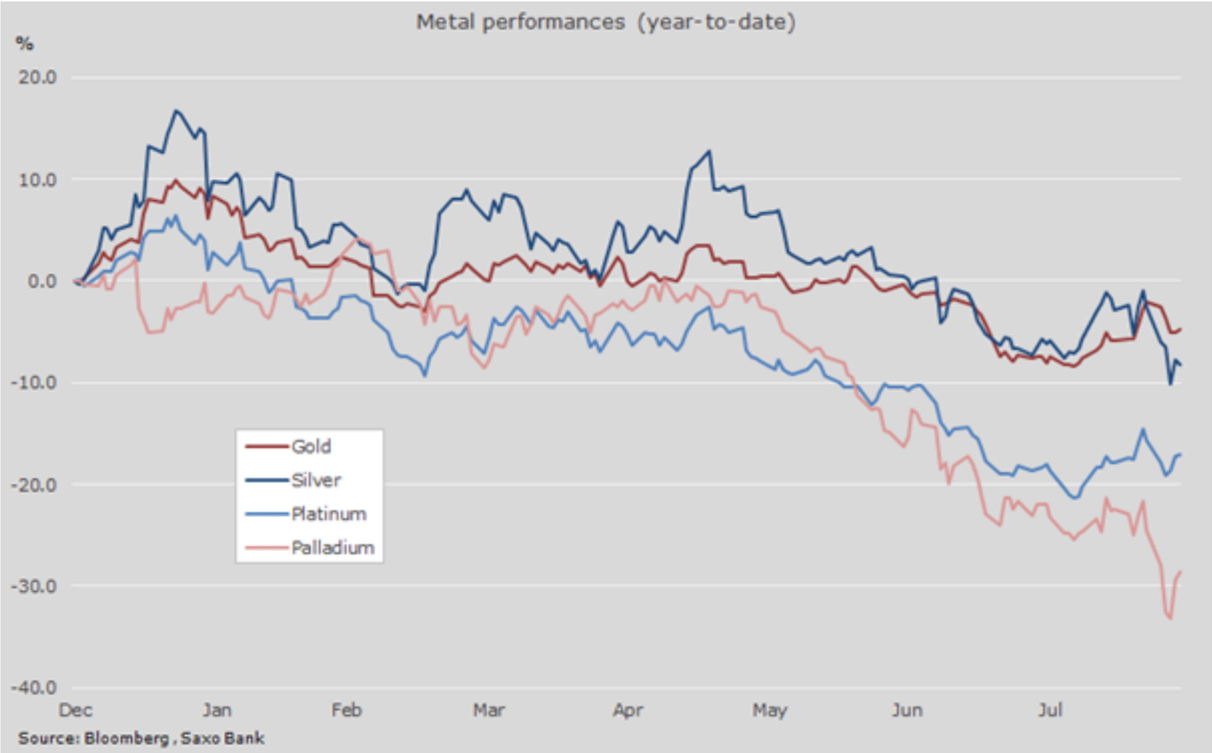
A stronger-than-expected expansion of the US economy last quarter, combined with recovering stocks and a stronger dollar, helped send the metal back towards support which currently lies near the $1,110/oz area.

Having seen a reduction of the excessive short positioning in recent weeks, gold will now have to find another positive driver. With its inability to shine during the mayhem that started Monday, the near-term outlook has somewhat deteriorated with the focus once turning to the US Federal Open Market Committee meeting on September 17.



Gold only managed to perform relative to its peers, in fact, with the ratio to silver reaching 80 for the first time since 2009 after silver hit $14/oz – a level last seen during the 2009 recession. Platinum's discount widened while palladium, the smallest and least liquid of the metals mentioned, lost 17% in just four days before recovering.

Crude oil fundamentals remain negative overall but the market gave a harsh lesson in the impact of overextended positioning this past week. Just like gold a month ago, crude oil's best friend had become the fact that most traders hated it and saw it lower. As a result, bearish bets reached a level relative to those seeing it higher which had not been seen since 2009.

After hitting new lows earlier in the week, the robust US GDP print combined with a technical break above $40.50/b on WTI crude oil triggered the biggest one-day rally since 2009 and the first weekly rise in nine.

While this has left a few bears licking their wounds, any additional upside at this stage seems limited to a few dollars.

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With the outlook for supply continuing to outstrip demand, the upside potential for oil at this stage seems limited. This especially apparent when one considers the risk of rising global inventories during the next few months as the seasonal slowdown in refinery demand begins.

Source: Saxo Bank

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