



THE SPECIALIST IN TRADING AND INVESTMENT

## Weekly Commodity Update: Commodities soaring with Fed doves

*By Ole Hansen, Head of Commodity Strategy*

The weaker than expected US jobs report on October 2 has kicked off a chain reaction across global markets. The realisation that US rates will remain low for longer helped a big turnaround in emerging market currencies, stocks and bonds. This in turn helped boost commodity prices, not least oil where robust demand remains the key to re-balancing the market.

With the market stabilising we are seeing hedge funds and money managers chasing investment opportunities following a very challenging third quarter. EM stocks and bonds have been the most depressed and that is now where traders are focusing.

In our **quarterly outlook** released this past week we chose the title "from fear to opportunity" as we focus on the investment opportunities in emerging markets.

As Saxo CIO **Steen Jacobsen** wrote: *"EM have been battered by a debt-induced perfect storm, a dizzy US dollar and crumbling commodity prices. But there is hope – and investment opportunities – even though the pretend-and-extend craziness of printing money persists"*

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

| Market performances following the weak US job report |             |             |                |               |  |
|--|-------------|-------------|----------------|---------------|--|
| Instrument   | 01-Oct-2015 | 09-Oct-2015 | Change         | Change (%)    |  |
| <b>FX</b>  |             |             |                |               |  |
| EURUSD   | 1.1195      | 1.1365      | <b>0.0170</b>  | <b>1.52%</b>  |  |
| USDCAD   | 1.3268      | 1.2911      | <b>-0.0357</b> | <b>-2.69%</b> |  |
| AUDUSD   | 0.7030      | 0.7340      | <b>0.0310</b>  | <b>4.41%</b>  |  |
| USDZAR   | 13.9221     | 13.2619     | <b>-0.6602</b> | <b>-4.74%</b> |  |
| USDTRY   | 3.0269      | 2.8968      | <b>-0.1301</b> | <b>-4.30%</b> |  |
| USDRUB   | 65.6817     | 61.0267     | <b>-4.6550</b> | <b>-7.09%</b> |  |
| USDBRL   | 4.0095      | 3.7853      | <b>-0.2242</b> | <b>-5.59%</b> |  |
| <b>Equities</b>                                      |             |             |                |               |  |
| S&P 500  | 1917        | 2009        | <b>93</b>      | <b>4.83%</b>  |  |
| Euro STOXX 50  | 3061        | 3255        | <b>194</b>     | <b>6.34%</b>  |  |
| DAX 30   | 9509        | 10117       | <b>608</b>     | <b>6.39%</b>  |  |
| China A50  | 9275        | 9643        | <b>368</b>     | <b>3.96%</b>  |  |
| Nikkei 225   | 17690       | 18380       | <b>690</b>     | <b>3.90%</b>  |  |
| iShares MSCI EM stock                                | 33.0        | 35.8        | <b>2.9</b>     | <b>8.65%</b>  |  |
| <b>Bonds</b>   |             |             |                |               |  |
| UST 10Y  | 128.750     | 128.563     | <b>-0.188</b>  | <b>-0.15%</b> |  |
| iShares JPM EM bond                                  | 105.630     | 108.090     | <b>2.460</b>   | <b>2.33%</b>  |  |
| <b>Commodities</b>                                   |             |             |                |               |  |
| WTI crude  | 44.74       | 50.56       | <b>5.82</b>    | <b>13.01%</b> |  |
| Gold   | 1113.61     | 1154.42     | <b>40.81</b>   | <b>3.66%</b>  |  |
| Platinum   | 904.98      | 977.99      | <b>73.01</b>   | <b>8.07%</b>  |  |
| Copper   | 230.45      | 241.50      | <b>11.05</b>   | <b>4.79%</b>  |  |
| Sugar  | 13.26       | 14.15       | <b>0.89</b>    | <b>6.71%</b>  |  |

Source: Bloomberg & Saxo Bank

The table above shows how global financial markets have reacted since the soft nonfarm payrolls print on October 2. Stock markets have rallied (particularly in EM) while the dollar has been sold against these countries' currencies.

The vicious circle of falling commodity prices and its negative impact on producers, especially those from emerging market countries, has been broken – at least for now.

While emerging market stocks were on track to record their best week since mid-2009, the similar comeback in commodities this past week was unmatched since July 2012. Gains were seen across all sectors, not least energy with WTI and Brent crude topping the table.

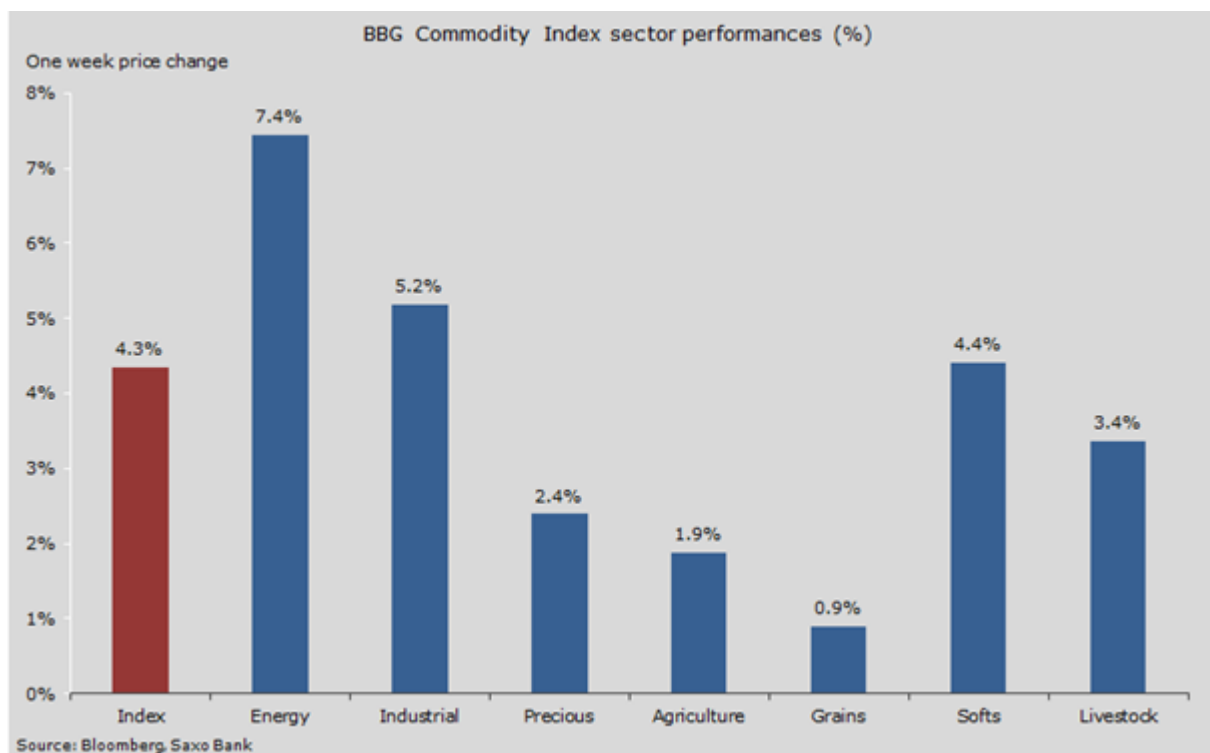
COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

**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



Growth-dependent commodities such as industrial metals also rose, helped by producers announcing further production cutbacks which will go a long way to help stabilise the market.

On Friday, zinc jumped by almost 10% after Glencore announced a cut of about one-third in zinc production following similar cutbacks in copper and coal. These are the sort of headlines that will help the sector to stabilise.

Production has risen strongly in recent years to meet expectations of a continued rise in demand from China. This has not materialised and in order to balance the market, cutbacks are now needed.

Sugar and coffee are two of the other major winners as improved fundamentals have finally begun to shine through as the headwind from a falling Brazilian real has been reversed.

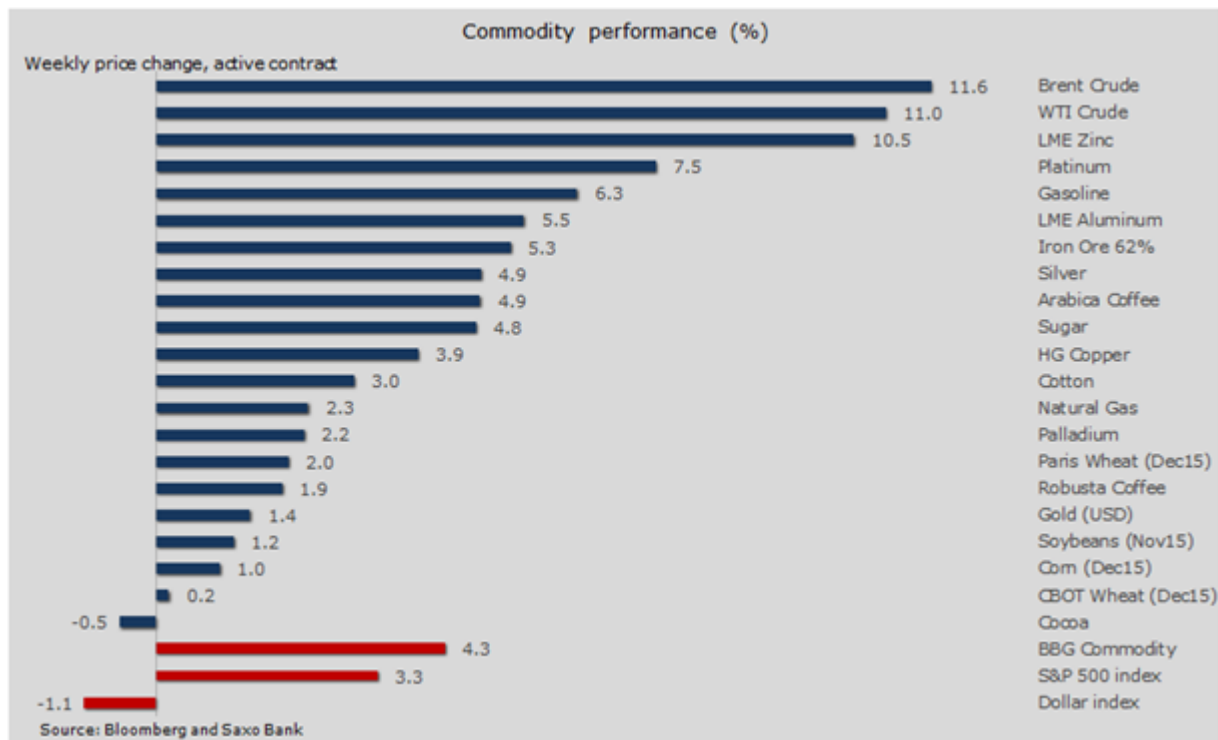
COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

**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



## Crude oil tearing higher on strong momentum

A technical break higher was seen in both WTI and Brent crude earlier this week and the positive momentum it created helped the market shrug off price negative news from the US where inventories and production rose while refineries reduced operating rates to their lowest point since February.

This will continue to keep the national stockpile at more than 100 million barrels above the five-year average and with refinery demand slowing over the coming weeks, we expect this stockpile to rise even further in the near-term.

The recovery in emerging markets and the bullish forecast for oil demand growth from both the EIA and Opec helped removed some of the supply fears that helped drive prices to their August lows.

The near-term fundamental outlook, however, does not yet look strong enough to sustain the current price rally and we will eventually see the market stabilise in the realisation that lower prices are still required over the coming months to ensure the re-balancing of the market.

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

*WTI crude oil is testing the upper boundaries of the current range. We see limited upside from here, potentially to \$53/barrel:*



Source: SaxoTraderGO

In our quarterly outlook I said the following about the near-term outlook for crude oil:

*Global demand growth has recovered strongly in response to lower prices, but with supply continuing to outstrip demand, the road to normalisation is long. The renewed weakness in the third quarter was driven by an expected pick-up in exports from Iran once sanctions are finally lifted in the first quarter of 2016.*

*The final quarter of 2015 will be challenging, with refinery maintenance triggering a seasonal slowdown in demand, while recent events in China have sparked (so far) unfounded worries about a slowdown in demand from the world's biggest importer of crude oil.*

*US oil production is slowing, and the Energy Information Administration (EIA) sees non-Opec output falling next year by the most since 1992. If realised, this will go a long way to stabilise the market during the second half of 2016 and should help oil prices gradually recover back to – and eventually above – levels seen earlier this year.*

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

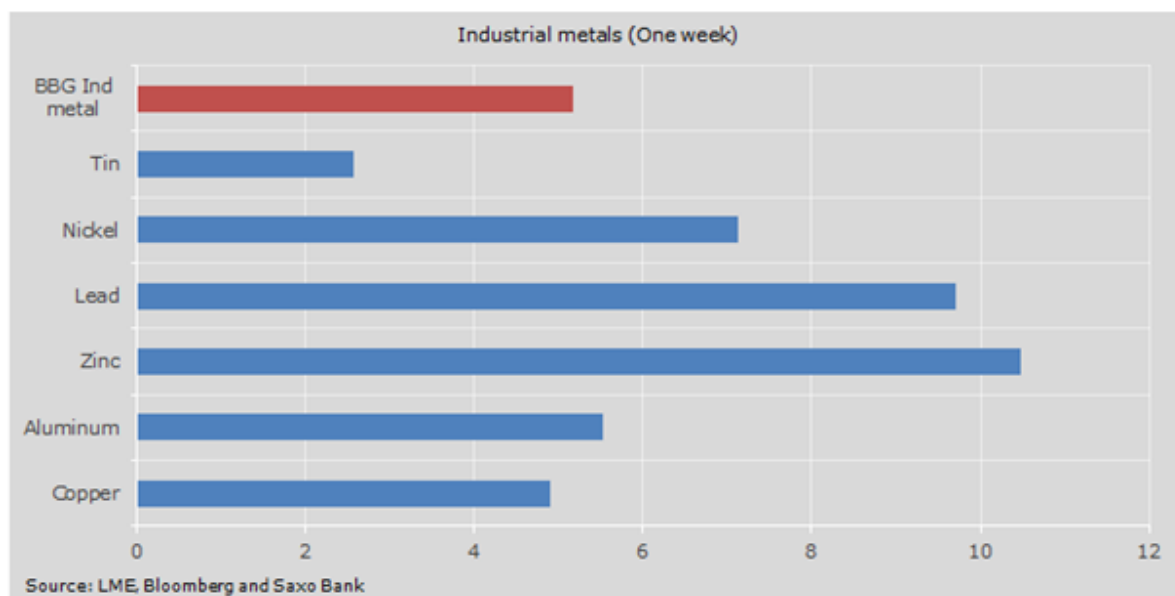


THE SPECIALIST IN TRADING AND INVESTMENT

*While we remain unconvinced that a low in the market has been established, traders should be hesitant to get too bearish, not least considering the aggressive short-covering rally witnessed in August. The road to recovery will be long, which leaves the price upside for the rest of the year capped at \$53/b on WTI and \$55/b on Brent crude.*

The relief rally in commodities has also been a dominant feature across industrial metals, especially zinc which received a boost from Glencore's decision to cut production by the equivalent of 4% of global production.

Production cuts and the expectation that the US will further delay its process towards normalising interest rates also triggered a jump in other metals, not least platinum and silver.



Silver has so far been the main beneficiary of this trend given its role as both a precious and an industrial metal. At one stage during the past week, it jumped by almost 10% and following a series of higher lows since August it managed to break above the August high at \$15.75/oz.

From a technical perspective this is a strong signal which could signal further gains in the near term.

The potential for further silver upside, however, now increasingly depends on whether gold will be able to rally further.

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

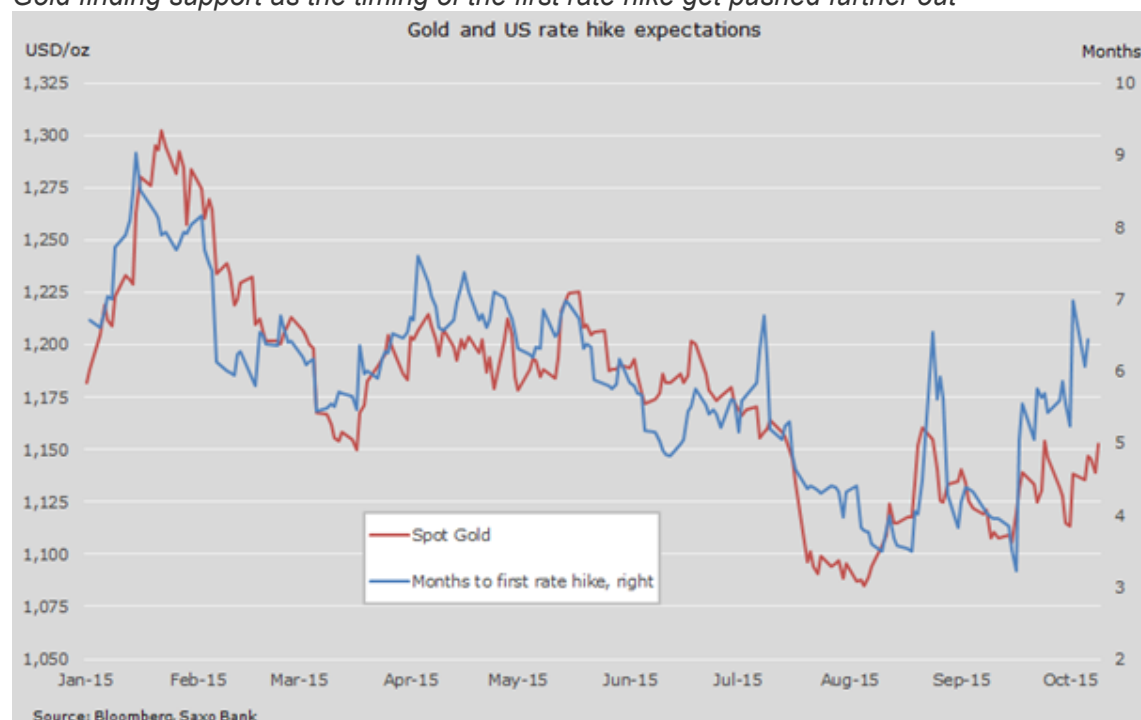
Telephone: +45 3977 4000 Telefax: +45 3977 4200 Reuters Dealing Code: SAXO Cvr. nr. 15 73 12 49 info@saxobank.com



THE SPECIALIST IN TRADING AND INVESTMENT

Investors remain lukewarm to gold but following three major short-covering rallies since August, the selling appetite seems to be fading. Hedge funds actually doubled their net-long positions during the week of September 29. This was the week where price weakness was seen following a change in tone from Federal Reserve chair Janet Yellen.

*Gold finding support as the timing of the first rate hike get pushed further out*



Will the broader macro environment has begun to show some support for gold, the current price action still shows how investors remain unconvinced and that stronger evidence of an improved outlook is need in order to shift sentiment.

So the big question is now whether gold just like silver will be able to break its previous highs thereby helping to improve the technical outlook. Gold needs to break its August high at \$1,171/oz in order for the higher lows seen since July to have any positive price impact.

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



In our quarterly outlook I said the following about the near-term outlook for gold:

*"The eventual recovery in gold hinges on a change in sentiment among paper investors such as money managers and hedge funds. Most of the third-quarter rallies were driven by hedge funds covering short positions, first after the Chinese devaluation and second after the dovish Federal Open Market Committee statement on September 17.*

*The combination of a dovish Fed, uncertainty about China's currency policy and the health of the global economy, as well as low investor involvement, may eventually be what triggers or forces a sentiment change. We have argued that the first US rate hike could become a buying opportunity as it would remove the uncertainty that has prevailed for many months. As we still wait for what potentially could be an elusive rate hike, some uncertainty will linger.*

*But having seen three robust recoveries within a short period, we sense a change of sentiment is unfolding. Key to this would be a move above gold's August high at \$1,170/oz, which would confirm a floor has been established. We maintain our year-end target of \$1,250/oz and only a break below \$1,080/oz would bring a change to this outlook."*

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

Email: [olh@saxobank.com](mailto:olh@saxobank.com)

Phone: +45 3977 4810

Twitter: [@Ole\\_S\\_Hansen](https://twitter.com/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](mailto:info@saxobank.com)