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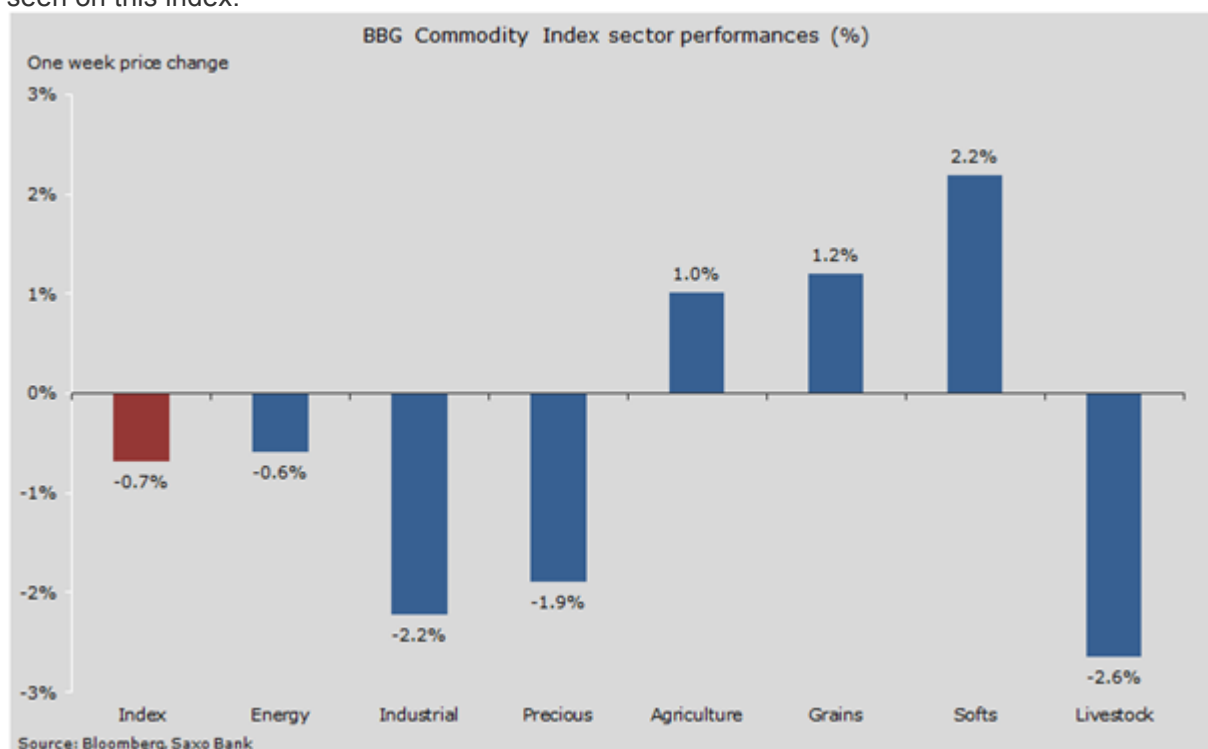
WCU: Oil stabilises as Fed's December teaser halts gold's gallop

By Ole Hansen

Precious metals recent run of gains was halted after the US Federal Reserve surprisingly put a December rate hike back on the table. Crude oil managed to stabilise despite the continued focus on rising supply while natural gas was heading for a 13-year low and the biggest monthly loss this year. Industrial metals were the worst hit sector after livestock on Fed rate hike and China slowdown fears. The Federal Reserve's six-week countdown to a possible December rate hike will take up a lot market focus during the coming weeks and with this comes an intense scrutiny of incoming economic data during this period, not least the monthly job reports on November 6 and December 4. Additionally, the potential for the European Central Bank to release another quantitative easing bazooka on December 3 will further add to market uncertainty during this time.

Not least for currency traders speculating on the near-term direction of EURUSD, the world's most traded currency pair. Action from both central banks carries the potential for a stronger dollar into the new year and this will be add to the challenging environment for commodities already struggling with excess supply and production capacity.

The Bloomberg Commodity Index, which tracks a basket of raw materials from energy to metals and agriculture ended lower for a fourth month but remains above the 13-year low reached back in August. Year-to-date the energy and industrial metal sectors have made the biggest contribution to the 17% loss seen on this index.



Industrial metals were the worst performing sector this past week as the prospect for an earlier than expected US rate hike and China growth concerns pushed the whole sector into negative territory. Zinc drifted lower and in the process wiped out all the gains from October 8 when Glencore announced production cutbacks. Copper remains the best supported but still recorded a loss on the week and has now retraced half of the gains made during the early October rally.

Wheat futures on either side of the Atlantic recorded gains following stronger than expected US exports sales combined with rising concerns about dry conditions in Black Sea area and western Australia. The

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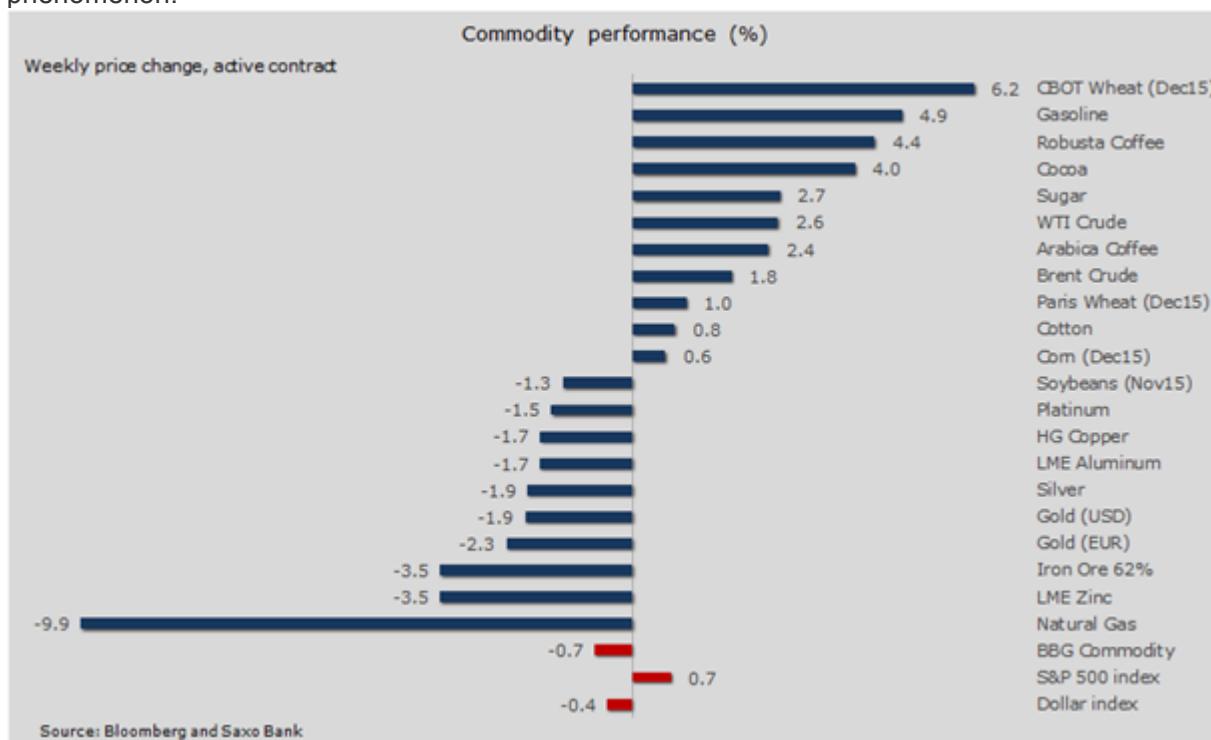
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latter is due to a strengthening El Nino which is expected to become the strongest in decades. It generally brings excess rain in South America and dry weather to Southeast Asia including Australia. Soft commodities from coffee to cocoa and not least sugar could also see higher prices from this weather phenomenon.



Gold and silver bulls retreat as rate hike focus returns

The Federal Open Market Committee wrong footed precious metals traders after the Fed revived the possibility of a December rate hike. Both gold and silver sank below recent support with elevated longs in both metals presenting a challenging environment.

Since hitting a record net-short gold position back in July, the past couple of months has seen a major change in sentiment from hedge funds. During the past four weeks alone the net-long position in gold has tripled from 40,000 lots to 122,000 on October 20 while speculative traders in silver have accumulated a net-long futures position of 45,000 lots.

Since speculative data on silver began being collected back in 2006 we have only seen a speculative length of this magnitude on five previous occasions and they all triggered a sharp reduction in bullish bets.

Although the fundamental outlook for silver heading towards 2016 looks better than gold it is nevertheless still a high beta gold and when gold moves silver tend to react even more. The gold/silver ratio, which measures the number of silver ounces needed to buy and ounce of gold, has risen to 73.8 after reaching a four-month low at 71.3 earlier this month.

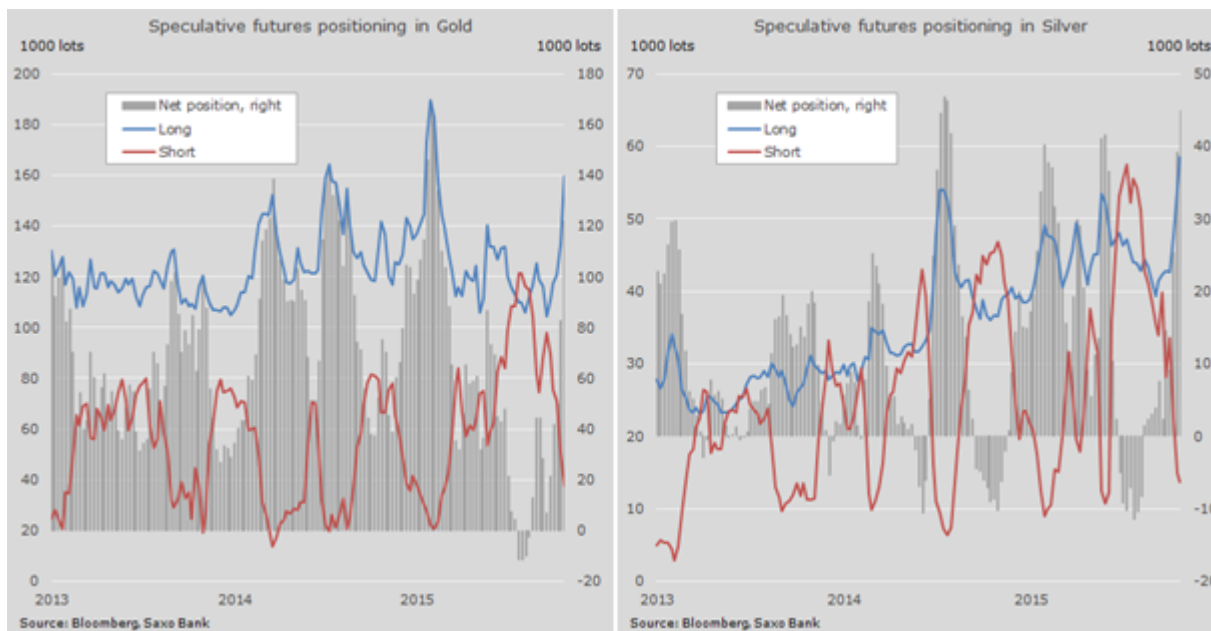
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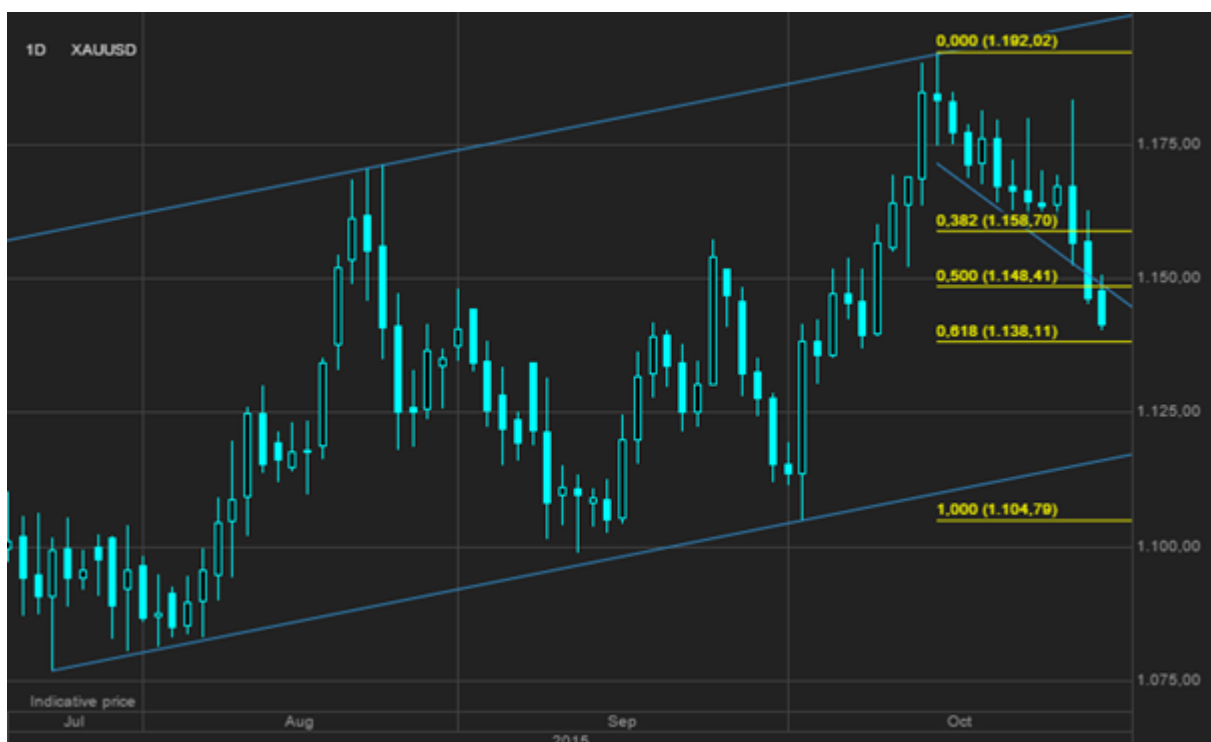


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After breaking below \$1,158/oz and \$15.65 respectively the two metals will be on the defensive from long liquidation ahead of next weeks US job report which will be the first guide as to what the US Fed may or may not do in December.

Physical demand from India ahead of Diwali on November 11 and the prospect of additional QE from the European Central Bank may provide enough support to keep the current recovery supported. Gold is currently trading within a rising channel with the bottom at \$1,115/oz.



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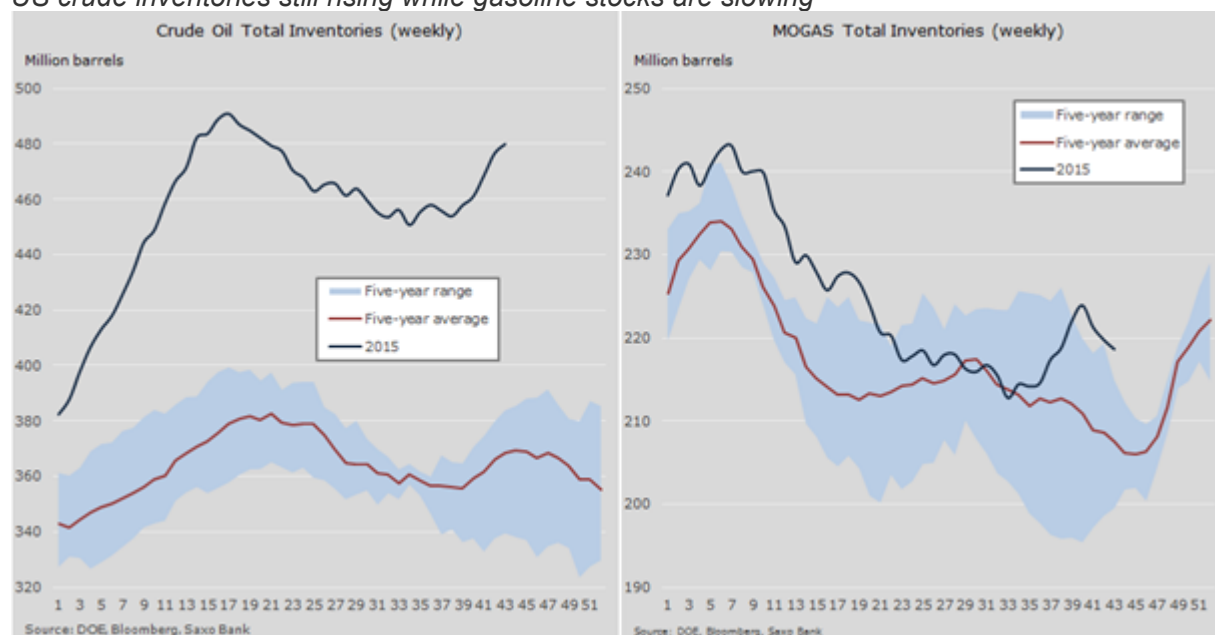
Source: SaxoTraderGO

Crude oil looking for the range

The weekly inventory report from US EIA triggered the biggest jump in eight weeks on Wednesday. For the first time in four weeks inventories rose less than expected while refinery demand picked up. The market was oversold following a 17% selloff during the past three weeks and that also helped trigger such a big reaction.

Gasoline outperformed crude oil as it received a boost from a surprisingly strong pickup in refinery demand and a bigger than expected fall in inventories. An earlier than expected turnaround from refineries will support prices as it helps remove some of the attention on booming crude inventories which remain more than 100 million barrels above the five-year average.

US crude inventories still rising while gasoline stocks are slowing



With oversupply and now the potential of an even stronger USD being the main focus, not least following the hawkish FOMC statement, the upside is currently being capped by a band of resistance between

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\$46.75 and \$47.75. At the same time the sharp correction from Tuesday's low could help define the bottom of the current trading range.

The pain of the current low oil prices is being felt across oil producing countries and energy companies. The IMF in its latest **Regional Economic Outlook** for the Middle East said that Saudi Arabia could run out of money by 2020 if current low prices are maintained. Many oil and gas companies in the US and Europe reported losses for the third quarter while capex continues to be cut.

There is no doubt that the current \$43 to \$50 price range is low enough to support the rebalancing process, not least in the US where production is currently running some 400,000 barrels below the recent peak. At the same time, however, it is also clear that as long as Opec members continue to increase production ahead of the expected pickup in exports from Iran next year this process is going to take time.



Source: SaxoTraderGO

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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

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trade execution team. He is available for comments on most commodities, especially energies and precious metals.

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