



THE SPECIALIST IN TRADING AND INVESTMENT

## WCU: Weak oil helps drag commodity index to 16-year low

By Ole Hansen

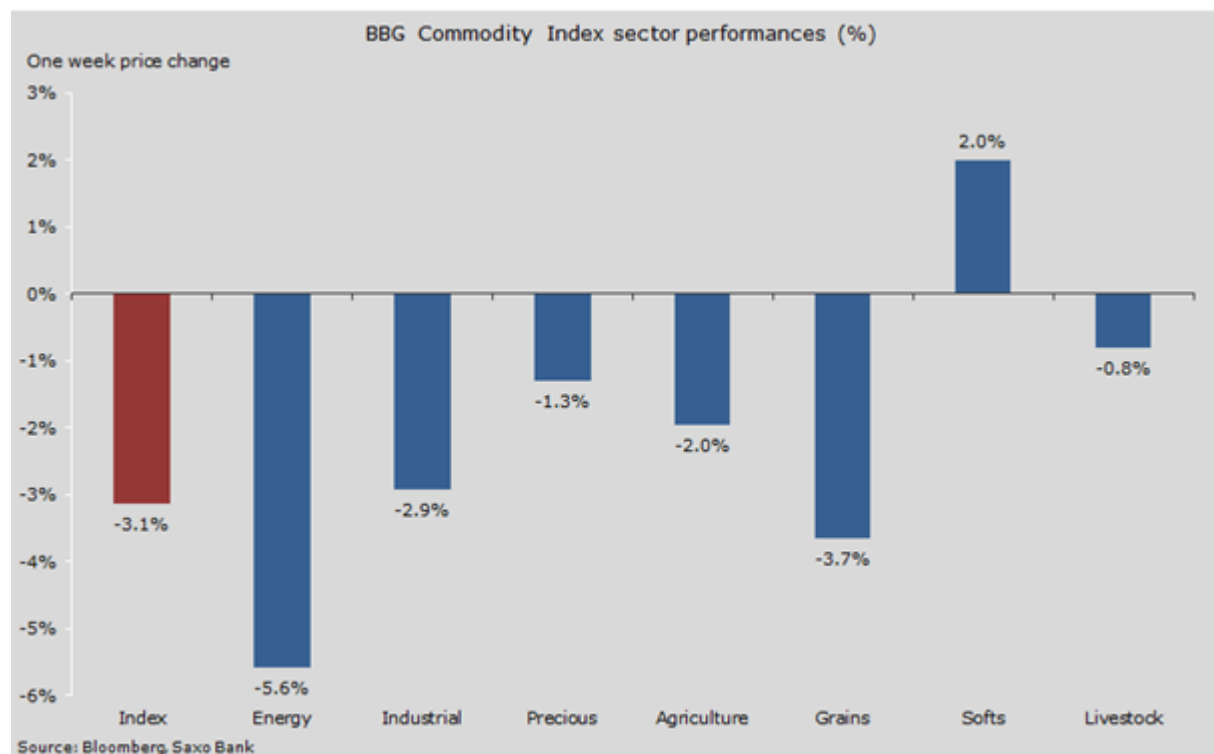
Oversupply, US rate hike and El Nino worries remain the three major themes in commodities markets. While the latter provided support to a few food commodities, the others helped drive the Bloomberg Commodity index to a new 16-year low following a fifth consecutive weekly loss.

The energy sector was the hardest hit, with crude oil weakening for a second week as the continued rise in inventories, especially in the US, remained the focal point.

Copper hit a five-year low and was the hardest hit among industrial metals. Concerns about higher US rates and the potentially negative impact on EM growth and the dollar combined with disappointing economic data from Europe and China remained the key negative drivers.

Following another crop-friendly weather season, the third in a row, US farmers will harvest more wheat, corn and soybeans this year than previously forecast. The monthly World Agriculture Supply and Demand report from the US Department of Agriculture made some bigger-than-expected upgrades to its forecasts for domestic inventories at the end of the current 2015-16 season. Corn and soybeans hit contract lows, and wheat stocks were lifted to a six-year high.

Exports of corn and wheat remain non-competitive in the global market, with the stronger dollar making exports of wheat from the Black Sea region, Europe and Australia and corn from Brazil hard to compete with for US farmers.



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

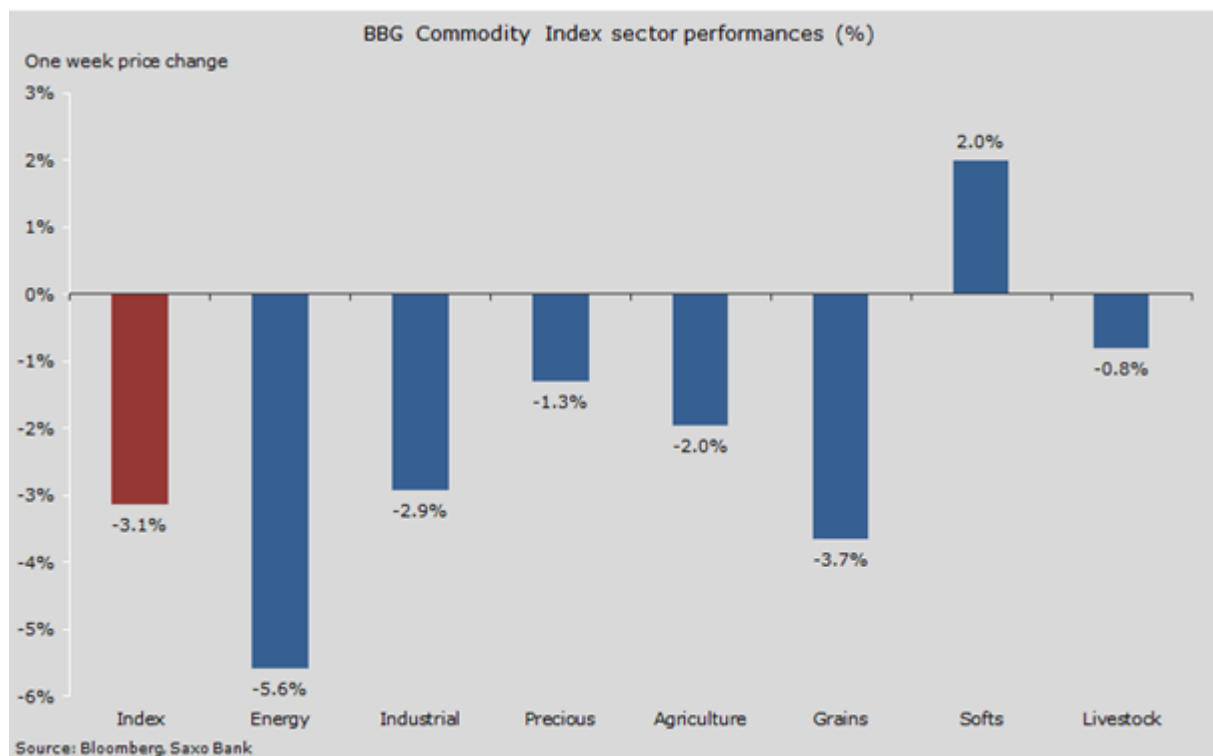
**WWW.SAXOBANK.COM** SAXO BANK A/S Philip Heymans Allé 15 2900 Hellerup Denmark

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

Sugar recovered strongly from a sharp correction at the beginning of November. The strength seen since September has been driven by production worries related to the threat of El Nino disruptions. Sugar and cocoa are currently the only two food commodities to show a positive return this year.



### Investor exodus hit platinum group metals

Platinum and palladium suffered the biggest setbacks, with palladium losing more than 10%. Both metals, which among others are used in car pollution-control devices, are suffering from the potential impact of slower growth on car sales in China. But they have also been dented by the foreseen end of ultra-low interest rates in the US, which has helped fuel the best two-month stretch of car sales in 15 years.

Both of these metals are relatively small markets, and liquidity problems occur when so many investors want to exit within a short space of time. Investing in these metals through exchange-traded products gained popularity up until August, and an exodus from these investments has created a bottleneck during the past couple of weeks.

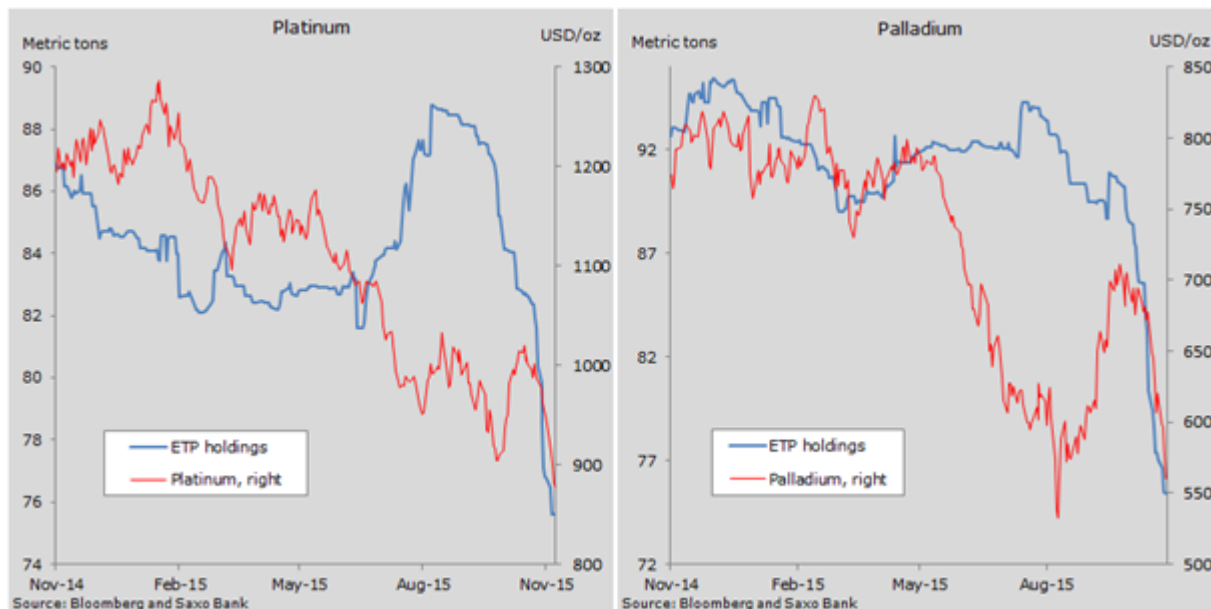
COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

**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



### Gold stuck in limbo ahead of December FOMC

Gold has returned to its early-third-quarter lows as uncertainty about the impact of a possible December 16 rate hike from the US Federal Reserve has triggered another exodus of investors in futures and exchange-traded products.

Gold will be sensitive to US data and headlines about a rate hike during the coming weeks. So, until we get clarity around December 16, paper investors will find limited reasons to re-enter, and most of the buying between now and then is likely to be driven by bouts of short covering.

The physical market may attract some buying interest due to the return to lower prices, and mining companies may start talking about production cuts.

At this stage, it will probably not be enough to mount a defense against investors more worried about rising rates and a stronger dollar. Only a change in the outlook for either of these two negative drivers would help sway paper investors back into precious metals.

Although gold has not broken the key area of support at \$1,075/oz highlighted in our outlook for Q4, we downgrade our end-of-year call to \$1,100/oz. This comes on the expectation that we are unlikely to see any recovery before December 16 as traders and investors fret about future performance in an environment of rising interest rates.

On a break of \$1,075/oz, the market will initially be targeting \$1,045, the July 2010 low, ahead of the psychologically important \$999/oz level. The upside for now seems capped at \$1115/oz.

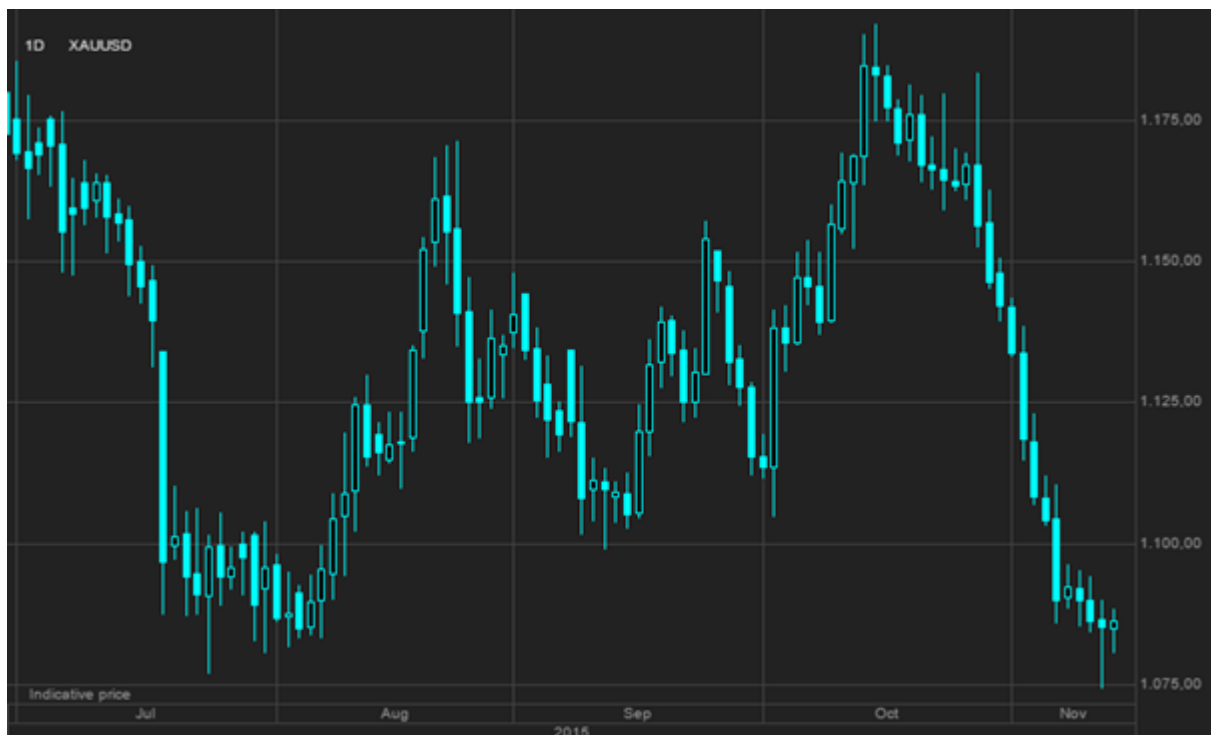
COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

**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



Source: Saxo Bank

### Oil dragged lower by supply overhang

Crude oil extended its slide into a second week as US stockpiles rose more than expected and the **IEA** said that OECD inventories had reached a record above 3 billion barrels. This primarily due to record production from Russia, Iraq and Saudi Arabia. Opec meanwhile predicted that global oil markets would remain oversupplied in 2016 which, if realised, would further postpone a price recovery.

US crude oil inventories reached 487 million barrels and now exceed the five-year average by 118 million barrels. While the number of oil rigs operating across the US continues to decline, we are yet to see a continuation of the drop in production that was seen in the third quarter.

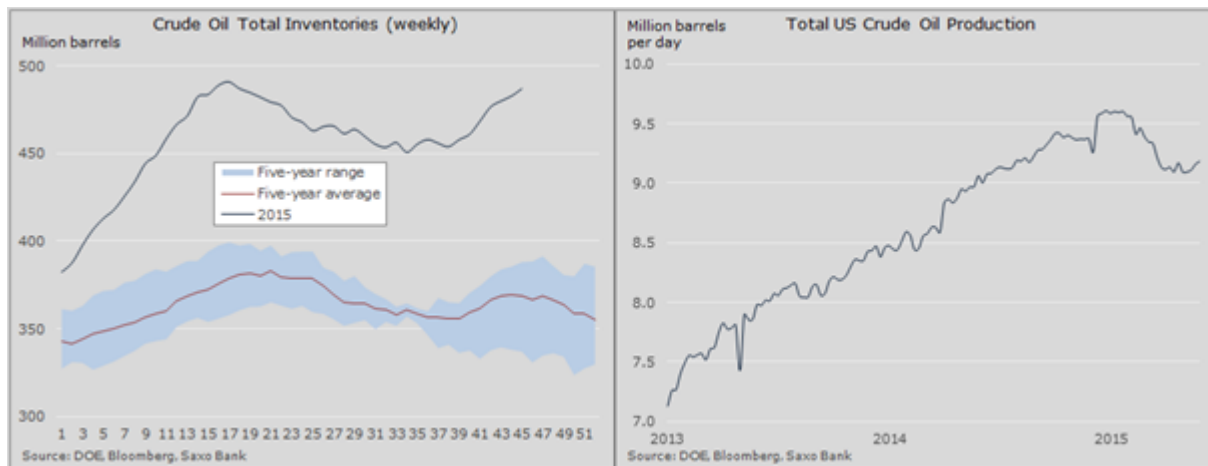
COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

**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



The IEA, however, maintained its expectation that US production will fall by 600,000 barrels in 2016 and this, together with a continued strong year for demand growth, should eventually help the market to rebalance, despite an expected pick-up in exports from Iran.

The IEA also said that with "brimming crude oil stocks" and storage facilities filling up, the global oil market has built up "an unprecedented buffer against geopolitical shocks or unexpected supply disruptions."

Against this backdrop, crude oil will remain sluggish before the next Opec meeting on December 4, and the lower the price is at that time, the more heated the discussions will be.

US refinery demand for crude oil will increase over the coming weeks which will prevent inventories from rising much further.

The current overhang of supply, increased oil from Iran next year, combined with a slow reduction in non-Opec supply and concerns about the strength of the global economy, will result in nervous trading up to the December FOMC meeting, considering its potential impact on the dollar.

The current negative momentum could see Brent crude trade down to \$43.25/barrel, which is not far from the August low at \$42.23. In WTI crude, sellers could be targeting \$40/b. Overall we continue to see rangebound trading over the coming months and the mentioned levels are likely to attract buyers if reached.

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



Source: Saxo Bank

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)