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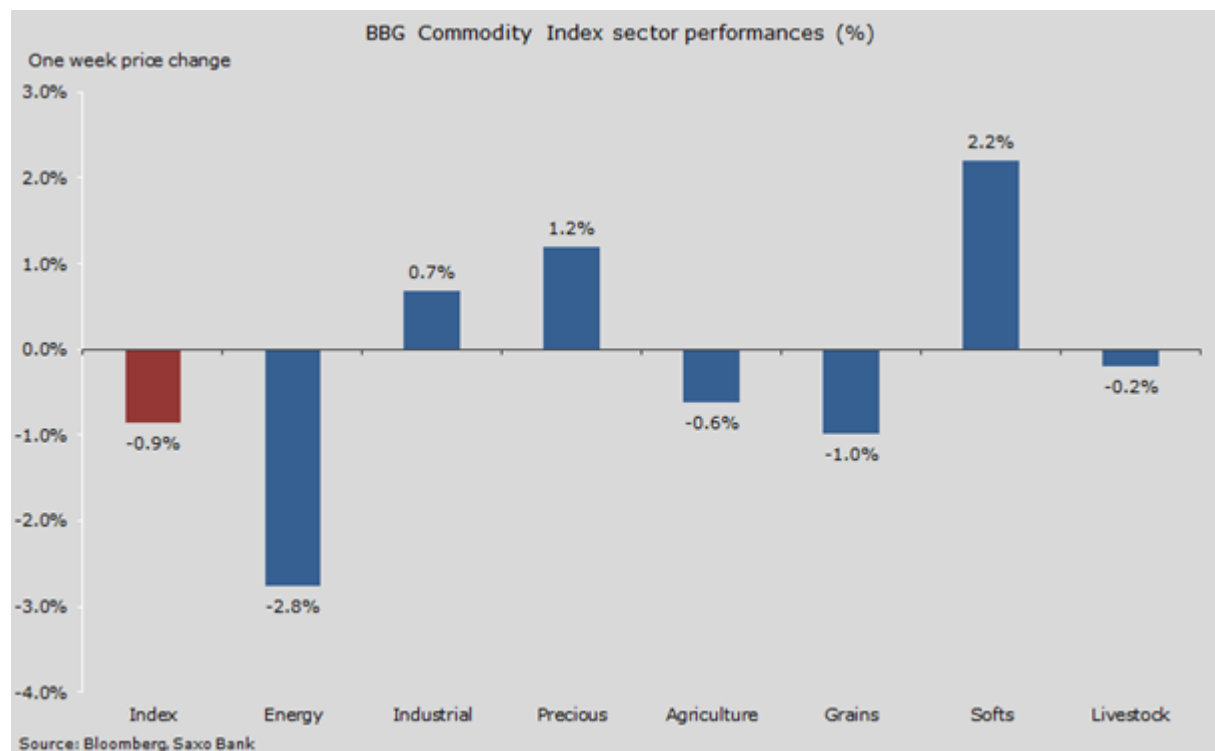
WCU: Commodities focus on looming Brexit vote

By Ole Hansen

Market activity has increasingly been dictated or distracted by the uncertainty surrounding the UK referendum vote on June 23. Opinion polls indicating rising support for the Leave camp sent investors looking for cover with stocks falling and bonds rising. This was followed on Wednesday by a distinctively dovish statement following the latest Federal Open Market Committee meeting. The FOMC lowered its projection of its own interest rate path with six members now only seeing one rate hike in 2016.

Commodities got caught up in these developments with the risk-off sentiment helping send the Bloomberg Commodity Index (BCOM) lower for the first time in six weeks. Oil was especially hurt, not by worsening fundamentals but by the need from speculative traders to reduce a near-record exposure following the failure to gain a foothold above \$50/barrel.

Gold and silver meanwhile spiked with the yellow metal hitting a near two-year high on continued demand from both paper and physical metals investors. Holdings of silver in exchange-traded funds reached a new record while hedge funds trading gold futures continued to increase bullish bets following a one-third reduction during May.



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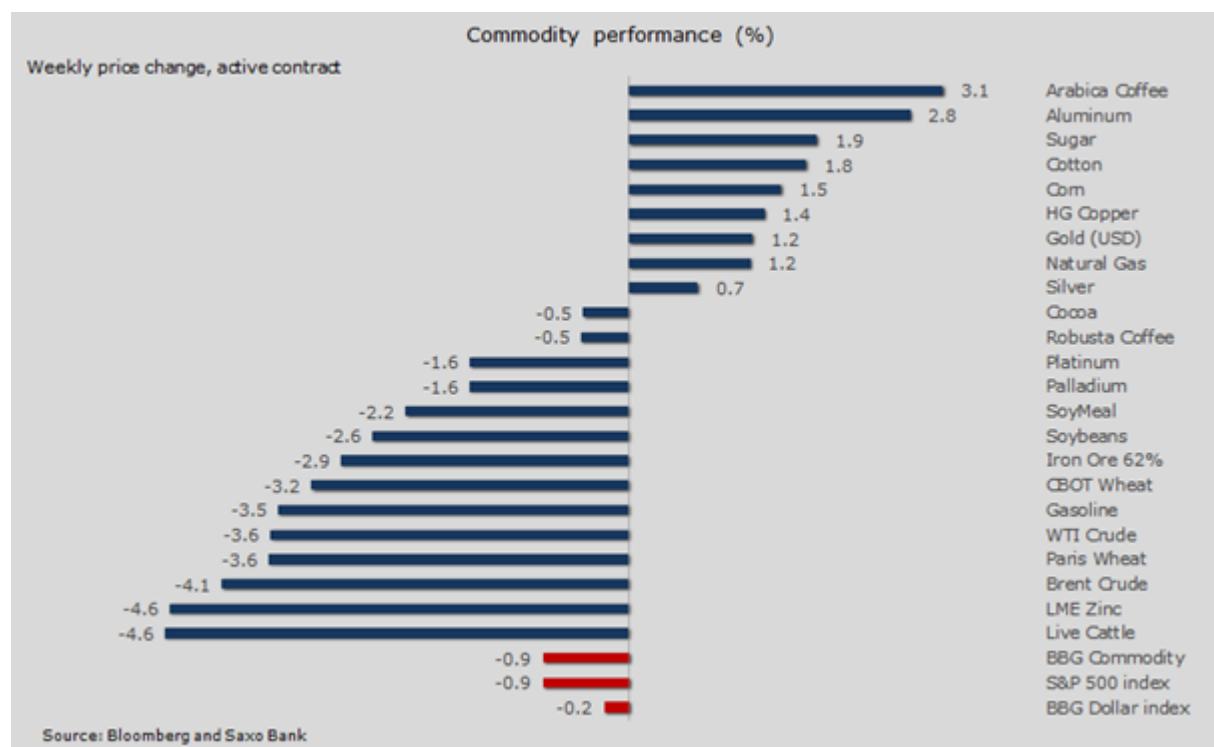
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The tragic murder of Jo Cox, a Labour member of the UK parliament and a Remain supporter helped trigger a strong market reversal led by a weaker dollar. This on the cruel assumption that her death would sway more of the undecided voters to stick with Europe. There is no doubt that the UK referendum on June 23 is one of the most important events in the UK – and for that matter Europe – in a generation. With the outcome too close to call, volatility across markets and asset classes will remain elevated ahead and in the case of Leave, afterwards too.

Corn remains supported by the outlook for dry weather and a “flash drought” this summer. Wheat, meanwhile, has reversed most of the gains from early June on a strong US harvest and the emergence of a big crop in Australia. Wheat’s premium over corn (new crop for December delivery) has as a consequence collapsed to just \$70 from an average of \$112 during the past six months.



Gold has experienced a strong rebound this month, not least after the FOMC’s attempt to introduce a more hawkish mind set in the market was quashed. The weaker-than-expected US jobs report on June 3 sent rate expectations lower once again and this was followed up on Wednesday with the above mentioned dovish outcome of the latest FOMC meeting.

These two events accounts for more than half of the strong recovery seen this month. The remainder come from the now much reduced Brexit premium following the temporary suspension of campaigning.

While equities have suffered, sovereign bond yields have continued to contract with the yield on German 10-year bunds being the latest to hit zero earlier this week. Once the dust settles after the referendum investors will be still be left with a world where positive yielding bonds continue to

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



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disappear. This combined with a dovish outlook from the FOMC will in our opinion continue to support alternative investments such as precious metals.

Sovereign bonds have increasingly moved into negative yielding territory thereby supporting the move to other investments, such as gold.

Government bond yields			Maturity (years)											
			1	2	3	4	5	6	7	8	9	10	20	30
Switzerland		CHF	-0.9%	-1.0%	-1.0%	-1.0%	-0.9%	-0.9%	-0.8%	-0.7%	-0.6%	-0.5%	-0.1%	0.0%
Japan		JPY	-0.3%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	0.2%	0.2%
Denmark		DKK	-0.8%	-0.7%	-0.7%	-0.5%	-0.5%	-0.3%	-0.2%	-0.1%	-0.1%	0.2%	0.4%	0.6%
Germany		EUR	-0.5%	-0.6%	-0.6%	-0.6%	-0.5%	-0.4%	-0.4%	-0.3%	-0.1%	0.0%	0.3%	0.5%
Netherlands		EUR	-0.6%	-0.5%	-0.5%	-0.4%	-0.2%	-0.2%	-0.1%	0.0%	0.1%	0.3%	0.5%	0.7%
Austria		EUR	-0.5%	-0.5%	-0.4%	-0.4%	-0.2%	-0.2%	-0.1%	-0.1%	0.2%	0.4%	0.3%	1.0%
Finland		EUR	-0.5%	-0.5%	-0.5%	-0.3%	-0.3%	-0.1%	-0.1%	0.1%	0.2%	0.3%	0.5%	0.7%
France		EUR	-0.5%	-0.4%	-0.4%	-0.3%	-0.2%	-0.1%	0.0%	0.1%	0.3%	0.4%	1.0%	1.2%
Belgium		EUR	-0.5%	-0.5%	-0.4%	-0.4%	-0.2%	-0.1%	0.0%	0.1%	0.3%	0.4%	0.9%	1.3%
Ireland		EUR	-0.2%	-0.3%	-0.3%	-0.1%	0.0%	0.2%	0.4%	0.6%	0.8%	0.9%	1.2%	1.7%
Italy		EUR	0.0%	0.1%	0.1%	0.3%	0.5%	0.7%	0.9%	1.1%	1.3%	1.5%	2.2%	2.6%
Spain		EUR	0.0%	0.0%	0.1%	0.3%	0.6%	0.6%	0.9%	1.2%	1.4%	1.6%	1.9%	2.7%
Sweden		SEK	-0.7%	-0.7%	-0.7%	-0.6%	-0.4%	-0.3%	-0.1%	0.1%	0.2%	0.5%	1.3%	
Norway		NOK	0.5%	0.6%	0.5%	0.6%	0.7%	0.9%	0.9%	1.0%	1.1%	1.1%		
United Kingdom		GBP	0.4%	0.4%	0.5%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.1%	1.9%	2.0%
United States		USD	0.5%	0.7%	0.8%	1.0%	1.1%	1.3%	1.4%	1.5%	1.7%	1.6%	2.2%	2.4%
Canada		CAD	0.5%	0.5%	0.5%	0.6%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.7%	1.8%
Australia		AUD	1.6%	1.6%	1.6%	1.6%	1.7%	1.8%	1.9%	2.0%	2.0%	2.1%	2.6%	
New Zealand		NZD	2.1%	2.0%	2.0%	2.1%	2.1%	2.1%	2.1%	2.2%	2.3%	2.4%	1.8%	

Source: Bloomberg & Saxo Bank

Demand for exchange-traded products backed by gold and silver remain strong. Even during the correction in May demand continued to climb. Tactical traders using futures were the main culprits behind the May selling where hedge funds reduced bullish bets on gold by one third. With the sharp reversal seen this month, they have been busy rebuilding long positions and during the week ending June 7 they added 20%.

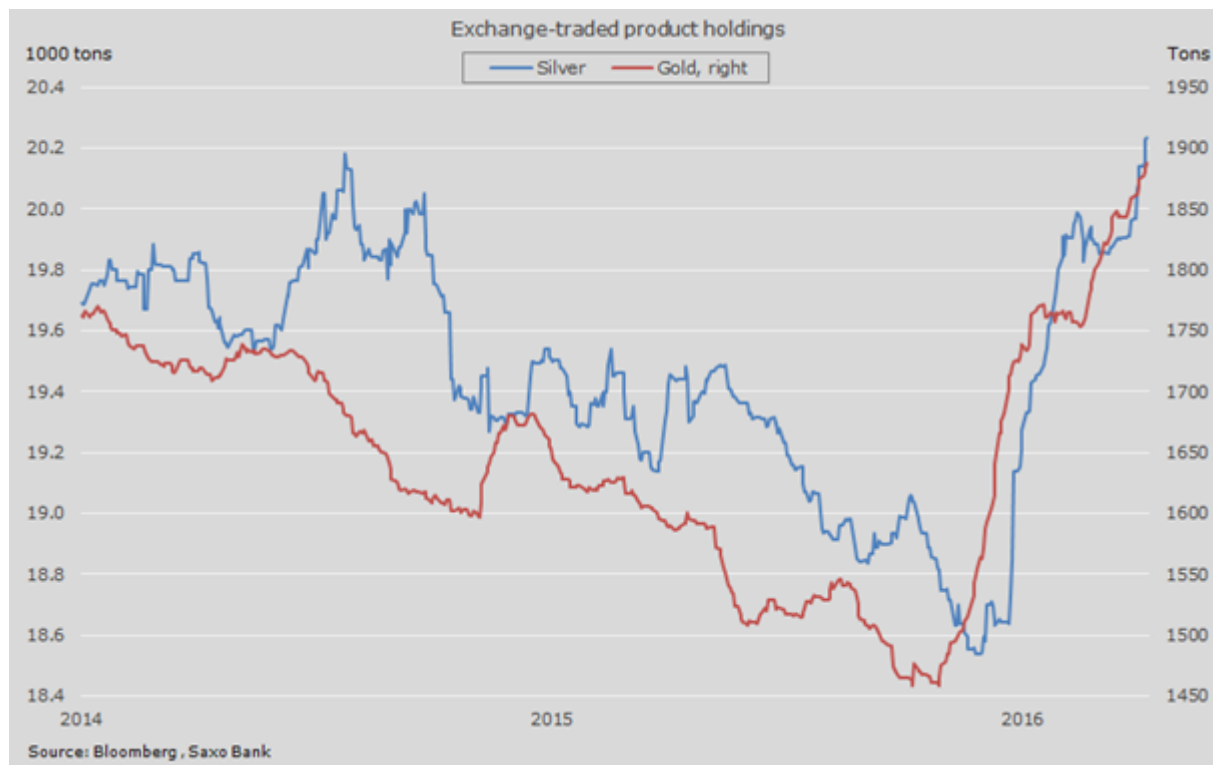
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The big question remains what kind of impact the vote will have on the yellow metal. We view the risk/reward as being skewed to the upside. A vote to leave the European Union would almost certainly ensure a prolonged period of uncertainty where stocks could suffer and bonds continue to be sought. It might also support the dollar thereby creating some headwind, but given the negative correlation we see an increased risk that gold could be propelled towards \$1,400, the 2014 high.

A Remain result would initially trigger a major relief rally across global stocks but with the dollar also likely to weaken and with global bond yields remaining compressed we see the downside risk limited.

Gold will be looking for support between \$1,271 and \$1,258 with a break back above \$1,300/oz is required in order to change sentiment back to bullish from consolidation.

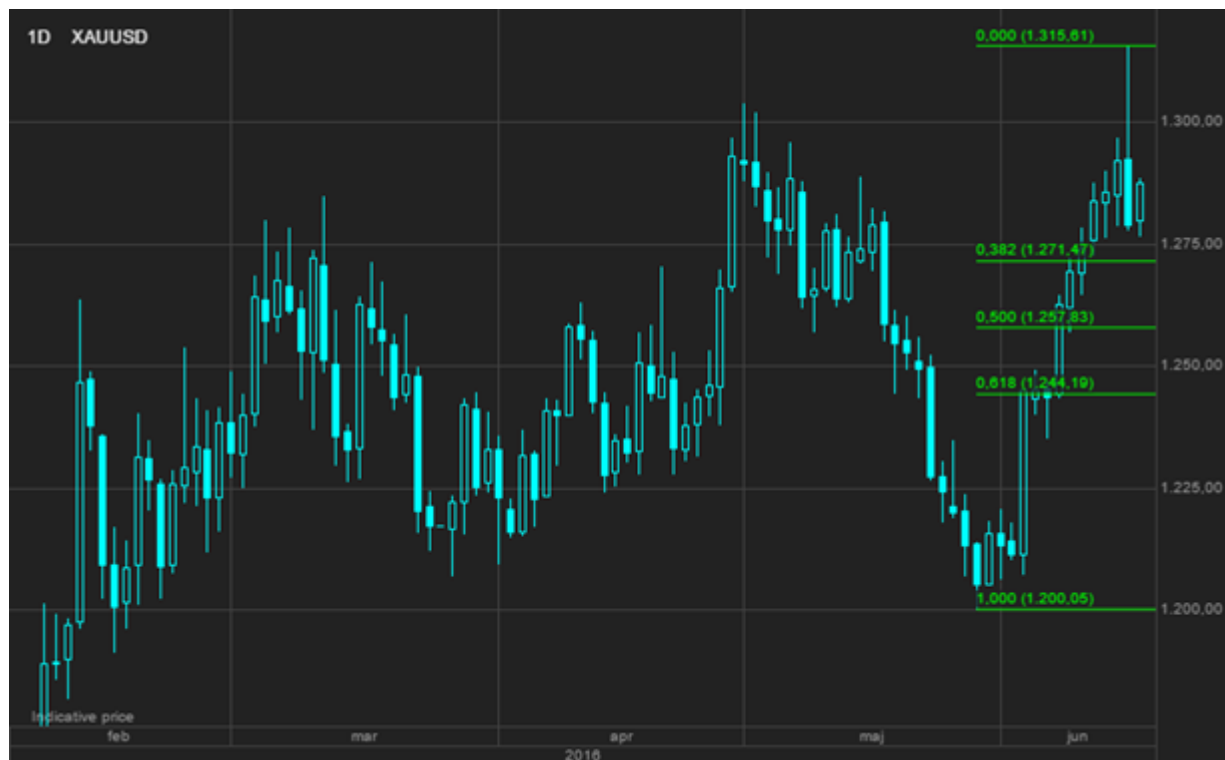
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Source: SaxoTraderGO

The multi-week crude rally run has run out of steam following the failure to gain a firm foothold above \$50/b. Raised uncertainty related to the UK referendum on June 23 combined with the oil market being increasingly overbought helped send it lower.

Following a week-long selloff crude oil managed to find support after retracing 61.8% of the supply disrupted rally seen during May. Oil was hurt, not by worsening fundamentals but by the need from speculative traders to reduce a near-record exposure during a week where investment sentiment was hurt by Brexit worries.

The monthly Oil Market Report from the International Energy Agency released on June 14 said that the global oil market would almost balance next year with demand continuing to rise faster than production.

It did, however, also say that the "enormous inventory overhang" would take time to clear and should limit any significant increase in prices.

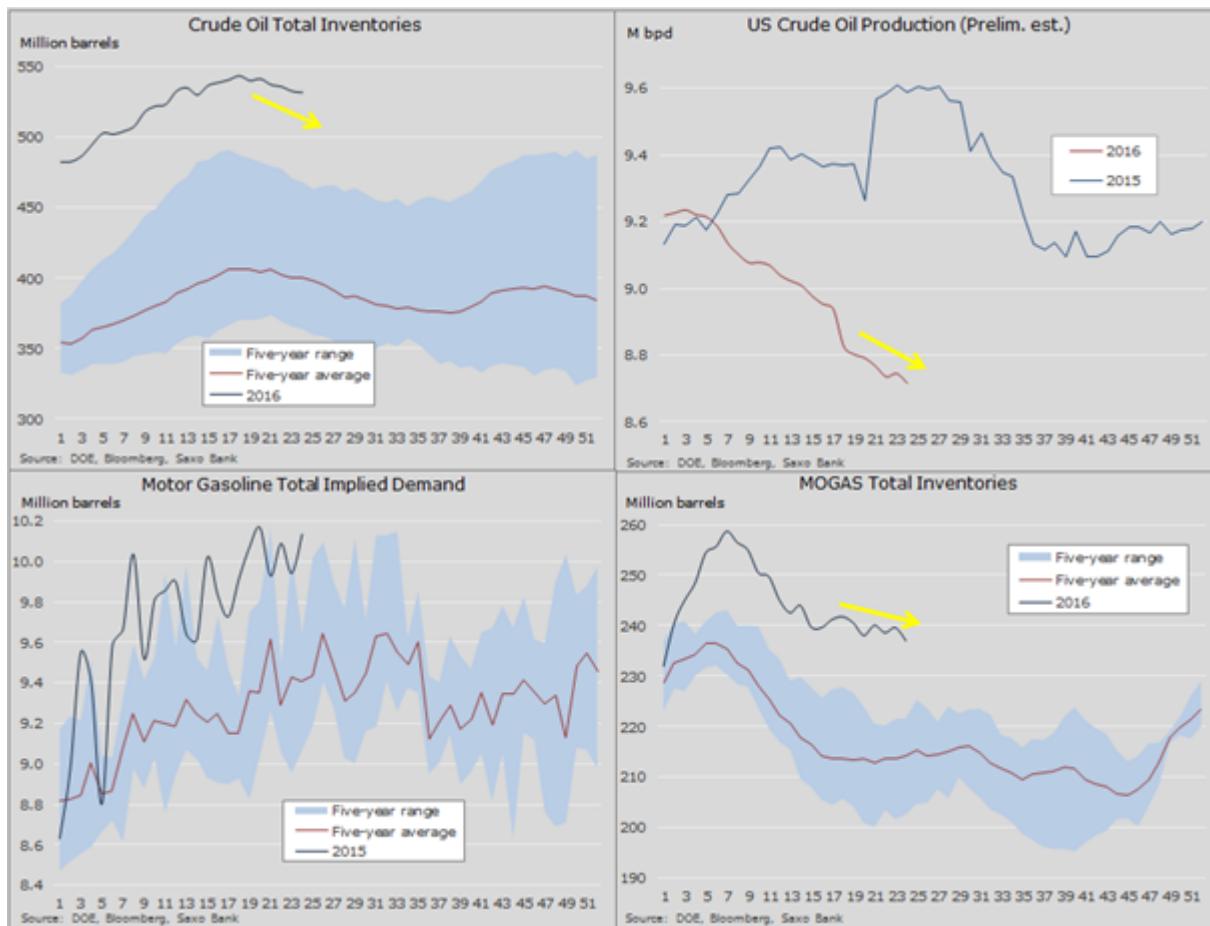
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The weekly US inventory report was generally price friendly with production reversing gains from the previous week while both crude and gasoline inventories fell. These developments were drowned out by the need to reduce risk and signs that supply disruptions from Canada is fading while Iran has managed to increase production and exports much faster than expected.

Demand growth, especially for diesel in India, have been very strong this year but according to **Reuters** this could change over the coming months. Drought during the past year has increased demand for diesel for irrigation pumps and generators. But with the monsoon expected to dump above average rainfall, this demand may now fade and once again turn India into a net exporter of diesel.

Supply disruption risks in Nigeria, Libya and Venezuela will continue to support the rebalancing process. US producers meanwhile will need oil well above \$50 for an extended period of several months before it will begin having an impact on reversing the production decline.

We maintain the view that crude oil will be trading within a \$45 to a low \$50's range over the coming months. The biggest uncertainty right now is the UK referendum and the impact a potential Leave will have on the speculative positioning.

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