



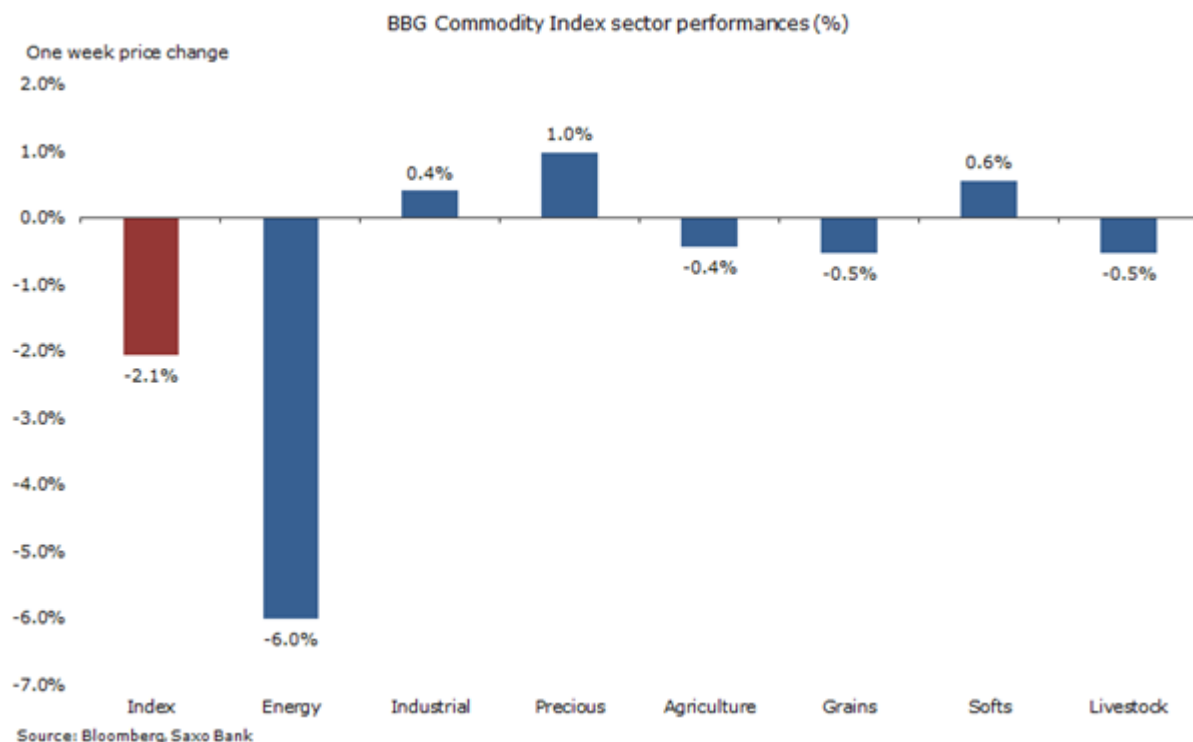
SERIOUS TRADING. WORLDWIDE.

Gold finding support but dollar remains a concern

By Ole Hansen

The Bloomberg Commodity Index touched a three-month low as oil sold off again while the dollar rose on expectations that a US rate hike was moving closer.

The weakness was led by oil where the wild swings continued as the battle between short- and long-term fundamentals as well as extended speculative positioning had traders chasing the price. Precious metals traded defensively all week before receiving a boost from a weaker-than-expected US job report.



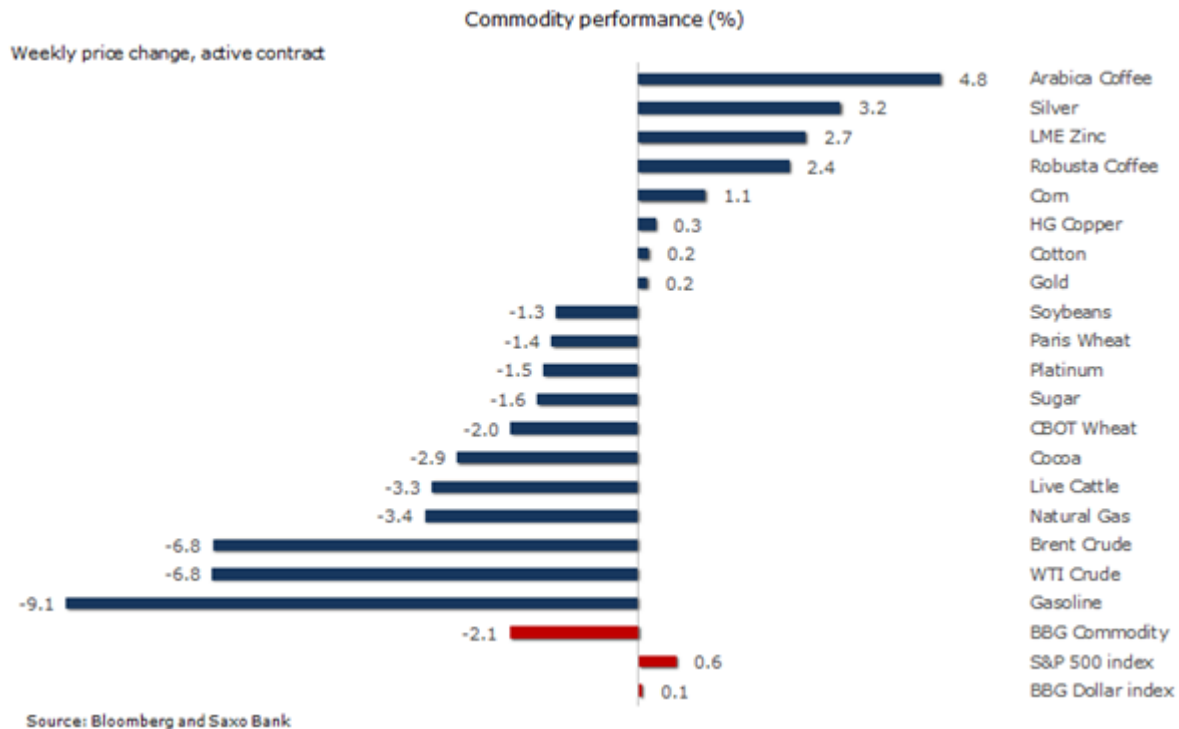
In the agriculture space wheat and corn futures in Chicago dropped to multi-year lows on the prospects for abundant US and world supplies. However ahead of the weekend, some bargain buying began to emerge on the assumption that most of the positive crop (price negative) news had been priced in.

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



SERIOUS TRADING. WORLDWIDE.



Coffee, another interesting soft commodity, rose strongly on concerns about a tightening supply outlook. The International Coffee Organization released data that showed world coffee exports tumbled by 22% in July. With the drop explained by weaker supplies rather than a slowdown in demand, the market will increasingly be asking where supplies are going to come from over the coming months.

Arabica coffee heading for the highest weekly close since February 20, 2015

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



SERIOUS TRADING. WORLDWIDE.



Source: Saxo Bank

An Opec/Russia production freeze deal moving closer

Crude oil's roller-coaster ride continues and September began with the market on the defensive following a strong August rally. This rally was triggered by renewed speculation about an Opec production freeze. After having witnessed the biggest two-week buying spree on record, the sentiment quickly turned as newly established longs headed for the exit as both the US dollar and US inventories rose.

Having witnessed a 10% selloff during a three-day period, the market managed to stabilize on Friday after Russia's president Vladimir Putin said he would like to see Opec and Russia agree on a production freeze. By expressing the need for Iran to be exempted he has passed the ball back to Opec who probably even more than Russia is desperate to see an end to this two-year period of painfully low prices.

Iran's refusal to join an agreement at the meeting in Doha back in April led to a refusal from Saudi Arabia to proceed. But with the part sale of Aramco moving closer and budget pressures rising, this Reuters [report](#) speculates whether this time round it could be different.

These developments are likely to keep oil supported above \$40/barrel while at the same time still making it difficult for it to make a clear break much above \$50/b as long the global overhang of supply remains as elevated as it is now. September has historically proven to be a challenging month for oil markets with inventories rising in response to lower refinery activity.

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



SERIOUS TRADING. WORLDWIDE.

Brent crude finding support after making a sharp correction of the August rally.



Source: Saxo Bank

Gold passing first major test since May

After spending a couple of months gravitating around \$1,340/oz, gold turned lower to test key support at \$1,300/oz. The weakness was triggered by the stronger dollar in response to signals from the US Federal Open Market Committee that a September rate hike was back on the table.

The job report for August, however, put some of these worries to rest with the pace of nonfarm job creation falling short of expectations. While we still believe that the FOMC will raise rates at least once this year, the timing has now, due to the November presidential election, been postponed to December.

Following the disappointing job report, gold clawed back some of its losses thereby confirming the importance of \$1,300/oz. as a level of support, just like \$1,200/oz turned out to be during the most recent correction during in May.

Back then when gold corrected by 8%, investors using exchange-traded products backed by gold showed a steady hand. While gold headed for its first monthly loss in August since May, total holdings nevertheless continued to climb by 25 tonnes to 2,032 tonnes, a 26-month high.

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



SERIOUS TRADING. WORLDWIDE.

Hedge funds hanging in there

Funds increased their net-long position through futures and options by 4% during the week ending August 23. Despite the price weakness, they have been much less inclined to let go of what remains a near-record long position. Since the early July peak at 287,000 lots (28.7 million ounces), they have only reduced it by 8% compared with a 33% reduction during May.

This limited selling appetite could all change should gold fail to hold onto support at \$1,300/oz. A break below this level would create a true test of gold's resolve following a 25% rally so far this year.

From a long-term perspective, we see how the meeting of resistance at \$1,380/oz helped trigger the current correction. Given our short-term view that the dollar is more likely to strengthen than weaken, there is still a risk that the market is going to trade lower than \$1,300/oz. Should that happen and move towards \$1,250/oz, we would view that as a buying opportunity given the otherwise positive fundamental outlook for gold.



Source: Saxo Bank

US real rates have been rising steadily during the past couple of months and this, combined with a stronger dollar, has increasingly been challenging the overall investment case for gold.

But as long as central banks continue their increasingly fraught experiment with negative interest rates, global bond yields will remain at rock bottom levels. Thereby providing support for alternative investments such as gold and silver.

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