



SERIOUS TRADING. WORLDWIDE.

WCU: Commodities break their losing streak

By Ole Hansen

Commodities rallied for the first time in three weeks with broad-based buying supporting most sectors. The dollar continued to weaken and this probably helped drive some of the demand, not least the initial jump in precious metals.

The energy sector received a big boost from an out-of-scale collapse in US crude oil inventories while grain markets saw short positions being scaled back ahead of a monthly report from the US Department of Agriculture on September 12.

Precious metals received an early boost from weaker-than-expected US economic data. However the failure to extend the rally in response to further dollar weakness was taken as a sign that investors are not yet prepared to take it higher.

Industrial metals were mixed with gains in nickel and copper being somewhat offset by weakness in lead and zinc. Copper held above a two-month low but has increasingly been struggling to move out of its relatively tight range with the weaker dollar being able to offset weaker fundamentals.

Biggest weekly commodity movers

Winners in %

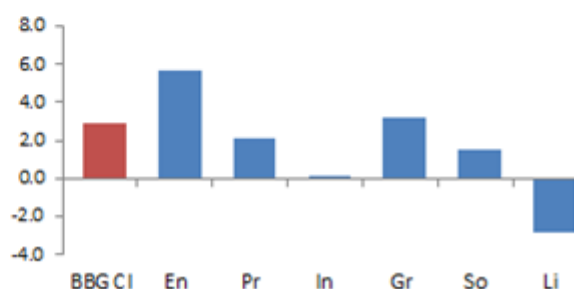
WTI Crude oil	OCT 16	8.3
Gasoline RBOB	OCT 16	8.3
NY Harbor ULSD	OCT 16	5.8
Brent Crude oil	NOV 16	4.7
Corn CBOT	DEC 16	3.7
Gas Oil	OCT 16	3.7
Soybeans CBOT	NOV 16	3.4
Silver	DEC 16	3.2
LME Nickel	3 mth	3.1
Soybean Meal CBOT	DEC 16	3.1

Losers in %

Feeder Cattle	OCT 16	-7.1
Live Cattle	OCT 16	-4.9
Cocoa (NY)	DEC 16	-3.5
LME Zinc	3 mth	-2.7
Iron Ore	SPOT	-2.7
LME Lead	3 mth	-1.9
Milling Wheat Paris	DEC 16	-1.9
LME Aluminum	3 mth	-0.7
Coffee Arabica	DEC 16	0.6
HG Copper	DEC 16	0.8

Bloomberg Commodity Index	2.9
Energy - En	5.6
Precious metals - Pr	2.1
Industrial metals - In	0.1
Grains - Gr	3.2
Softs - So	1.6
Livestock - Li	-2.8

Source: Bloomberg, Saxo Bank



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.

Gold rallied strongly this past week as weak US economic data helped send the dollar and bond yields lower. After finding resistance above \$1,350 profit taking once again emerged following Thursday's European Central Bank meeting where the institution's president, Mario Draghi, cooled speculation about further easing.

Although this did help weaken the dollar further, the lack of follow-through was a clear indication that gold investors are not yet ready to chase the price higher at this stage. US and German 10-year bond yields both jumped the most in a month as a clear sign of how dependent bond markets have become on ever easier monetary policies.

The Federal Open Market Committee meeting on September 21 is likely still to attract some attention. Despite recent weakness in economic data, such as the recent jobs report and manufacturing ISM, the FOMC may still opt to raise rates in order not to suffer too much of a credibility issue following recent hawkish statements.

Investors using exchange-traded funds backed by gold have maintain an almost unchanged position during the past five weeks while tactical traders, such as hedge funds, have been net-sellers in six out of the past eight weeks.

In the short term we are looking for support to emerge between \$1,334 and \$1,328. A break however would nullify the recent strength and could send gold back down to test the key support at \$1300. From a longer term perspective we view a return to but rejection of the pre-Brexit low at \$1250 as a good base from where another upside attempt can be made.

Gold has returned to \$1336, the average price seen post the Brexit vote on June 23.



Source: Saxo Bank

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

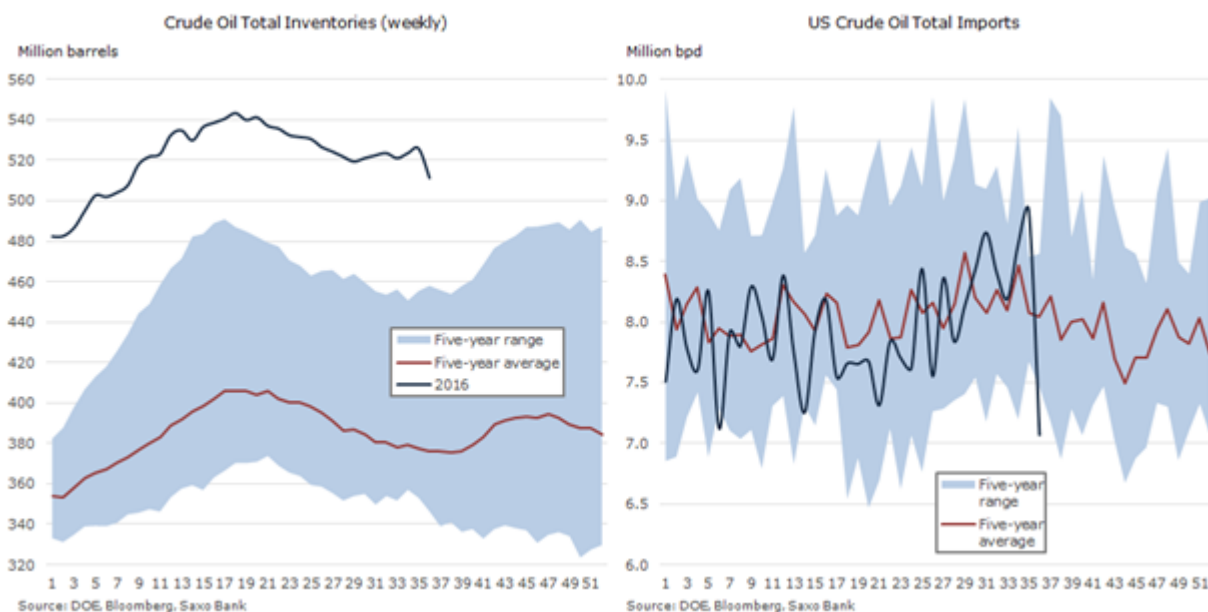


SERIOUS TRADING. WORLDWIDE.

Crude oil volatility remains elevated but still it continues to trade within established ranges. After rallying strongly during August on renewed production freeze speculation the market succumbed to fresh selling in the belief that Opec and non-Opec producers are not yet prepared or able to reach an agreement.

This past week the market surged higher on a combination of a weaker dollar and the surprise news that US crude oil inventories had seen the biggest one-week decline since 1999. The weekly inventory report from the EIA showed that US inventories had declined by more than 14 million barrels in just one week. Despite this report being completely out of kilter traders covered shorts first before starting to ask the relevant questions.

Looking at the charts below we find that the drop was caused by an almost 2 million barrels per day drop in imports. This reduction the size of one supertanker per day was triggered by port closures on the Gulf coast and supertankers diverting from their path during the tropical storm Hermine. As this should be viewed as an isolated event and not be taken as a sign of a fundamental shift the coming weeks should produce a sharp inventory rebound.



The weekly petroleum status report however also showed continued strong refinery demand which goes against seasonal trends while the estimate on oil production fell back to near the lowest of the year. This could indicate that the return of oil rigs seen these past few months so far have only helped slow but not reverse the production decline which began last July.

Attention will increasingly be turning to the International Energy Forum meeting in Algiers on September 26-28 where Opec and non-Opec producers will take the opportunity to look at the current market situation. Our view is that despite Russia and Saudi Arabia signing a deal to cooperate in creating stable markets a deal at this stage with the price of oil close to \$50 is unlikely.

A price at this level will continue to support the effort to capture market share from high cost non-Opec producers, especially in North America. The ability of U.S. shale oil producers to be profitable at lower prices was highlighted by Apache Corp, a major US shale oil producer. This week the company revealed the finding of an "immense" oil and gas reserve in west Texas which could amount to 3 billion barrels of

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.

crude oil and 75 trillion cubic feet of gas. What was interesting in this context was Apaches belief that the region may support 2,000 to 3,000 wells at oil prices of just \$50 a barrel.

Brent crude continues to trade within a triangular shaped pattern. The August selloff stopped short of reaching support following the flow of verbal intervention, especially from the Saudi energy minister. Failure to break back above \$50 this past week is another indication that oil remains range-bound for now.

Too many moving parts such as supply or a lack thereof from key producers, the direction of the dollar, refinery maintenance season, verbal intervention and not least developments in speculative positioning have, at least for now, created a trading environment primarily suited for tactical short-term trading.

A break above \$51.50 should signal an extension to \$55 while support at \$45 looks firm for now:



Source: Saxo Bank

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