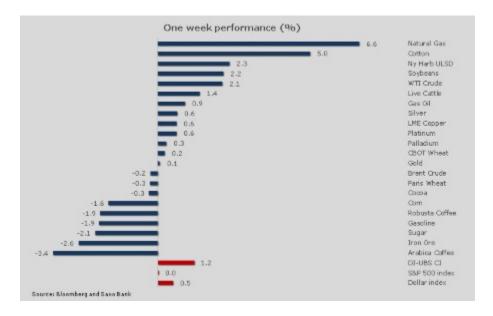
Commodities recover as 2014 economic growth potential supports

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Commodities saw their first positive weekly performance our of the last three this past week, not least helped by a recovery in all sectors apart from precious metals where some profit taking was seen after having outperformed the others during the early parts of January. The energy sector saw the biggest increase with gains in natural gas and WTI crude oil more than off-setting losses in gasoline. Industrial metals came second, not least helped by strong gains in nickel and lead which helped offset a small loss in copper. The agriculture sector were mixed with soybeans and live cattle ensuring a general positive week despite another week of losses in coffee and sugar.



Natural gas (NGG4) reached a three-week high on speculation that the current cold winter across the US will result in a continued strong withdrawal of gas from US underground storage facilities as demand for heating remains elevated. The weekly inventory data showed a reduction of 287 billion cubic feet to 2.53 trillion cubic feet. Although this was lower than expected and helped calm traders nerves it was nevertheless the biggest decline in weekly data going back to 1994 and this left inventories down by 20 percent compared with the same time last year.

Live cattle futures for April delivery rallied to an all time high of USD 1.398/lb on the Chicago Mercantile Exchange (CME) as beef production is expected to see a record Q1 drop compared with the previous quarter. The rally has been driven by reduced availability of supply as the coldest winter in 20 years has reduced herd number and weight. As a result, the price of beef in the spot market has moved to an unusual premium over the April futures price. As long as this pull from the spot

price persists further upside on the April future is possible and any technical driven setback due to market now being in overbought territory may prove to be short-lived.

WTI crude rallied while Brent crude almost moved in opposite directions and this resulted in the spread between the two global benchmarks contracting to a one-month low. Brent crude came under some relative pressure due to rising production in Libya and increased hopes that Iranian sanctions could eventually be lifted. WTI crude benefited from an overdue correction as better than expected economic data pointed towards higher growth and demand. The potential for a full return of oil from Libya and Iran together with the continued increase in non-OPEC production are currently some of the themes that may receive the most attention in 2014 and which, barring any unforeseen eruption of geopolitical tension, carries a downside risk to oil prices. Increased production will put a lot of focus or pressure on Saudi Arabia as the biggest swing producer to reduce production as it otherwise raises the risk of an oil glut later in the year.

Gold's frustrating move to nowhere

The lack of fresh directional input resulted in gold staying confined to a trading range of less than 23 dollars, the lowest range since August 2009 if we disregard trading around Christmas. Several failed attempts to crack open the resistance area, currently between USD 1255 and 1268, eventually led to some long capitulation but support was quickly established and gold spent the remainder of the week trading sideways.



Gold was unchanged as a result following what has been a generally strong beginning to the year for precious metals. Most of the buying seen this January has so far primarily been driven by positive news from the physical market where demand has remained firm ahead of the Chinese Lunar new

year celebration at the end of January together with some position adjustments by hedge funds of which some where holding near record short positions at the end of December.

Gold remains one of the least favoured commodities on investment managers' shopping list and as long we continue to see improved US data and tapering together with stable stock markets, the upside potentials at this stage seems limited despite the continued support from the presence of physical demand. Many of the major research houses generally hold a negative view on gold for 2014 and this will be factor which at least over the coming quarter may prevent the market from rising as many investment decisions are being made on the back of this advice.

The chart below shows the speculative position held by hedge funds and money managers in the COMEX gold future. The difference between those holding long and short positions make up a small net-long position, currently of 40,229 contracts or four million ounces. While the number of long positions has been fairly stable the past six month the major reduction in net-length has been driven by an increase in the number of sold positions. So while the rally this January has triggered a reduction in the number of short positions there has been no noticeable change from those already holding a bullish view. This indicates a certain hesitancy in getting further involved on the buy side and this will probably only change should the market manage to break above 1,268/oz as it will trigger a positive technical reaction from momentum and trend following hedge funds.

