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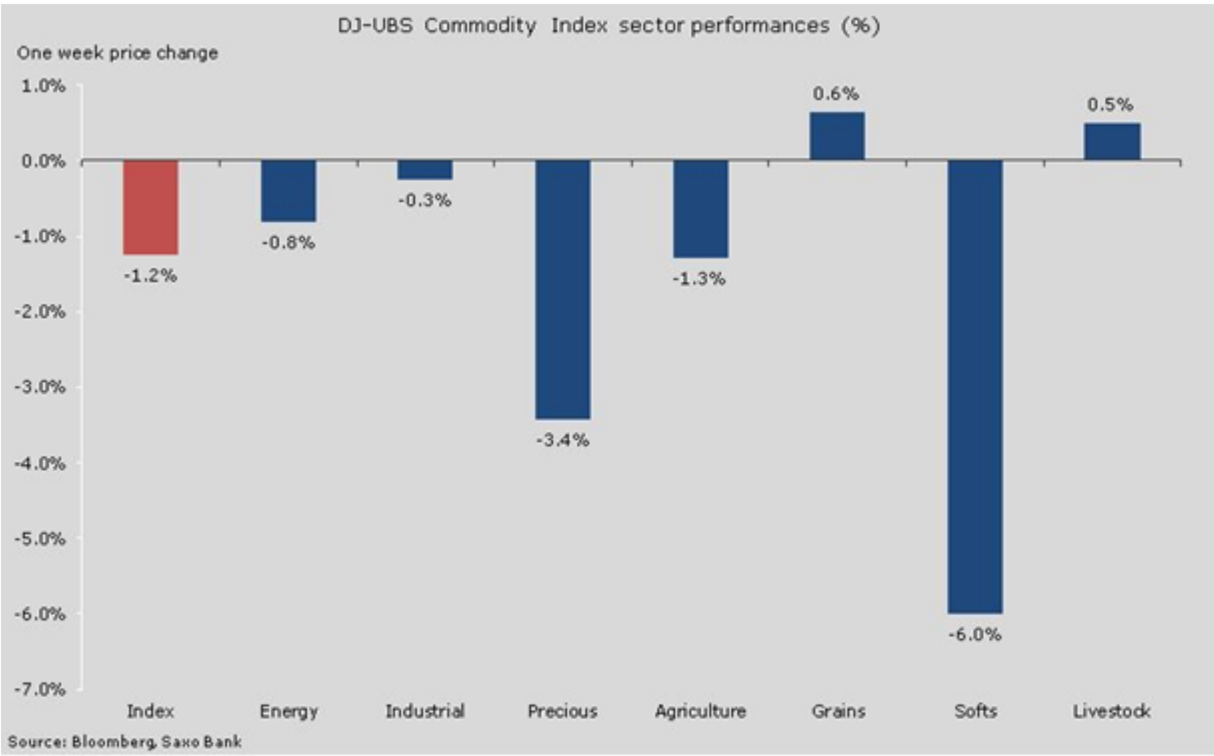
Golden cross comforts gold after troubled week for commodities

Commodities struggled for a second week as some of the strong drivers from earlier this year continue to fade. Oil prices fell as demand slowed and inventory rose, precious metals were spooked by an apparent hawkish comment from the new chair Janet Yellen at the US Federal Reserve while rain finally reached the coffee-growing regions in Brazil and Vietnam sending coffee into a tailspin. But just beneath the surface, the geopolitical tensions between Russia and the West over Ukraine continue to pose a potential upside risk to several commodities such as gold together with oil and gas.

The broad based DJ-UBS commodity index was lower as most sectors came under some selling pressure from tactical traders such as hedge funds as they reduced elevated speculative long positions amid a less favourable environment compared to just a few weeks ago. According to the most recent data, hedge funds were only holding a negative view (net-short position) on just one out of 24 US-traded commodity futures, namely copper.

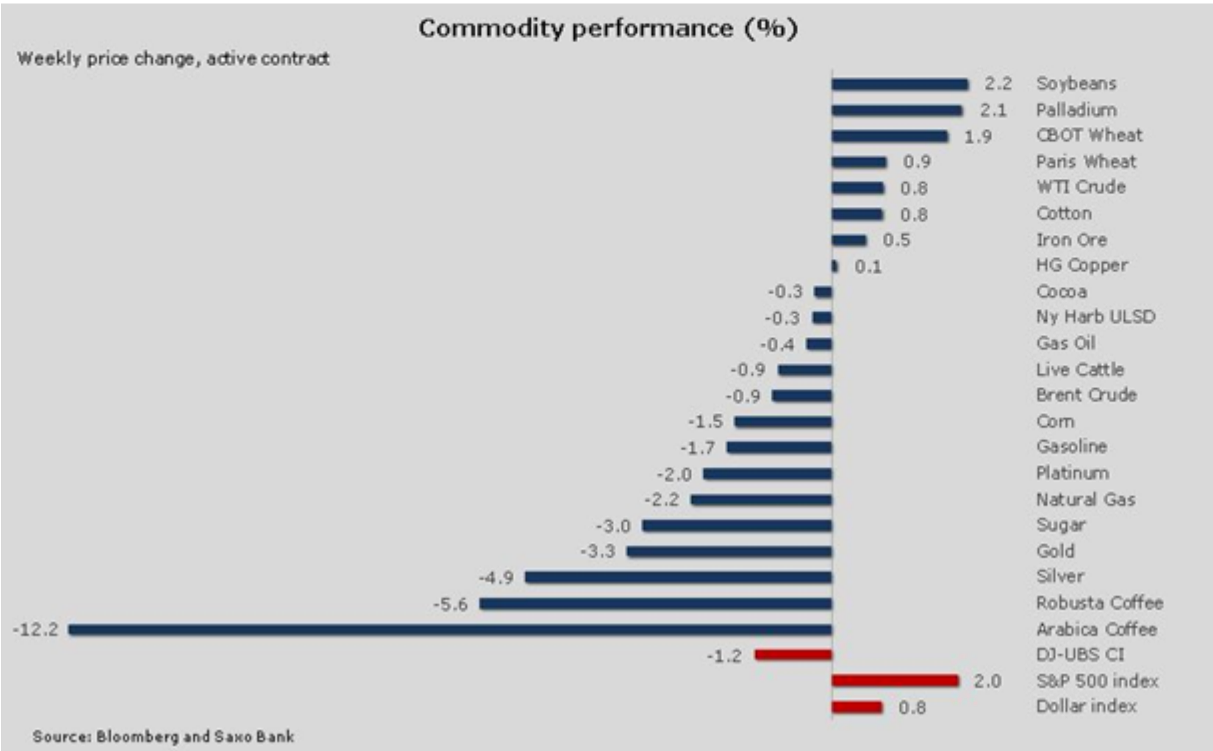


Worries about a potential disruptions to supplies from the Black Sea region and dry conditions across the grain belt in the US drove the price of wheat in Chicago to an 11-month high before running into profit taking on news that rain may reach the area in early April. Expected strong production from Europe and India should make up for any disappointment in the US so that leaves the potentials for further upside gains limited at this stage.

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

Copper reached a new 3.5-year low before short covering and signs of demand following the recent slump helped the metal to record its first positive performance in four weeks. China which consumes close to 50 percent of global production and which has been weighed down by concerns about the health of its credit markets will see the release of March manufacturing PMI on Monday. This will provide another gauge as to the current health of the economy and potentially help HG Copper escape the 2.9 to 3.0 USD/pound range where it has been stuck for some time now.

Arabica coffee futures in New York ran into the biggest two-day decline since 2010 as reports about rain in Brazil finally triggered some profit taking after a non-stop rally which at one stage had lifted the price by 85 percent this year. After reaching almost 2.1 USD/pound earlier this month, the May futures contract has corrected down to 1.7 USD/pound. The expectations for a global deficit this year should create some support once this current phase of long-liquidation has run its course.



Gold finding support in the charts

Gold, which stopped just shy of 1,400 USD/oz on Monday following the Crimean referendum, then experienced the worst sell-off in six months. Safe-haven bids dried up as the feared escalation following the Crimean election failed to materialise, and further weakness was triggered by the US Federal Reserve chairman Janet Yellen when she delivered a statement after the Federal Open Market Committee meeting that turned out to be more hawkish than the market had expected.

Demand from China has slowed as gold rallied and most recently the weaker renminbi has further reduced demand with the price for XAU9999 on the Shanghai Gold Exchange trading at a discount to spot gold. Hedge funds have been strong buyers during the early part of March, but so far the data primarily points to this being driven by short covering as opposed to fresh new buying.

Almost exactly 13 months after i wrote about the "Death Cross" technical formation in gold, we have seen a "Golden Cross" develop this week. This occur when the 50-day moving average either crosses down (death) or up (golden) through the 200-day moving average and the reason why it receives attention is due to its relatively rare occurrence and its potential for confirming a change in direction. Overall, the sentiment has received a knock but so far trend-line support at 1,322 USD/oz and the 200-day moving average at 1,297 USD/oz continues to provide support. Adding to this, the golden cross combined with the continued worries related to Ukraine traders both short term and especially long term probably prefer to stay long of gold at this stage.

Brent crude suffers as US demand may slow ahead of SPR

The energy sector was lower with natural gas falling to a nine-week low after inventories fell by less than expected. The annual injection season will begin within the next few weeks and with inventory levels at an

11-year low, a relative high price is required to ensure a strong rebuild of inventories over the next six months. Both crude oils of WTI and Brent were lower again on rising US inventories and a stronger dollar. A rising flow of US and Canadian-produced crude oil is currently finding its way to the Gulf coast via increased pipeline capacity. This is happening at a time of reduced demand from refineries as they turn around from winter to summer production.

The build-up of inventories could begin to translate into lower imports and subsequently put some additional pressure on Brent crude, considering its function as the global benchmark. This development, together with reduced inventories at Cushing and the impending release of five million barrels from the Strategic Petroleum Reserve (SPR), has produced some relatively strong selling pressure on Brent crude in favour of WTI crude oil during the past week.

For the time being, we expect Brent crude to find support ahead of 105 USD/barrel which would confirm a current range between 105 and 110 USD/barrel. WTI crude remain the best supported of the two considering the likelihood of a continued narrowing of the discount to Brent crude.

Head of Commodity Strategy at Saxo Bank **Ole Sloth Hansen**

Email: olh@saxobank.com
Phone: +45 3977 4810

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.