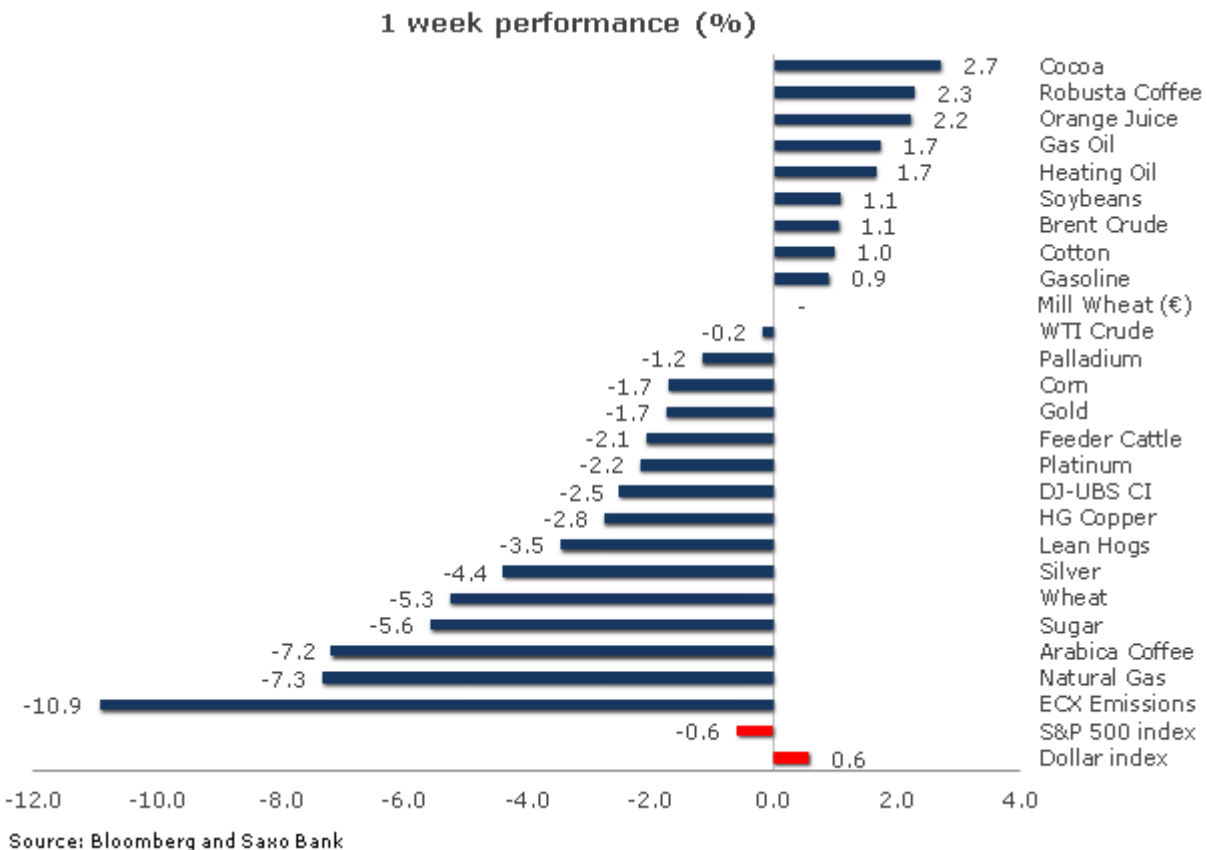


## Commodities take a breather as tensions ease and Greece gets deal

Ole S. Hansen, Head of Commodity Strategy

In a week where the dollar continued to recover and geopolitical tensions eased a bit and Greece finally got its second bailout package commodities traded generally lower. The DJ-UBS headed for its second weekly loss returning -2.5 percent on the week with losses seen across all sectors, however with some individual gains seen in soft commodities primarily.



### Gold still not recovered from recent sell-off

Following the 100 dollar sell-off the previous week gold took another leg down this week before support was established ahead of crucial support at 1,656, which is fifty percent retracement of the rally from the December low. A confidence building exercise is now needed once again with many being caught out by the third major correction within six months. The safe haven aspect has clearly been left for dead as the volatility we continue to experience does not go hand in hand with a “safe” asset.

The fundamental support from record low interest rates, inflation risk and central bank diversification remains, however the reduced chance of additional quantitative easing in the US following Fridays better than expected employment report could be the focus for some additional selling pressure next week. I eventually expect prices to pick up again following a period of consolidation with resistance at 1,725 and support at 1,655.

The same goes for silver which has also begun to stabilise after a 13 percent top to bottom correction within five days. Despite the sell-off it is still the best-performing metal this year and only trumped by gasoline overall.

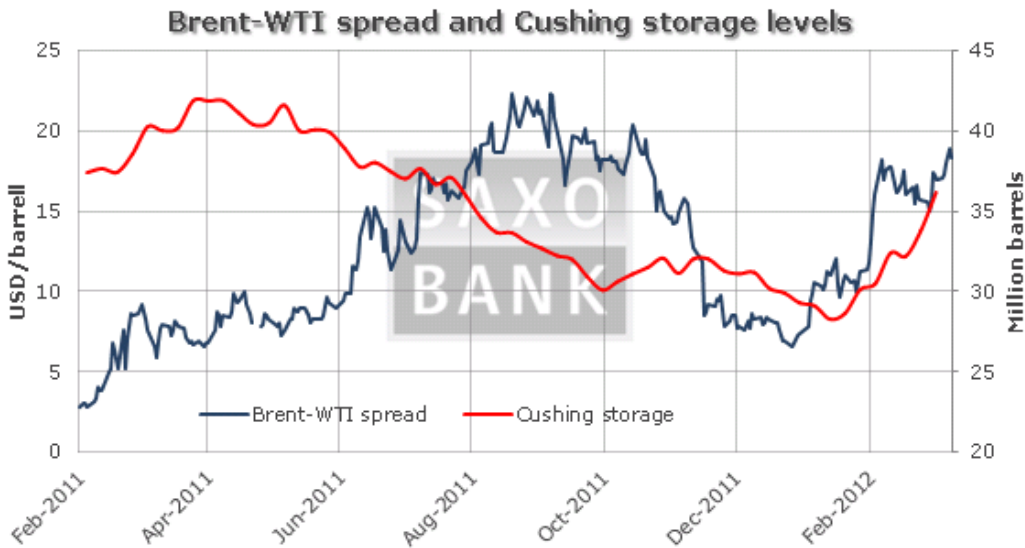
### **Crude oil trapped in range as geopolitical risk eases**

While we wait for additional news the price of Brent crude has settled into its new found range above USD 120 per barrel. The risk premium, which probably equates to between 15-20 dollars remains as traders are very reluctant to book any profits while the geopolitical risk stays high. Questions have also been raised recently whether this recent rise is not also a result of continued strong demand from emerging economies, such as China, at a time where low spare capacity leaves the market less able to respond to sudden supply changes.

During the week hopes were raised that Iran would re-open talks with six world powers, including Russia and China, on its nuclear programme. However many previous failed attempts left the market overwhelmingly unimpressed and only a clear move towards a solution would significantly change the sentiment. Speculators have continued to amass exposure to rising prices with the total net long in WTI and Brent crude approaching 500 million barrels. This will obviously leave both crude markets exposed to a sharp correction once the sentiment changes but for now support towards 120 on Brent and 104 on WTI looks solid.

### **Crude spread widening again**

The spread between Brent crude and WTI crude, the world's two leading benchmarks, rose to almost 19 dollars, the highest level since October 2011. This is a result of geopolitical risk driving Brent crude (higher) and inventory stock building in the US holding back WTI crude. The latest US government data revealed that stocks in Cushing, the storage and pipeline hub for WTI crude oil, have continued to rise strongly since January. The introduction of a pipeline reversal in the second quarter should help alleviate some of the pressure on Cushing as additional oil can be transferred to refineries along the Mexican Gulf. For now though a rapid increase of nearly 8 million barrels to 36.2 million barrels has raised some concerns that last year's peak of 41.9 million could be challenged raising concerns about available capacity.

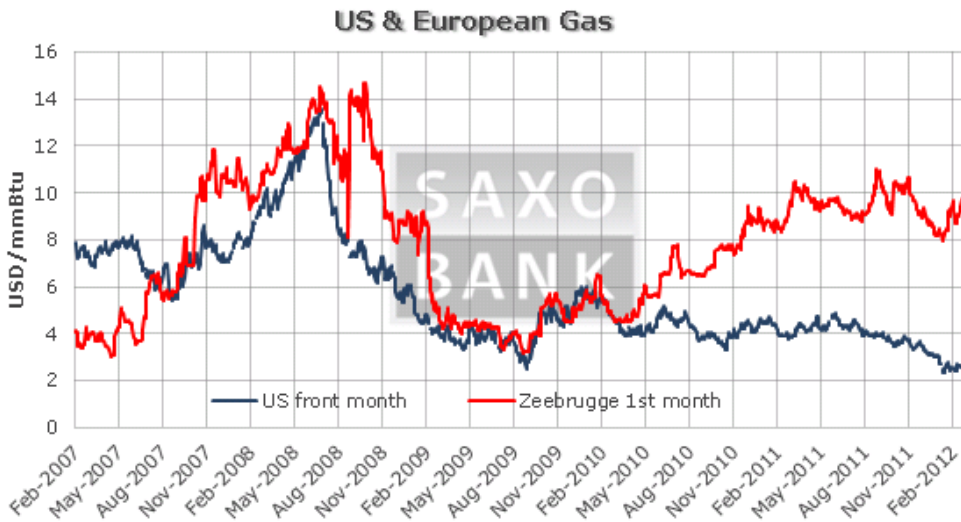


Source: Bloomberg and Saxo Bank Strategy & Research

### US natural gas price at a 10-year low

Global gas consumers are looking with envy towards the US where the price of natural gas keeps on going in one direction – down. This week the price of spot month gas fell to another 10-year low at USD 2.27 per million British thermal units (mmBtu) and it has now fallen by almost a quarter year to date. The reasons behind the continued selling are chronic oversupply from new sources like shale gas and above normal winter temperatures. Due to this lower consumption during the peak months of winter the available inventories in underground storage are almost 48 percent higher than the average over the last five years.

The chart below shows how gas prices in Europe and the US have dislocated since 2010 when the production of shale gas began to be ramped up and how the normal price pick-up during the winter months has been completely absent this year. Concerns have emerged about how full storage facilities will be once we exit the withdrawal season and enter into the summer period of injection. Too high levels of inventories could force unwanted extra gas onto the market which could put prices under further downside pressure.



Source: Bloomberg and Saxo Bank Strategy & Research

### Arabica coffee at a 16-month low

The share price of Starbucks has risen to an all-time high above 50 dollars while the price of high quality Arabica coffee, drunk by espresso fans across the world, fell to 1.87 dollars per pound, the lowest level in 16 months. The recent selling by money managers and Brazilian producers increased when the 2 dollars per pound level was broken. A stronger dollar versus the Brazilian Real and not least expectations that Brazil, the world's largest grower, is heading for a record production starting in July, helped trigger the move. The price of Robusta coffee, the lower quality variety primarily used in instant coffee, meanwhile has been moving in the opposite direction as growers in Vietnam, the world's largest producer, have been withholding bags for exports in order to achieve higher prices.

### Cotton spike on Indian export ban

The world's second-largest producer of cotton surprised the market this week as India announced an export ban for the second time in two years. The last ban in 2010 helped trigger a dramatic spike in the price to an all-time record at 2.15 dollars per pound and led to months of disorderly behaviour by the market and its participants.

The ban this time is very unlikely to cause a repeat of the spike we saw this time last year. There is already discontent within the government about the ban which was brought on by much higher exports than expected. The high prices last year have just like many other agricultural products been met by a surge in planting and the United States Department of Agriculture now estimates a record 123 million bales this crop year which ends in July.

China, the world's biggest consumer has been buying cotton aggressively from the domestic and international market into its National Cotton reserves. It has accumulated more than 16 million bales corresponding to 15 percent of annual global consumption. This aggressive purchase from China is probably the root cause for India's ban as higher international prices led to a much higher than expected surge in exports due to weak domestic demand. Once China is done with its buying the fact remains that the outlook for global demand is weak and cotton mills which introduced synthetic fibers last year have been slow in reversing back to pure cotton which has also lowered demand.

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