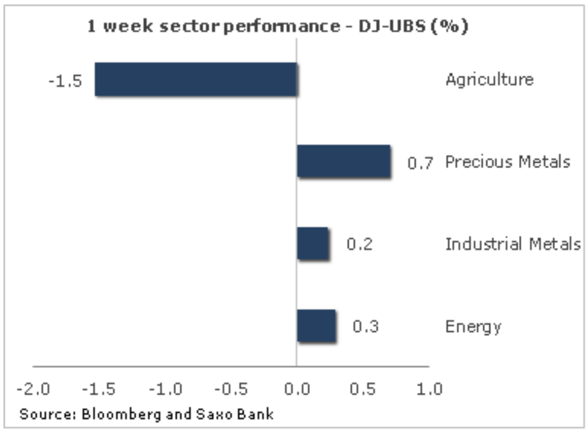
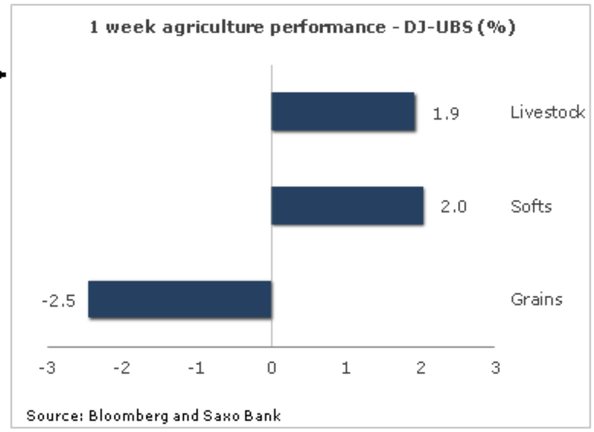
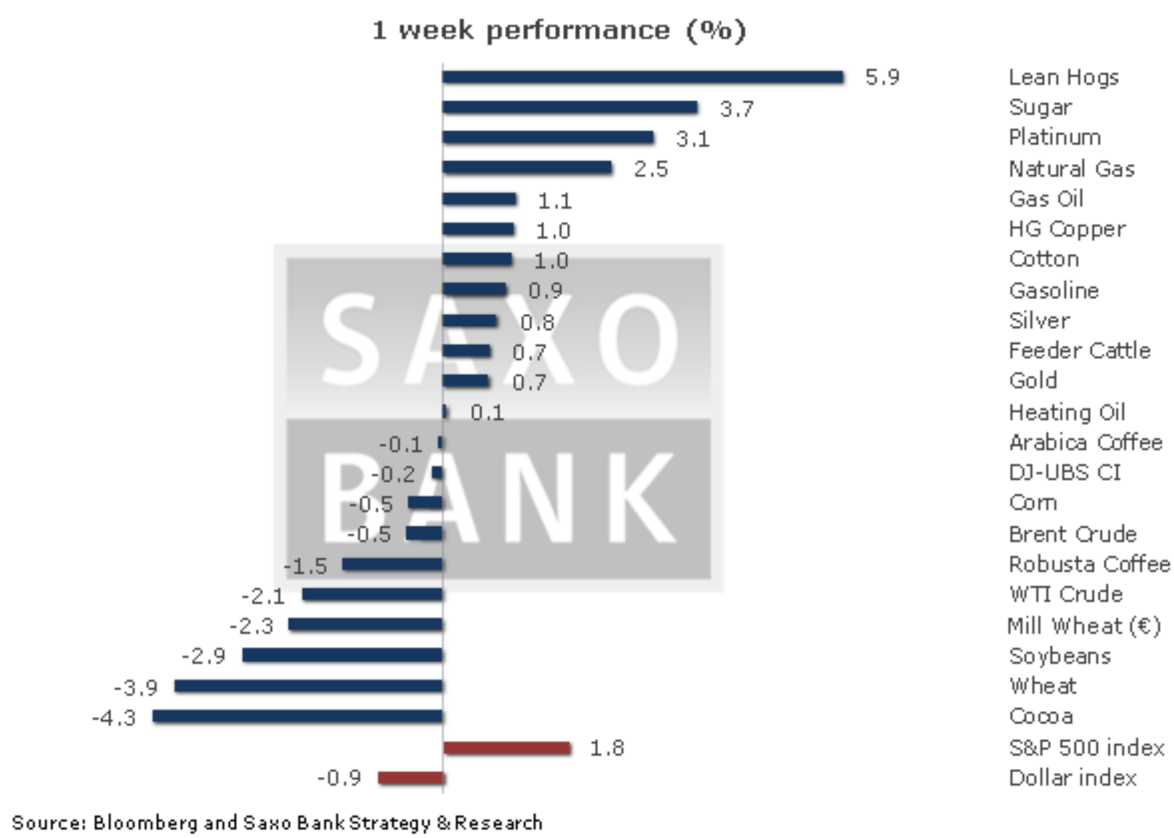
Improved US data halts gold while supporting oil

The first week of the last quarter brought a host of important economic data culminating with the US unemployment report which turned out to be better than expected with the unemployment rate dropping below eight percent for the first time since January 2009. This helped the general level of risk sentiment in the market and resulted in a weaker dollar and rising stock markets, while commodities were mixed.





The DJ-UBS commodity index was flat on the week with gains in energy and metals being off-set by losses in agriculture, primarily the grain sector which was led by wheat.



Physical buying reassures gold investors

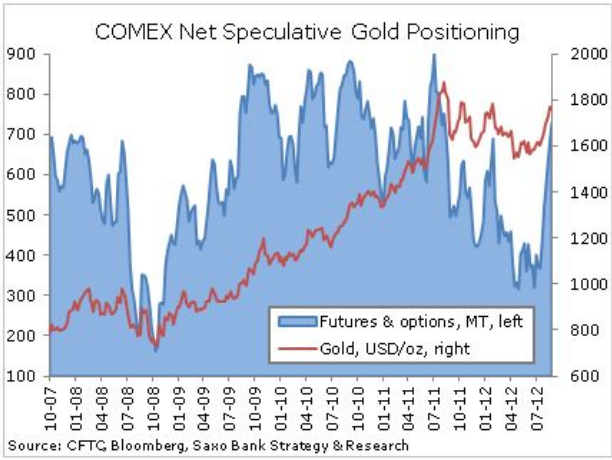
Gold spent the week consolidating further while trying to take a couple of stabs at the important 1,800 USD/oz. level which so far stands in the way of further upside momentum. Resistance came from a better than expected US employment report and signs that producer selling was present during the week. We believe this selling will cease if and once the 1,800 level is broken as producers will then be looking for an opportunity to hedge production at higher levels.

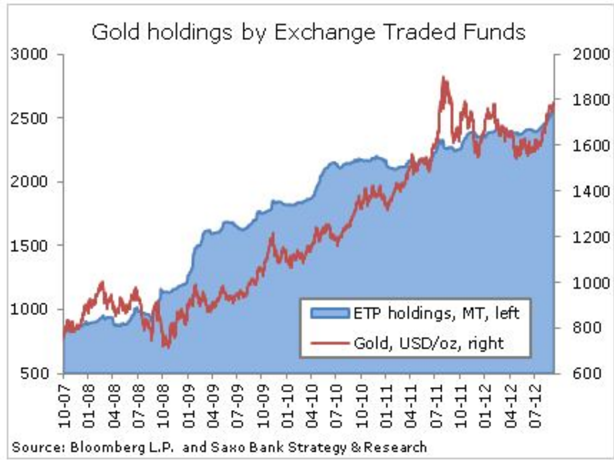
Support was provided by a weaker dollar following news from the European Central Bank that it is ready to begin purchasing bonds, thereby providing the stimulus it promised. This continues to be one of the major drivers behind rising metal prices.

Spot Gold, USD/ounce – Source: Saxo Bank

The physical market gave gold a boost with several sources talking about a long awaited pickup in demand from India, the world's largest consumer, together with China, the second-largest. During the last month the price of gold measured in rupees has fallen by five percent and this combined with the upcoming Diwali or "festival of lights" beginning November 13, has led to a pick-up in physical sales, thereby further reassuring financial investors who have provided most of the support in recent weeks.

Investment flows into gold continue with holdings in exchange traded funds having risen by 95 metric tons (MT) during the last month to a new record of 2.565 MT according to Bloomberg. Hedge funds and other leverage investors have seen their net long exposure to gold through futures rise to 730 MT, a four-week increase of 210 MT.





Platinum provides support as SA strike action spreads

Additional support to precious metals, especially platinum, comes from South Africa where wild cat strikes continue to spread across the country with production of both platinum and gold now being affected. As a result, platinum has been the best performing metal over the last week as the production surplus continues to dwindle while it rightfully so continues to attract a risk premium. This has resulted in the discount to gold narrowing to a low of just 3.7 percent from a pre-strike peak of 16 percent.

Oil markets stuck in battle between fundamentals and geo-politics

Both Brent and WTI crude oils experienced huge swings over the last week as the battle between weak fundamentals and geo-political worries continued to pull the price in opposite directions. As we ended the week, the price of Brent was almost unchanged but had travelled almost USD 10 in between. The price of WTI crude at one stage moved back below the psychological level of USD 90 per barrel on news from the US Energy Department that domestic crude production had risen to the highest level in more than 15 years while fuel consumption is declining. Brent crude moved back below its key pivot point of 112 dollars but found support ahead of the recent low at 107.10 on the November futures contract and managed to outperform WTI once again, with the premium rising to a new record above 21 dollars/barrel.

The sell-off was quickly reversed on Thursday when Brent crude surged the most in two months as focus returned to geo-political worries due to rising tensions between Syria and Turkey following a Syrian mortar attack which triggered a Turkish retaliation. Prices got a further boost as the dollar weakened against the euro following the bi-weekly ECB meeting where President Draghi announced that the bank was ready to commence buying the bonds of troubled Eurozone countries such as Spain under its Outright Monetary Transactions (OMT) programme. A surge in the price of US gasoline also lent support to the oil market following a refinery fire in Texas and pipeline outages which have increased concerns about the availability of supplies, just as demand for heating oil is about to pick up.

Range-bound conditions expected near term

This above mentioned struggle between those believing that the global oil market is well supplied with stable demand outlook and those worried about escalating tensions in the Middle

East look set to continue to set the tone over the coming weeks. In terms of price movements the most likely outcome of this will be continued range trading with support on Brent crude at 107.10 USD/barrel and resistance at 113.80. Investors are still holding a predominantly net long position and will be keen to protect their positions, something which can be seen in the options market where volatility remains stubbornly high.

Brent crude oil, November 2012, USD/barrel – Source: Saxo Bank

Grains feel selling pressure

The grain sector continued to suffer from selling pressure with especially wheat and soybean prices continuing to look for support. Wheat especially lost some support as Russia began selling grains from state stockpiles in order to contain recent domestic price rises and to a certain extent to assure its international buyers that restrictions or an outright export ban of wheat would not occur. Soybeans lost ground on expectations for a late pickup in US yields following the just-in-time arrival of rain back in August, while farmers in Argentina are expected to increase planting to a record in order to take advantage of current high prices.

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