



Jackson House, 18 Savile Row, London W1S 3PW

Tel: (020) 7758 4777 Fax: (020) 7287 5292

e-mail: trade@bfl.co.uk web: www.bfl.co.uk

Daily Commodities Report 29th January 2010

U.S. light crude not far above intraday 2010 low of \$72.65

* U.S. Q4 GDP growth data due at 8:30 a.m. EST (1330 GMT)

* Reuters poll sees U.S. GDP up 4.6 pct vs 2.2 pct in Q3

* U.S., Japanese data point to lower oil consumption

Oil rose towards \$74 per barrel on Friday, finding some respite but still heading for its third consecutive weekly drop on evidence fuel demand was lacklustre despite recovery from the global downturn.

U.S. oil demand shrank 2 percent in the past four weeks from a year earlier, figures this week said, while Japanese data showed crude imports fell 2.6 percent in December and gasoline sales tumbled 2.4 percent.

U.S. oil for March delivery gained 31 cents to \$73.95 a barrel by 1040 GMT. Prices touched \$72.65 on Wednesday, the lowest intra-day price since Dec. 21, and are down more than 10 percent from a 15-month high of just under \$84 on Jan. 11.

London ICE Brent crude for March climbed 34 cents to \$72.47.

"Oil is pausing for breath after quite a big fall over the last few weeks," said Eugen Weinberg, commodities analyst at Commerzbank. "But the mood has changed with traders now looking for reasons to sell instead of reasons to buy."

"Current prices do not reflect the fundamentals of demand and supply and could go a lot lower, although I think we will see some stabilisation before the next move downwards."

Weinberg said he was concerned that the oil market could see a big drop similar to the move in copper this week.

Copper, known as "Doctor Copper" due to its value as a forward indicator of economic activity because it is used for construction and in industrial processes, dropped nearly 5 percent in London on Thursday and saw follow-through selling in Asia on Friday.

Traders are concerned that China may tighten monetary policy sharply later this year, stifling global growth.

Edward Meir, senior commodity analyst at brokers MF Global in Connecticut, said he was concerned that a selling frenzy similar to the one that hit copper on Thursday could engulf oil "particularly given the still sizable net long position held by the funds in the (U.S.) crude contract". "Our feeling is that it will not, given Thursday's rather encouraging session where funds refused to bail out, this despite weaker equities, crashing metal prices, and a much stronger dollar," Meir said.

He suggested oil could stabilise or even rally over the next two days, possibly back to the high \$70s per barrel.

Key to sentiment on Friday will be the U.S. growth data.

A Reuters poll said the U.S. economy probably grew at its fastest pace in nearly four years in the fourth quarter of last year as businesses rebounded from the deep recession of a year before and made less-aggressive cutbacks on inventories.

It forecast the U.S. economy grew at an annual rate of 4.6 percent in the October-December period, up from 2.2 percent in the third quarter.

Oil prices have been helped lower this week by a stronger dollar, which rose to its highest level in more than six months against the euro on concerns over potential fiscal crises in European economies including Greece and Portugal.

A stronger dollar often indicates investors are funnelling cash away from riskier assets such as commodities. It also can curb demand for crude oil from buyers who hold other currencies, since oil is priced in dollars.

This view found resonance in Tehran, where Iran's OPEC governor was quoted on Friday as saying that oil prices would not drop below \$60 per barrel by July this year.

Gold eases towards \$1,080/oz as euro languishes

* Asian demand picks up ahead of festivals as prices dip

* U.S. platinum, palladium ETF flows pause

Gold eased in Europe on Friday as the dollar held near multi-month highs versus the euro, with doubts over the outlook for smaller euro zone economies, mainly Greece, curbing interest in the single currency.

Spot gold was bid at \$1,082.55 an ounce at 1035 GMT, against \$1,086.75 late in New York on Thursday. In that session it hit a near three-month low of \$1,073.75.

"There is a lot going on in the forex markets, and that is the main driver this morning," said Simon Weeks, head of precious metals at the Bank of Nova Scotia.

The euro steadied after losses that took it to its lowest since July versus the dollar in Asian trade, but remains on track to fall 2.5 percent against the dollar for the month, after a 4.5 percent drop in December.

Dollar strength has been a key factor pressuring gold so far this year, prompting a 1 percent drop in prices since Dec. 31.

A firmer U.S. unit cuts gold's appeal as an alternative asset and makes dollar-priced commodities more expensive for other currency holders.

Gold traders are eyeing key U.S. data due later in the session for its impact on the dollar, especially fourth-quarter gross domestic product numbers due at 1330 GMT.

On the physical side, Indian gold demand continued to pick up on Friday as traders took advantage of easing prices to build stocks to meet upcoming wedding demand.

They are hoping for further losses. "There are a lot of orders below \$1,075," said a dealer at a private bank in Mumbai.

Also in Asia, gold bars were offered at the highest premiums in more than a year as demand from China gained pace ahead of the Lunar New Year, dealers said.

Holdings of the world's largest exchange-traded fund, New York's SPDR Gold Trust, were unchanged for a seventh straight session on Thursday, the trust's data showed.

Overall its holdings are down 21.7 tonnes or 1.9 percent so far this year. In the same period of 2009, they rose 52.65 tonnes or 6.7 percent.

From a chart perspective, gold is now looking vulnerable, according to analysts who study past price moves to determine future trade.

"The close below the 100-day (moving average) at \$1,089 is a first since July 2009 and increases the odds for a deeper probe of \$1,074/1,067 support -- the December lows and ten-month trendline -- where we would be looking for basing signs," said technical analysts at Barclays Capital.

"A meaningful break below this trendline however would force us to reassess and allow for a sharper slide to \$1,025/32."

Among other precious metals, silver was bid at \$16.24 an ounce against \$16.20. Platinum was at \$1,505 an ounce against \$1,508, and palladium at \$413 against \$418.50.

Futures, options and foreign exchange are high-risk areas of investment in which it is possible to lose in excess of your original deposit. You should only consider utilising such funds in these markets which you can afford to lose. The information and recommendations contained in this report are carefully researched but no guarantee, representation or warranty is made or responsibility or liability accepted to its accuracy or completeness. Any opinion expressed in this document is a matter of judgement at the time of writing and is subject to change without notice. For the purposes of the FSA, this communication has been labelled a 'Marketing Communication' and as such constitutes 'Non Independent Research' under the FSA rules. Berkeley Futures Limited, their associate companies and/or their clients, directors, employees and contributors may own or have a position in the derivatives mentioned and may add to or dispose of such derivatives. Please bear in mind that, before publishing a research recommendation, we may have acted upon it or made use of the information upon which it is based. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or sell any investment. Please note that trading in futures, options and foreign exchange may not be suitable for you. Foreign exchange is traded off-exchange where the risks differ from on-exchange transactions. If you are in any doubt please consult your financial adviser.