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## Daily Commodities Report 9<sup>th</sup> March 2010

### Gold steady as Dollar strengthens

Gold hardly moved on Tuesday as early bargain hunting subsided, and dealers said a weaker U.S. dollar was probably needed to help the metal break free from its current range. Speculators, who have built up positions in New York on worries about Greece's ability to repay its debt, may unwind holdings further but gold could find support at the current levels.

Dealers shrugged off news that China would be prudent in buying gold as a component of official reserves, which was in line with market thinking the country would not buy bullion in the open market, as it costs less to buy from domestic mines.

Spot gold hit an intraday high of \$1,124.30 an ounce and was at \$1,122.20 by 0632 GMT, down 65 cents from New York's notional close on Monday, when it fell 1 percent.

Bullion was also around 1 percent below a 6-1/2-week high near \$1,150 an ounce hit in early March.

Safe-haven buying ignited by a sovereign debt crisis in Greece had pushed up prices as the inverse relation between gold and the dollar began to weaken but dealers said bullion could still turn to currencies for direction.

"It's still trading above the 50- and 100-day moving average, which is encouraging. If they can stay above \$1,110, you know there's a chance it could move back up towards \$1,150," said a senior commodities analyst at ANZ in Melbourne.

"The gold market has been more influenced by safe haven rather than currency issues. But if we swing back to currency issues, then it will need a weaker dollar to trade through \$1,150 again,"

The euro dropped against the dollar to \$1.3615, but it was still well off an over nine-month low of \$1.3433 struck last week.

The euro struggled after Greek Prime Minister George Papandreou warned on Monday that if the Greek crisis worsened it could lead to a new global financial meltdown.

Platinum hit an intraday low around \$1,580 an ounce before bouncing and hitting a high of \$1,625 -- its strongest since late January.

Palladium slipped but held near its recent highs on hopes of steady demand from autocatalysts following robust sales figures in major gasoline markets in China and the United States.

U.S. gold futures for April delivery was little changed at \$1,123.3 an ounce, having ended 1 percent lower on technical selling.

The world's largest gold-backed exchange-traded fund, SPDR Gold Trust, said its holdings stood at 1,116.120 tonnes as of March 8, unchanged from the previous business day.

Yi Gang, head of China's State Administration of Foreign Exchange, said the country would face serious constraints if it wanted to increase its gold holdings because the acquisitions would push up the price of the precious metal.

The market has long been rife with speculation that China will seek to diversify its foreign exchange reserves in part by buying more gold abroad.

"I think the market wants the signs from the currency markets whether the dollar is going north or south," said a dealer in Hong Kong.

"The market discounts the China story. It's an old story. I don't think China will buy gold in the open market. They will buy gold from their own mines," he added.

China's gold output jumped 11.34 percent to a record of 313.98 tonnes in 2009, the China Gold Association has said, securing the country's position as the world's largest producer of the yellow metal.

### Oil dips on inventory outlook

Oil slid on Tuesday as forecasts for growing U.S. crude inventories tempered bullish sentiment about the global economic recovery, which had driven prices to an eight-week high above \$82 a day earlier.

U.S. crude for April fell 40 cents to \$81.47 a barrel at 0500 GMT, after touching \$82.41 on Monday, the highest level since prices jumped to a 15-month high of \$83.95 on Jan. 11. London ICE Brent for April declined 42 cents to \$80.05.

A report on Friday showed U.S. unemployment is growing, although at a slower pace than expected. The country's crude inventories probably rose for a sixth straight week, a Reuters survey showed.

The Organisation of the Petroleum Exporting Countries (OPEC) will keep oil production targets on hold when it meets in Vienna on March 17, but could raise output later this year as the world recovers from recession, pushing up demand for fuel, a Reuters poll showed on Monday.

"The whole market picture is still very weak, but sentiment has been very bullish," said Clarence Chu, an energy trader at Hudson Capital Energy in Singapore.

"I expect that if eventually we get up to \$83.95, people will take profit and get off their longs. I don't think the market can go past that point."

The U.S. Energy Information Administration is expected to hold its global oil demand forecast steady for this year at 1.2 million barrels in its latest report, although some analysts believe the EIA might be too optimistic given stubbornly high oil prices and an uncertain economy.

The EIA's monthly short-term supply and demand forecast will be published on Tuesday at 1500 GMT. U.S. crude inventories gained 1.9 million barrels in the week to March 5, the poll showed, while gasoline stockpiles may have increased by 300,000 barrels.

Distillates, a fuel category that includes heating oil and diesel, were expected to have dropped 900,000 barrels because of lingering winter weather conditions in the U.S. Northeast, the biggest heating market.

The industry-funded American Petroleum Institute (API) will publish inventory data on Tuesday at 2130 GMT, followed by government statistics from the EIA on Wednesday at 1530 GMT.

#### RESISTANCE VS SUPPORT

Looking at price chart patterns, oil was unlikely to fall below \$80.50, Chu said. "It was a resistance for long, and after we broke through it, it became a support level."

"But according to fundamentals we should look at \$75 or even \$70 because we are losing jobs every month," Chu said. "GDP is coming up, but it's not that healthy a recovery unless jobs return."

The dollar, which for months has been inversely correlated with oil prices, edged up on Tuesday against a basket of currencies. But some traders said the currency has recently influenced crude prices less, especially at times when economic data releases enter the spotlight.

The euro rose slightly against the U.S. dollar on Monday as concerns about Greece's indebtedness eased, while U.S. equities ended little changed after last week's rally.

## Stocks -financials, miners lower

World stocks inched lower on Tuesday from the previous day's six-week high and oil tumbled, while the yen rose broadly as investors grew cautious after a recent rally in riskier assets.

But the momentum was not kept up in Europe where banks and some resource shares fell.

Robust corporate performance and upbeat fourth-quarter results from major companies have helped investors push the benchmark MSCI world stocks up to a break-even level for the year after a pullback in January and February.

"The market had a good recovery after correction lows and it would be tough in the near term, even though you are still in a cyclical bull market, to just race ahead. People are still cautious," said Bernard McAlinden, investment strategist at NCB Stockbrokers in Dublin.

U.S. crude oil fell 0.8 percent to \$81.19 a barrel, having risen above \$82 a day earlier. Forecasts for growing U.S. crude inventories tempered recent bullish sentiment.

Bund futures Rose 19 ticks.

The U.S. Dollar was up 0.2 percent against a basket of major currencies. The yen rose 0.5 percent to 89.87 per dollar while the euro lost 0.3 percent to \$1.3597.

"The market seems to be in the mood to take a breather at the moment with little appetite for the choppiness and volatility witnessed over the past week. Another sparse data calendar implies little fundamental impulse for currencies today," Credit Agricole said in a note to clients.

"This lack of focus would favour a sideways move for most exchange rates, but assuming that the slightly more relaxed approach to risks -- be they Greek variety or otherwise -- continues, the market may feel confident enough to edge back toward other G10 currencies and away from the yen."

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