Yellen lifts gold — Brent and gasoline the best performers

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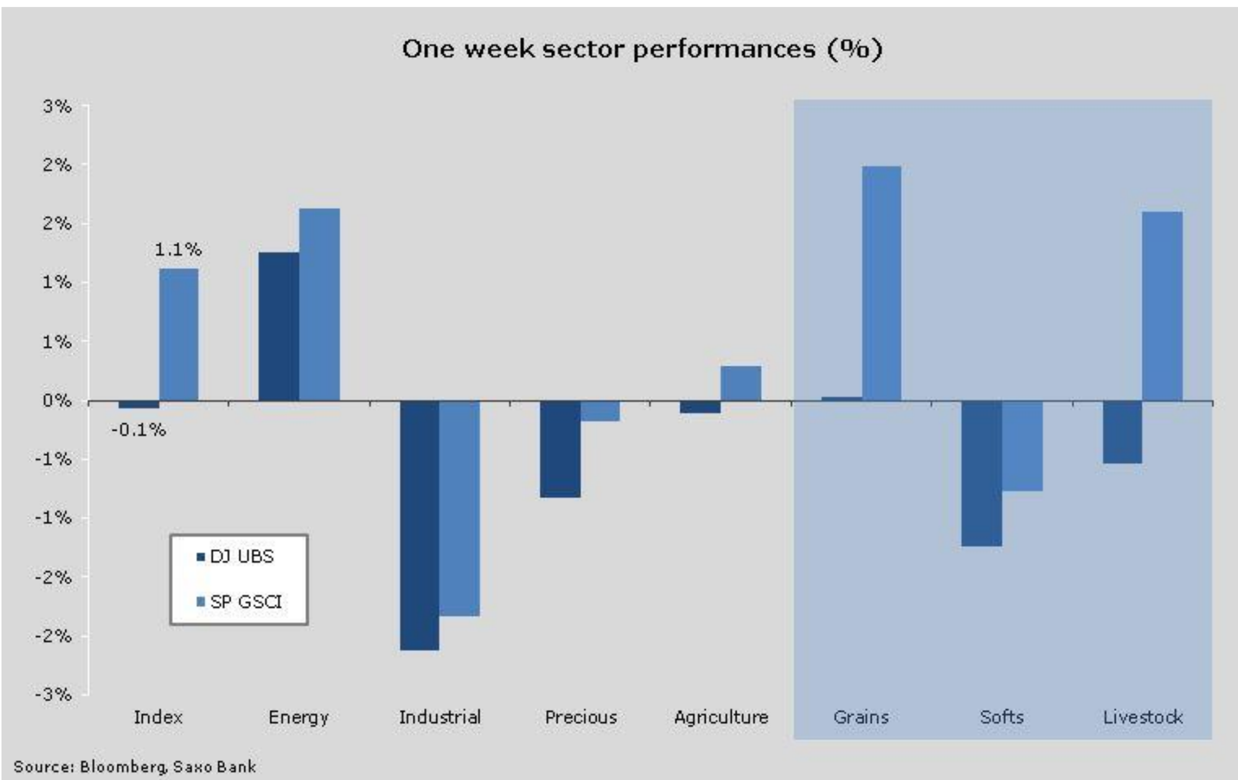
Varied performance

It has been a mixed week for commodities with major divergence between the different sectors. Growth-dependent commodities like energy and industrial metals went their separate ways while in precious metals, gold received a boost from the Fed's Janet Yellen, leaving silver trailing. The agriculture sector saw gains for grains led by soybeans but losses for softs with sugar and cotton leading the way lower.

Janet Yellen, who is expected to take over the chair at the US Federal Reserve in the new year, came out with a staunch defence of the central bank's asset purchase program and saw no signs yet in the economic data justifying scaling it back. This lifted the price of gold, bonds and equity markets with the S&P 500 index rising for a sixth consecutive week resulting in a year-to-date positive performance of 28 percent.



Energy outperforms

The five best performing commodities all belonged to the energy sector with gasoline taking the lead with US inventories shrinking for a fifth week at a time of tight supplies on the East Coast. Brent Crude's premium over WTI widened to the highest since March as rising stockpiles in the US put WTI Crude under pressure, while continued supply disruptions in Libya and Nigeria together with the absence of a deal with Iran supported Brent Crude.

Industrial metals came under pressure following a meeting in the Chinese Communist Party which failed to disclose new initiatives that could lead to a pick-up in demand for the sectors products. Copper saw some additional selling after breaking out of its established trading range on concern that supply could outstrip demand over the coming period. The negative performance in industrial metals spread to silver and palladium with silver trading at its cheapest relative level to gold in three months.

Precious metals

Palladium ran into selling after key resistance in the USD 765 to 770/oz area failed to be breached and the speculative net-long position rose to the equivalent of four days of total traded volume. This combination triggered rounds of long liquidation by hedge funds worried that their bullish positions had become too extended and the price has dropped to a one-month low while still looking for support.

A similar situation with positions becoming overextended was seen in sugar with a month ago when it reached USD 20/lb on technical and fundamental support. Since then, fundamental support has been reduced as a large global supply surplus for the 2013/14 season leaves the upside limited. The speculative net long position held by hedge funds reached a five-year high on October 31 and the subsequent deteriorating technical outlook has triggered selling in 14 out of the past 15 days.

Gold found support from the soothing words of Janet Yellen that the current rate of stimulus was not coming off the table unless the economic situation could justify such an action. Prior to that announcement, gold had been looking for support and found it ahead of the October low at USD 1,252/oz. The weaker dollar and lower bond yields that followed has however so far not been enough to push the price back above resistance at USD 1,300/oz with many traders not yet convinced that a low has been confirmed. The World Gold Council, an industry lobby group, added to the gloom by announcing that gold demand in the third quarter fell to a four-year low primarily due a collapse in demand from India together with a continued fall in holdings in Exchange Traded Products.