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DIAPASON TACTICAL ALLOCATION REPORT

APRIL 24, 2014

Research Strategies Solutions

MARKET OUTLOOK UPDATES & COMMODITIES TACTICAL ALLOCATION :

BASE / PRECIOUS METALS, ENERGY, AGRICULTURE

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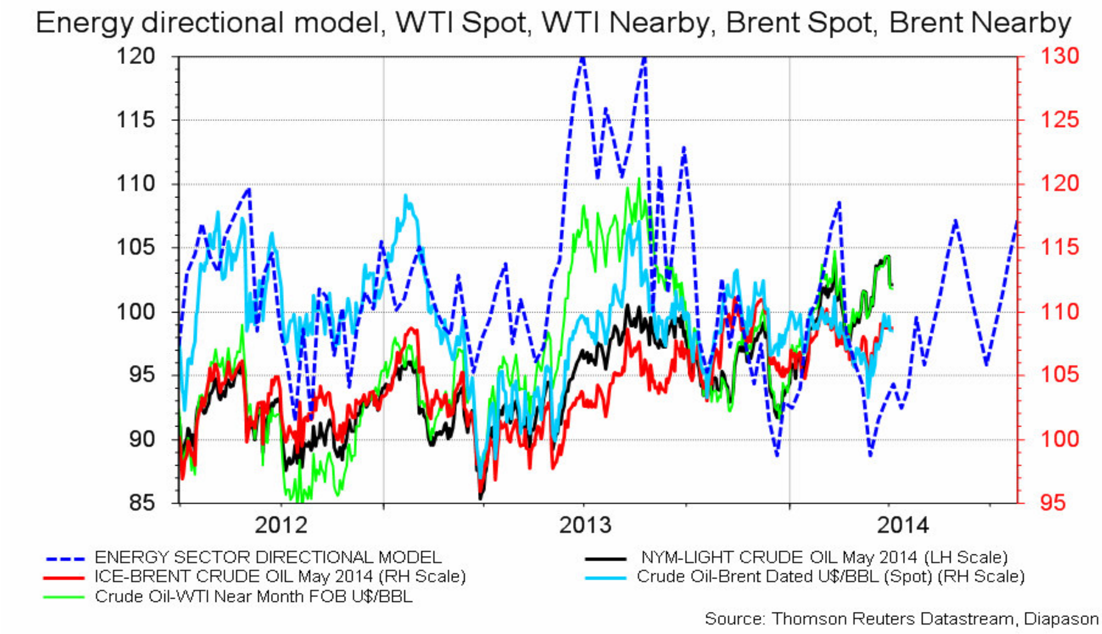
Palladium moves towards $850; Copper aims at $6930 barrier

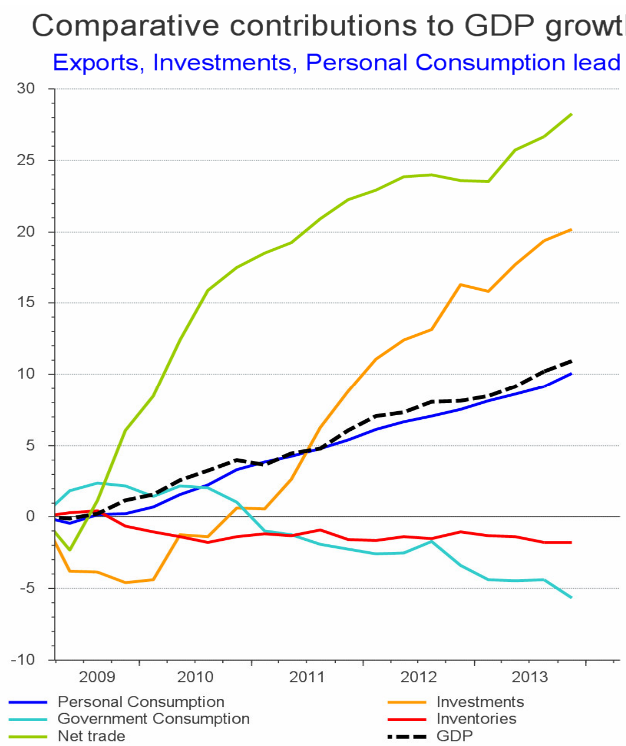
- **EQUITIES:** the **S&P 500** correction eventually made it to 1814 (vs 1825-1810 target). The rally should make it to circa 1950—1970. SPX targets 1825 from there.
- **BONDS:** The **10yr Treasury** yield finds support at 2.60% — then heads for at least 2.40% in Q2. Our models also suggest the decline in yield may reach 2.30—2.25%.
- **US DOLLAR:** **U.S. Dollar (DXY)** support moved to 79.00 —may still launch a rally to 81.30 area. We expect the DXY to fall thereafter, and test 79.00 lows in Q3.
- **CURRENCIES:** **EUR/USD** may still fall to 1.3550 further out, but should rally thereafter for a more conclusive test of the trend line resistance at 1.4100—1.4200.
- **BASE METALS:** **Copper** took out the 6730 minor resistance and should test 6925 crucial barrier soon. **Nickel** took out the 17,000 resistance easily — may extend gains to 19,000-19,500 before making a pause — a pullback to 17,200 thereafter.
- **PRECIOUS METALS:** **Palladium** finds support again at just above $770. The next objective is $850. It may eventually reach $950—$1000 before the year is over.
- **AGRICULTURE Grains:** The **Corn** rally did take out $5.00, but may still consolidate towards the $4.75 area before heading for the next phase of the bull market.
- **AGRICULTURE Softs:** **Cotton** should find support at just under $90.00, then goes to $98.00—$99.00. The **Coffee** rally may find a stronger resistance at $240—$250.
- **ENERGY:** The **WTI** rally from the $97.65 trough should finally take out the $105.00 barrier, and that should provide impetus for a further rally to $112.00. **Brent** oil also found support at $104.00, the new rally is now primed for another go at $114.00-$115.00 from here. **NatGas** still susceptible to another decline to $4.25. The rally from there may reach $5.55.



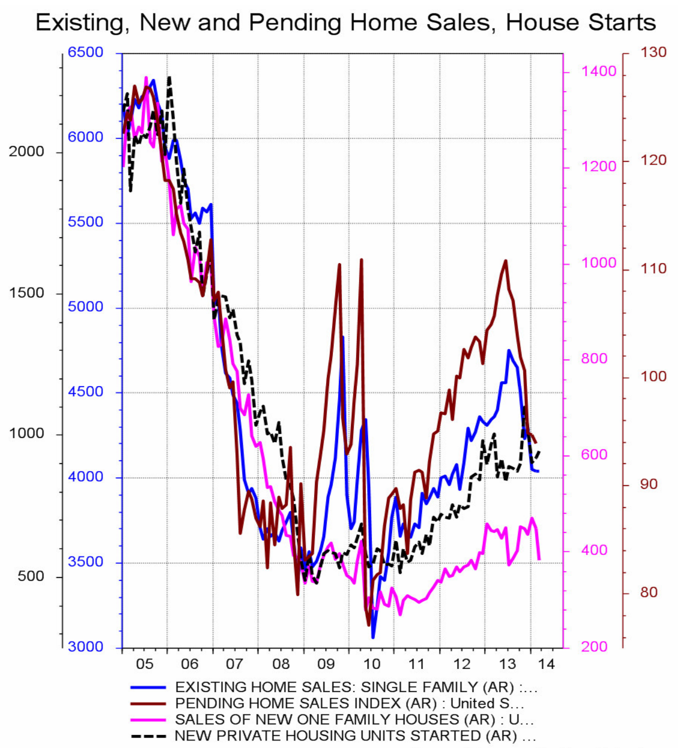
Moderate global reflation; inflation wakes up in the US

USA: signs of reflation; inflation will rise this year

- US growth momentum returning with tentative signs of reflation in the US.
- Growth momentum is returning following the negative effects of adverse weather in early Q1.
- Vehicle sales in March rose to an annualized 16.4mn units, reversing three straight months of sub-par sales.
- March retail sales rose 1.1%, while core retail sales (excluding building materials, autos, and gasoline) rose 0.8%, with most discretionary spending categories showing strong gains.
- March industrial production also surprised to the upside.
- Housing starts activity has recovered about half of its January decline.
- US new home sales fell 14.5% m/m in March, to 384k from a revised 449k in February. The decline was much sharper than the consensus (450k) were expecting. This signals that housing will be slower to rebound after the adverse winter than other sectors of the US economy.
- In contrast, existing home sales rose on a NSA basis in March, leading to the flat reading on a seasonally adjusted basis. (*Bloomberg, Reuters, Washington Post)*



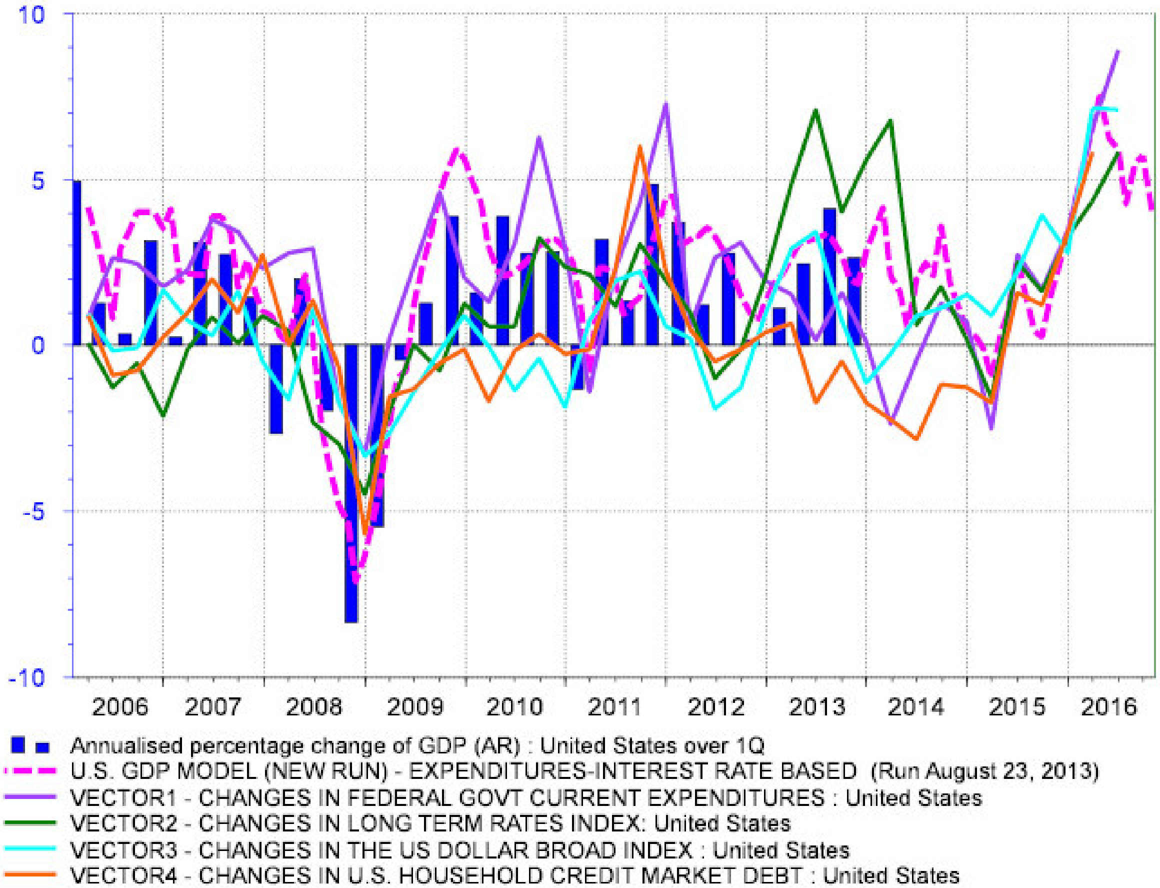
Source: Thomson Reuters Datastream



Source: Thomson Reuters Datastream

- March CPI data in the US were consistent with our view that core and headline inflation will be strengthening this year. Both the overall and core CPI rose 0.2% in March, ahead of expectations, with the increase in core inflation led by rising shelter and medical services which will very likely continue to rise further.
- Our Q1 2014 tracking data suggests GDP at 2.0% – 2.2%: Q3 GDP both from tracking and model forecast GDP at 3.0% - 3.2%.

US GDP MODEL - the major vectors provide forward-looking elements



Source: Thomson Reuters Datastream

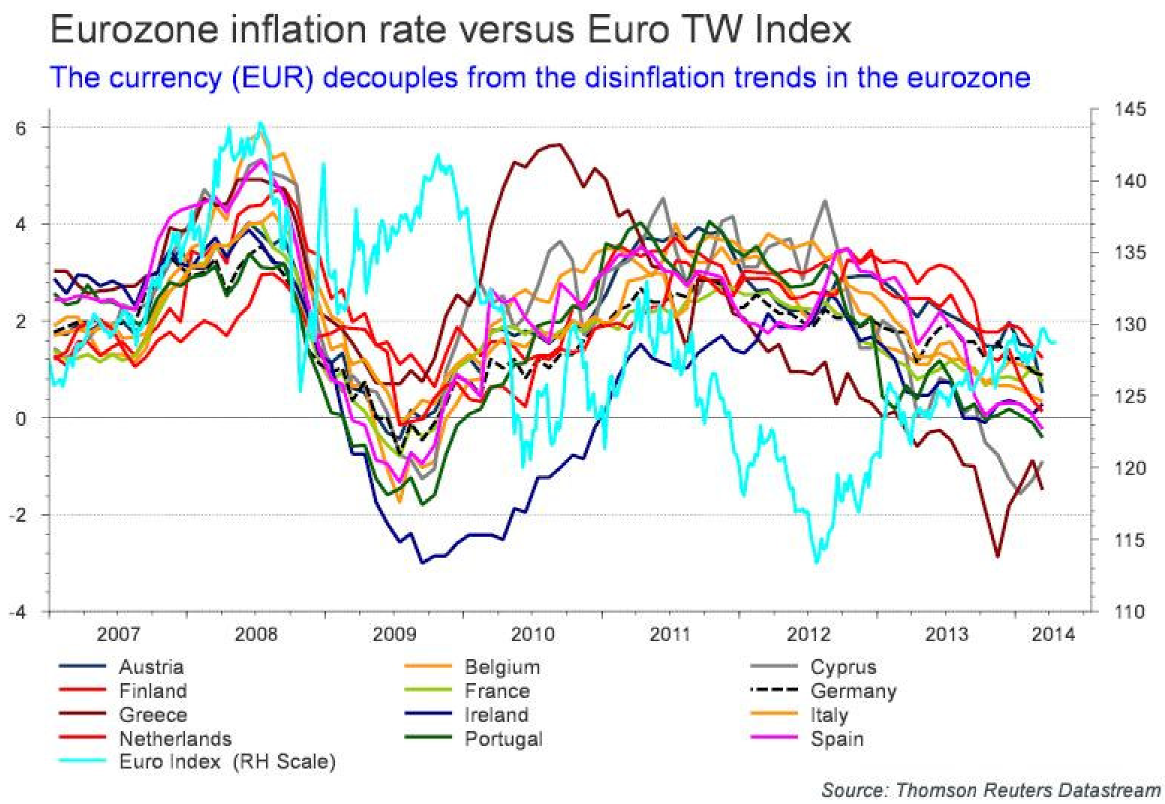
EUROZONE: no growth surprise; more weakness in core inflation

- Euro area industrial production growth may be at circa 0.4% q/q in Q1 2014.
- We expect 0.4% real GDP growth in Q1 2014.
- Core inflation was revised lower, to 0.7% y/y from 0.8% in March, indicating further disinflationary pressures across the continent.
- Inflation should stabilize soon, but likely to continue to undershoot the ECB's medium-term price stability objective for the remainder of this year and possibly next year. *(Bloomberg, Reuters, Financial Times)*

The ECB may not cut rates or launch QE in the near term, unless:

- Yoy inflation rates do not bounce higher in April as is widely expected, or
- The euro approaches and/or exceeds 1.40 vs. the dollar.

The ECB may soon instead opt to inject new liquidity instead, or launch a purchase program of asset-backed securities backed by loans to small and medium enterprises, possibly before year-end.



CHINA_Q1 growth outperforms, but further fiscal policy, rate support is needed and will be provided

- Real GDP growth in China came in slightly better than expected for Q1 at 7.4% y/y, ahead of the 7.3% consensus forecast.
- Although the report should lessen market anxiety about a sharper slowdown in economic activity, the report does not diminish the likelihood of further monetary policy easing (weaken the CNY) and further investments in social infrastructure.
- Weaker-than-expected March data, including industrial production, property investment, and trade is signaling weak demand and may push the Li government to take further action.

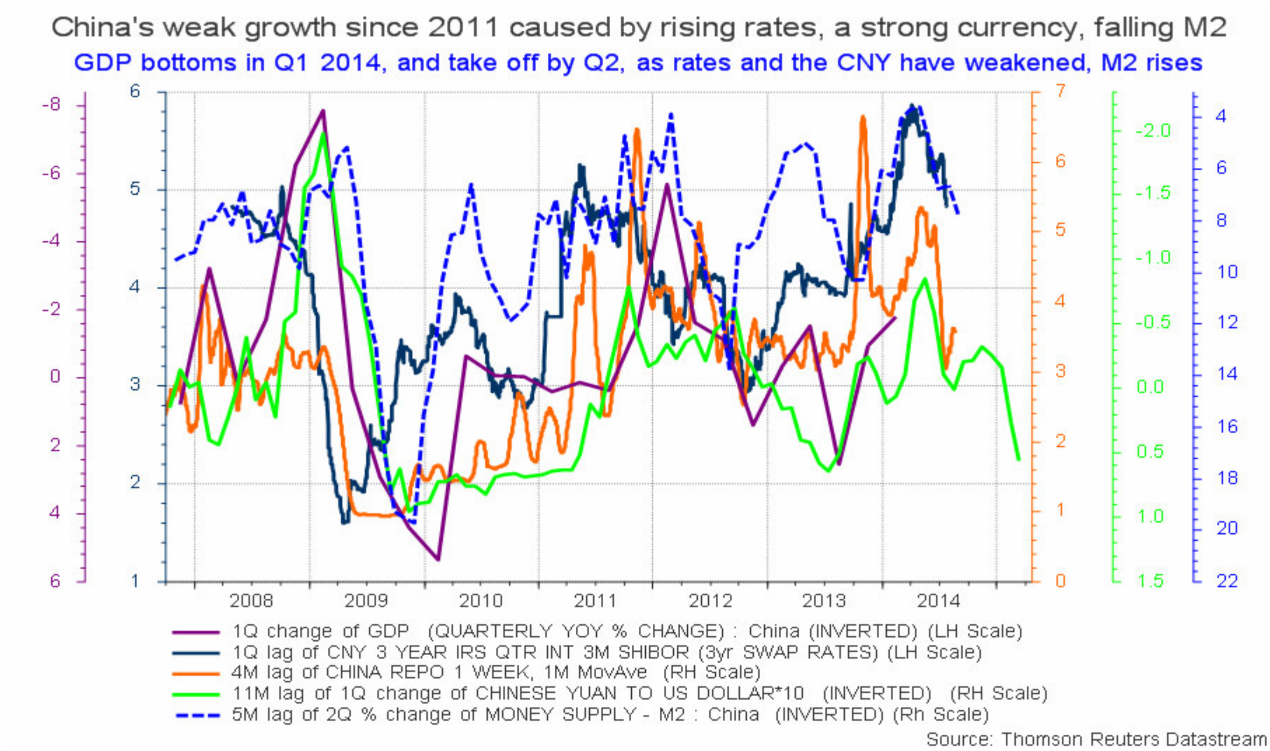
(Sources: Bloomberg, Reuters)

More official measures are needed to stabilize and promote growth:

- Expect an acceleration in investment projects,
- Easier liquidity and funding conditions,
- A loosening of property control policies,
- Further deregulation and SOE reforms, and
- Other measures in the coming months to help stabilize growth. *(ChinaDaily.com)*

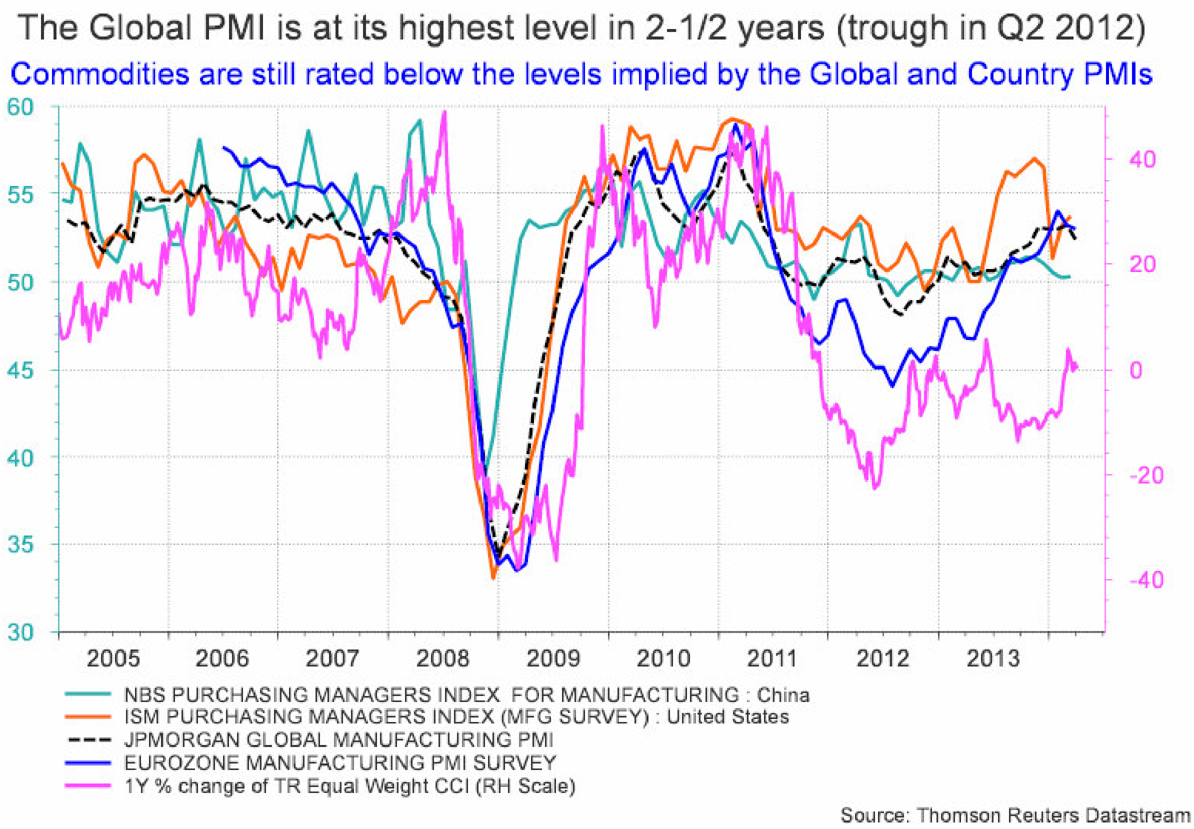
Acceleration of capital outflows, a liquidity crisis, or a disappointing growth environment would be needed to justify further RRR cuts (to the large banks).

We still see growth picking up in H2 2014 to circa 7.6% – 7.8% real y/y GDP growth and expect a recovery in q/q rates of growth.



It is interesting to note that China's State Council this week has approved to allow private capital to invest in some sectors which are currently monopolized and dominated by public investment and state-owned enterprises (SoEs). The government will roll out pilot projects in the following areas: railways, ports, other transportation infrastructure, major hydropower, wind power, solar power generation, oil and gas pipelines and storage facilities, modern coal and petrochemical industries. The projects will be open for public bidding. Private capital participation will be allowed in the construction, operation of those projects through joint ventures, sole ownership or franchising. Later, exploration of oil and gas, water conservation, airports and other areas will be opened as well. *(Source: http://www.chinadaily.com.cn/bizchina/stabilize/stabilize.html)*

Global PMIs still rising; commodities are catching up



China commodities demand:

Crude

- China's oil demand improved modestly after falling 2.8% y/y in Jan-Feb. The March total was up 0.6%, supported mainly by strong gasoline and jet fuel demand, both up by around 15% y/y.
- Of particular note for oil markets is that China became a net product exporter for the first time since August, totaling 120kb/d.
- However, with refinery maintenance starting in Q2 2014, demand is likely to stay sluggish with diesel and naphtha the weakest part of the barrel.

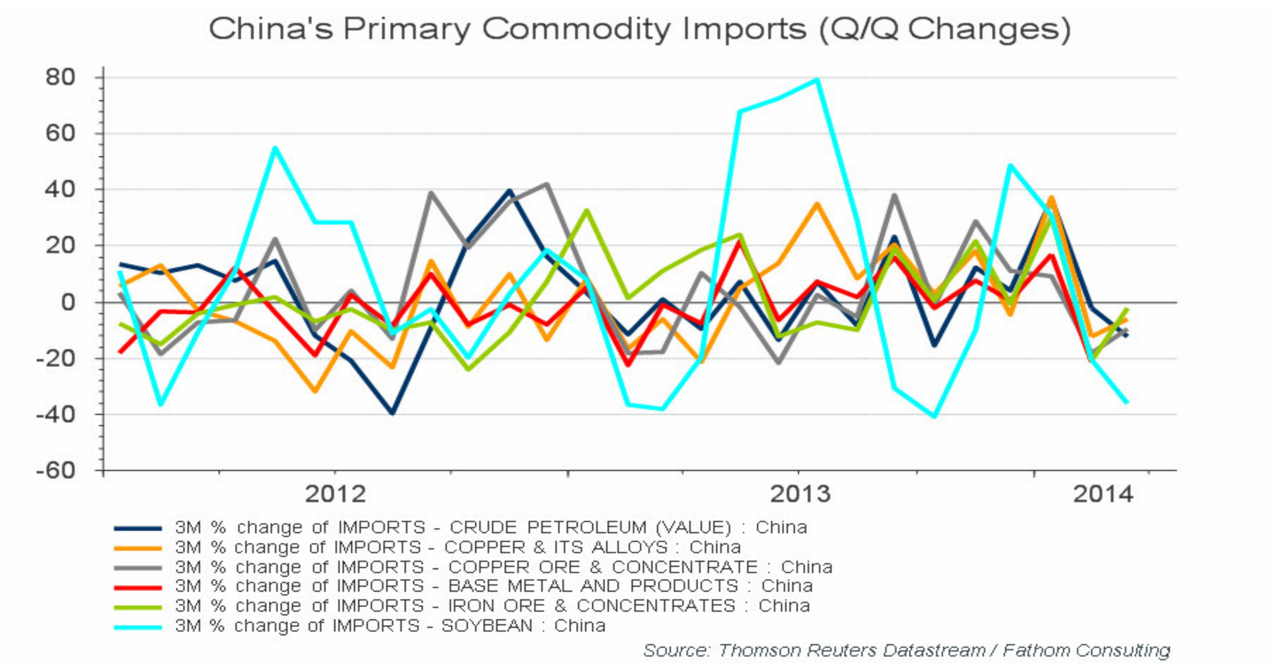
Precious Metals

- PGM imports stayed strong, especially in palladium where imports at 77koz were at their highest since November 2013.
- PGMs demand is underpinned by healthy auto production growth and sales with March auto sales up 9% y/y.

(Source: CEIC)

Base Metals

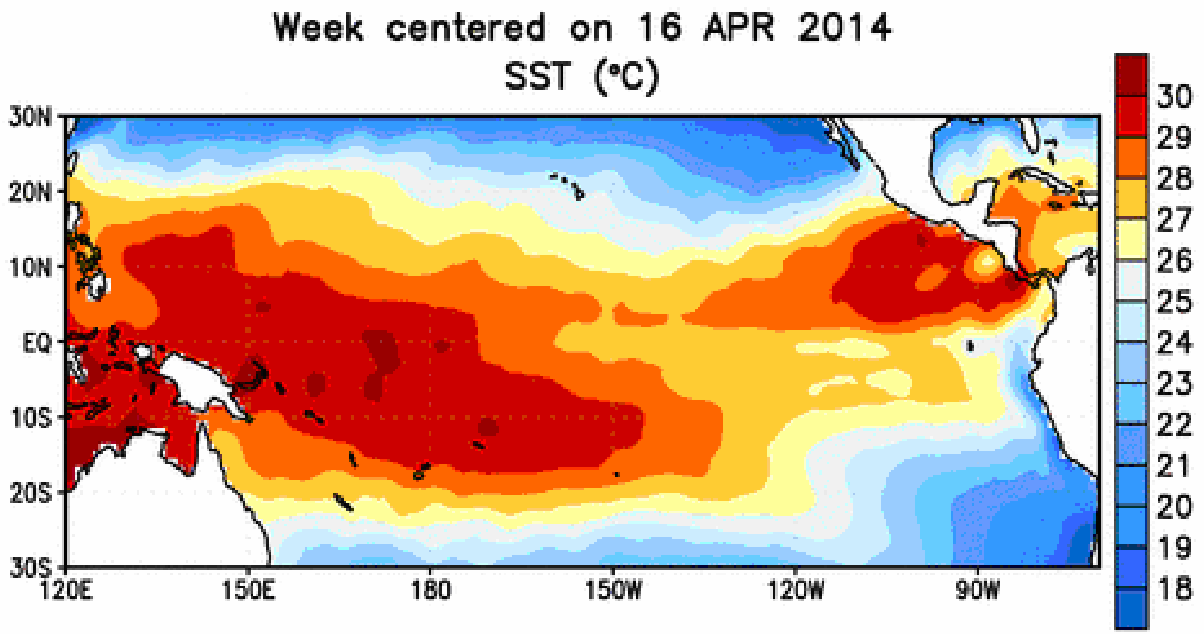
- Imports of copper concentrate was significant in March — it was, up 20% yoy, as smelters took opportunity of low prices, availability and rising treatment charges. The strong output pushed the apparent consumption of refined copper to 24% yoy *(CEIC)*. But the underlying demand may be weaker than implied by the data. If financing activity falls again, refined copper imports may still fall, short-term.
- China's state stockpiler, the State Reserves Bureau (SRB), has bought at least 200,000 tons of imported copper stored in bonded warehouses after global copper prices dived to multi-year lows in March *(CEIC)*. Further purchases by the SRB could help absorb the small surplus forecast to weigh on the global refined copper market this year and help support prices that have already dropped nearly 10 percent so far this year. *(Reuters)*
- Adding to the allure was the fall in copper premiums to a one-year low below $100 a ton in March. Buyers pay premiums on top of cash LME copper prices CMCU0 to secure physical metal. *(Reuters)*
- Record spending by Chinese consumers on new refrigerators, cars and laptops is boosting zinc demand, creating the biggest production shortfall for the metal in eight years. Demand for zinc will exceed output by 117,000 metric tons this year, almost double the 2013 deficit. *(Bloomberg)*
- Morgan Stanley predicts prices in London will rise more than any other industrial metal in 2015. Chinese producers including Baiyin Nonferrous Metals Co. are restarting smelters they closed last year as stockpiles tracked by the London Metal Exchange shrink to a two-year low. *(Bloomberg))*



Commodities (General):

Agriculture and El Nino

- The risk of a strong El Niño by H2 2014 potentially puts a strong underlying support for agricultural prices.
- An El Niño will probably start as soon as July, according to the Australian government forecaster, adding to other predictions of this event that can severely impact the weather worldwide.
- All the climate models surveyed indicated that an El Niño was highly likely this year, with six of seven models suggesting that thresholds for the event may be exceeded as early as July, the Australian Bureau of Meteorology said last week. *(Reuters).*
- Disruptions associated with El Niño have been most important for palm oil, cocoa, coffee and sugar. An El Nino would boost risks to soft-commodity price forecasts. The last El Nino to form was in 2009 to 2010, and since then the Pacific has either been in its cooler state, called La Nina, or neutral. *(Bloomberg)*



Source: Climate Prediction Center

We expect El Niño and a developing supply crunch on many soft agricultural products, and increasingly, on soybeans and soybean by-products, to make the Agriculture sector one of the outperforming sectors by year-end.

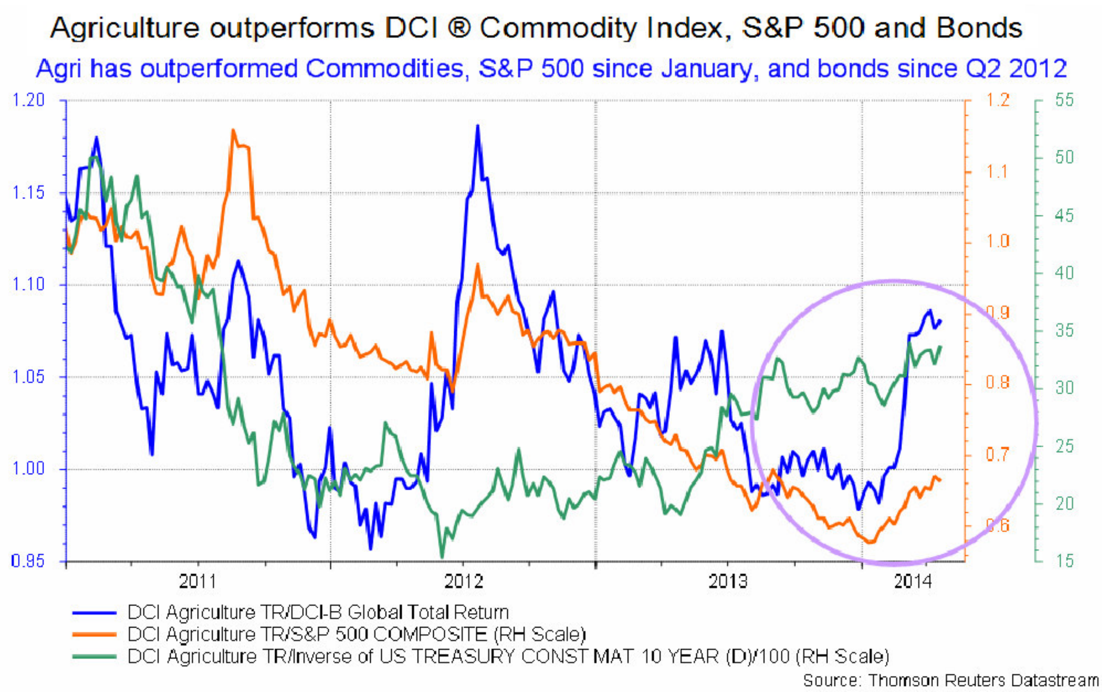
The impact of Niño extends to a wide variety of Agriculture products, as shown in the table provided on the next page:

Commodity	Price direction	Reason
Arabica coffee	Price negative	Better growing conditions in Brazil, Colombia and Central America
Sugar	Price positive	Drought damage to Asian crops and floods could slow harvesting in Brazil
Cocoa	Price positive	Drought damage to West African crop
Wheat	Price positive	Flooding in China, droughts in India and Australia will outweigh the better growing conditions in the US
Soybean	Price negative	Better growing conditions in the US
Corn	Price negative	Better growing conditions in the US and Brazil to outweigh a slow harvest in China

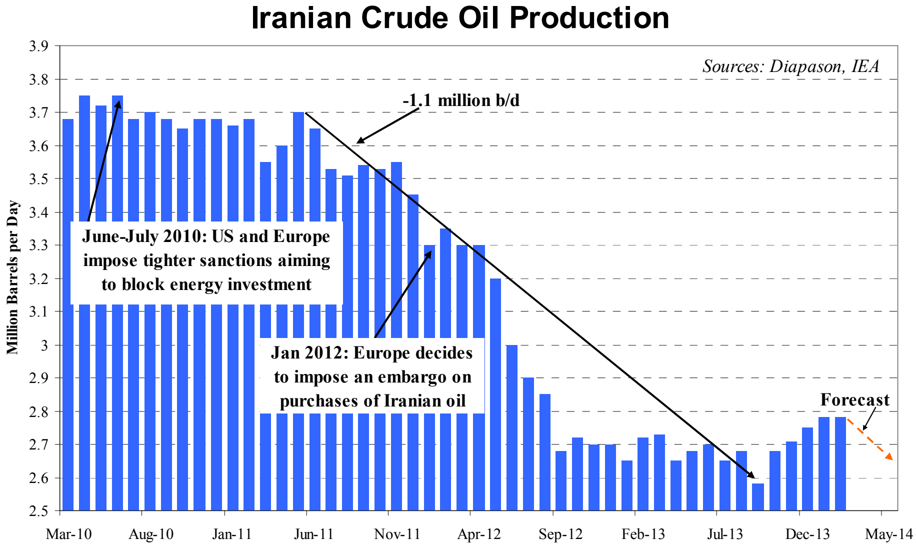
Estimates based on a weak to moderate El Niño event

Source: etfsecurities.com

The spectacular outperformance of Agriculture:



Even against the backdrop of the worst Chinese economic data for many years, commodities have performed remarkably strongly. The 9% YTD return in the DJ-UBS Commodity Index℠ and the 6% YTD return for the Diapason Commodities Index® (DCI®) are strong early outperformances, the best YTD starts since 2008. One significant reason for these outperformances is the rise of the Agriculture sector. For instance, the DCI® Agriculture sector is up 16% YTD. Commodities as an asset class has been outperforming other asset classes since the start of the New Year, and Agriculture has outperformed other sectors in any asset class as well. <u>The chart above shows the story of how Agri morphed from an unloved sector as recent as Q4 2013 to the spectacular outperformer by early Q2 2014.</u>



Iranian crude oil exports aren't likely to rebound before July

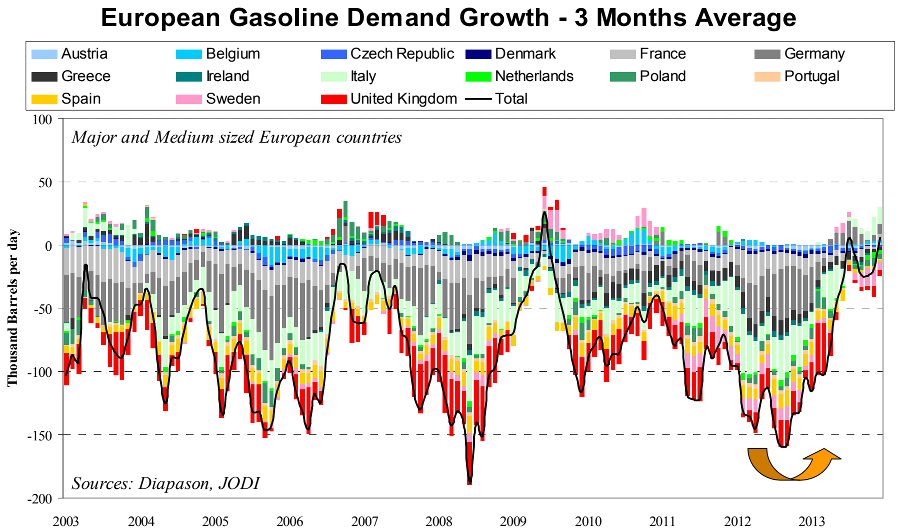
In its latest report, the International Energy Agency (IEA) estimated Iranian crude oil exports at 1.65 million b/d for February 2014. This contrasted with a statement from the Iranian government that crude oil exports have remained at around 1.0 million b/d in early February and March 2014.

The possible rise in Iranian crude oil exports occurred after the November 2013 agreement between the P5+1 and Iran on an interim deal, which reduce some international sanctions against Iran, but did not allowed Iran to increased its crude oil exports. The deal however increased expectations that a final agreement could be concluded by July 2014 (when the interim deal ends), allowing Iran to boost crude oil exports.

The IEA's estimation over Iranian crude oil exports is also significantly above the 1.0 million b/d limit imposed by the US government. However, this quota covers a period of 6 months, implying that if Iranian crude oil exports are reduced sufficiently, buyers of Iranian crude oil could meet the 1.0 million b/d limit over a 6 months period. This appears likely (and is expected by the US Government) due to the spring refining maintenance season, which reduces demand for crude oil.

Indeed, according to the IEA, global crude runs are expected to bottom in April 2014 at 74.8 million b/d, down 2.1 million b/d from February 2014 level. The important rise in Iranian crude oil exports in February have therefore matched strong demand from refineries (crude runs were up by 1.3 million b/d y/y). The seasonal decline in demand should then reduce the need to import Iranian crude oil.

Thus, even if Iranian crude oil exports have increase in early 2014, they are likely to average about 1 million b/d in the first half of this year, a level similar than the second half of last year. This contrasted with the previous two years when the US government required buyers of Iranian crude oil to reduce their purchase of Iranian crude oil every 6 months.



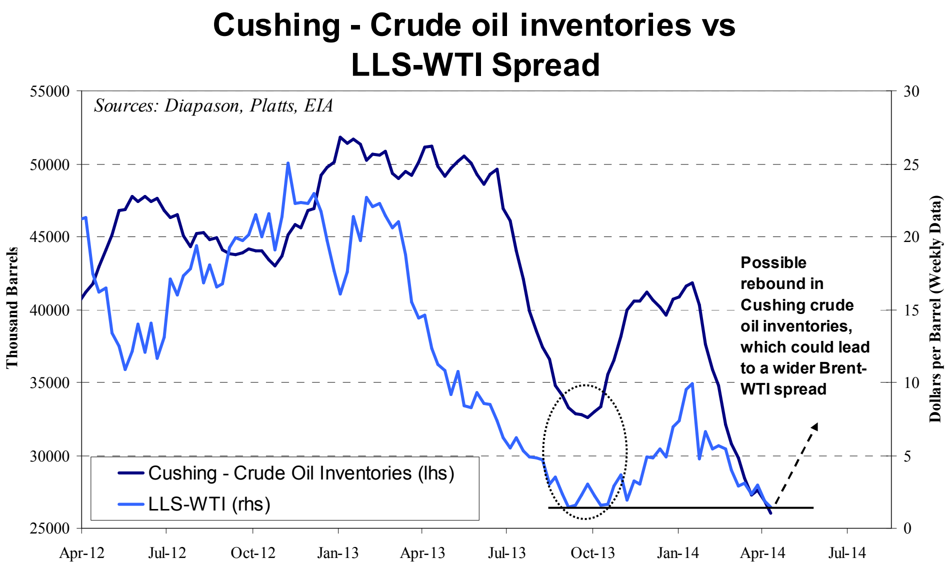
Strong demand and low inventories could push gasoline prices higher

This past month, gasoline prices have been the best performer within the oil sector due to the more rapid than usual decline in US gasoline inventories. The latter indeed dwindled from elevated level in February to recently the lowest level since 2011.

The large decline in US gasoline inventories occurred despite high utilisation rates at US refineries, which averaged 87.6% since the beginning of the year, up 4.5 percentage points from the 5-year average. Moreover, US refining capacity has increased by 538'000 b/d (+3.1%) from December 2012 level. Strong utilisation rates and higher refining capacity led since the beginning of the year to record high petroleum products output for the season.

Strong domestic and foreign demand amid elevated gasoline production has contributed to the large decline in gasoline inventories. Indeed, in March 2013, US gasoline demand rebounded from the winter's low to 8.7 million b/d, the highest level since 2011 and up by 240'000 b/d from the past two years average. While gasoline demand growth could slow down in the coming weeks due to more elevated gasoline prices, the strong US economic activity is likely to provide sufficient support for gasoline demand in the coming months. US gasoline exports also stood at 530'000 b/d in January 2014, an elevated level, above the 5-year average of 340'000 b/d for January.

In Europe, demand for gasoline rose on a y/y basis both in January and February 2014, contrasting with declines of previous years. Moreover, the 3-month moving average of gasoline demand reached in February its highest level since August 2009. Strong European and especially US gasoline demand is having a major impact on the global gasoline market as OECD countries account for about 65% of global gasoline consumption (while they account for 50% of global distillate demand). Stronger gasoline demand from OECD countries amid low inventories and the upcoming start of the refining maintenance season in Asia should contribute to further outperformance of gasoline prices.



The Brent-WTI spread could widen

Since the end of January 2014, the WTI outperformed Brent, leading to a decline in the spread by almost $10 until mid-April. The main driver behind this move was the start of TransCanada new 500'000 b/d Marketlink pipeline that connects Cushing in Oklahoma to Houston in Texas. This contributed to a major drawdown in crude oil inventories in the Midwest, while at the same time it brought crude oil inventories on the US Gulf Coast to record high levels. The US oil glut therefore moved from the US Midwest to the Gulf Coast. However, this situation could not last forever due to limited storage capacity on the Gulf Coast.

At Cushing, crude oil inventories reached last week to 26.0 million barrels, the lowest level since October 2009. On the Gulf Coast, crude oil inventories increased to 209.6 million barrels, a new record high. Storage capacity utilisation in this region reached 77%, an elevated level. This added downside pressure local crude oil prices relative to the US Midwest.

The Light Louisiana Sweet (LLS)-WTI spread indeed fell on Monday to $1.4 the lowest level since October 2013. At that time, the narrower spread had discouraged crude oil shipments from the Midwest to the Gulf Coast, leading to higher crude oil inventories at Cushing. This contributed to a wider Brent-WTI spread.

The narrower LLS-WTI spread could indeed discourage crude oil transfer between the two regions. However, due to the new TransCanada pipeline, the spread may need to fall even lower in order to have a significant impact on crude flows. Nonetheless, limited available storage capacity could contribute to add downside pressure on WTI prices. The latter needs to fall in order to encourage more expensive crude oil shipments to the East and West Coast, which are still linked to Brent prices. Thus, the Brent-WTI spread could move higher in the coming days.

ENERGY DRIVERS:

Demand: Global oil demand growth continues to improve. According to the EIA, it reached +1.5 million b/d y/y in Q1 2014, the strongest growth since Q1 2011. This has contributed to a sharp downward move in petroleum products inventories, despite high refining activity in the US.

Strong growth in US oil demand and the improved economic situation in other OECD countries have triggered since the middle of 2013 the strongest rise in OECD oil demand since 2010. Indeed, in the second half of 2013, OECD oil demand grew by 365’000 b/d y/y according to the US government. This has offset slower growth from non-OECD countries, which fell to +680’000 b/d y/y during the same period, while it rose by 1.1 million b/d in 2012. Moreover, the US government estimated that OECD oil demand grew by 380’000 b/d y/y in Q1 2014 amid stronger growth from non-OECD countries (+1.1 million b/d y/y).

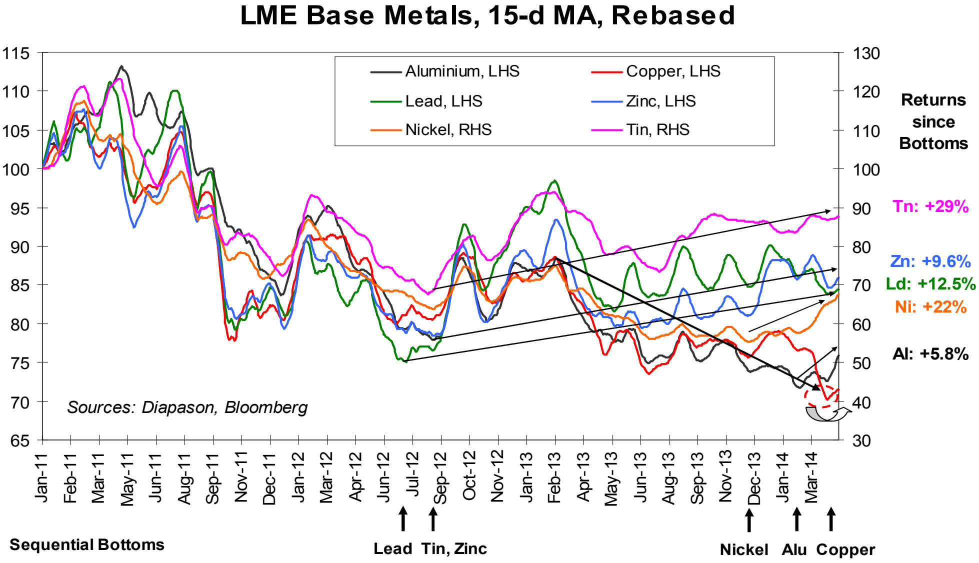
Stronger oil demand from OECD and non-OECD countries has led the International Energy Agency (IEA) to revise higher last month its forecast for global oil demand growth to 1.4 million b/d, the strongest annual growth since 2010.

Supply: In Libya, crude oil production could rebound as the eastern rebel group announced that an agreement has been reached with the Tripoli government. One eastern port has reopened and a second could soon follow. This should allow a rebound in Libyan crude oil exports by 250’000 b/d. Furthermore, the two major remaining idled ports on the eastern side of Libya could restart activity in the coming weeks.

Political instability in Iraq, ahead of the general elections of April 30th, has increased concerns about the political stability of the country. Violence prevented balloting in parts of the Sunni-dominated Anbar province and has led to a prolonged halt of the Kirkuk-Ceyhan pipeline. This contributed to reduce Iraqi crude oil exports in March and is mitigating the impact of stronger crude oil exports from the southern part of the country.

Growing tensions surrounding Ukraine and Russia added upside on oil prices due to the increasing likelihood of further sanctions against Russia, which in turn could affected Russian petroleum exports.

Inventories: The refining maintenance season is contributing to a decline in petroleum products inventories and a build in crude oil inventories. While crude oil inventories are at a comfortable level, petroleum products inventories are at the lowest level since 2008. This has contributed to boost crack spreads to relatively high level in order to encourage refiners to replenish petroleum products ahead of the summer, when oil demand seasonally peaks. Moreover, contrasting with heating oil, US gasoline inventories have fallen by a more rapid than usual pace for this period. This should be supportive for gasoline crack spreads.



Copper moves in isolation, masking the strength of the metals sector

Copper's lacklustre performance year to date has distracted many from the bigger picture, which is that fundamentals of the sector are stronger and that metals are exiting their depressed low levels. China's demand is expected to improve in the coming months, as the infrastructure programme should translate into metals orders as early as in Q2-Q3 this year. On the supply side, we can identify three major sources of production risks. The Indonesian State's increasing grip on the mineral and metals markets is a game changer for nickel and tin. The ongoing strike in South Africa has already resulted in a production loss equivalent to 8% of last year's platinum output. Tensions surrounding Russia could also potentially affect the supply of nickel, palladium and aluminium. These issues arise while metals are still traded around their marginal production cost.

From the analysis of metals' returns from their 2011 highs (see chart above), we can identify two major sector trends that show how strong the base metals sector is set to be: Firstly, all metals but copper have bottomed between the summer 2012 and the very beginning of 2014; and since then, they have all posted good or remarkable performance. Tin is up 29% from its bottom, Nickel up 22%, Lead 12.5%, Zinc 9.6% and Aluminium 5.8%. These strong returns have been neglected in our opinion as markets have remained focused on copper's fall.

Secondly, base metals can be classified in two groups. The first one is made of tin, zinc and lead, which have all bottomed around the summer 2012. These metals have relatively strong fundamentals so their early rebound was not surprising. The second group is made of nickel and aluminium, which have seen their lows between December 2013 and February 2014. It is particularly interesting that these two metals are finally catching up because they both have been the ugly ducklings of the base metals sector over the past years, due to their long surpluses. Their rally suggests a strong sector performance as well as the return of risk on positions.

BASE METALS DRIVERS:

COPPER: The metal has greatly suffered since China's Chaori Solar's bond default, as fears have emerged that copper financing trades could stop and trigger a massive release of copper inventories onto the physical market. We do not expect financing deals to stop in the near term. So far, no sign indicates a sell off on the physical market as premiums remain elevated, doubling levels hit a year ago in China. Furthermore, imports have surprised on the upside in March.

Copper is still traded near its marginal cost, despite the past weeks' price small recovery. This situation is an anomaly for copper: even during the depressed years from 1985 to 2000, the copper price was on average 20% above the marginal cost. Several unhedged Chinese refineries could reduce output. Refinery capacities are currently not sufficient to treat all the incremental mine production that has be brought onto the market over the past months. Thus, a reduction in refinery production could further delay the process of transforming the mined copper into refined metal. The major risk for copper at this stage remains the depreciation of the Yuan, which is set to affect imports in the coming months.

ALUMINIUM: The metal has improved over the past weeks, benefiting from an overall rally in the base metals sector (excluding copper). Aluminium is catching up with other metals' performances (as the metal has underperformed by far the sector in the past years) and is also enjoying the return of risk-on positions. However, aluminium fundamentals remain poor. Supply discipline remains a wild dream: although some Chinese producers announced they will slash 1Mt of production last year, world production has increased by 5% in the first eleven months of 2013, mostly on China's output (+11%).

LEAD: We expect the market to move from equilibrium to deficit this year. The metal should soon exit the low seasonality. Demand in China seasonally picks up during the spring and summer months, with rising demand for electric bikes and an inventory rebuilding activity for battery makers. Furthermore, a shortage in scrap supply should contribute to the deficit too.

NICKEL: Market could be balanced this year, after surpluses during six of the past seven years. The nickel price has strongly rallied over the past days and we expect the rally to continue over the coming weeks (although short term technical risks persist due to the magnitude of the price rebound).

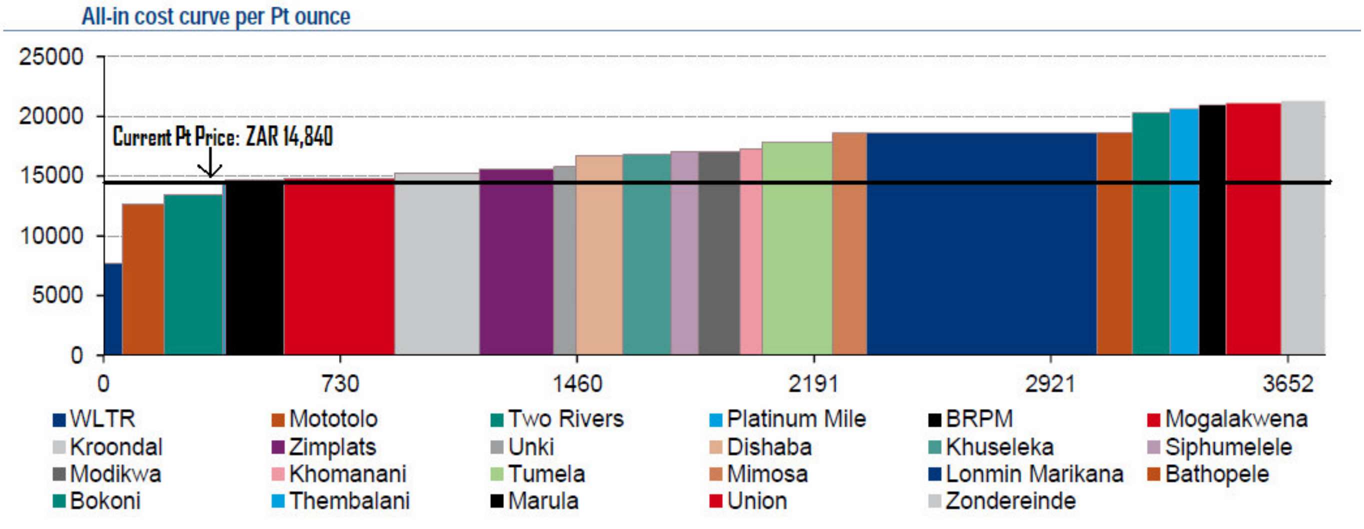
The Indonesian export ban is here to stay as all political parties announced they support the policy ahead of the presidential elections that will run in July. This ban is set to be very supportive to nickel, because it will affect the output of nickel pig iron (NPI). Producers are currently able to process NPI for a cost of about $18,000-19,000/t.

BASE METALS DRIVERS:

NICKEL (continued) - This cost provides Chinese steelmakers with a competitive advantage as soon as refined nickel prices exceed this level. Therefore, nickel is usually constrained by this arbitrage as its price can hardly exceed the NPI cost for too long. This time could be different however. Chinese producers were indeed able to produce high volumes of NPI due to their use of Indonesian nickel ores - the quality of these ores being particularly beneficial in the production process. Substitutes are difficult to find.

TIN: Prospects still appear bright. The metal is in a structural deficit and its price remains below the marginal cost of production. The increasing intervention of the Indonesian government into the metals' sector should also support tin. The introduction of a ban on unprocessed ores should not affect tin, as most of the shipments are in the form of refined metal; but the poor stability of the fiscal and law regime in the country makes it less attractive for investors. Also, the measures taken against illegal mining in particular should affect Indonesia's tin supply, as these make up to 25% of the country's tin output.

ZINC: Fundamentals are tightening and the market should be in deficit. The ILZSG estimates that the market was in equilibrium last year 2013 for the first time in 7 years. We expect annual consumption to grow by another 6% in 2014. Supply should also increase, but to a lesser extent. Therefore global inventories are declining fast: they are now estimated at 48 days of consumption, vs. 60 days in early 2013.



Source: BofA Merrill Lynch Global Research estimates, company report

Platinum's muted reaction to supportive news: how much longer can the market ignore platinum's tightening fundamentals?

Platinum's has strongly underperformed since the start of the year, up by only 1.6%, compared to a remarkable 11% increase recorded by its peer-metal palladium. Platinum has also underperformed gold as well as all base metals but copper.

We wrote about platinum's disappointing returns in late March this year and we wondered how long the market could ignore the metals' changing fundamentals. Three weeks later, news has become even more supportive for platinum with little reaction from the price.

In particular, the Financial Times reported earlier this week that Anglo American was preparing for an exit from part of its South African platinum business. The concerned operations are believed to be the deep mines at Rustenburg, which accounted for 9% of global output in 2012. Anglo American would keep its other PGM mines located in the North East of the country.

Secondly, the economic activity is improving in Europe. Markit's flash Eurozone PMI hit a three-year high in April at 54 from 53.1 in March, beating economists' forecast. Especially, Europe's car sales rose for a seventh straight month in March, up 10.6%, taking the year to date growth in car sales to 8.4%. This is particularly supportive news for platinum, which is mostly used in the European car industry to make auto catalysts that reduce vehicle emissions (unlike palladium, mostly used in the US and in China). The EU will also implement a much more stringent regulation on car emissions by 2017, which would increase the demand for platinum.

PRECIOUS METALS DRIVERS:

GOLD: The metal has remained below $1,300 an ounce. Prices have remained constrained since the Fed pointed towards an earlier-than-expected hike in interest rates and despite the fact that Mrs. Yellen clarified her stance later on, by rejecting the previous "six months" indication that had caused the tremors in the gold market. The US dollar has a bit declined since the beginning of April (DXY has moved downwards from 80.475 on April 2 to 79.765 on April 23). This was supportive to the gold price. We maintain our positive stance of gold as we expect the US dollar to weaken over the coming months, although a rebound could be seen in the short term.

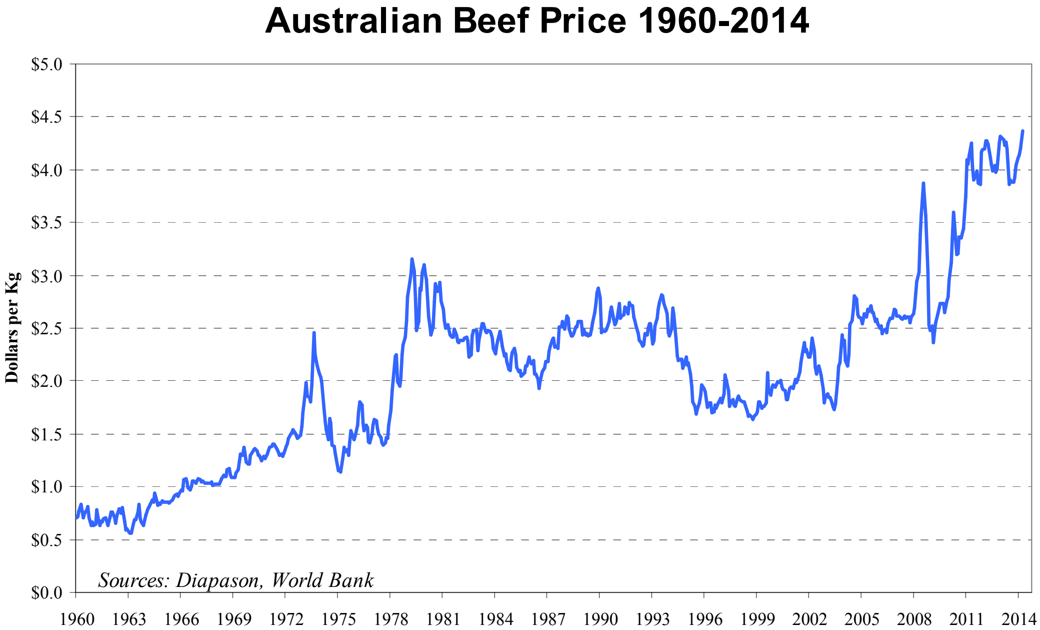
Gold outflows have however reaccelerated. Outflows of ETFs holdings averaged 0.5%-w/w this week, compared with outflows of 0.2-0.3% in the week before. On the Comex, net long speculative positions have also retreated to 113,558 lots last week, compared with 172,204 just a month before.

Despite the outflows, we continue to see good prospects for gold in the near term. Firstly, the Fed has reaffirmed that the US economy still requires firm support from the central bank's low interest rate policy. Secondly, the hike in long rates has been moderate following the Fed's first comments suggesting a earlier than expected hike in rates, and this should remain supportive to the gold price. The 10-year Treasury yield stands at 2.65%, well below the 3% reached at the very end of last year. However, given the return of risk-on positions in the industrial sectors, gold should continue to underperform base metals and PGMs.

SILVER: The metal has been affected by gold's poor performance over the past two weeks. Investment demand is however holding firm, which could offset the negative impact of declining subsidies to the photovoltaic sector, which has accounted for most of silver's industrial demand growth over the past years.

PGMs: We see good prospects for both metals. Palladium's fundamentals are stronger than those of platinum: both markets are in deficit but platinum's shortage is partly the result of ETF demand, which is nothing more than stockpiling the metal. Also, palladium is mainly used in the US and in China, where the automotive markets are strong.

However, the palladium/platinum ratio has hit its highest level since 2002 and so we expect platinum to outperform in the coming weeks to correct this anomaly. Given the ongoing severe supply disruptions in South Africa, which produces 75% of the world's platinum and holds 98% of the world's known reserves, we wonder how long the market can ignore the impact of South African strikes (which have so far resulted in a production loss equivalent to more than 8% of last year's output). Furthermore, the industrial activity is picking up in Europe (Markit's flash Eurozone PMI hit a seven-month high in April, exceeding consensus) and car sales in the EU have risen for the 7th consecutive month in March, which is very supportive for platinum.



Beef prices at an all time high: could it last?

Australian beef prices rose to $4.4 per kilo last month, a new record high. In the US, beef prices have also increased to record high levels due to several factors. These past years, drought conditions (which have lasted for several years and risen input costs) have contributed to reduce the American herd to 87.7 million head of cattle at the beginning of the year, the lowest level since 1951, according to the USDA.

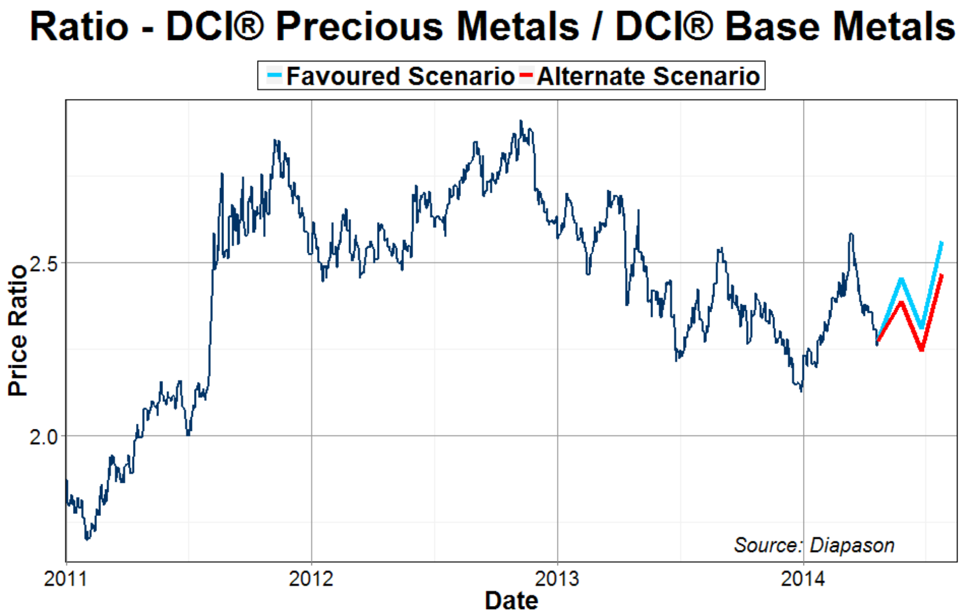
The rise in grain prices has also contributed to increase feed costs, while at the same time demand for beef has increased at a rapid pace, especially in China, where domestic production lags demand growth.

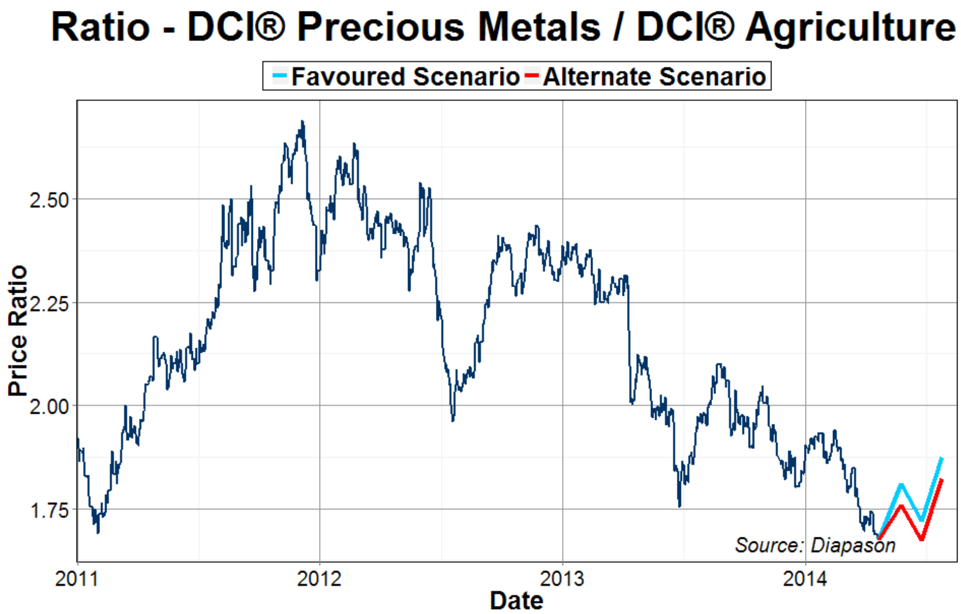
China should continue to be the main driver of global demand growth as the transition towards a consumer-driven economy is likely to increase the purchasing power and hence demand for more expensive food items such as beef. This factor as well as the time lag to replenish the herd is likely to keep beef prices at an elevated level.

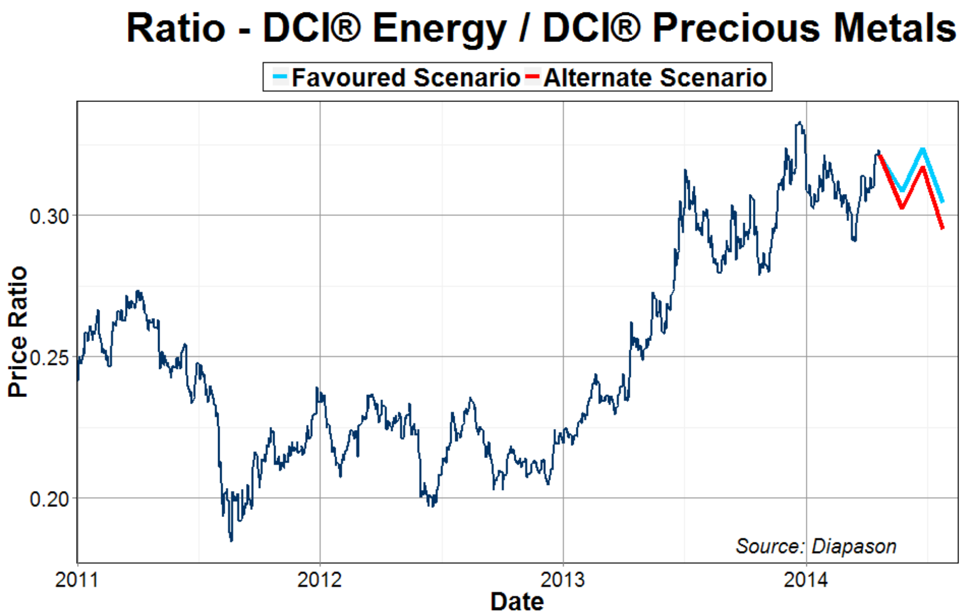
Moreover, the probable apparition of El Niño could also add further upside pressure on beef prices. Nonetheless, prices have risen rapidly and a correction could soon occur before the BBQ season, when demand tends to peak seasonally.

With seasonally stronger demand amid tight supply, beef prices could retest record high level during the summer. This is likely to encourage the use of beef's substitute this year. The strong rise in beef prices and the likely spill over on other meats should contribute to push higher the headline CPI.

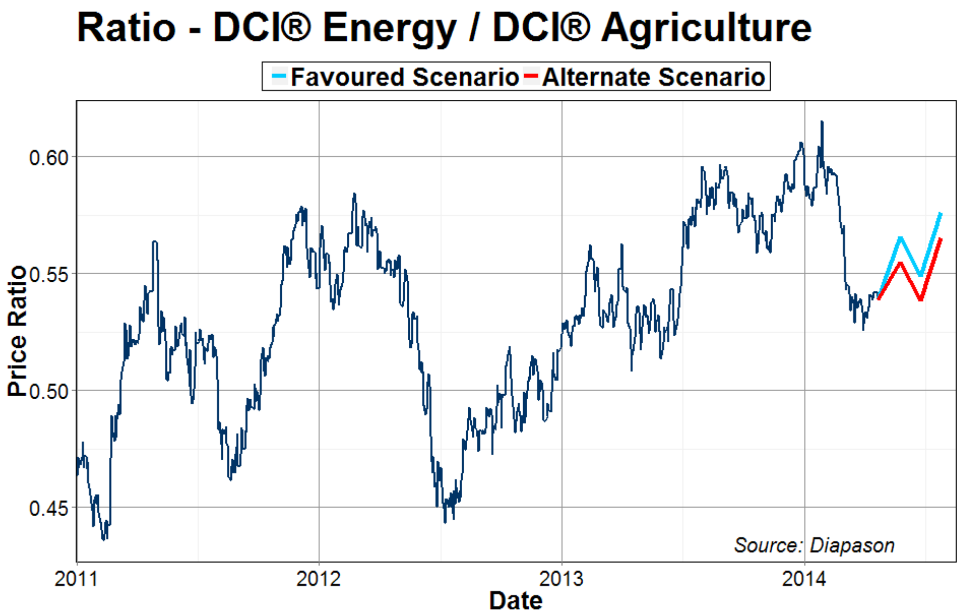
Commodities Ratios: Sectors

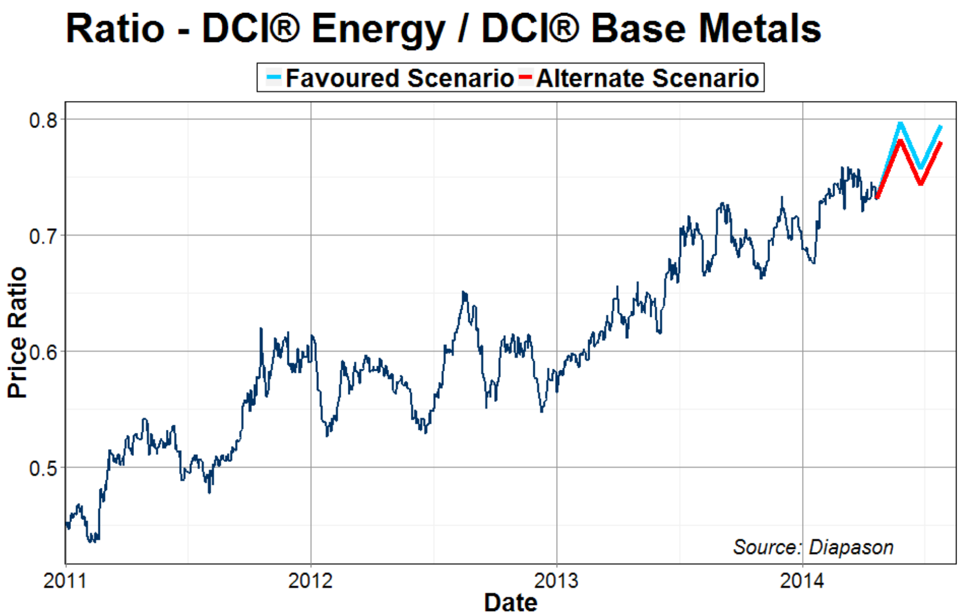


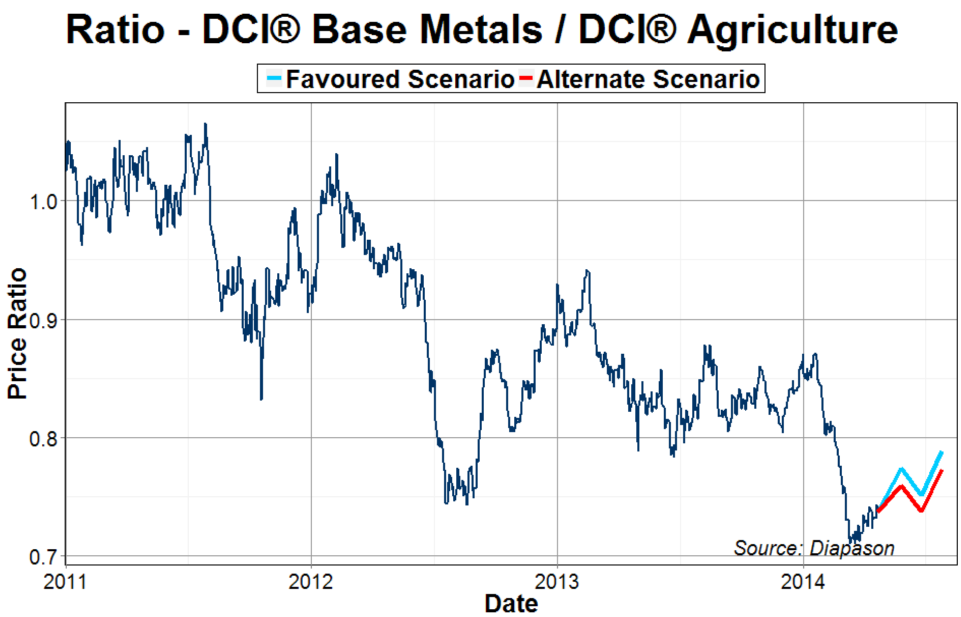


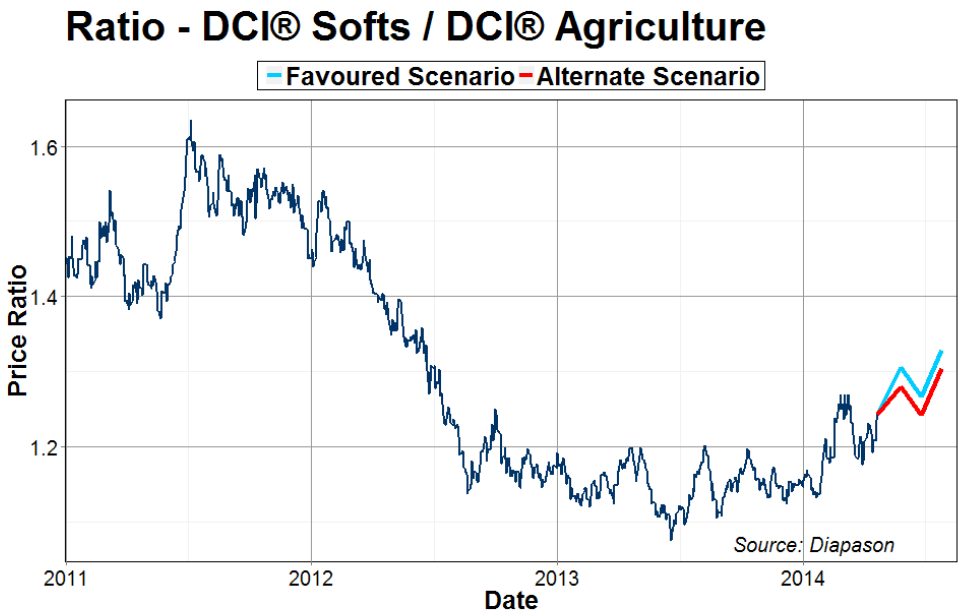


Commodities Ratios: Sectors








Ratio - DCI® Softs / DCI® Agriculture
Favoured Scenario
Alternate Scenario
Price Ratio
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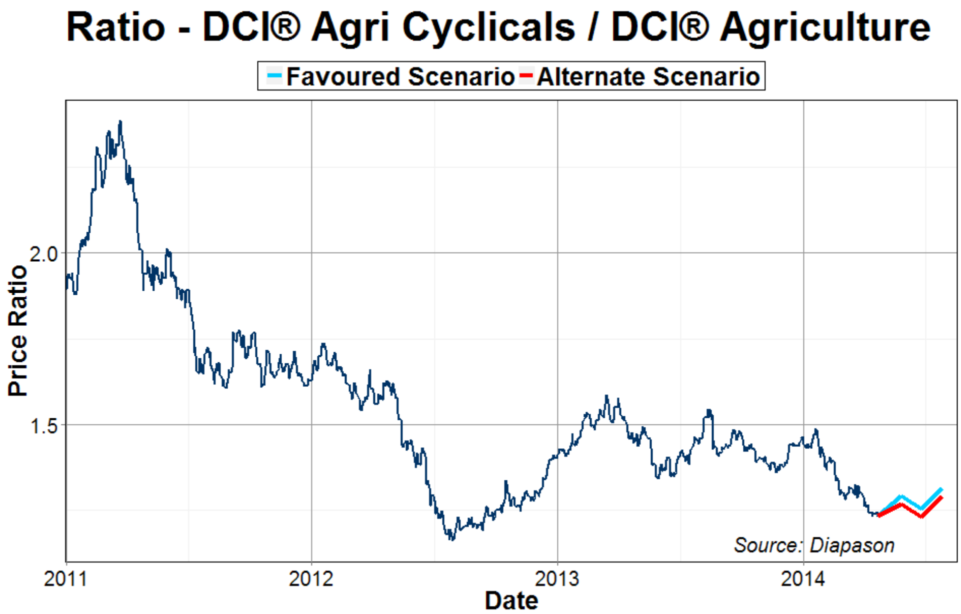
1.2
Source: Diapason
2011
2012
2013
2014
Date


Ratio - DCI® Agri Cyclicals / DCI® Agriculture
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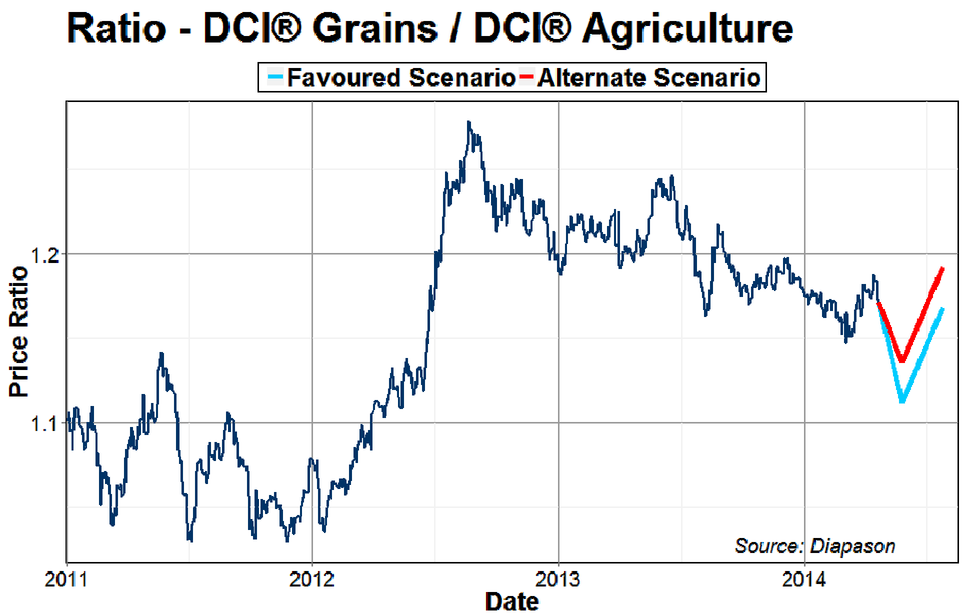
Ratio - DCI® Grains / DCI® Agriculture
Favoured Scenario
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Price Ratio
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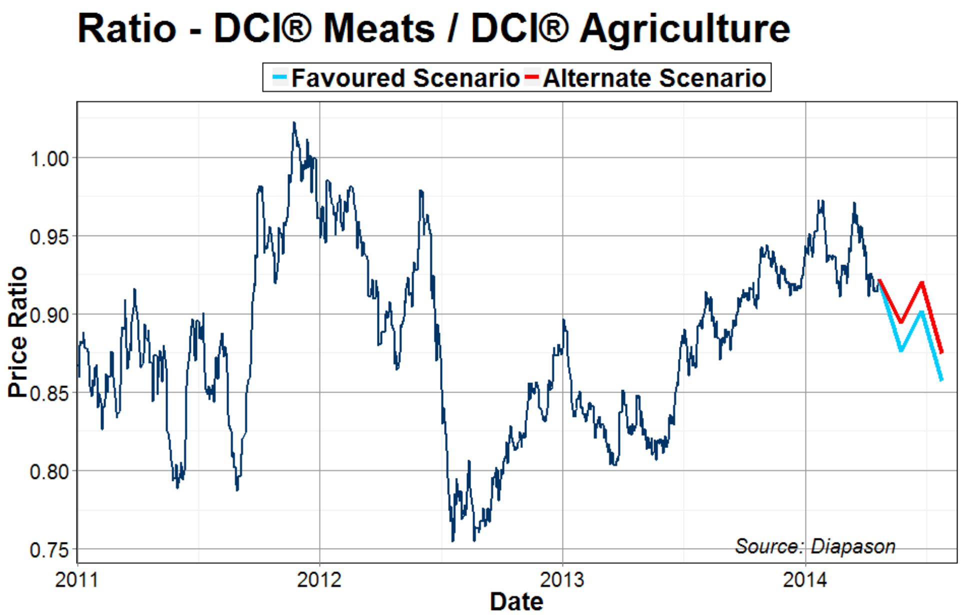
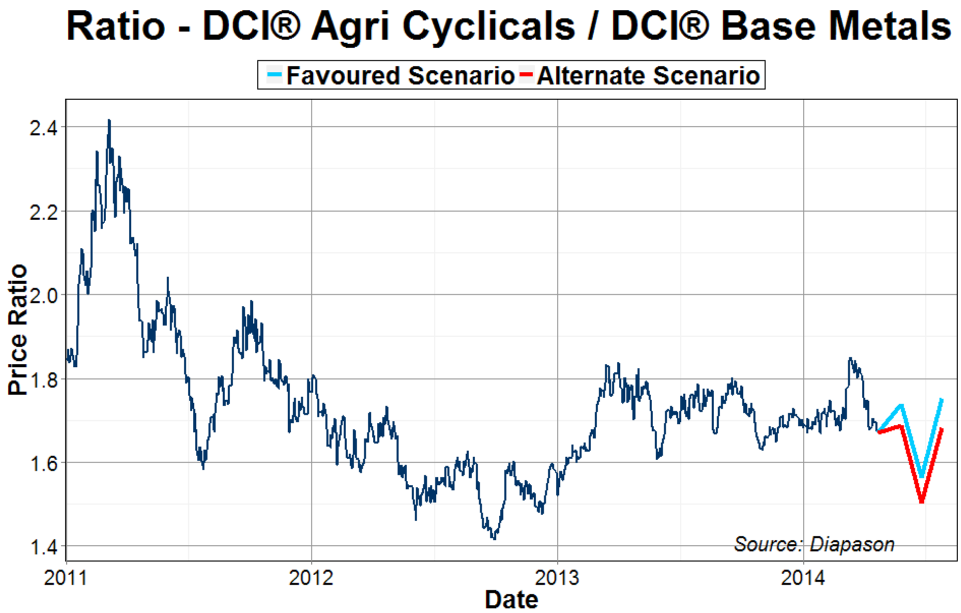
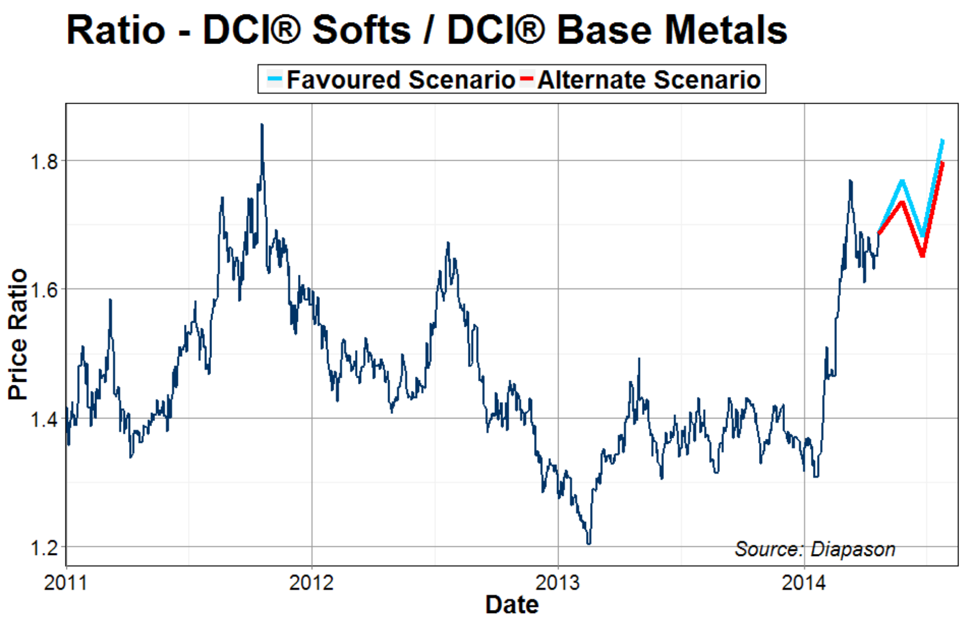
1.1
Source: Diapason
2011
2012
2013
2014
Date

Commodities Ratios: Sectors





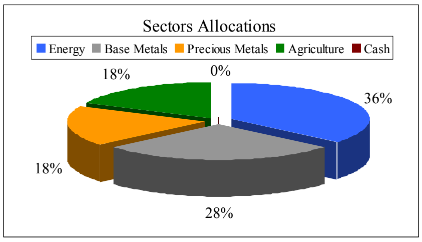


Brazil sugar output to falls by more than 5 pct this season

Sugar output from the world's biggest exporter Brazil is forecast to fall by more than five percent this season, the main industry association said on Wednesday, pushing up futures prices two percent after traders were caught off guard. In its first formal forecast of the year, Unica said the main center-south area would produce 32.5 million tonnes of sugar in the April-to-March crop year, down from the 34.3 million tonnes last year as drought takes a toll on cane yields. Unica said that a prolonged dry spell in January through March will keep the cane crop from reaching its full potential. Crushing is expected to fall to 580 million tonnes of cane this season, down from the record 596.9 million tonnes last year. ***(Excerpts: ThomsonReuters)***

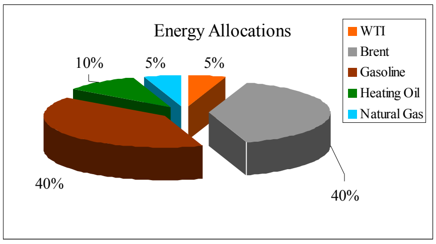
SECTORS: There are NO changes in the allocations

- Energy: 36 pct
- Base Metals: 28 pct
- Precious Metals: 18 pct
- Agriculture: 18 pct
- Cash: 0 pct



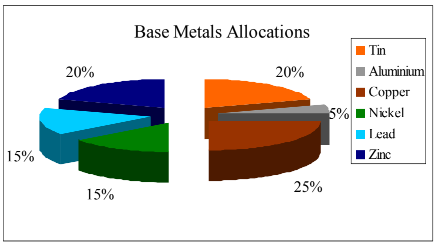
ENERGY: There are NO changes in the allocations

- Crude Oil WTI: 5 pct
- Crude Oil Brent: 40 pct
- Gasoline: 40 pct
- Heating Oil: 10 pct
- Natural Gas: 5 pct



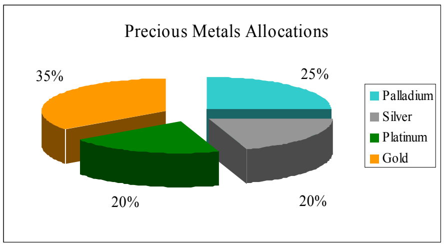
BASE METALS : There are NO changes in the allocations

- Tin: 20 pct
- Aluminium: 5 pct
- Copper: 25 pct
- Nickel: 15 pct
- Lead: 15 pct
- Zinc: 20 pct



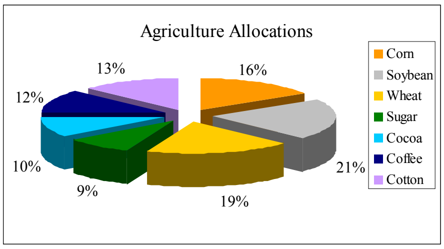
PRECIOUS METALS: There are NO changes in the allocations

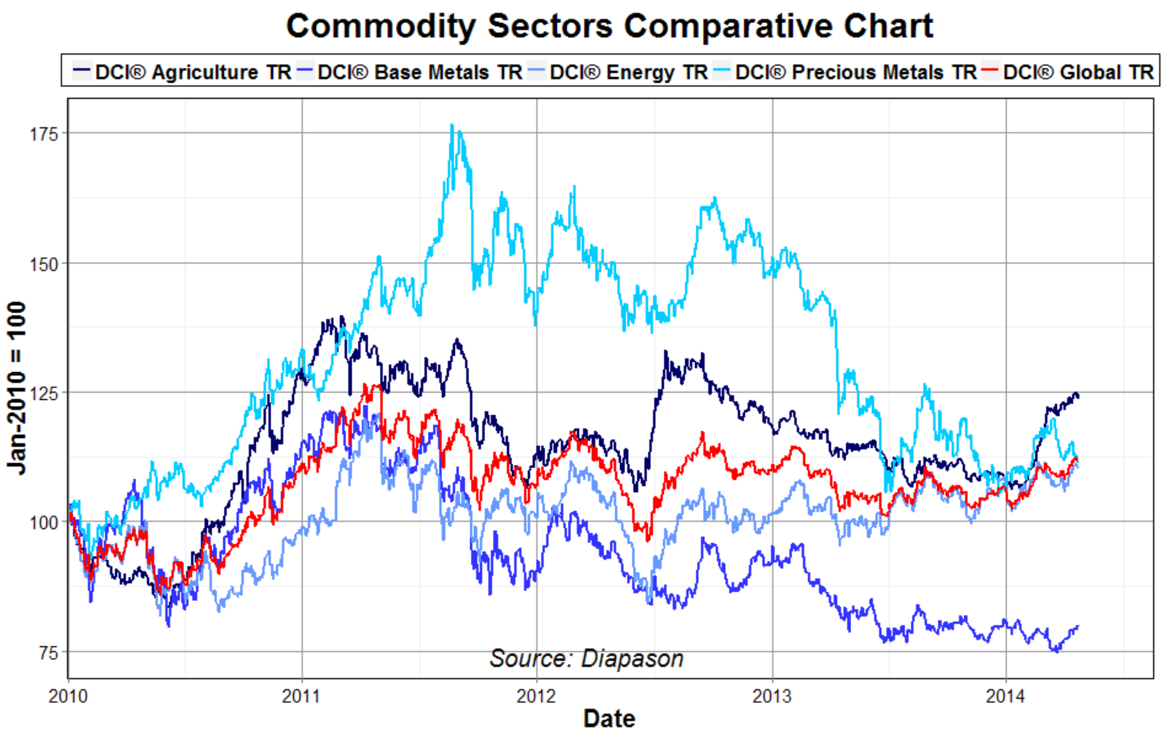
- Palladium: 25 pct
- Silver: 20 pct
- Platinum: 20 pct
- Gold: 35 pct



AGRICULTURE: There are NO changes in the allocations

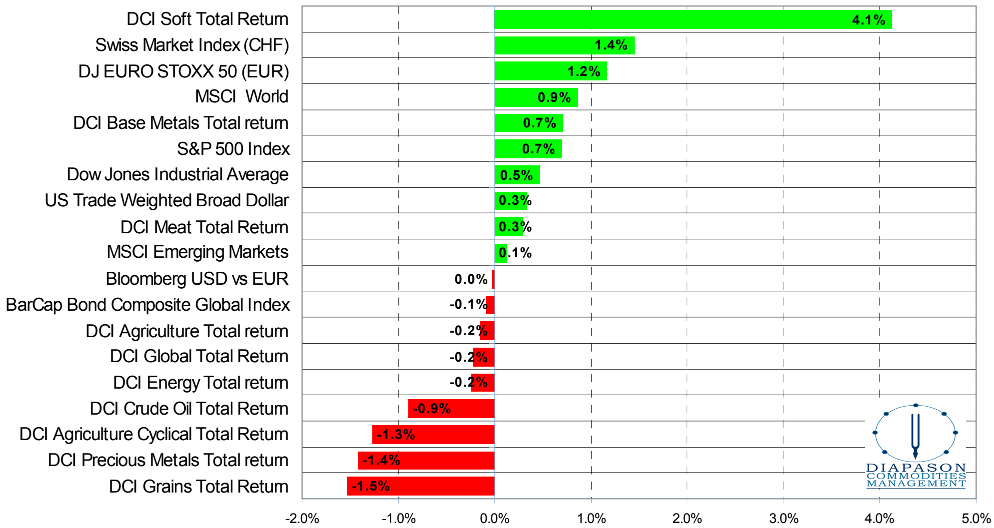
- Grains: 56 pct
  - Corn: 16 pct
  - Soybean: 21 pct
  - Wheat: 19 pct
- Soft: 44 pct
  - Sugar: 9 pct
  - Cocoa: 10 pct
  - Coffee: 12 pct
  - Cotton: 13 pct





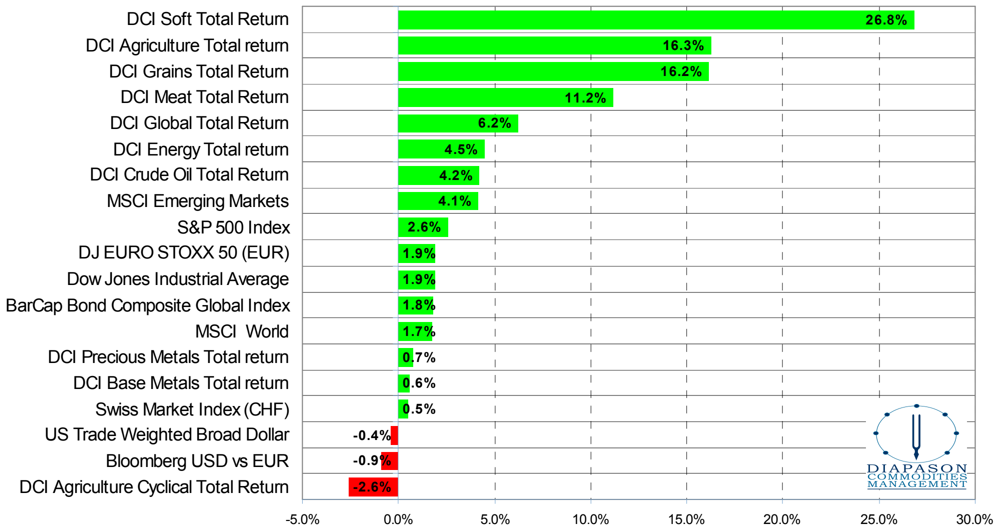
Asset Class Performance

1-Week Return as of 23.4.2014



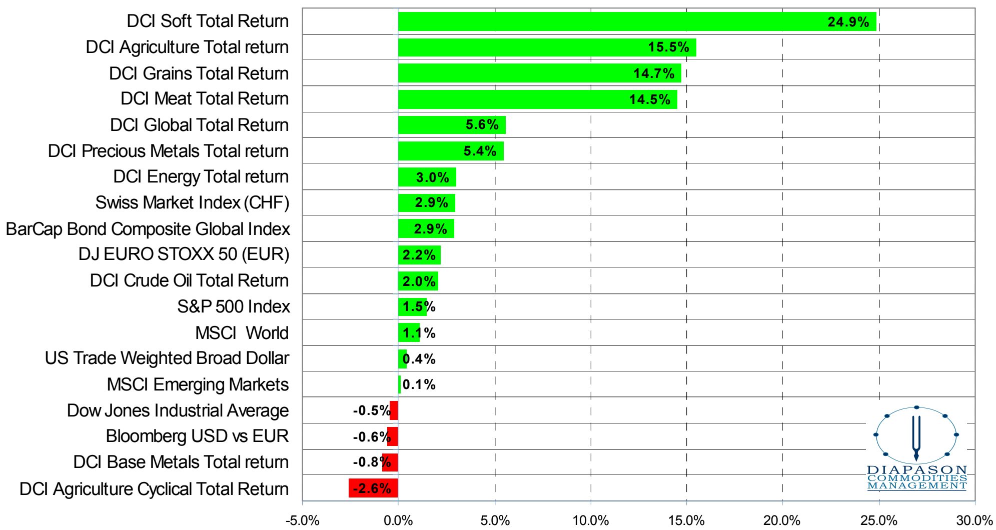
Sources: Diapason, Bloomberg

3-Month Return as of 23.4.2014



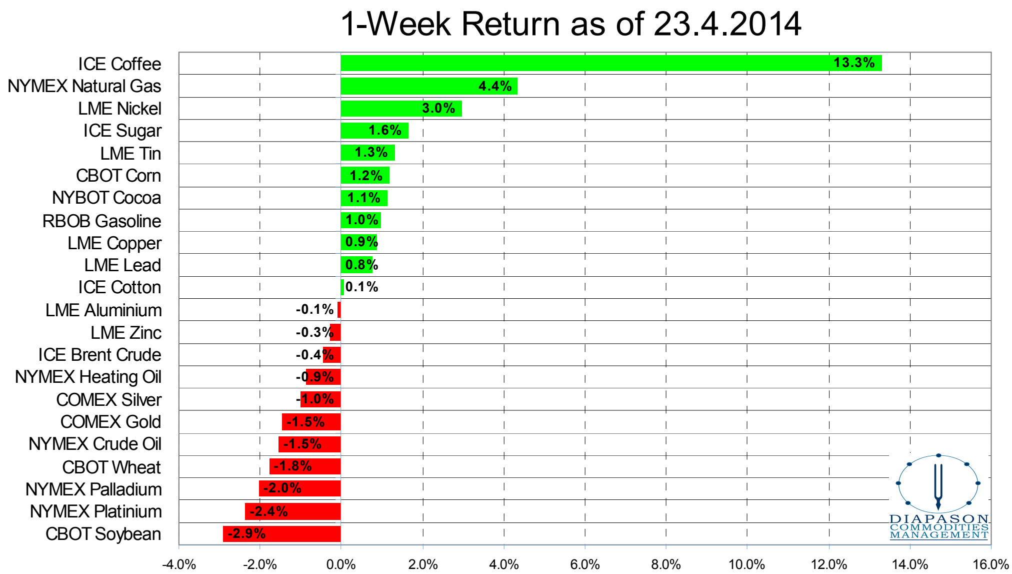
Sources: Diapason, Bloomberg

YTD Return as of 23.4.2014



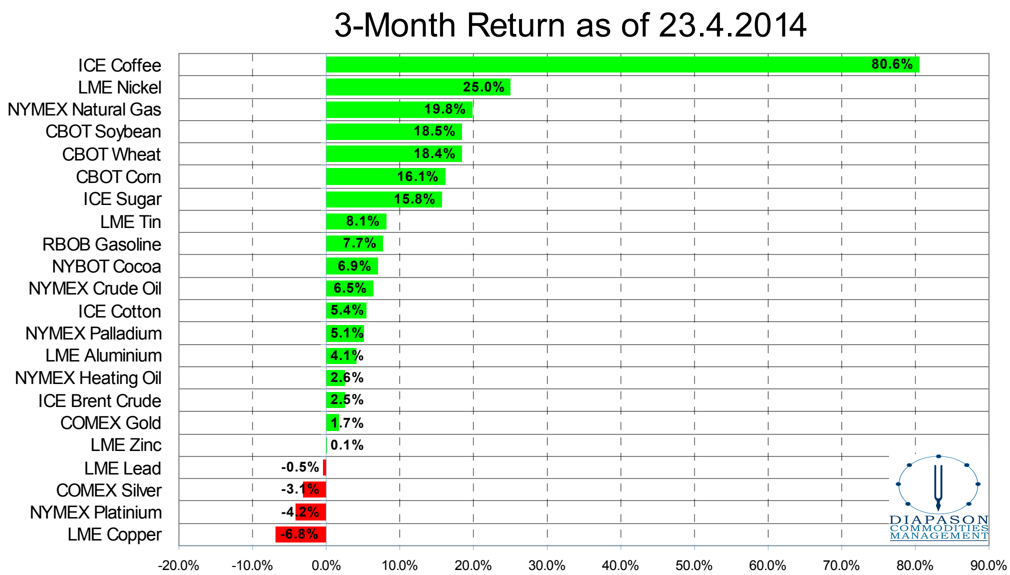
Sources: Diapason, Bloomberg

Commodities Performance



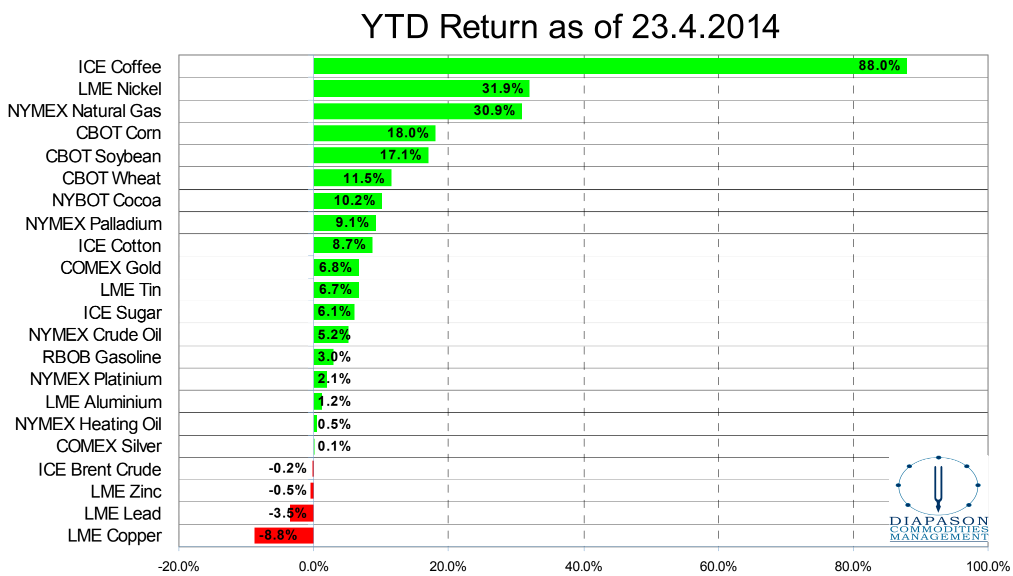
Source: Diapason

Note: Commodity returns are excess returns



Source: Diapason

Note: Commodity returns are excess returns



Source: Diapason

Note: Commodity returns are excess returns

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