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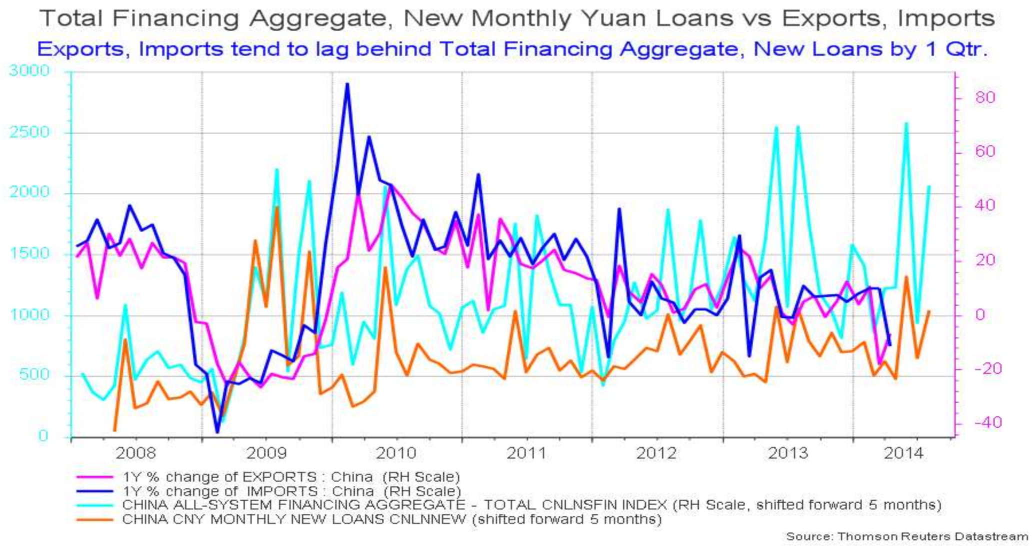
Key market themes this week

- China: credit, total financing higher m/m, but lower y/y
- A strong El Niño is expected this year: a key factor for the agriculture sector
- The Indonesian mineral export ban is likely here to stay
- Two new Palladium ETFs increase market tightness
- Libyan crude oil exports could soon return to the market
- Stronger demand growth and low inventories could move oil prices higher
- A change in China's policy over cotton could lift inventories elsewhere

Chart of the Week: China aggregate social financing



China: credit, total social financing higher m/m, but lower y/y

- Credit and total financing in March posted a solid monthly increase (CNY2.07trn, Consensus: CNY1.85trn, Jan-Feb 2014 average: CNY1.76trn), but declined by 19 percent, down from 2.55 trillion yuan a year ago.
- Similarly, new CNY loans were higher than expected at CNY1.05trn in March (Consensus: CNY1.0trn), while credit growth slowed further to 13.9%, from 14.2% in February. The People's Bank of China also said M2, China's broadest gauge of money supply, rose 12.1 percent from a year earlier.
- The y/y slowdowns in money and credit growth rates suggest a weakness in economic growth in Q1 2014. But most of the growth factors in China indicate a recovery in Q2 2014 – we maintain the view that GDP will have likely bottomed in Q1 2014.
- The better-than-expected March new loan and total financing support the view that financing channels remain open which will help stabilize growth and help a demand recovery. We expect this improvement to continue in Q2.
- Bond financing jumped to 12-month high of CNY252bn in March (Feb 2014: CNY100bn; March 2013: CNY387bn), likely due to improved liquidity conditions and a seasonal increase in issuance.
- Off-balance sheet lending (including entrusted loans, trust loans and bankers' acceptances) also rebounded to CNY544bn in March, from CNY505bn in January-February 2014 period.

China: credit, total social financing higher m/m, but lower y/y

M2 supply rose 12.2% from a year earlier

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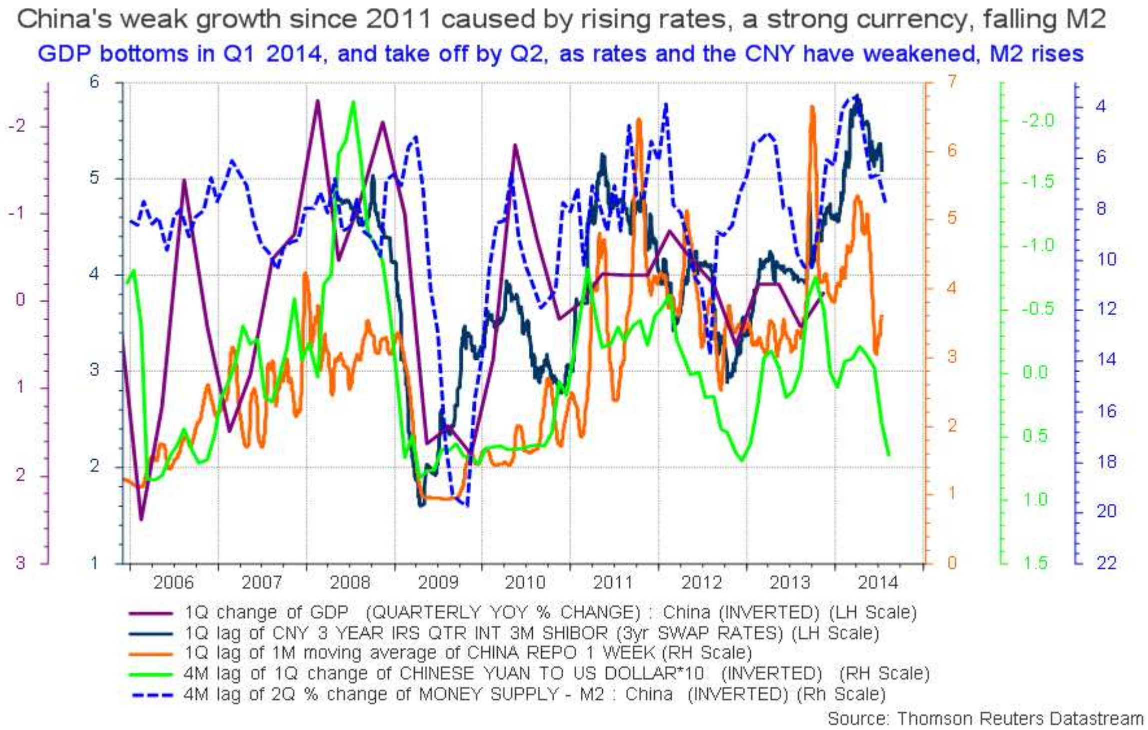
GDP will have likely bottomed in Q1 2014

The year-to-year slowdown in credit growth rate indicates further weakening of GDP growth in Q1 2014. But most of the growth factors in China (see chart at right) indicate a recovery in Q2 2014 -- we maintain the view that GDP will have likely bottomed in Q1 2014 and turns higher in Q2.



The new loan and total financing March data, which were generally higher than consensus, show that credit provision remain open which will help stabilize growth and help demand recover. Expect this situation to continue in Q2.

Other internal details: (see charts, right, bottom and next page)

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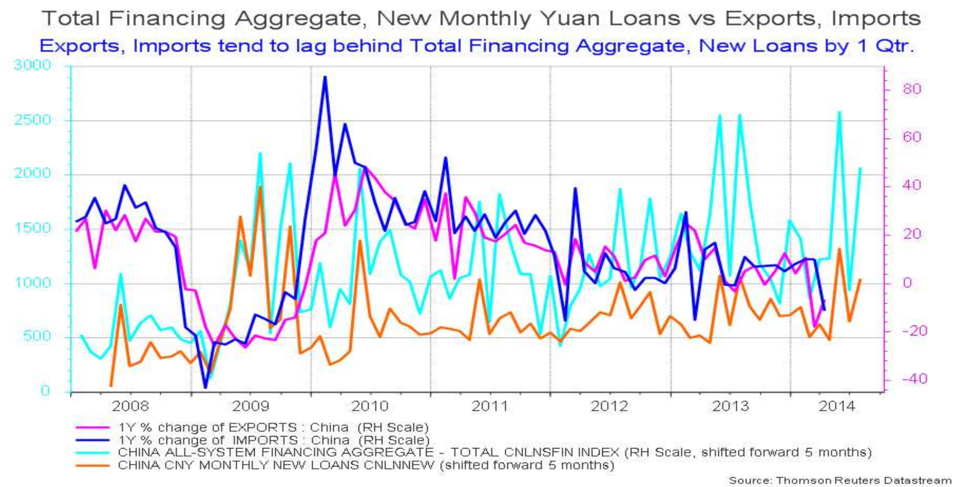
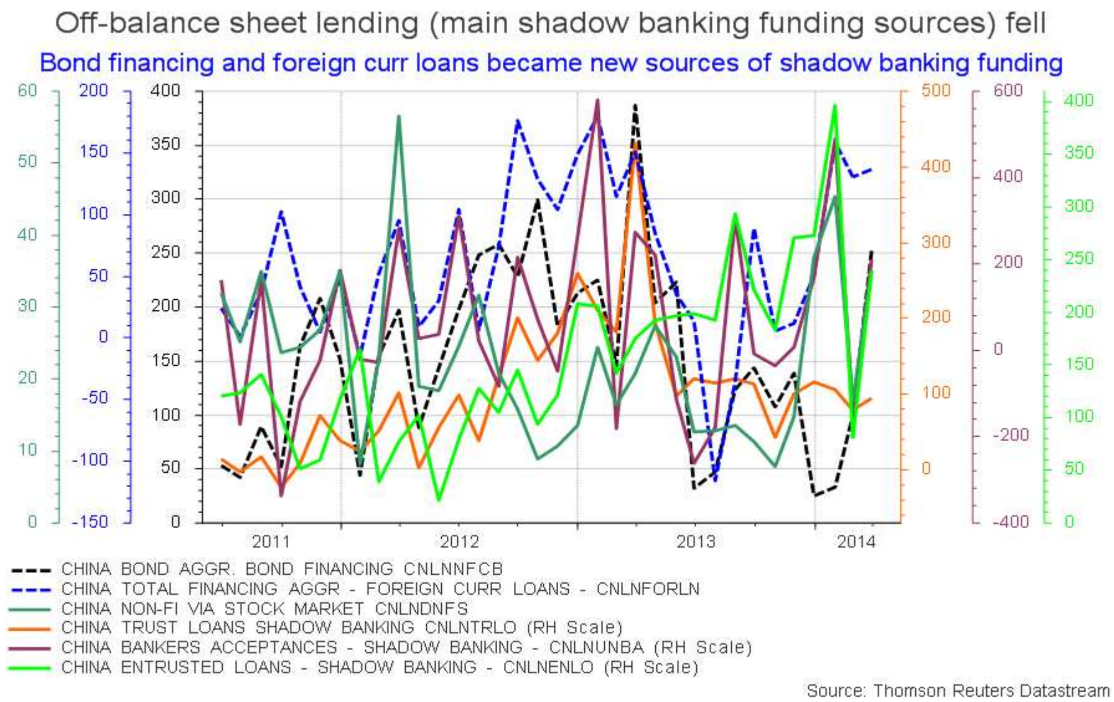


China: credit, total social financing higher m/m, but lower y/y

Here is the internal breakdown:

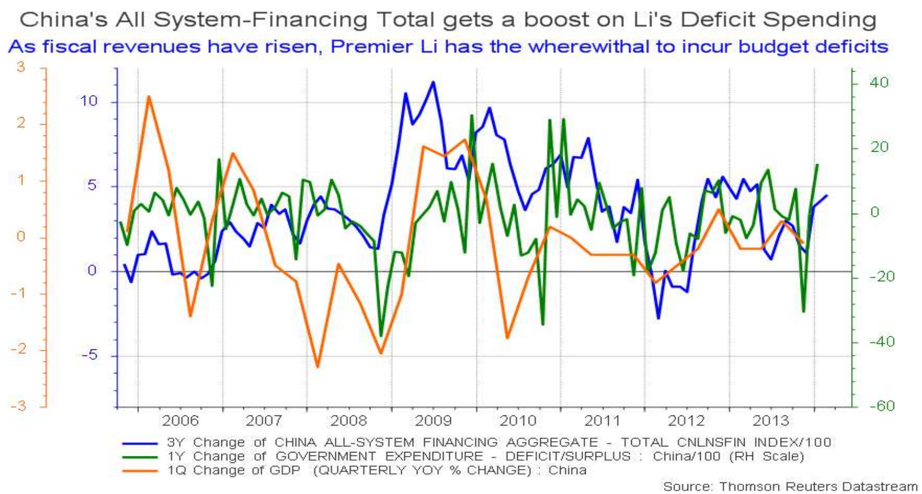
- Entrusted loans regained momentum after pausing in February, increasing by CNY239bn in March (Feb: CNY80bn; March 2013: CNY175bn).
- Trust loans growth remained contained at CNY95bn (Feb: CNY78bn; March 2013: CNY431bn), reflecting continued regulatory tightening of the shadow banking sector and concerns around potential trust defaults.
- The volatile bankers' acceptances rebounded to CNY210bn in March (Feb: -CNY141bn; March 2013: CNY273bn).



Corporate and Household loans have recovered

Medium and long-term corporate loans remained resilient and household loan have recovered. **Here is the loan breakdown:**

- Medium to long-term corporate loans were particularly strong at CNY325bn in March (Feb: CNY290bn; March 2013: CNY253bn), which is in contrast to weakening investment growth.
- Household loans rebounded to CNY388bn, a pickup from the CNY271bn averaged in Jan-Feb and CNY174bn in December.



Overall, new loans totalled CNY3.01trn in Q1 14 (Q1 13: CNY2.75trn), implying CNY10trn for the full year 2014 (2013: CNY8.9trn).

(Data source: CEIC)

Yuan deposits rose 3.67 trillion yuan in March from the previous month, slower than last year's increase, according to the PBoC, triggering speculations that a cut in the banks' reserve ratio requirements (RRR) is due (Bloomberg).

A strong El Niño is expected this year: a key factor for the agri sector

"There is a strong chance of developing El Nino this year, there is zero percent chance of excess rainfall, 98 per cent chance of below normal rainfall and also 68 per cent probability of drought this year in India."

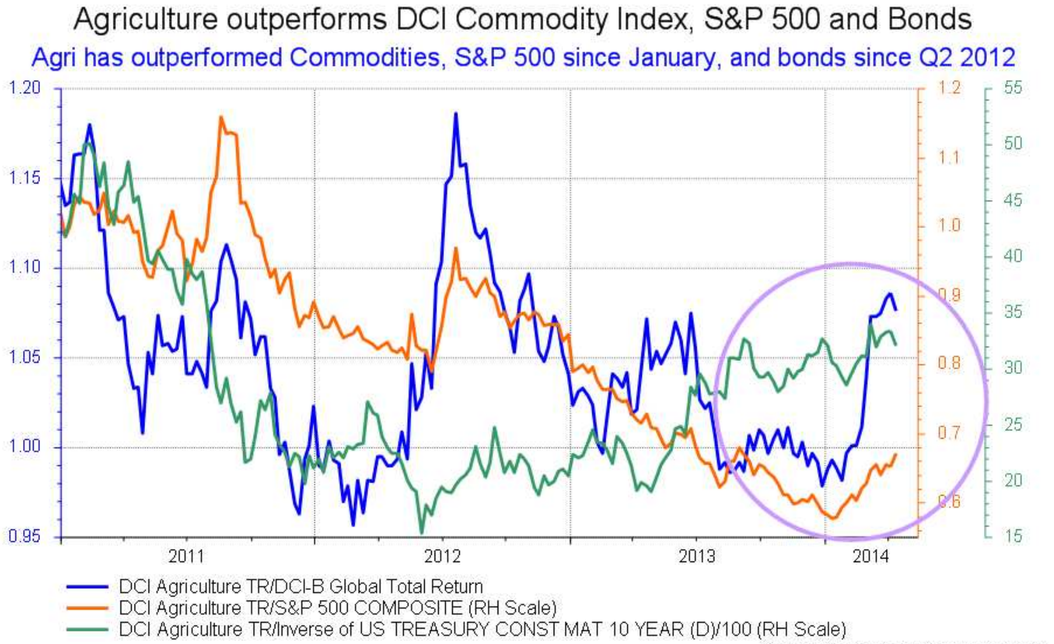
Jatin Singh, CEO of Delhi-based Skymet Weather Services, April 2014

Last week, the US National Oceanic and Atmospheric Administration (NOAA) increased the probability that El Niño will develop in the fall to 65% (up from previously 50%) and said that there is now 50% chance of it developing during summer (see chart, right, bottom). This followed an upward revision from the Australian Bureau of Meteorology over the likelihood of an El Niño in the next four months to 70% due to significantly warmer-than-average water under the Pacific ocean surface.

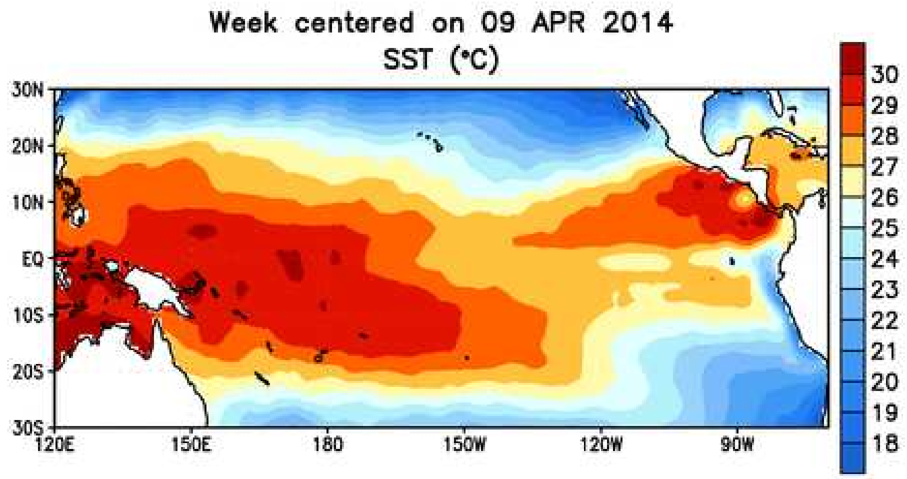
In March 2014, temperatures for most of the eastern and the central Pacific Ocean were the warmest since 1979 for this time of the year. This is implying that the upcoming El Niño could be more important than usual and it could even be more intense that the one that occurred in 1997-1998, which killed thousands due to floods in China and caused significant drought in South East Asia.

The El Nino news already moved agri prices significantly higher

The occurrence of this major meteorological event, which contributes to extreme weather, is likely to have an important impact on the agriculture sector. However, the impact will be variable among agricultural commodities. El Niño is likely to bring dry weather in South East Asia, where some countries are already facing dryness. This is the case in Australia where wheat, sugar, cotton and beef output could be negatively impacted by El Niño. In Indonesia and Malaysia, palm oil producers could suffer from below-than-average rainfalls. This could also hurt further rice crops in Thailand, which is one of the world's largest rice exporters.



Source: Thomson Reuters Datastream

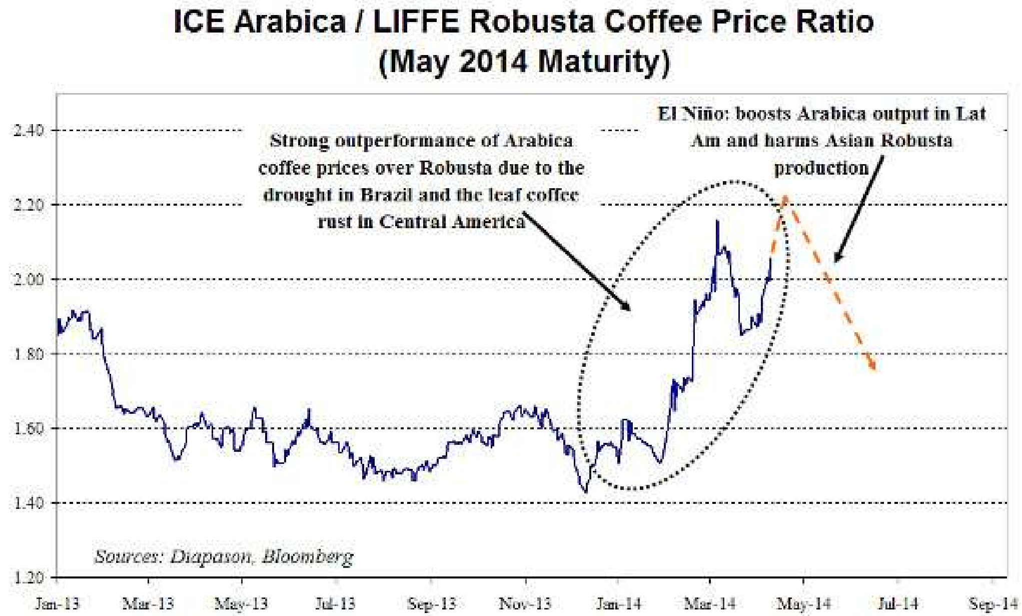


Source: www.cpc.ncep.noaa.gov

A strong El Niño is expected this year: a key factor for the agri sector

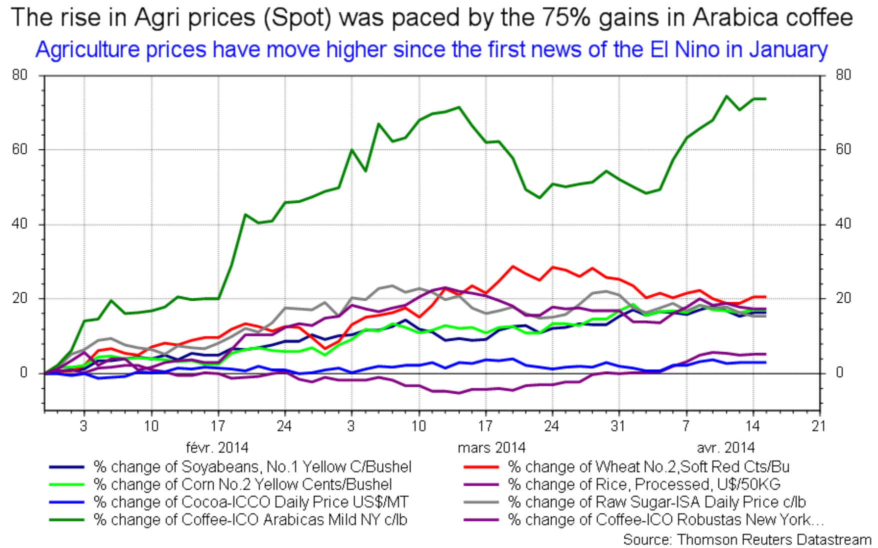
Rice and sugar crops in India and the Philippines could also be harmed by the effect of El Niño. In China, the latter could bring more rain, possibly triggering floods in the major rice and cotton regions, while colder-than-usual weather could hit corn and soybean crops in the north-eastern part of the country. Cocoa prices have rallied further following the announcement of the increase likelihood of El Niño, as the top 3 cocoa producers (Ivory Coast, Ghana and Indonesia) could face drier weather, negatively affecting cocoa production.

On the other hand, El Niño is likely to bring milder temperatures and a wetter-than-normal summer in the US, Canada and a warm winter in South America. This should have a positive impact on the North and South American corn and soybeans crops, provided that there is no excessive rain. The impact on prices may therefore be negative for these crops. While US and Canadian wheat crops could also benefit from El Niño, they account for only 13% of global wheat production. Wheat crops in China, India and Australia account for about 34% of global wheat production and that could be harmed by the dryness caused by El Niño. This should contribute to add net upside pressure on wheat prices.



El Nino may cause a Robusta coffee outperformance over Arabica

As for coffee, El Niño would lead to the deterioration of robusta coffee output, while it could boost that of Arabica (see chart, right, top). Here is why: Robusta coffee output in Vietnam, and Indonesia, which are respectively the world's top and third largest producers of robusta (accounting respectively for 43% and 12% of global supplies), could suffer from the dry weather caused by El Niño. El Niño would lead to a stronger drop in coffee production in this region. El Niño should bring a warmer winter in Brazil, the world's top arabica producer with 45% of global supplies, and in Colombia, the world's second largest producer of arabica coffee, with 12% of global supplies, reducing the risk of frost. The increasing likelihood of El Niño should contribute to improve significantly the outlook of the arabica coffee production, lowering prices, leading to the outperformance of robusta prices relative to Arabica.



A strong El Niño is expected this year: a key factor for the agri sector

The impact of the El Nino phenomenon and its cold counterpart, La Nina, to commodity prices, have been studied in detail by economists. The most comprehensive (and most readable) we have seen so far was a paper written by Allan D. Brunner, an economist at the IMF (El Nino and World Primary Commodity Prices: Warm Water or Hot Air?", 2000 — henceforth, AD 2000).

Mr. Brunner did the analysis on two aspects of the so-called ENSO (El Nino Southern Oscillation) Intensity — the SST (Sea Surface Temperature) and SOI (Southern Oscillation Index) anomalies. SST anomalies pertain to the deviations between sea surface temperatures in the South Pacific and their historical averages. SOI anomalies pertain to the deviations between air pressure in the South pacific and their historical averages (see chart, right, top).

Here are some primary excerpts from AD 2000:

> "The analysis indicates that El Niño has economically-important and statistically-significant effects on world real commodity prices. A one-standard-deviation surprise in El Niño, for example, raises real commodity price inflation about 3-1/2 to 4 percentage points. Moreover, El Niño appears to account for over 20 percent of commodity price inflation movements over the past several years. El Niño also has some explanatory power for world consumer price inflation and world economic activity, accounting for about 10 to 15 percent of movements in those variables."

> "There are several ways to measure the intensity of an El Niño event. Two widely cited measures of an El Niño's severity are sea surface temperature (SST) anomalies -- deviations between sea surface temperatures in a given region and the region's historical average -- and Southern Oscillation Index (SOI) anomalies -- deviations between air pressure differentials in the South Pacific and their historical averages. As the chart shows, the two measures are highly but not perfectly correlated."

Figure 1. Two Measures of ENSO Intensity

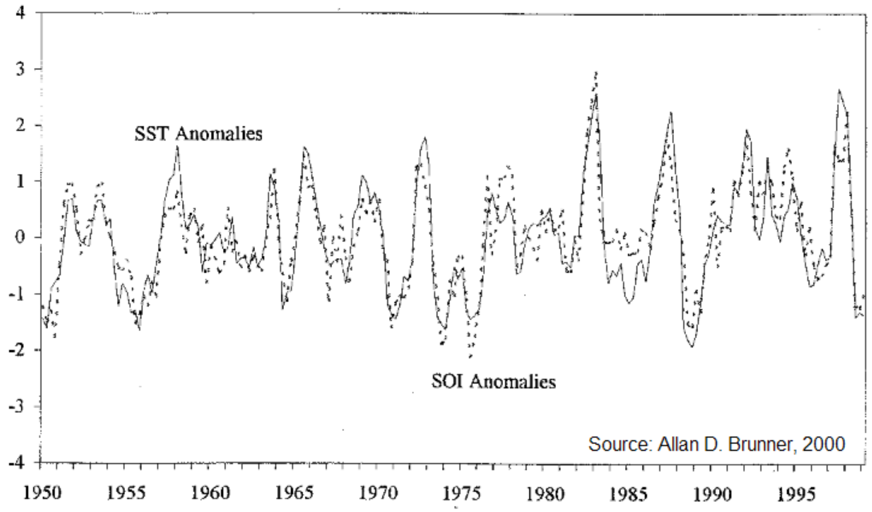
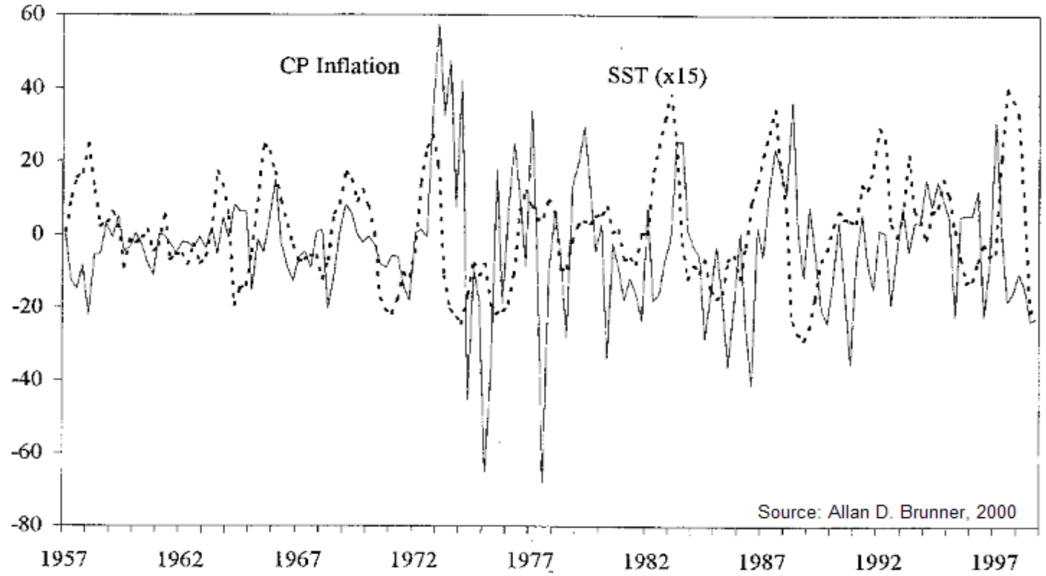


Figure 2. IMF Commodity Price Inflation and SST Anomalies

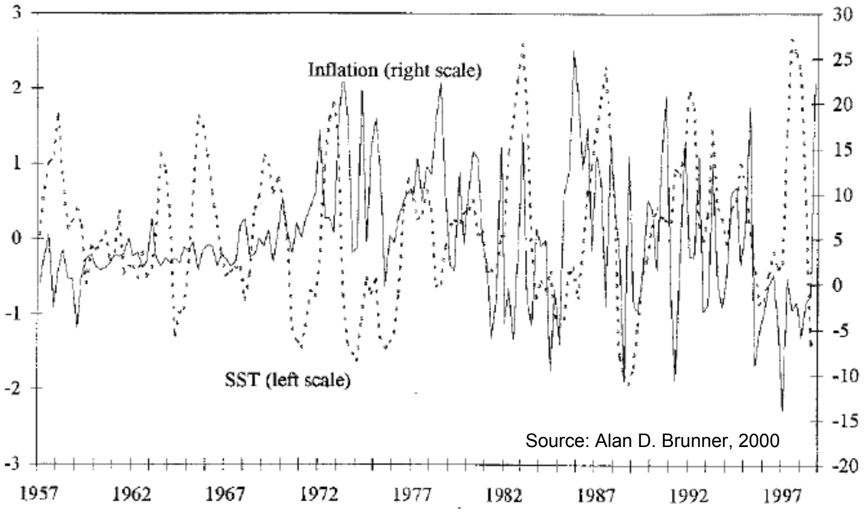


A strong El Niño is expected this year: a key factor for the agri sector

"Much of the correlation between El Niño and commodity prices is accounted for by the food component of the overall index, although there is also weak evidence of a correlation between the El Niño index and agricultural raw material prices and metals prices. These results are roughly consistent with the anecdotal evidence discussed in the previous section."

"During the 1982-83 El Niño event, for example, grain and oilseed prices rose sharply in late 1982 and early 1983, both because of droughts in Asia and Australia and because of the displaced fish population (soybean meal is a close substitute for fishmeal). Supply disruptions in Southeast Asia (droughts) and South America (floods) also put some upward pressures on copper prices. Finally, cocoa and, to a lesser extent, coffee prices were pushed up due to dry conditions in Malaysia and Indonesia and due to excessive rainfall in South America."

Figure 3. G7 Inflation and SST Anomalies

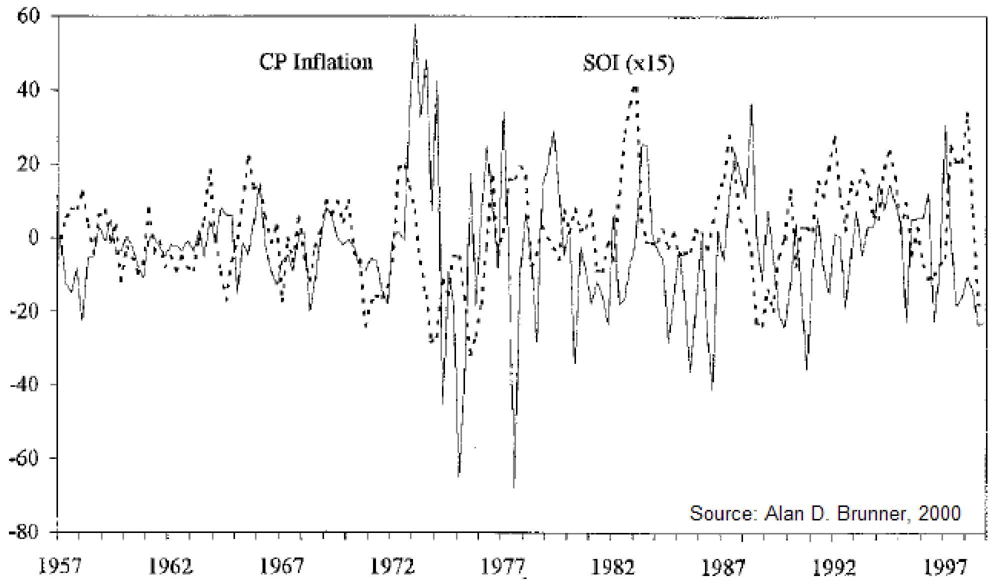


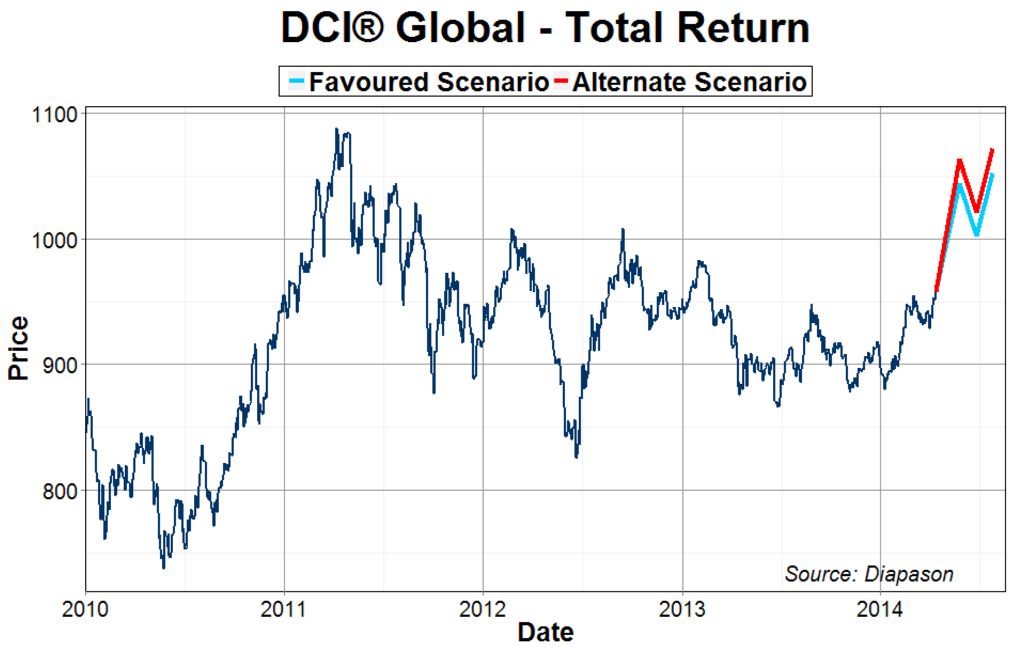
El Nino's influence extends into the G7's inflation, GDP growth

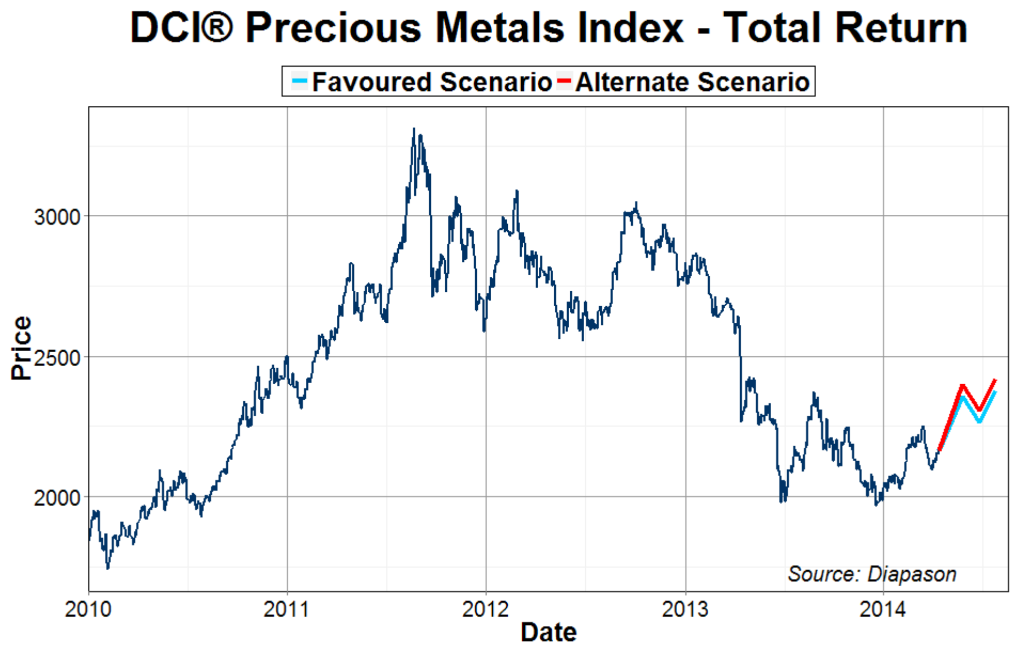
". . . El Niño's influence is much stronger over the longer horizon, accounting for over 20 percent of the variation in real primary commodity prices and about 14 percent of the variation in G-7 economic activity. The results for commodity prices are quite consistent with the anecdotal evidence discussed in Section II: Most of the effects on commodity prices are attributable to El Niño's effects on food and agricultural raw material prices, although metals prices are also moved around a bit by both El Niño measures."

"Coconut oil is the most affected commodity, with ENSO accounting for about one-third of its variance. Other oils (palm, soybean, and groundnut) are also highly affected, as are several food items (rice, wheat, soybeans, and corn). Other tropical commodity prices (fish meal and rubber prices) and some metals (iron ore and copper) also appear to be influenced by ENSO events"

Figure A2. IMF Commodity Price Inflation and SOI Anomalies




DCI® Global - Total Return
Favoured Scenario
Alternate Scenario
1100
1000
900
800
Price
2010
2011
2012
2013
2014
Date
Source: Diapason


DCI® Precious Metals Index - Total Return
Favoured Scenario
Alternate Scenario
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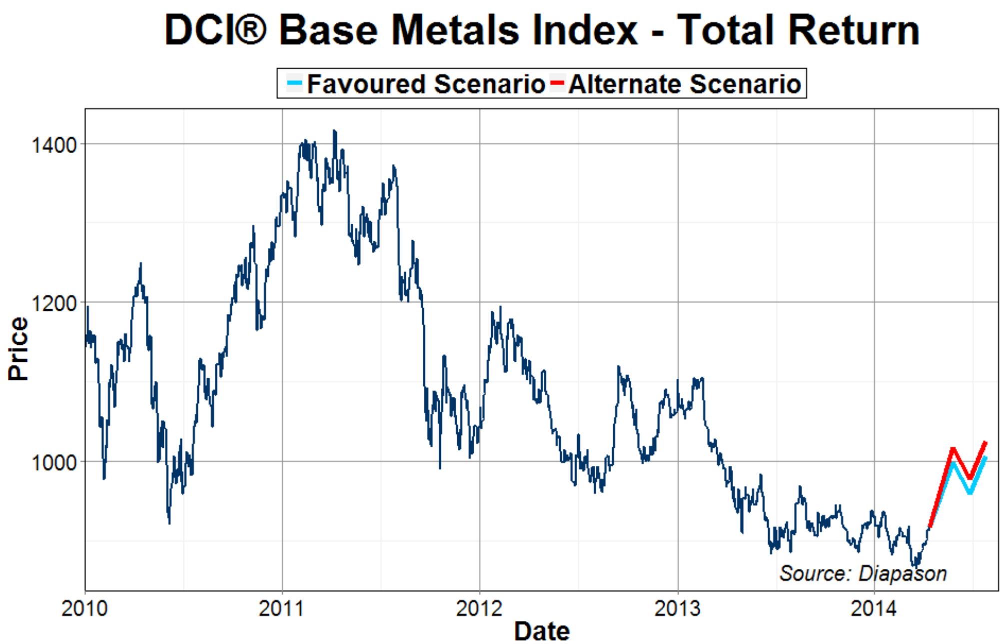
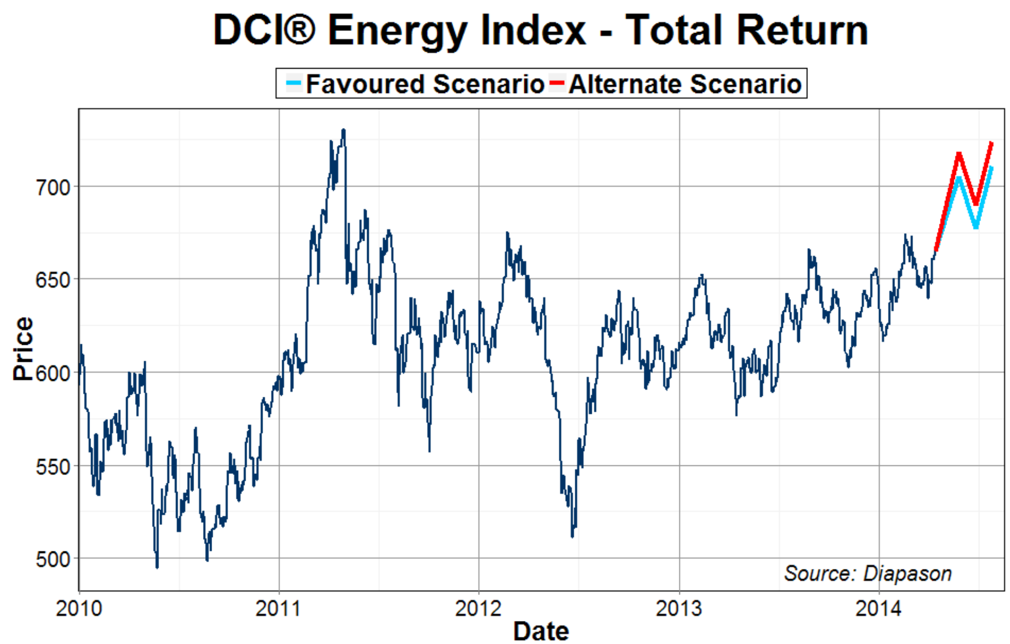
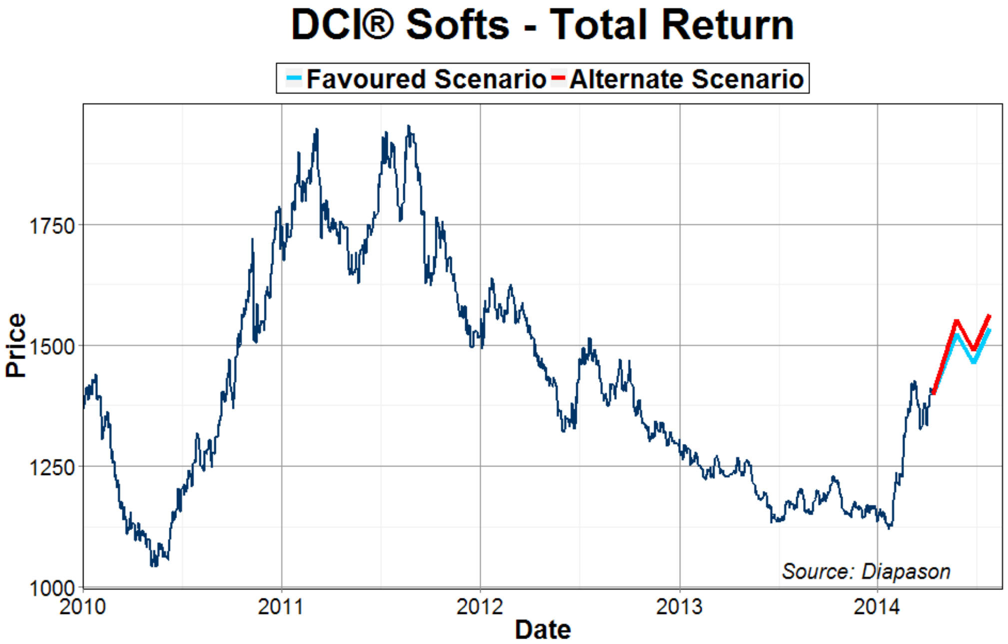
2500
2000
Price
2010
2011
2012
2013
2014
Date
Source: Diapason


DCI® Base Metals Index - Total Return
Favoured Scenario
Alternate Scenario
1400
1200
1000
Price
2010
2011
2012
2013
2014
Date
Source: Diapason


DCI® Energy Index - Total Return
Favoured Scenario
Alternate Scenario
700
650
600
550
500
Price
2010
2011
2012
2013
2014
Date
Source: Diapason



DCI® Softs - Total Return
Favoured Scenario
Alternate Scenario
Price
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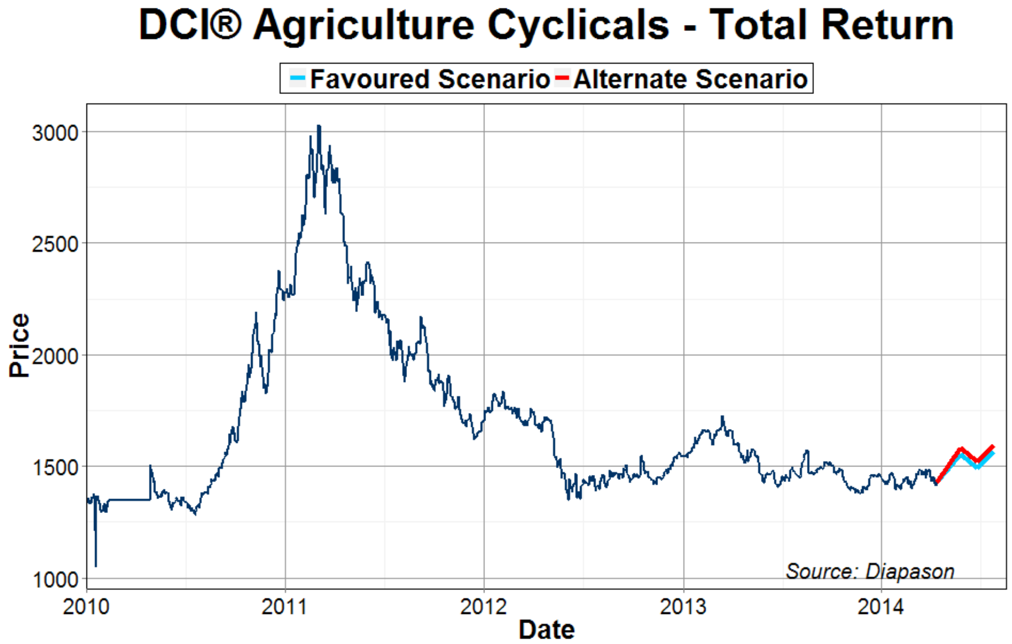
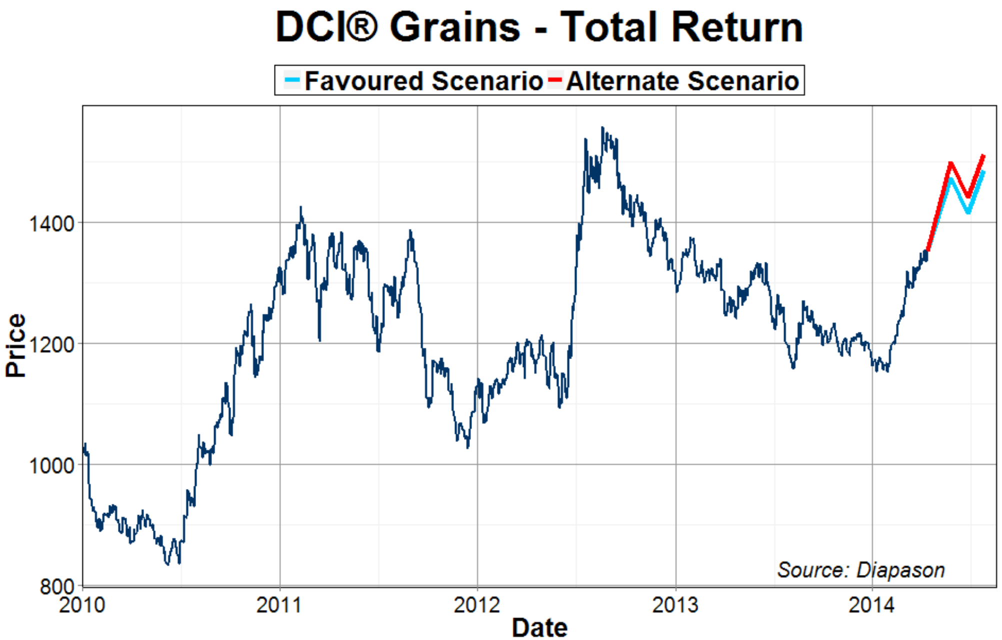
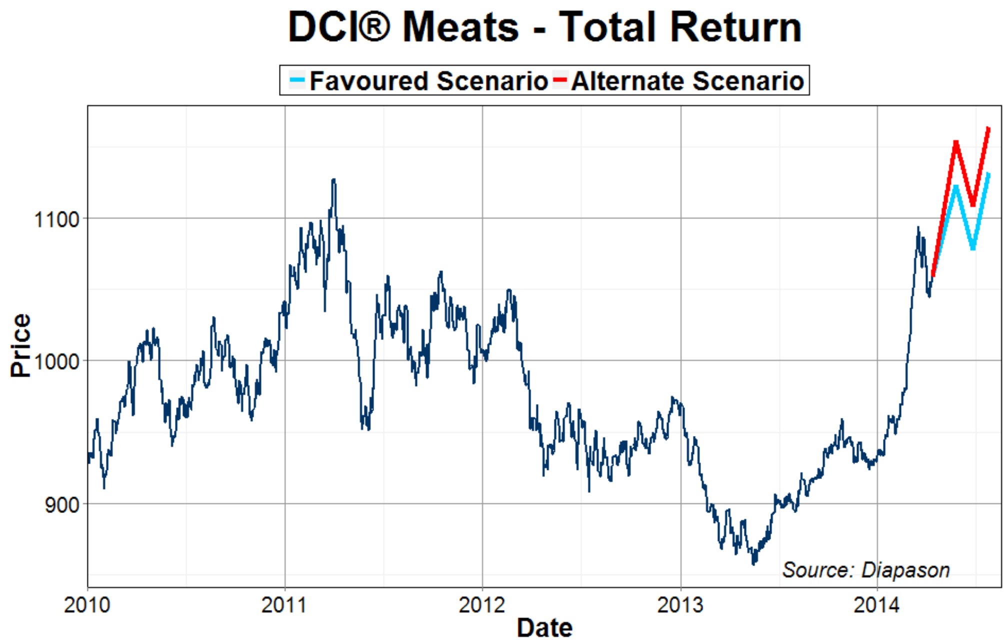
1500
1250
1000
2010
2011
2012
2013
2014
Date
Source: Diapason



DCI® Agriculture Cyclicals - Total Return
Favoured Scenario
Alternate Scenario
Price
3000
2500
2000
1500
1000
2010
2011
2012
2013
2014
Date
Source: Diapason

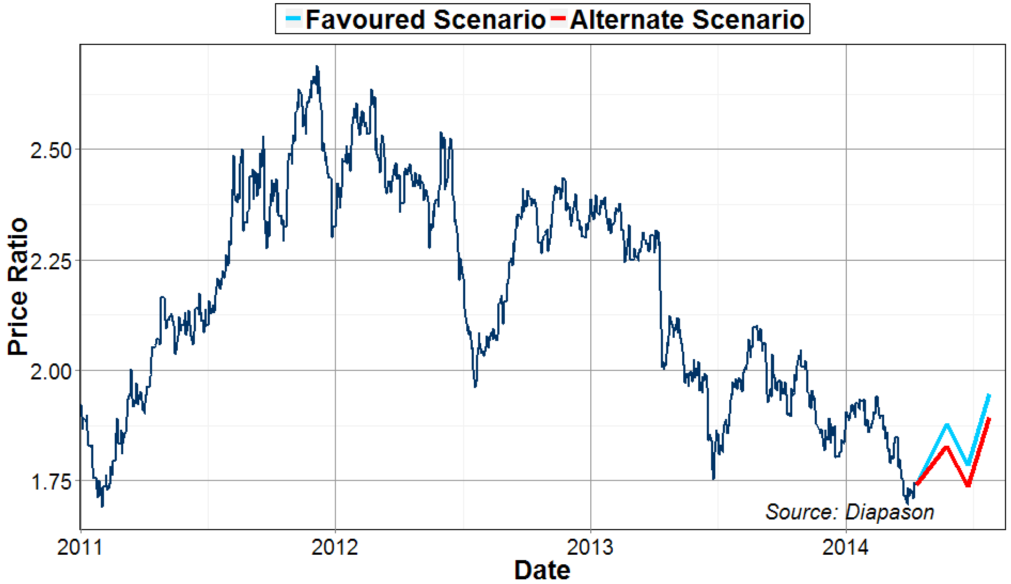


DCI® Grains - Total Return
Favoured Scenario
Alternate Scenario
Price
1400
1200
1000
800
2010
2011
2012
2013
2014
Date
Source: Diapason

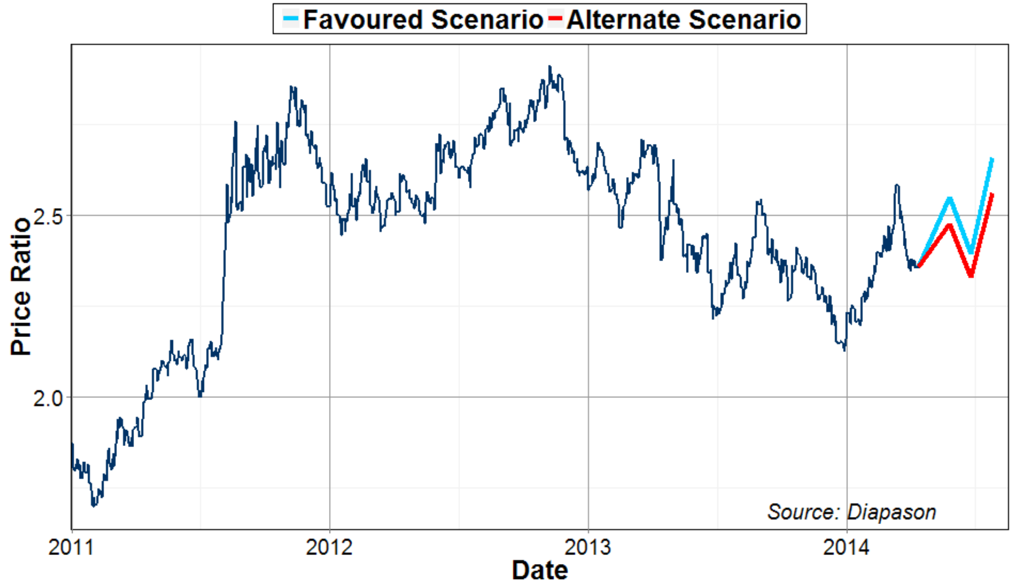


DCI® Meats - Total Return
Favoured Scenario
Alternate Scenario
Price
1100
1000
900
2010
2011
2012
2013
2014
Date
Source: Diapason

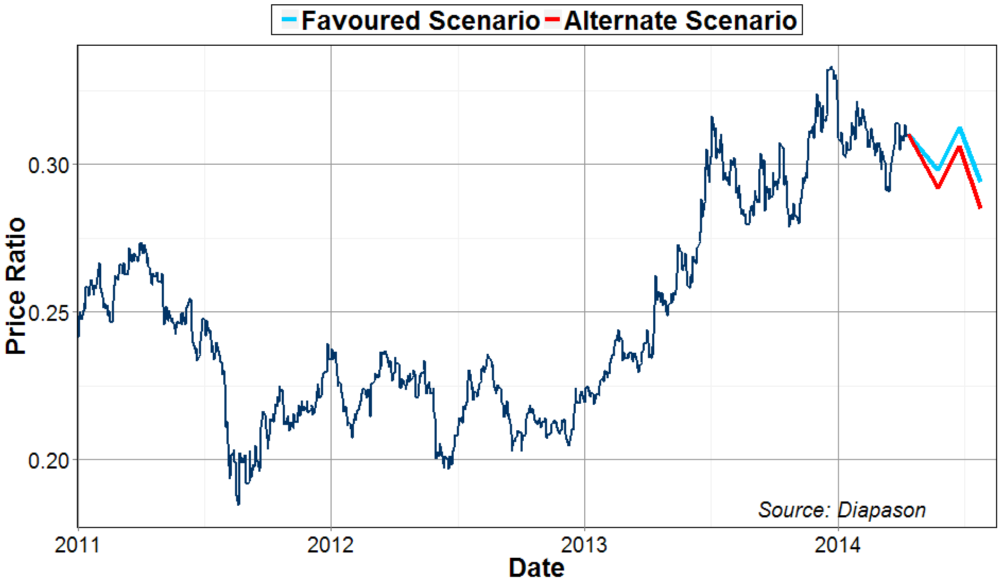
Ratio - DCI® Precious Metals / DCI® Agriculture



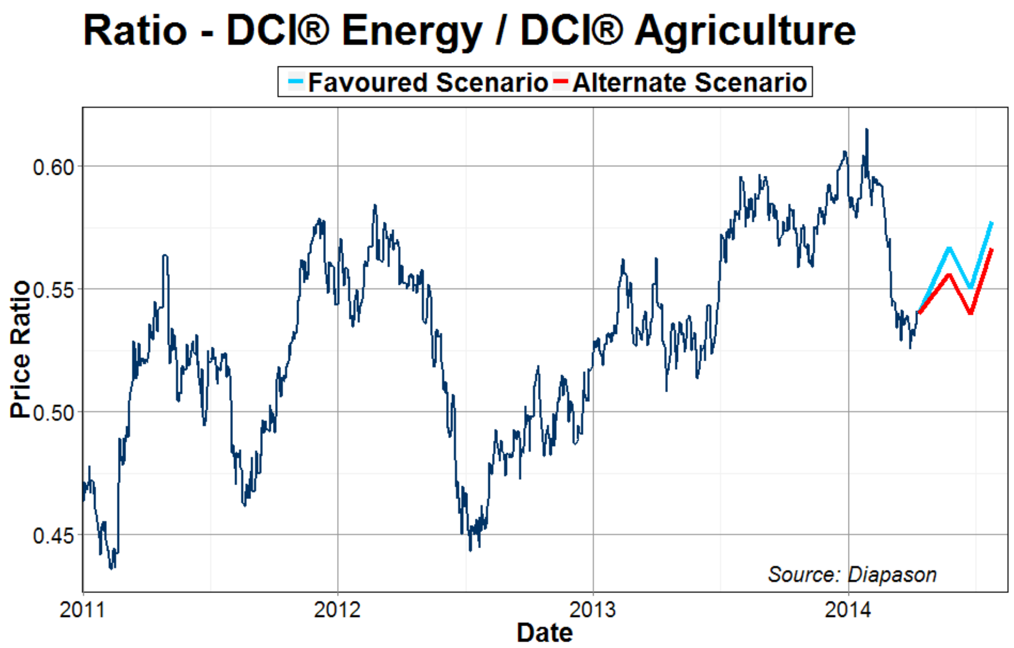
Ratio - DCI® Precious Metals / DCI® Base Metals

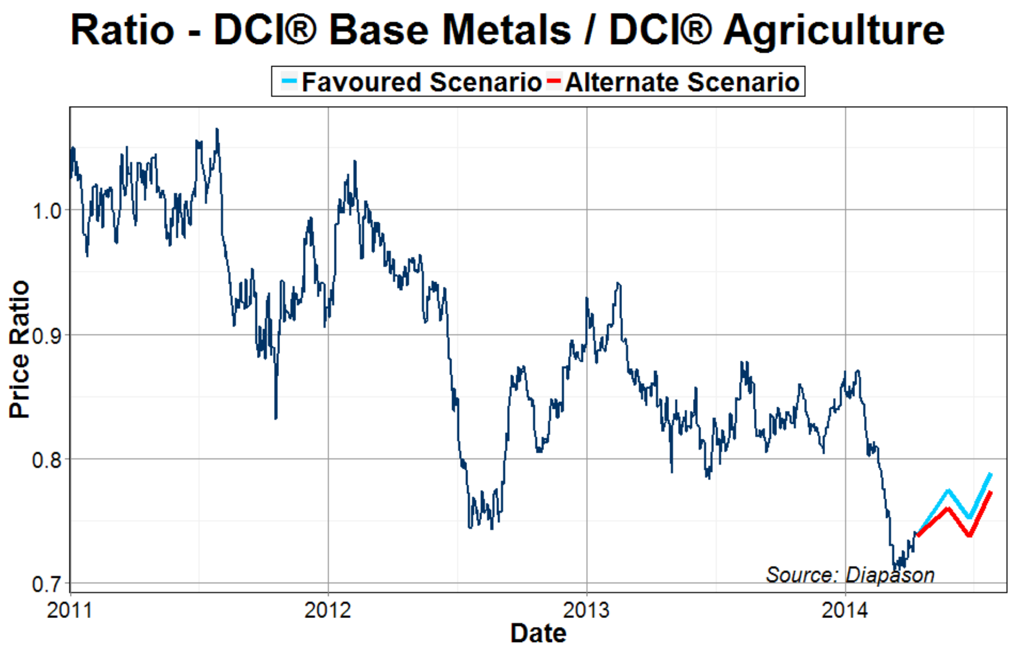


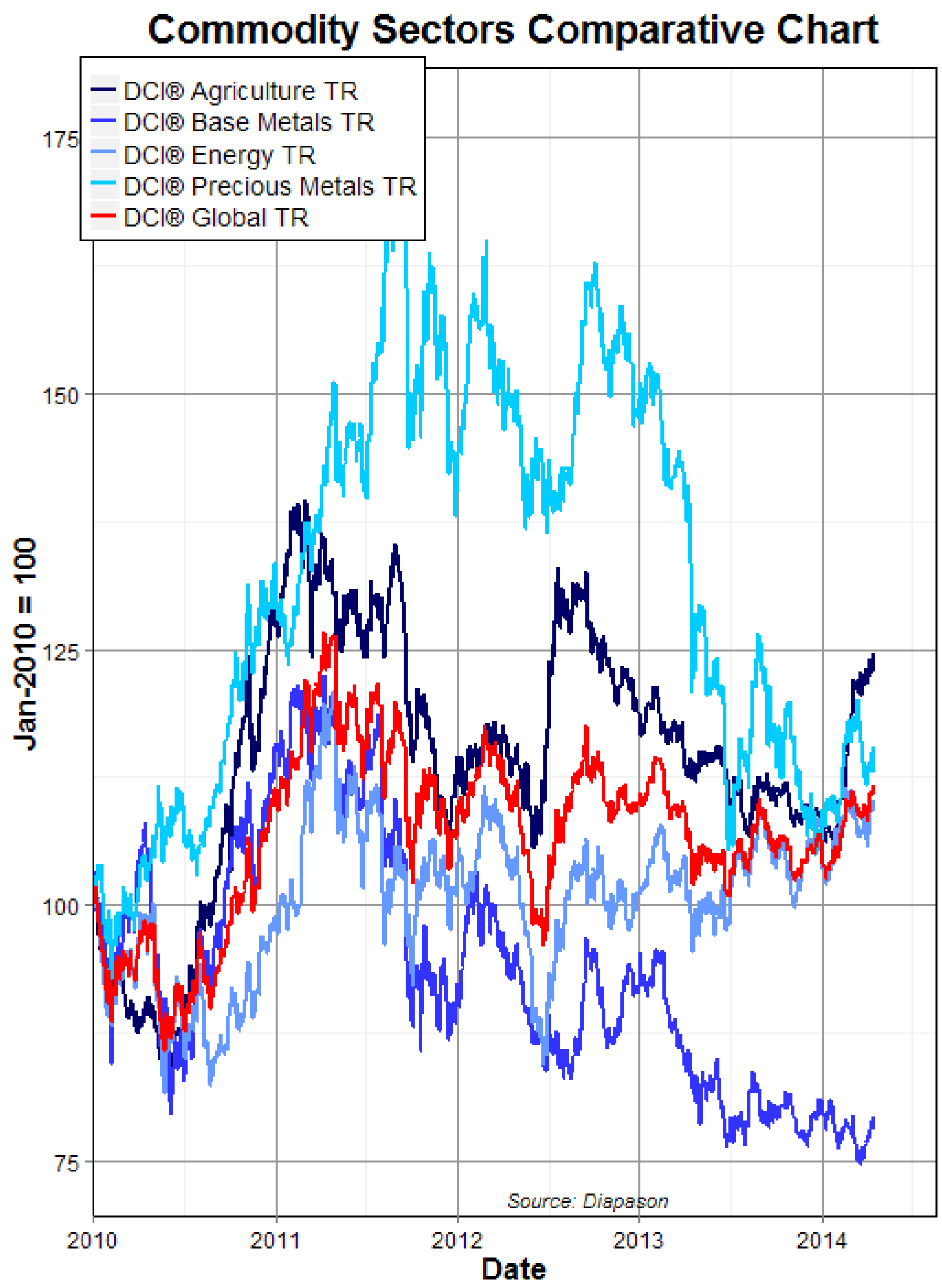
Ratio - DCI® Energy / DCI® Precious Metals



Ratio - DCI® Energy / DCI® Base Metals


Ratio - DCI® Energy / DCI® Agriculture
Favoured Scenario
Alternate Scenario
Price Ratio
0.60
0.55
0.50
0.45
2011
2012
2013
2014
Date
Source: Diapason


Ratio - DCI® Base Metals / DCI® Agriculture
Favoured Scenario
Alternate Scenario
Price Ratio
1.0
0.9
0.8
0.7
2011
2012
2013
2014
Date
Source: Diapason


Commodity Sectors Comparative Chart
DCI® Agriculture TR
DCI® Base Metals TR
DCI® Energy TR
DCI® Precious Metals TR
DCI® Global TR
Jan-2010 = 100
175
150
125
100
75
2010
2011
2012
2013
2014
Date
Source: Diapason

The Indonesian mineral export ban is most likely here to stay

Nickel has surged nearly 15% year-to-date, outperforming base metals. Such a rally marks a turning point for nickel, which has been in surplus during six of the past seven years. This year, we expect the global nickel surplus to shrink, on expectations that supply will be affected by Indonesia's ban on unprocessed ores. Indonesia is the world's largest exporter of nickel and supplies about 30% of the world's needs for the metal.

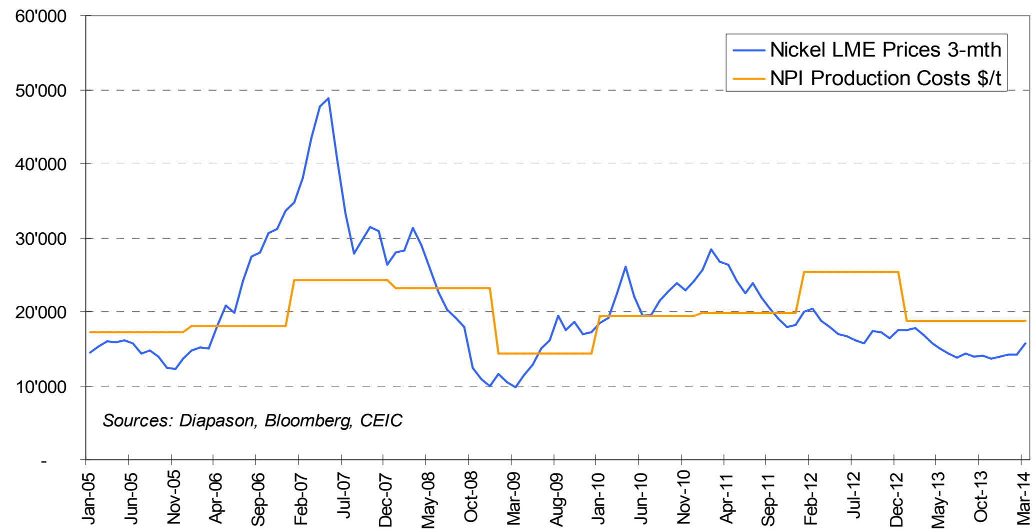
The ban is likely to be here to stay. The Indonesian elections will run in July and each party is in favour of the ban. Also, some producers have already started to build refinery plants (as only refined metals can be exported), so political leaders now bear a responsibility towards those industrials, who are aggressively spending into fixed assets.

This ban is set to be very supportive for nickel, not especially because it will affect the production of refined nickel (inventories are still high), but because it will affect the output of nickel pig iron (NPI). NPI is a low grade ferronickel material, developed by Chinese steelmakers as a cheaper alternative for refined nickel in the production of stainless steel. Producers are currently able to process NPI for a cost of about $18,000-19,000/t. This cost provided Chinese steelmakers with a huge competitive advantage a few years back, when LME nickel prices exceeded $51,000/t in 2007. <u>Therefore, the nickel price used to be constrained over the past years by an arbitrage: as soon as refined nickel prices became too high, Chinese consumers shifted their demand towards NPI</u>.

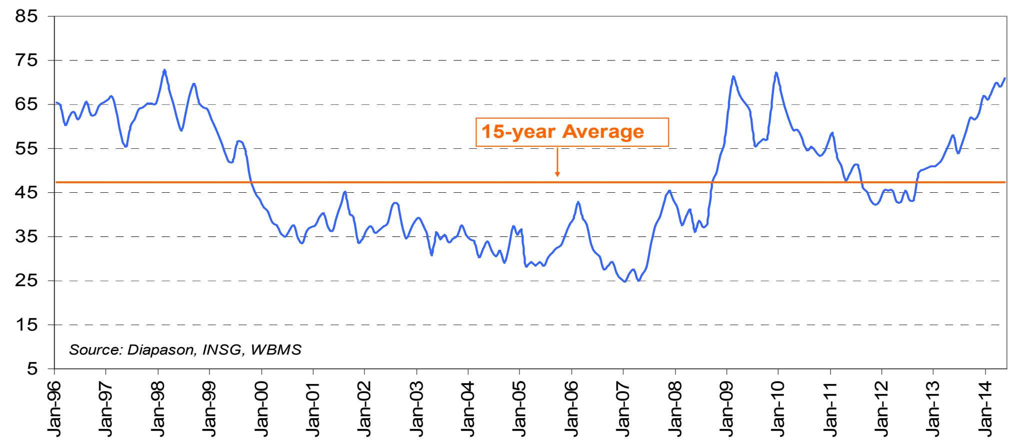
This time could be different however. Chinese NPI makers have been able to produce the material thanks to the imports of Indonesian nickel ores, which suit perfectly the NPI production process. Substitutes are difficult to find, because the second largest nickel ore exporter, the Philippines, produces ores of a different kind.

The Indonesian restrictions on ore exports, which are most likely here to stay, will increase the importing costs for Chinese NPI producers and reduce NPI's competitiveness.

Nickel Prices and China's Nickel Pig Iron Production Costs



World Nickel Inventories (Exchange + Commercials) per days of Consumption



Nickel Fundamental Drivers

Fundamentals should improve this year and the market surplus should dramatically shrink. As nickel was the worst performer on the LME for long, the surplus has been fully priced and the metal could therefore enjoy higher prices in the near term. In particular, supply disruptions should limit the surplus and absorb some of the excess inventories. The Indonesian plan to restrict ores exports could squeeze the supply of nickel ore required in the production of China's nickel pig iron (NPI) as the country accounts for about a third of global supply. Also, the Indonesian government is also attempting to curb illegal mining in the country, which could make up a fifth of domestic production.

Demand for nickel remains soft: during the first nine months of 2013, world production of stainless steel increased by 5.5% y/y, according to the International Stainless Steel Forum, but with strong disparities among regions. While production in China was up 15.7% y/y, it contracted in the rest of the world. In Asia ex-China, output was down 1.4% and in Western Europe, it was down 5.6% in the first three quarters of the year.

Supply: According to the International Nickel Study Group (INSG), global nickel production has continuously been at seasonally record highs in 2013, despite the fact that most upcoming and ongoing projects should report tight or negative margins. According to the INSG, the world refined nickel market's surplus grew from 94,500 tonnes in 2012 to 172,700 in 2013, the highest since at least 1985.

China's nickel pig iron (NPI) production also hit a record high earlier this year, and despite the recent slowdown, capacity should rise further next year. In fact, one of the Chinese biggest NPI producers, Xinhai, has almost doubled its capacity by adding 300,000 tonnes to its existing 400,000-tpy and the country's biggest stainless steel producer Linyi Yichen Alloy is currently building a 500,000-tpy NPI facility in Shandong. The impressive increase in NPI has been possible through the massive imports of Indonesian nickel ore.

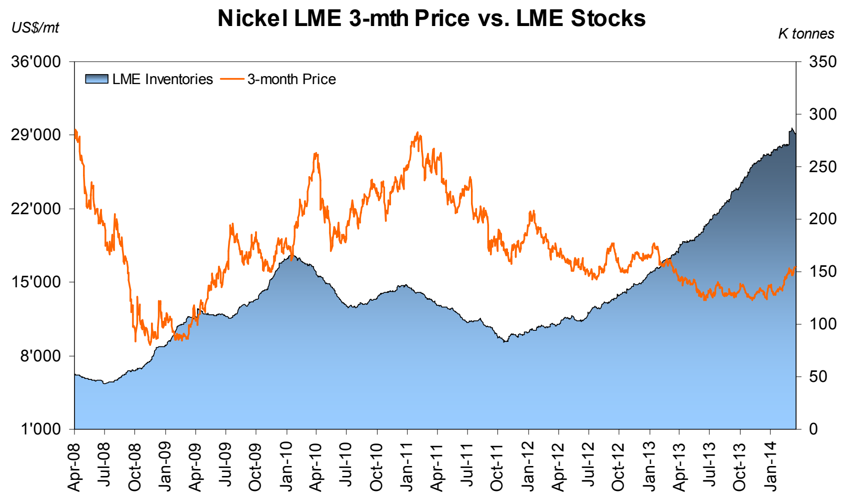
This is why nickel's future remains in the hand of Indonesia. If Jakarta maintains its ban on metals ores as we expect, it would result in a squeeze of nickel ore, which is widely used in China to make nickel pig iron. The Indonesian nickel ore has, furthermore, properties and a quality that are hardly substitutable (especially compared with the Philippines' nickel ore).

Inventories are soaring on the LME and have been setting new records week after week. LME Inventories are now up 80% y/y.

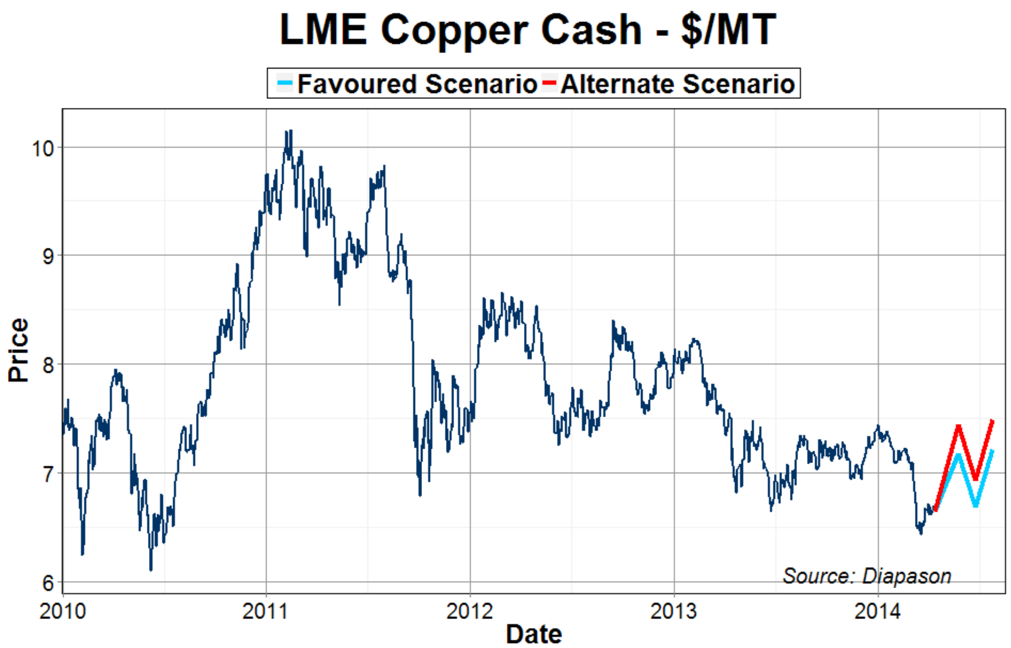
Nickel Supply/Demand Balance, Thousand Metric Tonnes

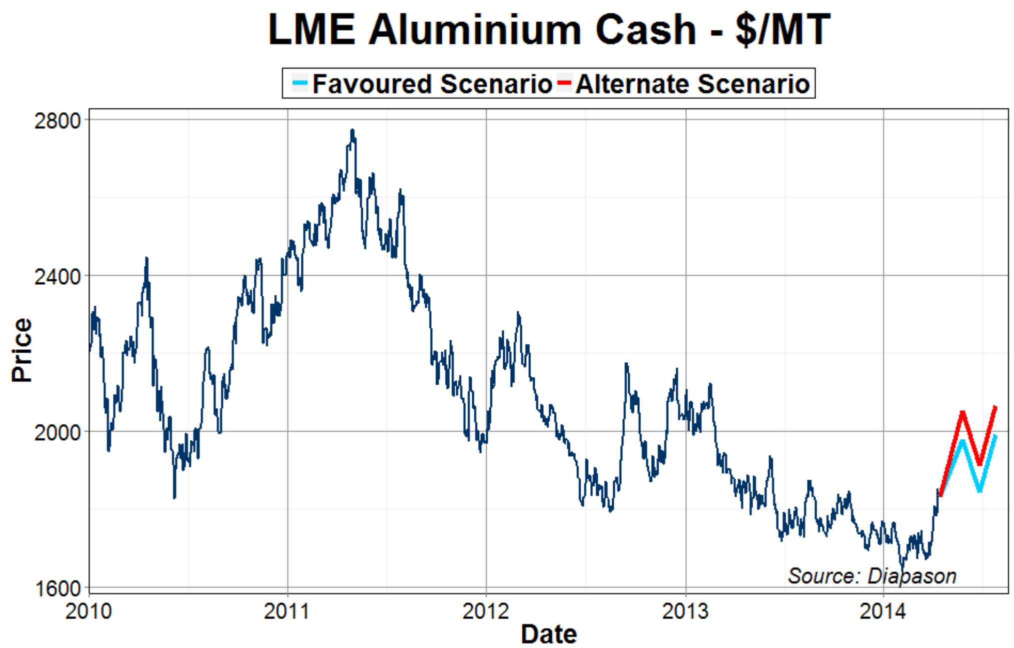
Supply	2006	2007	2008	2009	2010	2011	2012	2013e	2014f
World Mine Production	**1'468**	**1'599**	**1'510**	**1'345**	**1'580**	**1'915**	**2'150**	**2'230**	**2'265**
% Change	*8%*	*9%*	*-6%*	*-11%*	*17%*	*21%*	*12%*	*4%*	*2%*
Indonesia	174	255	258	230	290	470	545	625	540
% Change	*9%*	*47%*	*1%*	*-11%*	*26%*	*62%*	*16%*	*15%*	*-14%*
Philippines	66	90	82	145	175	205	220	230	265
Russia	265	255	260	270	280	270	245	230	245
Canada	230	250	250	150	155	215	200	210	220
Total Refined Production	**1'368**	**1'415**	**1'380**	**1'340**	**1'475**	**1'655**	**1'770**	**1'920**	**2'000**
incl. China Nickel Pig Iron	*40*	*75*	*85*	*100*	*200*	*280*	*320*	*420*	*470*
As a % of world total	*3%*	*5%*	*6%*	*7%*	*14%*	*17%*	*18%*	*22%*	*24%*
Demand	2006	2007	2008	2009	2010	2011	2012	2013e	2014f
World Nickel Demand	**1'400**	**1'325**	**1'280**	**1'230**	**1'465**	**1'620**	**1'670**	**1'780**	**1'930**
World growth	*11%*	*(5%)*	*(3%)*	*(4%)*	*19%*	*11%*	*3%*	*7%*	*8%*
China	265	360	340	490	580	720	760	890	980
As a % of world total	*19%*	*27%*	*27%*	*40%*	*40%*	*44%*	*46%*	*50%*	*51%*
USA	145	135	127	104	127	130	140	142	155
Western Europe	440	405	375	300	348	345	350	342	354
Implied Market Balance	**(32.0)**	**90.0**	**100.0**	**110.0**	**10.0**	**35.0**	**100.0**	**140.0**	**70.0**

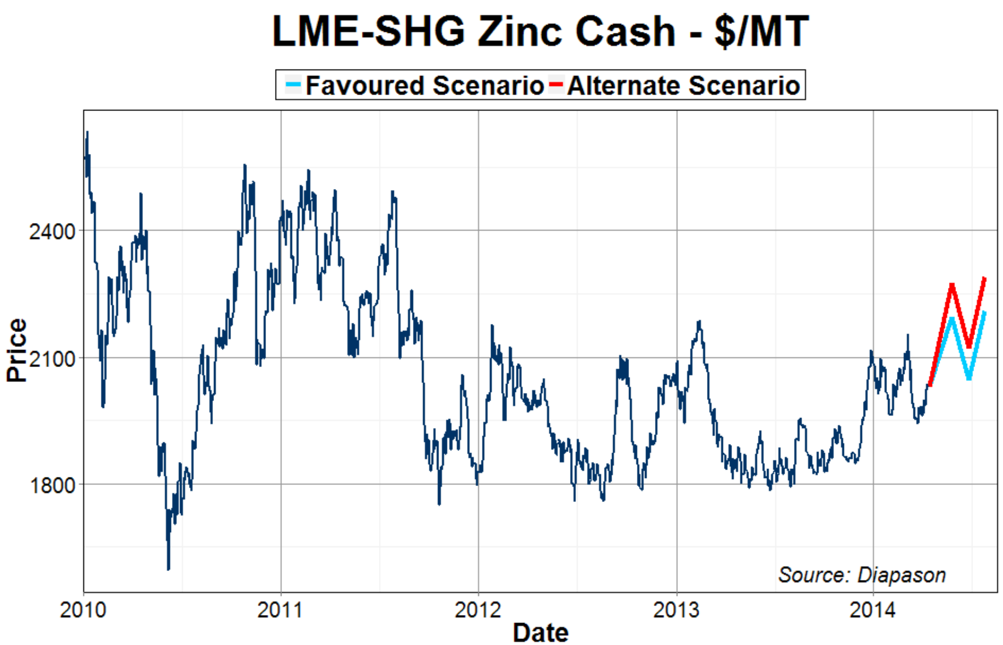
f: forecast; e: estimates

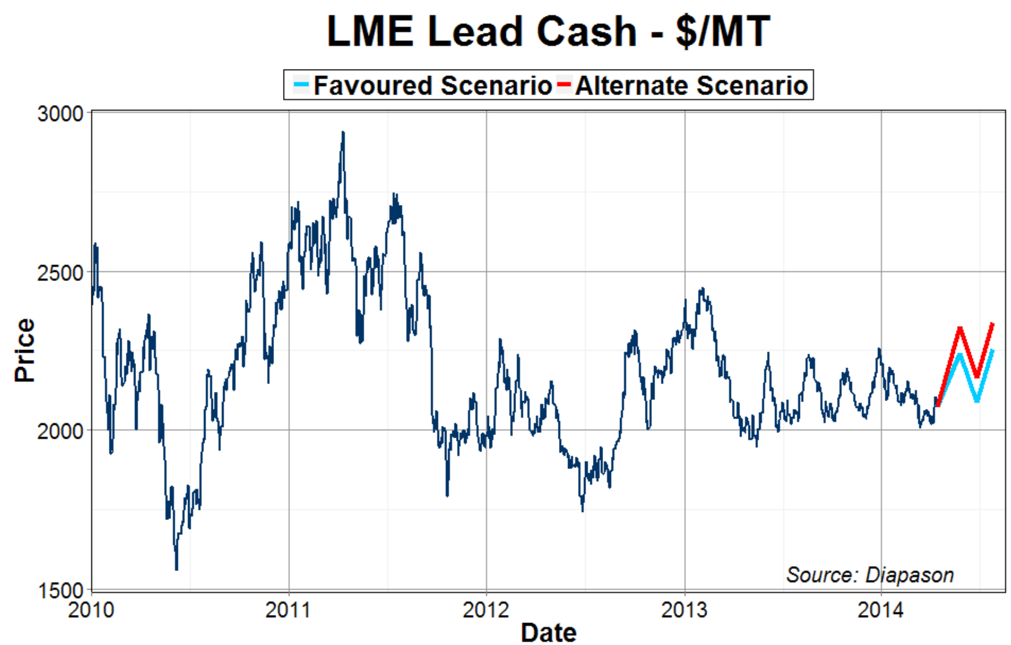


Sources: Diapason, Bloomberg, LME, INSG, WBMS

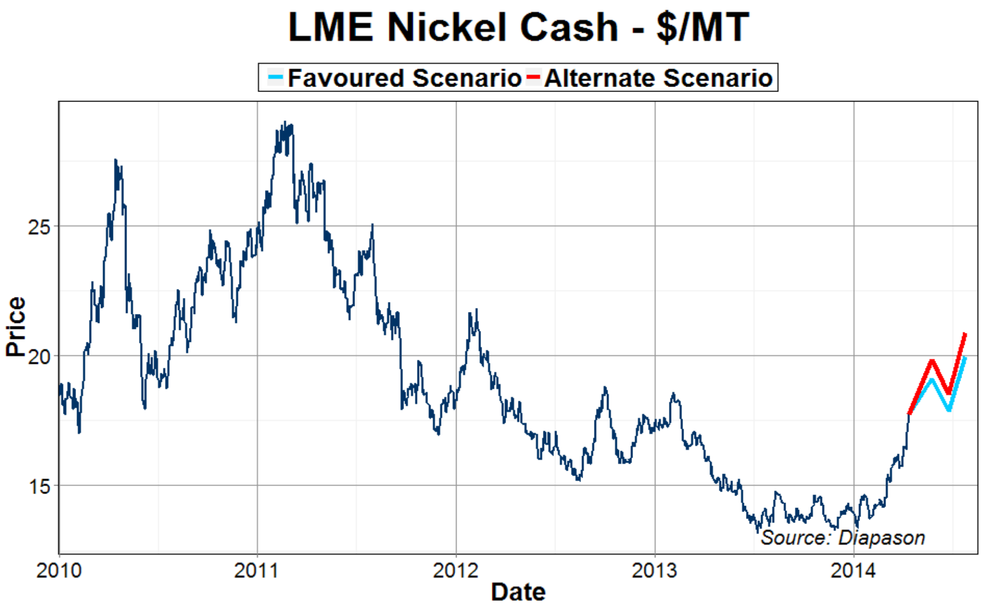

LME Copper Cash - $/MT
Favoured Scenario
Alternate Scenario
Price
Date
Source: Diapason

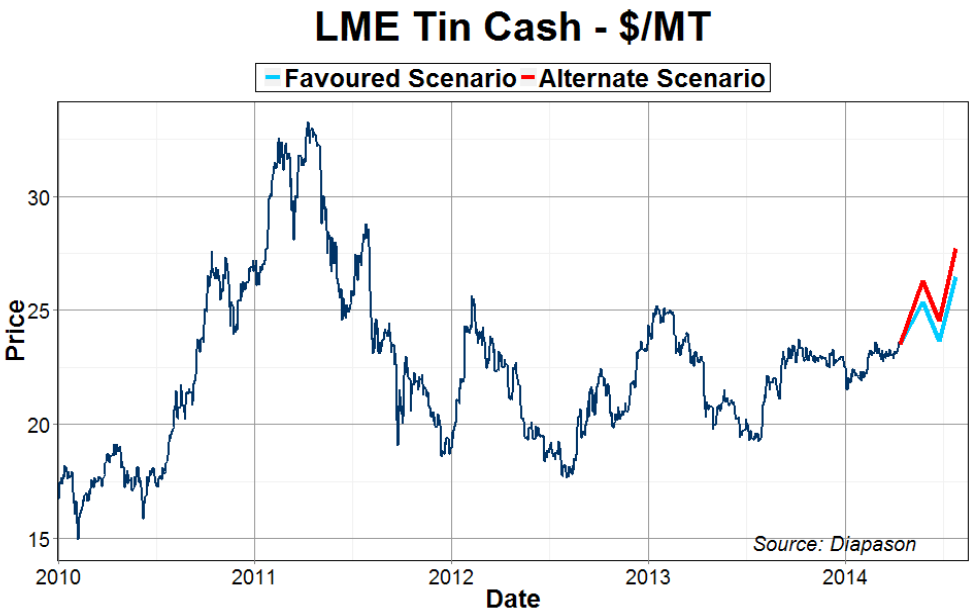

LME Aluminium Cash - $/MT
Favoured Scenario
Alternate Scenario
Price
Date
Source: Diapason


LME-SHG Zinc Cash - $/MT
Favoured Scenario
Alternate Scenario
Price
Date
Source: Diapason


LME Lead Cash - $/MT
Favoured Scenario
Alternate Scenario
Price
Date
Source: Diapason

Lead could be set to recover





Lead has been the second worst performing metal on the LME since the start of the year (-2% YTD) and has particularly suffered over the past month – as we expected – since temperatures have normalised in North America following the harsh winter in the US especially.

The metal is indeed primarily used in the manufacturing of car batteries, whose replacement usage exceeded expectations this winter as the cold damaged car batteries. The first quarter of the year is also generally negative for lead demand, due to the combined effects of the New Year holiday week in China and the lowering demand for electric bikes – as sales decrease in the winter. China has indeed remained a net lead exporter so far this year.

However, it might now be time to return long on lead, considering the current good value of the metal and its brighter prospects for the coming months. Demand for electric bikes is set to improve over the coming months. Although Chinese authorities are restraining the use of this transportation method due to security issues, the consensus expects ebikes sales to increase by another 4-5% this year.

In addition, the spring season (along with the fall) is also the time when battery makers rebuild their inventories ahead of the summer months (and winter months as far as the fall restocking season is concerned), during which replacement batteries often break.

Furthermore, it seems there is currently a shortage of scrap supply, which usually meets about half of global lead demand. Currently, scrap battery prices in the US are only 7% below their 2012 all-time high. As secondary smelters are running below full capacity, the lead market should see its deficit widening this year, from a balanced market in 2013.

Two new South African palladium ETFs to increase market tightness

Palladium has strongly outperformed the other precious metals since the start of the year, up by 10% compared for instance with a 4.6% increase for its peer metal platinum. The palladium/platinum ratio is now at its highest level since early 2002.

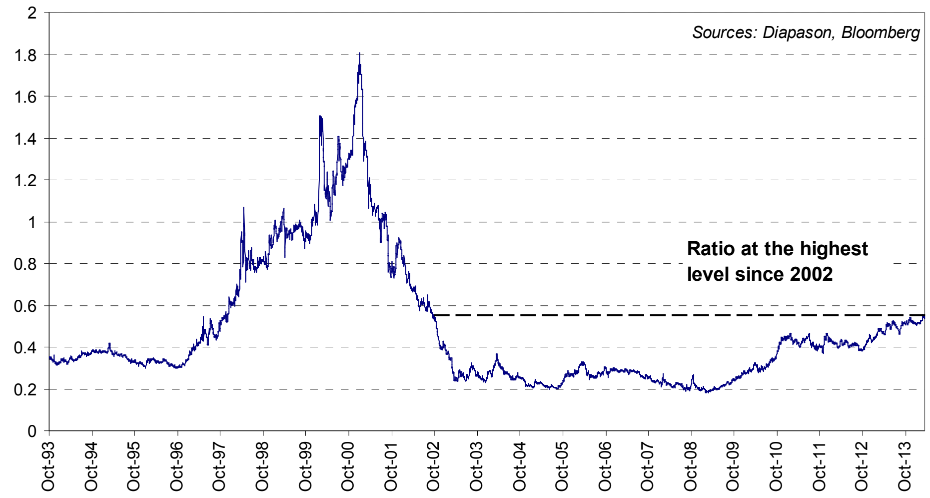
It is true that palladium's fundamentals are stronger that those of platinum. Johnson Matthey estimates that both markets are in deficit; but while most of the palladium deficit is industrial, platinum's shortage largely results from investment demand in the form of ETF, which is nothing more than stockpiling of the metal.

Palladium's supply demand picture has been very tight over the past months: Russian sales to Switzerland (proxy for total Russian exports) have been nearly inexistent. In South Africa, strikes continue and are now in their tenth week. The result so far is a PGM production loss of about 530,000 ounces, equivalent to nearly 8% of 2013 output. This also exceeds the dramatic 2012 losses.

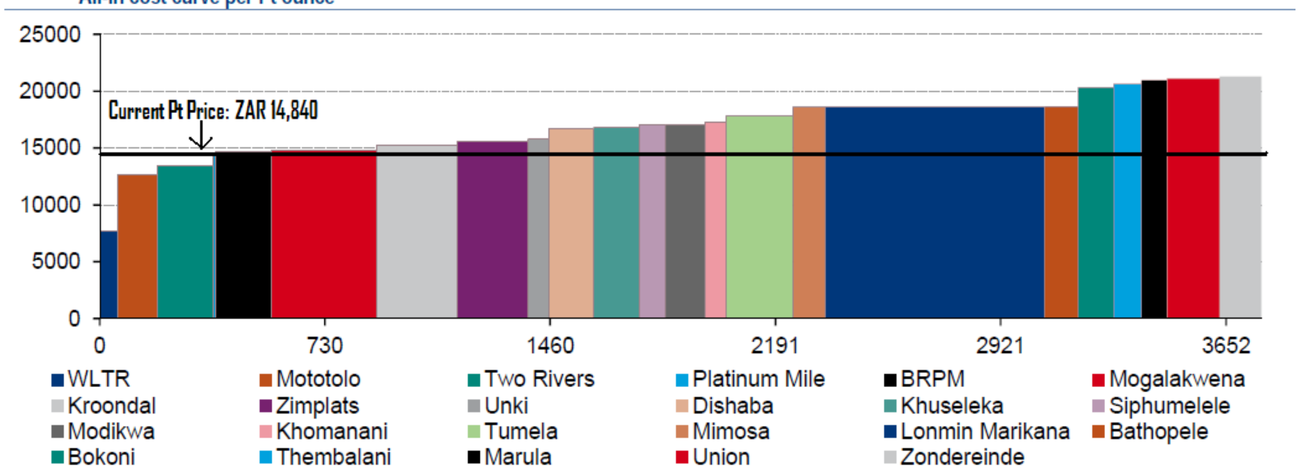
Over the past weeks, another reason for an increased tightness of the palladium market arose: the launch of two South African palladium ETFs. One was a long awaited Absa NewPalladium ETF, which has already accumulated 25,000 ounces in holdings since it was launched on March 27. However, the surprise was the announcement by Standard Bank of an AfricaPalladium ETF. To get approval for these products, Absa and Standard Bank must insure that the metal used in extracted and refined in South Africa; meaning that these would most likely tighten the country's supply of palladium. Given the recent performance of the metal, these ETFs are likely to attract investors.

We continue to see tighter fundamentals as for palladium. However, given the 12-year high in the palladium/platinum ratio (given platinum's underperformance) we see stronger prospects for the platinum price, as platinum supply is highly dependent on South Africa. We wonder how long the market can ignore platinum supply deficits.

Palladium / Platinum Ratio



All-in cost curve per Pt ounce



Source: BofA Merrill Lynch Global Research estimates, company report

Platinum & Palladium Fundamental Drivers

The leading PGM statistics provider, Johnson Matthey, confirmed in its 2013 interim report a reasonably healthy supply-demand position for platinum and palladium in 2013 and forecasts continuous deficits for both metals in 2014. We continue to see better long term prospects for palladium: the deficit is structural and industrial. Platinum's deficit, on the other hand, is largely driven investment demand, in the form of hoarding or ETFs, which is actually a stockpiling of "above-ground" stocks.

However, given the lack of market response to the South African severe supply issues (as much as 8% of platinum annual output could be lost due to the ongoing strike), platinum could outperform in the coming weeks. The palladium/platinum ratio is indeed at its highest level since 2002 and could be set to decrease in the coming months.

Demand: The demand prospects appear stronger for palladium than for platinum. PGMs are widely used to make catalytic converters; but most automotive producers favor palladium over platinum as it is cheaper — except in Europe where diesel-powered vehicles can only use platinum for its anticorrosive properties. This places palladium in a much better position, as it is widely used in the US and in China, where the auto sectors are strong, compared to platinum, mostly used in Europe. In 2013, China's passenger car output was up 16.5% y/y, up 9.6 percentage points from the 2012's y/y growth.

Another significant difference between the two metals is that global demand for palladium is not very elastic, contrary to that for platinum. In the auto market, the two metals are interchangeable (except for diesel vehicles).

Supply: Global platinum supplies are set to remain constrained this year with continuous troubles in South Africa. The latter have worsened in the past weeks as wage talks have failed. So far, strikes have resulted in production losses of 530,000 ounces, equivalent to 8% of 2013 global output. This level exceeds the disastrous 2012 production losses.

Palladium faces additional supply risks—and this provides palladium with a stronger supply/demand picture, despite the fact that South Africa has much more impact on the platinum market. In Russia, the world's largest producer, State stockpiles could be nearly exhausted. The refiner Johnson Matthey estimates that overall market sales in Russia fell by around 65% to 250,000 ounces last year. They contributed to only 1.6% of total supply last year, against 14% back in 2009. Furthermore, tensions between Moscow and the Western World could affect Russian exports.

Platinum Supply/Demand Balance, Thousand Ounces

Supply	2007	2008	2009	2010	2011	2012	2013f	2014f
South Africa	5'070	4'515	4'635	4'635	4'860	4'100	4'320	4'360
Russia	915	805	785	825	835	800	800	805
North America	325	325	260	200	350	300	350	400
Total Supply	**6'600**	**5'945**	**6'025**	**6'050**	**6'485**	**5640**	**5920**	**6070**
Demand	2007	2008	2009	2010	2011	2012	2013f	2014f
Autocatalyst	3'210	2'525	1'355	1'990	1'945	2'110	1'960	1'950
Jewellery	1'455	1'365	2'245	1'685	1'665	1'890	2'010	2'090
Industrial	1'350	1'180	690	1'215	1'415	985	1'180	1'182
Other	490	530	450	530	550	590	590	610
Total Fabrication Demand	**6'505**	**5'600**	**4'740**	**5'420**	**5'575**	**5'575**	**5'740**	**5'832**
Implied Pre- Investment Balance	**95**	**345**	**1'285**	**630**	**910**	**65**	**180**	**238**
Investment Demand	**170**	**555**	**660**	**655**	**460**	**450**	**970**	**940**
Implied Post-Investment Balance	**(75)**	**(210)**	**625**	**(25)**	**450**	**(385)**	**(790)**	**(702)**

Palladium Supply/Demand Balance, Thousand Ounces

Supply	2007	2008	2009	2010	2011	2012	2013f	2014f
South Africa	2'765	2'430	2'370	2'640	2'560	2'330	2'460	2'510
Russia	4'540	3'660	3'635	3'720	3'480	2'900	2'750	2'600
North America	990	910	755	590	900	905	990	1'040
Total Supply	**8'580**	**7'310**	**7'100**	**7'360**	**7'365**	**6545**	**6630**	**6620**
Demand	2007	2008	2009	2010	2011	2012	2013f	2014f
Autocatalyst	3'530	3'325	3'085	4'270	4'460	4'960	5'130	5'390
Jewellery	715	855	705	495	295	255	250	250
Industrial	2'240	2'000	1'935	1'335	1'875	1'830	1710	1'467
Other	85	75	70	90	110	105	703	106
Total Fabrication Demand	**6'570**	**6'255**	**5'795**	**6'190**	**6'740**	**7'150**	**7'793**	**7'213**
Implied Pre- Investment Balance	**2'010**	**1'055**	**1'305**	**1'170**	**625**	**(605)**	**(1'163)**	**(593)**
Investment Demand	**260**	**420**	**625**	**1'095**	**(570)**	**470**	**450**	**500**
Implied Post-Investment Balance	**1'750**	**635**	**680**	**75**	**1'195**	**(1'075)**	**(1'613)**	**(1'093)**

f: forecast

Sources: Diapason, Bloomberg, Comex, GFMS

Gold Fundamental Drivers

The metal has a bit improved this week as tensions in Ukraine intensified over the week end. However, 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 79.856 on April 15), which has been supportive to the gold price. This has probably strongly contributed to put an end to gold's fall this week. 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.

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.

Investment Demand: Gold outflows have continued, although to a limited extent. Outflows of ETFs holdings averaged 0.2%-0.3% w/w this week, compared with outflows of 0.7-0.8% in the week before (which was the highest week-on-week outflow since December last year). On the Comex, net long speculative positions have also retreated to 120,885 lots last week, compared with 172,204 just three weeks before.

Physical Demand: Since late-December, physical consumption has rebounded in China, and has not slowed down as much as expected after the New Year. The premium in China has risen to $20 an ounce, doubling the year-ago levels. China is on track to liberalise further its gold market and according to India's Economic Times, has granted licenses to import gold to two foreign banks for the first time.

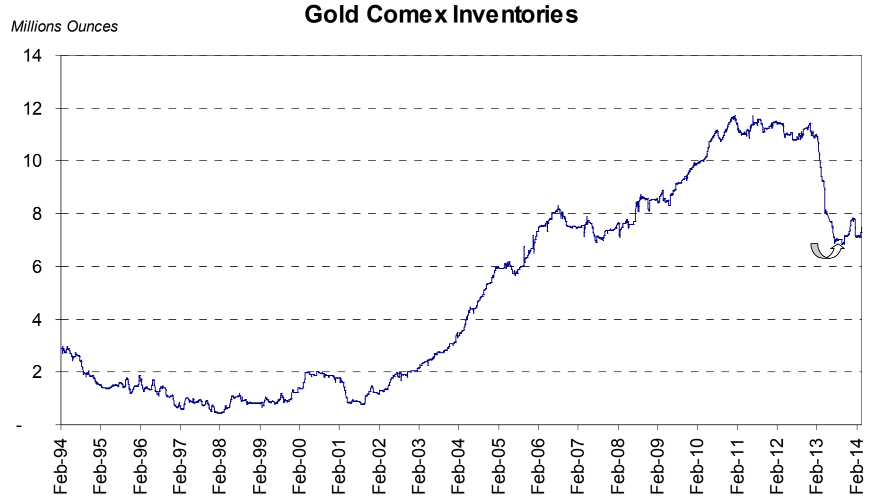
On the other hand, the former world's largest consumer, India could consider reviewing its gold import duties downwards, in an attempt to limit black market activities. According to a Reuters article from December 7 2013, Indian gold imports could have fallen 70% in Q4 2013 and may be half usual levels at 500-550 tonnes this year. In addition to the high taxes, the rupee has fallen further with the emerging markets crisis, pushing domestic gold prices higher, hence affecting consumption.

Gold Supply/Demand Balance, Metric Tonnes

Supply	2007	2008	2009	2010	2011	2012	2013e	2014f
Mine production	2'498	2'430	2'612	2'739	2'838	2'861	2'947	3'020
Net producer hedging	(444)	(352)	(254)	(121)	12	15	40	60
Official sector sales	430	(35)	(100)	15	(350)	140	(160)	(100)
Recycled gold	980	1'315	1'695	1'650	1'600	1'580	1'350	1'300
Total supply	**3'464**	**3'358**	**3'953**	**4'283**	**4'100**	**4'596**	**4'177**	**4'280**

Demand	2007	2008	2009	2010	2011	2012	2013e	2014f
Fabrication	2'803	2'673	2'146	2'398	2'348	2'230	2'456	2'345
Jewellery	2'423	2'304	1'814	2'020	1'975	1'893	2110	2200
Technology and Dental	374	365	328	376	373	338	338	355
Bar and coin demand	444	882	793	1'186	1'530	1'397	1'435	1'410
ETFs and similar	230	300	620	370	240	265	(780)	(250)
Total demand	**3'806**	**3'386**	**3'493**	**3'812**	**4'118**	**3'892**	**3'111**	**3'505**
Implied Investments / (Disinvestments)	**(342)**	**(28)**	**460**	**471**	**(18)**	**704**	**1'066**	**775**

f: forecast; e: estimates



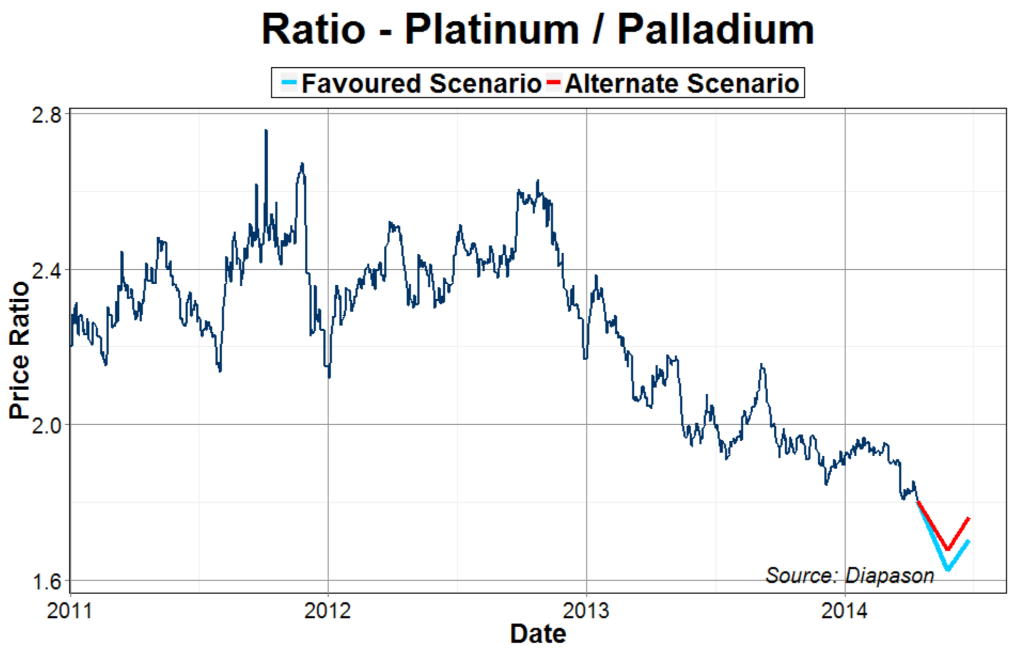
Sources: Diapason, Bloomberg, Comex, GFMS

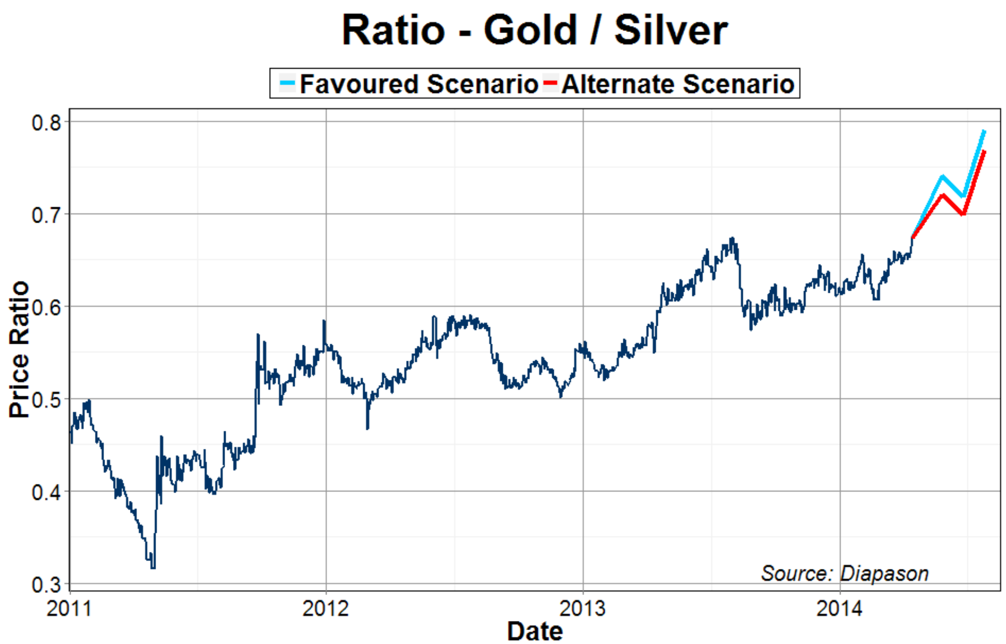
Gold investment outflows resume

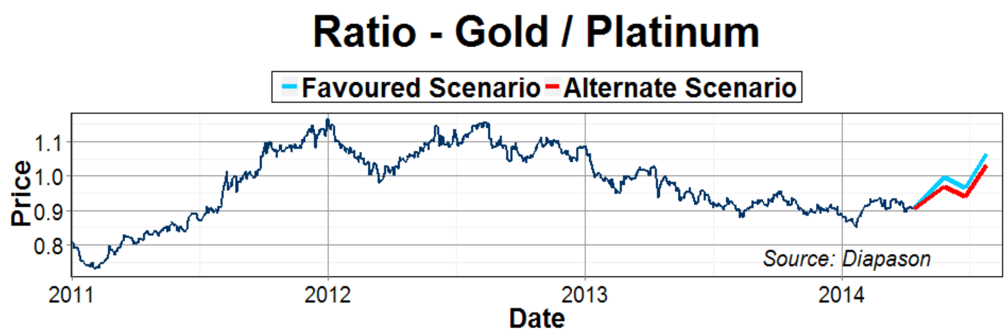
Gold prices have been on a downward trend over the past weeks, following Janet Yellen's dovish comments suggesting a possible earlier-than-expected hike in rates. The tapering process has been the main driver underpinning the gold price since Q3last year. Furthermore, as the situation has not worsen in Ukraine, safe haven investments have eased too. Also, the US dollar has rebounded following Janet Yellen's first comments on interest rates. The DXY has risen from 79.385 on March 17 to 80.094 on April 1st, 2014.

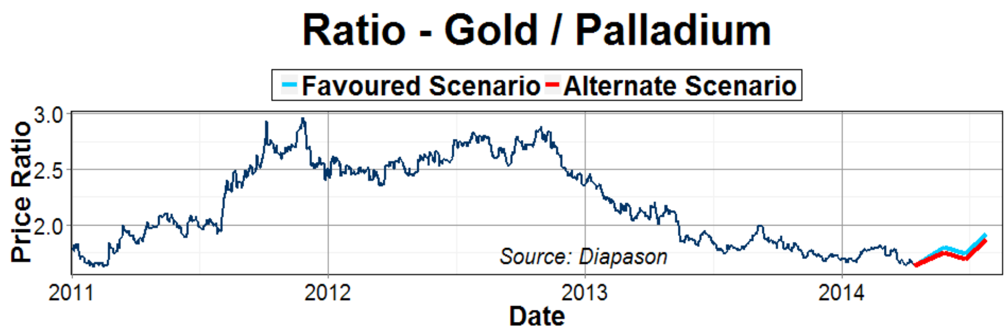
Investors have therefore started to withdraw from the gold market. According to Bloomberg data, the world's ETFs have seen outflows in the past days, following nearly two months of inflows. On March 31, ETFs holdings were down 0.57% w/w, the highest week-on-week outflow since the end of January this year.

On the Comex, net long speculative positions have also retreated to 127,121 lots last week, compared with 172,204 two weeks before. Long positions indeed declined from 202,885 to 174,189 lots, while shorts increased from 30,681 to 47,068 over the week.

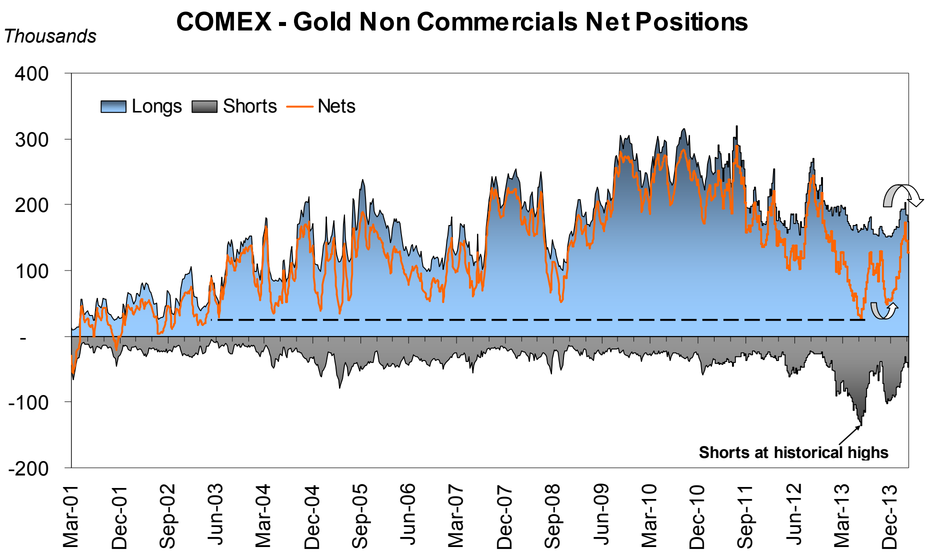


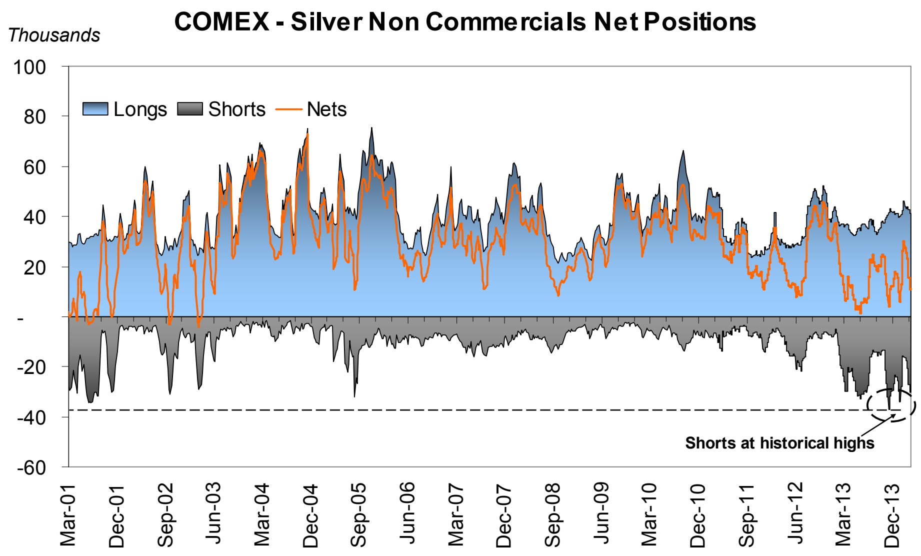


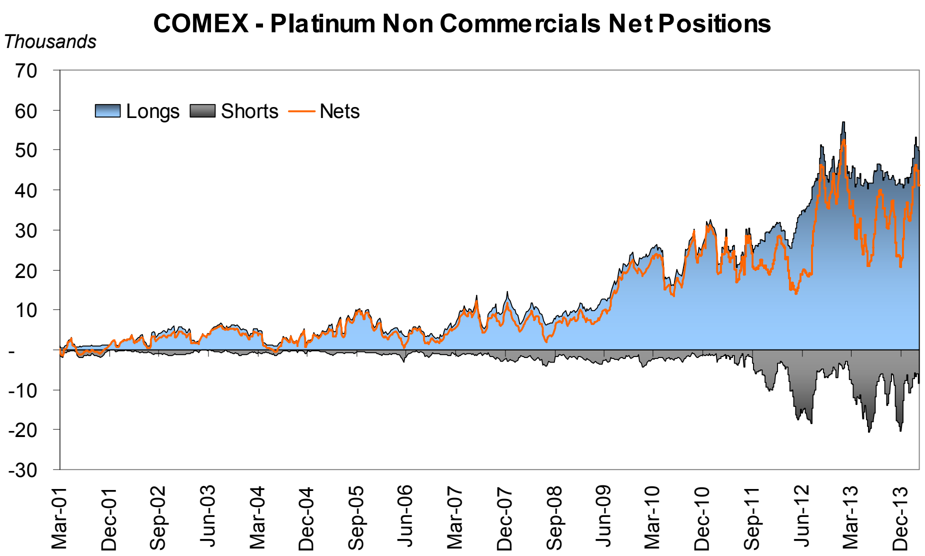


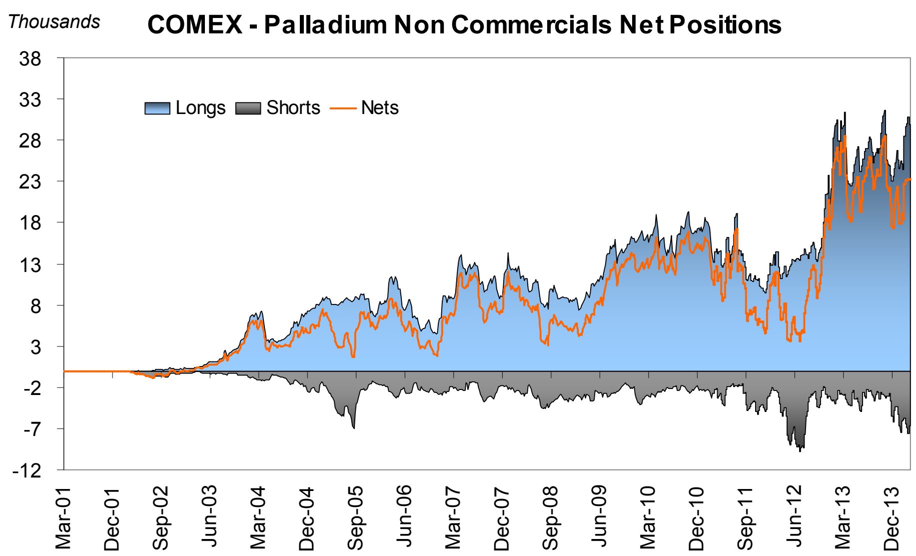


Precious Metals Non-Commercials Net Positions

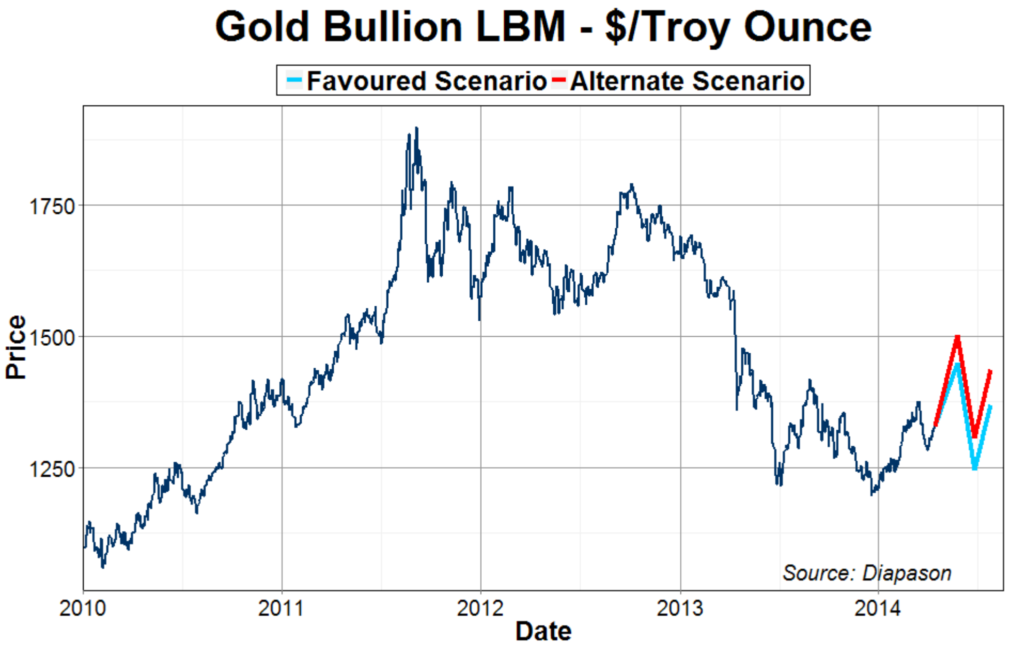




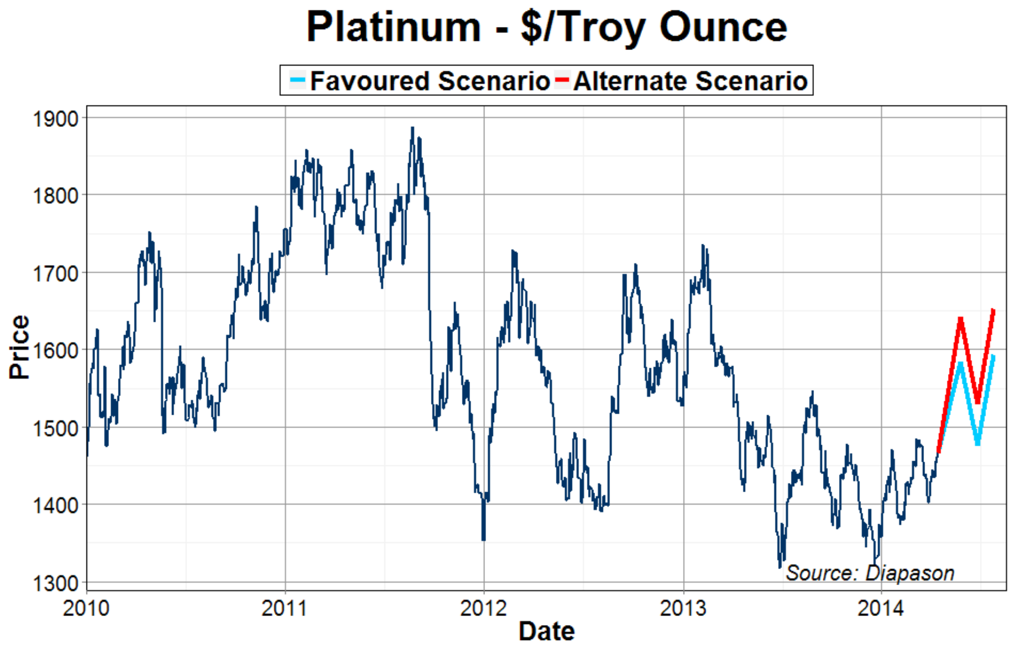




Source: Diapason, Bloomberg



Gold Bullion LBM - $/Troy Ounce
Favoured Scenario
Alternate Scenario
Price
1750
1500
1250
Source: Diapason
2010
2011
2012
2013
2014
Date



Platinum - $/Troy Ounce
Favoured Scenario
Alternate Scenario
Price
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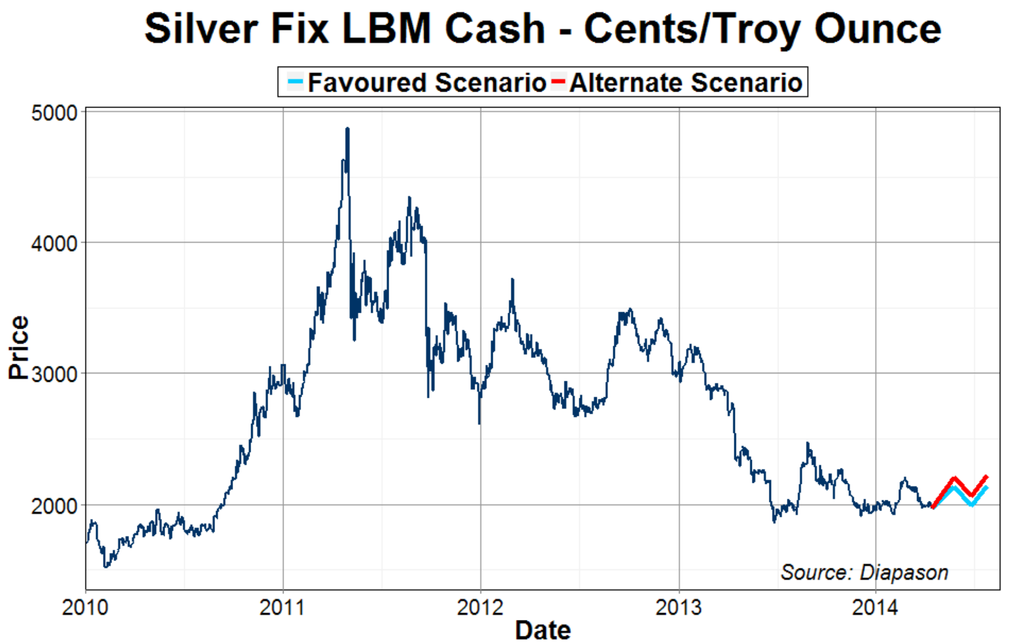
1800
1700
1600
1500
1400
1300
Source: Diapason
2010
2011
2012
2013
2014
Date



Silver Fix LBM Cash - Cents/Troy Ounce
Favoured Scenario
Alternate Scenario
Price
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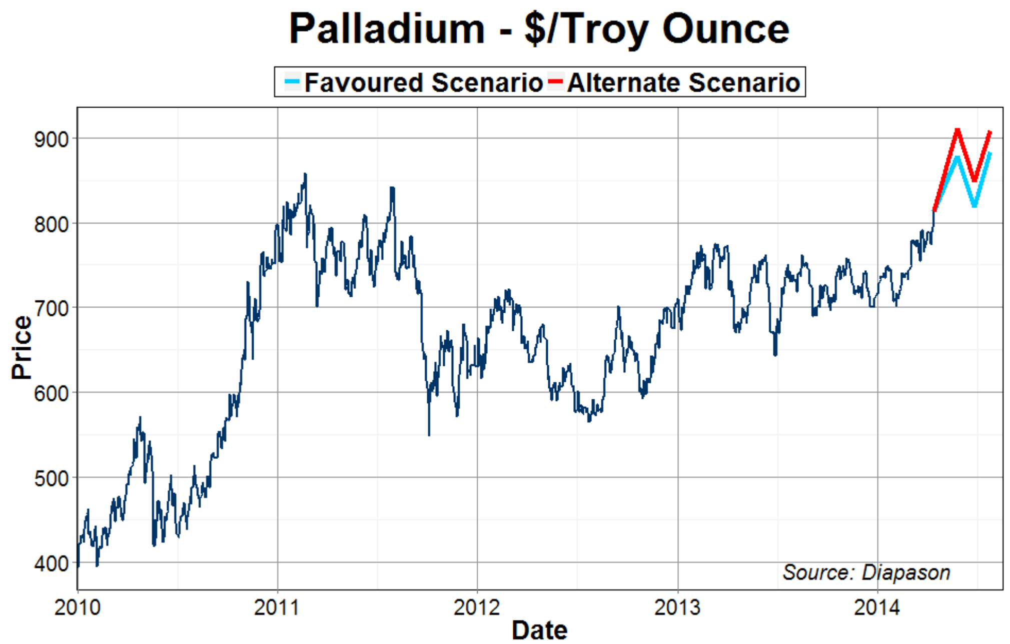
4000
3000
2000
Source: Diapason
2010
2011
2012
2013
2014
Date



Palladium - $/Troy Ounce
Favoured Scenario
Alternate Scenario
Price
900
800
700
600
500
400
Source: Diapason
2010
2011
2012
2013
2014
Date

Thinking in Essentials - Energy Markets Dynamics

Oil Market Dynamics

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. 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).

Among non-OECD countries, China is likely to see a more rapid growth in oil demand, driven by stronger demand for gasoline, kerosene and petrochemicals feedstock. This is due to the expected acceleration of the economic activity as the central government is currently implementing stimulus measures. 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 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. Two eastern ports are being reopened. This should allow a rebound in Libyan crude oil exports by 250’000 b/d in the coming days. Furthermore, the two remaining idled ports on the eastern side of Libya could restart activity in 2 to 4 weeks.

Political instability in Iraq, ahead of the general elections of April 30th, have increased concerns about the political stability of the country. Violence prevented balloting in parts of the Sunni-dominated Anbar province and have led to a prolonged halt of the Kirkuk-Ceyhan pipeline last month. This contributed to reduced Iraqi crude oil exports in March 2014 and has prevented Iraqi Kurdistan to begin exporting 100’000 b/d, which was planned last month.

Inventories: The refining maintenance season is contributing to a decline in petroleum products inventories and a build in crude oil inventories. 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.

World Oil Demand and Supply Balance (million b/d)

Demand	2012	2013	2014f
FSU	4.39	4.52	*4.66*
Latin America	6.53	6.68	*6.81*
North America	23.04	23.24	*23.36*
Europe	13.47	13.26	*13.16*
Africa	3.52	3.61	*3.71*
Asia Pacific	29.78	30.36	*31.02*
Middle East	9.04	9.22	*9.47*
World Liquids Demand	89.77	90.89	92.19
y/y Change in %	1.0%	1.2%	*1.4%*
y/y Change in million b/d	0.89	1.11	*1.31*

Non-OPEC Supply	2012	2013f	2014f
FSU	13.42	13.55	*13.66*
Latin America	4.8	4.85	*5.04*
North America	17.92	19.14	*20.16*
Europe	4.01	3.83	*3.75*
Africa	2.30	2.44	*2.56*
Asia and Oceania	8.95	8.89	*9.02*
Middle East	1.32	1.20	*1.19*
Non-OPEC Liquids Supply	52.72	53.90	55.38
y/y Change in %	0.9%	2.2%	*2.7%*
y/y Change in million b/d	0.45	1.18	*1.48*

OPEC non-Crude	5.52	5.76	5.99
y/y Change in %	*3.0%*	*4.3%*	*4.0%*
Call on OPEC	31.53	31.23	*30.82*
OPEC Crude Oil Production	*30.89*	*30.61*	
Surplus / Deficit	-0.64	-0.62	
Total OPEC Capacity	33.55	33.44	33.43
Theoritical Spare Capacity (OPEC Effective Capacity - Call on OPEC)	*2.02*	*2.21*	*2.61*

f: forecast *Source: Diapason*

Energy Markets Review

Iraq - Crude oil exports decline and crude oil quality issues

Following elevated crude oil production level in February 2014 (at 3.5 million b/d), Iraqi crude output fell according to the OPEC Secretariat by about 300’000 b/d over the month due to the halt of the Kirkuk-Ceyhan pipeline.

On top of lower exports, the Iraqi oil industry is facing quality issues. Indeed, since December 2013, three major buyers of Iraqi oil have complained about high water content. This means that upgrading work is needed on the infrastructure or that exports should slow down in order to give time for base sediment and water to settle down in order to remove the latter.

Crude oil output was indeed sold too rapidly to customers leading to water content up to 0.3% to 1.0%, resulting in important losses for refiners, which can typically tolerate up to 0.1% water content. These quality issues could lead to more stringent inspections of the exported crude oil, slowing down loading schedules. This could offset the impact on Iraqi crude oil exports of the development of oil fields, such as Lukoil’s West Qurna-2 field.

Kazakhstan - Kashagan’s start could be delayed until 2016-2017

The restart of the Kashagan oil field could be again delayed due to technical issues. The Kazakh oil field was started in September last year, with an initial capacity of 75’000 b/d, after 10 years of development and was rapidly shut due to a leak of hydrogen sulfide, a highly-corrosive toxic gas. The difficulties to handle this toxic gas, which accounts for about 17% of the natural gas output, may force the oil companies’ consortium to replace pipelines with a special alloy. It could take two years to complete the new pipelines.

The field, which was expected to become one of the world’s largest oil field with projected output at 1.6 million b/d, is hence unlikely to start this year. This should lead to a weaker than initially expected Kazakh crude oil production growth this year to around +40’000 b/d y/y, down from previously +140’000 b/d y/y.

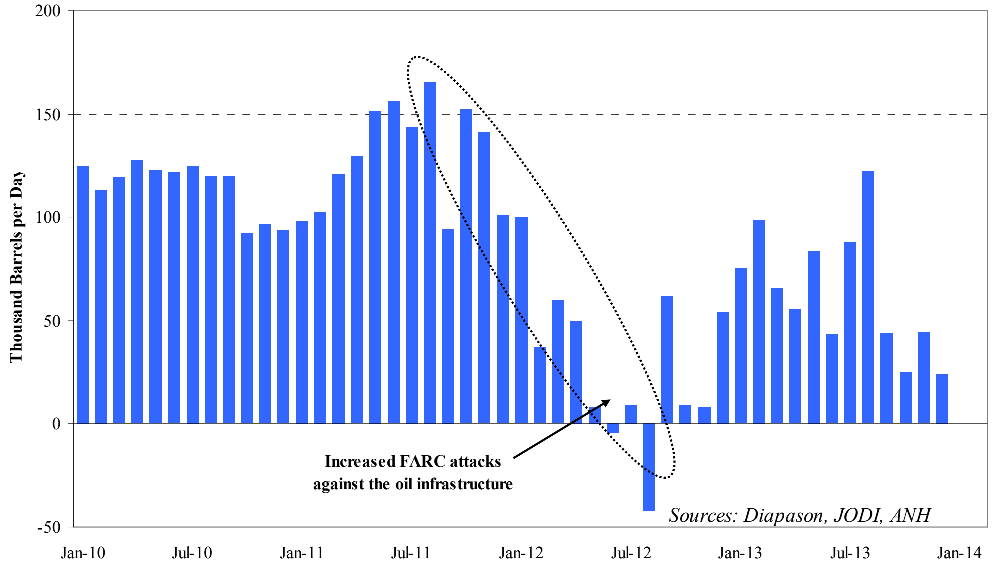
Colombia - FARC attacks against the oil infrastructure could rise

Since mid-February 2014, attacks from rebels (FARC and ELN) and local protests have prevented the restart of the Bicentennial oil pipeline in eastern Colombia, which came on stream in July 2013 with an initial capacity of 110’000 b/d. When completed, the pipeline will be able to ship 600’000 b/d of crude oil. This is a key pipeline in a country producing 1.0 million b/d of crude oil.

The halted pipeline could harm crude oil output growth, which has already been declining since the end of the unilateral FARC cease-fire in January 2013. The FARC has increased attacks on the oil infrastructure in order to put pressure on the Havana peace negotiations. According to the Colombian government, rebel attacks against oil pipelines increased in Q1 2014 compared to Q1 2013. Moreover, attacks could increase in the coming weeks ahead of the presidential elections in late May and the 50th anniversary of the founding of the FARC in June 2014.

These attacks are likely to have a negative impact on Colombian crude oil production like in 2012 when FARC increased attacks against the oil infrastructure ending the strong output growth recorded between 2009 and 2011 (+110’000 b/d per year on average).

Colombian Crude Oil Production Growth (y/y)



Libyan crude oil exports could soon return to the market

Last month, warmer temperatures, which led to lower demand for petroleum products and stronger Iraqi crude oil exports contributed to the slight downward move in Brent oil prices. These events would have caused a more important decline in prices if there would have been no supply disruptions in Libya. Libyan crude oil exports, down by about 1 million b/d from April 2013 levels, remained indeed constrained by protests and political instability.

Disrupted Libyan crude oil production has contributed to the strength in Brent prices since last year and continues to play a key role in the oil pricing structure due to the quality of the Libyan crude oil (light sweet, close to the quality of Brent crude oil), its location (close to Europe, a major net importer of crude oil) and because of the amount of disrupted crude oil (about 1 million b/d, about 8% of European oil consumption).

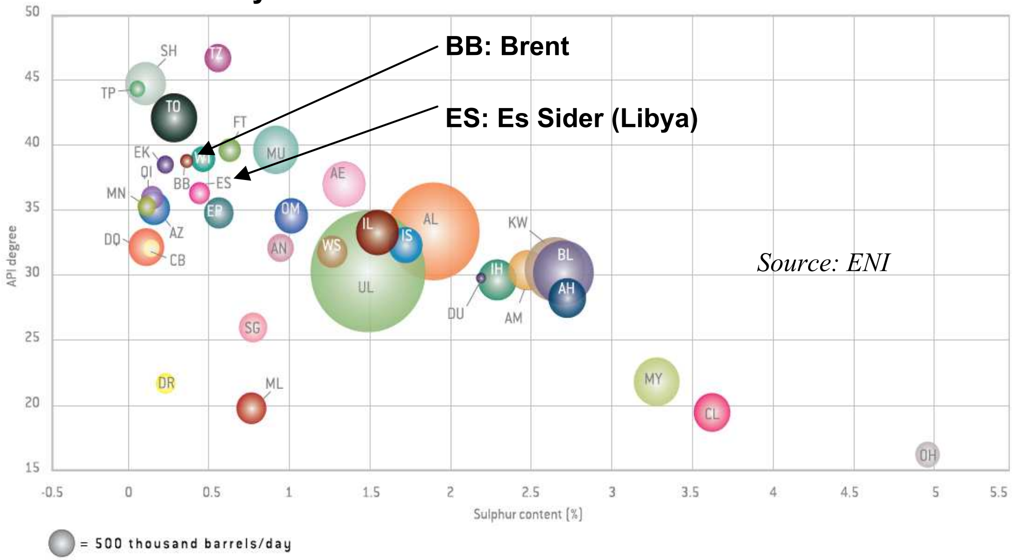
The latest announcement from the rebel group in the eastern part of Libya is suggesting that Libyan crude oil exports could soon rebound. The rebel group that controls four eastern oil terminals said last week that those ports could reopen. This could lead to a gradual recovery in Libyan crude oil exports by about 700’000 b/d in the coming months.

During the second week of April 2014, the Libyan army has taken control of two ports, Al-Hariga and Zueitina, with a combined capacity of 210’000 b/d. Activity is likely to restart in the coming days. On the other hand, it could take two to fours weeks for a final agreement to be found, which would allow the opening of the two remaining oil ports, Ras Lanouf and Al-Sidra, with a combined capacity of 550’000 b/d.

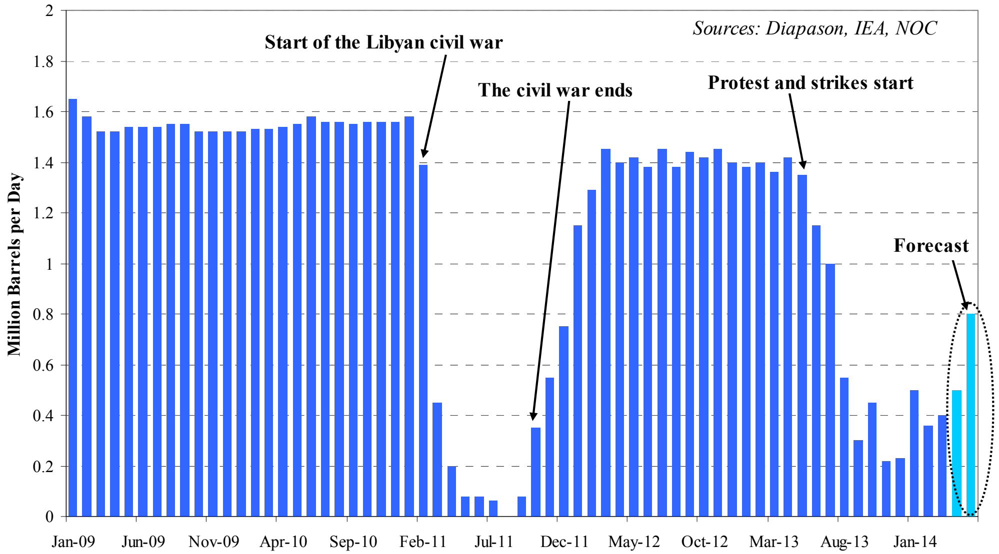
While statements regarding the possible reopening of the eastern ports have been made several times these past few months, it is the most serious announcement since July 2013 as it came from the rebel leader, Ibrahim Jathran and occurred after a demonstration of force by the Tripoli government.

The possible rebound in Libyan crude oil exports, while the global oil demand is close to its seasonal lows, could trigger one last downward move in oil prices.

Quality and Production Volume of Main Crudes



Libyan Crude Oil Production



Stronger demand growth and low inventories could move oil prices higher

Recent developments in Libya are suggesting that Libyan crude oil exports could soon rebound and hence have a negative impact on oil prices.

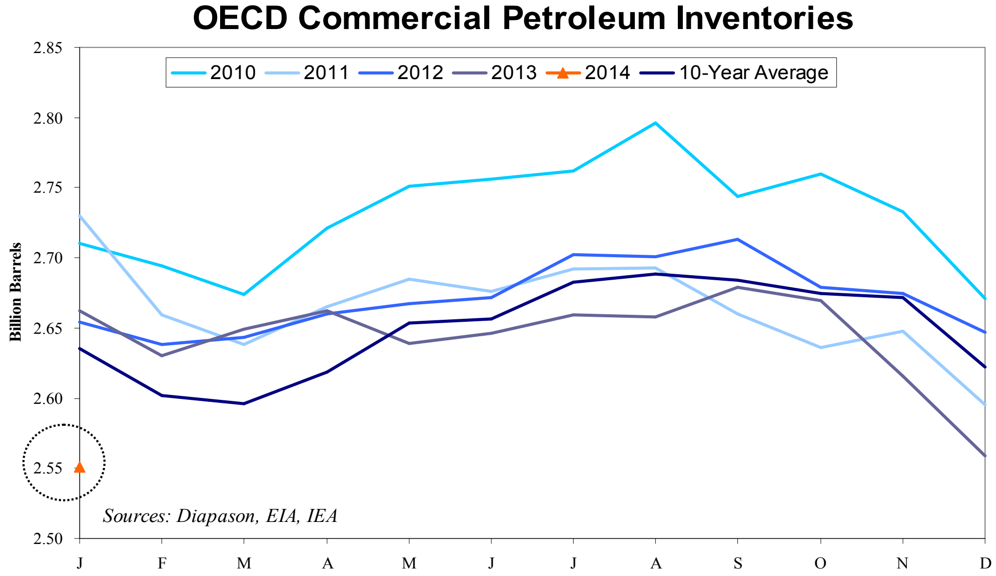
The medium-term outlook appears however more positive for oil prices. Global oil demand is increasing at a more rapid pace, while petroleum products inventories are at a low level. Strong growth in US oil demand and the improved economic situation in other OECD countries have triggered since the middle of 2013 the strongest rise in OECD oil demand since 2010.

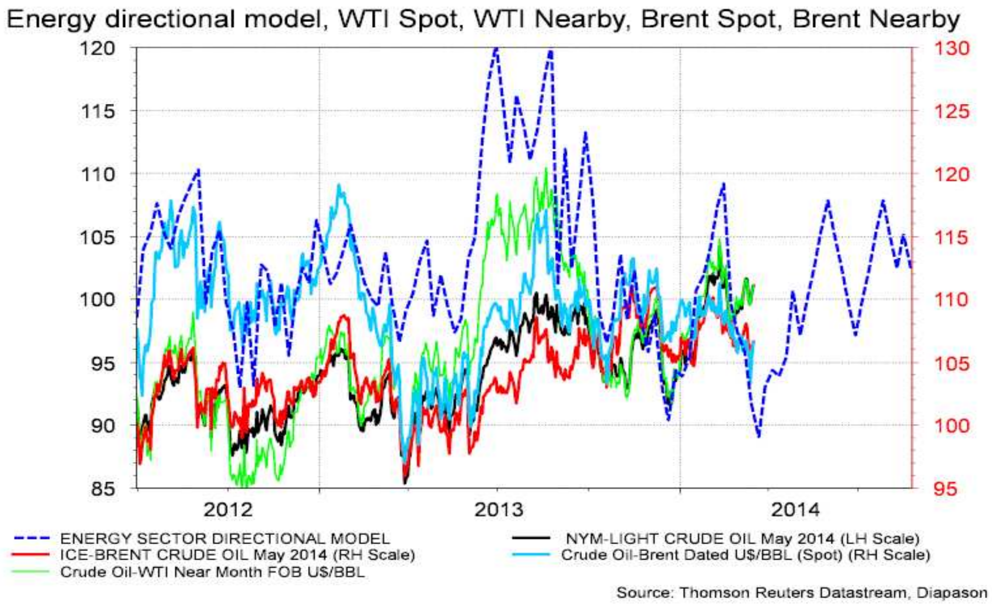
Moreover, the US government estimated that OECD oil demand grew by 350'000 b/d y/y in Q1 2014 amid stronger growth from non-OECD countries (+1.1 million b/d y/y). Among non-OECD countries, China is likely to see a more rapid growth in oil demand, due to the expected acceleration of the economic activity. This 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 growth since 2010.

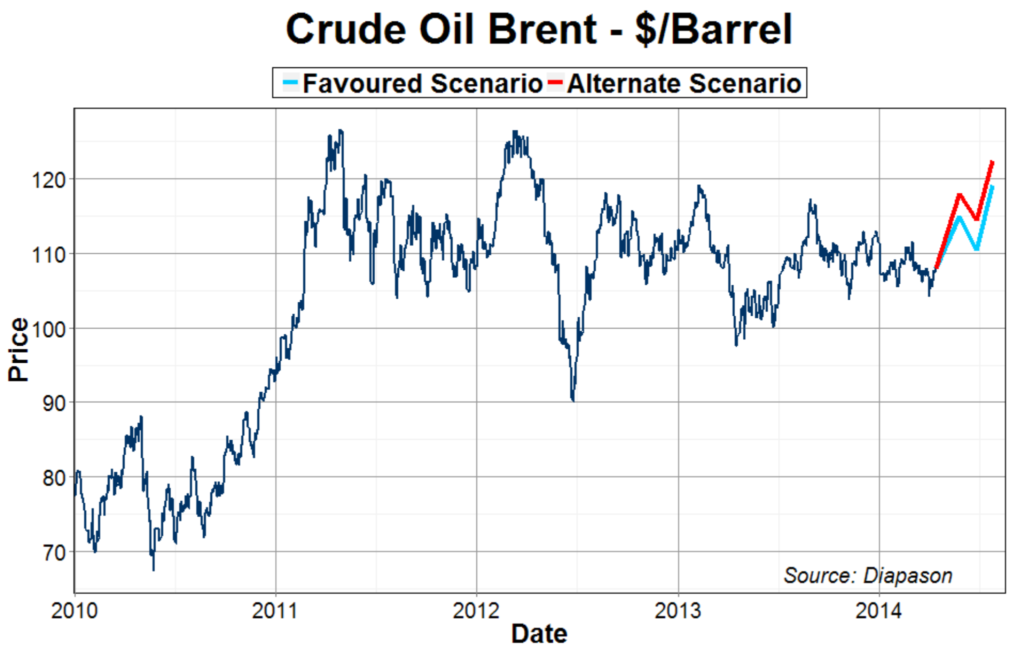
But the major difference with 2010 is that at that time oil inventories stood at a high level, at 2.73 billion barrels on average, due to the financial and economic crisis of 2009 which led to a significant reduction in demand for petroleum products. On the other hand, petroleum inventories are currently at a low level. According to the IEA, OECD inventories counter-seasonally fell in January to 2.55 billion barrels, the lowest level since May 2004 due to strong heating fuels demand.

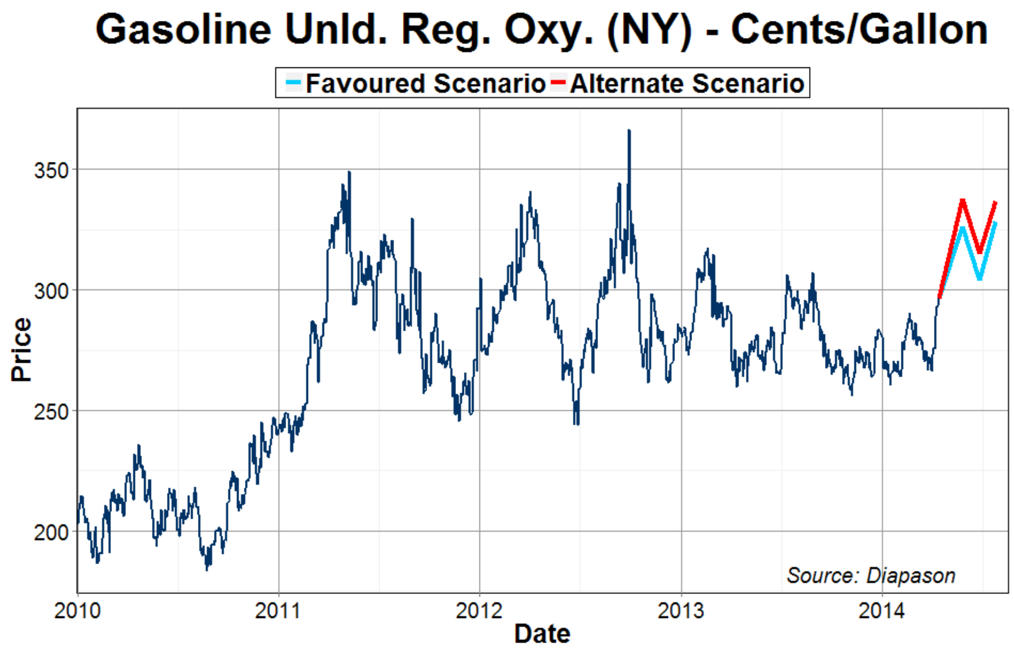
Thus, even if Libyan crude oil exports rebound and remain at a higher level than the previous months, the acceleration in global oil demand growth in the coming months amid low petroleum products inventories is likely to contribute to an important upward move in oil prices.

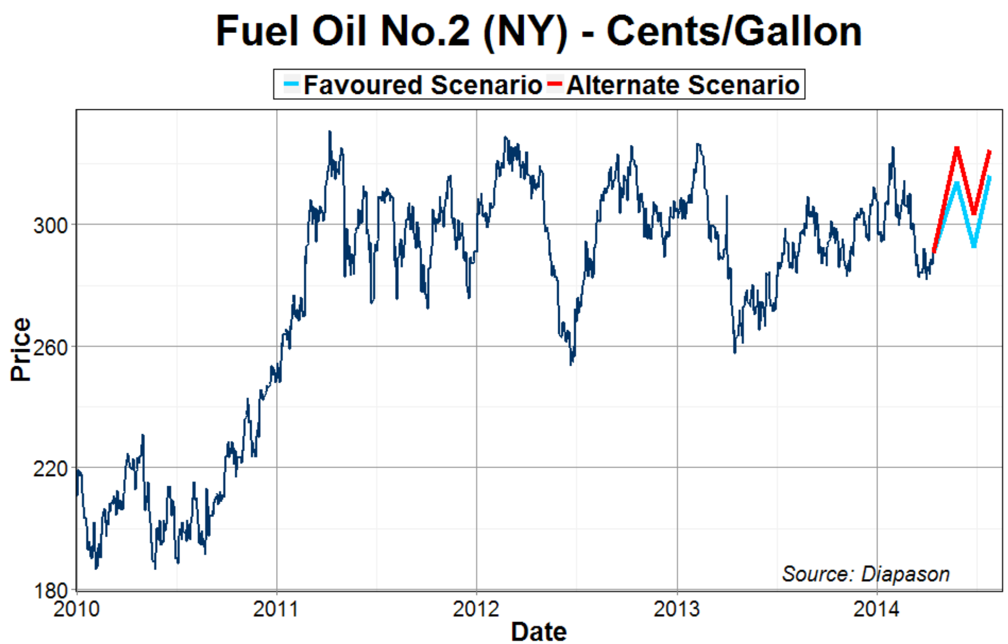
The oil market is likely to be exceptionally tight between June and August when global demand for petroleum will reach its seasonal highs. This should allow Brent oil prices to move towards the $115-$120 per barrel area by August 2014.

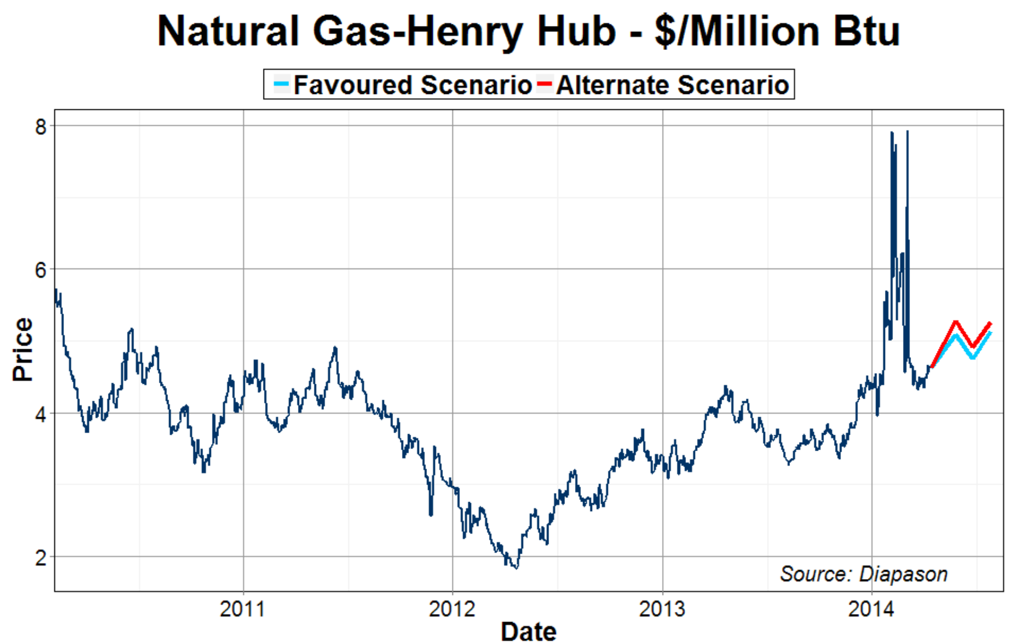





Crude Oil Brent - $/Barrel
Favoured Scenario
Alternate Scenario
Price
120
110
100
90
80
70
2010
2011
2012
2013
2014
Date
Source: Diapason

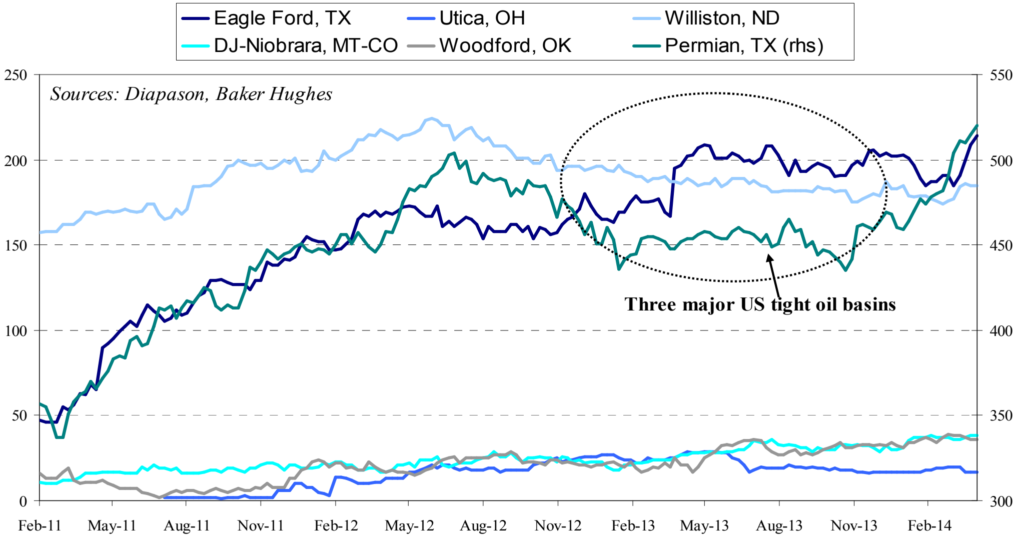

Gasoline Unld. Reg. Oxy. (NY) - Cents/Gallon
Favoured Scenario
Alternate Scenario
Price
350
300
250
200
2010
2011
2012
2013
2014
Date
Source: Diapason


Fuel Oil No.2 (NY) - Cents/Gallon
Favoured Scenario
Alternate Scenario
Price
300
260
220
180
2010
2011
2012
2013
2014
Date
Source: Diapason

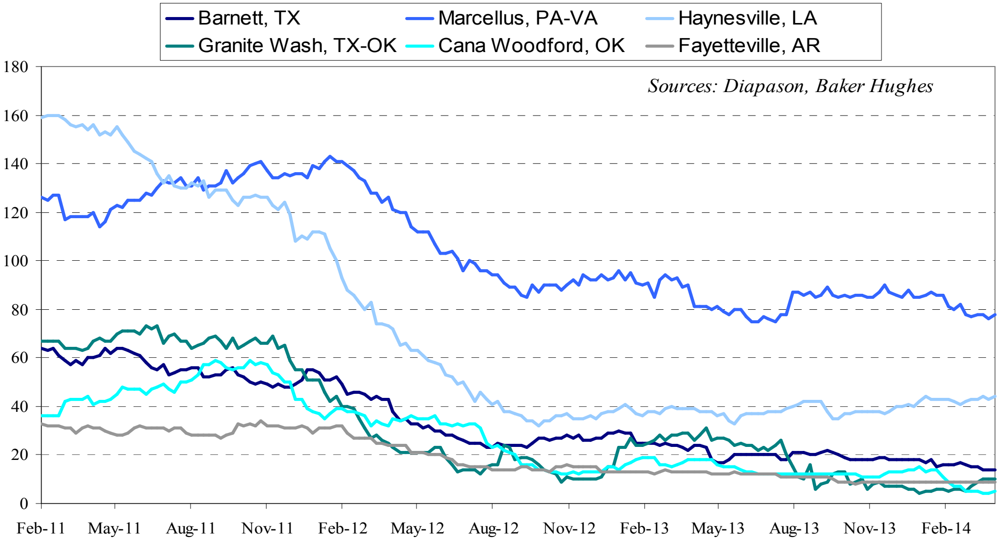

Natural Gas-Henry Hub - $/Million Btu
Favoured Scenario
Alternate Scenario
Price
8
6
4
2
2011
2012
2013
2014
Date
Source: Diapason

Drilling Activity

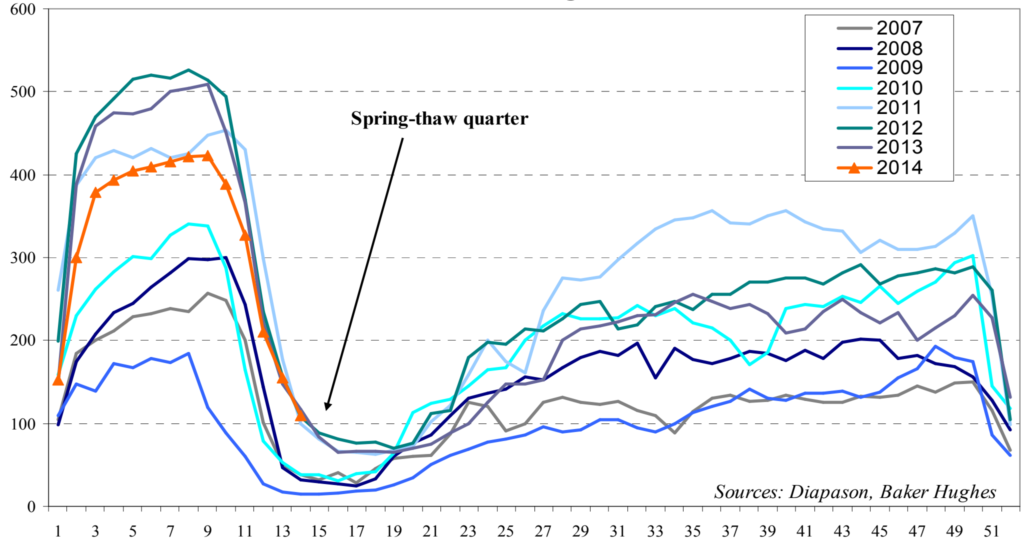
Oil Rigs Count by Basin



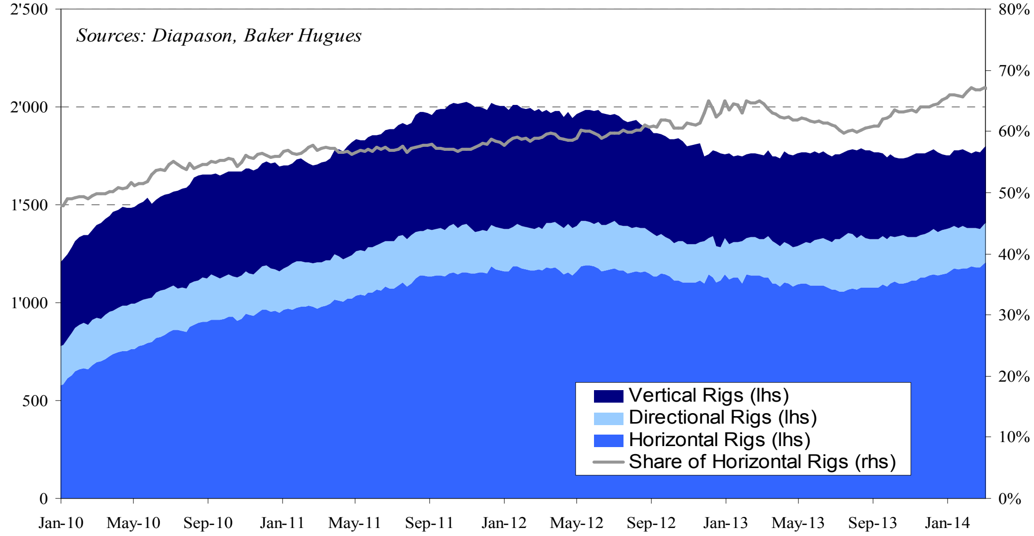
Natural Gas Rigs Count by Basin



Canadian Oil Rigs Count



US Rigs Count by Type



EIA Weekly Report (09.04.2014): Petroleum Products

Gasoline: Gasoline inventories fell by 5.2 million barrels w/w, a larger than expected drawdown in inventories. This was due to stronger implied gasoline demand (+283'000 b/d w/w) and slightly lower imports (-31'000 b/d w/w). Demand for gasoline have grown at a rapid pace these past few weeks from a low of 8.0 million b/d in mid-February 2014 due to extremely cold weather to about 9.0 million b/d last week, which is the highest level for this time of the year since 2011.

Strong demand has contributed to a faster than normal drop in US gasoline inventories, despite high refining activity. On the East Coast, gasoline inventories decreased to 53.9 million barrels, the lowest level for this time of the year since 2011, while it stood close to seasonally record high levels in January and early February 2014. US gasoline inventories are likely to decline further in the coming weeks.

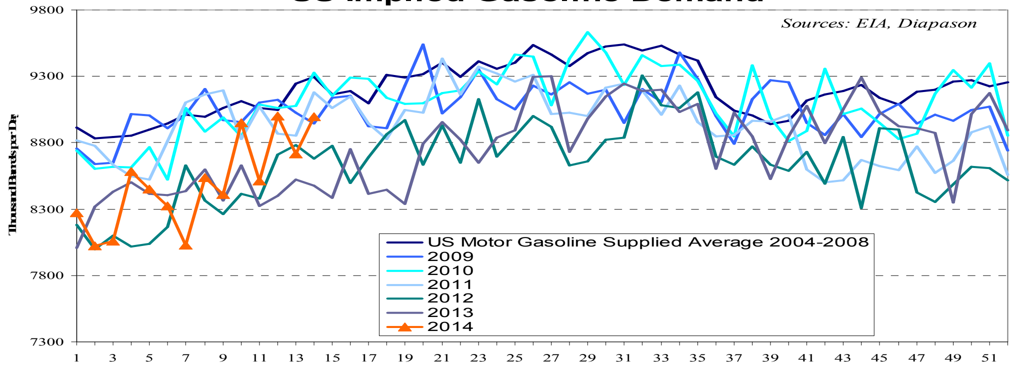
Distillate: Distillate inventories increased by 239'000 barrels w/w due to high distillate production (at 4.8 million b/d, up 11.7% y/y) and higher distillate imports (+78'000 b/d w/w), which reached an elevated level. These factors more than offset the rise in implied distillate demand (+132'000 b/d w/w). The expected increase in refining activity is likely to contribute to a more important rise in distillate inventories.

Market impact: The more important than expected rise in crude oil inventories should add downside pressure on crude oil prices. Moreover, WTI prices could underperform Brent prices due to the build in inventories at Cushing.

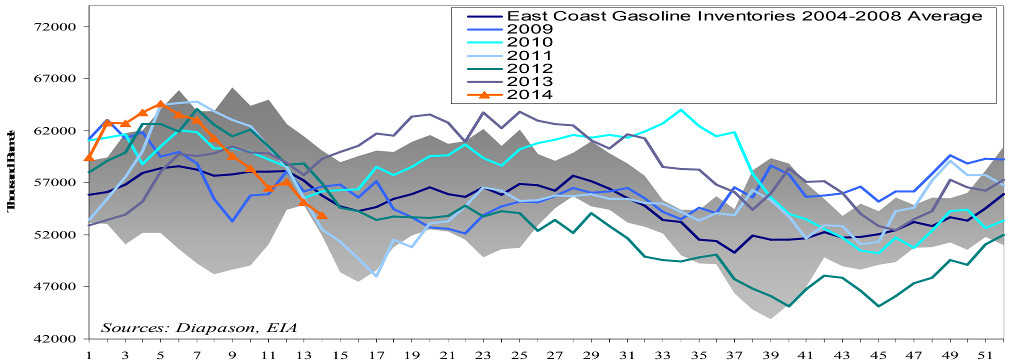
The large increase in crude oil inventories should add upside pressure on crack spreads. The gasoline crack spreads is likely to outperform due the important drawdown in gasoline inventories, reflecting strong demand.

Downside pressure on heating oil prices relative to gasoline prices could increase further in the coming weeks as refining activity is increasing and demand for distillate should decline seasonally.

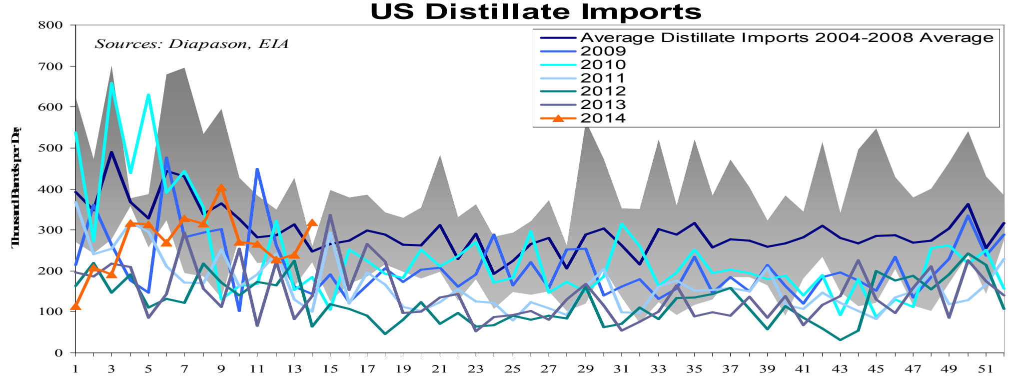
US Implied Gasoline Demand



East Coast Gasoline Inventories

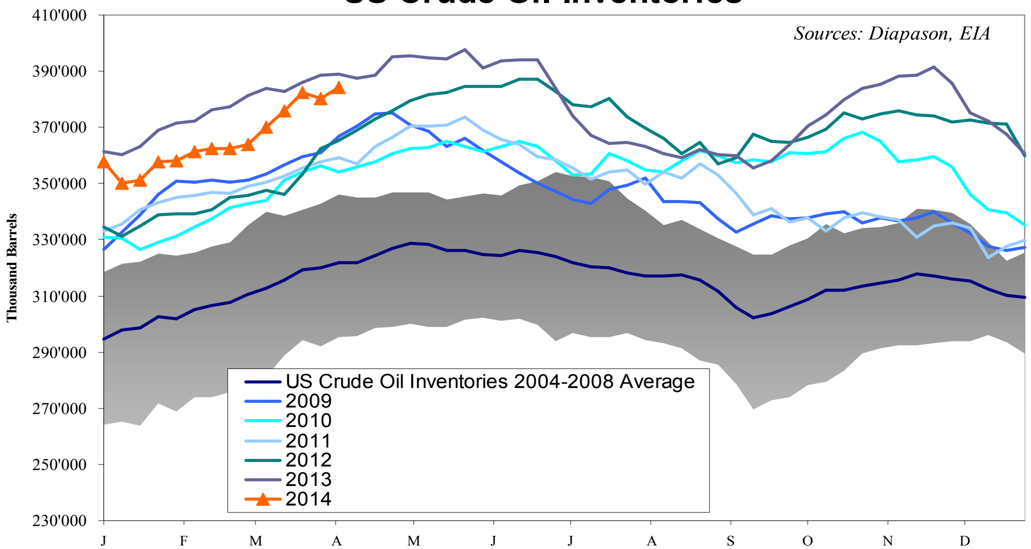


US Distillate Imports

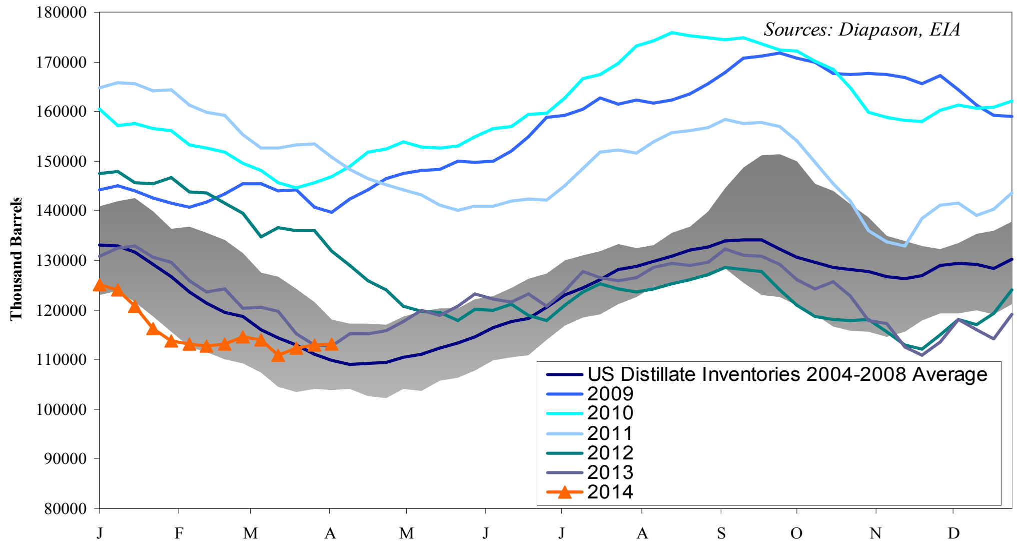


EIA Weekly Report: US Crude Oil and Petroleum Products Inventories

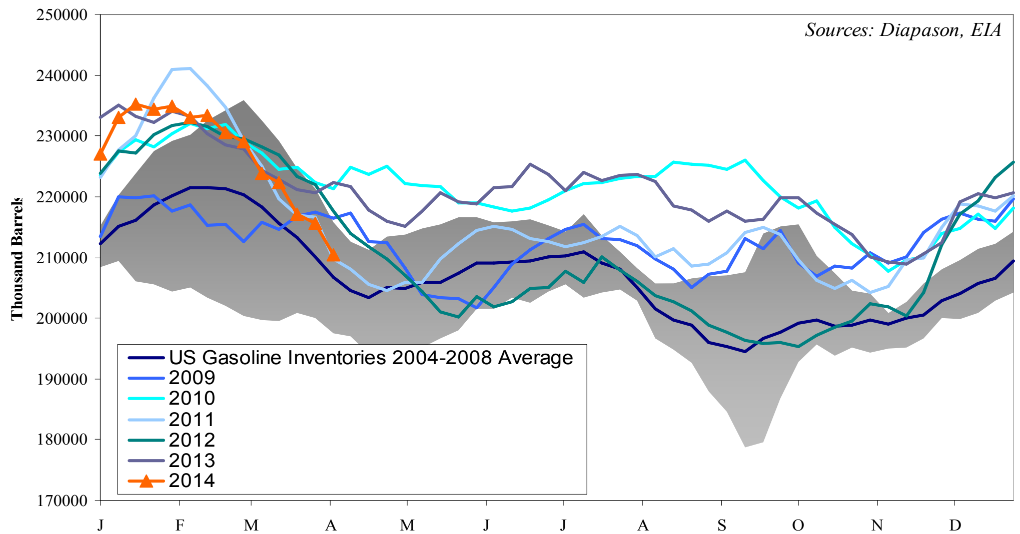
US Crude Oil Inventories



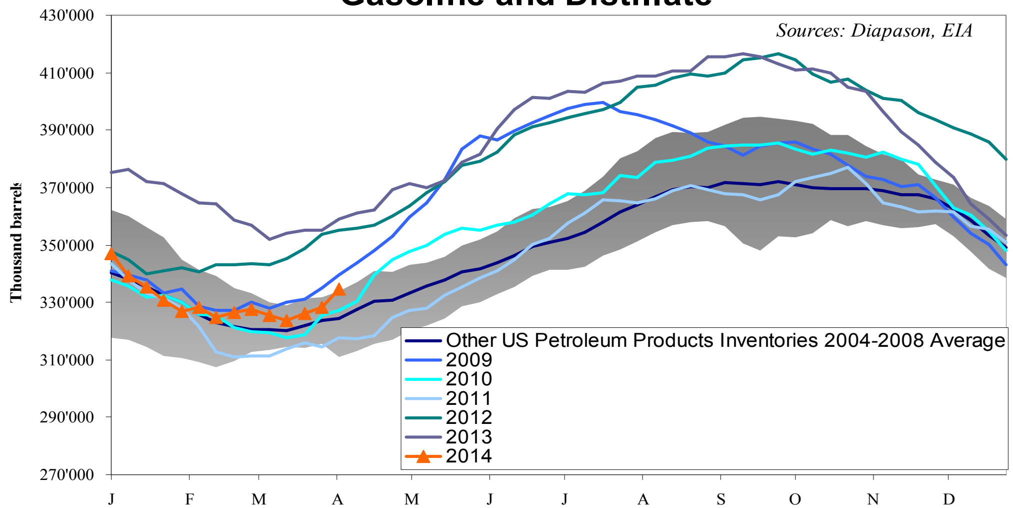
US Distillate Inventories



US Total Gasoline Inventories

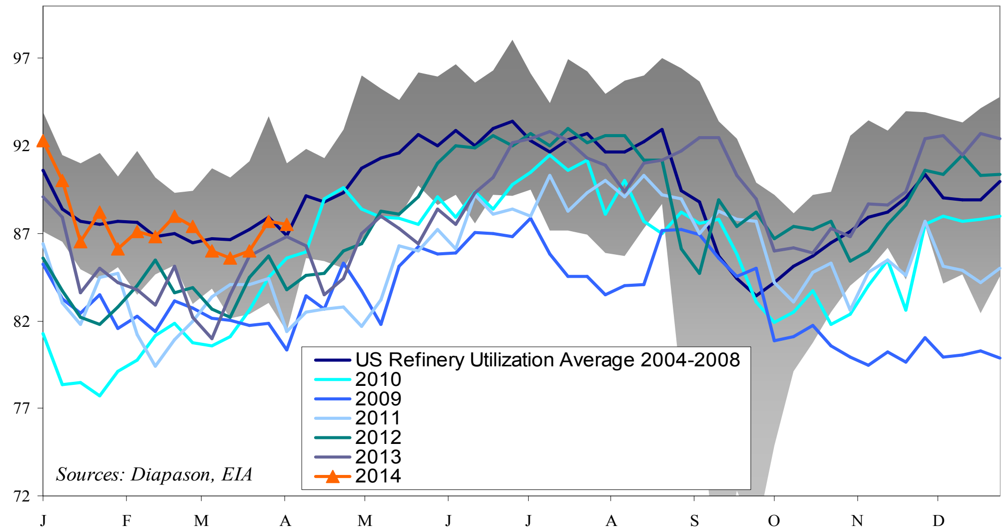


US Petroleum Products Inventories other than Gasoline and Distillate

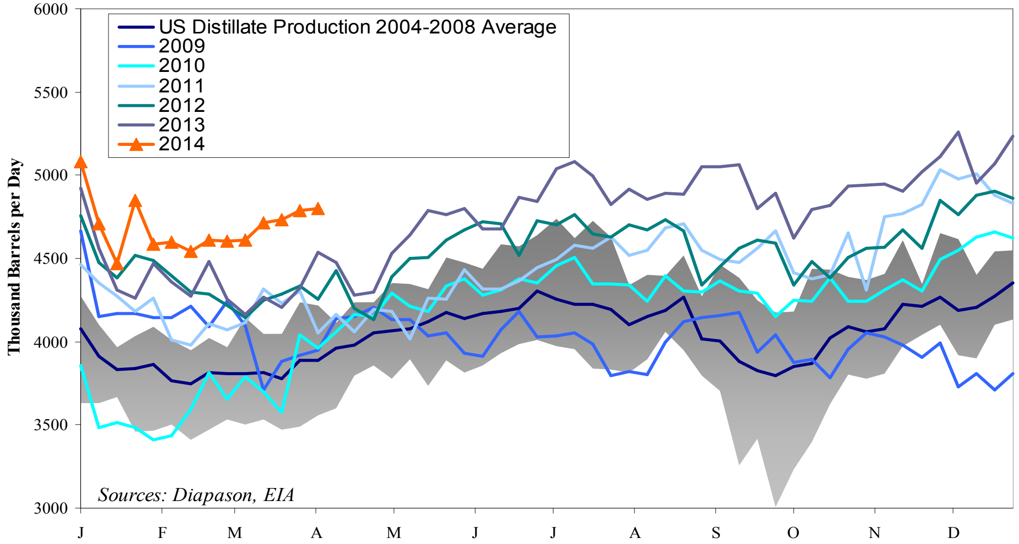


EIA Weekly Report: US Refinery Utilization and Production

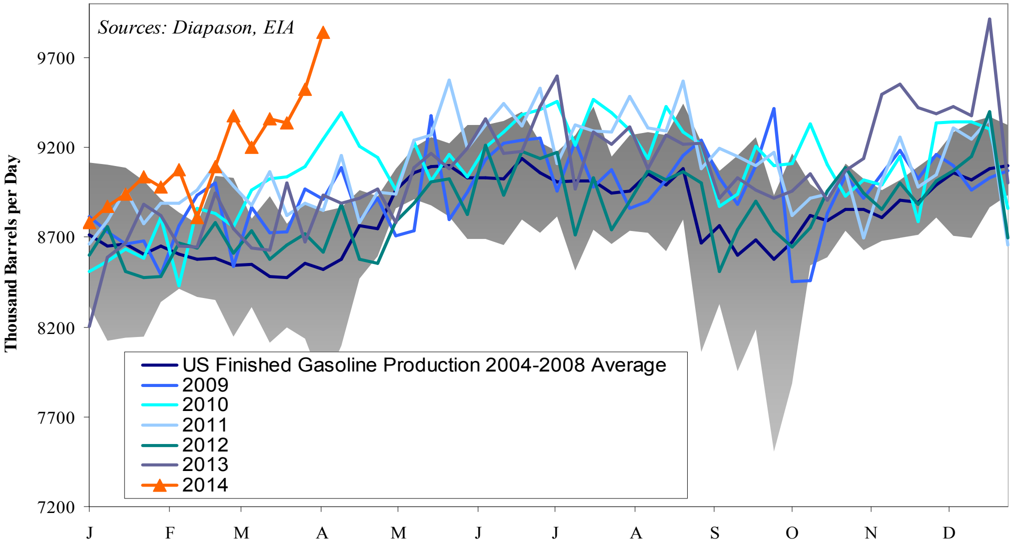
US Refinery Utilization Rates (%)



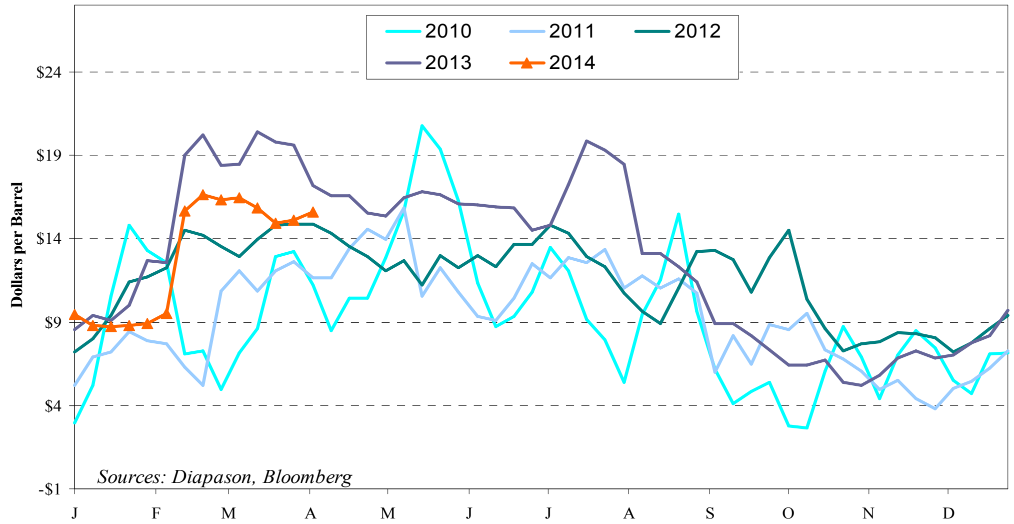
US Distillate Production



US Finished Gasoline Production

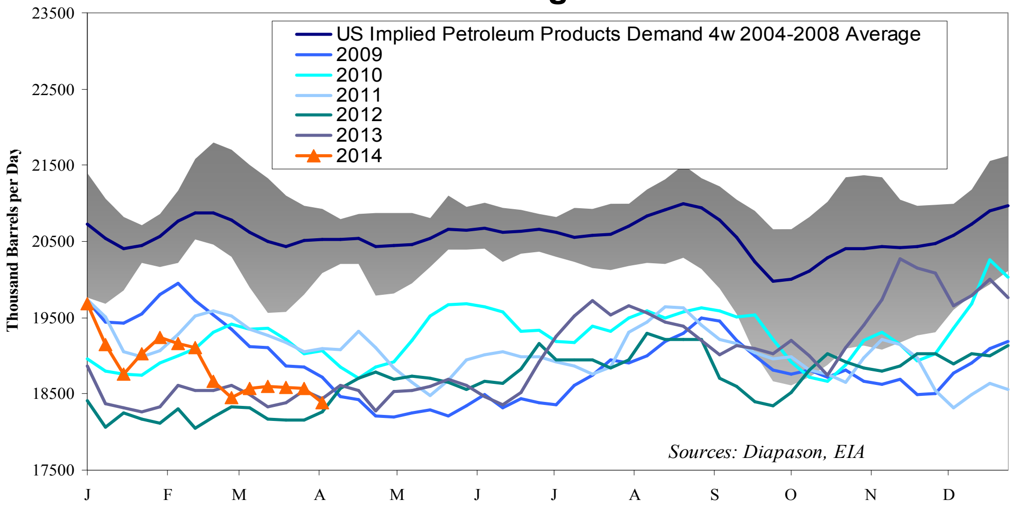


321 Crack Spread Using Brent

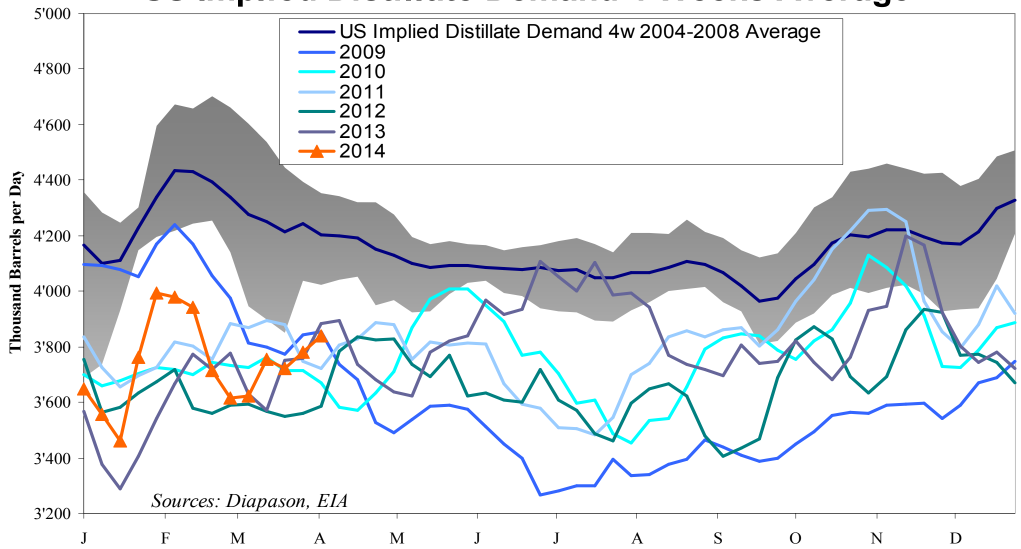


EIA Weekly Report: US Implied Demand (4-week average)

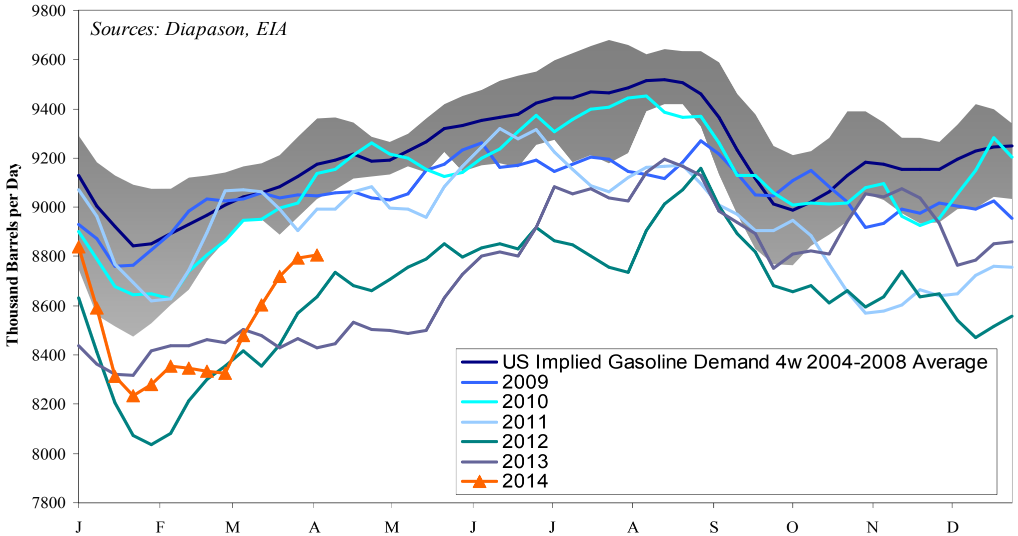
US Implied Petroleum Products Demand 4 Weeks Average



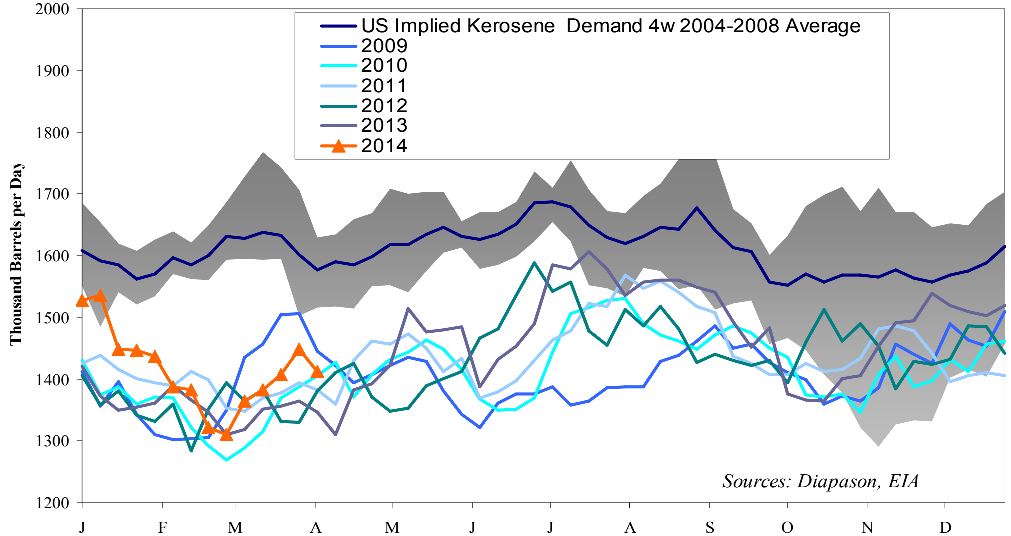
US Implied Distillate Demand 4 Weeks Average



US Implied Gasoline Demand 4 Weeks Average



US Implied Kerosene Demand 4 Weeks Average



Thinking in Essentials - Energy Markets Dynamics

Natural Gas Market Dynamics

Demand: This week, demand for natural gas declined. According to Bentek Energy, demand for natural gas from the residential and commercial sector dwindled by -10.8% over the week. On the other hand, demand from the power sector increased (+5.5% w/w). This is the first time in 2014 that demand from the residential and commercial sector fell while demand from the power sector moved in the other direction, marking the end of the heating season. Overall US consumption of natural gas is down by –0.8% y/y. The heating season has ended, implying that natural gas demand is weakening.

Supply: The cold weather affected supply due to well freeze-off in some areas not used to these extreme conditions. Low temperatures could indeed led to the freeze in the pipe of the water that is being produced along natural gas and can make difficult the use of hydraulic fracturing. Companies often prefer to wait for warmer temperatures rather than to use methanol or an expensive heating system.

The return of warm temperature hence should contribute to a rebound in natural gas supply. Nevertheless, according to Bentek Energy, dry natural gas production slightly fell over the week by 0.1%. US natural gas production is expected to increase in the coming weeks due to warmer temperatures.

Inventories: Lower seasonal demand for natural gas and the rebound in natural gas production could lead to a more rapid than usual build in inventories, which have fallen to the lowest level since 2002. The EIA expects a record high net injection into storage during the injection season (April to October).

Nonetheless, a higher price structure than last year is needed in order to incentivize producers to increase activity and to encourage the power sector to use coal instead of natural gas.

US Natural Gas Demand and Supply (Billion cubic feet per day)

Demand	2012	2013	*2014f*
Residential Sector	11.42	13.18	*12.74*
Commercial Sector	7.94	8.83	*8.52*
Industrial Sector	19.5	20.15	*20.5*
Electric Power Sector	24.96	22.07	*21.87*
Other	5.86	5.9	*5.97*
US Natural Gas Consumption	**69.68**	**70.13**	***69.60***
y/y Change	4.3%	0.6%	*-0.8%*

Supply	2012	2013f	*2014f*
Total Dry Production	65.75	66.68	*67.32*
LNG Gross Imports	0.48	0.35	*0.40*
Pipeline Gross Imports	8.10	7.53	*7.40*
Gross Exports	4.42	4.58	*5.17*
Net Imports	4.15	3.30	*2.64*
Net Withdrawals from Inventory	-0.06	0.43	*-0.23*
Supplemental Gaseous Fuels Supply	0.17	0.16	*0.18*
US Natural Gas Supply	**70.01**	**70.57**	***69.91***
y/y Change	4.0%	0.8%	*-0.9%*

Balancing Item (Consumption - Supply)	*-0.33*	-0.44	*-0.31*

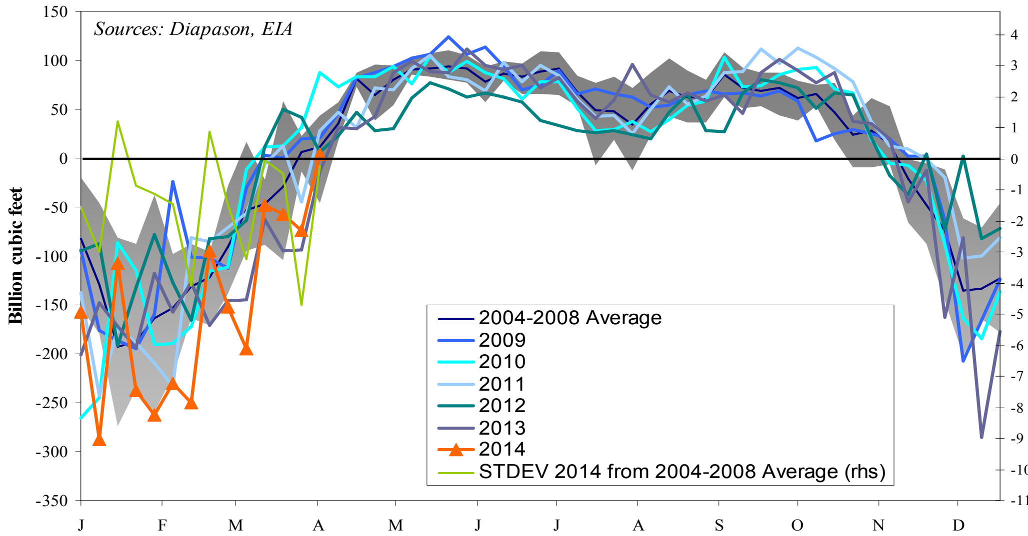
f: forecast *Sources: Diapason, EIA*

EIA Weekly Report (10.04.2014): Natural Gas

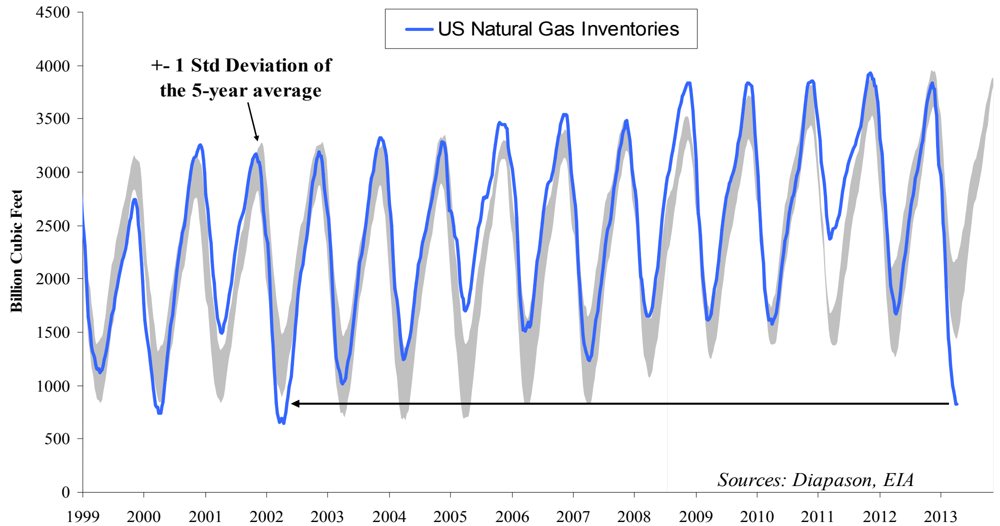
The last EIA report showed that US natural gas inventories increased by 4 billion cubic feet (Bcf) over the week, marking the start of the injection season. This was a smaller than expected (+15 Bcf w/w).

Natural gas inventories are likely to increase at a faster pace in the coming weeks due to the restart of some idle fields, that were negatively affected by extremely cold temperatures experienced during the winter amid weaker seasonal demand for natural gas. Moreover, associated natural gas production (produced alongside oil) is also likely to grow at a more rapid pace. This should mitigate the impact of current low inventories on natural gas prices.

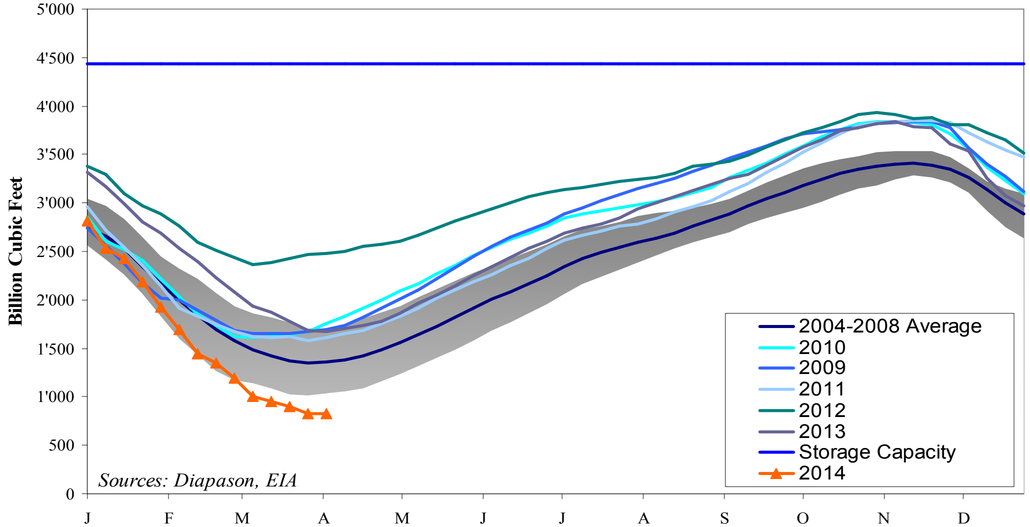
US Natural Gas Net Injections



US Natural Gas Inventories

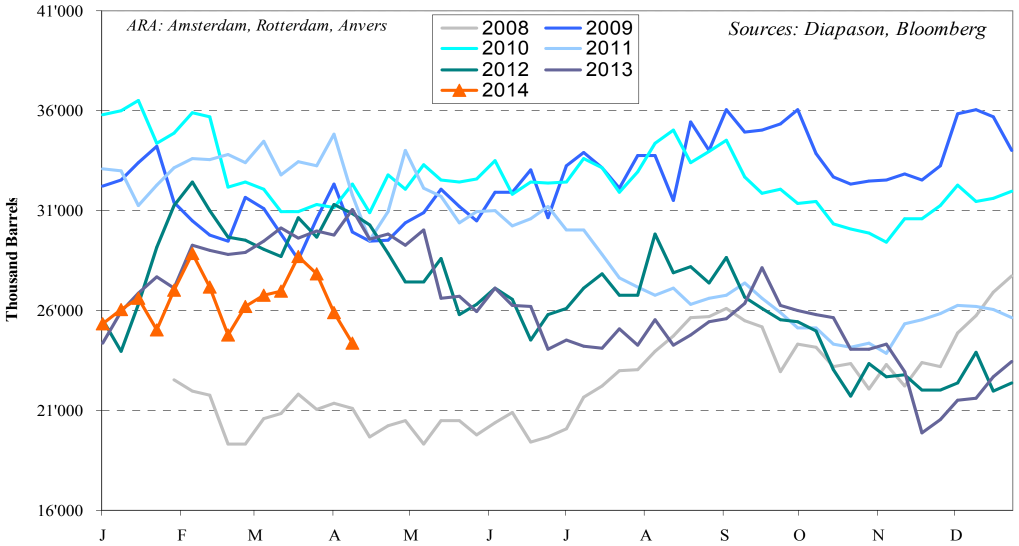


US Natural Gas into Storage

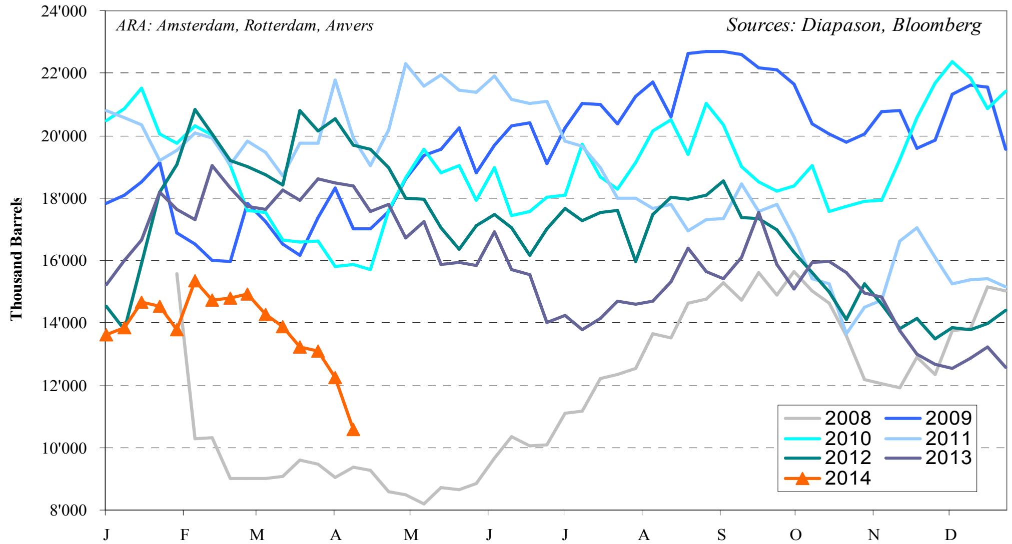


ARA - Petroleum Products Inventories

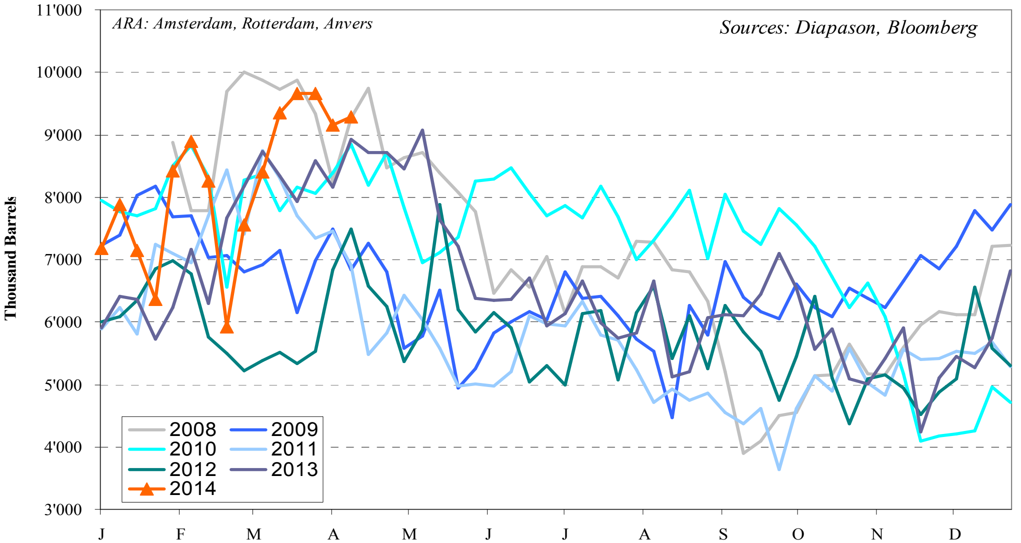
ARA - Light and Medium Distillate Inventories



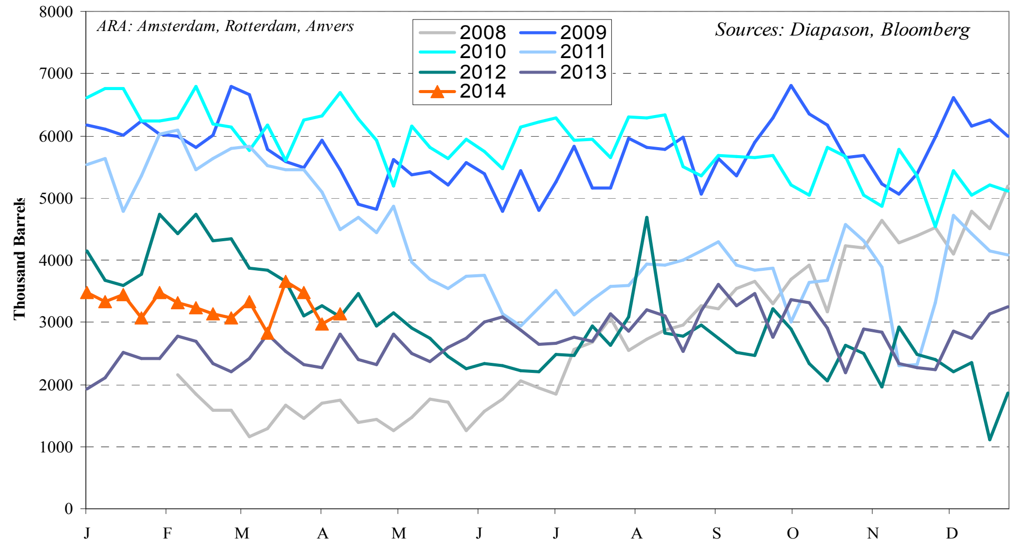
ARA - Gasoil Inventories



ARA - Gasoline Inventories



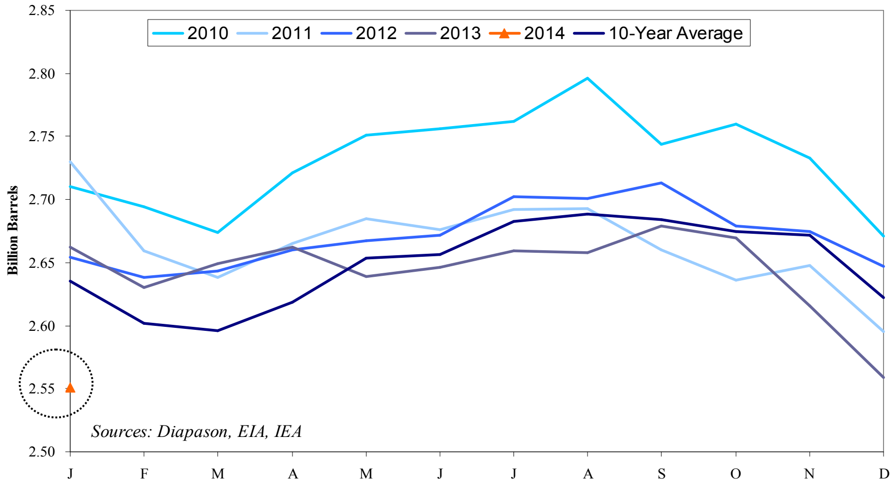
ARA - Jet-Kerosene Inventories

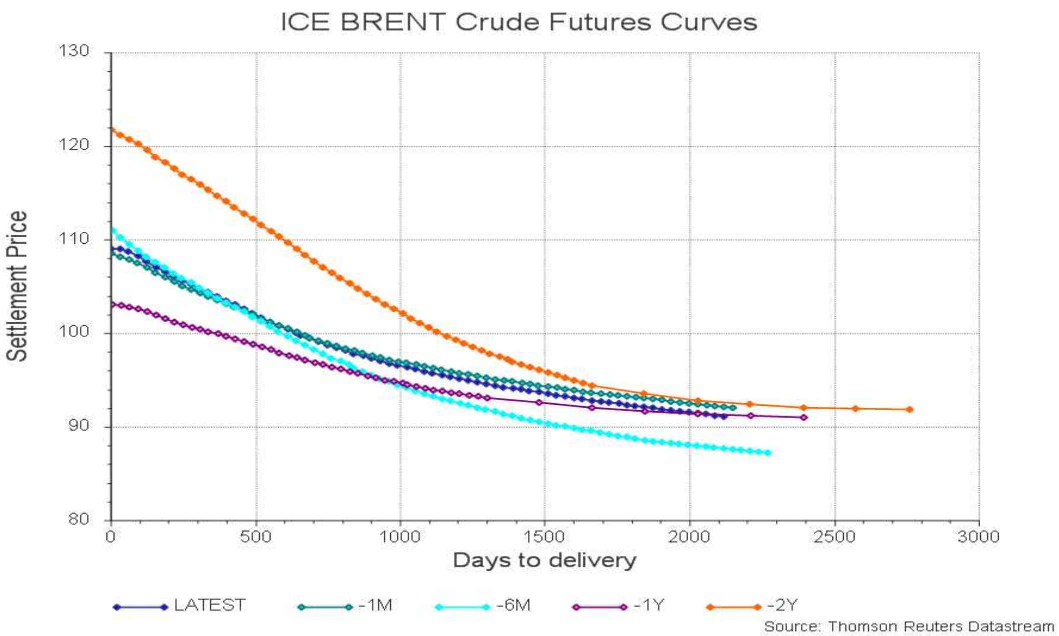


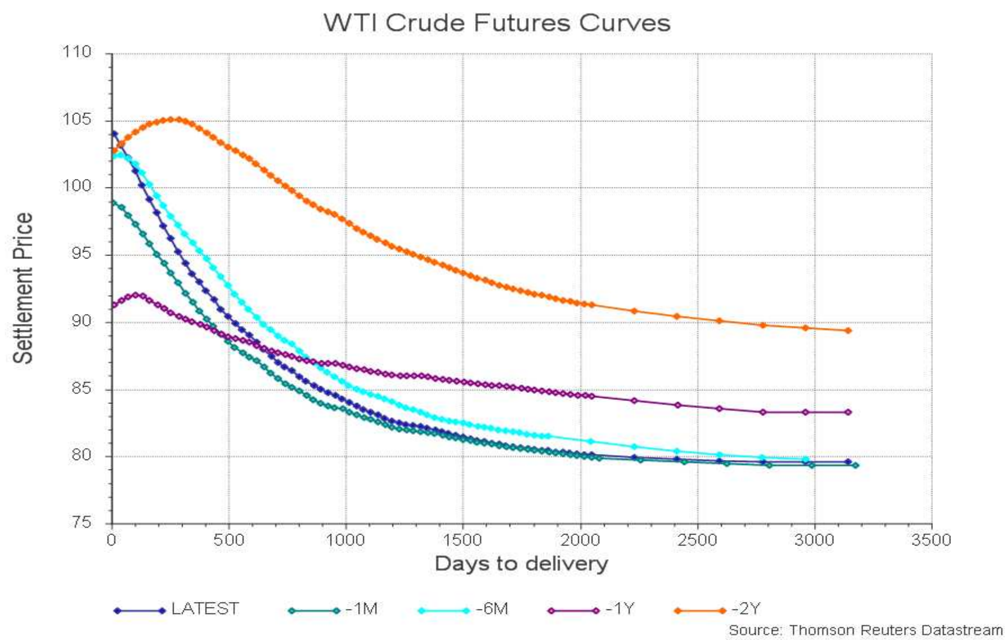
Acceleration in oil demand while inventories are low may trigger price rise

- The political situation in Libya has improved, suggesting that crude oil exports could soon restart. This could trigger one last downward move in Brent prices.
- Indeed, the acceleration in oil demand growth while inventories are at a low level could then trigger a major upward move in Brent oil prices.
- The significant rise in Iraqi crude oil exports in February 2014 occurred while more customers are complaining about quality issues, which could lead to slower Iraqi crude oil exports growth in the coming months.
- In the US natural gas market, the injection season has started. The probable acceleration of natural gas output amid seasonally weaker demand should lead to a more rapid than usual rise in natural gas inventories.

OECD Commercial Petroleum Inventories

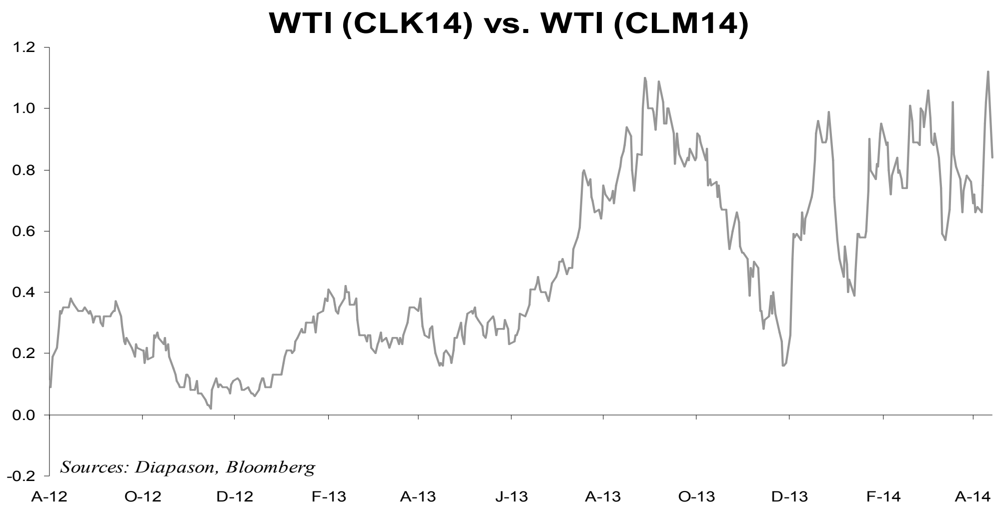


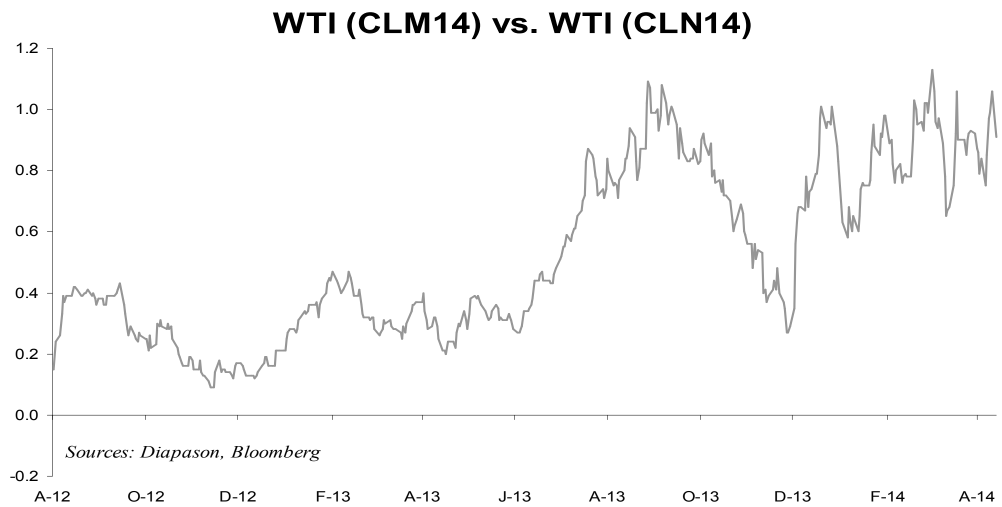


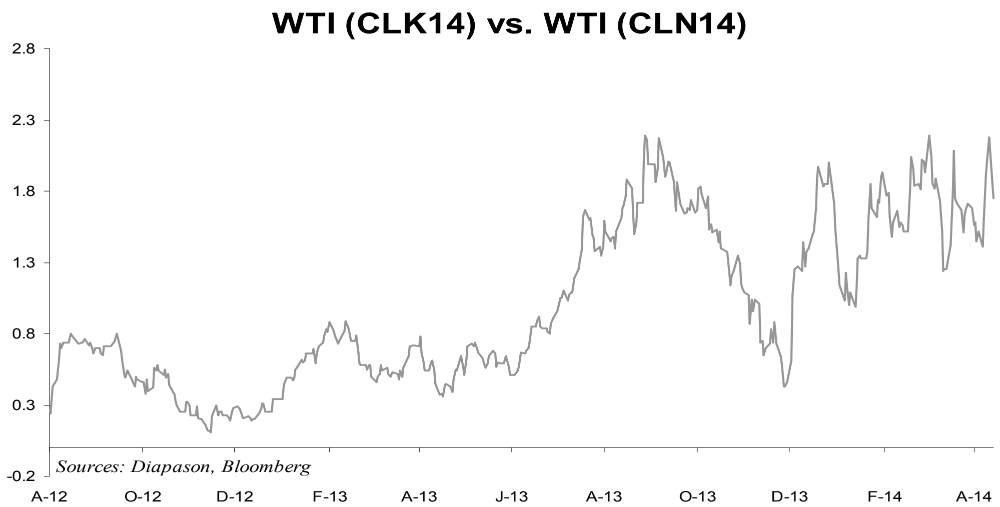


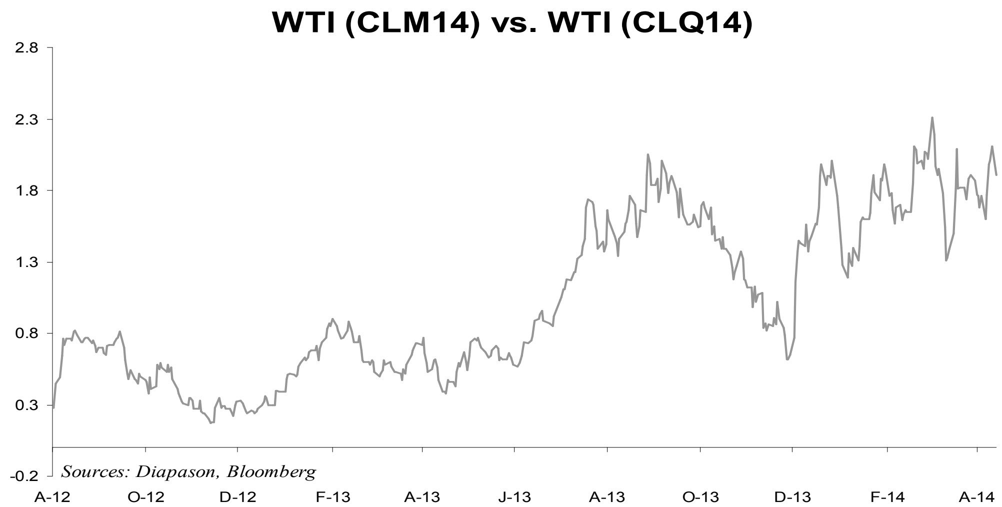
WTI CLK14-CLM14: Improved infrastructure boosted WTI prices

- Crude oil inventories in the US Midwest have dwindled sharply since January despite the refining maintenance season, implying that the oil infrastructure has improved significantly. This allowed a larger amount of crude oil from the Mid-west to be transported towards coastal regions, adding upside pressure on the WTI. This could continue.



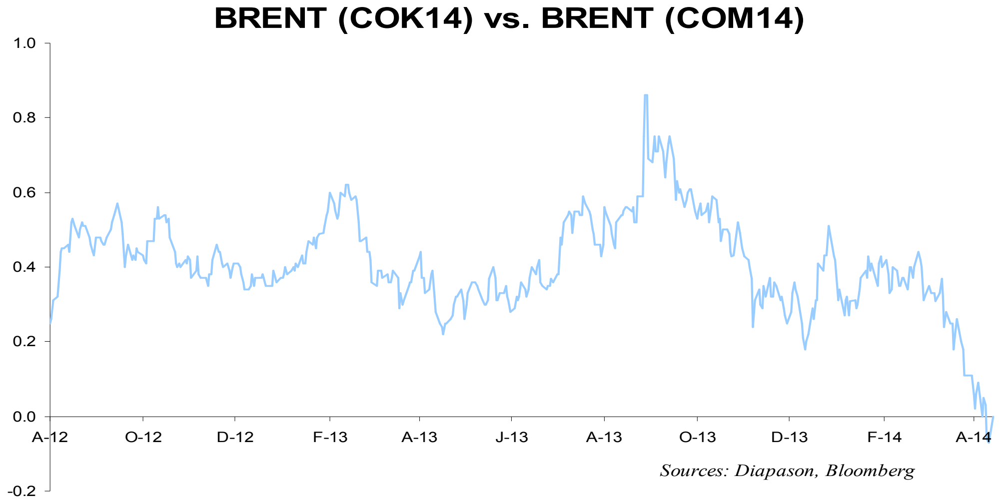


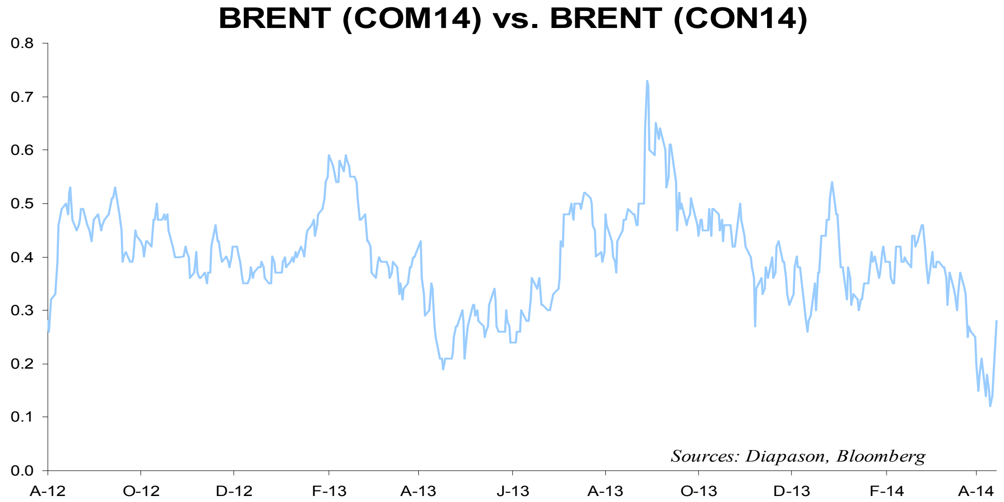


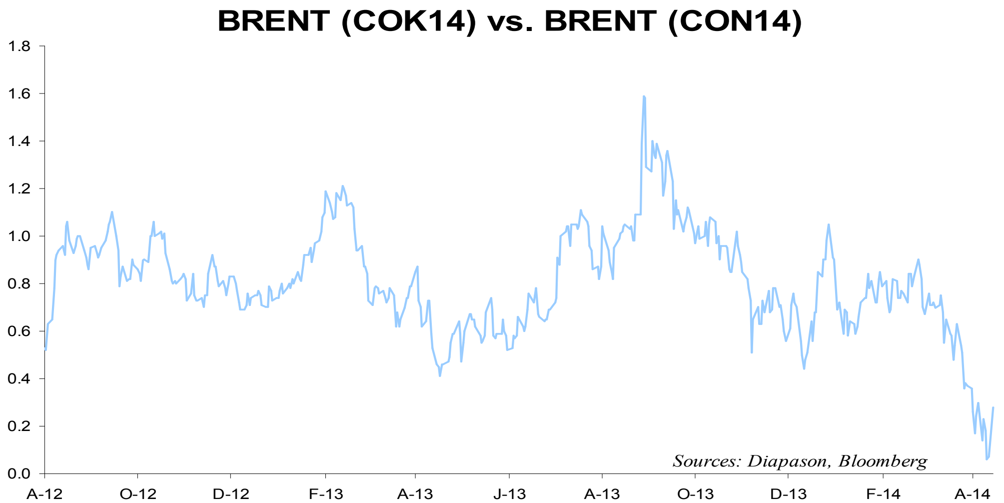


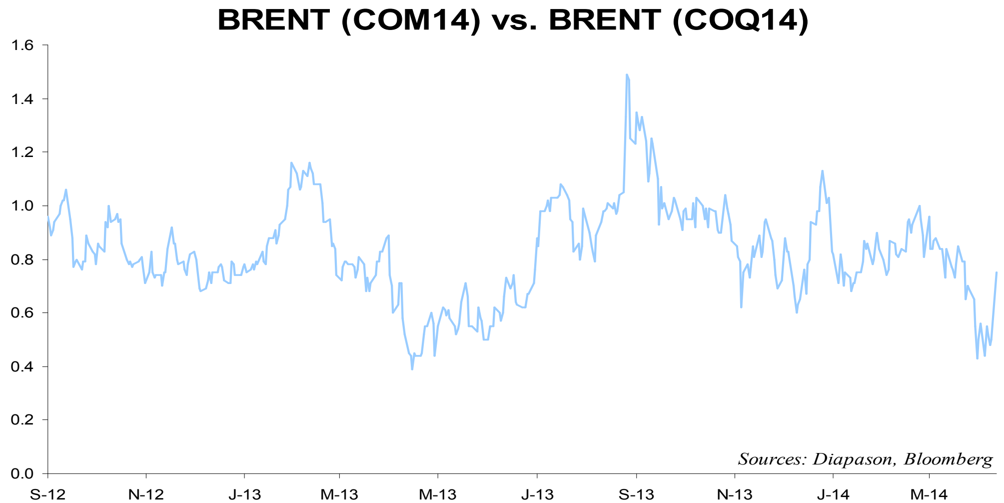
BRENT COJ14-COK14: The backwardation could rebound

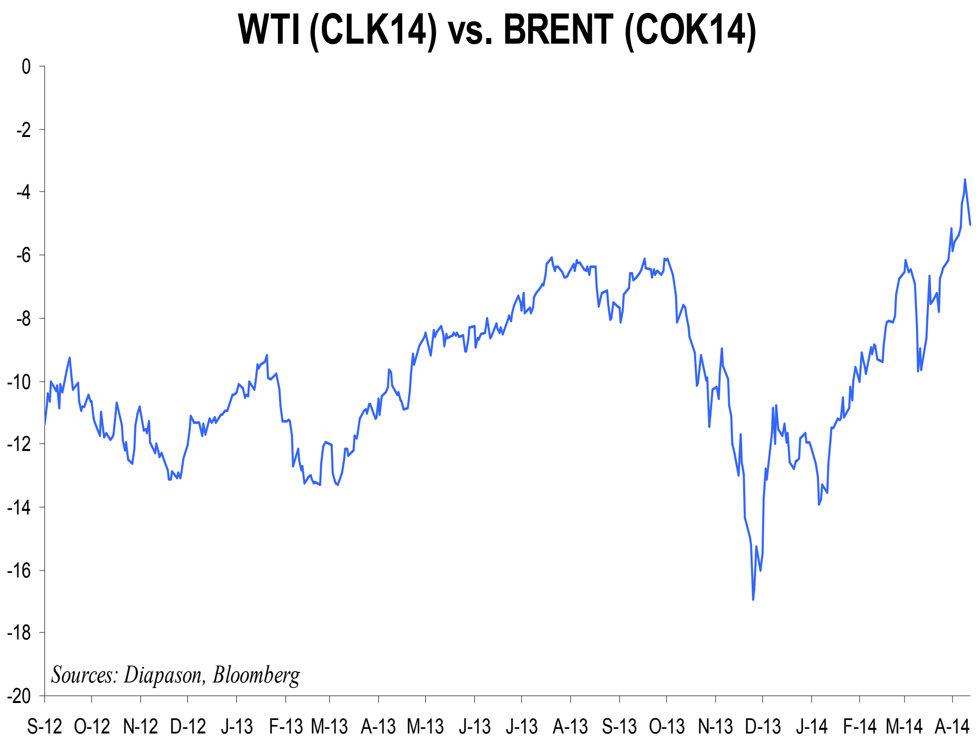
- The global refining maintenance season added downside pressure on the Brent's backwardation. However, the latter could rebound as refining activity is currently increasing. Elevated refining margins, due to low petroleum products inventories, imply that crude demand should be especially strong.

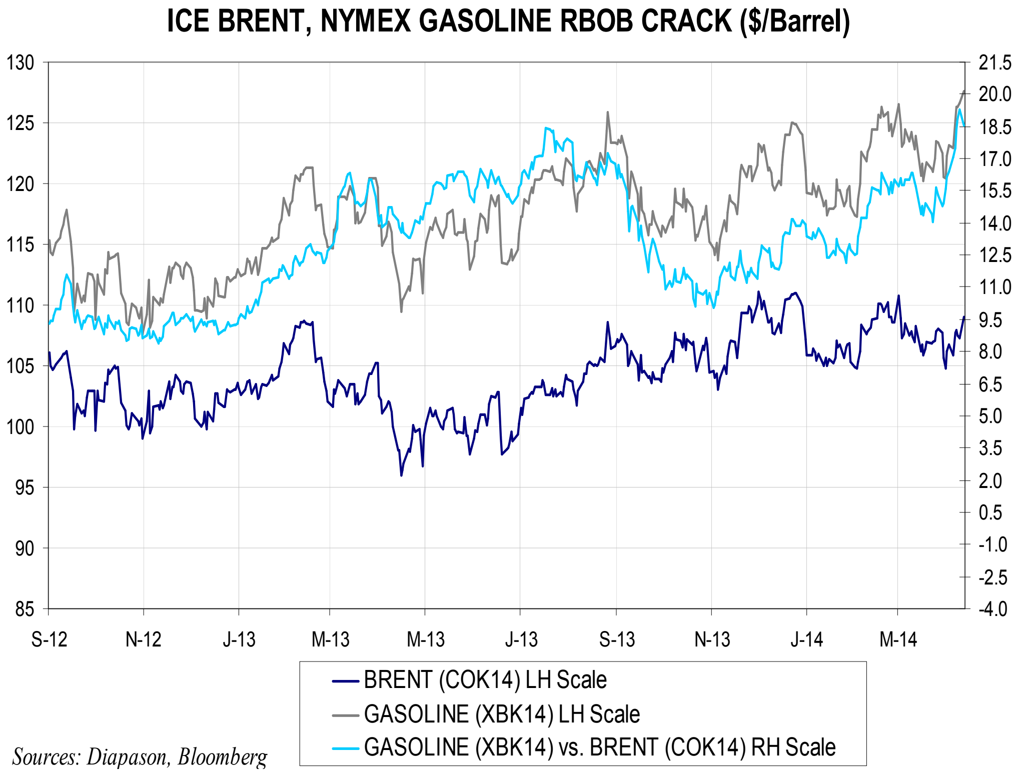










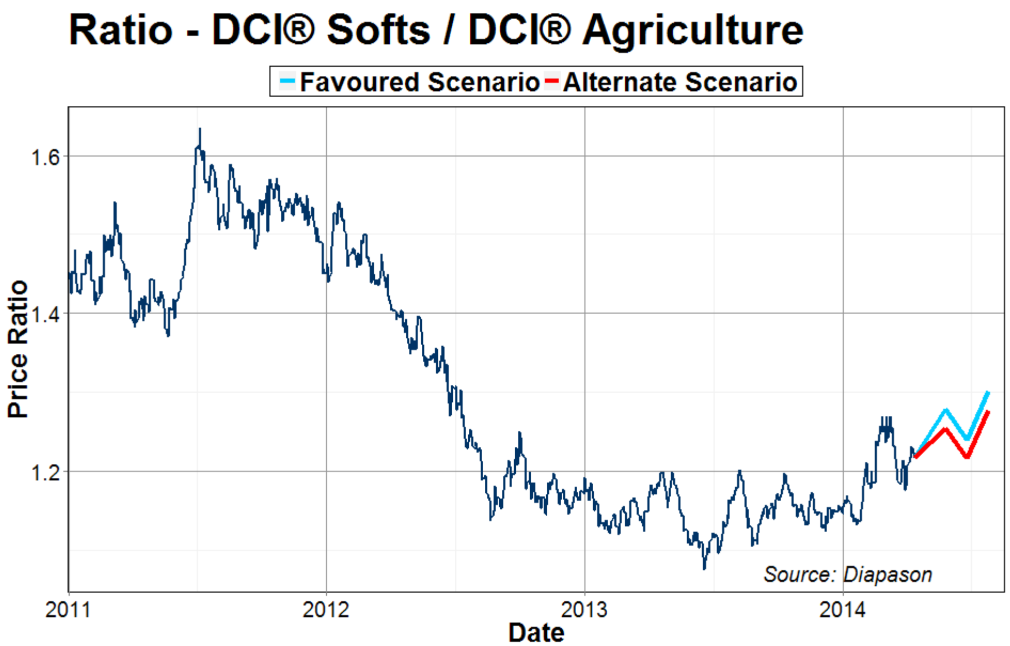


WTI vs Brent - the spread could widen

- The major drawdown in crude oil inventories in the Mid-west, while crude oil inventories rose close to record high levels on coastal regions, triggered a narrower Brent premium over WTI.
- However, Brent prices could soon start to outperform WTI prices due to the rebound in global refining activity, which could be especially important due to strong margins.

Gasoline crack could remain at an elevated level

- Strong demand for gasoline triggered a more important than normal drawdown in gasoline inventories. This and higher ethanol prices contributed to push gasoline crack spread higher.
- Growing demand for gasoline amid low inventories are is likely to keep gasoline crack spreads at an elevated level, in order to encourage refiners to replenish gasoline inventories ahead of the summer driving season.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Favoured Scenario
Alternate Scenario
Price Ratio
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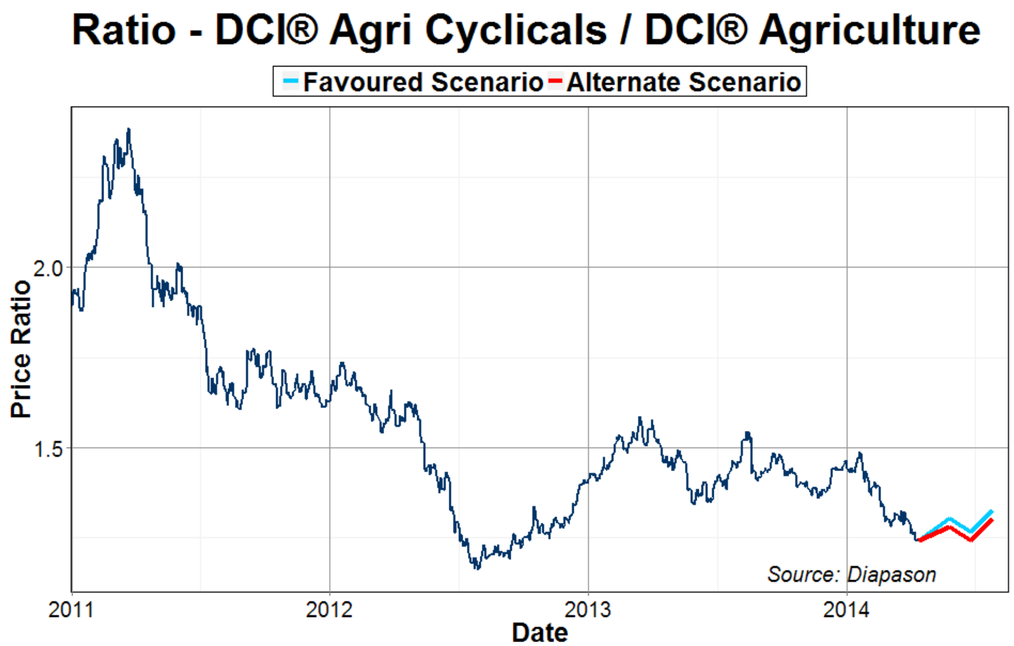
1.4
1.2
Source: Diapason
2011
2012
2013
2014
Date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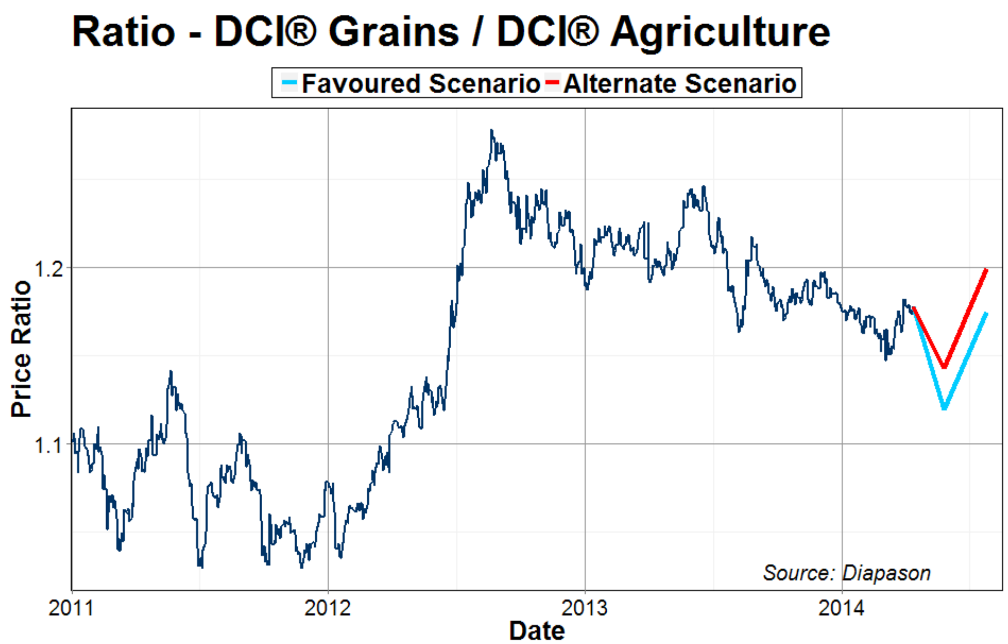
Date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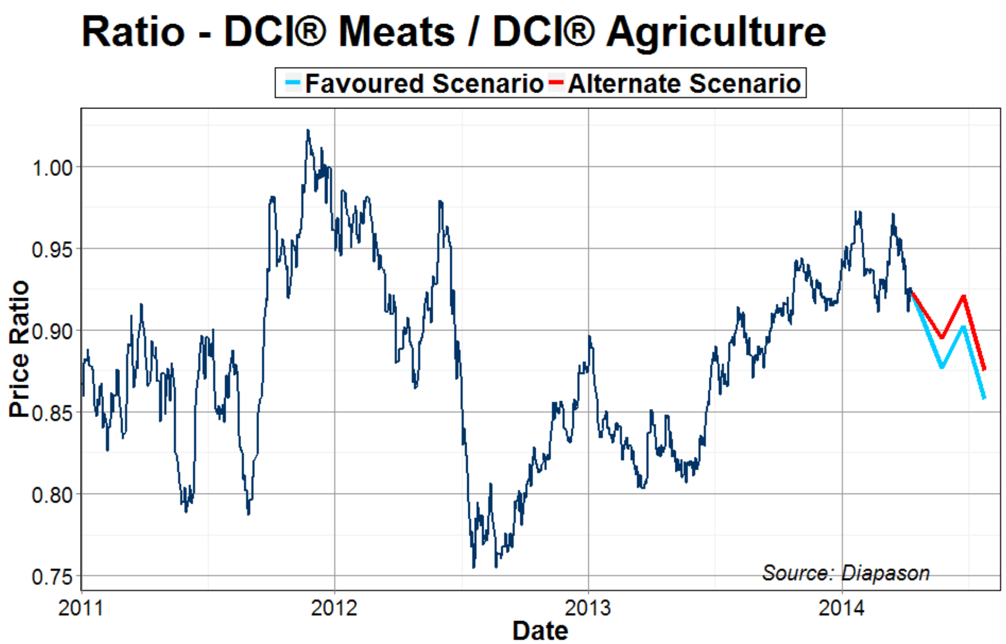
2011
2012
2013
2014
Date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Favoured Scenario
Alternate Scenario
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2012
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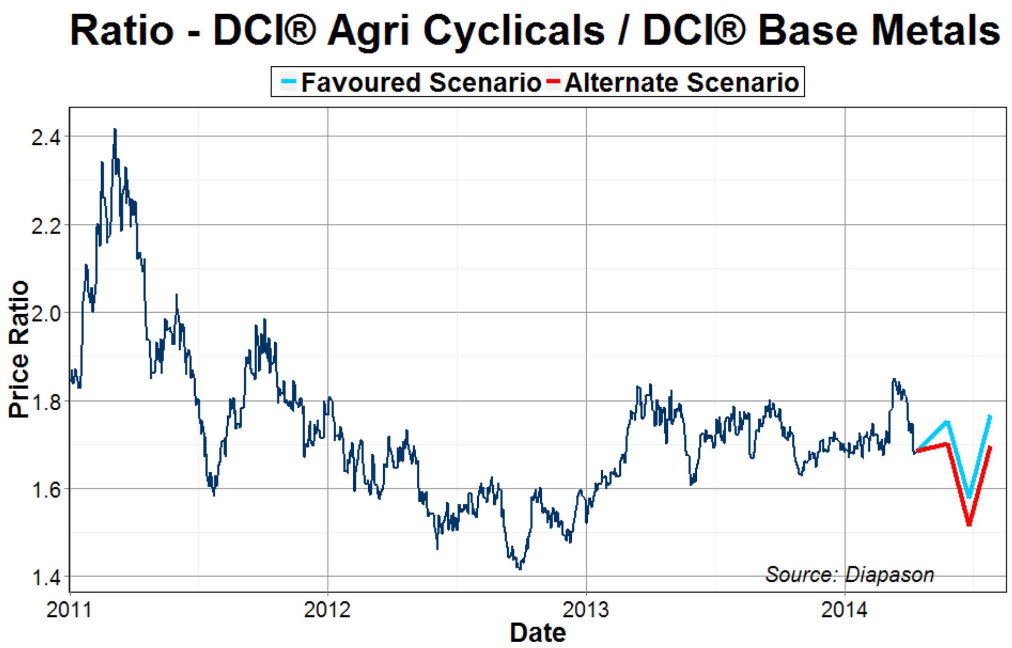
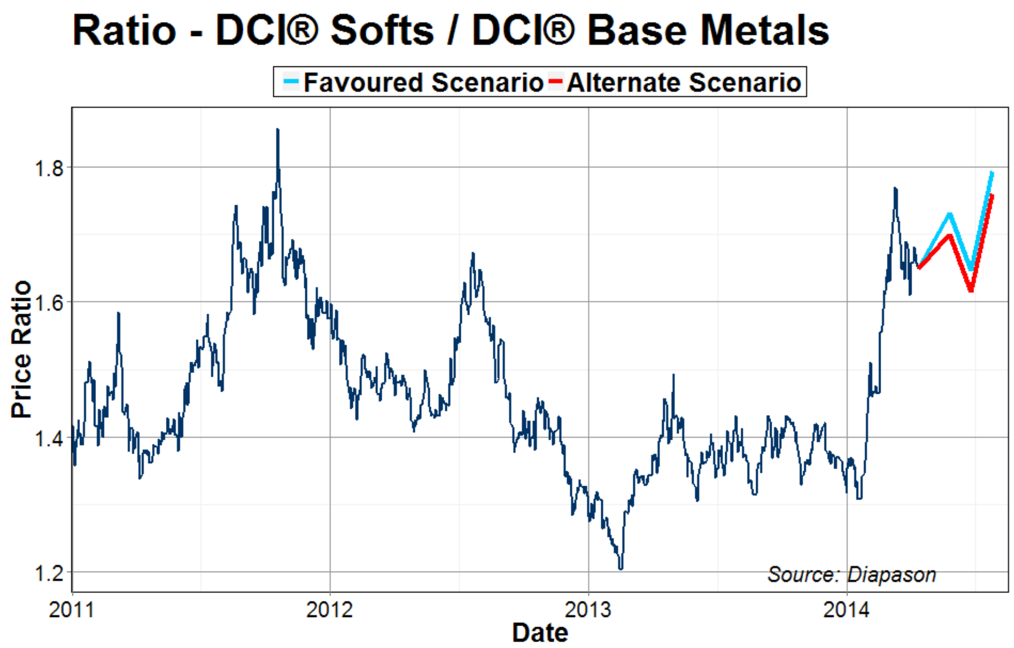

Ratio - DCI® Agri Cyclicals / DCI® Base Metals
Favoured Scenario
Alternate Scenario
Price Ratio
Date
Source: Diapason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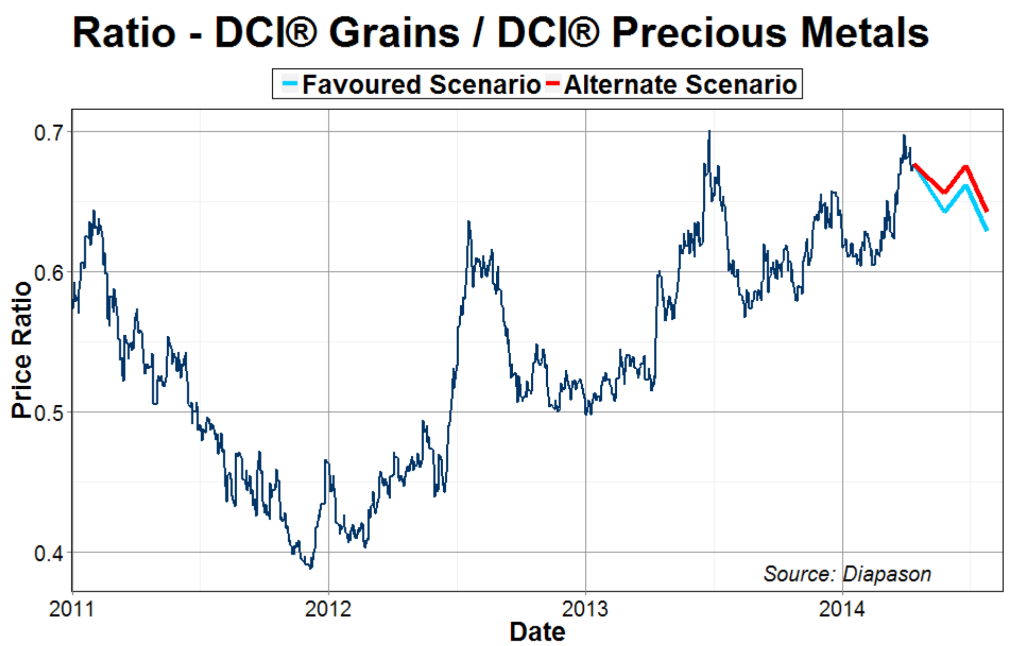
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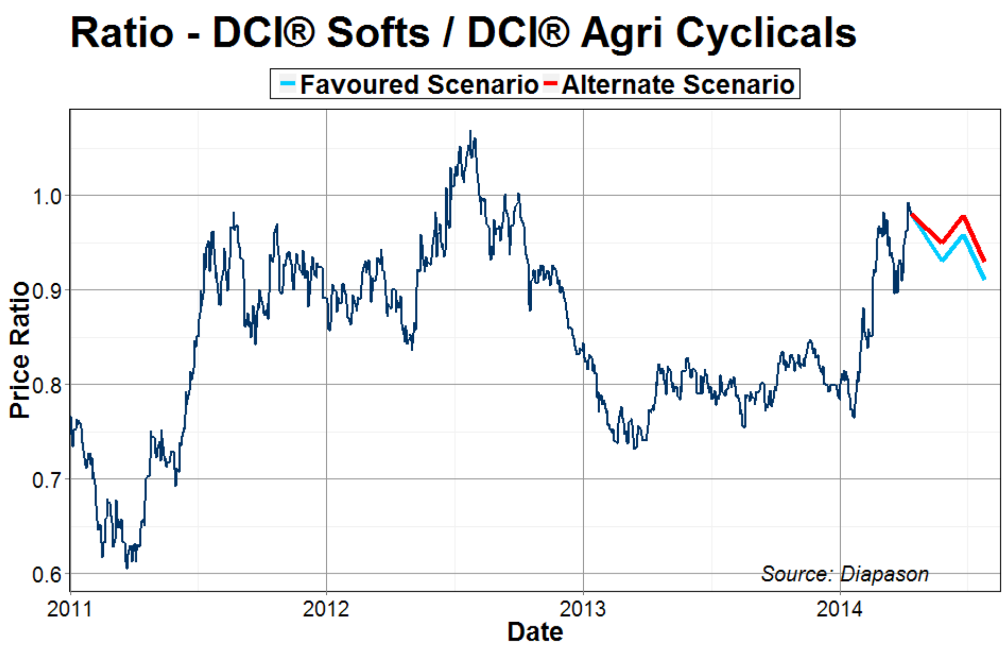
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Alternate Scenario
Price Ratio
Date
Source: Diapason

A change in China's policy over cotton could lift inventories elsewhere

China may change its policy over cotton this year and this could prove negative for cotton prices. The reason for China's possible lesser intrusion in the domestic market may be the fact that Chinese cotton stocks in 2013/14 are estimated at 160% of the domestic annual consumption, the highest level in history.

Although the change in the country's cotton policy could reduce domestic inventories, it could also inflate stocks in the rest of the world, bringing downward pressure to prices.

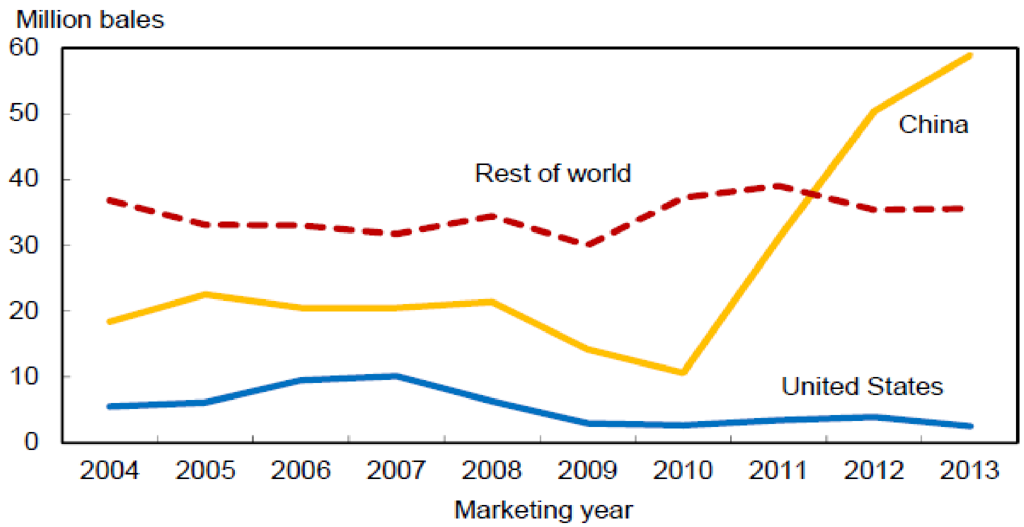
China's cotton policy is built on three pillars: output, import quotas and State reserves. Chinese officials have already indicated they could reduce direct subsidies by as much as 25% to farmers in Xinjiang, the country's largest cotton producing region. This should result in lower Chinese production over the coming months (supportive as it could lower domestic stocks).

However, the changes in the other two pillars could inflate non-Chinese stocks globally. As far as the trade policy is concerned, policymakers appear to be willing to reduce imports, which could hurt export sales in the ROW.

Regarding the State reserves management, it appears that officials are willing to sell the inventories to the domestic market at prices closer to the international prices, to encourage local consumers to buy domestically rather than from overseas.

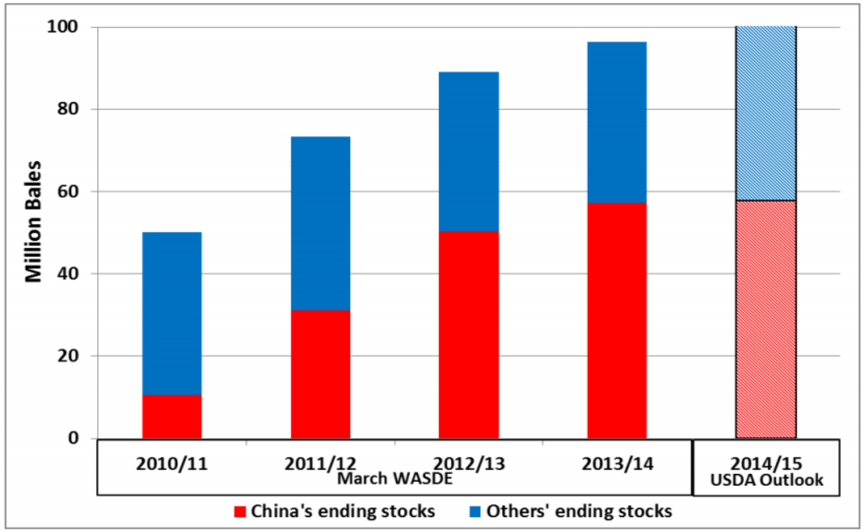
Therefore, a slow but steady decrease in Chinese reserves can lower imports and therefore increase inventories in the rest of the world. The USDA expects that the ending stocks ex-China will grow by 25% this season, from circa 38.5 to 48.5 million bales. On the other hand, China is set to represent "only" 54% of total stocks, vs. 60% in the prior season.

Global cotton ending stocks



Source: USDA, *World Agricultural Supply and Demand Estimates* reports.

World Stocks Continue to Climb



Source: USDA

The wheat price correction may not last long

The tensions surrounding Ukraine and possible sanctions against Russia have had only a limited impact on wheat prices as global supply could increase at a faster pace. Indeed, these past few days, wheat prices were under pressure due to rain in parts of Australia, in the US and in Ukraine.

In Australia, the winter wheat is currently being planted. The rain, which hit the southern parts of Australia, reduced dry conditions and should boost soil moisture, helping wheat germination.

Moreover, the US government revised higher its forecast of US wheat inventories by 4.5% to 583 million bushels due the expected wetter weather in key areas.

This is likely to contribute to the reduction in wheat under moisture stress, ahead of the harvest season, which should start in May. In Ukraine, the rain is also helping the crop growth ahead of the summer harvest.

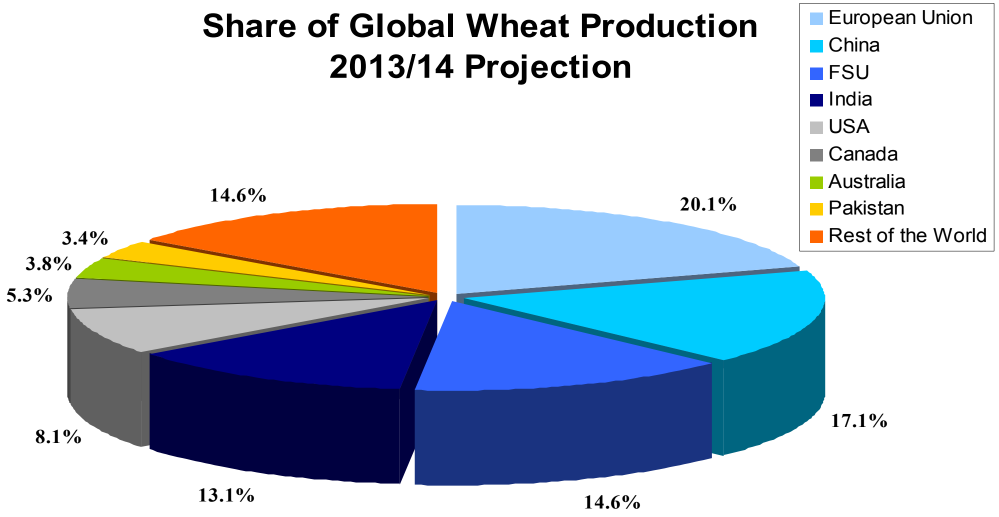
Nonetheless, this correction may not last as weather conditions could rapidly change. Indeed, as mentioned above, the occurrence of El Niño could severely affect wheat crop in Asia as it will bring dry weather in the region.

On the other hand, it could boost wheat output in the US and in Canada by bringing more rain and warmth that could assist crop growth. But too much rain in North America could also trigger floods that would harm crop.

The net impact on wheat supply could be supportive for prices due to the significant size of the Asian (including Australian) wheat market (47% of global supplies) relative to the North American market (13% of global supplies).

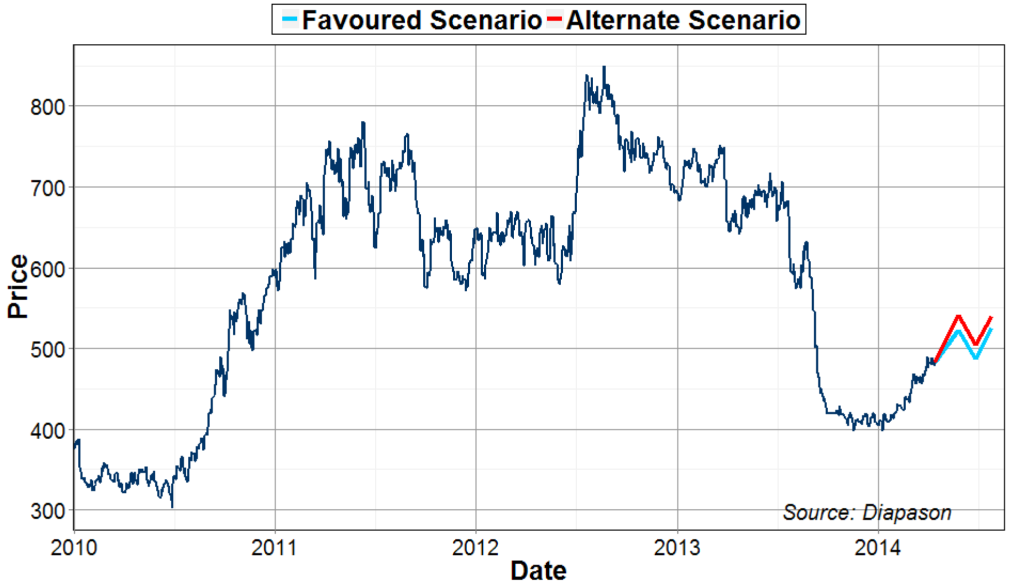
CBOT Wheat Price

Share of Global Wheat Production 2013/14 Projection

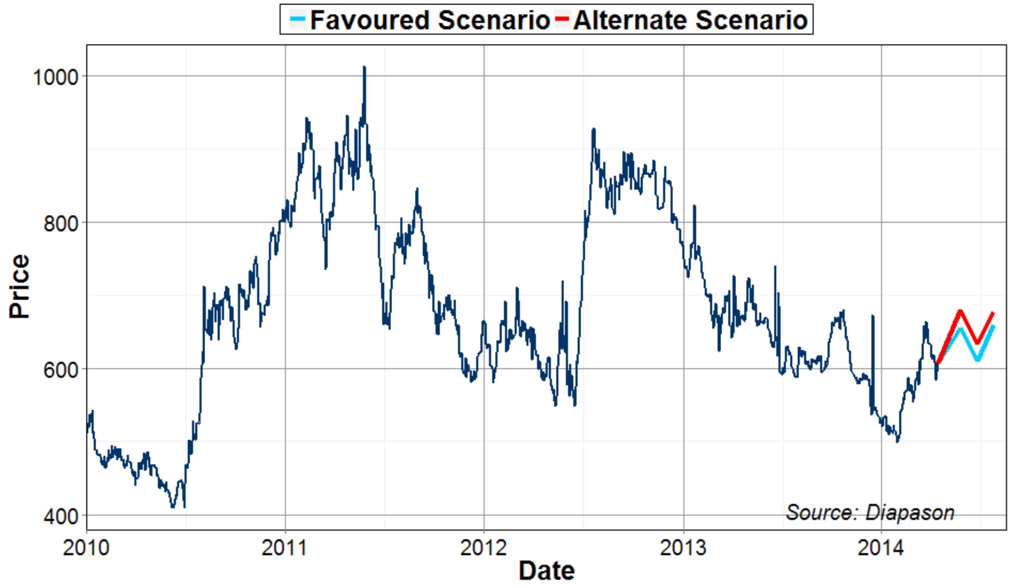


Sources: Diapason, USDA

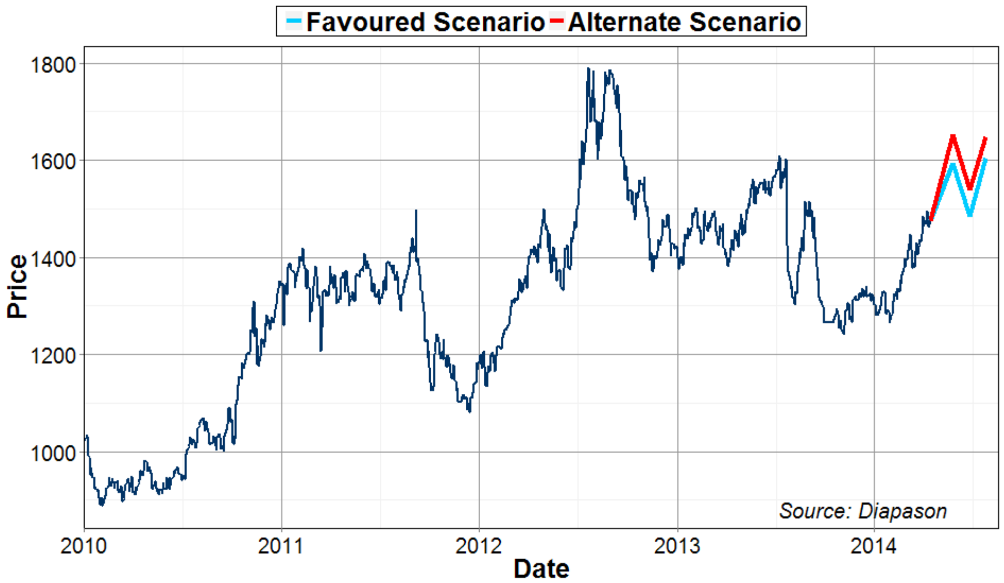
Corn No.2 Yellow - Cents/Bushel



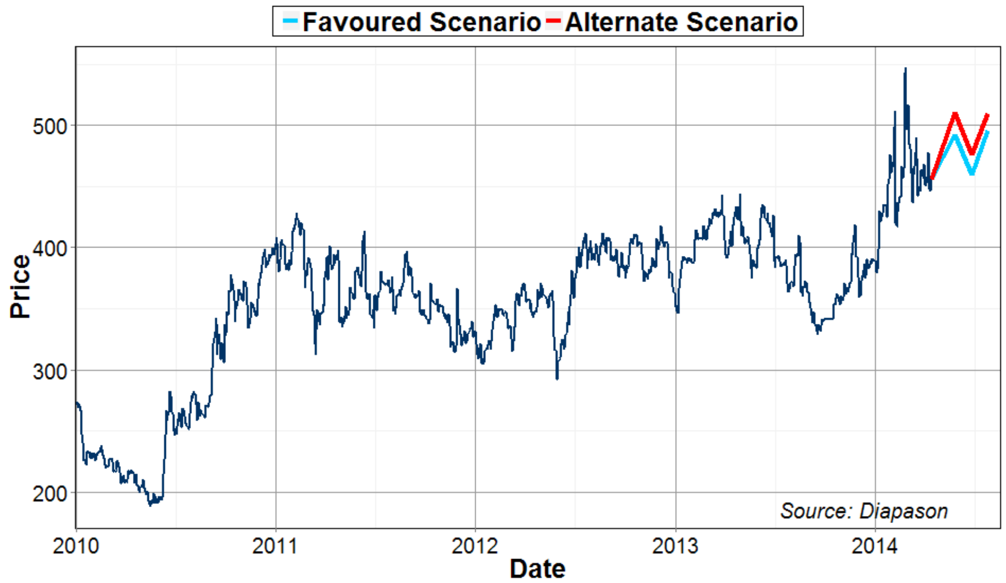
Wheat No.2 Hard (Kansas) - Cents/Bushel



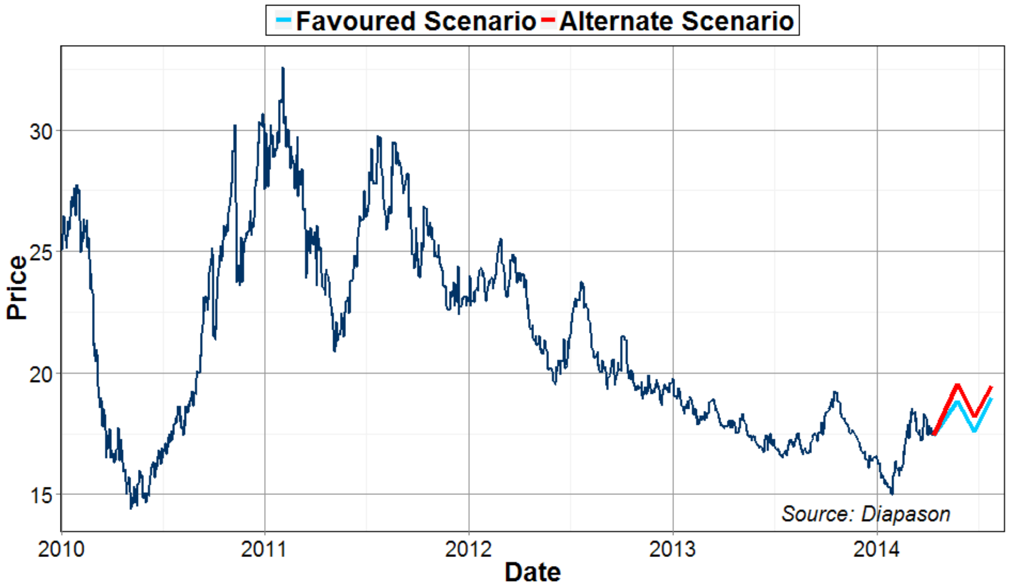
Soyabeans No.1 Yellow - Cents/Bushel



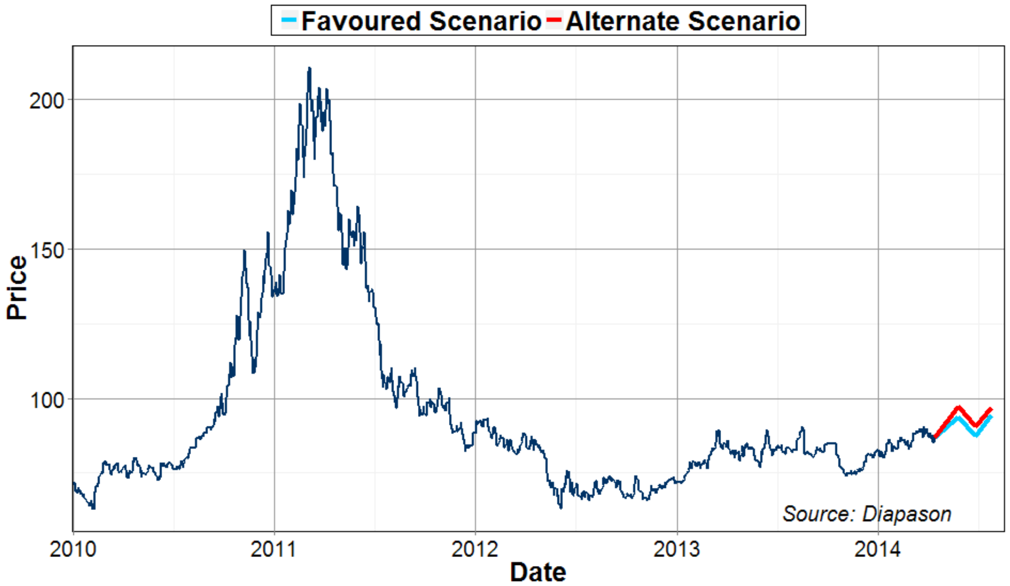
Oats No.2 Milling Minneapolis - Cents/Bushel



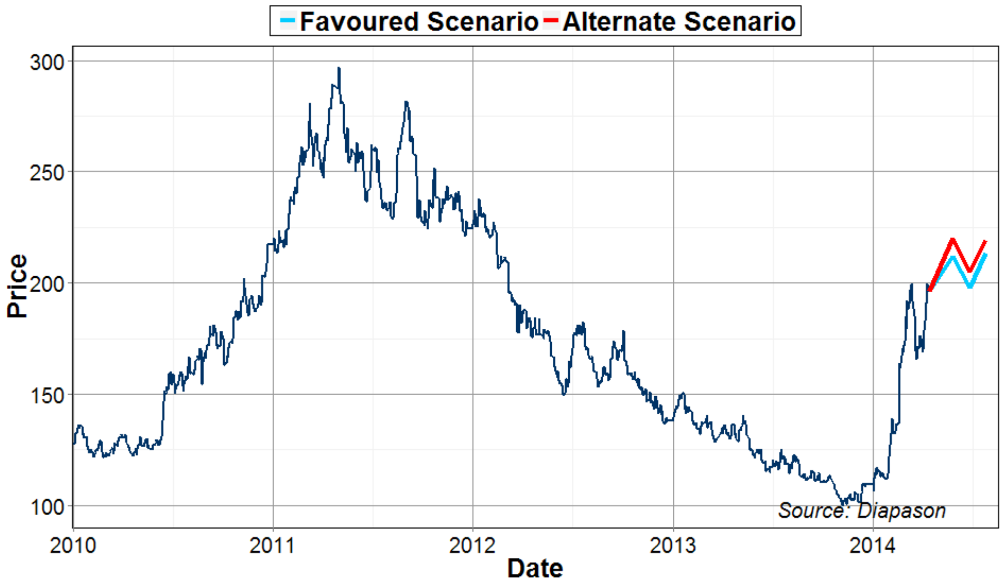
Raw Sugar-ISA - Cents/Pound



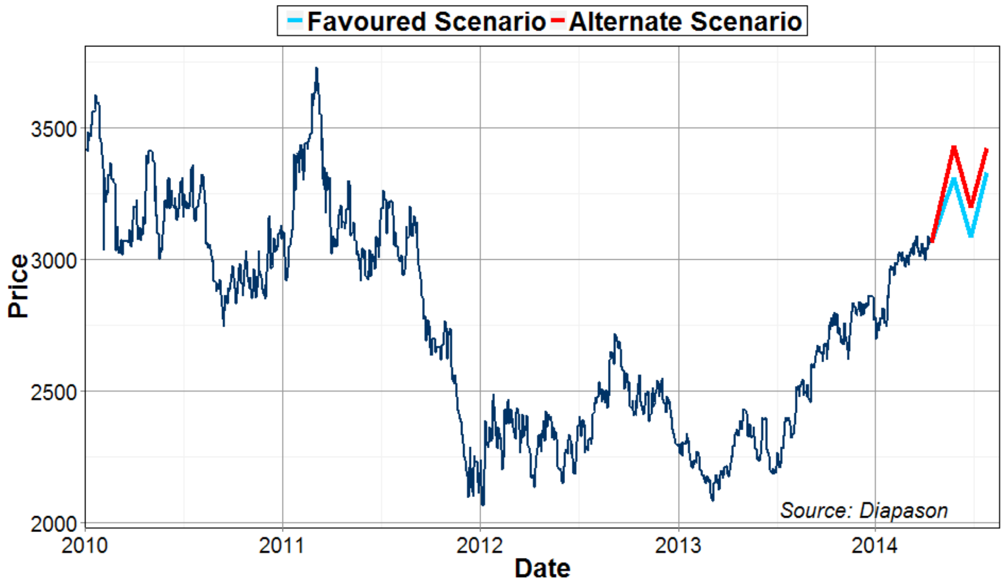
Cotton 1-1/16 Memphis - Cents/Pound



Coffee-Brazilian (NY) - Cents/Pound

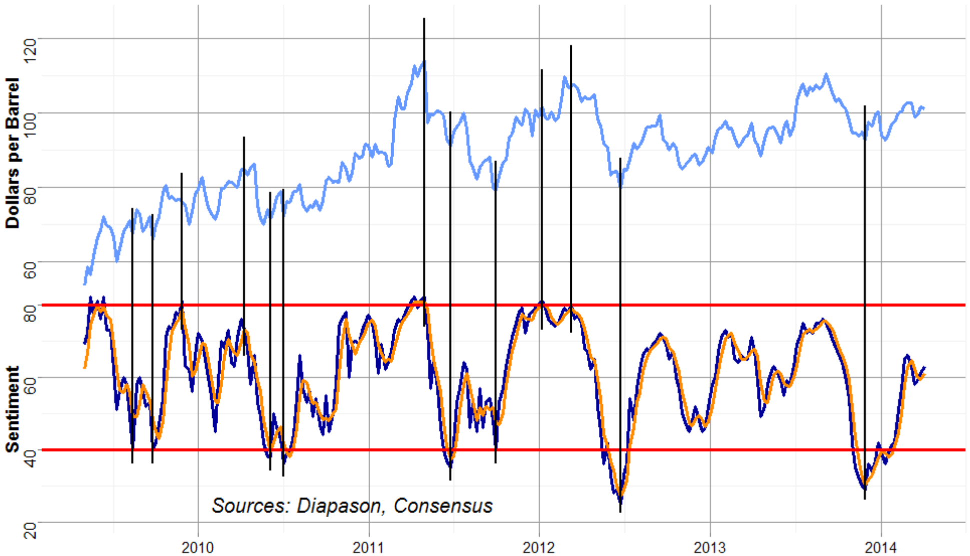


Cocoa-ICCO - $/MT

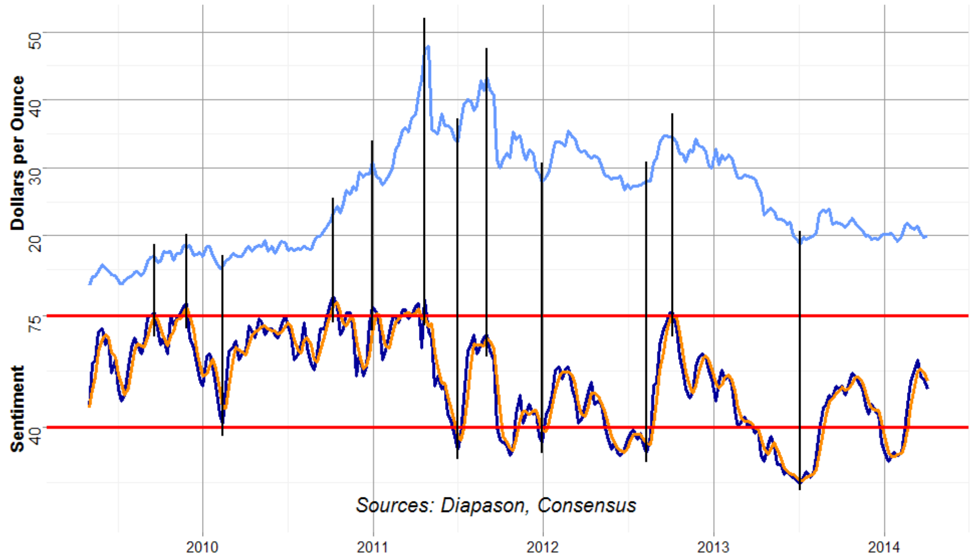


Sentiment Index Weekly

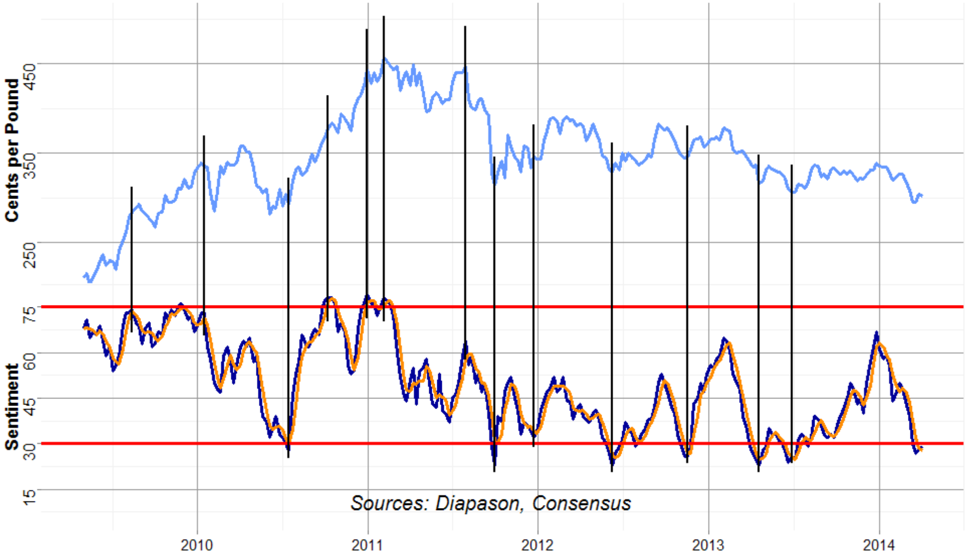
WTI Crude Oil Price and Sentiment



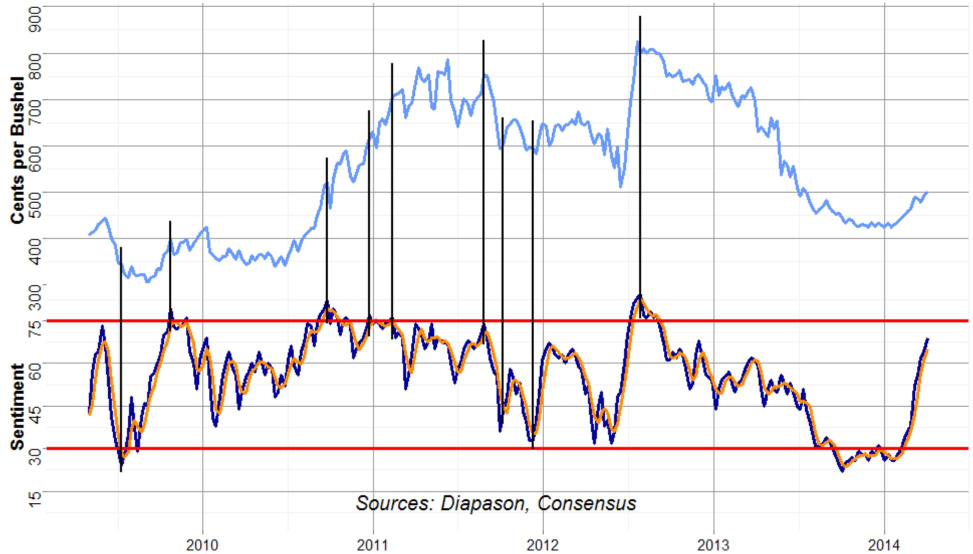
Silver Price and Sentiment



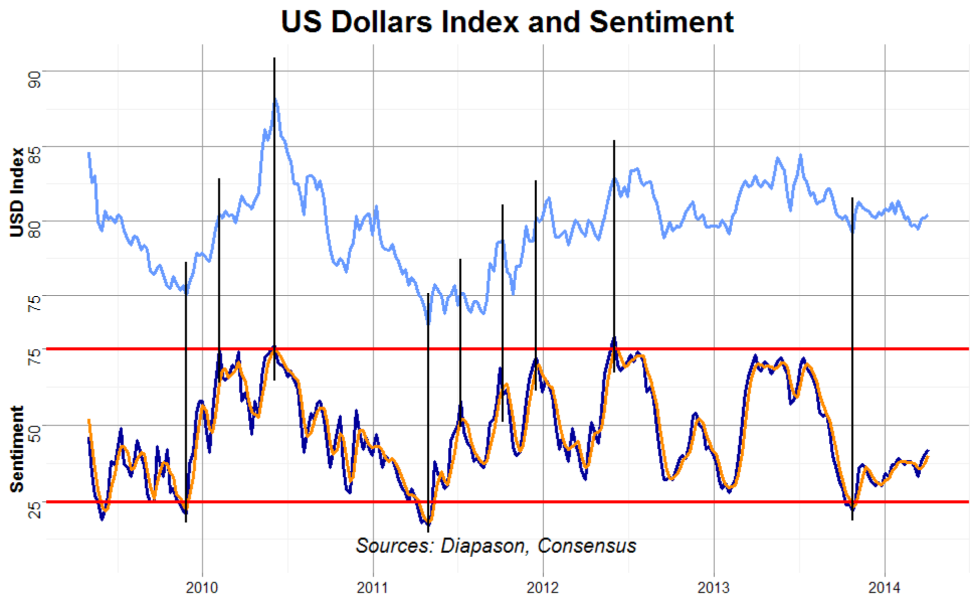
Copper Price and Sentiment

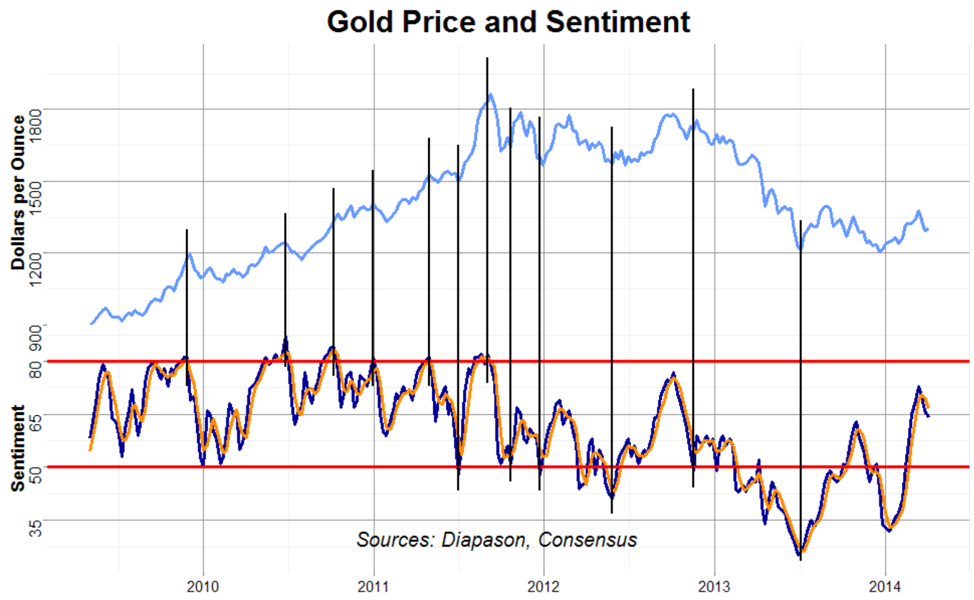


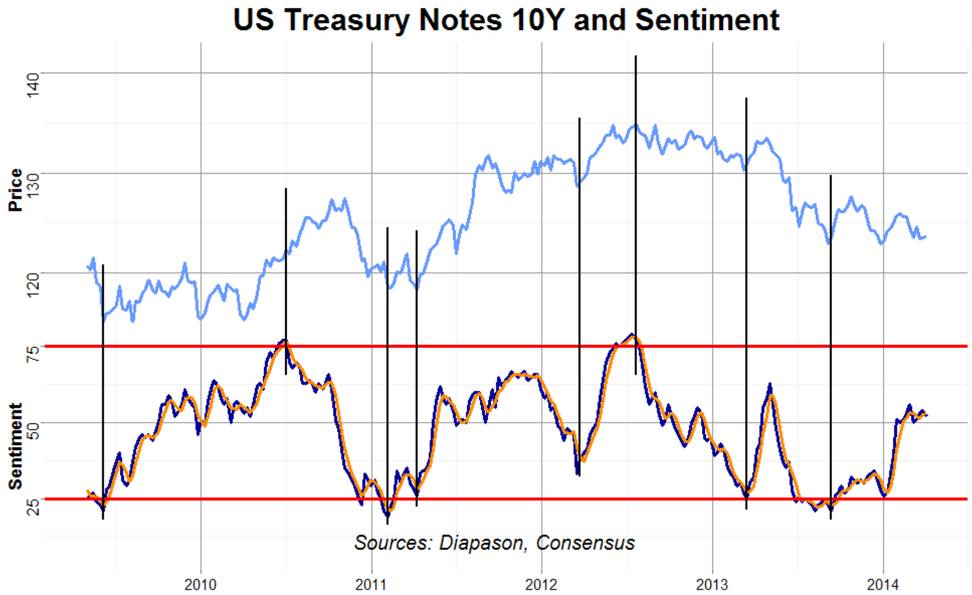
Corn Price and Sentiment

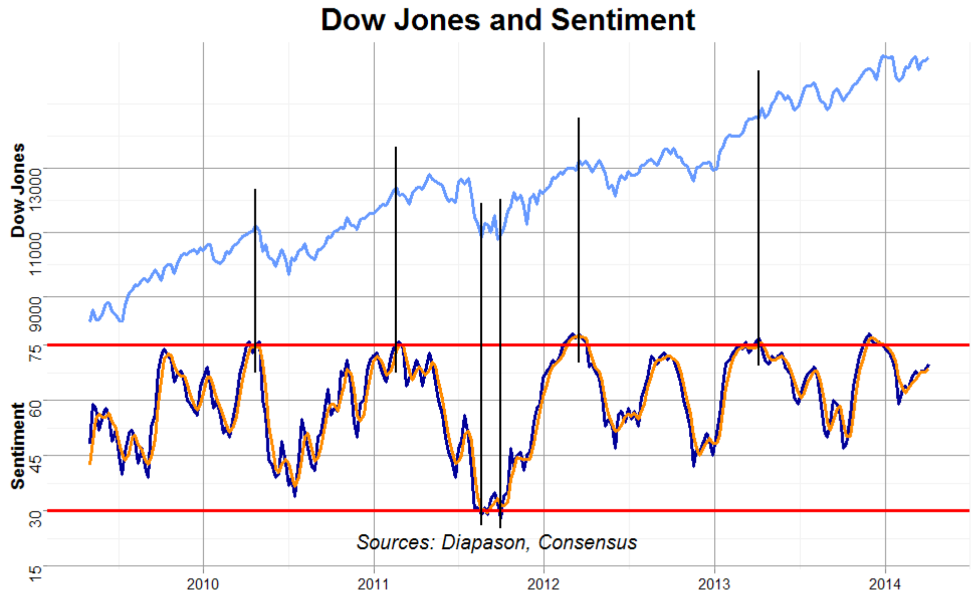


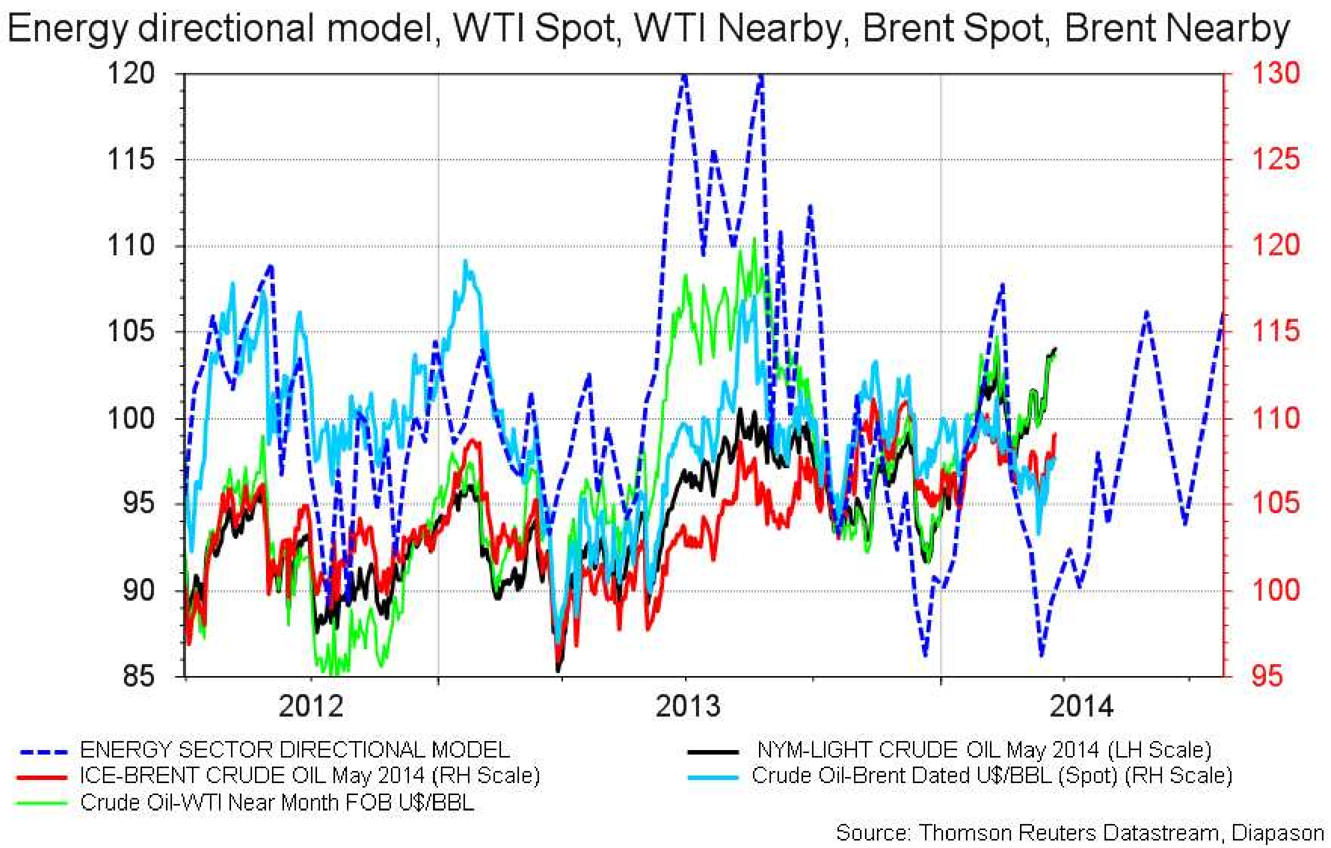
Sentiment Index Weekly











ENERGY SECTOR DEVELOPMENTS: The political situation in Libya has improved, suggesting that crude oil exports could soon restart. This could trigger one last downward move in Brent prices. Indeed, the acceleration in oil demand growth while inventories are at a low level could trigger a major upward move in Brent oil prices. The significant rise in Iraqi crude oil exports in February 2014 occurred while more customers are complaining about quality issues, which could lead to slower Iraqi crude oil exports growth in the coming months. In the US natural gas market, the injection season has started. The probable acceleration of natural gas output amid seasonally weaker demand should lead to a more rapid than usual rise in natural gas inventories.

The WTI rally from the $97.65 trough should finally take out the $105.00 barrier, which should provide impetus for a further rally to $112.00. Brent oil also found support at $104.00, support is firming for another go at $114.00-$115.00 from here. NatGas still susceptible to another decline to $4.25—$4.10. The rally from there may reach $5.55.

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