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Mild Rebound in Dollar has Commodities under Pressure, USDA Report Continues to Boost Agriculturals

Despite ongoing concerns over the possibility of a second round of quantitative easing by the Fed (or QE2 as it is being called), the dollar has seen some mild strength in Europe and Asia overnight keeping pressure on the energy and metals complexes, with traders reporting further risk-off correlation coming in line with the equity arena. Softs and agriculturals are seeing a more mixed, if somewhat lackluster session, with corn prices continuing to get squeezed for the fourth consecutive day, and extending 2-year highs after the US Department of Agriculture (USDA) lowered its forecast for the US corn crop this year by almost 4% to 12.7 billion bushels, due to a significant fall in expected yields per acre.

The week has a busy schedule for the oil market, with the Organization of Petroleum Exporting Countries (OPEC) due to release their monthly oil report today, followed by the International Energy Agency (IEA) and the US Department of Energy (DoE) monthly reports due tomorrow. OPEC are also meeting in Vienna for their policy review meeting on Thursday, although once again all expectations are for quotas to remain the same, while placing more pressure on members to comply with the target output levels. This comes amid the usual raft of OPEC officials all but saying as much in the run up to the meeting, including the Saudi Arabian Oil Minister Ali al-Naimi yesterday describing the oil market as well balanced, with a $70 - $80/bbl price as appropriate.

Volumes are expected to pick up in the floor session today as US and Canadian traders return from their long holiday weekend. The holiday also means this week's US DoE weekly inventory data will be release a day late, now coming on Thursday at 1100 EST, 30 minutes after the usual weekly underground gas storage report at 1030 EST. Estimates for the numbers are somewhat varied, although an increase in refinery run rates is generally expected, as is a mild build in crude stocks.

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The dollar moves are leading pressure on the precious metals today, with gold prices testing the water beneath $1,345/oz, with palladium now below $580/oz, having topped a 9-year high above $600/oz yesterday. The move in gold also comes as the world's largest gold ETF, **SPDR Gold Share**s, reported a net liquidation of almost one tonne yesterday; bring the total to around 18 tonne liquidation since the fund's peak in late September. Gold is seeing some counterweight to this pressure however, as physical demand continues to come from Asia ahead of the major religious festivals.

That said, from a technical standpoint spot gold is still seen very much holding in both the medium term (July 10 – Oct 10)and long term (Oct 08 – Oct 10) uptrend, although the 21-day moving average ($1,307/oz) looks set to keep near-term support as 10-day momentum loses strength. Spot silver continues to move in-line with the yellow metal, and again despite some 10-day momentum waning, the Aug 10 – Oct 10 uptrend is still holding, now offering support around $22.33/oz.

Base metals are moving in line with the precious complex today as the mild rebound in the greenback keeps up pressure. The first estimates for the global lead and zinc markets in the coming year were published by the International Lead and Zinc Study Group (ILZSG) yesterday, which speculates the fundamental situation for lead will not tighten in 2011, estimating an oversupply of 90,000 tonnes, with a similar situation in the zinc market, expecting only a mild decrease in the surplus to 161,000 tonnes. The group suggest this comes as demand for the two metals from the US, Europe and China, is recovering at a slower rate than previously expected, while at the same time relatively higher prices are likely to bring new production online.

Going back to Agriculturals, the USDA report has not only boosted the corn market, but also the soybean market, which extended 14-month highs yesterday above $16.90/bsl. The report estimated this year's total crop of US soybeans would be only 3.41 billion bushels, compared with the previous estimate of 3.48 billion bushels. This suggests US soybean inventories at the end of the crop year will be around 100 million bushels less than previously expected, at 265 million bushels. The ongoing lack of rainfall in Brazil continues to delay the planting of soybeans, set to keep the supply side under pressure in the longer term, and reports that this year's Canadian canola crop has been extremely disappointing, falling by 16% to 10.4 million tonnes, also offers the agriculturals some price support.