Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

Natural Gas Breakout

The energy sector was buoyed by a breakout in natural gas prices. Natural gas prices surged by 3.59% to US$ 3.812 mBTU's after the Energy Information Administration reported that inventories fell by 145bn cubic feet last week, 18.5% below the same level last year. The consensus estimate was for a 137bn cubic-feet fall. Nat Gas prices have risen by over 9% month to date, with the market betting on a tighter supply and demand situation following a cold winter season, signs of a recovery in the US economy, a drop in drilling rigs, growing uses for the fuel, and a shift away from coal-fired plants.

Demand growth in 2013 has at least been able to keep up with growing production in the US. The market balance for gas demand and supply is beginning to come closer inline, consequence of a rational response to the supply-long position we have experienced for the past three years. Annual consumption rose 11% from 2009 to 25.5 trillion cubic ft. in 2012, while total annual production climbed about 14% from 2009 to 29.8 trillion cubic feet last year. **Production will be increasing significantly in 2013, however we think that market expectations are hugely ahead of reality.**

Temperatures in the US for the three summer months may be three to five degrees Fahrenheit above normal over much of this area, according to leading meteorological forecasts. This could lead to increasing natural-gas demand. Winter natural-gas storage was utilized this winter more so than last, leaving less natural-gas storage inventory to begin the 2013 injection season on April 1. That's when supplies begin to climb in preparation for the summer cooling-demand season. **Short term, weather will likely be supportive for natural-gas consumption**

However, the key demand factor in play over the next few years is a shift away from the use of coal in favor of the cleaner natural gas. Most new power plants being built now are gas fired. Capital costs for a gas-fired plant are much lower. Permitting of a gas-fired plant is much easier and quicker and construction is a lot faster, plus power generation is much more efficient compared with coal. The new combined cycle combustion gas turbine power plants have an overall fuel efficiency of about 65%, compared with coal-fired plants, which have overall fuel efficiency of about 30%. At current comparable prices coal is still cheaper to use, but the emissions are a huge problem and very expensive to fix. Coal-fired power plants have to invest into all kinds of emissions equipment and systems, and these are expensive. Coal power plants are being scheduled to be de-commissioned in big numbers in the coming years. The new era for natural gas has started. The EIA estimates that coal will lose 25 gigawatts of summer capacity between now and 2016, while gas-fired generators gain 35 gigawatts. We see the possibility of every 5 gigawatts of coal retirement to be equal to about 50 cents to 60 cents per million Btus in each front-month natural-gas futures contract.

The recent strength of Nat Gas prices, and particularly the May 2014 Nat Gas contract is clearly reflecting some of the important changes for the Nat Gas industry in the US.

We maintain our 2013 price target for Nat Gas at US$ 5.60 mBTU.

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$NATGAS Natural Gas - Spot Price (EOD) CME
© StockCharts.com
14-Mar-2013 O 3.69 H 3.83 L 3.68 C 3.81 V 227.0K Chg +0.14 (+3.78%)
$NATGAS (Daily) 3.81
MA(50) 3.40
MA(200) 3.20
MA(20) 3.46
Volume 227,034
Oct
Nov
Dec
2013
Feb
Mar


$NATGAS Natural Gas - Spot Price (EOD) CME
© StockCharts.com
14-Mar-2013
Open 3.64 High 3.83 Low 3.59 Close 3.82 Volume 512.0K Chg +0.19 (+5.38%)
RSI(14) 62.41
$NATGAS (Weekly) 3.82
MA(50) 3.05
MA(200) 3.80
Volume 511,961
MACD(12,26,9) 0.102, 0.097, 0.005
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

Global Macro Events

Upcoming Macro Events:

- Euro-Zone CPI for February will be released at 6:00am EST. The market expects a year-over-year increase of 1.8% versus an increase of 2.0% previous.
- Consumer Price Index for February will be released at 8:30am EST. The market expects a month-over-month increase of 0.5% versus no change (0.0%) previous. Less food and energy, the increase is expected to be 0.2% versus an increase of 0.3% previous.
- Empire State Manufacturing Index for March will be released at 8:30am. The market expects 10 versus 10.4 previous.
- Treasury International Capital for January will be released at 9:00am.
- Industrial Production for February will be released at 9:15am. The market expects a month-over-month increase of 0.5% versus a decline of 0.1% previous. Capacity Utilization is expected to show 79.4% versus 79.1% previous.
- Consumer Sentiment for March will be released at 9:55am. The market expects 77.5 versus 77.6 previous.

Review of past macro-economic data:

Event	Actual	Forecast	Previous
AUD Employment Change	**71.5K**	10.0K	13.1K
AUD Unemployment Rate	**5.40%**	5.50%	5.40%
AUD Full Time Employment Change	**17.8K**		-9.5K
AUD Part Time Employment Change	**53.7K**		22.5K
JPY Industrial Production (MoM)	**0.30%**		1.00%
JPY Industrial Production (YoY)	**-5.80%**		-5.10%
JPY Capacity Utilization (MoM)	**1.70%**		2.90%
JPY Machine Tool Orders (YoY)	**-21.50%**		-21.50%
CHF Swiss National Bank Rate Decision	**0.00%**	0.00%	0.00%
EUR Euro-Zone Employment (QoQ)	**-0.30%**		-0.10%
EUR Euro-Zone Employment (YoY)	**-0.80%**		-0.60%
CAD Capacity Utilization Rate	**80.70%**		81.10%
USD Current Account Balance	**-$110.4B**	-$112.8B	-$112.4B
CAD New Housing Price Index (MoM)	**0.10%**	0.10%	0.20%
CAD New Housing Price Index (YoY)	**2.20%**	2.30%	2.30%
USD Producer Price Index (MoM)	**0.70%**	0.70%	0.20%
USD Producer Price Index Ex Food & Energy (MoM)	**0.20%**	0.10%	0.20%
USD Producer Price Index (YoY)	**1.70%**	1.80%	1.40%
USD Producer Price Index Ex Food & Energy (YoY)	**1.70%**	1.70%	1.80%
USD Initial Jobless Claims	**332K**	350K	342K
USD Continuing Claims	**3024K**	3090K	3113K
USD EIA Natural Gas Storage Change	**-145**	-137	-146
NZD Business NZ Performance of Manufacturing Index	**56.3**		55.2

EURO Economies

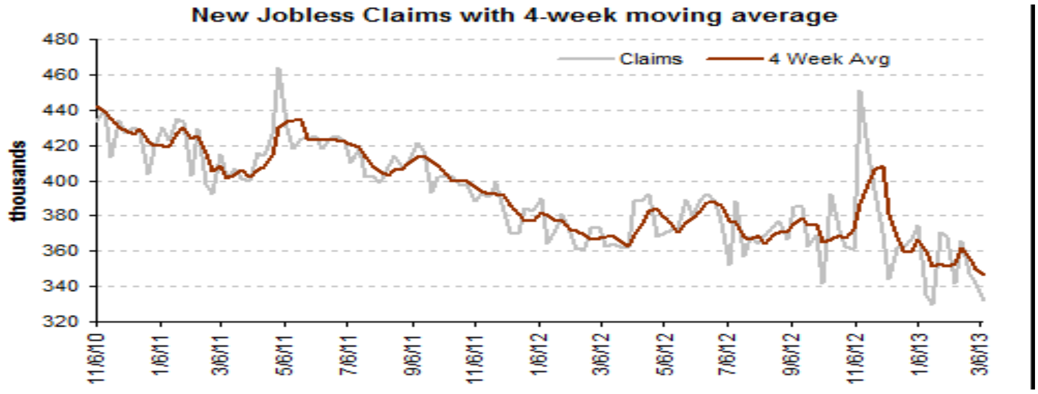
The Euro-area inflation rate fell for a second month in February, led by price declines in the telecommunications industry. Annual CPI growth slowed to 1.8 percent from 2 percent in January, in line with an initial estimate on March 1. In the month, prices rose 0.4 percent. The annual core inflation rate, excluding volatile costs such as energy, alcohol and tobacco, held at 1.3 percent. The cost of food, alcohol and tobacco rose an annual 2.7 percent in February after a 3.2 percent annual gain in January, according to today's release. Telecommunications costs declined 5.2 percent.

EU leaders are expected to discuss a possible exit of Ireland from the bailout program after a successful 10-year debt auction earlier this week. The Euro group, made of Eurozone finance ministers, is scheduled to meet later today to discuss the aid package for Cyprus. We are expecting heightened volatility throughout the day, as details surrounding both the Irish and Cypriot bailouts are leaked out. As well as the talks in Europe today, markets will be looking out for a number of other key economic announcements, including consumer price indices from the Eurozone.

Greece is making "significant progress" in its economic reform program but a few issues remain outstanding to receive the next tranche of emergency funds, the European Central Bank said.

US Economy

A better than expected report on employment in the US supported the positive result as weekly jobless claims were reported at a recovery low of 332,000, a decline of 10,000 versus the previous report. Analysts' consensus was expecting an increase of 10,000.



The US current-account deficit unexpectedly narrowed in the fourth quarter to US$ 110.4bn from US$ 112.4bn. Analysts' consensus was looking for a small rise to $112.8bn.

The US producer-price index rose 0.7% month-on-month in February, in line with the consensus estimate, accelerating from the 0.2% increase in January. The core PPI, which excludes food and energy, was unchanged at 0.2% on the month, above the 0.1% expected.

Global Markets Commentary

Global equity markets pushed higher on Thursday, and the DJIA extended its winning streak to 10 consecutive sessions, the longest since November of 1996.

IShares on the EAFE Index broke to a two year high.

US Market Commentary & Charts

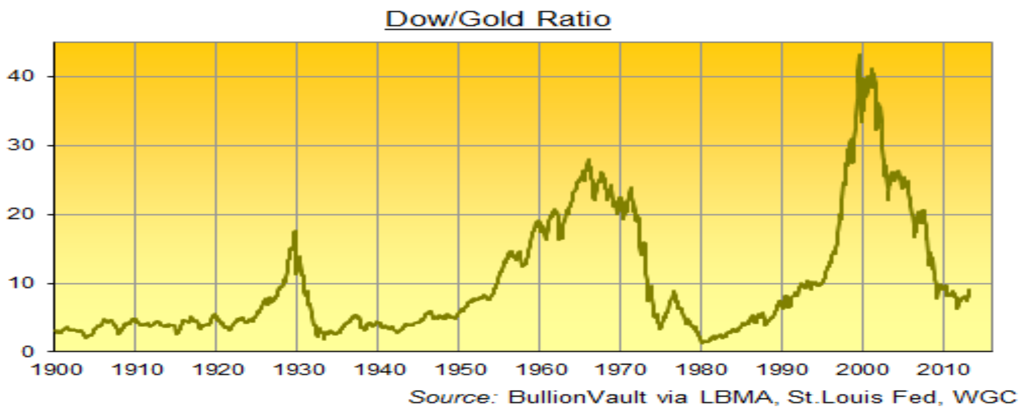
The Dow has now gained 11% in 2013 so far. Since 1950 there have been only 12 other instances when the index rose 8.0% in the first quarter and in each of those years it finished positive 100% of the time.

The ratio of the Dow to Gold is showing signs of bottoming at present levels after almost a decade of outperformance of Gold compared to stocks. Typically in times of extreme market volatility coming off of periods of stretched valuations, gold tends to outperform as investors cash out of stocks and turn to hard assets, such as Gold, causing the ratio of stocks versus bonds to plunge. Similar instances were realized in the early 30's and in the 70's, both periods presenting notable bear markets for stocks.

A rise in the Dow versus Gold ratio may be indicating that we're entering into a period similar to the 20's, 50's, or 90's where equities staged euphoric bull market runs that lasted for a number of years. During this time when stocks gain, Gold has shown significant declines. In the late 90's, Gold declined by 40% as stocks rallied to all-time highs.

The Dow has now outperformed Gold since mid-2011, pushing the Dow versus Gold ratio through a long-term declining trend line stemming from the euphoric market peak in 2000.

The Dow Jones Industrial Average priced in Gold is nowhere near new highs, therefore suggesting that the breakout is, in some manner, not real.



These long-term trends could play a significant role in trading activity as the 16-year bear market cycle reaches a conclusion within the next couple of years.

Sector leaders yesterday were Energy, Technology, Financials, and Materials, the result of which pushed the Morgan Stanley Cyclical Index to new all-time highs.

Materials broke above resistance to close at new highs.

Canadian Market Commentary & Charts

Asian Markets Commentary & Charts

The Japanese equity markets embraced the confirmation of Haruhiko Kuroda as the next Bank of Japan governor by the upper house. Japan's Nikkei index climbed 1.5 percent on hopes of aggressive monetary easing by the central bank and as the Japanese government raised its assessment of the economy for the third consecutive month, citing several factors.

China's Shanghai Composite index is up 0.3 percent after China's parliament named Communist bureaucrat Li Keqiang to the post of premier.

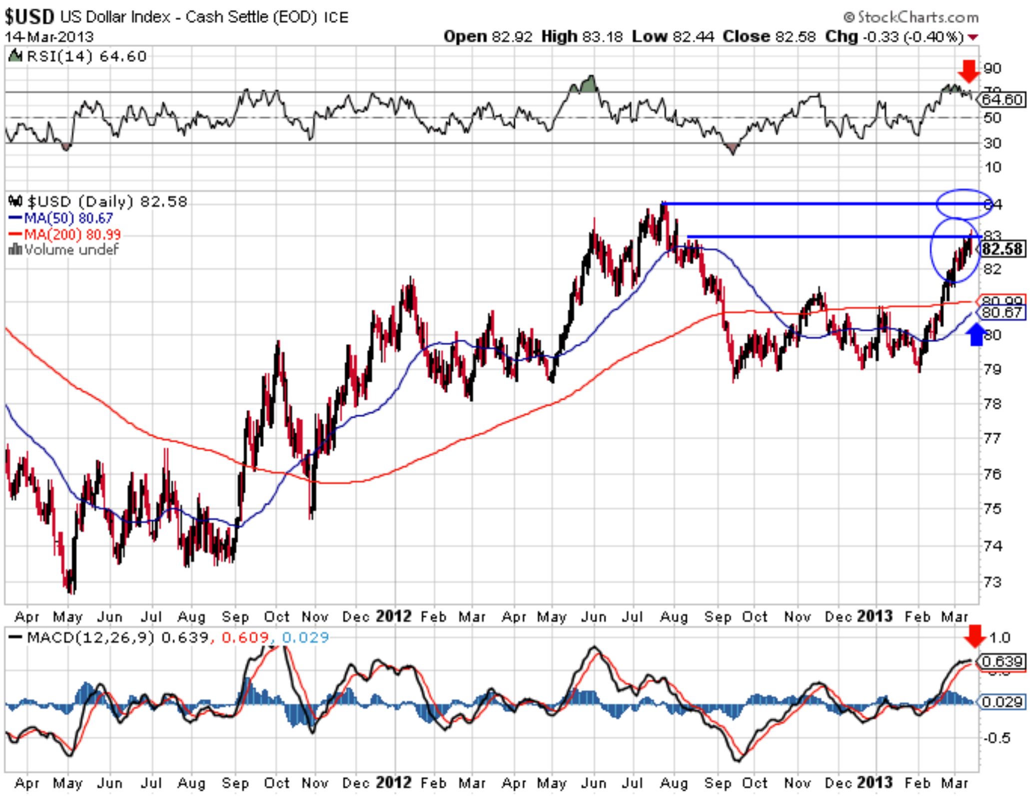
Global Fixed Income Markets

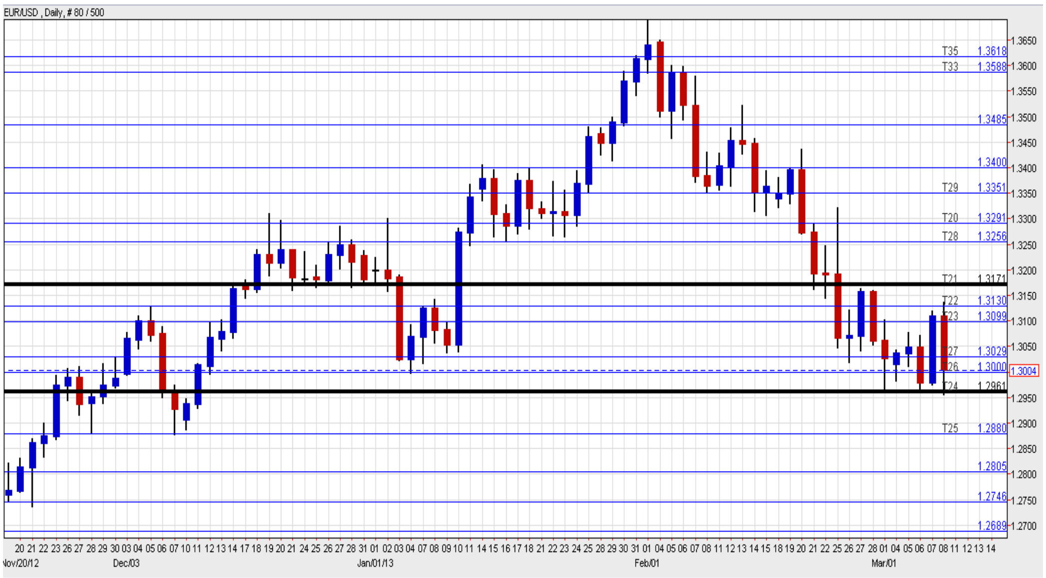
US Bonds

US long term bond yields continue to rise following a disappointing 30-year Treasury auction yesterday.

Currencies

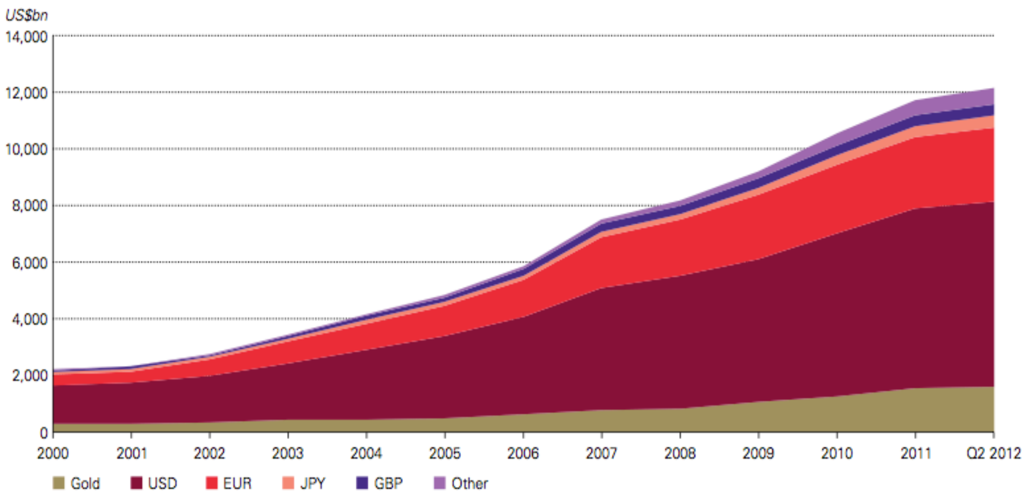
Short term, the DXY might move towards 84, however, looking at the long-term trend, we do not expect for the US$ to continue its latest resurrection from its long-term decline.





The growing trend of central banks' actively looking to diversify their reserve portfolios.

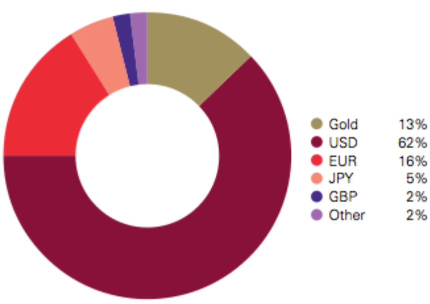
Chart 1: Offical sector foreign exchange reserves and gold



Source: IMF COFER, IFS statistics, World Gold Council

While the US$ is still the primary global currency, its long-term dominance has surely been in decline, and we continue to see fundamental and technical evidence of this trend to continue.

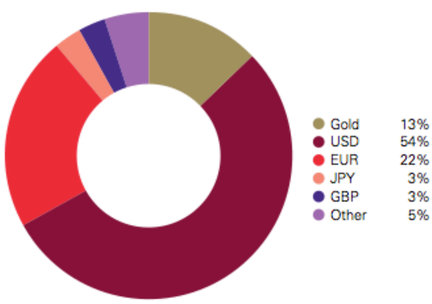
Chart 2a: Breakdown of total official reserves (as of 2000)



Note: Totals may not equal 100% due to rounding.

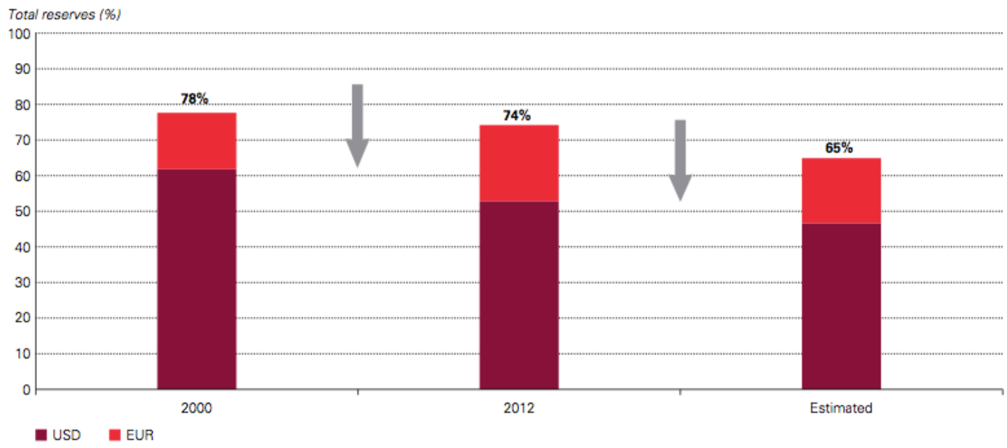
Source: IMF COFER statistics, Q2 2012

Chart 2b: Breakdown of total official reserves (as of 2012)



Source: IMF COFER statistics, Q2 2012

Chart 4: Historical and estimated USD and EUR denominated reserve assets



Source: IMF COFER, World Gold Council

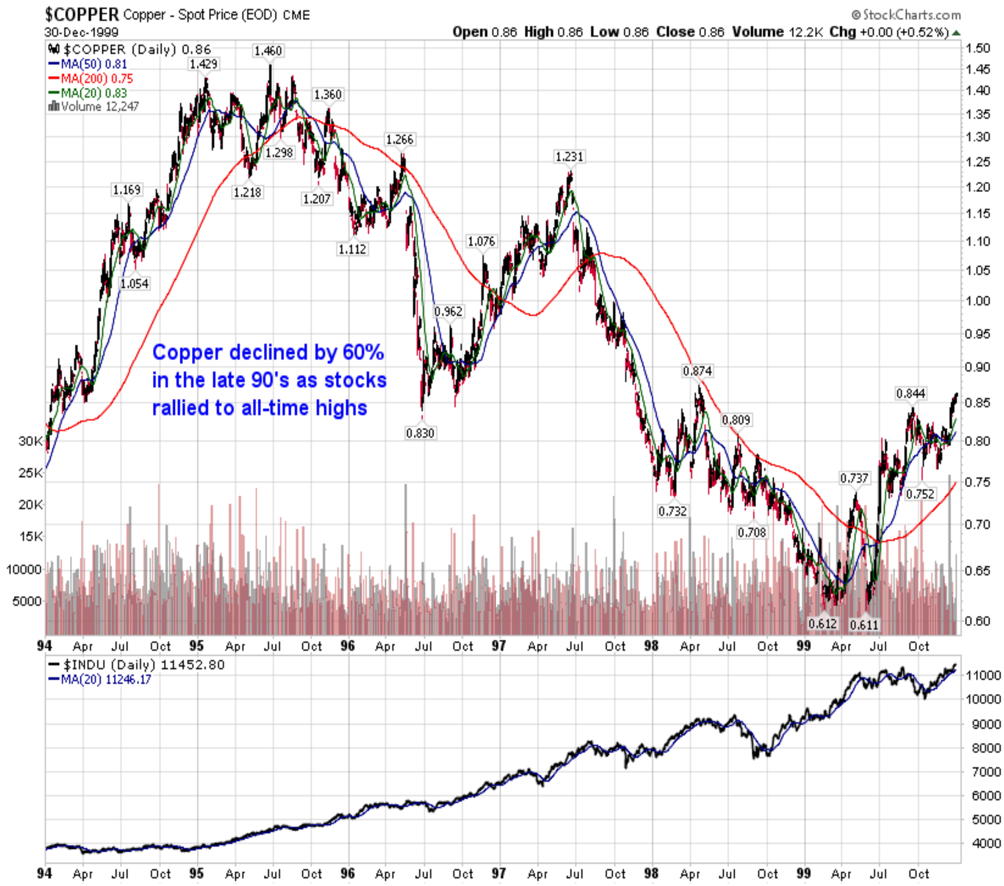
Strength in natural gas and crude oil prices helped the C$ to strengthen.

The C$ did breakout above a short-term reverse head and shoulders pattern.

The C$ also moved above its 20 day moving average.

Commodities

Copper, the supposed confirming indicator to economic and equity market strength, declined by 60% as stocks rallied. Significant declines have already been recorded in Gold and Copper following the peak in 2011, suggesting that the rotation from hard assets into stocks has already begun.



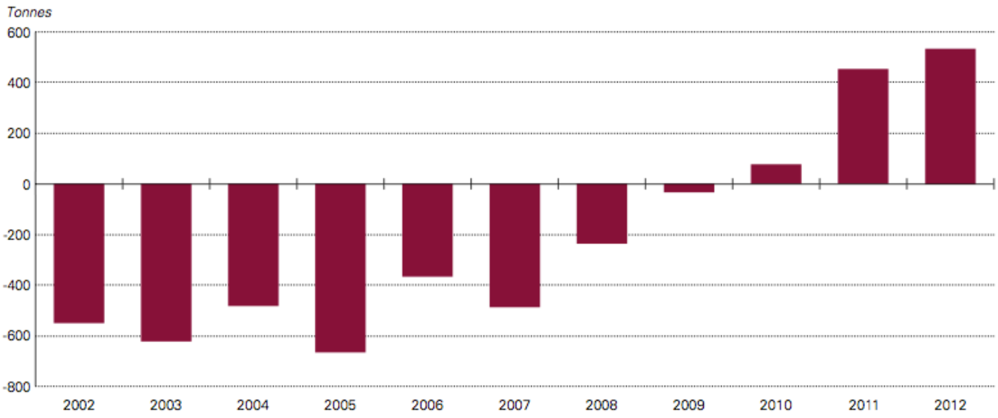
Gold & Precious Metals

The official reserves of global central banks have grown from US$2 trillion in 2000 to more than $12 trillion in 2012. During this same twelve-year period the data shows significant shifts away from the US$ while the share of "other" currencies in reserve composition has tripled in absolute terms since 2008.

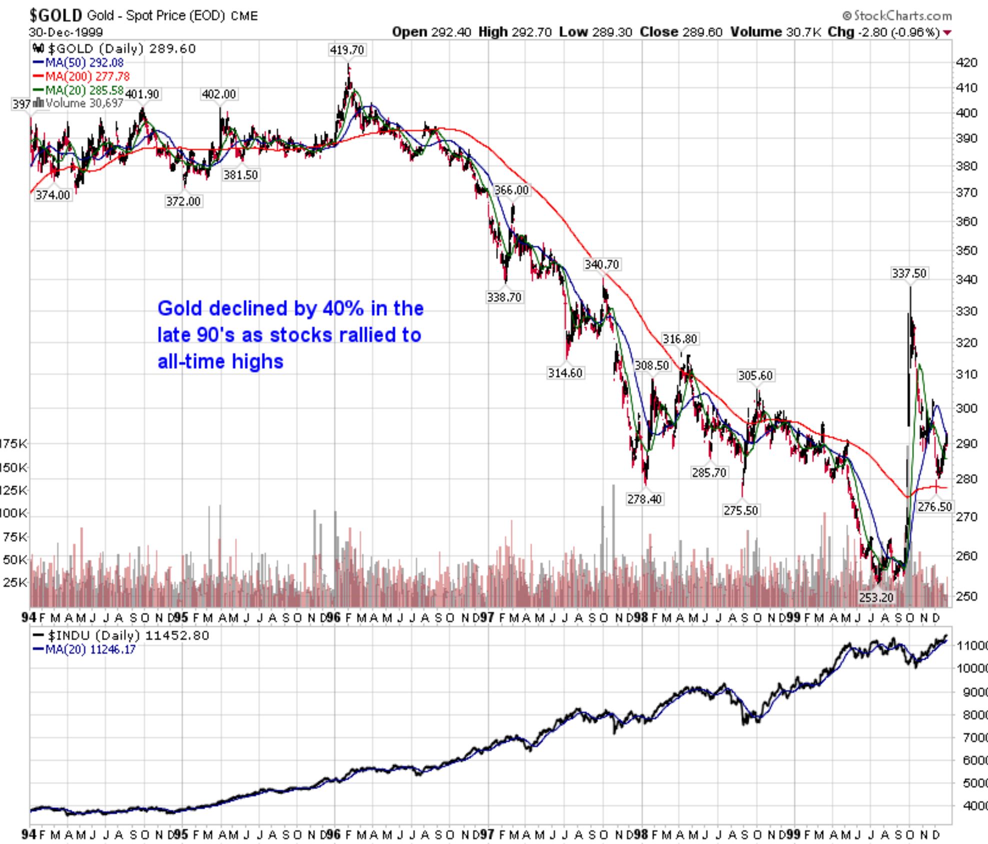
The growing trend of central banks' actively looking to diversify their reserve portfolios. While the US$ is still the primary global currency, its long-term dominance has surely been in decline, and we continue to see fundamental and technical evidence of this trend to continue. In response, central banks are reducing allocations to US$ and Euros while increasing purchases of traditional assets such as gold and Japanese Yen and new alternatives including Chinese renminbi.

Gold has a long history as a reserve asset for central banks, and as such is considered a traditional one. Gold is statistically uncorrelated with other traditional reserves and new alternatives, making it one of the most important assets for diversifying out of the US dollar and euro. In line with this trend, central bank gold buying in the fourth quarter of 2012 marked the eighth consecutive quarter of net purchases by the official sector and the highest level since 1964.

Chart 11: Net official sector transactions



Source: Thomson Reuters GFMS, World Gold Council



Silver's price momentum is a more difficult one to forecast than the one for Gold, mainly due to approximately 70% of all new silver mined results as a by-product from the mining of base metals and other precious metals, and coincidentally, over 50% of all available silver mined is used in industrial production. That number is expected to increase to 57% by 2014.

Over the past decade, the industrial demand increase of silver in applications such as anti-bacterial, appliance, catalytic, clothing, and consumer electronics, energy, food, and water applications has been growing steadily.

Silver is used in computers and cell phones. Batteries need silver for their cathode or negative side. Silver oxide cells are used in cameras, toys, hearing aids, calculators, and even though they are expensive, silver oxide cells are seen as a more environmentally friendly version of the lithium-ion batteries used in everything from consumer electronics to electric cars. Silver electroplated steel ball bearings are used in jet engines, because the silver provides superior performance and lubrication in the event of an engine shutdown.

Membrane switches, which require only a light touch, use silver, and these switches are now part of televisions, telephones, microwave ovens, and computer keyboards. Silver is used to coat CDs and DVDs because the white metal is resistant to pitting and tarnish. Silver is also useful in brazing and soldering- meaning in the joining together of materials, producing leak tight and corrosion resistant joints. Silver tin solders are used to bond copper pipes and faucets. Refrigerators also rely upon silver soldering and government regulations are mandating greater use of silver soldering, due to concerns regarding the toxicity of customary tin/lead solders.

Although the vast majority of wiring uses copper, this is only because copper is so much cheaper than silver per ounce. Silver is an amazing conductor of electricity at practically any temperature, and it is possible that silver wiring may gain attention in the future. In the United States, HTS wiring carries over 140 times as much current as copper, and it is believed that this wiring is far better at preventing power surges or other inefficiencies which can lead to transmission losses within our power grid. HTS transformers are more environmentally friendly and don't use as much oil as their counterparts. Understand that HTS wiring is by no means prevalent, and may not be for a long time. But it is also important to note that as science and technology evolve, and as more and more countries move toward green technology, silver can play an even more important industrial role than at present.

Silver is also a useful catalyst, especially in the creation of ethylene oxide and formaldehyde, both of which are essential chemicals for plastics, polyester clothing, adhesives, resins, scratch resistant coatings, and antifreeze coolant for automobiles and other vehicles. Because silver interrupts a bacteria cells ability to form chemical bonds needed to survive, silver is an excellent anti-bacterial agent. For this reason silver is useful in hospitals trying to find equipment that can kill the MRSA (Methicillin-resistant Staphylococcus aureus) "superbug." Silver is also used in burn ointments. Increased demand for silver as a medical-metal, or as a sanitizer can come from very high end uses. For example, it is now possible to embed silver in countertops, and possible to put it in clothing, even underwear (in addition to silver's uses in the production of other fibers). For a long time, the Indian sari contained some silver in it-this attests to the age-old desire for the white metal as a defense against disease. In addition to jewelry and silverware, silver can be used in horse saddles, or other equestrian equipment, and is also present in many musical instruments, ranging from bells to flutes.

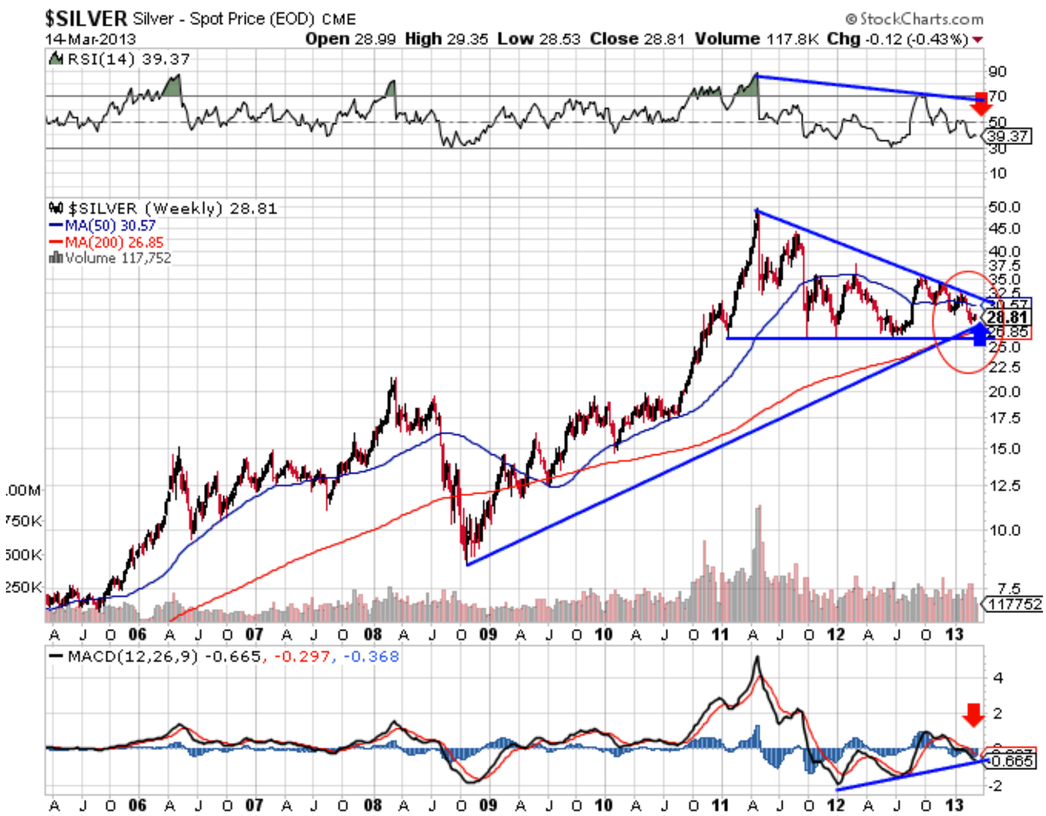
But even in a severe recession, silver demand can move higher because there are so many non-luxury goods and gadgets that need silver now, or will need it in the future. For example, David Morgan has simply looked at applications for silver relating to food, water, and energy. These are the three things people need the most, and they are three areas that will likely need a lot more silver regardless of prevailing economic conditions. These three areas will also contribute to increased silver demand in ways that cannot be easily recovered (at least for now.) Most people understand that many governments are pushing solar energy as an alternative to present energy sources. But solar energy uses silver, especially because silver paste is used in 90 percent of all crystalline silicon photovoltaic cells. If you live in the American Southwest, you have seen the growth in solar technology in order to help get homes and businesses off the power grid. Silver coated mirrors are also used to create scalding hot water, which then becomes steam and is used to run electric generators. From these kinds of uses for silver, experts predict the possibility of an additional 80 to 100 million ounces of silver demand per year. As of this writing, much of this silver is unrecoverable, meaning that it will likely be consumed.

Another area of strong demand will come from newer water purification systems that are employing silver instead of more toxic chemicals such as chlorine and bromine. In pools and spas silver ion canisters can spread a biocide blanket easily to ward off disease. Silver is also used in personal water purification tubes.

With nanotechnology, you can impregnate silver into plastic sheets as a way of keeping bacteria out. Silver for RFID tags (a scanning device used to replace bar codes) will be needed to put these tags in cars, bank debit cards, or casino chips, and could also push industrial demand dramatically higher.

Because of all of these new industrial uses for silver, some experts believe that silver will be moving back into a deficit situation, meaning that more above ground stockpiles will have to be consumed to meet demand and the above ground stock of silver will once again decline. Put another way, there are several possible reasons- in addition to investment demand - that could allow for silver prices to explode. It is true that jewelry scrapping could increase to fill the deficit, and that jewelry demand could decline. It is also possible that recycling could eventually increase. If the global economy is in fact in recovery, given that there are hundreds of millions of people who would likely want some or all of the technologies mentioned above, you would think that silver's industrial demand will begin to move higher. It may take a while, but with silver ore grades continuing to decline and with declining mining stock prices perhaps signaling a permanent downshift in mine production, it may just be that silver's industrial uses may receive more attention in the years ahead.

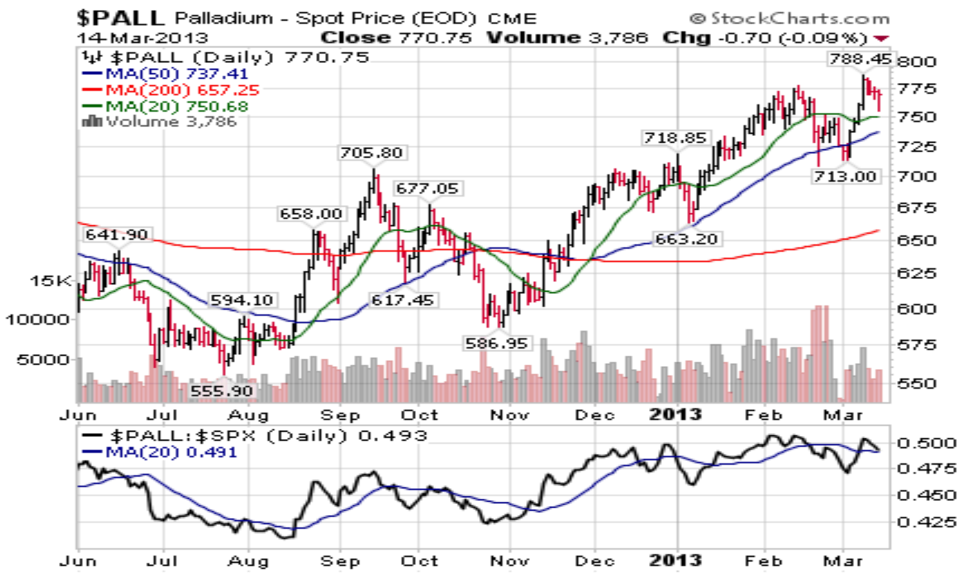
We are reiterating our 2013 price target for Silver of US$ 42/oz.



The price of palladium skyrocketed to nearly US$ 1100 dollars an ounce, or over 3 times the price of just 18 months earlier. And this occurred to a metal that had limited investor interest: it was all about the industrial users getting scared and scrambling to buy whatever they could. Silver, which is more versatile and cheaper than palladium and which has a history of being a monetary metal, could see a much larger price spike due to its industrial and monetary or investment uses.

Palladium changed from 2.0 to 2.5 when an intermediate uptrend resumed on a break above $777.60.

Seasonal influences are positive until the end of April.



Oil, Gas & Energy

WTI gained 0.55% to $93.03 a barrel after the jobless claims data as improving conditions in the labor market usually paint a better outlook for fuel demand.

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