

FUND VIEW-ACE eyes crude oil, shies away from copper

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ACE/CTA (FUND VIEW)

- * Also targeting softs and grains on supply tightness
- * Sees gold price rising 15-20 percent this year

By Claire Milhench

U.S.-based commodity trading adviser ACE Investment Strategists is looking out for arbitrage opportunities in the crude oil market, while steering clear of copper and aluminum in the belief they have run up too high.

"We are maintaining a slightly bullish stance on the energy market due to the recovery of the economy. If there was a correction we would be an aggressive buyer," said Yu-Dee Chang, chief trader for the CTA, which offers a variety of commodities strategies.

Oil prices are rising fast due to the unrest in Libya and fears of supply disruption. Chang is long U.S. oil and flat Brent crude, but he is also watching the persistent premium of Brent to U.S. crude, which reached a record \$16.51 on Feb. 17 before narrowing again. It is now at \$13.44.

Some have suggested the premium offers traders an opportunity to buy cheap U.S. crude, ship it to Europe and sell Brent against it. But Chang said this would work only if the spread reaches around \$20 because of the costs incurred.

"If that happens we might sell North Sea (Brent) and buy West Texas (U.S.)," he said. On the base metals side, he participated in the copper rally at its initial stage but got out of the market in April 2010.

"That market has overheated. The fundamentals are pointing to higher prices, but China is trying to push the price down, and it is working a bit," he said. In the short term he sees a pull-back, so he is staying away for now.

But Chang is sticking with gold, which many asset allocators jettisoned in January, and says it is a win-win bet. "Gold could go up by 15-20 percent in price again this year."

EITHER WAY

If the economic recovery becomes more robust and inflation fears materialize, gold will be in demand.

But if there are renewed worries about sovereign debt in Europe or there is a double-dip recession, then people are likely to buy gold as a defensive measure, he said.

"It won't go back down to \$700 an ounce. Every time gold corrects on stabilization, we see it as a buying opportunity. This time when it pulled back we bought at \$1,330." It has since risen to over \$1,400.

Chang runs some \$120 million in commodities, with a process that is about 20 percent based on fundamental factors and 80 percent based on technical indicators.

"We do believe that fundamentals dictate the direction over the long term, but over the short term we believe price movements are more psychology and money-flow related," he said. "So we use our technical models to guide us in and out of the market."

Over two years ACE's Institutional Diversified Premium Collection program is up 71.14 percent, but it was down 15.78 percent in 2010.

In the agricultural sector Chang is focusing on sugar, coffee, soybeans, wheat and soybean meal. "We have constantly been in and out of these markets -- all to the long side."

Demand from emerging markets remains strong and supply is tight. "So if anything goes wrong with the weather over the summer, there will be a big supply problem. Based on that people are going long already."

Past performance is not necessarily indicative of future results. The risk of loss in futures trading can be substantial no matter who is managing money. The opinion/comments of Yu-Dee Chang are not a recommendation or a solicitation to trade.