Commodities get relief from dollar's weakness

By Dr R Seetharaman

The US dollar index fell as much as 0.6% on last Friday in reaction to news that US employers added 160,000 workers in April, the fewest in seven months.

The deceleration in jobs growth provides the first potential signal that the nation's recent economic sluggishness — the result of a still-strong dollar, thinned corporate profits and cautious business and consumer spending — could be spilling into the labour market.

However, the report contained some good news for workers, and concerning signs for bond investors, as average hourly wages rose 0.3% from March and 2.5% from last April. However, the dollar rose against a basket of currencies and closed at 93.888 by end of last week after the head of the New York Federal Reserve William Dudley stated the US central bank may raise interest rates twice in 2016.

The euro was at $1.1404 by end of last week and had strengthened by close to 5% year-to-date (YTD) this year. Recently

president Mario Draghi stated that officials will need more time to assess the impact of a large stimulus expansion unveiled in March before considering further easing. Euro had also benefited from Fed's action to raise rates only by twice this year.

The pound was at $1.4427 by end of last week and has weakened by more than 2% YTD this year on Brexit concerns.

The Japanese yen was at 107.12 against the US dollar by end of last week and had strengthened by close to 11% this year. Recently the Bank of Japan (BoJ) left monetary policy steady, surprising several market players who were widely expecting a hefty dose of stimulus. In addition to this, the safe haven demand gave the rise to Japanese yen this year.

Among the emerging economy currencies, the Indian rupee was at 66.555 against the dollar by end of last week. It has revived as dollar weakened a bit and on hopes of better monsoon in India.

The Brazilian real was 3.5019 against the dollar by end of last week. It had strengthened by more than 11% this year due to recovery in commodity prices and hopes of stability in China.

Chinese yuan was at 6.4960 against the dollar and marginally recovered during the year on hopes of action from China to revive growth.

The Russian rouble had strengthened by more than 9% this year as oil prices

recovered and ended at 66.17 against the dollar.

WTI was at $44.66 a barrel and Brent was at $45.37 a barrel. Both had strengthened by more than 20% this year. Oil prices edged up last Friday, supported by an early dip in the dollar and a wildfire that has shrunk Canadian oil sands crude output by a third.

A militant attack on a Chevron platform in Nigeria's oil-rich Niger Delta region and a drop in the number of US oil drilling rigs also helped lift prices on the day. Natural gas was at $2.101/MMBTU and had fallen by close to 15% YTD. Natural-gas prices shook off early declines on last Friday and rose in tandem with oil and other energy contracts, as Canadian wildfires spread, increasing estimates of lost production.

Gold was at $1288.99/ounce and silver was at $17.47/ounce by end of last week and had strengthened a bit after job data in April 2016 was below expectations.

The safe haven demand and change in the US Fed monetary tightening also gave boost to precious metals this year which had surged by more than 20% YTD.

Copper was at $4825.5/tonne and Nickel was at $9025/tonne and had surged by more than 2% YTD. Aluminium was at $1581.75/tonne and surged by more than 5% YTD. Industrial metals had surged on the back of promises from the Chinese government of maintaining a 6.5% growth rate over the next five years. However, concerns of Chinese growth curtail further rallies.

Corn was at $3.77/bushel and up by close to 2% YTD. Reduced output in Argentina, coupled with tight domestic corn supplies and dry growing conditions in Brazil, gave new flows into agriculture commodities.

Wheat was at $4.63/bushel and fallen by close to 4% YTD. Wheat recently drew support amid strong fund buying as traders liquidated record large short positions.

Soyabean was at 10.26$/bushel and surged by more than 17% YTD. Concerns about crop damage in Argentina from recent rains added support to soybeans. Coffee was at $124.50/pound and fallen by close to 5% YTD. Prices fall as Columbia, Central America and Peru production add to global supplies.

Sugar was at $15.74/pound and had surged by more than 7% YTD on supply concerns from India and Brazil and weakness in dollar.

The Commodities have got some relief in recent times from weak dollar but it needs to be seen whether this rally will sustain.

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