BANKING ON KNOWLEDGE

Commodities rally amid currency volatility

By Dr R Seetharaman

WTI was at $38.50/barrel and Brent at $40.39/barrel by end of last week and had surged by close to 4% YTD and more than 8% YTD respectively. Oil prices had recovered after a meeting between Saudi Arabia and Russia on plans for oil output freeze, which is still under discussion and not officially in place, and is at pushing oil prices up to around $50 a barrel.

Recently the International Energy Agency said oil prices might have bottomed, with higher-cost US shale gas producers halting production and Iran's unexpectedly slow return to the market.

The Latin oil producers have postponed a meeting scheduled to happen last Friday. Natural gas price was at $1.822/MMBTU by end of last week and

had fallen by more than 23% YTD. Natural gas price fell on expectations of milder weather contributing to lesser demand in air conditioning.

The gold price was at $1249.45/ounce and silver price at $15.49/ounce by end of last week. Gold had surged by close to 18% YTD and silver had surged by close to 12% YTD. Gold price had dropped from $1272.61/ounce levels last week as stocks rallied after ECB stimulus last week. Gold will be volatile this week on account of Fed meeting this. Gold had earlier gone up on account of big sell-off in world stock markets and concerns of negative interest rates adopted by Central Banks.

Corn was at $3.65/bushel by end of last week and is flat this year. Large corn supplies remain while export demand in the US is slower than expected preventing rallies in corn price.

Wheat was at $4.75/bushel by end of last week and is flat this year. The wheat market currently faces downward pressure from a strong dollar and large global stocks. Soybean was at $8.88/bushel by end of last week and had surged by close to 2% YTD.

Recently soybean prices arose on stronger soybean oil export sales. Cocoa was at $3,062/tonne by end of last week and had fallen by more than 4.5% YTD. Cocoa prices had fallen this year on higher global production. Coffee was at $125.80 pound. Pound by end of last week and had fallen by more than 2% YTD. Coffee prices had fallen as Columbia, Central America and Peru production added to global supplies. Sugar was at $15.13/pound by end of last week and had surged by more than 1% YTD.

Sugar price surged as Brazil real recovered against the dollar recently, giving some boost to Brazil sugar producers. Most of the Commodity prices have rallied in recent times and we need to see whether this can be sustained. Markets will look forward to Fed's view of economic growth and the pace of tightening this week.

Copper was at $4,986/tn by end of last week and had surged by close to 6 % in 2016. Aluminium was at $1,551/tonne and had surged by more 3% YTD in 2016. The revival seen more this month on hopes of stimulus from Chinese Government to revive growth. Also China's February copper imports — although down on a monthly basis owing to the country's week-long Lunar New Year holiday — were 49% higher than a year earlier at 420,000 tonnes. Nickel was at $8,797/tn by end of last week and was flat in 2016.

However, it had recovered this month on hopes of Chinese stimulus. Industrial metals had also rallied on ECB as investor optimism spread in the wake of the last week's European Central Bank's (ECB) announcement that it plans more economic stimulus. ECB reduced the rate on cash parked overnight by banks by 10 basis points to minus 0.4% and lowered its benchmark rate to zero. Bond purchases were increased to €80bn a month from €60bn, and corporate bonds will now be eligible.

The ECB's stimulus measures failed to weaken the euro and ended at 1.1156$ against the US dollar. The dollar rose against a basket of currencies by end of last week, bolstered by an increased appetite for riskier assets following unexpected action from the European and Chinese central banks and ended at 96.172. On the whole commodities rallied amid currency volatility.

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