

BANKING ON KNOWLEDGE

Commodities volatile due to Fed's revised outlook, Brexit concerns

By Dr R Seetharaman

WTI and Brent crude had ended last week at \$47.98/barrel and \$49.17/barrel respectively. Both of them had surged close to 30% YTD. It arose last Friday as the dollar fell and investors cautiously bought some riskier assets as anxiety eased about Britain's possible exit from the European Union.

But crude still posted a weekly loss after daily declines Monday through Thursday. Oil prices rose in spite of data showing US energy firms adding oil rigs for a third week in a row, suggesting higher production to come. Oil services firm Baker Hughes reported nine rig additions this week, the same as the week before and after the three rigs in the previous week. Natural gas was at \$2.623 by end of last week and had surged by 4.5% YTD. Natural gas rose to a nine-month



high as warm weather forecasts keep stoking expectations for strong demand this summer.

Gold had closed at \$1,298.65/ounce and silver had closed at \$17.5/ounce by end of last week. Gold has surged by more

than 22% YTD and silver by more than 26% YTD. Last Thursday, gold soared past the \$1,300 an ounce level capitalising on a weaker US dollar, a collapse in bond yields, weakness and volatility on equity markets, and fears of the financial fallout from Britain leaving the European Union.

The dollar index was at 94.206 by end of last week and had weakened by 4.5% YTD. The recent rally was sparked by non-farm payroll numbers in the US for May that showed the slowest gains in new positions in almost six years. That postponed the likelihood of a rate cut at least beyond the summer, which was confirmed by a dovish Federal Reserve meeting last week. Silver also arose along with gold.

Copper was at \$4,541/tonne by end of last week and had dropped by 3.5% in 2016. The rise in warehouse stocks in South Korea, Singapore and Taiwan is likely to depress prices in the near term. Aluminium was at \$1,608/tonne by end of



last week and had surged by 7% in 2016. It remains up on hopes of improving demand from China, low inventory and slow supply response.

Nickel was at \$9,018/tonne by end of last week and had surged by 3% in 2016. Nickel arose despite the fact that a major supply disruption was avoided. Workers at Colombia's Cerro Matoso nickel mine voted late last month to strike beginning on last Tuesday, but reached an eleventh hour agreement, averting a supply disruption at one of the world's largest ferromanganese mines. A weaker dollar also gave some boost to nickel prices.

Corn was at \$4.42/bushel. It is up by

18% YTD. The persistent hot weather in much of the US Midwest threatens crops and demand remains strong and increased the prices. Wheat was at \$4.94/bushel. It is flat and has also drawn support from hot weather. Soya bean was at \$11.59/bushel. It is up by more than 33% YTD.

Soya bean climbed on hopes of persistent hot weather. The National Weather Service last Friday warned of "dangerous heat" ahead for the southern US plain states, reviving longer-running concerns that hot, dry conditions could impact crop health and diminish yields.

Cocoa was at \$3,066/tonne. It is down

by 4% YTD. Cocoa prices had fallen a bit recently on hopes of rains in West Africa boosting the cocoa supply outlook. Coffee was at \$142.85/pound and is up by 7.77% YTD. The Brazil rains may impact coffee harvest. Sugar was at \$19.90/pound and has surged by more than 35% YTD.

Sugar climbed on supply concerns from Brazil due to weather and weakness in dollar.

The commodities have rallied on account of developments such as possible delay in fed tightening, Brexit concerns impacting the global economy and hot weather in US. Most of the commodities have surged since the beginning of the year mainly due to change in fed outlook.

It needs to be seen whether this rally can be sustainable and the volatility is expected to remain in the near term.

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