

BANKING ON KNOWLEDGE

Volatility hits currencies and commodities as trade conflicts take centre stage



By Dr R Seetharaman

The dollar index has surged by close to 3% YTD this year and had even crossed 95 levels last week, benefiting from the divergence in the US and European monetary policy. However, it has become weaker early this week on account of rising trade conflicts between the US and other countries, and is below 95. The euro was near \$1.16 and had weakened by more than 3% YTD. The ECB recently warned it would delay the raising of interest rates until after the summer of 2019, owing to signs inflationary pressures are still lacklustre, which had weakened the currency recently.

The British pound was near \$1.32 and had weakened by close to 2% YTD. The thin progress in Brexit negotiations

was the main reason for fall in British pound.

The Japanese yen was near 109.5 against the dollar and had strengthened by close to 3% YTD. The dollar fell to a two-week low against the yen on Monday as a latest global trade concerns dented investor risk appetites and drove down US yields.

WTI was near \$69/barrel, surged by close to 14% YTD and Brent was near \$75/barrel, surged by close to 12% YTD. Opec and non-Opec partners including Russia have since 2017 cut output by 1.8mn barrels per day (bpd) to tighten the market and prop up prices.

Along with this, the sanctions on Iran had also driven oil prices this year. Oil prices had fallen early this week as Opec deal was not as expected; however, recovered a bit. Opec was expected to increase the oil supplies



from next month. Natural gas was near \$2.9/MMBTU and has surged by close to 4% this year.

Gold hit a six week low last week and has fallen by close to 3% YTD on account of the surge in dollar. Silver has fallen by close to 3% YTD. Gold and silver continue to fall this week on account of rising trade conflicts. Gold was near \$1270/ounce and Silver near \$16.5/ounce.

Copper was near \$6800/tonne. It has fallen by close to 6% YTD. Aluminium price was near \$2180/tonne. It has fallen by more than 3% YTD. Copper

and aluminium which had rallied in 2017, corrected a bit this year as trade conflicts escalated.

Nickel price was above \$15,000/tonne by end of last week and had surged by more than 5% YTD. Nickel surge due to environmental production cuts across top producer China, plunging inventories and strong steel prices. Corn price was at 3.75USD/bushel. It had fallen by more than 3% YTD. Wheat price was near \$4.93/bushel and had surged by more than 6% YTD. Soybean was at \$8.85/bushel by end of last week and had fallen by more than 7% YTD.

The surge in dollar and intensifying trade conflicts between the US and China contributed to the fall in corn and soya bean prices. Cocoa was at \$2488/tonne and is up by more close to 30% YTD. Cocoa prices climb on account of supply concerns. Coffee was at \$117.20/pound and has fallen by more than 12% YTD. Sugar was at \$12.39/pound and has fallen by more than 18% YTD and on account of excess supplies.

Currencies and commodities markets have been hit by volatility in recent times as there has been escalation of trade conflicts in the last few months in the global space and has now taken the centre stage. This scenario is not expected change in the near future.

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