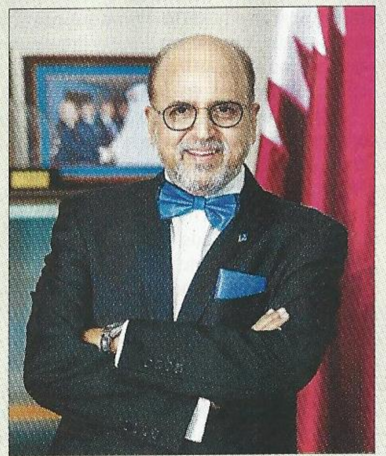
BANKING ON KNOWLEDGE

Commodity prices remain subdued as downside risks prevail

By Dr R Seetharaman



The WTI and Brent had closed at $49.80/ barrel and $52.15/ barrel by end of last week and had fallen by more than 7% and 8% respectively.

Oil prices plunged last week after Opec and other major exporters extended their current deal to limit oil production for nine months, disappointing investors who were anticipating deeper cuts.

Opec and other major producers, including Russia, will roll over their six-month deal to remove 1.8mn barrels a day from the market through March 2018. Investors had hoped the Opec might reduce output even further to drain a global glut that has depressed the market for almost three years. The natural gas price was at $3.310/ MMBTU and had fallen by close to 8%. Natural gas prices had fallen last week on larger than expected climb in US supplies.

Gold was at $1,266.76/ ounce and Silver was at $17.3520/ ounce by end of last week and had surged by more than 10% and close to 9% respectively. Gold and silver prices rose modestly after Fed minutes was released last week which revealed that US central bank policymakers want to see proof the country's economic slowdown is temporary before they raise interest rates, according to minutes of their latest meeting.

The Dollar Index had closed at 97.442 by end of last week and had fallen by close to 5% this year. The dollar had surged after US Trump's election wining on hopes economic reforms to improve infrastructure which could further accelerate US economic recovery. However, the uncertainty in economic reforms agenda and the cautious Fed has contributed to weakness in the US dollar.

Copper price was at $5,638/ tonne by end of last week and had surged by more than 2% this year. Copper had dropped last week as sentiment turned bearish on China.

Aluminium price was at $1949/ tonne by end of last week and had surged by more than 14%. Aluminium had risen this year on hope of Chinese supply side reforms.

Nickel price was at $9,040/ tonne by end of last week and had dropped more than 9% this year. Nickel price had fallen this year on muted demand.

Corn price was at $3.74/ a bushel by end of last week and had surged by close to 3% YTD. Corn had surged recently on hopes that record rain in South Africa could boost yields. Wheat price was at $4.38/ bushel by end of last week and had fallen by less than 1% YTD. Wheat prices had slipped a bit on reduced offtake and ample stocks.

Soya bean was at $9.26/ bushel by end of last week and had dropped by close to 4%. Soya bean price fell on due to the growing South American soybean crop mainly from Brazil. Cocoa was at $1911/ tonne by end of last week and is down by more than 9% YTD.

Cocoa has fallen on expectations of bumper harvests in West Africa, including record supplies from Ivory Coast. Coffee was at $131.20/ pound and had fallen by 7%. Hopes of better rains in Vietnam could improve yields for coffee crops.

Sugar was at $15.05/ pound and fallen by more than 20% YTD. The downward "pressure" on sugar prices as health fears hit demand for sugar.

The precious metals have rallied mainly due to geopolitical tension and oil prices rally challenged due to shale oil developments and lower than expected Opec action. In industrial metals, aluminium price was the main riser.

US shale oil, diminishing China demand and the Fed's gradual hiking cycle are the key risks to rally of commodities. These downside risks still prevail and have kept the commodity prices subdued.

■ *Dr R Seetharaman is Group CEO of Doha Bank.*