

BANKING ON KNOWLEDGE

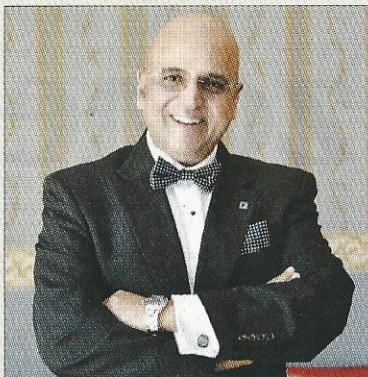
Will commodities be able to sustain their rally?

By Dr R Seetharaman

The WTI was \$52.78/barrel and Brent was \$61.52/barrel by the end of last week. It had surged recently due to fall in the number of oil drilling rigs in the US to its lowest since August 2011. The number of rigs drilling for oil in the US fell by 84 last week to 1,056, a clear sign of the pressure that tumbling crude prices have put on oil producers.

Oil prices have rebounded since late January, partly due to expectations the lower rig count will eventually shrink US production, curtailing the supply glut. Oil price also arose on account of eurozone growth of 0.3% in last quarter of 2014. The eurozone's biggest economy, Germany, was a clear outperformer, growing by 0.7% in the quarter. The positive job data from US economy also contributed to surge in oil prices.

Despite surge in oil prices there are ex-



pectations that there is global oversupply of 2mn barrels per day of crude oil. The natural gas price was \$2.804/mmbtu by end of last week and had fallen by more than 3% YTD. The price of US natural gas price fell recently as the Energy Information Administration reported inventories fell by 160bn cubic feet for the week

ending February 6, to 2.3tn cubic feet. The withdrawal was below the average estimate of 168bn cubic feet. Natural gas have fallen the most in recent winter as surging production has overwhelmed the prospect of colder temperatures.

Gold and silver were \$1229.76/ounce and \$17.36/ounce by end of last week and have surged by more than 3% YTD and 10% YTD respectively. Gold and silver arose last week as weaker US consumer confidence added to concerns that the economy is slowing, boosting demand for the precious metal as a haven. Gold had fallen significantly in last 2 years as fed ended its easing programme. Faster US expansion prompted some investors to lose faith in the metal as a store of value amid expectations that the Federal Reserve would raise interest rates.

Copper was \$5754/tonne by end of last week and had fallen by more than 9% YTD. Copper edged lower recently

after surprisingly weak Chinese import data at the weekend fuelled worries that economic growth in the world's top consumer of metals may be more fragile than anticipated. China's trade performance slumped in January 2015, with exports falling 3.3% from year-ago levels while imports tumbled 19.9%. Nickel was \$14589/tonne by end of last week and had fallen by more than 3% YTD on account of supply glut and weak demand from China. Aluminium was \$1822/tonne and the prospect of growing surge of supply from China can bring down aluminium prices.

The CBOT corn was \$3.95/ Bushel by end of last week and is down by 2.5% YTD. The US Department of Agriculture (USDA) projected higher-than-expected global corn stockpiles, totalling 189.6mn metric tonnes for the 2014-15 season resulting in drop in corn prices recently. The CBOT wheat was \$5.29/bushel by end of last week and is down by close to 11% YTD.



US wheat prices declined recently after the government projected larger stockpiles of the grain than had expected. Globally, wheat inventories will reach 197.9mn metric tonnes in 2014-15, the USDA said, above estimates for about 196mn tonnes. The CBOT soyabean was \$9.9/ Bushel by end of last week and has fallen by more than 2% YTD. The USDA pegged domestic soybean stockpiles at the end of the 2014-15 season on August 31 at 385mn bushels, reflecting strong export demand.

ICE Cocoa was at \$2931/tonne by end of last week and surged by 1% YTD. The demand is up with new, burgeoning markets in India and China, however, supply is down around the world after drought and diseases have impacted regions where cocoa beans are grown contributing to surge in cocoa prices. ICE Coffee was at \$166.5/ Pound by end of last week and was down by close to

2% YTD. Expectations of rain across top producer Brazil's main coffee-growing regions continue to ease concerns about this season's crop and brought down price marginally. ICE sugar was at \$14.84/ pound by end of last week. High global stocks of the sugar on hopes of higher output from Brazil brought down price marginally.

The US dollar index was at 94.20 by end of last week and a strong dollar had also contributed to the fall in commodity prices and prevented their strong rallies. Precious metals and hydrocarbons witnessed some rallies in recent times. However, other commodities remain weak.

Taking into consideration the current global scenario it needs to be seen whether the commodities can sustain their rally.

● Dr R Seetharaman is Group CEO of Doha Bank. The views expressed are his own.