



# Lower commodity prices improve financial stability of emerging economies

**M**OST OF THE commodities prices had softened recently. WTI had fallen below \$90 per barrel this month the first time since April 2013 after Saudi Arabia cut its prices to Asia. Brent crude had fallen below \$92 per barrel this month and had hit a 27-month low on account of a strong dollar and sufficient oil supply. US production is the highest since 1986, while Opec output expanded to the most in a year. The International Energy Agency last month reduced its projections for demand growth this year and in 2015, citing a weakening economic outlook. However, oil prices recovered a bit as US dollar index marginally corrected as uneven US labour-market data refuelled the debate over when the Federal Reserve will raise interest rates. The US added 248,000 workers and the jobless rate declined to a six-year low in September of 5.9 per cent. The US dollar index is still close to 86 levels. Natural gas prices touched \$4 this month due to forecasts of colder-than-normal weather in October 2014 however prices fell due to milder weather forecasts in Eastern and Central USA and expectations of surge in inventory.

Gold and silver regained a bit on marginal correction in dollar. Gold is above \$1,200/ounce and silver above \$17/ounce. Earlier both gold and silver had fallen as Fed withdrawn its easing measures and on account strength of US dollar. Copper is above \$6,700/tonne. Aluminium is close to \$1,900/tonne. Copper and aluminium had fallen in recent months on account of slowdown in Chinese economy. Industrial output in China has fallen, and with it demand for aluminium. Nickel is above \$16,480/tonne and has fallen on account of surge in inventories.

This month soybean surged the most in more than a year and corn gained on signs of improved demand for US supplies after prices tumbled this year as rain slowed harvesting in parts of the Midwest. Soybean is at \$9.39/bushel and corn is at \$3.32/bushel. The fear of El Nino had resulted in drop in wheat prices. Wheat price is at \$4.92/bushel.

Cocoa prices had arose last month on concerns of Ebola virus spreading through West Africa that supplies of cocoa, one of the region's top exports. It is close

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to \$3,100/tonne. The emerging economies except China continue to face challenges from stagflation. The inflation continues to be sticky and growth struggling to recover. A weak currency and high interest rates also further complicated this scenario. The gross domestic product (GDP) in Brazil contracted 0.60 per cent in the second quarter of 2014 over the previous quarter and is expected to grow by less than one per cent this year. The Brazil central bank has a mandate to keep inflation at 4.5 per cent with a two per centage-point tolerance range on either side of that, but inflation has stayed close to 6.5 per cent ceiling. The central bank says it won't come close to the 4.5 per cent target until mid-2016.

Russia's GDP expanded 0.8 per cent in the second quarter of 2014 on account of Ukraine tensions. Consumer prices jumped eight per cent from a year earlier in September after the conflict in Ukraine triggered a ruble selloff, sanctions from the US and European Union, and a retaliatory food import ban from Russia that drove up costs for Russians.

India's GDP grew at 5.7 per cent in the first quarter of 2014-15, however India's consumer price inflation (CPI) rate was at 7.80 per cent in August of 2014. The RBI has targeted to keep CPI inflation at eight per cent in January 2015 and bringing it down to six per cent by January 2016. China's consumer inflation rate rose two per cent in August 2014 from a year earlier, below the government's target of 3.5 per cent and it's second quarter growth was at 7.4 per cent. The fall in commodity prices can provide relief from the stagflation situation in emerging economies and thereby improve their financial stability.

*The writer is the group chief executive officer at Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.*