



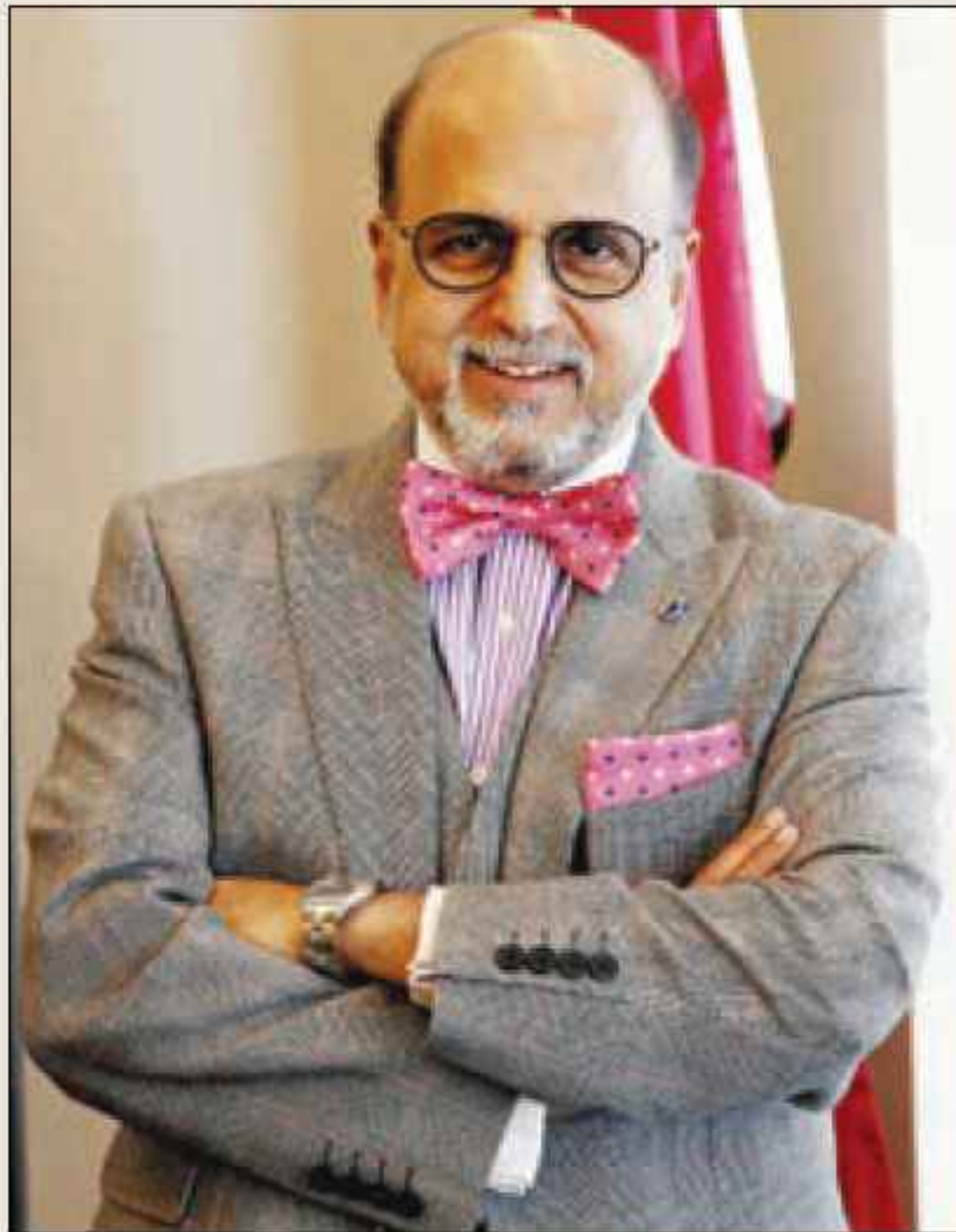
BANKING ON KNOWLEDGE

Can commodities rally sustain amid Covid-19 crisis?

By Dr R Seetharaman

Gold is at \$1,738/ounce and silver is above \$18/ounce. Gold has surged by more than 14% YTD and silver has surged by close to 1% this year. Gold's trading pattern past month reveals resilience, with any price dips being bought up by investors and gold staying firmly above the \$1,700 an ounce level. Silver rates have been lifted on optimism that industrial demand of the metal may revive as countries reopen their economies.

WTI was above \$35/barrel and Brent was above \$38/barrel and both have recovered from their yearly lows in April 2020, which had happened due to concerns of Covid-19 and slowdown in global economic growth. Opec+ is set to bring forward its meeting to this week. If without an extension, the extraordinary cuts agreed upon in April 2020 — 9.7mn barrels per day — will expire at the end



of June. There are conflicting signals over how unified the Opec+ parties are on an extension. Saudi Arabia reportedly wants to extend the cuts until the end

of the year, while Russia has characteristically shown reluctance. Copper was above \$5400/tonne, aluminium was above \$1500/tonne and Nickel was above \$12550/tonne. Copper had fallen by close to 11% YTD, aluminium had fallen by close to 15% YTD and Nickel by close to 10% YTD. Their prices had recovered a bit after steep fall in March 2020 due to the Covid-19 pandemic. The recent revival in prices is after manufacturing data from China pointed to a continuing recovery.

Corn price was at \$3.23/bushel, wheat price was at \$5.15/bushel and soybean was at \$8.40/bushel. Corn price is down by more than 19% YTD. Wheat was down by 8% YTD. Soyabean was down by 10% YTD. The market remained underpinned by concerns about crop prospects in both the United States and Europe. Generally favourable planting conditions in the US for corn, wheat and soybean also added to the downward pressure on prices.



Cocoa was at 2455/tonne and is down by more than 2% YTD. Coffee was at 98.30/pound and has fallen by more than 26% YTD. Sugar was at \$11/tonne and is down by close to 19% YTD. The agricultural commodities have recovered from their yearly lows in March 20, which had happened due to the outbreak of Covid-19. The dollar index is at 97.81 and has surged by more than 1% YTD. The greenback remains under heavy pressure at the beginning of the month, threatening to extend the downtrend well below the 98.00 mark against the backdrop of firm risk-on sentiment. In the meantime, dollar remains vigilant on the US-China trade front, the gradual return to some sort of normality

in the US economy and the broader risk appetite trends as main drivers of the price action. Euro was at \$1.1136. Euro has remained range bound against the dollar in May, and volatility has eased. The European Central Bank (ECB) meets on June 4 and is widely expected to increase its Pandemic Emergency Purchase Plan. Pound sterling and is at \$1.2496. Pound had weakened by close to 6% YTD. The Covid-19 pandemic has hit the UK hard, and it is slower than many other countries to re-open. Yen was at 107.71 against the US dollar. The dollar-yen exchange rate was stable in May between ¥106 and ¥108.

Swiss franc was at 0.9613 against the US dollar. Australian dollar continues to be the weakest dollar's rival, triggered by Chinese woes. It has weakened by close to 3% YTD and is at 0.6803 US dollar.

Most of the emerging economy currencies have weakened this year account of Covid-19. The Indian rupee is near 75.60 levels against the US dollar. The South African rand is above 17 levels against the US dollar. The Russian rouble was above 68 levels against the US dollar. The Chinese yuan was below 7 against the US dollar and the Brazilian real was above 5 against the US dollar.

The Dollar Index has regressed below 98 and this has also given boost to the commodity prices. Currencies are volatile and commodity prices have recovered from their yearly lows in March 2020. However, it needs to be seen whether they can sustain their rally amidst the Covid-19 crisis.

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