BANKING ON KNOWLEDGE

Banker's Take

Can the oil price rally sustain?

By Dr R Seetharaman

The dollar index was at 91.042 by end of last week and had surged by more than 1% YTD. The continuation of the uptrend in the dollar is expected to remain somewhat contained amidst the fragile outlook for the currency in the medium/longer-term, and always against the backdrop of the current massive monetary/fiscal stimulus in the US economy, the "lower for longer" stance from the Fed and prospects of a strong recovery in the global economy.
The US economy added 49,000 jobs last month and the unemployment rate fell to 6.3%, suggesting that the labour market is stabilising. The Euro was at $1.2046 by end of last week and euro weakened by more than 1% YTD. The eurozone seen as lagging behind on vaccinations, an economic recovery seen as still far away and another interest rate cut still a possibility has

made the euro weaker. The pound was at $1.3735 by end of last week and surged by less than 1% YTD. Last week the Bank of England opted to not cut interest rates into negative territory, and has done so with a unanimous vote of the Monetary Policy Committee (MPC).
The initial decision and subsequent guidance from the Bank has prompted a rally in the British Pound.
The yen was at 105.39 against the US dollar by end of last week and has weakened by more than 2% YTD. The Swiss franc was at 0.899 against the US dollar by end of last week. It had weakened by 1.5% YTD.
On emerging economy currencies the Indian rupee was at 72.92 against the dollar by end of last week and has marginally strengthened YTD on account of strong inflows in stock market.
The South African Rand was at 14.844 against the dollar by end of last week and has weakened by more than 1% YTD.
The Brazil real was at 5.3778 against the dollar by end of last week and has weakened by 3.5% YTD against the dollar.
The Russian rouble was at 74.6495 against the dollar by end of last week and had weakened by less than 1% YTD.
Gold is at $1814.11/ounce and had weakened by more than 4% YTD on hopes of global economic recovery from Covid-19. Silver is at $26.92/ounce and had strengthened by close to 3% YTD. WTI was at $56.85/barrel and Brent at $59.34/barrel by end of last week.
WTI surged by close to 17% YTD and Brent by more than 14% YTD. Oil has surged near $60 a barrel as Chinese consumption surpasses pre-virus levels, the vaccine rollout restores confidence, and the Opec cartel and its allies keep a tight leash on supply.
Natural gas was at 2.863/MMBTU and had surged by more than 13% YTD. The prices had surged on account of cold weather and larger than expected draw in natural gas inventories.
Copper was at $7927/ Tonne. It had surged by more than 3% YTD. It has surged as the market responds to global stimulus. However concerns of coronavirus from China could impact if the cases surge. Aluminium was at $2012.25/tonne. It had surged by more than 1% YTD. Nickel was at $17,954/ tonne and had surged by more than 9% YTD. It may benefit from China's growing need for electric-vehicle batteries.
Corn is at $5.485/bushel and is up by more than 13% YTD. Wheat is at $6.4125/bushel and is flat this year. Soyabean is at $13.66/bushel and surged by more than 4% YTD.
Tropical cyclone threatens grain harvests and contributed to surge in prices of corn. The delayed supplies of Soyabean to China has created surge in prices. Cocoa was at 2472/tonne and is down by more than 2.5% YTD. Coffee was at 124.50/pound and has fallen by more than 3% YTD.
Sugar was at $16.4/tonne and surged by 6% YTD.
Cocoa drops as weak demand sees supplies pile up in Africa. The bearish bets for coffee has increased recently after a surge. Raw sugar touched a two-week high on expectations that higher oil prices will feed through to lower sugar production in top exporter Brazil.
We need to see whether this oil rally sustains amid lockdown extensions. The average oil price this year is expected to be $55/barrel. If demand really picks up, we could see shortage of oil quickly, because US production isn't going to come back fast. The expectation for stronger oil demand is also supporting prices, with government's worldwide distributing Covid-19 vaccines. We see a lot of discipline from Opec+ and therefore the market is being held in balance quite well.

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