

BANKING ON KNOWLEDGE

How long can this oil rally sustain?



By Dr R Seetharaman

The dollar index was at 97.395 by end of last week. The nonfarm payroll employment increased by 196,000 in March, and the unemployment rate was unchanged at 3.8%. The yen had weakened by close to 2% YTD this year and was at 111.73 against the US dollar by the end of last week. The euro is down by more than 2% YTD on concerns of slowdown in euro-zone. The euro was equal to 1.1216 dollar by the end of last week. Pound strengthened by more than 2% YTD on hopes of Brexit actions, which is still underway. The pound was equal to 1.3038 dollar by end of last week. The Swiss franc had weakened by close to 2% YTD on account fall in safe-haven demand. The Australian dollar is flat this year and was equal to



0.7105 US dollar by the end of last week. The Indian rupee was at 69.22 against

the US dollar by the end of last week. The surge in oil price and hopes of the NDA coalition winning the elections had kept the rupee volatile. The yuan was at 6.71 against the US dollar by the end of last week. It had strengthened by close to 2.5% this year. The recent strengthening of the currency was on the hopes of positive outcome in the trade talks between the US and China. The Russian rouble has strengthened this year mainly on account of surge in oil prices.

The WTI and Brent were above \$63/barrel and \$70/barrel by the end of last week. After a quarter into this year, signs have started to appear that concerns over faltering demand growth may have been overblown. This, coupled with a tightening market due to Opec and allies' cuts, the US

sanctions crippling Venezuela, Libyan civil war concerns and Iranian oil sales had contributed to a surge in oil prices by more than 30% this year. Natural gas prices had fallen recently on account of a very bearish storage report and is now at \$2.66/MMBTU. Gold is at near \$1,300/ounce levels and silver at \$15/ounce levels. Gold prices rose to a one-week peak on Monday as the dollar edged lower, while investors awaited minutes of the US Federal Reserve's March meeting later this week. Copper prices fell last week as weak German factory data underlined concerns about the outlook for demand and a big inflow of metal into London Metal Exchange (LME) warehouses suggested supply was adequate. At the end of last week it was at \$6,385/tonne.

The World Trade Organisation (WTO) slashed global growth outlook to the lowest in three years. Tariff war will hit global growth. Aluminium and nickel fell after the WTO forecast. Aluminium price was at \$1,864/tonne and nickel price was at \$12,987/tonne respectively by the end of last week. Corn price was at \$3.63/bushel by the end of last week. It had fallen on account of competition from South America. Wheat price was at \$4.67/bushel by the end of last week. It had fallen on account of drier weather. Soybean was at \$8.99/bushel by the end of last week. It is up on hopes of a positive deal emerging from China-US trade talks. Cocoa was at \$2,410/tonne by the end of last week. Surge in supplies had brought down the price of cocoa.

Coffee was at \$93.20/pound by the end of last week. Big harvests of coffee due to favourable weather conditions has dragged down the prices. Sugar was at \$12.76/pound by the end of last week. Sugar prices are up on account of Brazil concerns. The concerns of global growth remain, the outcome of trade talks between the US and China is unknown, the US Federal Reserve's monetary tightening could come to an end. Amidst these developments, we need to see how long can this oil rally sustain. The recent strengthening of the dollar could impact the oil price and it could average between \$60 and \$65 a barrel this year.

■ The author is Group CEO of Doha Bank.