

BANKING ON KNOWLEDGE

Falling commodity prices in an uneven global recovery

By Dr R Seetharaman

The WTI was \$51.64/barrel and Brent at \$57.87/barrel by end of last week.

Oil prices marginally gained by end of last week after oil-services firm Baker Hughes reported weekly drop in the number of US oil rigs. Baker Hughes stated the number of US oil rigs fell by 42 to a total of 760 in the latest weeks.

Earlier the oil price had fallen as data from the American Petroleum Institute (API) showed US crude stocks surged by 12.2mn barrels last week against expectations for an increase of 3.4mn barrels and as Saudi Arabia reported record output of 10.3mn bpd in March 2015.

The preliminary Iran deal also contributed to the fall in oil prices. However, the oil price had a boost last week as Saudi Arabia increased prices for Asian customers due to improvement in the refining margin for gasoline and diesel.

Natural gas price was at \$2.51/MMBTU by end of last week and has fallen by more than 13% YTD. It had fallen last week



as US Energy Information Administration (EIA) reported that US natural gas stocks increased by 15bn cubic feet for the week ending April 3. The demand for heating is also expected to be low which contribute to the drop in Natural gas price.

Gold and Silver were \$1207.59/ounce and \$16.465/ounce by end of last week. Gold and silver had recently fallen after the release of Federal Reserve minutes

of the Fed's March 17-18 meeting. The minutes revealed that central bank's members were divided on whether to raise interest rates in June 2015 with "several" officials judging that the economic outlook warranted monetary-policy tightening in June.

Others said energy-price declines and a stronger dollar would continue to curb inflation, arguing for a rate increase later in the year. A couple said the economy probably wouldn't be ready for tighter policy until 2016. The news came as a surprise to investors, who believed the central bank was leaning to the dovish side on monetary policy after a pessimistic assessment of the economy at the Fed's last meeting. The US dollar index also got a lift from the fed minutes and ended at 99.338 by end of last week.

Copper was at \$6056/tonne by end of last week and has fallen by close to 5% YTD. Copper prices plunged recently as weaker US auto industry sales and downbeat US manufacturing data weighed on prices. However, steps by China to shore up its economy limited losses and higher



than expected consumer price index of 1.4% in March 2015.

Nickel has fallen by more than 16% YTD in 2015 and closed at \$12,581/tonne by end of last week as record supply and weak stainless steel demand hurt prices. Aluminium price has fallen by more than 3% YTD in 2015 and has closed at \$1770/tonne by end of last week as slowdown in China and impacted aluminium prices.

The CBOT Corn was \$3.77/bushel by end of last week and is down by more than 7% YTD. In the US, the corn prices moved lower on higher stock level. Global corn ending stocks for the 2014-2015 marketing year are projected to be at 185.3mn tonne, highest since 1999-2000, when the stocks were at 194.4mn tonne.

The CBOT Wheat was \$5.24 /bushel by end of last week and is down by more than 12% YTD. Wheat had losses

as weather forecasts improved rain chances for winter wheat in the Plains states. The CBOT Soybean was \$9.51/ bushel by end of last week and is down by more than 6% YTD. US soybean inventories on March 1 were pegged by the government at 1.334bn bushels, up from 994mn a year earlier. The expectation of good soybean production in South America this year will also contribute to fall in prices.

ICE Cocoa was at \$2,783/tonne by end of last week and had fallen by more than 3% YTD. The outbreak of Ebola in West Africa caused the price of cocoa to rally to the highs of the year in last September. No supply problems noticed from cocoa producing countries contributing to marginal fall. ICE Coffee was at \$137.85/pound by end of last week and has fallen by more than 19% YTD. Coffee moved lower during

Q1, as rains in Brazil were beneficial to this year's crop. ICE Sugar was at \$12.83/ pound by end of last week and has fallen by more than 14% YTD. This year the crop in India is the biggest in three years, while Thai sugar production is up 6.1percent. Excess Global supply contribute to fall in sugar prices.

The developing countries are adapting to falling commodities and an uneven global economic recovery in recent times. The implications of falling oil price will have impact on economies in the short and medium term. Some of the World's Central Banks are also facing an increasing challenge in getting inflation to risk back to their longer-term goals on account of falling commodity prices.

Taking into consideration the falling commodity prices in an uneven global economic recovery, the IMF World Bank Group Spring meeting which will be held at Washington DC this week is expected to discuss on the above matters.

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