

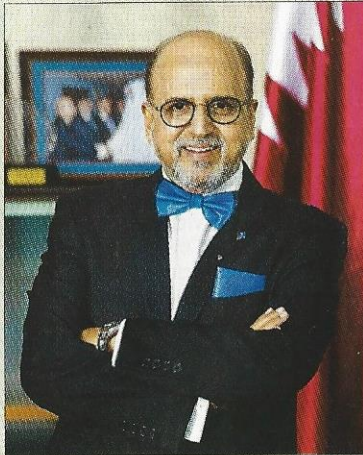
BANKING ON KNOWLEDGE

Dollar-commodities correlation has weakened

By Dr R Seetharaman

Oil prices have rallied back into the mid \$50's on a bullish data, but a rising rig count and elevated production in the Gulf of Mexico could cap oil prices in the near term. Oil posted some solid gains last week on outages in Libya, increased confidence in an Opec extension, and the first sizeable drawdown in US crude stocks this year. The WTI was at \$53.18 per barrel and Brent at \$55.89 per barrel by end of last week and had fallen YTD by close to 1% and 2% respectively. Natural gas was at 3.227\$ per MMBTU and had weakened by close to 9% this year.

Gold and silver prices bolstered last week as the US dollar fell after US President Donald Trump said the currency has been trading at "too strong" of a level. Gold also had been trading higher,



based on geopolitical tensions, including those between the US, Russia and North Korea. Gold and silver ended last week

at \$1,285.69 per ounce and \$18.51 per ounce and had surged by more than 12% and 16% respectively this year. The Dollar Index was at 100.510 by the end of last week and had weakened by close to 2% this year.

The copper price was at \$5,660 per tonne and had surged by more than 2% this year. Copper prices subsided after one of the world's largest mines in Indonesia came online. However, strike in mines in Peru could give some boost to copper prices.

Aluminium price was at \$1,895 per tonne and had surged by more than 10% this year. Nickel price was at \$9,695 per tonne and has dropped close to 2% this year. The large global supply overhang and the return of Indonesian ore to the market point towards a low risk of substantial price increases for nickel.

Corn price was at \$3.78 per bushel and



has surged by close to 4% YTD. The markets reacted favourably to the reduced corn planting and the increased corn usage as highlighted in March 31 Prospective Plantings and Grain Stocks reports. Wheat price was at \$4.42 per bushel and has surged by more than 1% YTD.

Wheat prices have slipped a bit on reduced offtake and ample stocks recently. Soya bean was at \$9.55 per bushel and had dropped by close to 4% YTD. Soya bean price fell on due to the growing South American soybean crop mainly from Brazil and Argentina. The March 31 Prospective Plantings and Grain Stocks

reports was more bearish than people expected. They came up with an almost 6mn acre increase in soybean plantings, which was a lot more than the market had anticipated.

Cocoa was at \$1,915 per tonne and is down by more than 9% YTD. Cocoa was at 4 week low on account of surplus and due to agreement between Ivory Coast, Ghana and Cocoa on a Cocoa marketing accord. Coffee was at \$141.25 per tonne and is less than 1% YTD. Cocoa prices are down due to an abundant supply and weakening demand.

Sugar was at \$16.57 per pound and surged by more than 12% YTD. The down-

ward "pressure" on sugar prices, flagging the fresh supplies from the opening of a 2017-18 cane-crushing season in Brazil, the top producer and exporter of the sweetener.

The precious metals have rallied mainly due to geopolitical tension and a challenged oil prices rally due to shale oil developments. In industrial metals, the price of aluminium was the main riser. The dollar's rally has slightly faded this year after strengthening since US election results and Fed rate hike in 2016. However, this has not affected a commodities rally. In recent times, commodity prices are driven by other specific factors applicable to them apart from dollar. On the whole, the correlation between dollar and commodity prices have subsided.

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