

BANKING ON KNOWLEDGE

Is commodity rally sustainable?

By Dr R Seetharaman

The WTI and Brent had ended at \$53.40/barrel and \$55.81/barrel respectively by the end of last week, YTD fallen by 0.6% and 1.78% respectively. Oil prices slipped last Friday, retreating from the previous day's gains under pressure from a stronger US dollar and rising shale oil output, but losses were limited by expectations that producing countries will eventually cut enough output to reduce a global glut.

US energy companies added oil rigs for a fifth straight week, Baker Hughes said, extending a nine-month recovery with producers encouraged by buoyant crude prices, which have held mostly over \$50 a barrel since late November. Globally, the Organisation of the Petroleum Exporting Countries (Opec) and other producers, including Russia, agreed to cut output almost 1.8mn barrels per day (bpd) during the first half of 2017.

Opec could extend the pact or apply deeper cuts from July if global crude inventories fail to drop enough. Natural gas was at \$2.834 /MMBTU by end of last week. Natural gas has fallen to a new three-month low due to lower-than-expected draws on storage due to higher production, resulting in oversupply in forthcoming months.

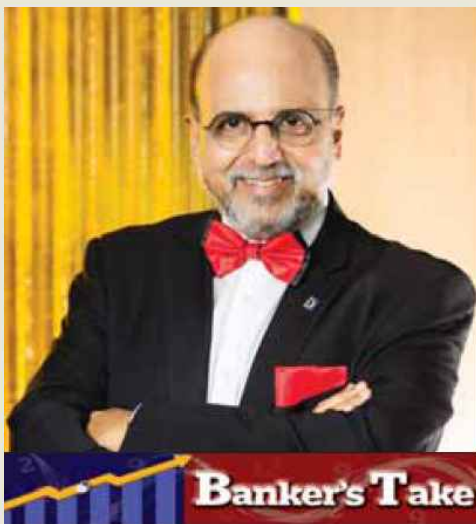
Gold and silver had ended at \$1234.60/ounce and \$17.99/ounce by end of last week, YTD surged by close to 8% and 13% respectively. Gold prices tallied a third consecutive weekly gain as political uncertainty continued to boost investment demand for the metal.

Although the strong likelihood of the Fed raising US interest rates this year may pressure gold in the longer term, the forthcoming events in Europe, Brexit woes and the Trump saga may ensure gold remains buoyed in the short term.

Last week, silver recorded its first benchmarking above \$18 since mid-November, immediately after Donald Trump's victory in the US presidential election.

Copper price was at \$5945/tonne and had surged by close to 8% this year. Chinese consumption recovered, Donald Trump pledged infrastructure spending and the prospect of a prolonged stoppage at BHP Billiton's Escondida mine in Chile has driven copper prices. Aluminium price was at \$1868/tonne and had surged buy close to 10%. This was driven mainly by Chinese proposal to cut aluminium supply to fight pollution. Nickel price was at \$ 10,993/tonne and had surged by more than 10% this year. Nickel prices increased as Philippines moving ahead with regulations on its mining industry.

Corn price was at \$3.75/bushel and had surged by more than 5% YTD. Corn prices which had surged recently had fallen a bit last week as speculative



buying slowed on new concerns about corn exports to Mexico. Wheat price was at \$4.55/bushel and had surged by more than 8% YTD. Buyers have been pushing wheat grain prices higher amid positive demand signals, though some liquidated bets. Last week, wheat prices slid for a second consecutive session amid profit-taking by traders after grain markets reached more-than-seven-month highs earlier in the week. Soya bean was at \$10.32/bushel and had surged by close to 4% YTD. Last week soybean prices fell to a two-week low, declining amid speculation that rival crops in South America are getting bigger amid largely benevolent weather.

Cocoa was at \$2000/tonne and is down by more than 5% YTD. Cocoa prices are in a meltdown due to an abundant supply and weakening demand as growing health consciousness grips consumers. Coffee was at \$149.55/pound and is up by more than 7% YTD.

Coffee advanced recently on account of dry weather in Vietnam. Sugar was at \$20.30/pound and surged by more than 5% YTD. Sugar had surged on account of shorter supplies in Brazil. Most of the commodities have rallied this year. However we need to see how Fed is going to act in its next meeting in March. US Federal Reserve Chair Janet Yellen hinted at a hike in interest rates in an upcoming meeting of the central bank. Striking a more hawkish tone than investors had expected, although she did flag considerable uncertainty over economic policy under President Donald Trump's administration. We need to wait and see as to whether this commodity rally is sustainable.

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