BANKING ON KNOWLEDGE


# Challenging times for commodities

By Dr R Seetharaman

WTI was at $50.89/ barrel and Brent crude at $57.10/barrel by end of last week. WTI has fallen by more than 4% YTD and Brent crude is flat YTD, with concerns over a global supply glut continuing to take a toll on sentiment.

The recent Iran-West deal has also added potential for further downside in oil prices. However, it is expected that Iran could need at least six months to return to production levels near pre-sanction levels. Iran's production can rise up to 500,000bpd by mid of 2016.

The US oil rig count fell by seven last week to 638, according to the driller Baker Hughes, with 1,554 active rigs at this time last year, which gave some support to oil prices.

The surge in US dollar supported by positive data in the US economy and prospects of a Fed's lift-off later in the year have also been contributing to the pessimism around crude oil.

According to the International Energy Agency (IEA) oil prices may fall further as the world remains "massively oversupplied," before markets tighten in 2016 when output growth outside Opec is expected to grind to a halt.

Natural gas was at $2.870/mmbtu by end of last week and is down by more than 5% YTD. Last week it had fallen after the EIA stated that natural gas stocks increased by 99bcf for the week ended July 10, 2015, with the better-than-expected inventory increase leading to the decline in natural gas prices. However, expectations of warmer weather across several regions in the US gave some boost to natural gas prices.

Gold was at $1,134.14/ounce and silver was at $14.88/ounce by end of last week. Last Friday gold hit a 5 year low of $1,130/ounce. Silver, too fell below $14.90/ounce, a level not seen since 2009.

Last week, US Federal Reserve chair Janet Yellen stated that the US Fed would raise interest rate this year if economy evolves as expected.

A strong US dollar along with expectations of interest-rate hikes have contributed to a bullion downtrend. Copper was at $5,459.75/tonne by end of last week and has fallen by more than 14% YTD. Copper prices had fallen last week on concerns of slowdown in the Chinese economy and as global inventories jumped the most since march, signaling ample supplies.

Nickel was at $11,460.5/tonne by end of last week and has fallen by close to 24% YTD. Nickel had suffered from weak global demand and increased stockpiles in China. However, last week it gained on hopes that increased demand from China could lead to shortage in Nickel.

Aluminum was at $1,655/tonne by end of last week and has fallen by more than 9 % YTD. The expansion in china is slowing, resulting in shrinkage in capacities thereby contributing to drop in Aluminum prices.

Corn was at 4.31$/bushel. Though it is up by more than 2% YTD, it had fallen last week on hopes of hot weather which can aid the Corn crops. Wheat was at 5.54$/bushel and had fallen by more than 8% YTD. It had fallen recently on account of advancing harvest and strong dollar.

Soya bean was at 10.14$/bushel and YTD is flat, it had fallen last week on expectations of warmer weather.

Cocoa was at $3,346/tonne and has surged by more than 16% YTD. Persisting concerns related to Ghana's crop and the El Nino weather event affecting the upcoming cocoa season had contributed to surge in prices. Coffee was at $128.4/tonne and has fallen by more than 26% YTD. Prices have fallen due to increasing exports from Brazil and weakening of Brazil real and failed to recover significantly.

Sugar was at $11.96/pound and has fallen by more than 23% YTD. Favourable outlook from Brazil sugar harvest, sugar exports from India could double resulting in excess supply in global market and hence a fall in sugar prices.

The Iran-West deal, US Fed expectations on rate hikes, slowdown in Chinese economy, favourable weather conditions and a strong dollar have contributed to softening of prices in major commodities in recent times.

On the whole, commodities are facing challenging times.

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