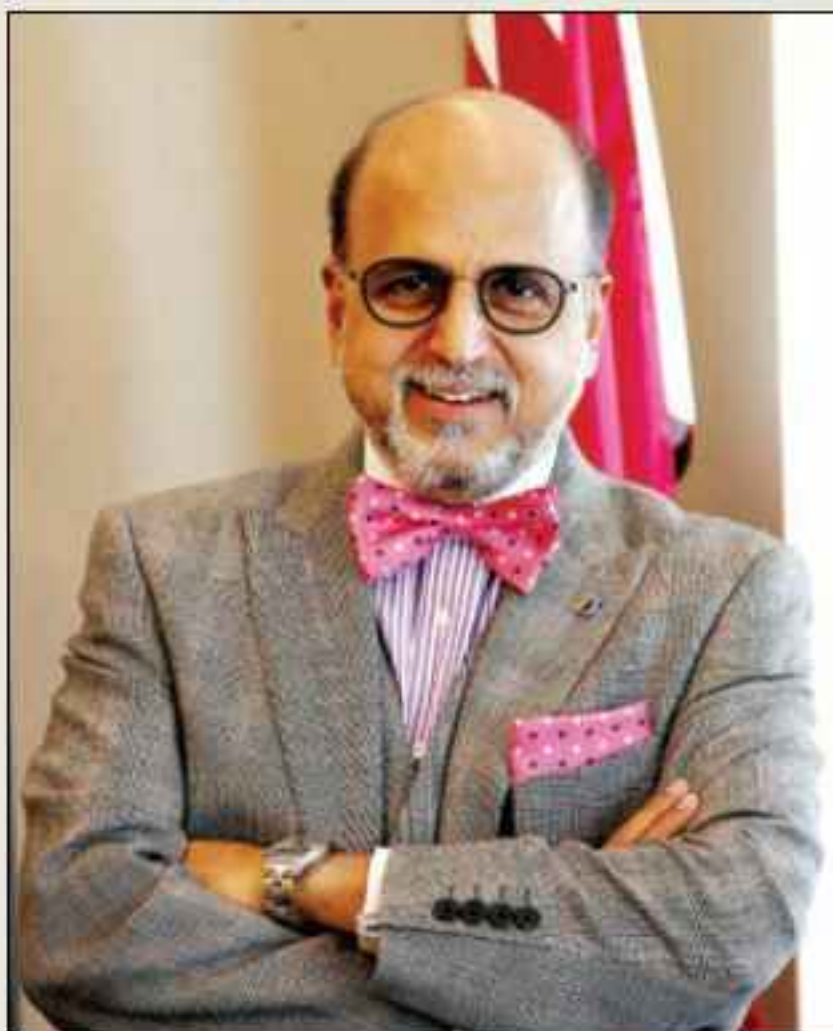


BANKING ON KNOWLEDGE

Dollar's weakness boosts rally in commodities and currencies

By Dr R Seetharaman

Gold was above \$1900/ounce and silver was at \$22.76/ounce by end of last week. Gold has surged by close to 25% YTD and silver by close to 27% YTD. The US-China tensions have added to fears over a hit to the global economy, already reeling from the impact of the coronavirus pandemic. The surge in such tensions could lead to a slowdown in the global economic growth. The weakness in dollar has contributed to a surge in precious metals. Dollar index was at 94.435 by the end of last week. The advancement of the coronavirus pandemic in the US and across the world vs. the probability that a Covid-19 vaccine could be out in the medium-term, plus the ongoing reopening of global economies, are all driving the sentiment on the global markets while keeping the demand for the safe haven, the dollar, depressed. WTI was at \$41.34/barrel and Brent



was at \$43.34/barrel by end of last week. Both of them have fallen and recovered from their yearly lows this year, but are still down by more than 30% YTD. In the last week, the oil prices have surged after the historic stimulus package, forged by

the 27-nation European Union after significant negotiations, which helped to set the stage for a climb in oil prices. However, the Energy Information Administration data showed weakening in gasoline demand after a surge in the number of coronavirus cases. The outlook for crude oil demand in the US turned bearish as the latest weak US jobs report fueled growing economic uncertainty. Oil prices were under pressure as demand is down.

Copper was above \$6430/tonne, aluminium was above \$1660/tonne and nickel was above \$13600/tonne. Copper had surged by close to 5% YTD, aluminum had fallen by close to 7% YTD and nickel by close to 2% YTD. Copper rallied last week after the agreement on a massive economic stimulus plan in Europe, optimism about a Covid-19 vaccine and the ongoing worries about the pandemic-hit supply from top producer South America. Aluminum and nickel prices



recovered a bit after a steep fall in March 2020. Corn price was at \$3.35/bushel, wheat price was at \$5.39/bushel and soybean was at \$9.04/bushel. Corn price was down by more than 16% YTD. Wheat was down by 5% YTD. Soyabean was down during the year, demand from China, despite escalating US-China tensions, continued to bolster soybean prices last week. Corn edged higher as optimism that China would keep buying, offset strong crop conditions. Wheat was at three-month highs. Cocoa was at 2224/tonne and is down by more than 11% YTD. Coffee was at 108.40/pound and has fallen by more than 20% YTD. Sugar was at \$11/tonne

and is down by close to 17% YTD. The absence of recovery in demand for agricultural commodities has prevented a steep surge in prices. Euro was at \$1.11656. It has surged by close to 4% YTD. EU leaders agree to \$859bn coronavirus plan to steer the bloc out of what could be the worst economic straits since World War II last week. The euro had been surging on account of various stimulus measures during this year. Pound sterling is at \$1.2794. Pound had weakened by close to 3.5% YTD. Pound sterling slipped deeper into the red after Brexit negotiators confirmed that little progress had been made in the pursuit of a UK-EU trade deal. Yen was at 106.14 against the US dollar.

Yen has strengthened by more than 2% YTD. Safe haven yen gains while dollar struggles. Swiss franc was at 0.9206 against the US dollar. Australian dollar was equal to US\$0.7105. Australian dollar strengthened by close to 1% YTD.

Most of the emerging economy currencies have weakened this year account of Covid-19; however, recovered a bit recently due to dollar weakness. The Indian rupee is close to 75 against the US dollar. The South African rand is close to 17 against the US dollar. The Russian rouble was above 71 against the US dollar. The Chinese yuan was above 7 against the US dollar and the Brazilian real was above 5 against the US dollar. The dollar index has regressed below 95 and this has also given a boost to the commodity and currency prices in recent times.

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