Economic Research
Commodities Monthly

DekaBank

The slump continues in commodities markets – only energy prices are rising again

Looking back: The slump continues in commodities markets. Aside from energy commodities, where the steady downward movement since the summer of 2014 is evidently coming to an end, there were only a few commodities that showed price increases. Only silver and aluminium recorded another increase for the month, even though both of these commodities fell significantly again in the final week. In our view, the broad weakness is probably due to fears of a major economic slowdown in China. These fears were further heightened by the latest foreign trade and price data from China.

Commodity prices		Futures prices 12/02/2015	Change in % prev. week	Change in % prev. month	Change in % prev. year
Energy					
WTI	$/bbl	49.9	-1.2	8.2	-50.3
Brent	$/bbl	55.4	-2.1	16.7	-49.1
US natural gas	$/mmbtu	2.8	8.6	1.0	-41.5
Precious Metals					
Gold	$/oz	1222.0	-3.2	-0.9	-5.7
Silver	$/oz	16.7	-2.8	1.1	-17.8
Platinum	$/oz	1195.8	-4.3	-3.6	-15.0
Palladium	$/oz	770.2	-3.2	-5.4	5.6
Base Metals					
Copper	$/t	5613.0	-2.3	-7.8	-22.1
Nickel	$/t	14694.5	-2.9	-2.3	2.3
Aluminium	$/t	1804.3	-3.6	0.5	6.4
Zinc	$/t	2107.5	-1.4	-0.9	4.3
Lead	$/t	1788.5	-2.6	-3.6	-15.0
Agriculture					
Corn	$c/ bushel	385.3	0.0	-4.2	-12.4
Wheat	$c/ bushel	523.3	-0.5	-5.8	-10.9
Soybeans	$c/ bushel	975.5	-0.6	-3.7	-26.3
Coffee	$c/lb	159.5	-3.2	-9.8	13.0
Cocoa	$/mt	2879.0	5.0	-3.8	-2.1

Sources: Bloomberg, DekaBank. Note: The futures prices refer to th next generic futures contract (generally 1-month term).

Outlook: Nevertheless we expect that global growth will continue to stabilise and economic momentum can be maintained in China. At the same time, however, most commodities are in such abundant supply as to prevent strong upward pressure on prices. As a result, we expect a slight upward trend accompanied by high volatility over the remainder of the year. Developments in the financial markets continually overlap with factors specific to commodity markets, which means we should expect commodity prices to remain volatile. In any case, the anticipated appreciation of the US dollar versus the euro will benefit investors who calculate in euros.

Content

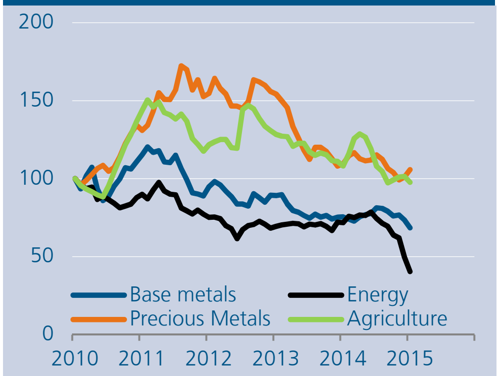
Major forecasts and revisions

	2015 (average)	2016 (average)	Revision
Gold	980 € 1,080 $	940 € 980 $	→
Brent	63 € 70 $	65 € 90 $	↘
WTI	67 $	87 $	↘

Sources: Bloomberg, forecast DekaBank

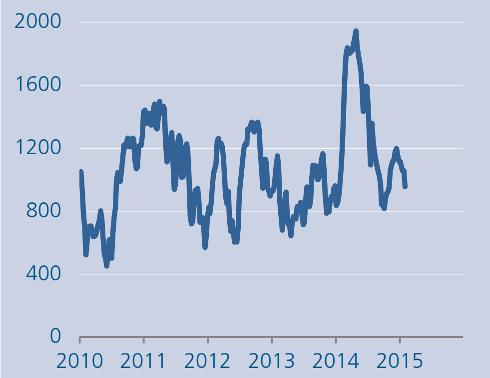
Commodities at a glance

DJUBS commodity ind. (Jan. 2010 = 100)



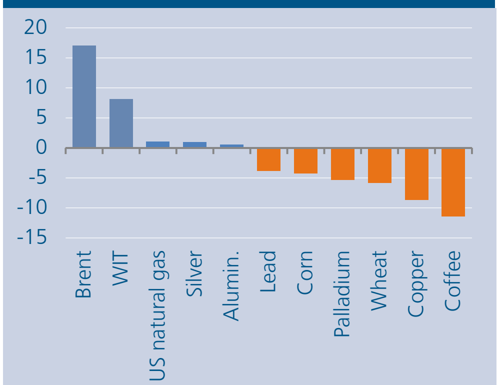
Sources: Bloomberg, DekaBank

Net positions of speculators*



* in '000 contracts, managed money
Sources: CFTC, ICE, LME, Bloomberg, DekaBank

Tops and flops in the last 4 weeks*



* % rate of change
Sources: Bloomberg, DekaBank

Focus: The slump continues in commodities markets. Aside from energy commodities, where the steady downward movement since the summer of 2014 is evidently coming to an end, there were only a few commodities that showed price increases. Only silver and aluminium recorded another increase for the month, even though both of these commodities fell significantly again in the final week. In our view, the broad weakness is probably due to fears of a major economic slowdown in China. These fears were further heightened by the latest foreign trade and price data from China. Nevertheless we expect that global growth will continue to stabilise and economic momentum can be maintained in China. At the same time, however, most commodities are in such abundant supply as to prevent strong upward pressure on prices. As a result, we expect a slight upward trend accompanied by high volatility over the remainder of the year. Developments in the financial markets continually overlap with factors specific to commodity markets, which means we should expect commodity prices to remain volatile. In any case, the anticipated appreciation of the US dollar versus the euro will benefit investors who calculate in euros..

Outlook: Physical supply and demand will determine the long-term trend in commodity prices. The economic catch-up process in emerging markets has caused the demand for commodities to rise significantly for many years. During that time the production capacity for many commodities was expanded so that the increase in demand could be satisfied without great difficulty. The decline in commodity prices that occurred as a result of the crisis in previous years is not expected to continue over the long term. As the recovery of the global economy continues, commodity prices will start to increase slowly again, particularly in segments that still have physical shortages. Prices are only likely to continue falling for commodities that have had too much production capacity added. The commodities asset class continues to be a suitable addition for a broadly diversified portfolio. It must be remembered, however, that commodities investments could exhibit high price volatility.

Key indices

Commodities	Current*	Percentage change on	
	11/02/2015	prev. Month	prev. Year
DJUBS Energy	54.7	2.5	-43.9
DJUBS Base metals	116.7	-4.0	-8.2
DJUBS Precious metals	170.5	0.7	-8.8
DJUBS Agriculture	60.6	-5.2	-15.2

* Index points (original index); Sources: Bloomberg, DekaBank

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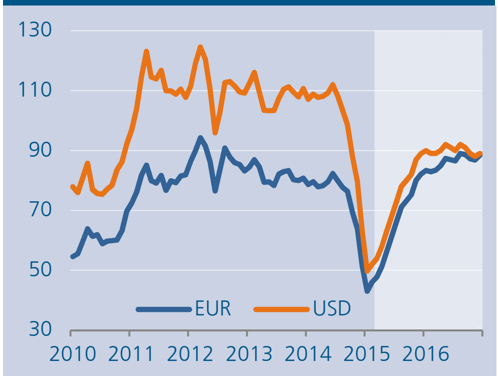
February / March 2015 Economic Research

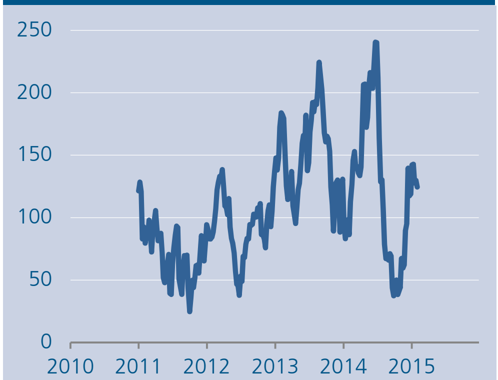
Brent / WTI crude

Oil Brent crude price (per barrel)



Sources: Bloomberg, forecast DekaBank

Net position of speculators *



* in '000 contracts, managed money, for Brent
Source: ICE, Bloomberg, DekaBank

OPEC production (mio. barrels per day)

Sources: Bloomberg, DekaBank

Focus: After falling almost continuously for six months, the price of crude oil recorded a number of significant increases in the second half of January. Whether this was the start of a turnaround to an upwards trend in prices is by no means a foregone conclusion at the moment, as crude oil production continues to considerably exceed demand. The number of active US oil rigs is now so low, however, that this excess supply will decrease significantly over the course of this year. This will not change again until the price of oil rises towards USD 90. The demand side, on the other hand, cannot currently be expected to put much upward pressure on the price of oil. Growth in the Chinese demand for crude oil is surprisingly weak and according to current indicators global growth also remains relatively moderate. Based on the supply factors, however, we expect the price of oil to rise significantly again during the course of 2015.

Forecast revision: –

Outlook: The price of oil has fallen by more than half since the summer of 2014. This is caused by the global supply of oil from non-OPEC countries – in particular the USA – expanded unexpectedly in the second half of 2014, exceeding the increase in global demand. This resulted in an excess supply of approximately 1.5 million barrels of crude oil per day. Since this excess supply will largely be eliminated during the course of 2015, the price of oil is likely to resume moving in the direction of its long-term equilibrium price of around USD 90 again. This is because the drop in the price of oil has made oil produced in the US using the expensive, high-technology "fracking" method less economical. Investments in new fracking projects are being deferred and the number of active US oil rigs has declined sharply since October 2014. Since most of the crude oil is extracted from an oil rig in its first year of operation, the US supply of oil is likely to fall significantly after one year at the most (i.e. in the fall of 2015). Therefore, even though there is a risk of further oil price decreases in the initial months of 2015, the expected drop in supply should reverse this trend during the course of the year. If the global demand for oil grows moderately as expected, it will gradually eliminate the excess supply in the oil market, causing the price of oil to increase significantly again in the second half of 2015 at the latest.

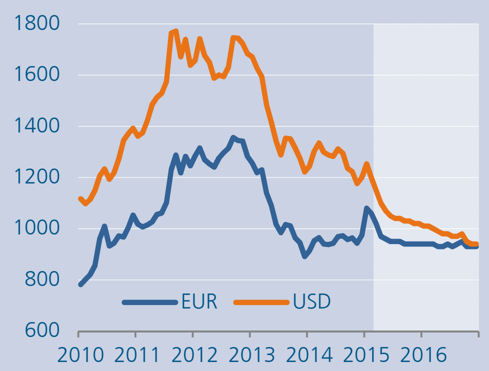
Key data at a glance

Crude oil (price per barrel)	11/02/2015	prev. month	prev. year
Brent (EUR)	48.4	42.4	79.6
Brent (USD)	54.7	50.1	108.7
WTI (USD)	48.8	48.4	99.9
Forecasts (price per barrel)	**in 3 months**	**in 6 months**	**in 12 months**
Brent (EUR)	56	71	83
Brent (USD)	63	78	89
WTI (USD)	60	75	87

Sources: Bloomberg, forecast DekaBank

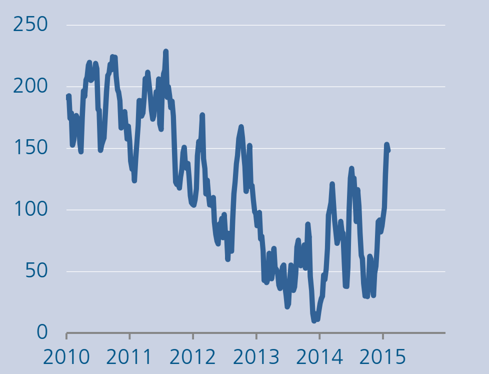
Gold

Gold (per oz)



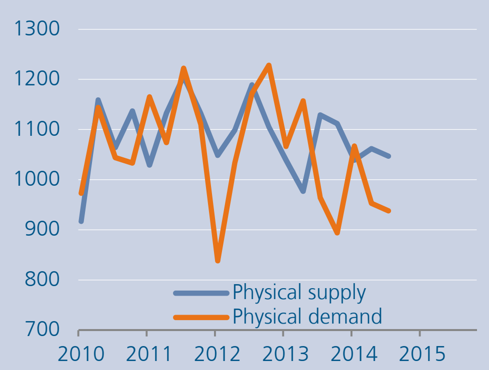
Sources: Bloomberg, forecast DekaBank

Net position of speculators*



* in '000. Contracts, managed money
Sources: CFTC, Bloomberg, DekaBank

Physical supply and demand*



* in tonnes
Sources: Word Gold Council, DekaBank

Focus: The difficulties with Greece, the Ukraine and the Swiss franc have not helped the price of gold very much so far. The large-scale bond purchases announced by the ECB on 22nd of January also failed to generate a sustained upwards movement. The increase to USD 1300 per fine ounce only lasted a short period of time. As the first interest rate increase by the US Federal Reserve approaches, gold is becoming clearly less attractive. This is because a return to slowly rising interest rates focuses more attention on the lack of regular income from gold. We therefore continue to expect a small decrease in the US dollar price of gold in 2015, with a smaller decrease when the price is expressed in euros, as we expect the weakness of the euro to continue.

Forecast revision: –

Outlook: Gold is considered a crisis currency around the world. As a result, the price of gold generally rises sharply in times of crisis and normally falls again when the crisis dissipates. Gold recorded rapid price increases and large real (i.e. inflation-adjusted) gains as a result of the financial market crisis and intensification of the sovereign debt crisis in Europe. Although the European sovereign debt crisis is far from being over, its urgency and, as a result, its importance for the price of gold has decreased significantly. The US Federal Reserve is likely to begin its cycle of interest rate increases during the course of 2015. This will lead to higher yields worldwide – even if some of the major central banks (ECB, Bank of Japan) are not so quick to follow the Federal Reserve's example. Expectations of a rise in interest rates have caused several significant decreases in the price of gold. After the significant price correction that occurred in the spring of 2013, we do not expect another dramatic plunge in gold prices. One factor providing support for the price of gold is that central banks in many emerging markets continue to build up their holdings of gold in order to diversify currency reserves. This has caused a structural change in the gold market in recent years, as central banks worldwide previously acted on balance as sellers of gold for a long period of time. In addition, the demand for physical gold continues to shift from North America and Europe to Asia, especially due to the increase in prosperity of the population there. Over the long term, we expect the price of gold to provide little more than an offset to inflation.

Key data at a glance

Precious metals (Price/oz)	11/02/2015	prev. month	prev. year
Gold (EUR)	1083.01	1032.58	945.05
Gold (USD)	1223.27	1223.25	1290.11
Silver (EUR)	14.91	13.89	14.81
Silver (USD)	16.84	16.51	20.22
Forecast	**in 3 months**	**in 6 months**	**in 12 months**
Gold (EUR)	960	950	940
Gold (USD)	1,070	1,040	1,010

Sources: Bloomberg, forecast DekaBank

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