

Search for orientation in commodity markets

Looking back: Commodity markets continue their search for orientation. Energy commodities found some level of support in previous weeks. One has to keep in mind, however, that energy commodities are still only half the price they were a year ago, making them the poorest performer of all the major commodity subgroups. Precious metals fell significantly in the month just ended, as they signalled defeat to the strong US dollar and risk appetite in equity markets. The situation in Greece is clearly no longer a source of concern here. Even the fact that the European Central Bank has begun pumping EUR 60 billion a month into the markets has so far left market participants cold. The price of platinum is lower than it has been for five years, even though the market is clearly showing signs of physical shortage.

Commodity prices		Futures prices 11/03/2015	Change in % prev. week	Change in % prev. month	Change in % prev. year
Energy					
WTI	\$/bbl	48.2	-6.5	-1.4	-51.8
Brent	\$/bbl	57.5	-5.0	5.3	-47.0
US natural gas	\$/mmbtu	2.8	2.0	1.0	-38.7
Precious Metals					
Gold	\$/oz	1150.6	-4.2	-5.6	-14.6
Silver	\$/oz	15.3	-4.9	-8.4	-26.2
Platinum	\$/oz	1115.4	-5.6	-6.7	-23.8
Palladium	\$/oz	789.1	-5.0	2.9	2.4
Base Metals					
Copper	\$/t	5754.0	-1.8	2.5	-11.4
Nickel	\$/t	13720.0	-1.2	-6.6	-11.6
Aluminium	\$/t	1736.0	-3.1	-3.8	1.5
Zinc	\$/t	1980.8	-1.6	-6.0	-0.5
Lead	\$/t	1806.0	2.0	1.0	-10.8
Agriculture					
Corn	\$/ bushel	384.0	0.7	-0.5	-19.7
Wheat	\$/ bushel	503.0	1.9	-4.3	-24.2
Soybeans	\$/ bushel	989.0	0.0	1.2	-29.9
Coffee	\$/lb	128.4	-4.2	-19.5	-37.4
Cocoa	\$/mt	2940.0	-4.8	2.1	-2.0

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

Outlook: The slight physical shortage of a number of base metals, such as copper and zinc, is also still not reflected in prices. The price levels reached in commodity markets are now low enough to create the potential of small price increases later in the year. In our view, however, the conditions are not right for large increases in commodity prices. The fact that the global economy is growing only moderately and supply is generally good in commodity markets argues against such increases.

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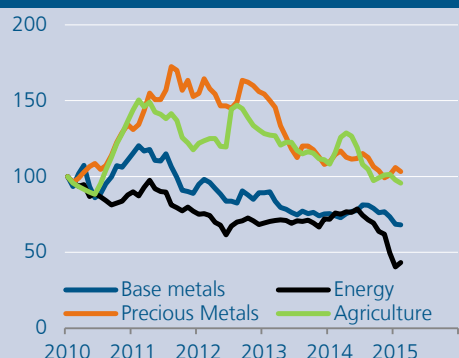
Major forecasts and revisions

	2015 (average)	2016 (average)	Revision
Gold	1,020 € 1,090 \$	960 € 980 \$	→
Brent	66 € 70 \$	89 € 90 \$	→
WTI	67 \$	87 \$	→

Sources: Bloomberg, forecast DekaBank

Commodities at a glance

DJUBS commodity ind. (Jan. 2010 = 100)



Sources: Bloomberg, DekaBank

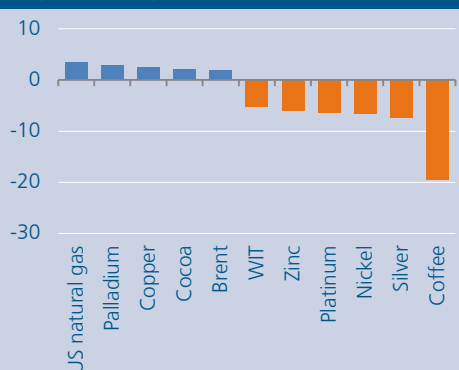
Net positions of speculators*



* 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: Commodity markets continue their search for orientation. Energy commodities found some level of support in previous weeks. US petrol prices even recorded unexpectedly strong gains. One has to keep in mind, however, that energy commodities are still only half the price they were a year ago, making them the poorest performer of all the major commodity subgroups. Precious metals fell significantly in the month just ended, as they signalled defeat to the strong US dollar and risk appetite in equity markets. The situation in Greece is clearly no longer a source of concern here. Even the fact that the European Central Bank has begun pumping EUR 60 billion a month into the markets has so far left market participants cold. The price of platinum is lower than it has been for five years, even though the market is clearly showing signs of physical shortage. Demand by the main platinum buyer, the automotive industry, will likely continue to increase, while supply, judging by South Africa, should at best normalise this year following its decline in 2014. The slight physical shortage of a number of base metals, such as copper and zinc, is also still not reflected in prices. The price levels reached in commodity markets are now low enough to create the potential of small price increases later in the year. In our view, however, the conditions are not right for large increases in commodity prices. The fact that the global economy is growing only moderately and supply is generally good in commodity markets argues against such increases.

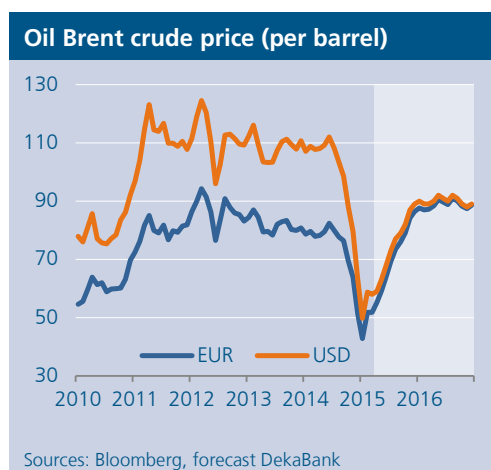
Outlook: Physical supply and demand will determine the long-term trend in commodity prices. The economic catch-up process in emerging markets has caused the demand for commodities to rise significantly for many years. During that time the production capacity for many commodities was expanded so that 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* 11/03/2015	Percentage change on prev. Month	Percentage change on prev. Year
DJUBS Energy	54.8	0.2	-44.2
DJUBS Base metals	114.4	-1.9	-8.3
DJUBS Precious metals	159.5	-6.4	-18.0
DJUBS Agriculture	58.6	-3.4	-26.9

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

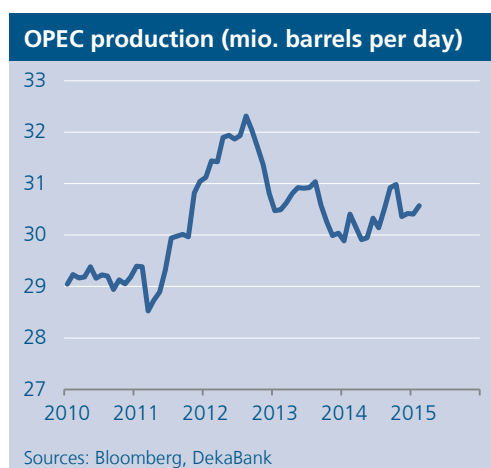
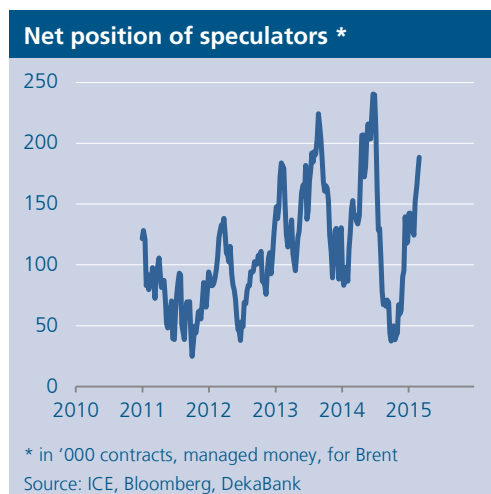
Brent / WTI crude



■ **Focus:** The prices of the two major oil types moved in different directions. While the price of US WTI crude fell compared to the previous month, the price of European Brent crude rose. WTI is burdened by record high US oil inventories, while speculative investors are increasingly betting on higher Brent prices. We are maintaining our forecast of oil price increases in the second half of the year. At the moment, however, excess supply is still likely to prevent a sustained price increase. There are, however, signs that the price war could end: Saudi Arabia reduced its markdown of the selling price for oil in April. The number of active US offshore oil drilling rigs has fallen to its lowest level in four years. This sets the stage for elimination of the oversupply, possibly even this year.

■ **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. The number of active US oil wells has decreased sharply since October 2014 and is now at its lowest level since the spring of 2011. 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.

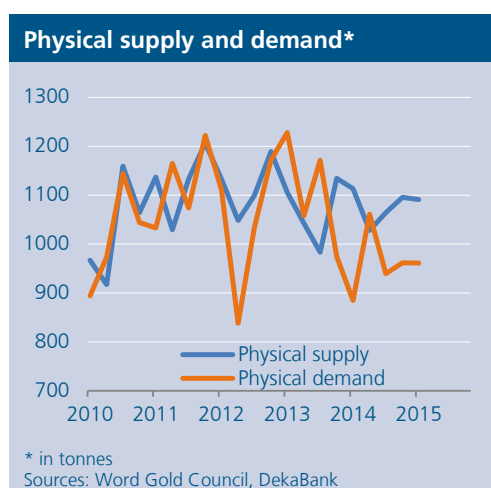
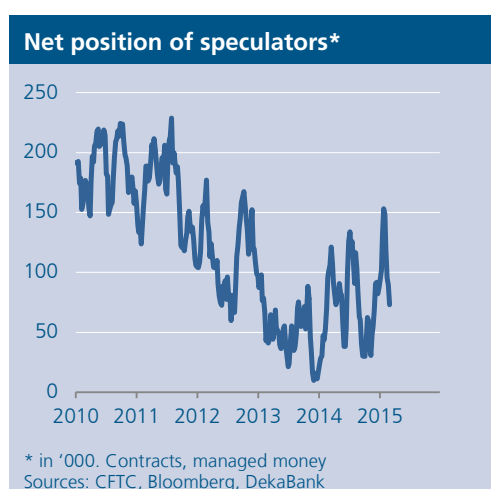
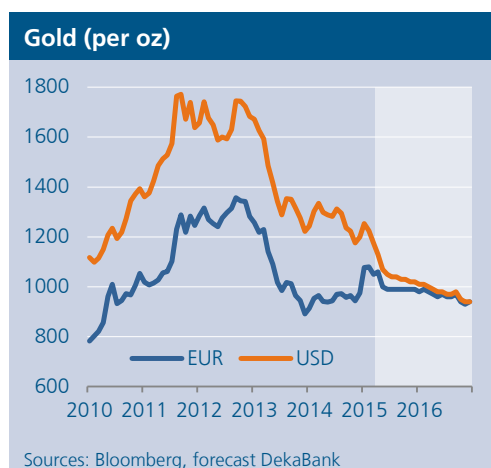


Key data at a glance

Crude oil (price per barrel)	11/03/2015	prev. month	prev. year
Brent (EUR)	54.6	48.4	78.3
Brent (USD)	57.5	54.7	108.6
WTI (USD)	48.2	48.8	100.0
Forecasts (price per barrel)	in 3 months	in 6 months	in 12 months
Brent (EUR)	64	76	87
Brent (USD)	68	79	89
WTI (USD)	65	77	86

Sources: Bloomberg, forecast DekaBank

Gold



■ **Focus:** The price of gold has faced a strong headwind lately. The US dollar is now stronger relative to the euro than in it has been for 12 years, US yields have risen and equity markets have been racing from one record high to the next on both sides of the Atlantic. In addition, inflation slid into negative territory in both the Eurozone and the US at the beginning of the year, which also put a brake on the price of gold. It is therefore no surprise that speculative investors have cut back their bets on higher gold prices, i.e. are decreasing their net long position. Greece and the start of quantitative easing by the European Central Bank are hardly reflected in the mixed bag of factors affecting the gold market. We therefore continue to expect a further decline in the price of gold quoted in US dollars. Only a small amount of this downward movement will likely remain for the price in euros.

■ **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)	11/03/2015	prev. month	prev. year
Gold (EUR)	1093.31	1083.01	972.27
Gold (USD)	1151.27	1223.27	1347.96
Silver (EUR)	14.62	14.91	15.04
Silver (USD)	15.39	16.84	20.84
Forecast	in 3 months	in 6 months	in 12 months
Gold (EUR)	990	990	980
Gold (USD)	1,050	1,030	1,000

Sources: Bloomberg, forecast DekaBank

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Deadline: March 12th, 2015