Economic Research

Commodities Monthly

.DekaBank

April / May 2015 Economic Research

No life in commodity markets

Looking back: The prices of a number of commodities, such as gold, silver, WTI crude and zinc have advanced since the middle of March. Others, like nickel, palladium and Brent crude, moved downwards. Speculative financial investors (managed money) are losing their confidence in rising commodity prices. Over the past year, fewer and fewer have taken positions designed to benefit from price increases. In March, the net long position dropped to its lowest level since 2010, which means these investors probably also contributed to the decreases in commodity prices during this period. Overall, global demand for commodities can be easily satisfied.

Commodity prices		Futures prices 09/04/2015	Change in % prev. week	Change in % prev. month	Change in % prev. year
Energy					
WTI	$/bbl	51.3	4.3	2.5	-50.5
Brent	$/bbl	56.5	2.8	-3.5	-47.7
US natural gas	$/mmbtu	2.6	-2.9	-1.6	-42.5
Precious Metals					
Gold	$/oz	1195.1	-0.5	2.5	-8.5
Silver	$/oz	16.3	-2.7	3.2	-17.8
Platinum	$/oz	1167.7	1.2	1.7	-18.7
Palladium	$/oz	754.7	1.1	-8.3	-3.6
Base Metals					
Copper	$/t	6027.5	0.4	2.3	-9.0
Nickel	$/t	12526.5	-3.5	-13.3	-24.8
Aluminium	$/t	1771.8	-0.7	0.1	-3.1
Zinc	$/t	2152.8	1.4	6.3	7.0
Lead	$/t	1923.3	2.2	4.5	-7.4
Agriculture					
Corn	$c/ bushel	379.0	-1.9	-1.1	-24.5
Wheat	$c/ bushel	524.0	-2.3	6.0	-21.7
Soybeans	$c/ bushel	968.5	-1.8	-2.0	-35.2
Coffee	$c/lb	136.1	-3.4	1.8	-31.9
Cocoa	$/mt	2807.0	1.4	-6.4	-6.8

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

Outlook: We are not very optimistic about the commodities asset class as a whole for the remainder of the year. Price increases can, however, be expected for some individual commodities – at least from a fundamental view, that is, from an analysis of physical supply and physical demand. With regard to the precious metals, platinum and palladium in particular could see shortages. Looking at the base metals, the price of copper is puzzling in terms of fundamental analysis. This commodity is at its lowest price in five years, even though the data has suggested supply shortages every year since 2010. It would therefore be understandable if copper prices were to rise in 2015.

Content

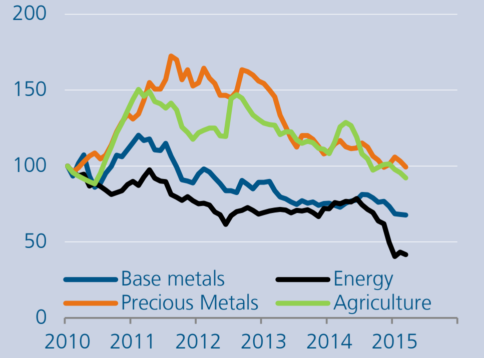
Major forecasts and revisions

	2015 (average)	2016 (average)	Revision
Gold	1,020 € 1,090 $	960 € 980 $	→
Brent	61 € 65 $	84 € 86 $	↘
WTI	60 $	84 $	↘

Sources: Bloomberg, forecast DekaBank

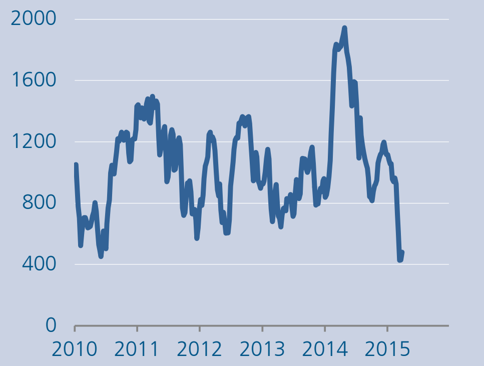
Commodities at a glance

DJUBS commodity ind. (Jan. 2010 = 100)



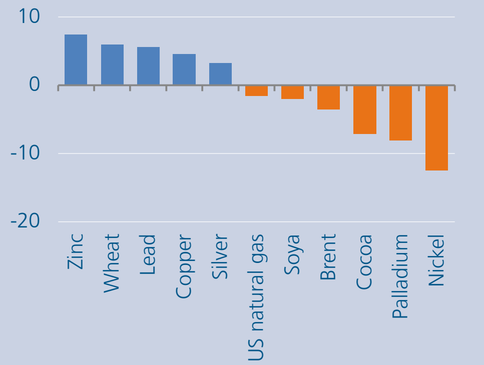
Sources: Bloomberg, DekaBank

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: Some commodity prices have risen again since the middle of March. Although we do not have much confidence in the commodities asset class as a whole, when it comes to the remainder of the year, price increases can be expected for some individual commodities – at least from a fundamental point of view, that is, from an analysis of physical supply and physical demand. With regard to the precious metals, platinum and palladium in particular could see shortages. Following a major supply shortage in 2014, the global platinum market is also likely to show a shortage in 2015. The diesel-heavy European car market and price-elastic jewellery demand should cause the demand side to pick up, while mining supply from South Africa has yet to recover from strike-related production losses in the previous year. The petrol-heavy car markets in the US and China as well as investment demand play an important role for palladium, and demand is robust in all three areas. This means that even though the record supply shortage in 2014 is likely to ease somewhat during the current year, a supply shortage will nevertheless remain. Looking at the base metals, the price of copper is puzzling in terms of fundamental analysis. This commodity is at its lowest price in five years, even though the data has suggested supply shortages every year since 2010. Inventories at the major trading centres are low compared to past levels. Chinese demand reached a new record in 2014 and is also expected to remain strong this year. Upcoming wage negotiations at Chilean copper mines could potentially lead to production losses. It would therefore be understandable if copper prices were to rise in 2015.

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.

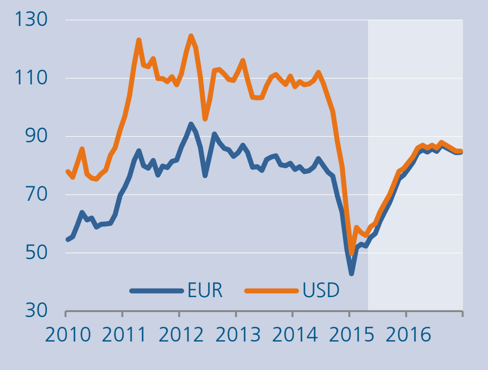
Key indices

Commodities	Current* 08/04/2015	Percentage change on prev. Month	prev. Year
DJUBS Energy	52.6	-6.5	-46.9
DJUBS Base metals	117.4	1.2	-9.0
DJUBS Precious metals	167.7	3.5	-11.1
DJUBS Agriculture	58.4	-0.2	-28.3

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

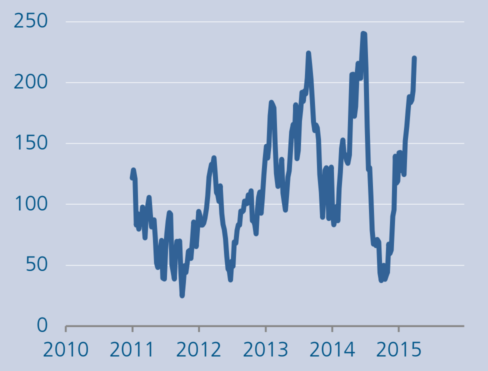
Brent / WTI crude

Oil Brent crude price (per barrel)



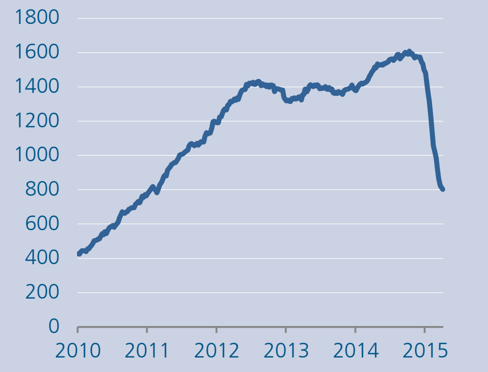
Sources: Bloomberg, forecast DekaBank

Net position of speculators *



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

US Oil Rig Count



Sources: Baker Hughes, DekaBank

Focus: Oil is currently highly volatile, with prices still showing no clear direction since the beginning of the year. Prices are in a trough and could easily remain there for several months. We are maintaining our forecast of rising oil prices during the course of this year. However, as a result of the preliminary agreement in the nuclear conflict with Iran, filled-to-capacity oil inventories and the prevailing sentiment in commodities markets, we have delayed and somewhat reduced our expected increases in oil prices. Even if US oil production declines, the rising demand for oil can initially be satisfied by drawing down oil inventories. Significant upwards pressure on oil prices is not likely to occur until later in the process.

Forecast revision: Downward revision of the forecast for the price of oil in 2015 and 2016.

Outlook: The price of oil is now less than half of what it was in the summer of 2014. An unexpectedly large increase in the global supply of oil from non-OPEC countries, in particular the US, increased supply faster than the global demand for oil in the second half of 2014. The result was an excess supply of approximately 1.5 million barrels of crude oil per day. This excess supply will be reduced during the course of 2015, mainly due to a reduction in US oil production in the foreseeable future. US oil production using the expensive, technology-intensive "fracking" method of extraction has become less economical due to the fall in the price of oil. 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 oil is extracted from a well during the first year of operation, the US supply of oil is likely to fall significantly after one year at the most (i.e. in autumn 2015).Supply should therefore weaken during the course of the year, and if the global demand for oil increases as expected, the price of oil should rise appreciably in the second half of 2015. The price increase will likely be limited, however, due to filled-to-capacity inventories. In addition, there is also the prospect of an increase in Iranian oil if sanctions are removed, and fracking production will expand again as oil prices rise. As a result, we feel that oil prices will generally remain in the double-digit range for a number of years.

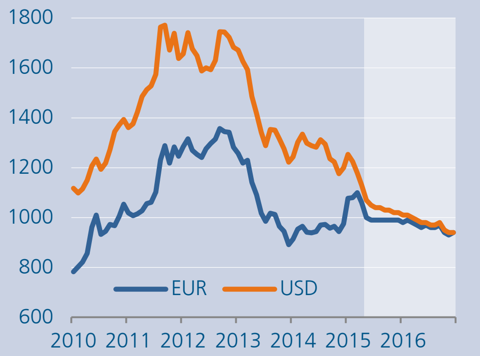
Key data at a glance

Crude oil (price per barrel)	08/04/2015	prev. month	prev. year
Brent (EUR)	51.3	55.0	78.0
Brent (USD)	55.6	59.7	107.7
WTI (USD)	50.4	49.6	102.6
Forecasts (price per barrel)	**in 3 months**	**in 6 months**	**in 12 months**
Brent (EUR)	61	71	85
Brent (USD)	64	74	87
WTI (USD)	59	72	85

Sources: Bloomberg, forecast DekaBank

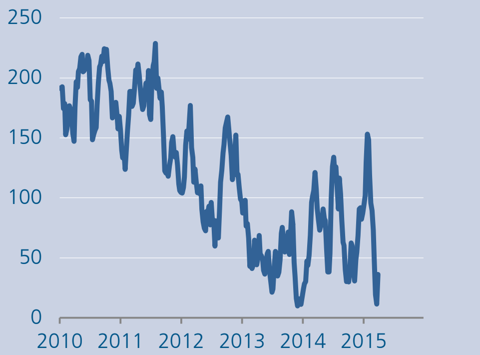
Gold

Gold (per oz)



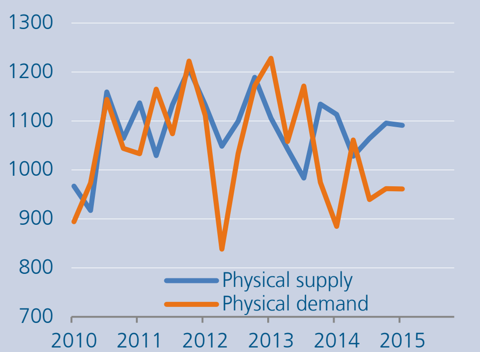
Sources: Bloomberg, forecast DekaBank

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: Even though the price of gold has increased noticeably since the middle of March, we do not expect the trend to change in the direction of price increases. Disappointing economic data from the US has recently generated debate about whether the US Federal Reserve might actually wait longer than expected before beginning to raise interest rates. The US dollar has also depreciated somewhat versus the euro since the middle of March. As a result, for the first time in eight weeks more gold speculators (managed money) are once again betting on higher gold prices. In our view, however, the environment continues to hold little promise for gold. Weak physical demand for gold, rising US interest rates and a stable global economy are not the conditions to make this precious metal look its most attractive. Gold investors in the Eurozone nevertheless benefit from the expected depreciation of the euro versus the US dollar. Calculated in euros, the decline in the price of gold is more moderate.

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)	08/04/2015	prev. month	prev. year
Gold (EUR)	1111.80	1076.75	949.09
Gold (USD)	1202.77	1167.29	1309.44
Silver (EUR)	15.24	14.56	14.55
Silver (USD)	16.49	15.90	20.08
Forecast	**in 3 months**	**in 6 months**	**in 12 months**
Gold (EUR)	990	990	970
Gold (USD)	1,040	1,030	990

Sources: Bloomberg, forecast DekaBank

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Deadline: April 9th, 2015