Economic Research

Commodities Monthly

.DekaBank

June / July 2015 Economic Research

Half-year summary of commodity markets

Looking back: The major commodity indices are currently very close to their levels at the beginning of the year. Energy commodities are in the lead with a slight gain. This is due to oil prices, as the US natural gas price is significantly below its value at the beginning of the year. The other three major commodity groups of precious metals, base metals and agricultural commodities will likely end the first half of the year with a loss. The strong US dollar is a major factor depressing commodity prices. In addition, the supply situation is satisfactory for most commodities, leaving little room for sustainable price increases.

Commodity prices		Futures prices 10/06/2015	Change in % prev. week	Change in % prev. month	Change in % prev. year
Energy					
WTI	$/bbl	61.4	3.0	3.4	-41.1
Brent	$/bbl	65.7	3.0	0.5	-40.0
US natural gas	$/mmbtu	2.9	9.8	0.4	-36.2
Precious Metals					
Gold	$/oz	1186.1	0.1	-0.2	-5.9
Silver	$/oz	16.0	-3.2	-2.9	-16.7
Platinum	$/oz	1115.2	1.0	-2.5	-24.8
Palladium	$/oz	743.0	-2.0	-7.4	-13.1
Base Metals					
Copper	$/t	6026.5	0.3	-5.7	-10.0
Nickel	$/t	13566.0	4.6	-4.9	-27.5
Aluminium	$/t	1725.0	0.2	-7.4	-7.7
Zinc	$/t	2126.0	-1.8	-9.8	0.2
Lead	$/t	1913.0	-1.5	-5.7	-9.7
Agriculture					
Corn	$c/ bushel	357.3	-0.5	-0.3	-19.8
Wheat	$c/ bushel	513.5	0.5	7.8	-14.6
Soybeans	$c/ bushel	949.5	1.5	-3.6	-35.1
Coffee	$c/lb	136.5	1.6	2.7	-17.6
Cocoa	$/mt	3128.0	0.1	7.0	1.3

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

Outlook: based on fundamentals at least, commodity markets will likely follow a sideways movement or at best a slight upward trend for the rest of the year. We expect energy commodities and base metals to be the best performers. The global economy will likely pick up, and the global demand for commodities remains robust. The excess supply on the oil market will be reduced by a drop in US oil production. We expect demand to increase more quickly than supply for some base metals. This is the case, for example, for copper and nickel. The precious metals segment will likely show a mixed picture. While we expect a slow downward trend for gold, the prices of more industry-dependent precious metals, such as silver, platinum and palladium, could rise. Due to the abundant supply of agricultural commodities, the trend of downward pressure on prices can be expected to continue.

Content

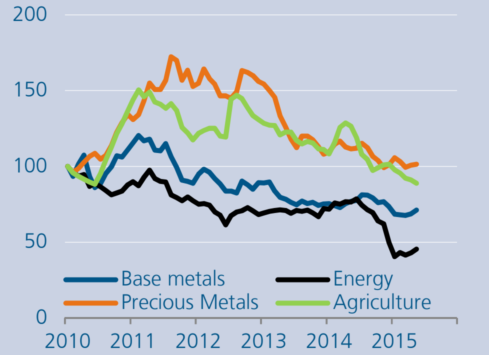
Major forecasts and revisions

	2015 (average)	2016 (average)	Revision
Gold	1,070 € 1,180 $	990 € 1,010 $	→
Brent	59 € 65 $	84 € 86 $	→
WTI	60 $	84 $	→

Sources: Bloomberg, forecast DekaBank

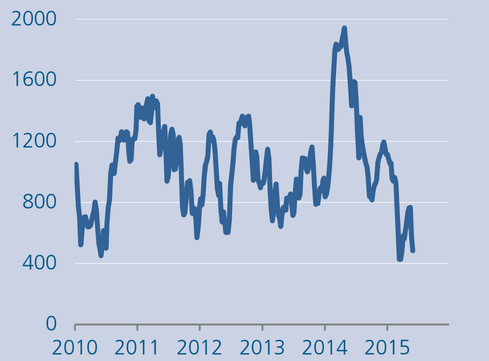
Commodities at a glance

DJUBS commodity ind. (Jan. 2010 = 100)



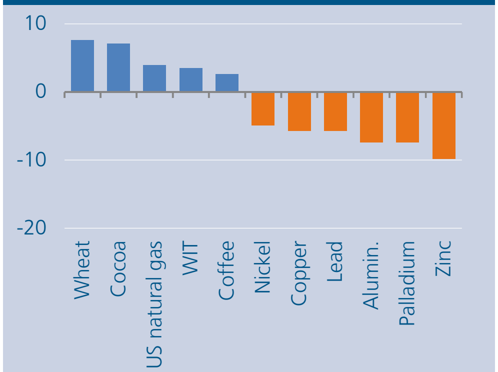
Sources: Bloomberg, DekaBank

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: Almost half the year has passed, and as far as the outlook for commodities for the second half is concerned, one cannot expect much more than was delivered in the initial months of the year. The major commodity indices are currently very close to their levels at the beginning of the year. Energy commodities are in the lead with a slight gain. This is due to oil prices, as the US natural gas price is significantly below its value at the beginning of the year. The other three major commodity groups of precious metals, base metals and agricultural commodities will likely end the first half of the year with a loss. The strong US dollar is a major factor depressing commodity prices. In addition, the supply situation is satisfactory for most commodities, leaving little room for sustainable price increases. The outlook for the second half of the year is also not rosy. Based on the fundamentals at least, commodity markets will likely follow a sideways movement or at best a slight upward trend for the rest of the year. We expect the energy commodities and base metals to provide the best performance for investors. The global economy will likely pick up, and the global demand for commodities remains robust. The excess supply in the oil market will be reduced by a drop in US oil production. We expect demand to increase more quickly than supply for some base metals. This is the case, for example, for copper and nickel. The precious metals segment will likely show a mixed picture. While we expect a slow downward trend for gold, the prices of more industry-dependent precious metals, such as silver, platinum and palladium, could rise. Due to the abundant supply of agricultural commodities, one can expect the trend of downward pressure on prices to continue.

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.

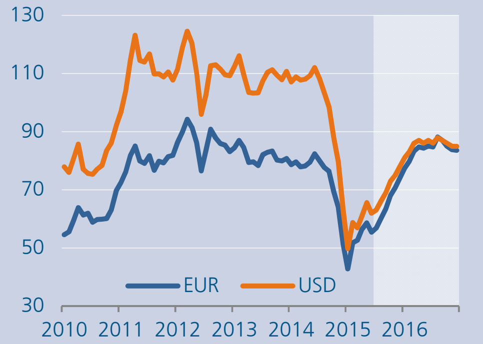
Key indices

Commodities	Current* 10/06/2015	Percentage change on prev. Month	prev. Year
DJUBS Energy	59.8	1.0	-40.2
DJUBS Base metals	117.8	-6.9	-12.2
DJUBS Precious metals	164.5	-1.0	-9.2
DJUBS Agriculture	56.4	-1.3	-24.9

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

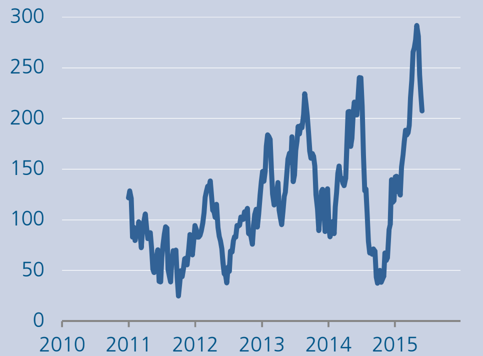
Brent / WTI crude

Oil Brent crude price (per barrel)



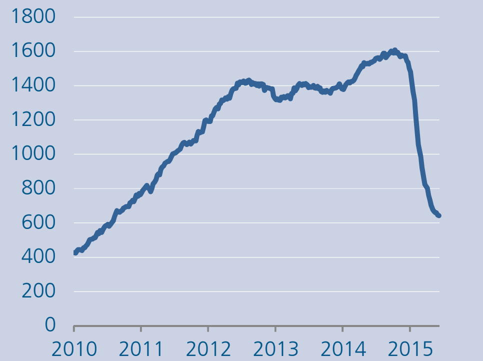
Sources: Bloomberg, forecast DekaBank

Net position of speculators *



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

US Oil Rig Count



Sources: Baker Hughes, DekaBank

Focus: Global oil production continues to rise. The OPEC countries are now producing more than 31.5 million barrels of crude oil per day, significantly more than their own target of 30 million barrels, which was confirmed in the latest meeting. US oil production is also showing no signs of slowing yet. The global demand for oil is rising at the same time, both in seasonally adjusted and unadjusted terms. Although global consumption is expected to grow by an order of almost 1.5% on average over the year, the supply of oil has been growing faster so far. We continue to feel that US production will start to fall over the next few months. This will reduce the global excess supply of oil, leading to a significant and sustainable increase in the price of oil. Both Brent and WTI will likely cost more than USD 75 per barrel at the end of the year.

Forecast revision: -

Outlook: Oil prices fell by more than a half between the summer of 2014 and January 2015. 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 wells in the US fell from approximately 1600 in October 2014 to fewer than 650 recently. 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)	10/06/2015	prev. month	prev. year
Brent (EUR)	58.1	58.3	80.9
Brent (USD)	65.7	65.4	109.5
WTI (USD)	61.4	59.4	104.4
Forecasts (price per barrel)	**in 3 months**	**in 6 months**	**in 12 months**
Brent (EUR)	63	74	85
Brent (USD)	69	78	87
WTI (USD)	67	76	85

Sources: Bloomberg, forecast DekaBank

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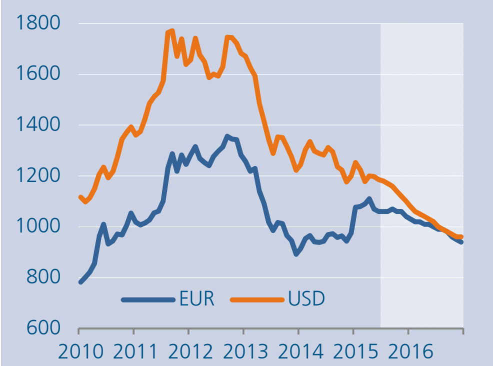
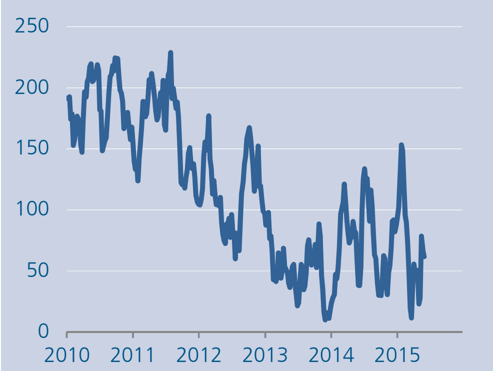
Gold

Gold (per oz)



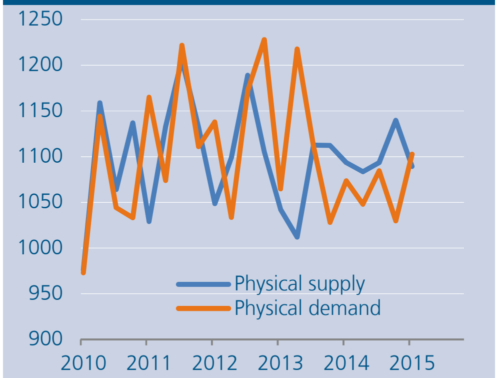
Sources: Bloomberg, forecast DekaBank

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 US dollar price of gold has declined significantly since the middle of May. Appreciation of the euro versus the US dollar at the beginning of June reduced prices considerably for European gold investors. With respect to the physical market, in the first quarter of 2015 it is likely for the first time in almost two years that the global demand for gold exceeded the supply. The increase was particularly large for investment demand (primarily ETFs). Global supply fell at the same time, mainly due to a drop in gold mine production. We do not consider this to be a trend reversal leading to a shortage of gold in coming quarters. On the contrary. The upcoming interest rate turnaround in the US, combined with solid global economic growth, should make gold look less attractive. However, we only expect a moderate reduction in the price of gold. At the end of 2015, a fine ounce should cost approximately USD 1100 (EUR 1050).

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)	10/06/2015	prev. month	prev. year
Gold (EUR)	1050.36	1060.29	930.63
Gold (USD)	1187.49	1188.39	1260.56
Silver (EUR)	14.18	14.68	14.17
Silver (USD)	16.03	16.47	19.20
Forecast	**in 3 months**	**in 6 months**	**in 12 months**
Gold (EUR)	1,070	1,040	1,000
Gold (USD)	1,160	1,100	1,020

Sources: Bloomberg, forecast DekaBank

Author

Dr. Dora Borbély Tel.: +49 (0) 69 71 47 - 5027 Email: dora.borbely@deka.de

Published by

Dr. Ulrich Kater (Chefvolkswirt) Tel.: +49 (0) 69 71 47 - 2381 Email: ulrich.kater@deka.de

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