Economic Research

Commodities Monthly

.DekaBank

Sharp slide continues in commodity markets

Looking back: The downward trend in commodity prices has accelerated and has affected practically all commodities in the past four weeks. Some commodity prices even recorded double-digit rates of decline. The price decreases were accompanied, and magnified, by a marked loss of financial investor confidence in future price increases. In addition to the strength of the US dollar, concerns about China's economic condition have increased due to the breaking of its equity bubble and currency devaluation. China is one of the most important consumers of many commodities in the world, and in some cases the most important. We do not, however, expect a sharp drop in Chinese growth, as the government and central bank are intervening to provide support and will continue to do so.

Commodity prices		Futures prices 13/08/2015	Change in % prev. week	Change in % prev. month	Change in % prev. year
Energy					
WTI	$/bbl	43.6	-2.3	-16.4	-55.3
Brent	$/bbl	50.3	1.5	-13.1	-51.8
US natural gas	$/mmbtu	2.9	3.6	1.8	-23.9
Precious Metals					
Gold	$/oz	1120.8	2.8	-3.0	-14.6
Silver	$/oz	15.4	4.7	-0.5	-22.6
Platinum	$/oz	995.3	4.1	-3.9	-32.3
Palladium	$/oz	620.7	3.5	-5.8	-29.6
Base Metals					
Copper	$/t	5177.8	0.0	-7.1	-24.9
Nickel	$/t	10561.0	-2.3	-9.8	-42.8
Aluminium	$/t	1559.5	-0.3	-6.8	-22.5
Zinc	$/t	1823.3	-1.8	-10.9	-19.7
Lead	$/t	1732.8	2.1	-5.8	-21.6
Agriculture					
Corn	$c/ bushel	358.5	-3.0	-17.3	0.1
Wheat	$c/ bushel	496.0	-2.2	-15.5	-6.1
Soybeans	$c/ bushel	960.0	-2.6	-8.2	-24.1
Coffee	$c/lb	131.9	6.1	4.1	-28.8
Cocoa	$/mt	3035.0	-0.7	-8.3	-5.7

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

Outlook: In general, we are in a phase of abundant supply. This applies in particular to oil, agricultural commodities and many base metals, such as aluminium. Some commodities, on the other hand, are showing a pronounced weakness in demand, such as copper and most of the precious metals. There are, however, already signs of a slowdown in investing activities by commodity companies due to the low commodity prices. There is also a danger that commodity prices might fall below the cost of production. Both of these factors will reduce the future supply of commodities, but only in the medium term, that is over a period of several years. We do not see this as a factor driving prices during the forecast period to the end of 2016. In the short term, the downward risks for commodity prices even appear to dominate.

Content

Major forecasts and revisions

	2015 (average)	2016 (average)	Revision
Gold	1,050 € 1,160 $	990 € 1,010 $	→
Brent	53 € 58 $	68 € 70 $	↘
WTI	53 $	68 $	↘

Sources: Bloomberg, forecast DekaBank

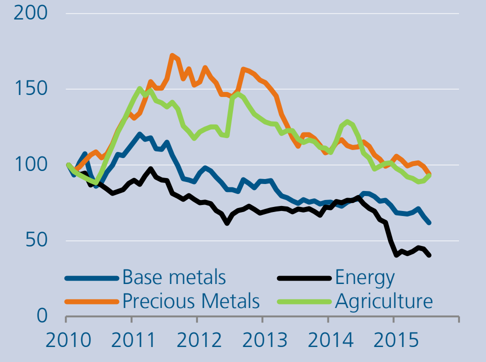
Economic Research

Commodities Monthly

.ıDekaBank

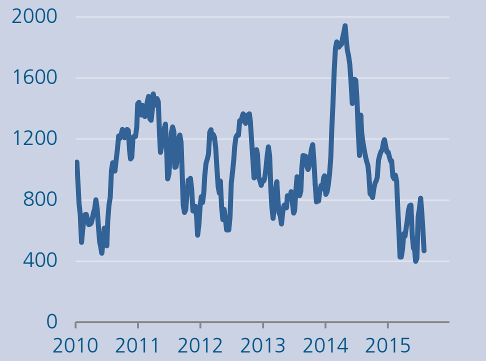
Commodities at a glance

DJUBS commodity ind. (Jan. 2010 = 100)



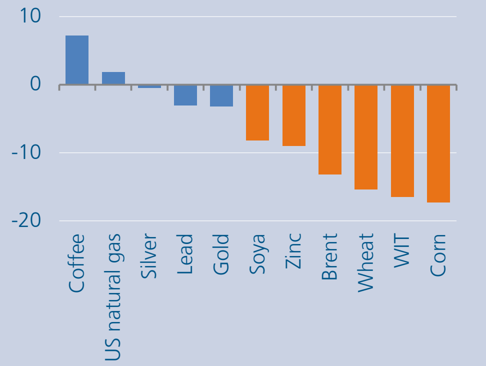
Sources: Bloomberg, DekaBank

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 downward trend in commodity prices has accelerated and has affected practically all commodities in the past four weeks. Some commodity prices even recorded double-digit rates of decline. The reasons were quite easy to see. The price decreases were accompanied, and magnified, by a marked loss of financial investor confidence in future price increases. In addition to the strength of the US dollar, concerns about China's economic condition have increased due to the breaking of its equity bubble and currency devaluation. China is one of the most important consumers of many commodities in the world, and in some cases the most important. We do not, however, expect a sharp drop in Chinese growth, as the government and central bank are intervening to provide support and will continue to do so. Some of the large drops in commodity prices are driven by supply factors and others by demand factors. In general, we are in a phase of abundant supply. This applies in particular to oil, agricultural commodities and many base metals, such as aluminium. Some commodities, on the other hand, are showing a pronounced weakness in demand, such as copper and most of the precious metals. There are, however, already signs of a slowdown in investing activities by commodity companies due to the low commodity prices. There is also a danger that commodity prices might fall below the cost of production. Both of these factors will reduce the future supply of commodities, but only in the medium term, that is over a period of several years. We do not see this as a factor driving prices during the forecast period to the end of 2016. In the short term, the downward risks for commodity prices even appear to dominate.

▮ **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.

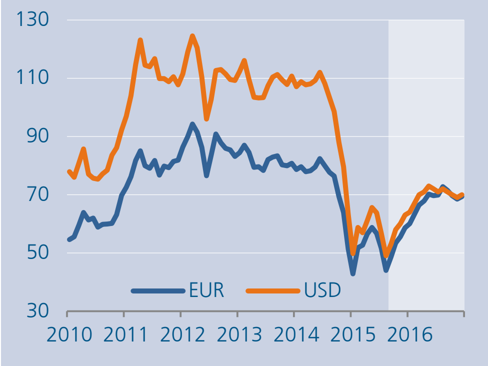
Key indices

Commodities	Current* 12/08/2015	Percentage change on prev. Month	prev. Year
DJUBS Energy	48.7	-9.5	-47.9
DJUBS Base metals	100.8	-7.4	-28.2
DJUBS Precious metals	156.4	-2.3	-16.9
DJUBS Agriculture	53.7	-12.4	-18.8

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

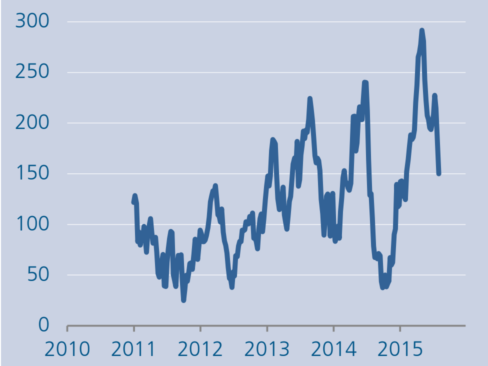
Brent / WTI crude

Oil Brent crude price (per barrel)



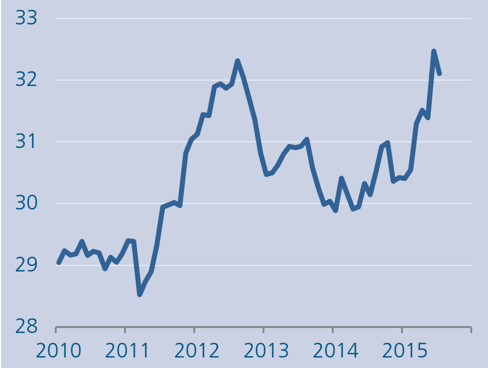
Sources: Bloomberg, forecast DekaBank

Net position of speculators *



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

OPEC production (mio. barrels per day)



Sources: Bloomberg, DekaBank

Focus: The prices of the major oil grades recorded a dramatic drop in previous weeks. Expectations of increased oil exports from Iran after sanctions are lifted and large increases in OPEC oil production along with very high US production provided a fertile environment for price cuts. There are also concerns about global oil demand from emerging markets, in particular China. The collapse in prices was strengthened by financial investors, who sharply decreased their bets on rising oil prices (net long position). Although we continue to expect US oil production to fall soon, in view of the record level of OPEC production – which we previously did not expect – we are significantly decreasing our oil forecast for this year and next.

Forecast revision: Downward revision for 2015 and 2016.

Outlook: The price of oil has fallen by more than half since the summer of 2014. There has been a large unexpected increase in the global supply of oil, in particular by the US and, this year, also by the OPEC countries, and supply has risen faster than the global demand for oil. This resulted in an excess supply of approximately 2 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 drop in the price of oil. Investments in new fracking projects are being deferred. The number of active wells in the US has fallen from approximately 1600 in October 2014 to fewer than 700. Since most of the crude oil is extracted from a well in the first year of operation, the supply of oil from the US will likely see a significant reduction in the foreseeable future. The question then arises as to what future OPEC production will be. OPEC currently appears to want to defend its market share at all costs and is expanding production. We nevertheless expect global supply to decrease during the course of the year, and the price of oil to rise. Oil price increases will, however, be limited by a number of factors: the prospect of more Iranian oil due to a loosening of sanctions, oil inventories that are filled to capacity and only moderate increases in the global demand for oil. As a result, oil prices will likely tend to remain in the two-digit range in coming years.

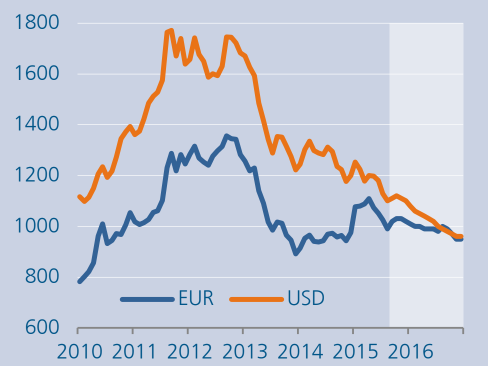
Key data at a glance

Crude oil (price per barrel)	12/08/2015	prev. month	prev. year
Brent (EUR)	44.4	52.8	77.1
Brent (USD)	49.7	58.7	103.0
WTI (USD)	43.3	52.7	97.4
Forecasts (price per barrel)	**in 3 months**	**in 6 months**	**in 12 months**
Brent (EUR)	56	64	73
Brent (USD)	60	67	72
WTI (USD)	57	65	70

Sources: Bloomberg, forecast DekaBank

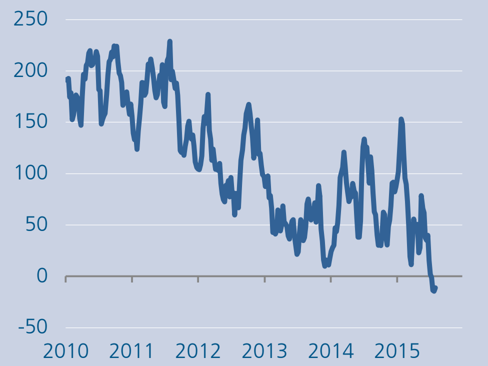
Gold

Gold (per oz)



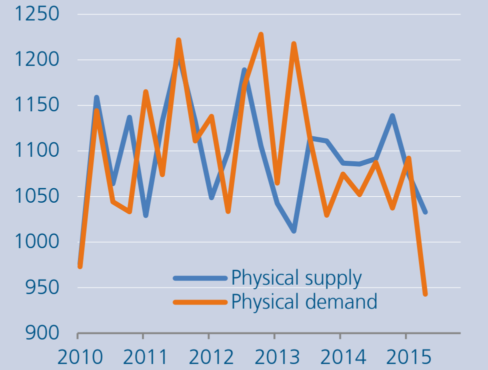
Sources: Bloomberg, forecast DekaBank

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: Like many other commodities, the downward movement in the price of gold also accelerated in previous weeks. Starting in the middle of July, the majority of financial investors have been betting on falling gold prices – i.e. have taken a net short position – for the first time since 2006 (the beginning of the data series), and have therefore contributed to recent price decreases. In addition, the demand for physical gold is extremely weak. The latest World Gold Council figures for the global gold market show that the demand for jewellery, coins and bars and central bank purchases fell 10 to 15% year-on-year in the second quarter. Supply fell by 5% during the same period. The beginning of the cycle of interest rate increases by the US Federal Reserve will continue to be one of the most important factors in the near future. We expect a further small decrease in the price of gold.

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)	12/08/2015	prev. month	prev. year
Gold (EUR)	1005.09	1042.50	983.67
Gold (USD)	1124.06	1160.08	1314.01
Silver (EUR)	13.90	13.95	14.96
Silver (USD)	15.54	15.52	19.98
Forecast	**in 3 months**	**in 6 months**	**in 12 months**
Gold (EUR)	1,030	1,010	1,000
Gold (USD)	1,110	1,060	990

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

Disclaimer

Deadline: August 13th, 2015