

COMMODITIES WEEKLY WRAP

24th Jun. 2016



Editors: Caroline Bain & Julian Jessop

A relatively muted response to Brexit

- **Unsurprisingly, the prices of most commodities have fallen in the wake of the UK's vote to leave the EU. The main exception is gold**, which has benefitted from renewed safe-haven demand as well as the expectation that the uncertainty created by the UK vote could mean that interest rates stay lower for longer, notably in the US. **That said, with falls of less than 5% on Friday, the more industrial commodities have actually outperformed other "riskier" asset classes.**
- As global officials rush to bolster confidence and as it becomes clear that the UK will remain a member of the EU for some time yet, **it seems likely that the focus of markets will return to more fundamental factors in the coming weeks.** In particular, China's June PMI data, due out next Friday, will be closely watched.

Chart 1: S&P GSCI by Category (1st Jan. 2016 = 100)
(Latest = 23rd Jun.)

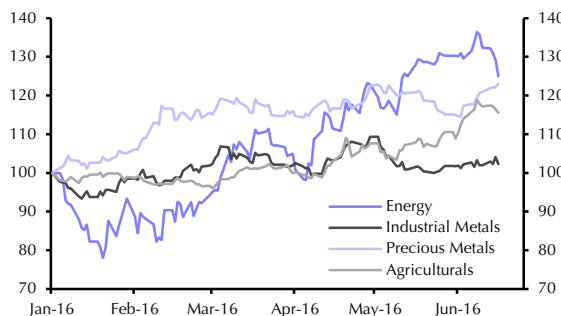
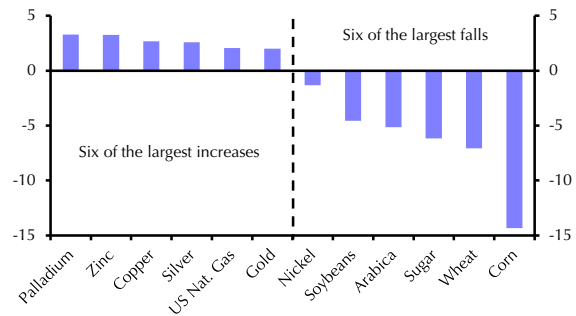


Chart 2: Selected Price Moves in the Last Week
(17th Jun. – 24th Jun.) (%)



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[Short-term Price Charts & Forecasts \(page 4\)](#)

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Energy

- Oil prices slumped by more than 5% on Friday as the dollar surged (1) due to news that the UK had voted to leave the European Union. However, prices regained some of their losses later in the day as the initial panic waned.
- We are not overly concerned about the impact of Brexit on oil prices, once the initial market volatility has subsided, for three key reasons. First, the UK will remain a member of the EU for at least two years so very little will change in the short term.
- Second, we expect the impact on economic growth, both in Europe and the UK, to be significantly less than feared by some. As a result, demand for oil should continue to grow. What's more, any negative effects could well be offset by looser monetary policy.
- Third, the UK is a relatively small consumer of oil (2). The EU as a whole, including the UK, consumes about two thirds as much oil as the US and only about 13% of total demand. As such it would take a large fall in growth to have much of an impact on global oil demand.

Industrial Metals

- While the UK's vote to leave the EU led to falls in industrial metals prices, the impact has been smaller than may otherwise have been expected, given that markets had anticipated a Remain vote. Within hours of the result's announcement, prices began recovering as the initial shock faded and global policy-makers moved to reassure markets about the stability of the global economy (3). Indeed, with the partial rebound, the price of copper ended up making a 2% gain on the week.
- The prices of industrial metals had diverged since the start of 2016, apparently driven more by individual market fundamentals – notably supply issues – than common macroeconomic factors (4). However, the Brexit vote could prove to be the catalyst for some renewed convergence. Indeed, once the Brexit dust has settled in commodity markets, attention could refocus on the wider issues of the prospects for Fed policy and Chinese demand.

Chart 1: Oil Prices & US Dollar

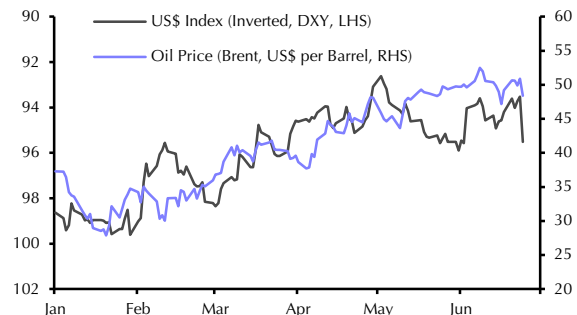


Chart 2: Oil Consumption (2015, % of Global Total)

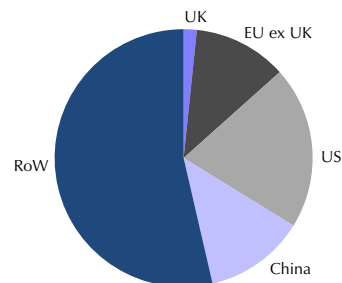


Chart 3: Intra-Day Industrial Metals Prices (Three-month forward prices, US\$ per tonne)

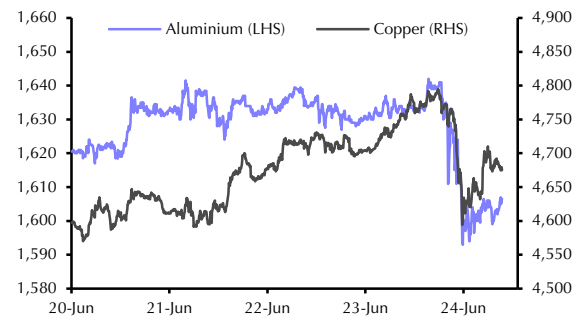
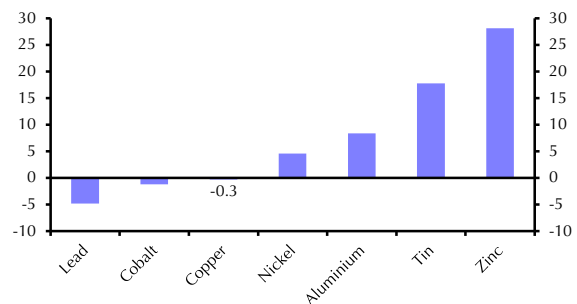


Chart 4: Percentage Change in Industrial Metals Prices (1st January – 23rd June 2016)



Sources – Thomson Reuters, Bloomberg, BP, Capital Economics

Precious Metals

- The price of gold jumped in the wake of the UK's vote to leave the EU on Friday, particularly in sterling terms as the UK currency plummeted to its lowest level in over 30 years (5). This reflects both the expectation that interest rates will now be kept lower for longer, including in the US, and gold's role as a refuge from uncertainty. Indeed, the price of gold has recently been closely correlated with other traditional safe-haven assets, such as the Japanese Yen (6).
- We would not therefore be surprised to see gold hit our existing end-2017 target of \$1,400 per ounce much sooner if global jitters do continue to grow. However, if we are right that the vote for Brexit is not the global shock that many fear, US interest rate hikes could soon come back on to the agenda. Gold should still do well in this scenario, buoyed by growing appetite for inflation hedges and robust demand from emerging economies, but clearly not as well as if the world were indeed heading for a disaster. (See our *Commodities Update*, "UK vote for "Brexit" not a game-changer for commodities, published on Friday 24th.)

Agriculturals

- The prices of grains and soybeans fell sharply this week. Even before the UK's vote to leave the EU unsettled commodity markets, prices had been falling, mainly on improved weather prospects. The price of corn fell by 13% as fears over dry conditions in the US Midwest were assuaged by the arrival of wet weather. There was also more encouraging news on prospects for Argentina's soybean crop which was a factor undermining prices. In any case, we had always cautioned that prevailing high stocks (7) would prove more than ample to cushion against somewhat smaller harvests in 2016/17.
- The strength of the dollar in the aftermath of the UK's vote was a factor depressing all agricultural commodity prices on Friday (8). However, in a number of cases, including coffee and sugar, deteriorating supply prospects will offer support to prices in coming weeks.

Chart 5: Gold Price in Sterling Terms

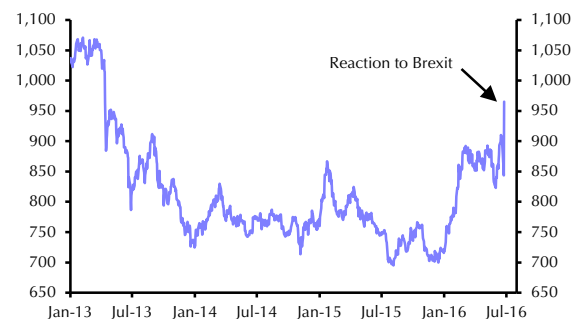


Chart 6: Yen & Gold Price in US\$ Terms

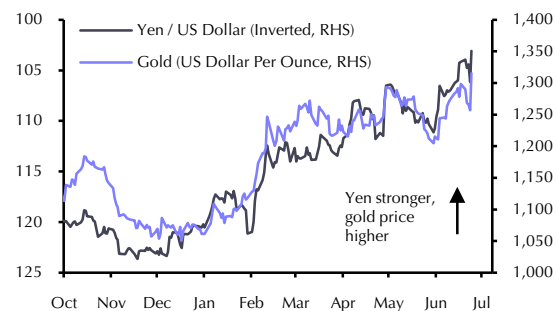


Chart 7: Global End-Year Stocks (Million Tonnes)

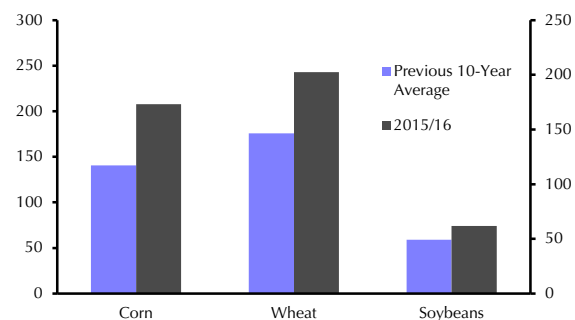
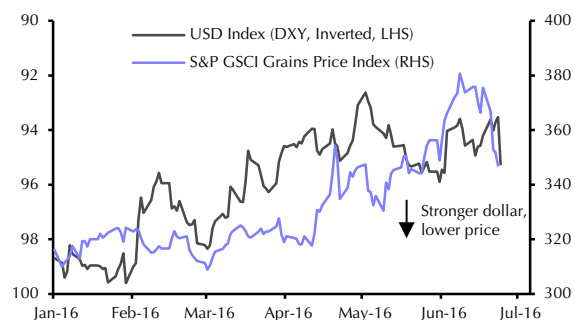


Chart 8: S&P GSCI Grains Index & US Dollar Index



Sources – Thomson Reuters, USDA, Bloomberg, Capital Economics

Short-term Price Charts & Forecasts

Chart 1: Energy

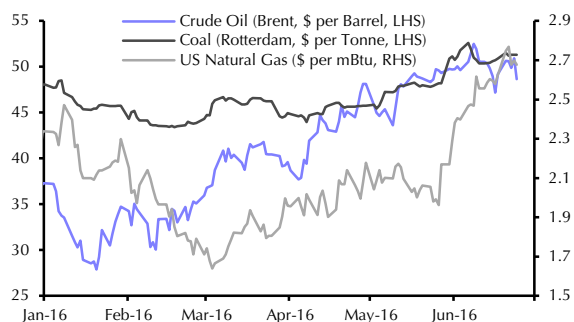


Chart 2: Industrial Metals (US\$ per Tonne)

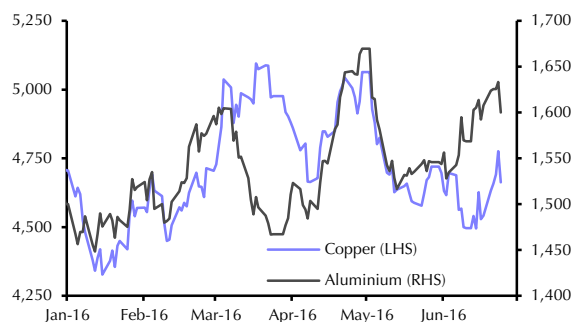


Chart 3: Precious Metals (US\$ per Ounce)

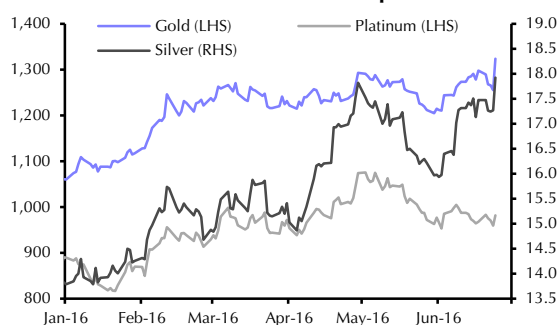
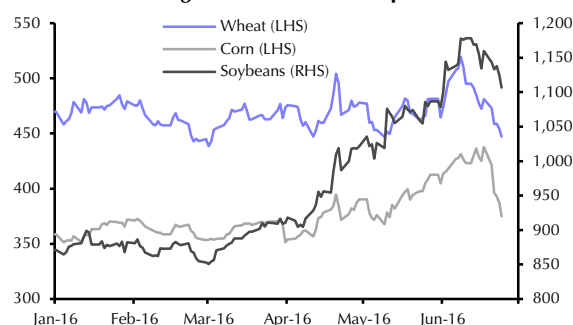


Chart 4: Agricultural (US Cents per Bushel)



Source – Thomson Reuters

End-Period	Actual		Latest (24 th Jun.)	Forecasts				
	1 mth ago (24 th May)	1 week ago (17 th Jun.)		2016		2017		
				Q3	Q4	Q1	Q2	Q3
Energy								
Crude Oil (Brent, \$ per barrel)	49	49	49	42	45	50	55	57.5
US Natural Gas (\$ per mBtu)	1.98	2.62	2.66	2.50	2.75	2.75	3.00	3.25
Coal (Rotterdam, \$ per tonne)	48	51	51	47	45	41	42	43
Industrials (\$ per tonne)								
Copper	4,622	4,542	4,663	5,000	5,500	5,600	5,750	5,850
Aluminium	1,548	1,608	1,600	1,650	1,700	1,725	1,750	1,775
Iron Ore	50	51	51	45	45	47	50	52
Precious Metals (\$ per ounce)								
Gold	1,227	1,298	1,316	1,300	1,350	1,360	1,375	1,390
Silver	16.20	17.48	17.77	18.00	19.50	20.00	20.50	20.75
Platinum	996	968	982	1,025	1,050	1,075	1,100	1,125
Agriculturals (US cents per bushel)								
Corn	398	438	380	385	330	340	360	380
Soybeans	1,055	1,160	1,105	975	900	850	850	875
Wheat	464	481	448	440	430	440	460	480

Selected Recent Publications

Date	Publication	Title
Wed 18 th May	Industrial Metals Update	Is the rally in US steel prices sustainable?
	Energy Data Response	US Weekly Petroleum Status Report
Thu 19 th	Precious Metals Update	Key takeaways from London Platinum Week
	Energy Watch	What to expect from next month's OPEC meeting
Fri 20 th	Industrial Metals Data Response	Global Aluminium Production (Apr.)
	Energy Chart Book	Supply disruptions fuel oil price rally
	Industrial Metals Data Response	Global Steel Production (Apr.)
Mon 23 rd	Industrial Metals Update	China's metals import demand remained strong in April
	Industrial Metals Update	Turning bearish on lead demand
Wed 25 th	Metals & Mining Watch	High stocks to weigh on the nickel price, for now
Thu 26 th	Precious Metals Data Response	China and India's gold imports (Apr.)
Fri 27 th	Energy Update	What are the prospects for Latin American oil?
	Precious Metals Update	Silver price to benefit from increasing focus on solar
Mon 30 th	Industrial Metals Update	Cobalt prices should benefit from strong demand
Tue 31 st	Commodities Data Response	Latest news from China unsettles commodities
	Commodities Economics Chart Book	Supply concerns defy the dollar
Thu 2 nd Jun.	Energy Rapid Response	What can we now expect from OPEC?
Fri 3 rd	Precious Metals Update	Silver price to benefit from increasing focus on solar
	Energy Update	What are the prospects for Latin American oil?
Mon 6 th	Industrial Metals Stock Monitor	Stocks look comfortable, for now
Tue 7 th	Energy Update	Rally in coal prices likely to be smothered
Wed 8 th	Commodities Update	China's commodity imports holding up well
	Energy Update	Weather forecasts heat up US natural gas prices
	Industrial Metals Update	What next for tin?
Thu 9 th	Precious Metals Update	Gold rebounds as US real yields hit one-year low
	Commodities Update	What would "Brexit" mean for commodities?
Fri 10 th	Precious Metals Update	How big a boost might "Brexit" provide to gold?
Mon 13 th	OPEC Watch	OPEC point to balanced market by the end of the year
Tue 14 th	Commodities Markets Chart Book	Uncertain times ahead
	Precious Metals Update	Negative yields to boost gold's appeal as a reserve asset
Thu 16 th	Metals Markets Monitor	Industrial and precious metals prices diverge
Fri 17 th	Industrial Metals Update	Iron ore prices have further to fall
	Energy Update	Are renewables jumping the queue?
	Precious Metals Update	Brighter times ahead for India's gold demand
	Energy Update	Increased US drilling activity to limit upside for oil prices
Mon 20 th	Industrial Metals Data Response	Global Aluminium Production (May)
Tue 21 st	Metals Update	China's metals imports treading water
	Industrial Metals Data Response	Global Steel Production (May)
Wed 22 nd	Energy Data Response	US Weekly Petroleum Status Report
Fri 23 rd	Commodities Update	UK vote for 'Brexit' not a game-changer for commodities

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