COMMODITIES MARKETS CHART BOOK

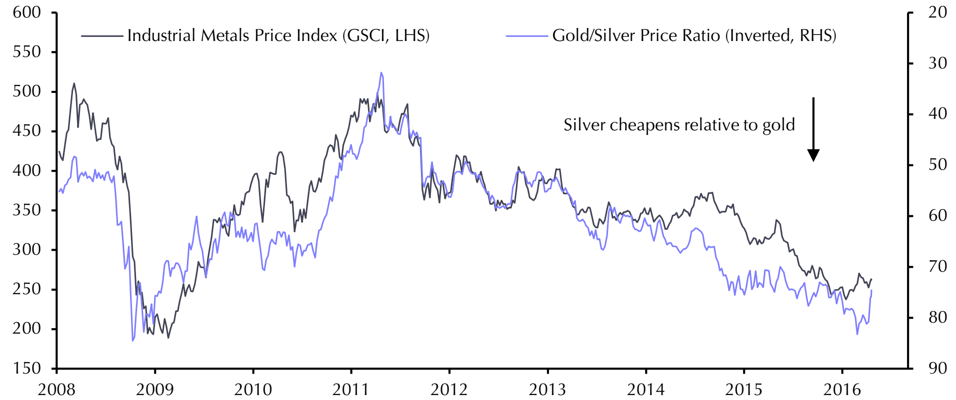
19th Apr. 2016

Prices rebound in April

- Having wobbled in late March, most commodity prices have rebounded of late. Stronger economic data for March out of China has assuaged some concerns about demand and more than offset the negative impact of a lack of an agreement between major oil producers to freeze production. Some weakness in the US dollar has also bolstered commodity prices in recent weeks.
- **Overview** – Despite a mixed month for commodities, further weakness in the US dollar, in part due to expectations that the Fed will remain cautious this year, has provided some support to prices. (Page 2.)
- **Energy** – Oil prices have risen, despite the lack of a deal in Doha, owing to stronger economic data from China and continued falls in US output. (Page 3.)
- **Industrial Metals** – The prices of most metals are still trading above their 100-day moving averages, but investor exuberance has waned somewhat. (Page 4.)
- **Precious Metals** – Silver outperformed gold over the past month, prompting the gold/silver ratio to fall back. (Page 5.)
- **Agriculturals** – The prices of most agriculturals are trading above their 50-day averages, while sentiment towards soybeans has improved markedly. (Page 6.)
- **Forecast Summary** (Page 7.)

Chart of the Month – After lagging behind for the past year, the price of silver is finally catching up with that of gold. Indeed, over the past week, the silver price has rallied, prompting the gold/silver ratio to fall back to around 75x, from 83x at the beginning of March. (See Chart.) Admittedly, the surge in the silver price has also been flattered by the recent weakness in the US dollar, which may not be sustained if the Fed hikes rates sooner rather than later. Nonetheless, further recovery in industrial metals prices should see silver continue to outperform gold over the next few years.

Gold/Silver Price Ratio and Industrial Metals Prices



Source: Bloomberg

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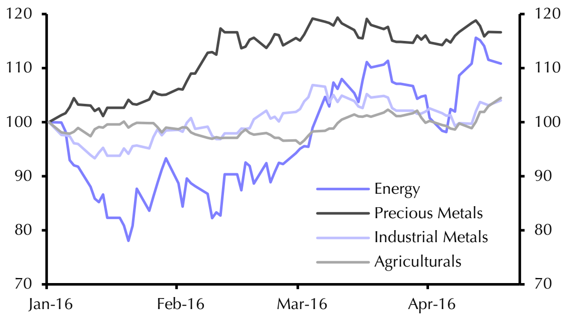
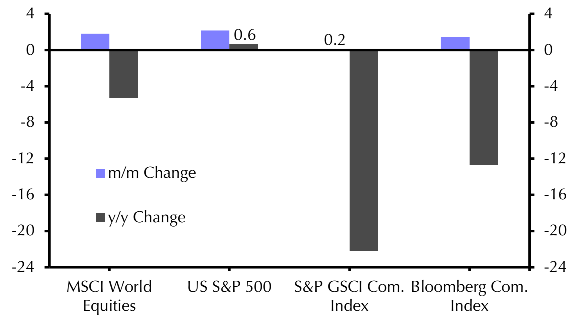
Overview

- The past month has been a real mixture of price swings and performance for commodity markets. While the GSCI agriculture index was up more than 3% m/m, for much of the period since mid-March the index was trending down, with only a sharp rally in recent days pushing the index higher (**1**). Similarly, despite the recent rally in the price of crude oil, this merely offset a large fall in late March, leaving the GSCI energy index up by a little over 0.5% on the month. Both precious and industrial metals indices fell m/m, albeit they too have recovered some lost ground of late. That said, relative to equity markets, the Bloomberg Commodity Index has fared well over the last month, though it remains well off the pace in year-on-year terms (**2**).
- Further weakness in the US dollar, in part reflecting a shift in expectations for US monetary policy and a sense that the Fed will remain cautious this year, has helped to support commodity prices in general (**3**). At the same time, the price of gold has continued to move in tandem with US inflation expectations (**4**).
- A number of agricultural commodities have seen a surge in investor interest over the past month, particularly soybeans and lumber (**5**). Meanwhile, natural gas futures curves are in steep contango for the next 12 months, while iron ore continues to be the only commodity in significant backwardation (**6**).

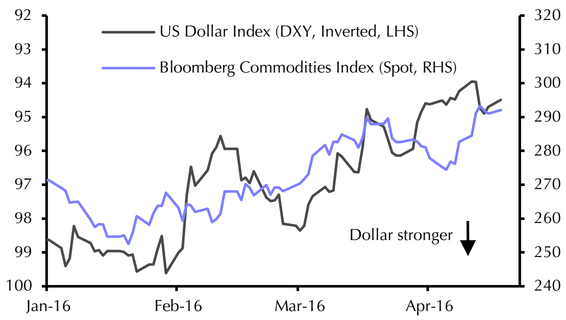
1. S&P GSCI Commodity Indices (1st Jan. 2016 = 100)



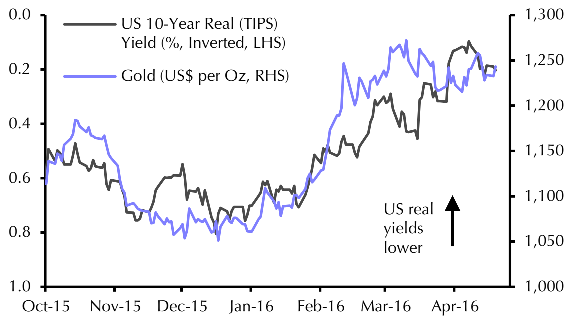
2. Equity Market & Commodity Indices Performance (% Change, at 19th April)



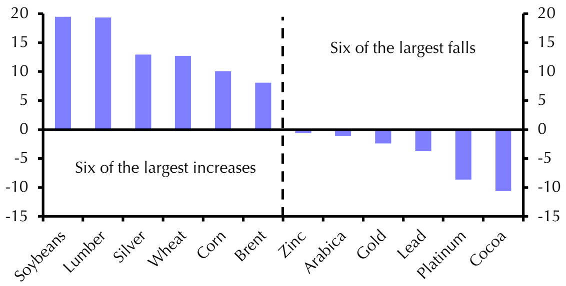
3. US Dollar Index & Commodity Price



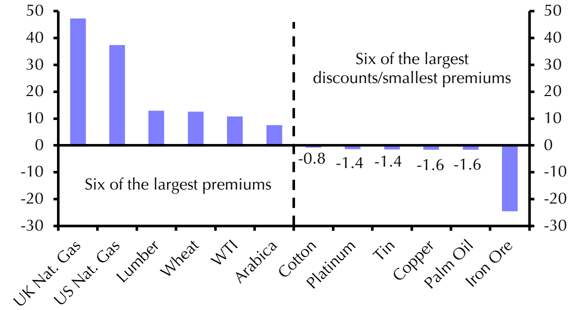
4. Gold Price & US 10-Year TIPS



5. Largest Increase & Decrease In Open Interest Contracts (% m/m, 18th Mar. – 15th Apr.)



6. 12-Month Ahead Price Premium/Discount Against Current Contract or Spot Price (%)

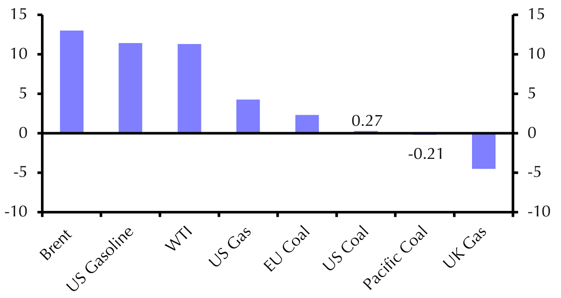


Sources – Bloomberg, Thomson Reuters, Capital Economics

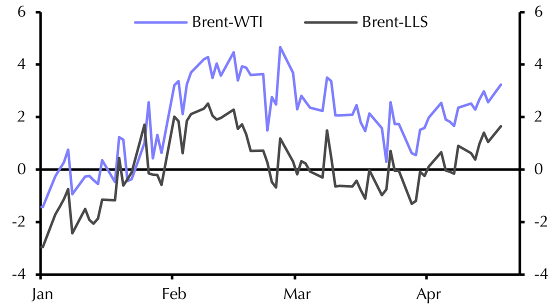
Energy

- Oil prices have risen over the past month, although they have been volatile with prices responding sharply to comments, both negative and positive, from ministers involved in the failed deal to freeze production in Doha on Sunday. Even though there was no deal at the weekend, oil prices have been supported by stronger economic data from China and continued reductions in non-OPEC output. As a result, Brent, WTI and US gasoline prices are now all more than 10% above their 50-day moving averages (**1**). The prices of most other energy commodities have been relatively stable, with a small increase in US natural gas prices but a slight dip in gas prices in the UK.
- The Brent – WTI spread has increased slightly since the middle of last month, but remains below the peak reached in February. Meanwhile, the Brent – LLS spread rose out of negative territory (**2**). In tandem with spot prices, Brent futures prices have risen recently. However, spot prices have risen so sharply, supported by temporary outages in Kuwait, Nigeria and the North Sea, that the curve is now in backwardation at the short end. Indeed, the entire curve is significantly flatter than this time last month (**3**). Meanwhile, US natural gas futures prices are unchanged at the short end of the curve, while they have risen slightly at the long end (**4**).
- A burst of speculative repositioning ahead of the meeting in Doha caused net non-commercial long positions in Brent and WTI to surge to their highest level since May last year (**5**). In contrast, net-long positioning in gasoline has eased recently despite the upturn in prices (**6**).

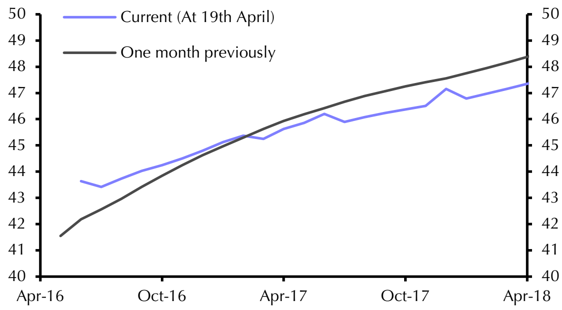
1. Difference Between Current Price & 50-Day Average (%)



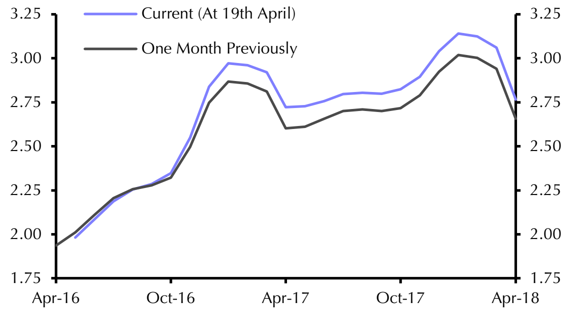
2. Brent - US Oil Spreads (US$ per Barrel)



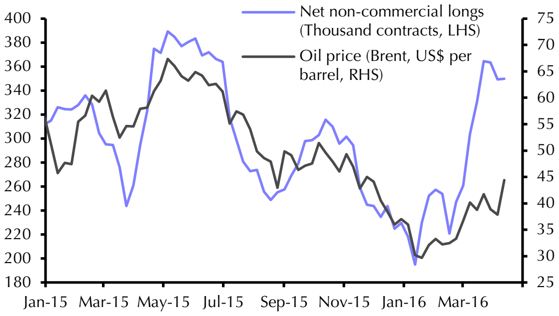
3. Brent Futures Price (US$ per Barrel)



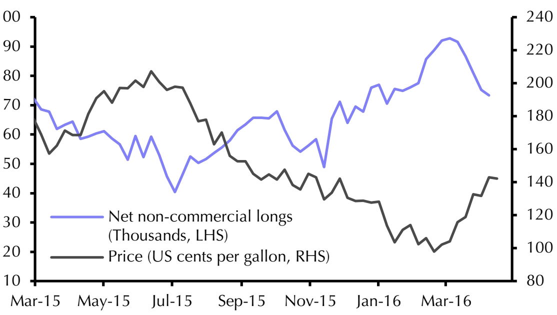
4. US Natural Gas Futures Price (US$ per mBtu)



5. Light Sweet Oil Net Non-Commercial Longs & Price



6. US Gasoline Net Non-Commercial Longs & Price

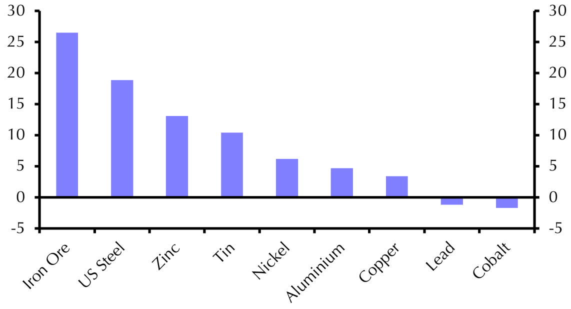


Sources – Bloomberg, Thomson Reuters, CFTC

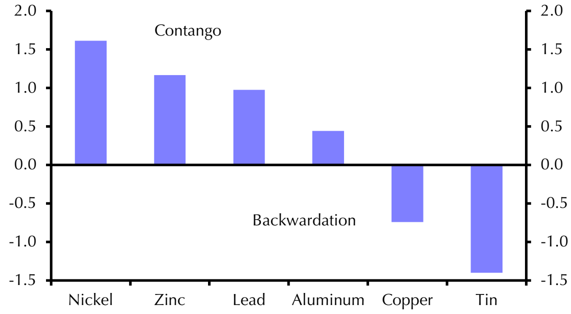
Industrial Metals

- The prices of most industrial metals are still trading above their 100-day moving averages, for the second consecutive month (**1**). Investor sentiment has improved on the back of signs that China's economy will avoid a hard landing, the scaling back of expectations of US interest rate rises and some weakness in the US dollar.
- Turning to the futures markets, the copper and tin futures markets remain in backwardation (**2**). Low stocks in the tin market are one factor behind the backwardation. LME copper stocks are also lower, but China-based inventories have been building. A number of futures curves, notably copper (**3**) and lead, have moved lower over the last month, but the zinc and tin futures curves have risen, in tandem with recent strength in their spot prices. That said, the zinc futures curve has remained in backwardation at the longer end (**4**), having moved out of contango last month. This probably reflects the likelihood of lower supply in 2016-17.
- Meanwhile, the fading of investor exuberance towards copper was also evident in positioning. US investors have moved back into a net-short position, while LME investors have cut their net-long position (**5**). Net-long positions in LME zinc dipped a bit recently but remain high, while the net-long position in lead remains negligible (**6**).

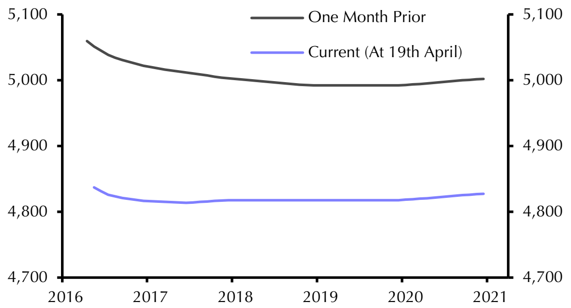
1. Difference between Spot Price and 100-Day Moving Average (%)



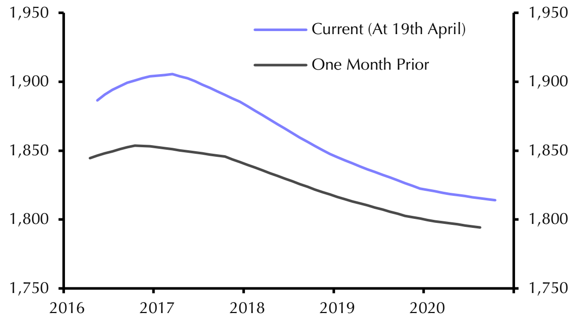
2. 12-Month Ahead Futures Premium/Discount Over Current Spot Price (%, At 19th Apr.)



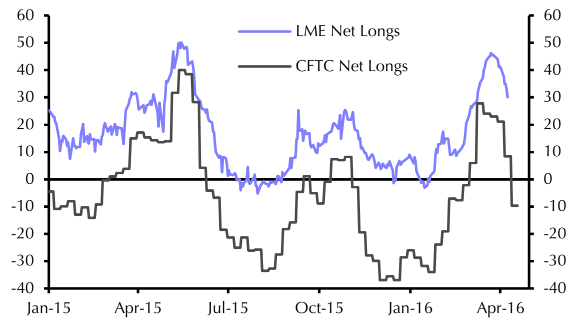
3. Copper Futures Curve (US$ per Tonne)



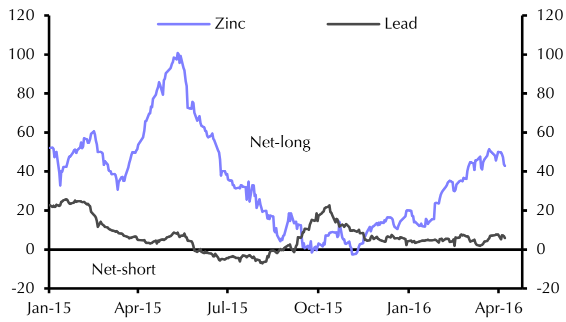
4. Zinc Futures Curve (US$ per Tonne)



5. Money Managers' Copper Futures Positions (Thousand Contracts)



6. LME Money Managers' Net Long Futures Positions (Thousand Contracts)

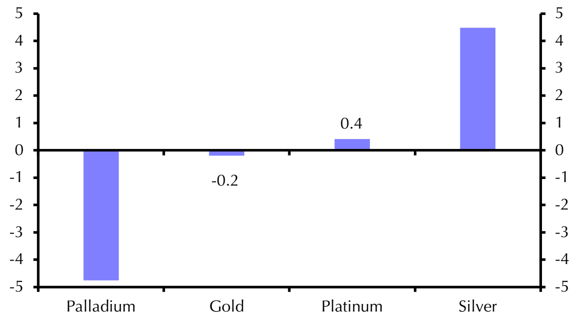


Sources – Bloomberg, Thomson Reuters, Capital Economics

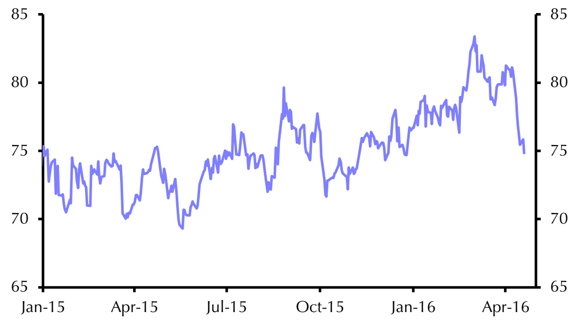
Precious Metals

- In the past month, the prices of precious metals have diverged (**1**), with palladium falling by almost 5% m/m in US dollar terms while silver rallied. As a result of silver having outperformed gold, the gold/silver price ratio fell back to around 75, from a high of 83 at the beginning of March (**2**).
- From a technical point of view, the outlook for PMs has continued to improve. All the main precious metals are now trading above their 50-day and 200-day moving averages, with the exception of palladium whose price is still trading below its 200-day moving average (**3**).
- Sentiment towards precious metals in the futures market has been mixed over the past month (**4**). Gold and silver saw an increase in their net-long positioning as investors became more positive on their price prospects. In contrast, sentiment towards PGMs deteriorated, with net-long positioning falling during the month.
- Only silver and platinum ETFs saw net inflows over the last month, whereas gold and palladium ETFs recorded small net outflows (**5**). Holdings in silver ETFs are up by 34 million ounces so far this year (**6**). This compares with 17 million ounces of net outflows for 2015 as a whole.

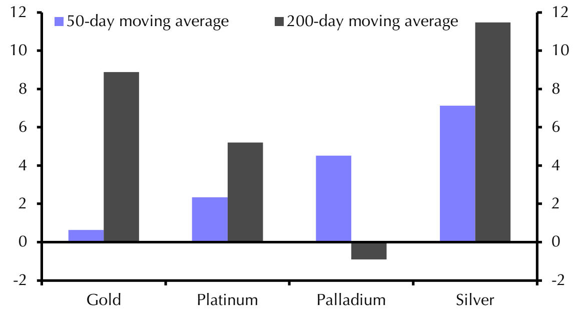
1. Precious Metals Performance (From 21st March – 19th April, % Change)



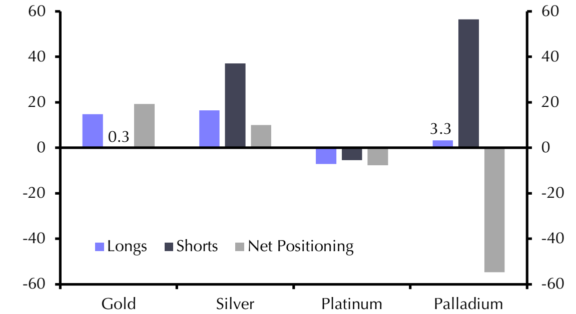
2. Gold/Silver Price Ratio



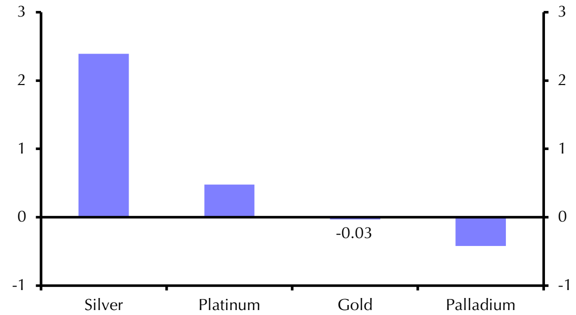
3. Difference between Spot Price & 50-Day and 200-Day Moving Average (%)



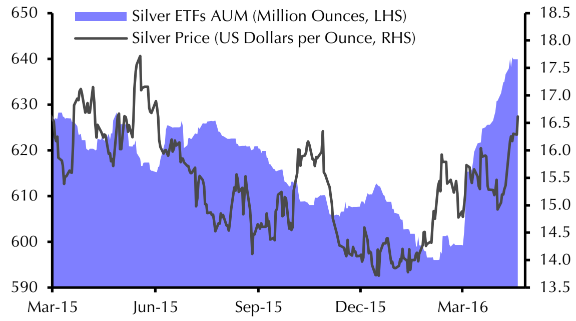
4. Speculative Futures Positioning (m/m % Change)



5. ETF Holdings (m/m % Change)



6. Holdings in Silver ETFs & Price

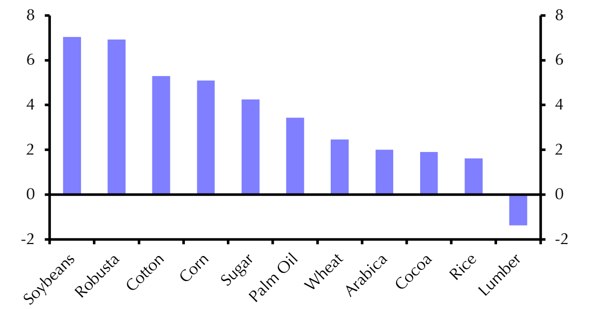


Sources – Bloomberg, CFTC, Thomson Reuters, CE

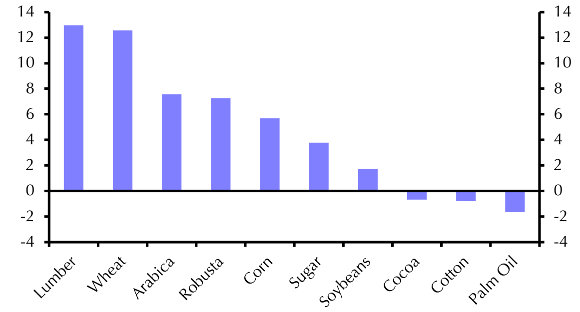
Agriculturals

- Strong rallies in the prices of soybeans, robusta coffee, cotton and corn in recent days have seen prices surge above their 50-day moving averages. Moreover, the prices of most agriculturals are currently trading above the short-term momentum indicator (**1**). After a strong rally in the first quarter of the year, the price of lumber has fallen back since the start of April. Nonetheless, futures prices continue to suggest plenty of renewed upside for the price over the next 12 months (**2**). Moreover, agricultural futures curves generally suggest that prices will rise over the next year.
- In line with the surge in the price of soybeans, due to concerns about the impact of wet weather on Argentina's harvest this year, the short end of the futures curve has moved significantly higher compared to one month prior (**3**). That said, the long end of the curve continues to be in a steep backwardation. In contrast, the short end of the sugar futures curve has fallen relative to one month prior, with the curve moving back into contango (**4**).
- While investor positioning towards soft commodities remains net long, there has been a deterioration in sentiment towards Arabica coffee, cocoa and sugar in recent weeks as indicated by the decline in net-long positions (**5**). Meanwhile, investors remain overwhelmingly bearish on corn and wheat (**6**). Indeed, investors currently have the second largest net-short position in wheat on record. At the same time, sentiment towards soybeans has improved markedly in recent weeks, with investors building the largest net-long positon since last July.

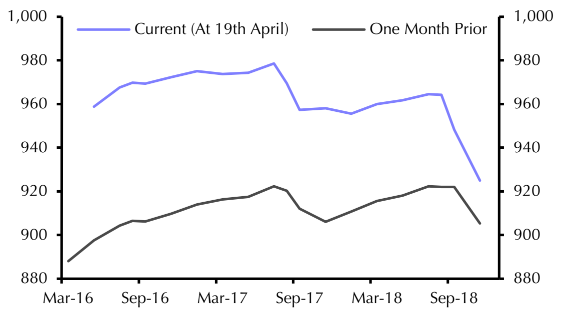
1. Difference Between Current Price & 50-Day Moving Average (%, At 19th April)



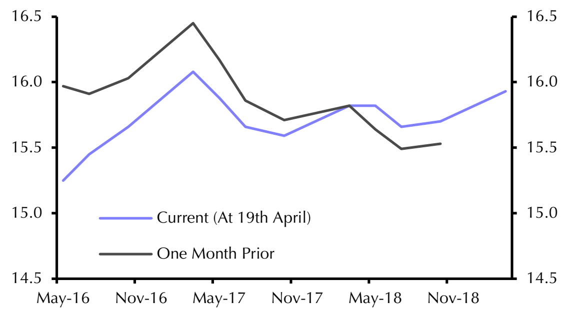
2. 12-Month Ahead Futures Premium/Discount Over Current Contract Price (%, At 19th April)



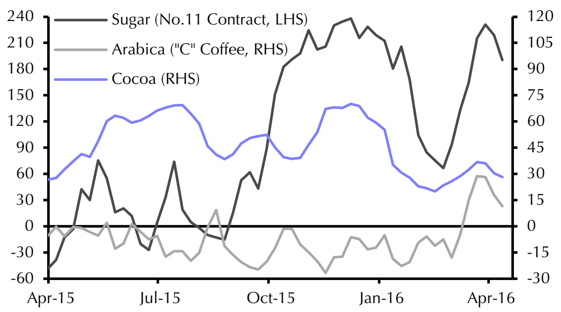
3. Soybean Futures Curve (US Cents per Bushel)



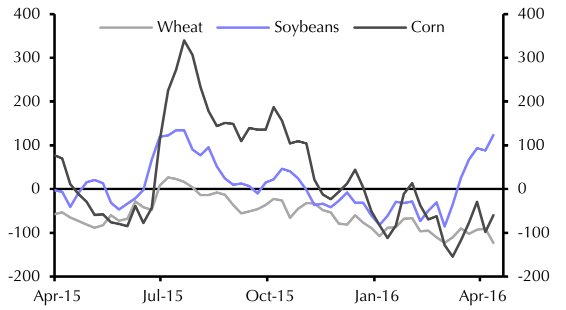
4. Sugar Futures Curve (US Cents per Pound)



5. Arabica, Cocoa & Sugar CFTC Net-Long Non-Commercial Positions (Thousands)



6. Corn, Wheat & Soybean CFTC Net-Long Non-Commercial Positions (Thousands)



Sources – Bloomberg, Thomson Reuters, CFTC, Capital Economics

Forecast Summary

End period	2015			2016		2016			2017
	Actual				Latest	Forecasts			
	Q2	Q3	Q4	Q1	(19th Apr.)	Q2	Q3	Q4	Q4
Selected Commodities									
Brent Crude (US$ per barrel)	64	48	37	40	44	40	40	45	60
US Natural Gas (US$ per mBtu)	2.83	2.52	2.34	1.96	2.03	2.00	2.25	2.50	3.50
Coal (Rotterdam, US$ per tonne)	60	51	48	45	46	42	41	40	40
Gold (US$ per ounce)	1,171	1,114	1,060	1,237	1,234	1,300	1,325	1,350	1,400
Silver (US$ per ounce)	15.7	14.5	13.8	15.4	16.9	17.5	18.5	19.5	21.0
Platinum (US$ per ounce)	1,078	908	868	976	999	1,000	1,025	1,050	1,150
Copper (US$ per tonne)	5,755	5,177	4,706	4,881	4,812	5,000	5,250	5,500	6,000
Aluminium (US$ per tonne)	1,651	1,567	1,500	1,511	1,566	1,600	1,625	1,700	1,800
Iron Ore (US$ per tonne)	59	54	43	53	62	47	45	45	55
Corn (US cents per bushel)	414	388	359	352	384	340	335	330	400
Soybeans (US cents per bushel)	1,056	892	871	911	973	835	830	825	900
Wheat (US cents per bushel)	615	513	470	474	478	440	435	430	500

End Period	2015			2016		2016			2017
	Actual				Latest	Forecasts			
	Q2	Q3	Q4	Q1	(19th Apr.)	Q2	Q3	Q4	Q4
Official Interest Rates									
US (Fed funds target)	0-0.25	0-0.25	0.25-0.5	0.25-0.5	0.25-0.5	0.5-0.75	0.75-1.0	1.0-1.25	2.25-2.5
Euro-zone (Refinancing rate)	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00
UK (Bank rate)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.75	1.25
Currencies									
$ / €	1.11	1.12	1.09	1.14	1.13	1.11	1.08	1.05	1.00
¥ / $	122	120	120	113	109	113	116	120	130
$ / £	1.57	1.51	1.47	1.44	1.43	1.40	1.38	1.35	1.30

	World Share (PPP, 2014)	% Change on a year earlier					Forecasts	
		Average 2002 – 2011	2012	2013	2014	2015e	2016	2017
GDP								
World (CE China Est.)	100.0	3.9	3.2	3.1	3.1	2.5	2.8	3.1
US	15.9	1.7	2.2	1.5	2.4	2.4	2.2	2.0
Euro-zone	12.0	1.1	-0.8	-0.3	0.9	1.5	1.2	1.5
Japan	4.4	0.7	1.7	1.6	0.0	0.5	1.0	0.5
UK	2.4	1.7	0.7	1.7	2.9	2.3	2.2	2.7
China (CE Est.)	16.6	10.1	7.0	6.5	5.8	4.2	5.5	5.5
India	6.8	7.7	5.1	4.7	5.2	5.5	6.0	6.5
Russia	3.3	4.8	3.4	1.3	0.6	-3.7	-1.3	0.5
Brazil	3.0	3.9	1.8	2.7	0.1	-3.8	-3.5	1.5