

# Commodities continue to shine

The precious base metals and energy sector witnessed strong growth in 2009, largely tracking the gains in global equities and on hopes that the global economy would see a quick recovery. A report by **MF Global**.

The year 2009 was marked by increased voicing against bulging government debts, rapid recovery in Asian and some Latin American economies and losses caused by a global pandemic, swine flu.

Precious metals witnessed a sterling year, as gold touched a new life high at US\$1215 (Comex near-month futures) per ounce. Gold's allure increased as it became a must-have in the portfolios of individuals and central banks. A steady and sharp rally in gold beyond its previous high of US\$1034 finally compelled gold miners to drastically cut their hedges and mounting losses on account of the size of their hedge books, which totalled over 16.69 million ounces at the start of 2009 and was left to near 11.55 by the end of third quarter. Silver, which has benefited from a price rebound in industrial metals and gold, was up 52 per cent on year at US\$17.37 per ounce.

In the base metals sector, improved demand from Asia did little to overcome the sharp fall from Europe and the US. Production cuts in response to the aftermath of the credit crisis could not match the rate of demand fall, leading to most of the base metals moving into a surplus from January through October, according to WBMS data. Yet, base metal prices (LME three-month forwards) rose steadily, largely driven by China's stocking reports and fund buying on expectations that the rally in equity markets could improve demand outlook.

China almost singularly rescued base metals, stepping up stocking during the initial half of 2009. It also engaged in a series of unique deals like buying equity stakes in resource companies or signing agreements, which would provide loans in return for resource supplies.

Meanwhile, base metals were helped as automobile consumption showed some signs of revival, mainly because of government incentives. Base metals, however, ignored the steady and sharp jump

in warehouse stocks at the London Metals Exchange, as larger portions of these stocks have been tied in financing deals. However, the excess supply is reflected in the high carry between cash-forward prices.

## Going forward

Among the group, lead has gained the most from the start of 2009, rising by 165 per cent. Lead is followed by copper (114 per cent), zinc (80 per cent), aluminium (41 per cent), tin (29 per cent) and nickel (25 per cent).

A rebound in equities also prompted a rally in energy, with crude oil rallying by 16 per cent to US\$71 per barrel (NYMEX near-month futures) in this period. However, in terms of actual crude oil demand, 2009 was the worst year since 1982. According to an OPEC report, world demand contracted 1.6 per cent, as the demand in countries belong to the Organisation for Economic Cooperation and Development plunged by over 3.9 per cent in 2009.

The natural gas market remained in oversupply, as new methods of drilling have allowed companies to tap unconventional gas deposits from onshore shale gas fields. Gasoline has gained sharply, rising 67 per cent to US\$1.86 a gallon in 2009, helped by supply constraints due to refinery shutdowns, improved demand outlook due to forecasts of a frigid winter and a rebound in crude oil.

Going forward, OPEC has forecast an increase in global crude oil demand by nearly one per cent to 85.13 million barrels per day in 2010. The demand is expected to rise during the second half of the year following the recovery of the world's largest consumer, the US. In base metals, recent

mixed economic data from the US and the Eurozone is pointing towards an uneven pace of economic recovery and a stuttering industrial activity and consumer confidence. Improvement in household consumption in the US and Europe is likely to be painfully slow, as labour market conditions and credit availability remain tight. This, in turn, remains bearish for auto and housing sectors in these economies. The picture remains



quite the opposite in Asian countries and certain Latin American countries like Brazil and Chile, which should support demand for base metals. However, while a full-scale global recovery does not take root, the actual demand outlook will remain fragile.

With respect to precious metals, gold is likely to continue its multi-year bull run. Central banks looking to lighten dollar reserves will be in search of an opportune drop in gold to further build up their reserves. Although gold predominantly remains a dollar play, it will remain supported as the economic uncertainty continues following the debt worries of Dubai and a spate of sovereign rating downgrades for Portugal, Italy, Ireland, Greece and Spain.

The information in this column is provided by MF Global. For further details, write to: [customercaresdubai@mfglobal.com](mailto:customercaresdubai@mfglobal.com) or call +971 4 332 5052, +971 4 332 8894. Source: Bloomberg, MF Global Commodities India.