Commodity Market Monthly

Research Department, Commodities Team*

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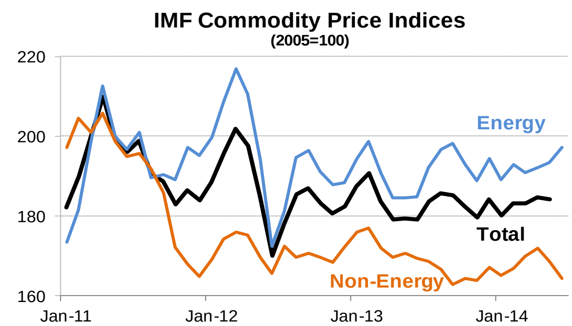
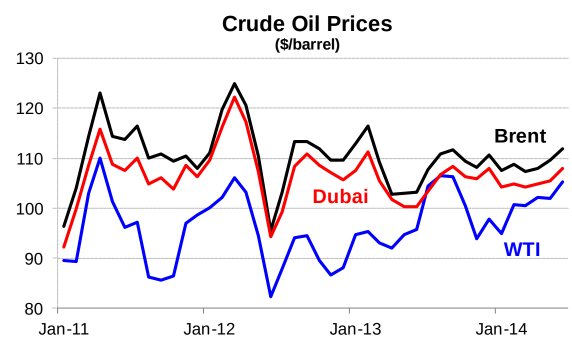
Commodity prices rose by 0.5 percent in June, with gains in energy prices that were partly offset by declines in agriculture and metals. During the first six months (Dec 13 – Jun 14), commodity prices rose 0.4 percent with moderate increases in energy and agriculture nearly offset by a 10 percent drop in metals—the latter due to weak demand and rising production capacity. A few commodities recorded large gains on supply issues, namely Arabica coffee, swine and nickel.

Crude oil prices rose by 2.5 percent in June, averaging $108.4/bbl, due to sectarian violence in northern Iraq and fears of disruption to Iraqi exports. Prices topped $111/bbl mid-month after Islamic rebels took control of the city of Mosul and forced closure of the country's largest refinery at Bajii. The militants also prevented repairs to the northern export pipeline through Turkey that has been offline since early March. However, prices retreated below $104/bbl in early July as there was no imminent threat to production in the south, where over ¾ of its output is located, and exports via the Gulf are at record highs. In addition, there is the prospect of Libyan exports increasing following agreement between rebels and government to reopen terminals at Es Sider and Ras Lanuf. Global oil demand remains weak and crude oil stocks are ample, although product stocks are relatively low, particularly gasoil.

The Brent-WTI spread narrowed to under $5/bbl in early July, as inventories continued to plunge at Cushing OK owing to new pipeline capacity to the Gulf coast. The surplus of light crude that had moved to the Gulf coast is diminishing somewhat due to high levels of refining runs and product exports. The Department of Commerce has given permission to two companies to export condensate that has been lightly processed. This brings some marginal relief to the effective crude export ban, but there are serious constraints segregating exportable condensate product in pipelines, storage and terminals.





Coal prices in Australia fell 3.0 percent in June on continued oversupply. Lower prices have not yielded significant production curtailments, and output continues to move higher. **Natural gas prices** continue to soften in all main markets due to weak seasonal demand and ample supply. Gazprom cut off gas supplies to Ukraine over failure to pay arrears and to agree to terms for future gas imports.

Agriculture prices fell by 2.7 percent in June, with declines in all main indices except meat. The largest decrease was for salmon prices, plunging 12 percent, on mild sea temperatures and large harvests. Orange prices also dropped 12 percent on weak demand because of earlier high prices. Wheat prices decreased 8 percent due to improved global supply prospects and reduced concerns over potential losses from Ukraine. Arabica and robusta coffee prices fell by 8 and 3 percent, respectively, as

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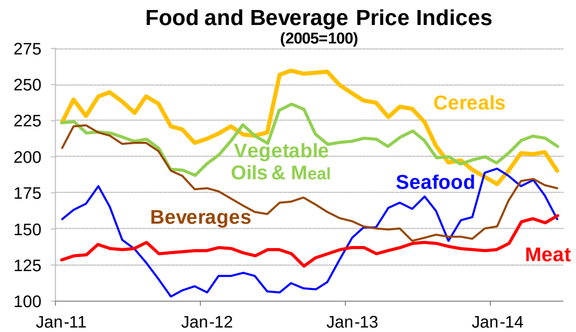
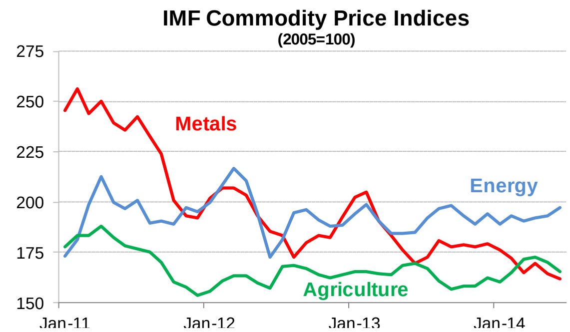




favorable weather in Brazil reduces the impact from drought. Corn prices fell 7 percent as favorable growing conditions in the U.S. boost expectations of a record crop that will help lift global stocks. Palm oil prices fell 5 percent due to rising output from Indonesia and Malaysia, the world's largest producers. The soybean complex slid 2-4 percent on abundant supplies in South America and expectations of a record crop in the U.S. Partly offsetting these declines was a 10 percent jump in fish meal prices because of lower output from Peru. Cocoa prices rose 5 percent on strong demand and lagging supply. Swine prices increased 4 percent—and are up nearly 50 percent this year—on lower U.S. production as a porcine virus increased piglet mortality. Beef prices rose 3 percent on tight supply, as the U.S. herd has shrunk to its lowest level in six decades because of high feed costs and drought.

Metals prices fell by 1.6 percent in June—down five of the past six months—on surplus supply conditions for most metals. However, prices started to climb mid-month and have continued into early July on improving macroeconomic sentiment which could transcend into higher metal demand. The largest decline was for iron ore, dropping 8 percent and down almost 1/3 this year, due to expansion of low-cost supplies from Australia. There have been some closures of high-cost capacity in China, but further rationalization is needed to bring the market into balance. Nickel prices fell 4 percent following a jump of 1/3 this year owing to Indonesia's export ban of unprocessed ore. However, LME inventories are at record highs and a significant tightening of the nickel market is not expected until 2015. Tin prices fell 2 percent on rising inventories and weak demand. Partly offsetting these declines, aluminum prices leapt 5 percent as production cuts outside China start to take effect. Old, inefficient smelters are also closing in China, but they are being more than offset by new, low-cost plants. In addition, a substantial volume of aluminum inventories are tied up in warehouse financing arrangements and not available to the market. Zinc prices rose 3 percent, and have risen even faster in early July, on falling inventories and a looming market tightening from large mine closures next year.

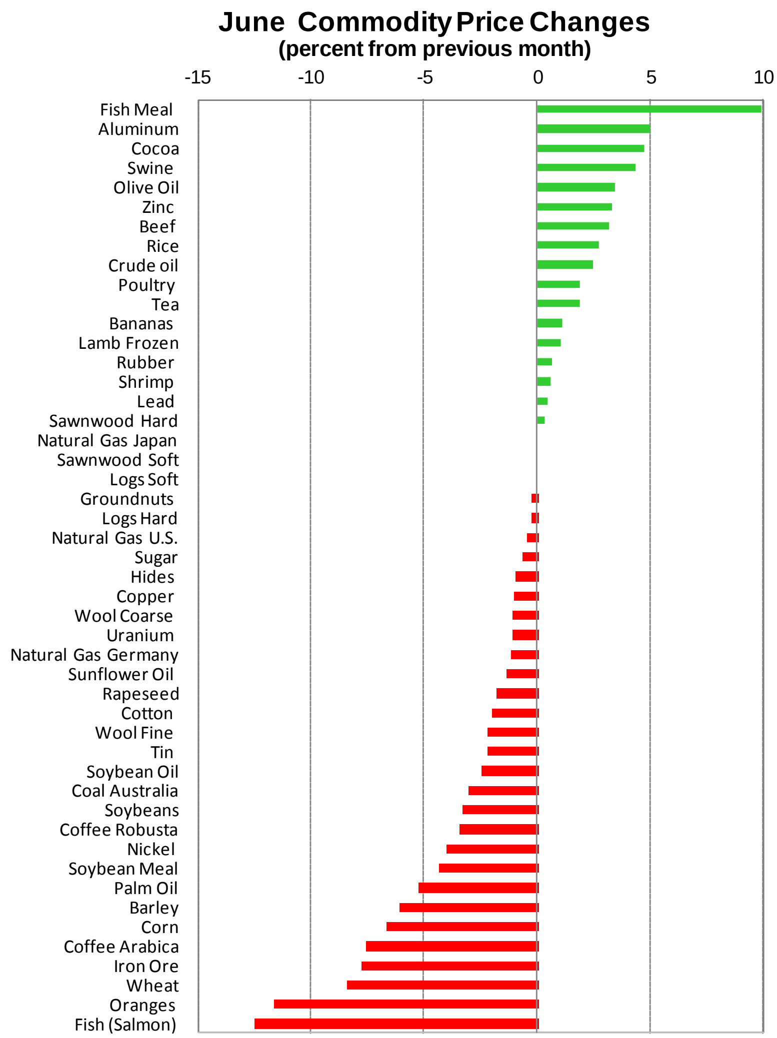


Table 1. Market Prices for Non-Fuel and Fuel Commodities

	Units	2011	2012	2013	2013Q3	2013Q4	2014Q1	2014Q2	May-2014	Jun-2014
Food										
Cereals										
Wheat	$/MT	316.2	313.3	312.2	305.9	307.8	297.1	322.1	334.7	306.5
Maize	$/MT	291.8	298.4	259.0	240.4	199.5	210.1	213.9	216.9	202.6
Rice	$/MT	551.7	580.2	518.8	504.0	449.9	440.7	409.4	403.6	414.7
Barley	$/MT	207.2	238.8	206.4	197.2	157.3	162.7	166.9	173.9	163.3
Vegetable oils and protein meals										
Soybeans	$/MT	484.2	537.8	517.2	516.5	479.4	498.3	540.4	546.0	528.0
Soybean meal	$/MT	378.9	473.3	477.3	496.5	472.5	493.3	531.9	542.8	519.3
Soybean oil	$/MT	1215.8	1151.8	1011.1	960.0	889.2	877.9	899.7	893.5	871.6
Palm oil	$/MT	1076.5	939.8	764.2	726.2	789.4	813.7	794.7	800.3	758.5
Fish meal	$/MT	1519.3	1624.3	1710.5	1581.8	1542.2	1657.9	1861.6	1820.2	2000.9
Sunflower Oil	$/MT	1621.8	1489.5	1341.1	1228.7	1182.9	1133.1	1121.5	1127.3	1112.1
Olive oil	$/MT	3070.3	3135.7	3816.7	3761.4	3656.6	3599.0	3663.5	3631.7	3756.4
Groundnuts	$/MT	1724.0	1688.2	2314.5	2347.1	2312.7	2377.3	2228.8	2217.6	2212.7
Rapeseed oil	$/MT	1366.6	1239.1	1081.2	993.2	1012.8	980.3	963.1	949.0	932.1
Meat										
Beef	cts/lb	183.2	187.9	183.6	176.3	182.4	191.8	195.5	194.5	200.8
Lamb	cts/lb	149.2	100.9	106.7	109.2	116.4	124.1	135.4	136.2	137.6
Swine Meat	cts/lb	89.1	82.8	86.5	95.4	82.6	92.8	115.4	110.5	115.3
Poultry	cts/lb	87.4	94.3	103.8	106.4	104.7	104.7	109.0	108.8	110.9
Seafood										
Fish	$/kg	5.9	4.8	6.8	6.5	6.9	7.8	6.9	7.1	6.2
Shrimp	$/kg	11.9	10.1	14.0	15.6	16.6	17.1	17.8	17.6	17.7
Sugar										
Free market	cts/lb	26.2	21.4	17.7	17.3	17.7	16.8	18.2	18.2	18.1
United States	cts/lb	37.6	28.9	21.2	21.1	21.5	22.4	25.3	25.2	25.9
EU	cts/lb	26.7	26.4	26.0	25.8	26.9	27.5	28.0	28.0	28.1
Bananas	$/MT	975.9	984.3	926.4	934.1	928.1	947.1	929.2	916.0	926.1
Oranges	$/MT	891.1	868.0	967.3	1143.9	834.4	805.0	822.1	864.4	763.6
Beverages										
Coffee										
Other milds	cts/lb	273.2	187.6	141.1	135.6	126.1	175.8	213.7	215.2	198.9
Robusta	cts/lb	116.0	110.6	100.5	98.9	90.4	102.0	107.9	108.4	104.6
Cocoa Beans	$/MT	2978.5	2377.1	2439.1	2469.4	2770.1	2951.3	3085.0	3030.0	3174.3
Tea	cts/kg	346.2	348.9	266.0	244.9	234.2	247.9	222.2	219.5	223.7
Agricultural raw materials										
Timber										
Hardwood										
Logs 1/	$/M3	150.0	148.0	164.5	307.3	304.3	306.1	308.4	165.5	165.5
Sawnwood 1/	$/M3	280.9	284.7	301.4	158.5	174.0	178.4	165.5	308.4	308.4
Softwood										
Logs 1/	$/M3	150.0	148.0	164.5	158.5	174.0	178.4	165.5	165.5	165.5
Sawnwood 1/	$/M3	280.9	284.7	301.4	307.3	304.3	306.1	308.4	308.4	308.4
Cotton	cts/lb	154.6	89.2	90.4	91.8	87.2	94.0	92.6	92.7	90.9
Wool										
Fine	cts/kg	1638.2	1345.3	1197.7	1071.6	1195.5	1114.0	1086.0	1096.8	1073.2
Coarse	cts/kg	1209.2	1212.6	1128.1	1039.5	1153.8	1083.6	1058.7	1065.4	1053.8
Rubber	cts/lb	218.5	153.2	126.8	117.5	114.6	102.1	96.1	94.0	94.6
Hides	cts/lb	82.0	83.2	94.7	95.9	103.1	107.6	109.9	109.2	108.1

1/ Provisional.

2/ Average Petroleum Spot Price (APSP). Average of U.K. Brent, Dubai, and West Texas Intermediate, equally weighted.

Table 1. Market Prices for Non-Fuel and Fuel Commodities (continued)

	Units	2011	2012	2013	2013Q3	2013Q4	2014Q1	2014Q2	May-2014	Jun-2014
Metals										
Copper	$/MT	8823.5	7958.9	7331.5	7084.1	7162.9	7030.2	6795.3	6891.1	6821.1
Aluminum	$/MT	2400.6	2022.8	1846.7	1782.4	1767.5	1709.3	1800.2	1751.1	1839.0
Iron Ore	$/MT	167.8	128.5	135.4	132.8	134.9	120.4	102.6	100.6	92.7
Tin	$/MT	26051.4	21109.4	22281.6	21312.4	22896.9	22636.3	23146.2	23271.3	22762.0
Nickel	$/MT	22909.1	17541.7	15030.0	13953.3	13908.7	14661.0	18467.8	19401.1	18628.8
Zinc	$/MT	2195.5	1950.0	1910.2	1860.3	1908.7	2026.5	2071.4	2059.0	2128.1
Lead	$/MT	2400.7	2063.6	2139.7	2101.9	2113.9	2101.4	2097.1	2097.3	2106.9
Uranium	$/lb	56.2	48.9	38.6	35.8	35.0	35.2	29.8	28.5	28.2
Energy										
Spot Crude 2/	$/bbl	104.0	105.0	104.1	107.3	104.5	103.7	106.3	105.7	108.4
U.K. Brent	$/bbl	111.0	112.0	108.8	110.1	109.4	107.9	109.8	109.7	111.9
Dubai	$/bbl	106.0	108.9	105.4	106.1	106.7	104.4	106.1	105.5	108.0
West Texas Intermediate	$/bbl	95.0	94.1	97.9	105.8	97.4	98.8	103.1	102.0	105.2
Natural Gas										
Russian in Germany	$/mmbtu	10.6	12.0	11.2	11.0	11.0	10.8	10.7	10.6	10.5
Indonesian in Japan	$/mmbtu	15.6	18.1	17.3	17.0	17.0	17.8	17.6	17.5	17.5
US, domestic market	$/mmbtu	4.0	2.8	3.7	3.6	3.8	5.2	4.6	4.6	4.6
Coal										
Australian, export markets	$/MT	130.1	103.2	90.6	82.8	87.9	82.6	77.9	79.0	76.6

1/ Provisional
2/ Average Petroleum Spot Price (APSP). Average of U.K. Brent, Dubai, and West Texas Intermediate, equally weighted.

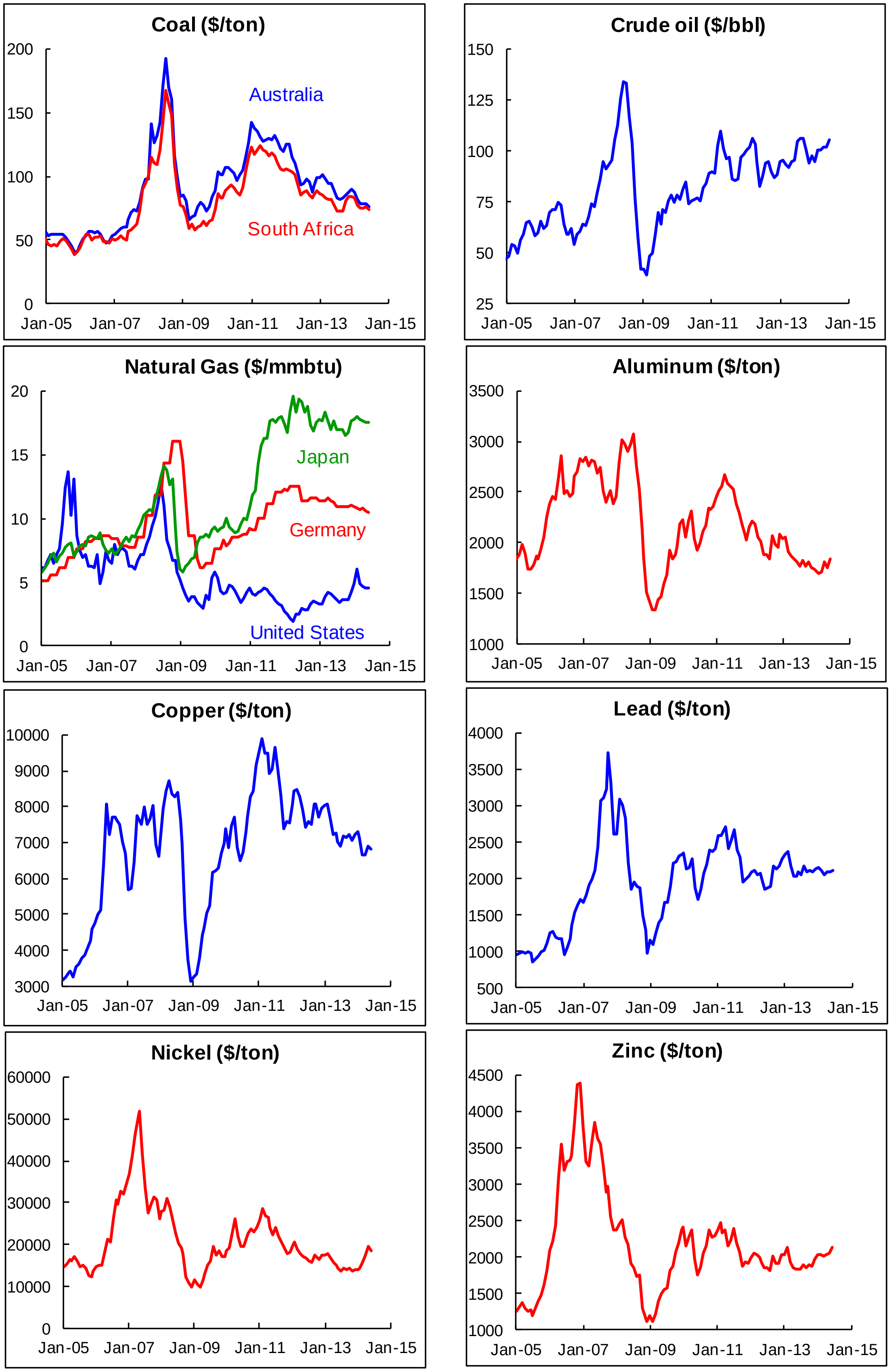
Table 2. Indices of Primary Commodity Prices

(2005=100, in terms of U.S. dollars) 1/

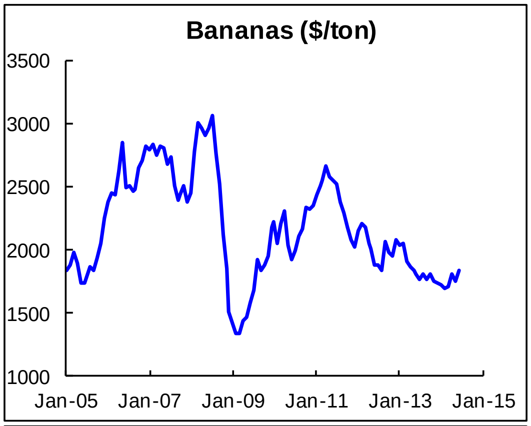
	(Weights) 1/	2011	2012	2013	2013Q3	2013Q4	2014Q1	2014Q2	May-2014	Jun-2014
All Primary Commodities 2/	100.0	192.4	186.3	183.3	184.8	182.1	182.2	184.6	184.1	185.1
Non-Fuel	36.9	190.0	171.0	169.0	166.0	165.1	167.2	168.2	168.5	164.4
Agriculture	26.2	173.9	162.9	163.3	161.6	159.5	165.6	169.4	170.1	165.4
Food	16.7	179.9	175.6	177.6	175.6	170.2	176.6	181.0	182.4	175.6
Cereals	3.6	231.2	236.4	218.3	209.3	191.5	191.2	198.3	203.1	190.3
Vegetable oils and protein meals	4.4	209.1	215.9	206.4	203.5	197.5	203.1	211.6	212.9	207.2
Meat	3.7	134.5	133.3	136.8	139.4	135.4	143.4	156.7	154.1	159.1
Seafood	3.2	139.3	113.3	160.1	158.6	167.6	185.9	171.1	173.4	156.3
Beverages	1.8	205.5	167.4	147.4	144.7	145.9	167.9	181.0	180.0	178.3
Agricultural Raw Materials 3/	7.7	153.5	134.0	136.2	135.0	139.7	141.4	141.5	141.1	140.2
Timber	3.4	110.8	107.4	107.3	107.4	109.0	109.9	110.2	110.3	110.4
Metals	10.7	229.7	191.0	182.9	177.0	178.6	171.1	165.3	164.5	161.8
Edibles 4/	18.5	182.4	174.8	174.6	172.6	167.8	175.7	181.0	182.1	175.9
Industrial Inputs 5/	18.4	197.8	167.1	163.3	159.4	162.3	158.6	155.3	154.7	152.8
Energy 6/	63.1	193.8	195.2	191.7	195.7	192.1	190.9	194.2	193.3	197.2
Petroleum 7/	53.6	195.9	197.9	195.9	201.8	196.8	195.2	200.0	198.9	203.8
Natural Gas	6.9	154.3	171.2	164.9	161.4	162.1	168.5	164.3	163.9	162.9
Coal	2.6	254.4	202.1	176.8	161.4	173.7	163.4	154.5	156.6	152.1

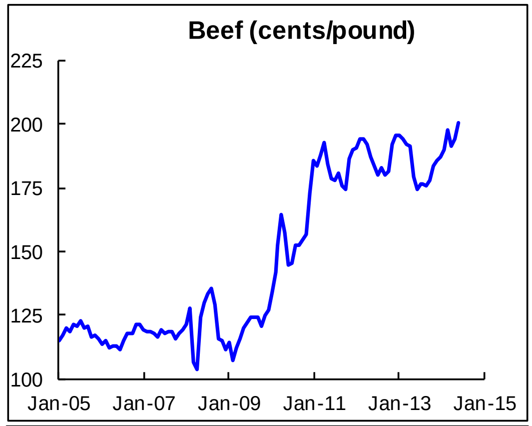
1/ Weights based on 2002-2004 average world export earnings.
2/ Non-Fuel Primary Commodities and Energy Index.
3/ Includes Forestry Products.
4/ Edibles comprised of Food and Beverages
5/ Industrial (Non-Fuel) Inputs comprised of Agriculture and Metals
6/ Includes Petroleum, Natural Gas and Coal.
7/ Average Petroleum Spot Price (APSP). Average of U.K. Brent, Dubai, and West Texas Intermediate, equally weighted.

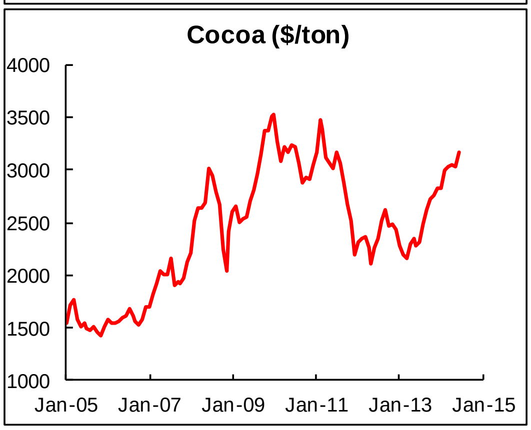
Commodity Prices in U.S. Dollars, 2005-2014

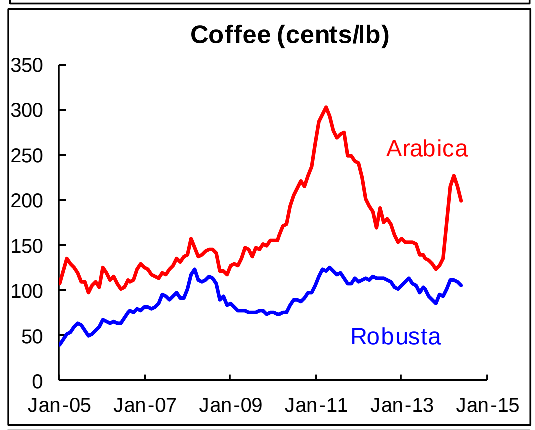


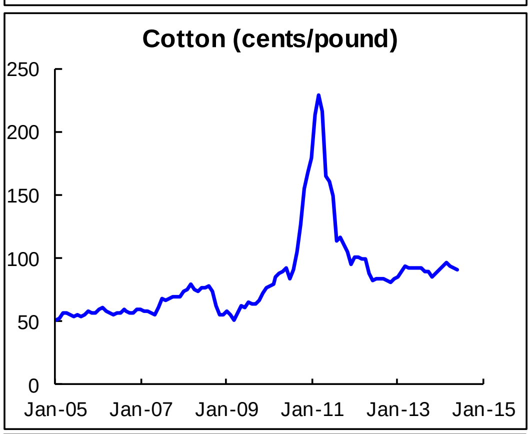
Commodity Prices in U.S. Dollars, 2005-2014 continued

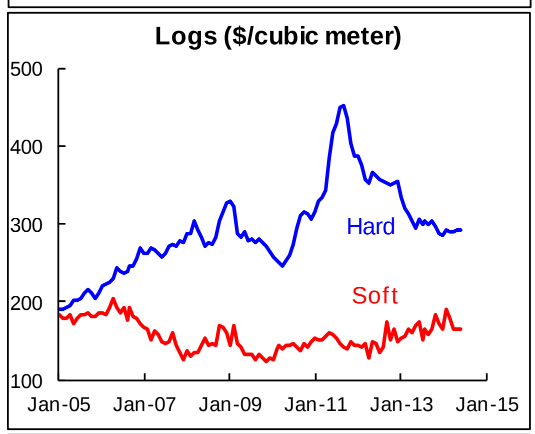


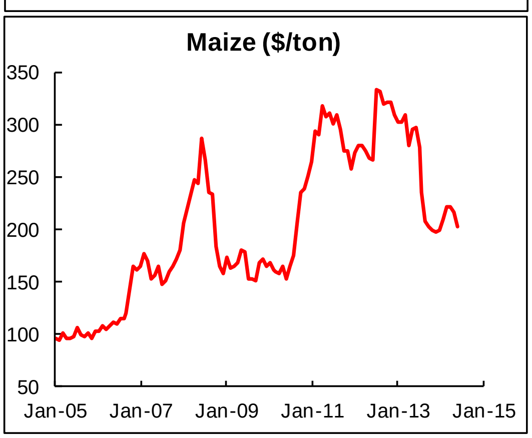


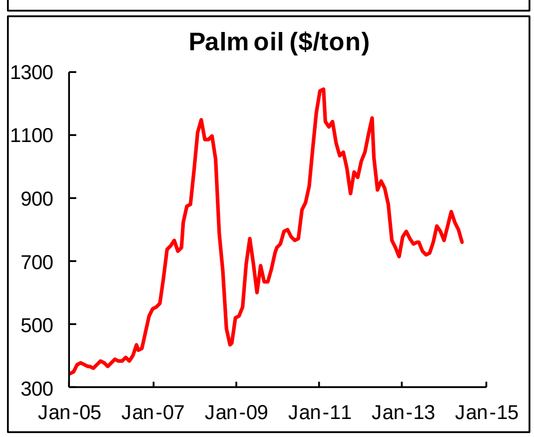




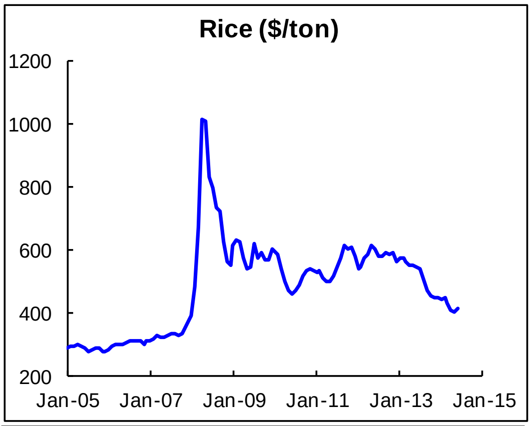


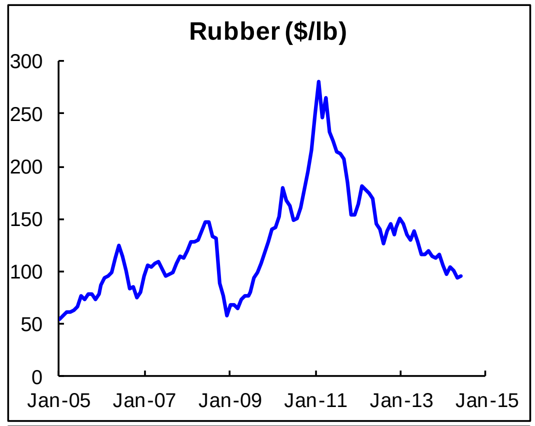


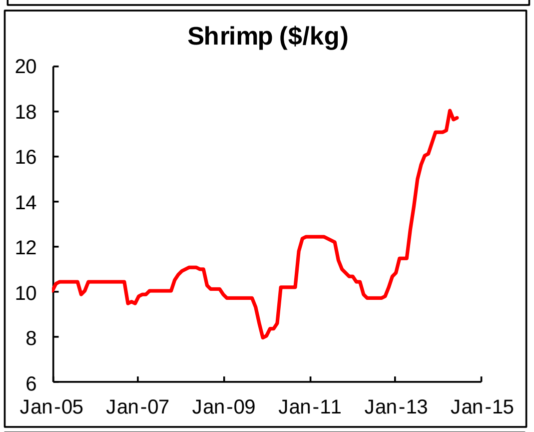


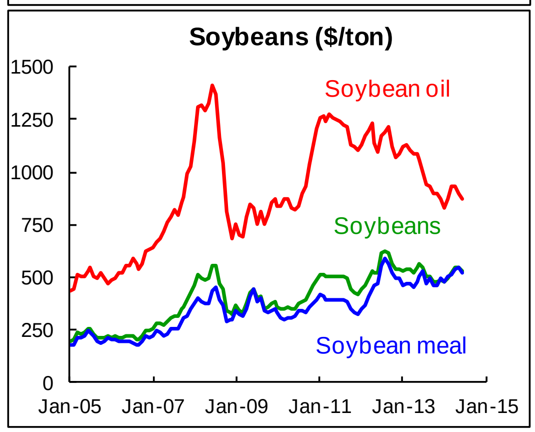


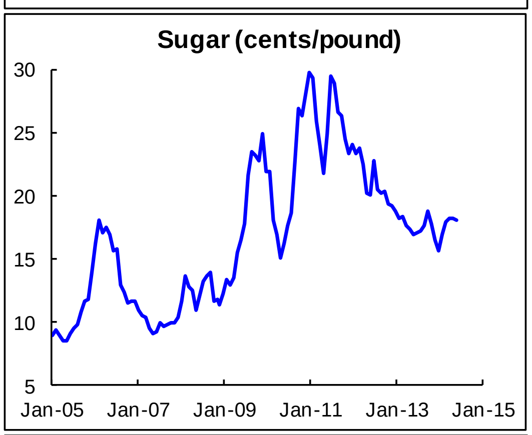
Commodity Prices in U.S. Dollars, 2005-2014 continued

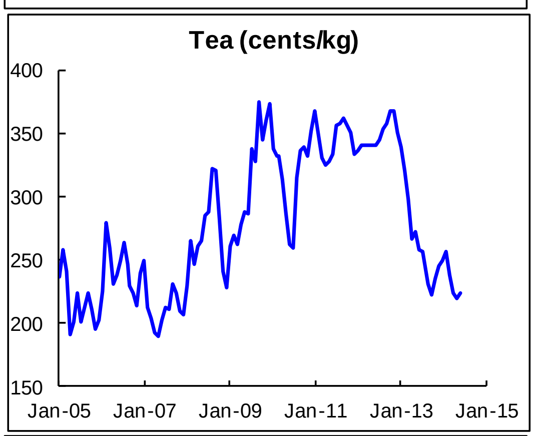


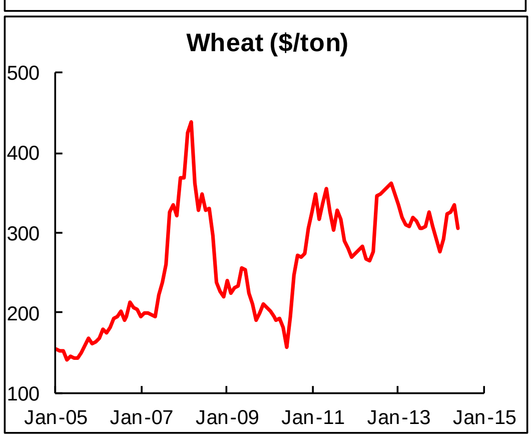


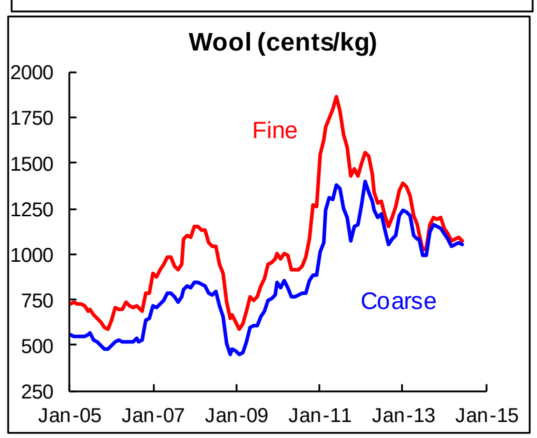












Commodity News Highlights

***Medium Term Oil Market Report*. International Energy Agency. June 2014.**

Executive Summary highlights

The North American supply boom has consistently defied expectations. U.S. and Canadian production for 2013 is 0.33 mb/d greater than had been expected last year, and 3.21 mb/d above 2010 projections. In contrast, global oil supply has surprised on the downside, and oil prices have remained stubbornly elevated.

By the end of the decade, North America as a whole will have achieved energy "independence" and have become a net oil exporter with a net crude imports projected at 2.6 mb/d per day and potential net product exports of around 3.5 mb/d. The shale and light tight oil revolution will likely start spreading beyond the United States before the end of this decade, sooner than we previously expected. While no single country may offer the unique combination of above-ground and below-ground attributes that made the US boom possible, several are nevertheless taking policy steps on the tax and regulatory front to hasten the development of their non-conventional potential, e.g., Russia, Argentina, Mexico, and Australia.

Not everything is rosy about crude supply in the next five years. This is especially true of OPEC. Ageing fields are an issue for almost all OPEC producers, but above-ground woes have escalated, with IOCs shying away from extremely poor investment frameworks in many member countries, especially given more attractive terms in less risky non-OPEC countries. Saudi Arabia continues to invest in production capacity but is not pursuing net production capacity growth. Beyond OPEC countries, above-ground issues in the form of resource nationalism have caused unexpected project delays which have adversely affected the growth forecast.

In aggregate, global oil demand is projected to expand, breaching the 100 mb/d mark by the end of 2019, but not averaging that level on an annual basis until 2020. That equates to demand growth of 7.6 mb/d over the forecast period, 2013-19. The projected rise in demand, however, is not likely to be linear. Before the end of the decade, the market looks likely to reach an inflexion point after which demand growth may start to decelerate, as a combination of high oil prices, environmental concerns and cheaper and cleaner fuel alternatives kick in, leading to both fuel switching away from oil and overall fuel savings. While "peak demand" for oil, other than in mature economies, may still be many years away, peak oil demand growth for the market as a whole is already in sight.

Forecast supply and demand growth for the rest of the decade imply a comfortable level of OPEC spare production capacity, which rises by 1.23 mb/d between 2013 and 2016 and plateaus at just above 6 mb/d to 2019. The trouble is that much of that spare capacity is itself subject to high disruption risks, or is off-limits to the market for reasons independent from OPEC policy, such as domestic unrest or international sanctions. In practice, only a fraction of OPEC's implied production capacity will likely be available to the market at any given time, and nearly all of that in Saudi Arabia. For the rest of the decade, this "effective" spare capacity may not exceed 4.6 mb/d, and will likely remain below 4 mb/d in 2014-15.

Surging North American production has had a profoundly disruptive effect on international crude trade flows and will continue to do so for the rest of the decade. The non-OECD economies will overtake those of the OECD in crude imports as early as 2017, led by Asia. By the end of the decade, Asian crude imports (including non-OECD and OECD Asian imports) will reach a projected 22.1 mb/d, or 65% of internationally traded crude and 27% of total crude production. While the world's appetite for oil continues to grow, international long-haul crude trade is projected to shrink as producers keep more of their crude at home and refiners source more and more feedstock locally. The key drivers here are North America and the Middle East.