

# Commodities

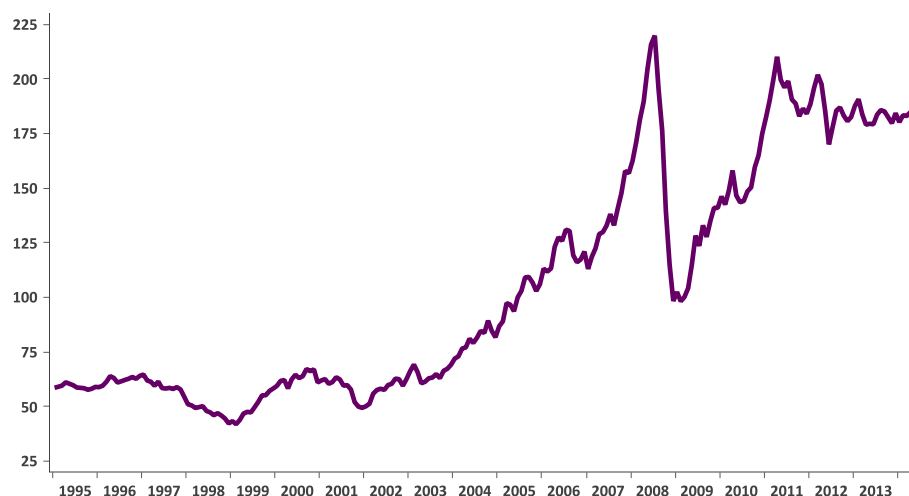
**Has the time come for commodity markets to increase again?** After three years of stagnation, a growing number of investors have been tempted to think so in recent weeks. This renewed interest is hardly surprising given that equity markets are brimming with confidence in the belief that the global economic picture is gradually improving.

Our contrarian economic outlook is naturally quite skeptical of a recovery in global commodity prices. Despite geopolitical and weather-related stress, the international environment runs the risk of suffering a broad downturn amid rampant disinflation and ongoing growth disappointments. Against this backdrop, it would be gold that stands the most likely chance of increasing in value...assuming that long-term real interest rates weaken.

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All Commodity Prices 2005=100, USD



Sources: RichesFlores Research, Macrobond, Indices FMI toutes MP

# Unusually Stable Prices since 2012

The instability that characterized commodity prices from 2006 to 2011 has been interrupted in the past two years in the wake of slowing demand, particularly in emerging markets. Across all segments, the range within which prices have fluctuated has been narrow; although, they are not far off from their peaks in early 2011. In the past few weeks, drought and other temporary disruptions have sent commodity prices higher, even if the fundamentals do not justify such an increase. Oil prices have not found a firm trend, either. At \$110/barrel, Brent is barely \$15 off from its highs seen in early 2011 and early 2012. WTI prices, which at one point were sent tumbling by the production of shale oil in the United States and a difficult economic situation, have made up their gap with Brent in recent months, as shale oil production has slowed and the economic picture has brightened.

Broadly speaking, global commodity prices have sailed unusually calm seas in the past two years, which has led to a gradual decline in real prices.

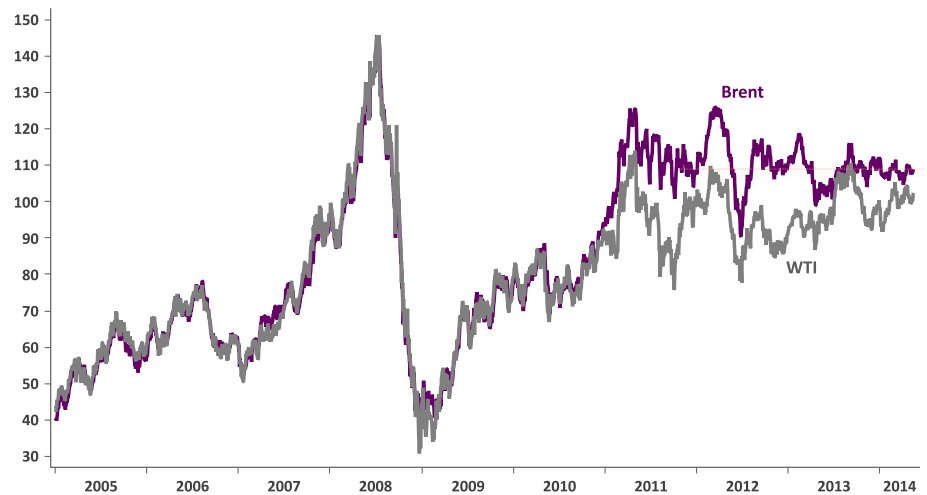
## Commodity Prices

CRB index in current \$, J. 2005 = 100



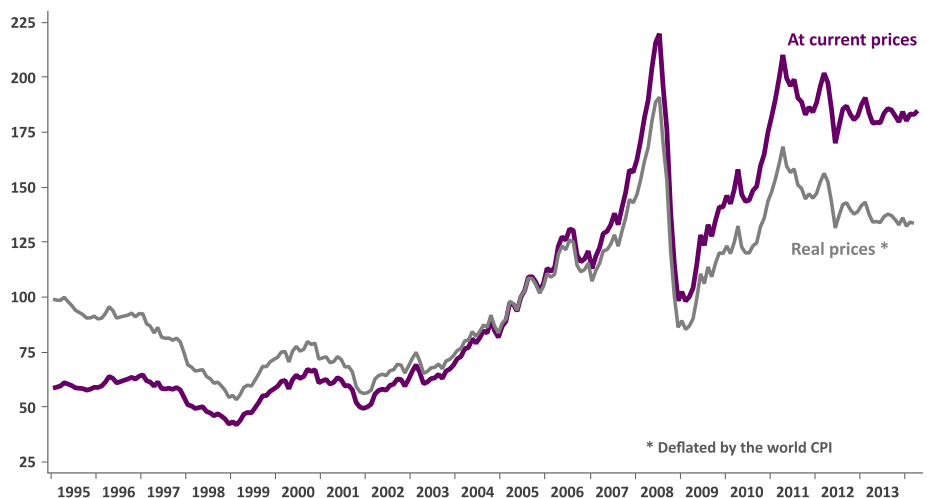
Sources: RichesFlores Research, Macrobond

## Crude Oil Spot Prices, USD/barrel



Sources: RichesFlores Research, Macrobond

## All Commodity Prices, 2005=100, USD

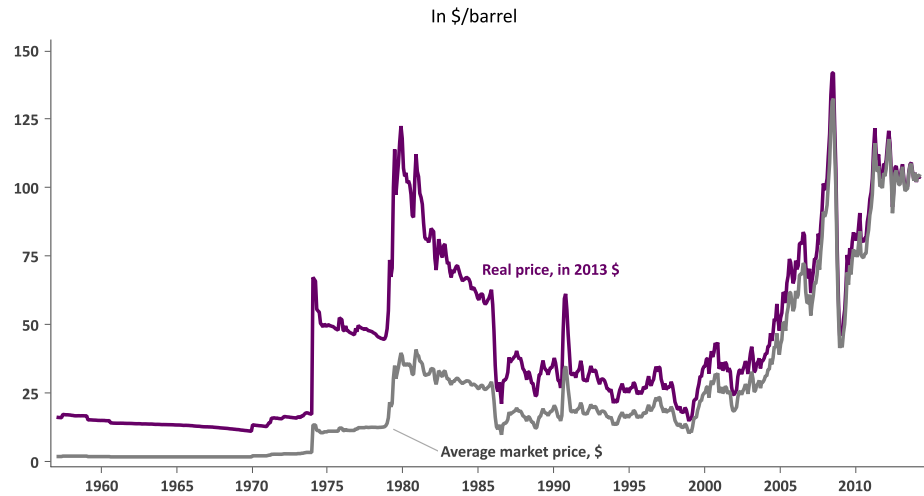


Sources: RichesFlores Research, Macrobond, IMF Indices

## Energy Bills Generally Manageable

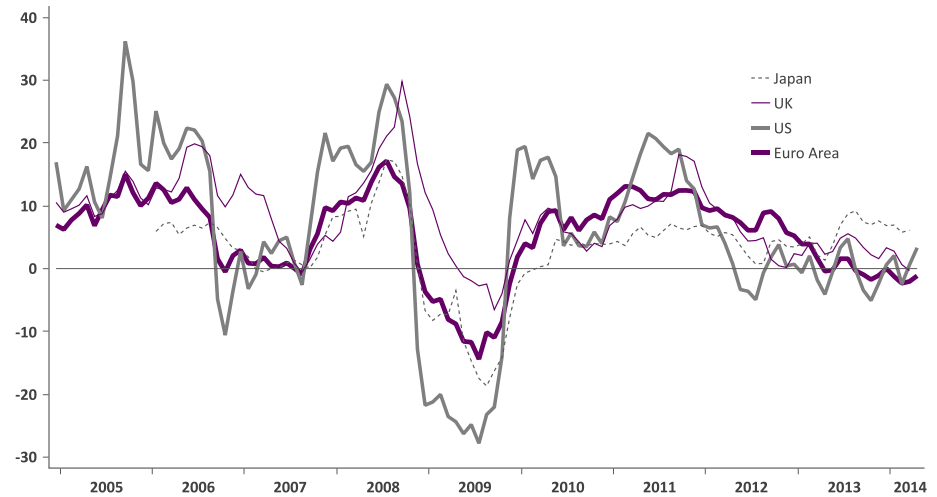
Despite real oil prices that are close to all-time highs, energy prices have had significantly less influence on inflation than in the past.

**Crude Oil Price, Average Brent, WTI, Dubai**



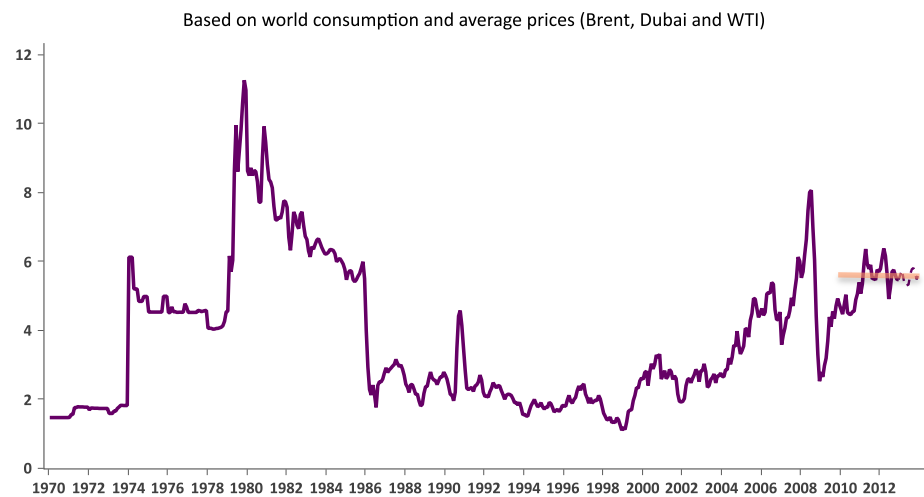
The fluctuation of energy prices in recent months has been very moderate, contributing to a slight decline in inflation in the euro area and the United States and a modest increase in the UK. Japan is the exception, as the depreciation of the yen in the first half of 2013 has continued to contribute to a 6% per year increase in energy prices.

**Energy Prices, Annual rates**



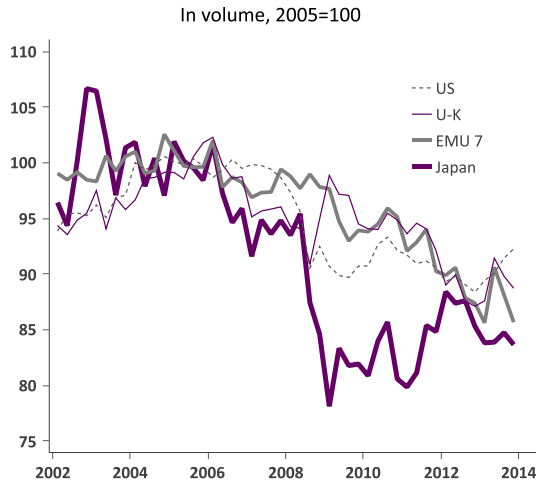
Moreover, the global oil bill has stood at relatively manageable levels of around 5.5% of global GDP for three years running.

**Global Oil Bill, in % of GDP**



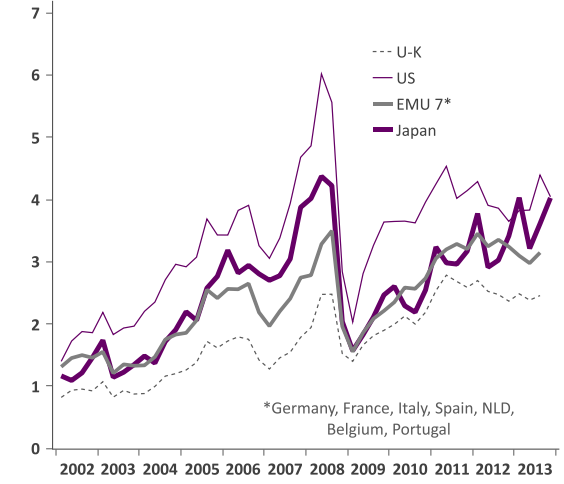
# ... Thanks to Falling Consumption

**Oil Consumption**



Sources: RichesFlores Research, Macrobond

**Oil Bill in % of Nominal GDP**

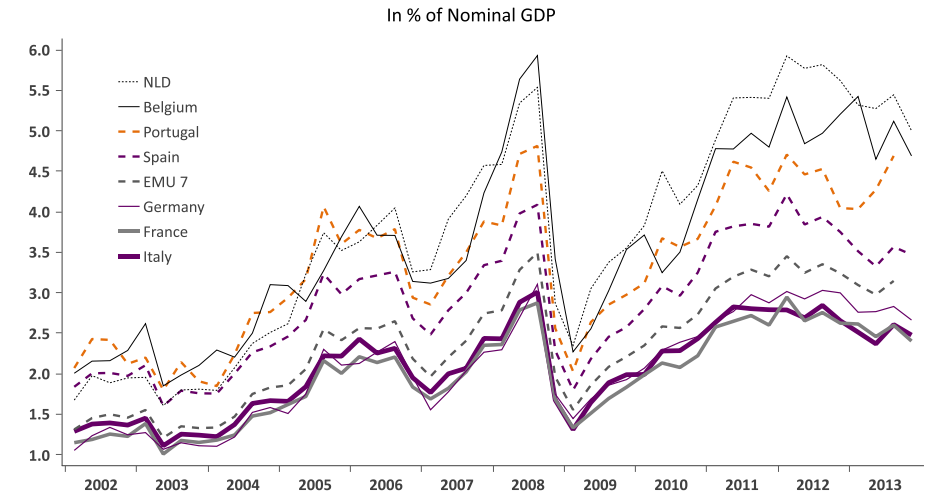


Sources: RichesFlores Research, Macrobond

The energy bills of industrialized countries have stabilized because the consumption of oil products has dropped by 10-15% since peaking in 2005. However, the situation is very different from country to country, particularly in the euro area where consumption and its elasticity vis-à-vis economic growth varies tremendously from one country to the next. As a result, the latter has increased markedly in southern Europe.

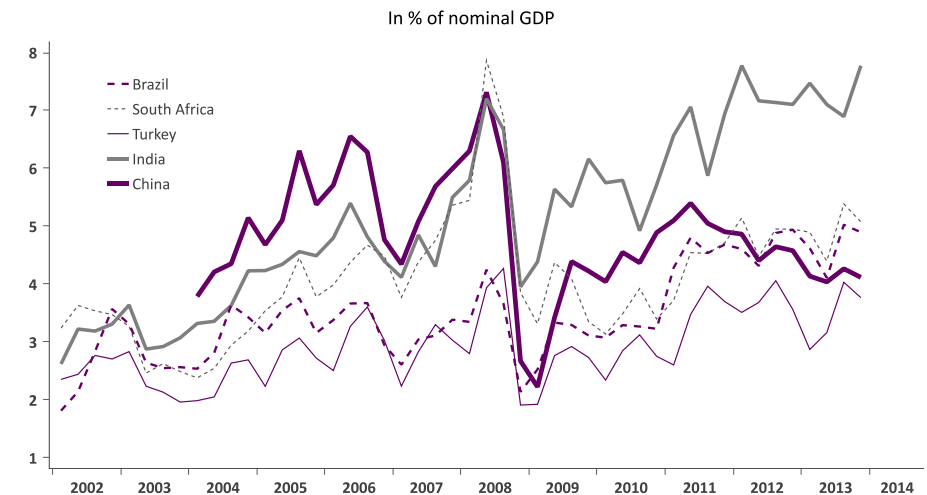
In general, oil consumption in major emerging markets has continued to increase in the last two years, particularly in India and Brazil, where the oil bill reached new records at the end of 2013. However, China has slowed its consumption, decreasing its oil bill for the past three years, which is 3 GDP points less than its 2008 peak.

**Oil Bill, Euro Area**



Sources: RichesFlores Research, Macrobond

**Oil Bill, Main Emerging Countries**



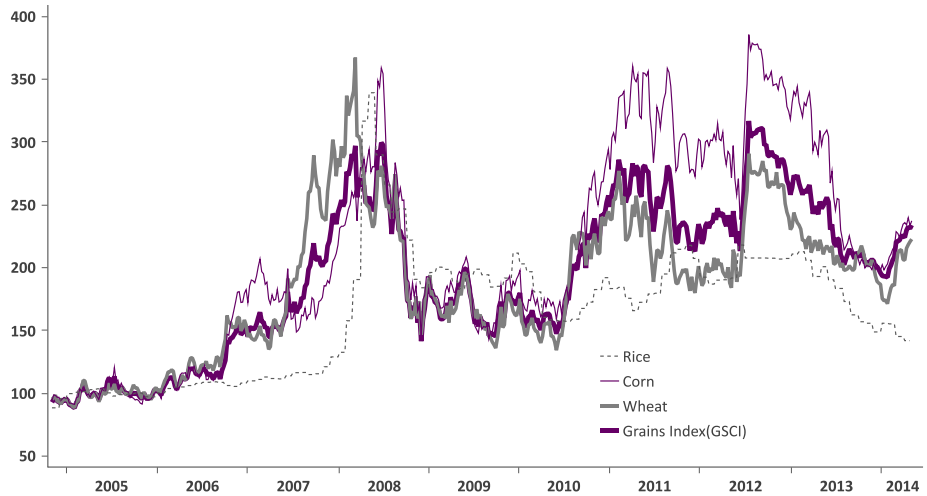
Sources: RichesFlores Research, Macrobond

# Keeping an Eye on Agriculture

Geopolitical tension, drought, inclement weather...have all contributed to disturbing the agricultural markets in recent weeks. As a result, prices have seen a broad uptick after a very quiet 2013. Although these developments have not triggered dramatic rises at this point, recent developments in these markets should be monitored closely.

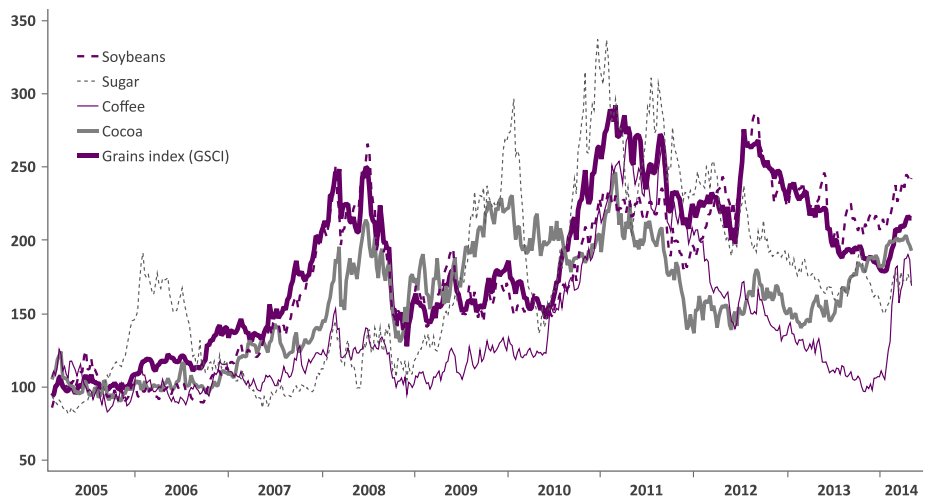
In fact, price levels remain high, generally speaking, despite cooling somewhat. It wouldn't take much for the sector to become a source of economic instability again, particularly in the emerging world where the food component of inflation has remained very high in recent years.

**Main Agricultural Commodity Prices, USD, 2005=100**



Sources: RichesFlores Research, Macrobond

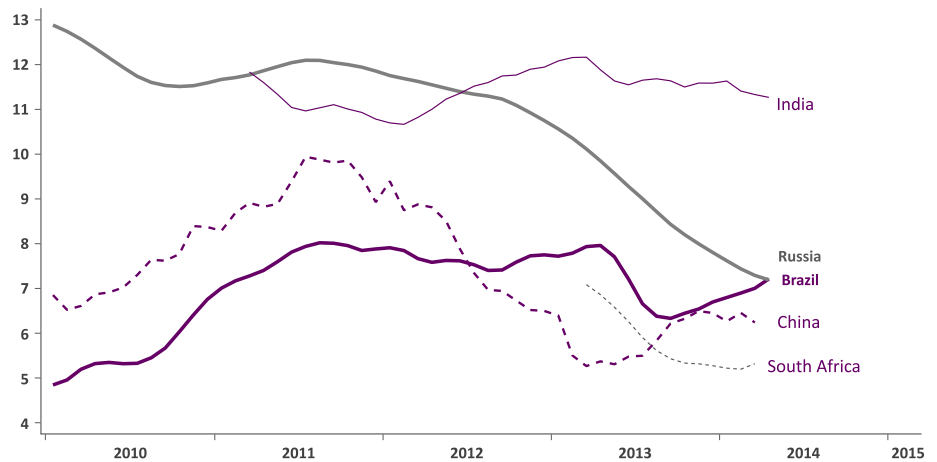
**Main Agricultural Commodity Prices, USD, 2005=100**



Sources: RichesFlores Research, Macrobond

**BRICS : Food Inflation**

YoY in %



Sources: RichesFlores Research, Macrobond

# Precious Metals: End of QE Could Trigger a Rise

Surely, precious metals provide the most convincing argument for a potential price increase, for three reasons, primarily:

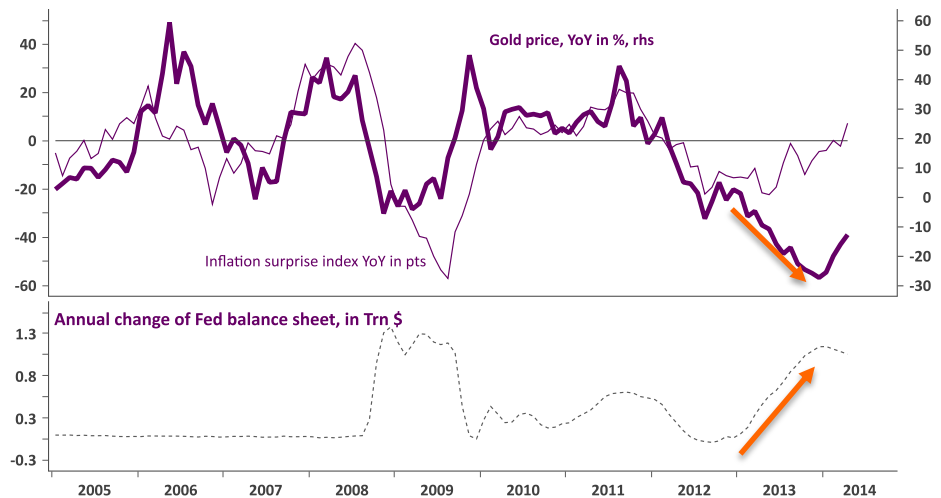
- Rising geopolitical tensions across the globe, which don't appear to be subsiding any time soon,
- The end of the Fed's QE, which, should it continue, would remove one of the main reasons that have kept investors away from precious metals,
- The decrease in long rates, that we are forecasting for the second half of the year amid a deterioration of the global economic outlook and the drop in long-term real interest rates that would likely ensue. The drop in real interest rates could be impeded, or at least limited, by persistent deflationary risk; it seems unlikely that precious metals will rocket exponentially in the foreseeable future.

Precious Metals, Prices USD, 2005=100



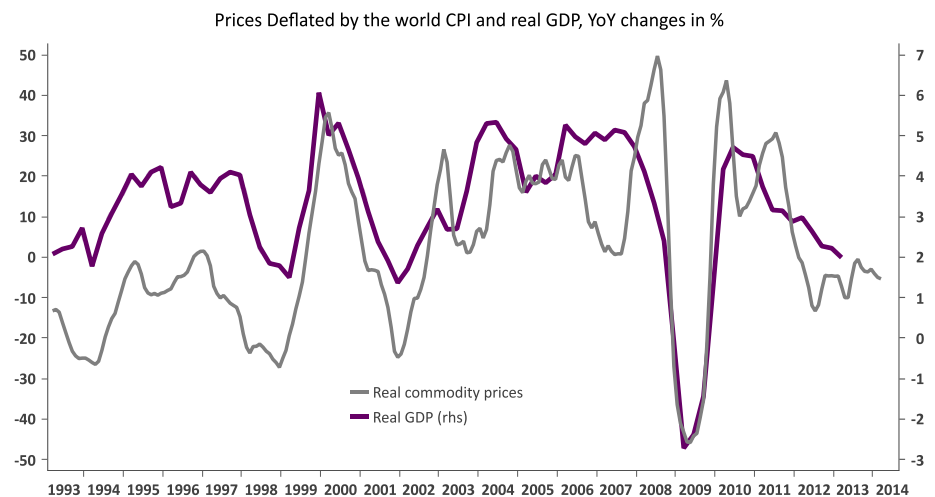
Sources: RichesFlores Research, Macrobond

Gold Price and Citi's Inflation Surprise Index



Sources: RichesFlores Research, average inflation surprise index (ADV+EM), Macrobond

Real Prices of Commodities Excluding Energy and Nominal GDP



Sources: RichesFlores Research, Macrobond

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