Commodity Outlook

MIRAE ASSET
Building on principles

Global Commodity Update – 2013

2013 was a difficult year for Commodities. Commodities have substantially underperformed most other asset classes over the past 4 years.

Commodities in general remain the asset class, most linked to fixed asset investments and global growth momentum. The underperformance of commodities as an asset class is a direct result of the disappointing fixed asset investments growth. The improvement in global growth in H2 CY13 has helped arrest the decline in industrial commodity prices.

- Precious Metals like Gold and Silver had very sharp cuts in 2013, with Gold having the worst year since 1981 and first year of negative returns since the past 12 years.
- Oil prices have traded in a range during the year with an upward bias.
- Base Metals had started the year weakly but recovered some of the losses in the last quarter with improvement in global activity, especially China.

The Thomson Reuters/Core Commodity CRB index, consisting of 19 commodities, is down nearly 7 percent (from 1st January 2013-26th December 2013) this year, the third year of losses.

Performances of Commodities

	Calendar Years					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Oil						
WTI Crude Oil	-15.81%	23.41%	5.22%	4.37%	-6.72%	6.65%
Brent Crude Oil	-14.11%	21.91%	6.08%	9.20%	7.13%	7.40%
Base Metals						
LME Aluminium	-36.06%	45.71%	12.01%	-18.95%	1.82%	-14.74%
LME Copper	-54.20%	141.37%	31.44%	-21.35%	3.64%	-8.33%
LME Zinc	-49.85%	114.28%	-3.36%	-25.24%	10.66%	-0.59%
Precious Metals						
Gold	5.07%	25.51%	29.14%	11.11%	5.53%	-28.18%
Silver	-24.01%	50.87%	82.46%	-8.78%	6.91%	-36.17%
Currency						
Dollar Index	6.01%	-4.24%	1.50%	1.46%	-0.53%	0.97%
USD/INR	23.82%	-4.67%	-3.91%	18.70%	3.24%	13.34%

Source: Bloomber, 24th December 2013

Commodity Outlook

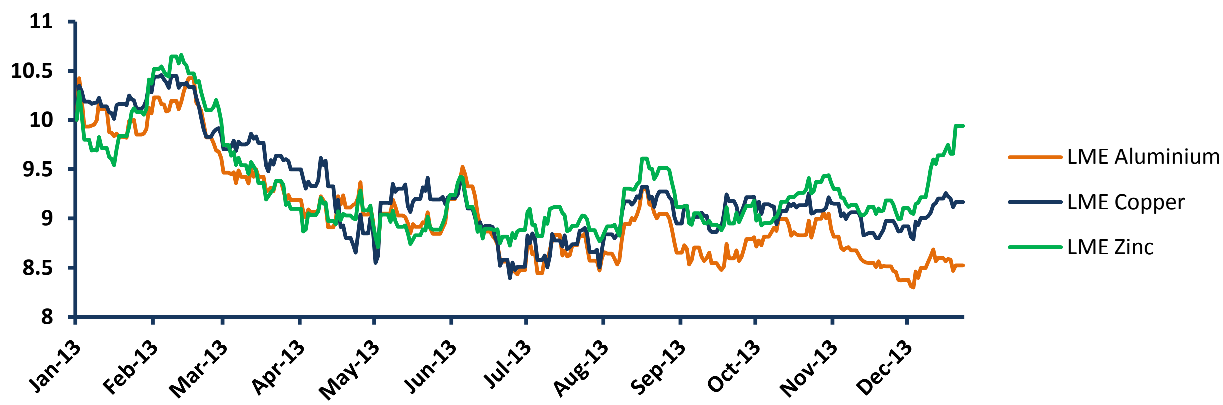
Commodity Outlook- 2014

The rate of fixed asset investments growth & global growth will once again be the key to commodity performance. The recent developments suggest that 2014 may be a better year for the asset class. The recent evidence continues to suggest that global growth has troughed, with a modest rebound likely over the course of the year. The Chinese recovery continues to gather momentum, the US industrial activity will improve further and in the euro zone, the rate of contraction has troughed. The improved liquidity condition across globe will continue to have positive impact on the markets.

Base Metals

Base Metals had started the year weakly but recovered some of the losses in the last quarter with improvement in global activity, especially China. The Quantitative Easing (QE) tapering announcement didn't have a negative impact, instead the base metals rallied on the expectations that the US economy is on the road of recovery.

China's Third Plenum in November 2013 reaffirmed the strong commitment of policy-makers to support growth while implementing much-needed structural reforms. Accelerated urbanization, policies to support private-sector investment, and longer-term rationalization of uneconomic state-owned commodity production should be supportive of commodity prices



Source: Bloomber, 24th December 2013 (prices of commodities are rebased to Rs.10 for comparsion purpose)

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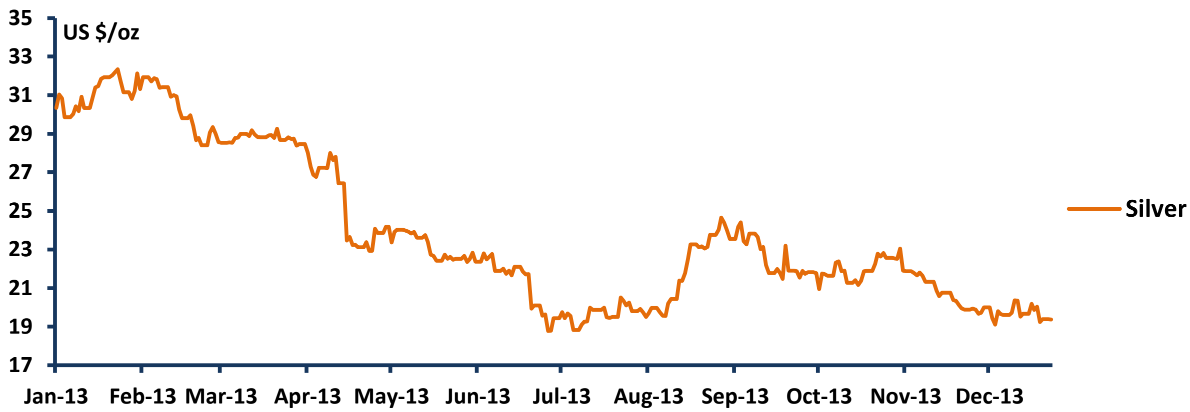
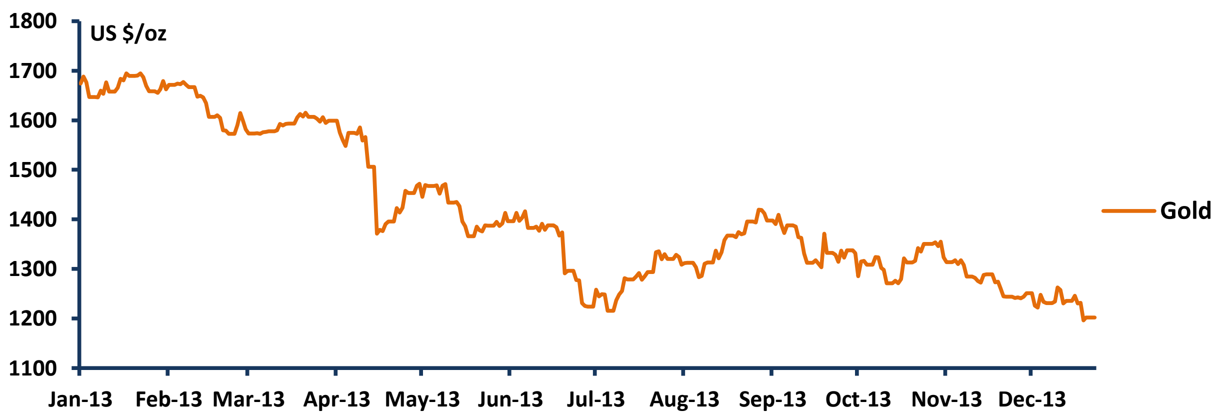
Precious Metals

We had mentioned in our CIO Speak Report (released in January 2013), that Gold will underperform Equities and the same view has held out well. Gold has seen the worst year since 1981 and seen first year of negative returns since the past 12 years.

Gold prices have corrected due to improving economic situation is the U.S, announcement of QE tapering, fall in physical demand of gold in India (due to high import duty), weak investor sentiments (including huge ETF outflows) and rising yield. Gold and silver are most sensitive to QE and they benefitted from QE in 2012. On news of Q tapering both these commodities have suffered. Gold ETFs have globally seen outflows of a staggering 824 tonnes this year. Physical demand for Gold in India has fallen tonnes due to the sharp increase in import duty. However Gold prices in INR terms are trading close to 29,000 levels as the rupee has fallen sharply.



Source: Bloomber, 24th December 2013



Source: Bloomber, 24th December 2013

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Outlook

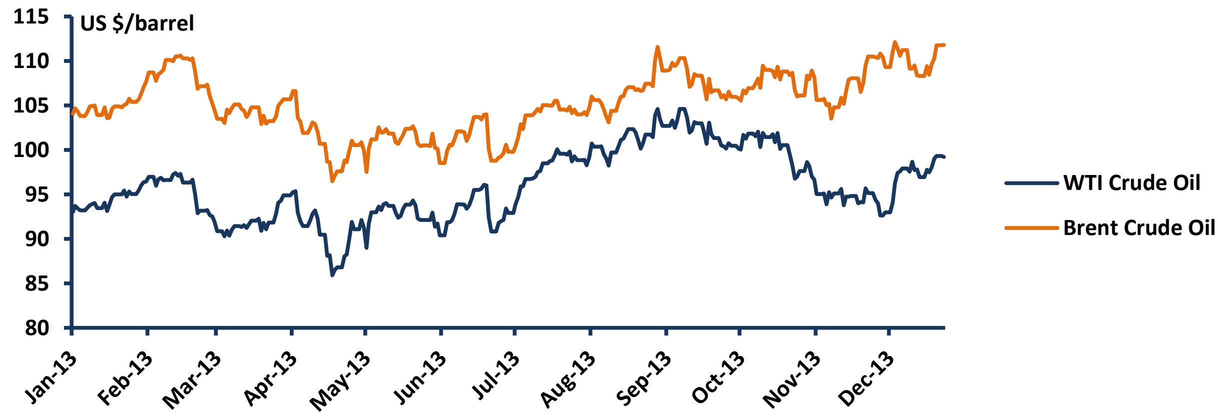
- Despite huge influx of loose money, inflation in the US is yet to catch up. Additionally, a firmer dollar will pressure gold prices and a stronger equity market will encourage investors to exit gold.
- The smuggling of gold has increased due to the high import duty on gold. Since the FII flows/FCNR flows have been very strong, there are chances the government may relook at the high import duties levied on gold and silver.
- Goldman Sachs, BNP Paribas and Societe General expect Gold prices to drop below $ 1,050 an ounce in 2014. (Source: Business Standard, 27th December 2013) Outlook for Gold doesn't seem to bullish, however cost of production for Gold is close to $ 1,200 from the new mines and for Silver at around 18$, hence the market may take support at those levels.

Energy

We had stated in our CIO Speak Report (released in January 2013), that Oil Market is well supplied and only geopolitical tensions and global liquidity are supporting prices.

Oil prices traded in a small range for the entire year of 2013. However Oil continues to be one of the best performing commodities due to evidence that the global business climate is improving with stronger data recorded by the US, Europe and Japan and fear of supply from Libya and Egypt and restrictions on exports from Iran.

The QE tapering has had little impact on crude prices. The Oil Reforms carried out by the Indian Government have helped reduce the fiscal and current account deficit, inspite of the weak rupee.



Source: Bloomber, 24th December 2013

Outlook

- Overall, there seems to be evidence that the global business climate is improving with stronger data recorded by the US, Europe and Japan.
- China's economy has shown signs of improvement over the past 4-5 months as key manufacturing indexes, export volumes, and refining runs have increased; however, a sustained rebound is still tentative.
- The dramatic increase in U.S. shale oil and natural gas production has had a large structural impact on energy markets. The rise of U.S. oil production has meant that global oil supply has been ample despite strong demand and reduced supplies from Libya and Iran
- **Outlook for 2014 – Oil may continue to trade in a range for the next year with downward bias.**

Disclaimer:

The data mentioned are as on 27th December, 2013.

Mutual fund investments are subject to market risks, read all scheme related documents carefully