

## Industry Commentary April 2011

### Dow Jones-UBS Commodity Indexes in April: Up As Participants Watch Inventories, Global Economies

By Christine Marie Nielsen

The [Dow Jones-UBS Commodity Index](#) was up 2.93% for the month of April as key commodity markets were affected by declining levels of inventory combined with the threat of supply disruptions due to geopolitical conditions. In addition, a weaker U.S. dollar made dollar-denominated assets less expensive to buyers in other currencies and market participants bought commodities as a hedge against inflation.

The Dow Jones-UBS Single Commodity Indexes for silver, corn and coffee had the strongest gains with month-to-date returns of 24.41%, 10.02%, and 8.91%, respectively.

Safe-haven buying continued in precious metals in April. Gold topped \$1500 an ounce, and silver hit 31-year highs on continued investor interest and by large inflows into silver ETFs. Standard & Poor's' (S&P) mid-month downgrade of the long-term outlook for the U.S.' credit rating from stable to negative got the attention of some investors who feared the move could result in the U.S. losing its AAA rating. "The justification for the revised rating given by S&P's were meaningful economic and fiscal risks," wrote Commerzbank analysts in an April 19 research report. "In addition, the large number of external debt and the uncertain passage ahead for a consolidation package up for approval to improve national finances have played a major role." The analysts added that S&P is expecting the U.S. Administration to add up increasingly large debts up to 2013. "There will also be continuing support for gold from the relentless stream of bad news from the Eurozone," the Commerzbank analysts wrote.

Front-month commodity prices hit all-time highs in the course of the month and corn futures traded above Chicago wheat for the first time in 15 years. Market participants eyed weather concerns - including wet and cold weather in the northern U.S. crop areas - in addition to low U.S. inventories and strong demand due to record U.S. ethanol output and steady buying by domestic livestock producers. Also playing into the mix of circumstances was a decline in China's March corn imports. Also playing into the mix, the U.S. Grains Council said in the first week of April that China may import more corn than had been expected before U.S. farmers harvest their next crop. The council added that China may buy as much as three million metric tons of corn in the 2010-11 marketing year, which ends August 31, 2010, to meet growing feed demands for livestock and poultry.

Coffee futures saw strength on poor harvests and word that costs of production increased in the commodity, largely due to higher fuel costs. The July Arabica contract hit \$3.025 a pound on April 20, the highest level since 1977.

The three most significant price drops in April for single commodity indexes were cotton, sugar and live cattle, which were down 10.57%, 9.78%, and 6.76% respectively.

Cotton market prices saw a decline as the global textile industry experienced panic selling. Large cotton fiber and yarn inventories were accumulated when prices were surging, prompting downward pressure on yarn and cotton prices in April. At the same time, many manufacturers are planning to replace higher-priced cotton with rayon and Lycra, or to simply design products

differently to use less cotton fabric.

The sugar market saw some weakness on forecasts that output would increase in Brazil and India, the world's largest producers. According to the U.S. Department of Agriculture (USDA), sugar output in Brazil will rise 3.8% in the year that started May 1. The USDA's Foreign Agricultural Service said output in India will increase 6.2% in the year beginning Oct. 1.

Live cattle had been in a major bull market alongside the broader agricultural futures; however, in recent weeks after live cattle futures broke through major trend line support on technical charts, a wave of profit-taking followed.

Year to date, the Dow Jones-UBS Commodity Index was up 7.47% with the Dow Jones-UBS Silver Sub-Index posting the highest gain (52.24%) so far in 2011. Dow Jones-UBS Sugar Sub-Index had the most significant downside performance, year-to-date, down 19.08%.

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*Christine Marie Nielsen has worked for more than 14 years as a financial journalist, covering the fixed income market and Chicago exchanges for Dow Jones Newswires for eight years. She has worked as an equity analyst and has been quoted as an expert on the markets by WSJ.com and Agence France Presse. She's also hosted a syndicated radio show on the stock and futures markets from the floor of the Chicago Board of Trade. She is currently working as an editor on MarketsWiki.com, an online open source knowledge project for current and historical information about the global exchange-traded capital, derivatives, environmental and related OTC markets.*