

DOW JONES-UBS COMMODITY INDEXES

August 2012 Commodities Commentary

Dow Jones-UBS Commodity Indexes Up After Isaac Makes Approach and Fed Indicates QE3 May Be Necessary Dow Jones-UBS

By Christine Marie Nielsen

New York (Sept. 6, 2012) — The Dow Jones-UBS Commodity Index was up 1.29% for the month of August as Isaac—the first hurricane to reach the U.S. this year—made its way to the U.S. and threatened crops and product production. The storm was eventually downgraded from hurricane strength. Market participants also took note of minutes from the latest Federal Open Market Committee (FOMC) meeting that indicated a third round of monetary easing may be necessary.

The Dow Jones-UBS Single Commodity Indexes for unleaded gas, orange juice and silver had the strongest gains, with month-end returns of 13.62%, 13.35% and 12.31%, respectively.

Spot gasoline prices on the U.S. Gulf Coast rose to the highest price in almost four years after refineries shut as Tropical Storm Isaac approached Louisiana. Overall, 11 Gulf Coast refineries were impacted by Isaac-related flooding and power outages. Unleaded gas prices also received some support from a demand surge due to end-of-the-summer travel.

Orange juice futures prices rose as coastal areas, including Florida, braced for severe weather and the chance that there could be dramatic damage to citrus crops.

Silver prices reached a 3 ½-month-high of \$30.82 per troy ounce after the release of minutes from the Federal Open Market Committee (FOMC) meeting held on July 31-August 1. The minutes indicated that the FOMC feels that unless the economy strengthens soon, additional stimulus will be necessary. Precious metals are often used as a hedge against a weakening economic environment.

The three most significant downside performing single commodity indexes were natural gas, sugar and lean hogs, which ended the month down 14.44%, 12.63% and 7.63%, respectively.

Natural gas prices fell in August, despite the fact Hurricane Isaac suspended production of most offshore petroleum in the Gulf of Mexico. U.S. natural gas stocks rose by 47 billion cubic feet, a somewhat stronger inventory build than expected. Barclays researchers noted in a report released Aug. 31, that a “root cause of the malaise” in gas demand in Europe has been “the deterioration of the competitiveness of gas against coal, driven by bigger reductions in coal than gas and the prevailing low carbon prices in Europe.” Barclays expects this price trend to continue over the remainder of 2012, but to start to soften as carbon potentially responds to market intervention from regulators and other policy impacts.

Sugar futures prices held near two-month lows in August as harvest conditions in Brazil, the world’s largest sugar producer, improved and added producer hedge pressure to a market that was already suffering from a global surplus.

Lean hog spot trading saw its biggest losses in August in 10 years. A combination of record high feed costs and sharp seasonal expansion in supplies were driving factors in trade.

Year to date, the Dow Jones-UBS Commodity Index was up 3.80% with the Dow Jones-UBS Soybean Meal Subindex posting the highest gain of 85.62% thus far in 2012, benefitting from short supply. Dow Jones-UBS Coffee Subindex has the most significant downside YTD performance, down 30.81%. There is speculation that supplies will increase from Brazil, the top producer of the popular Arabica coffee bean.

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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's also hosted a syndicated radio spot on the stock and futures markets from the floor of the Chicago Board of Trade. She is currently working as managing editor for JLN news service, a division of John J. Lothian & Co. Separate from her work at John J. Lothian & Co., Nielsen is the publisher and founder of Our Earth Issues (OEI). The site uses interactive video to create large-scale virtual "global town hall" meetings with the aim of facilitating dialog and finding solutions to problems common across the world. A patent is pending on the methodology and web site design. As part of the OEI project, Nielsen coined the term "Dialog Journalism" and registered the term for trademark in summer of 2011.

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