

## Industry Commentary June 2011

### Dow Jones-UBS Commodity Indexes in June: Down As Economic Uncertainty, IEA Reserve Release Impacts

By Christine Marie Nielsen

The [Dow Jones-UBS Commodity Index](#) was down 6.62% for the month of June as weaker U.S. economic data and Eurozone uncertainty over Greek austerity measures loomed. Further, the decision by the International Energy Agency (IEA) to release up to 60 million barrels from its strategic reserves caused a stir on the oil market, and lower crude prices weighed on the broader complex.

The three most significant downside-performing single-commodity indexes in June were wheat, cotton and crude oil, which were down 19.58%, 13.56%, and 11.65% respectively.

While wheat yields in the key state of Kansas were poor because of widespread drought since last fall, they were still better than expected. In addition, the wheat market had been positioned to get a significant demand from the livestock industry, which was being asked to feed wheat and take the pressure off short supplies of corn. U.S. Department of Agriculture (USDA) reported only a modest increase of wheat feeding, however, as wheat prices were not very attractive to livestock feeders.

According to report released on June 10 by research and marketing company Cotton Inc., although weather will continue to be a factor impacting cotton prices in coming months, the most important questions come from the demand side of the balance sheet. "Since early March, when the difference between old and new crop futures was as wide as 90 cents/lb, there has been a definite slowdown in fiber demand," Cotton Inc. researchers wrote. "The slowdown and cancellation of orders for cotton fiber may partly be a result of the lower prices in the new crop year. With prices for delivery in the new crop year being lower, there is incentive to delay fiber purchases in order to take advantage of the lower prices. The slowdown may also be a result of fewer orders downstream. There are widespread reports of accumulating yarn inventories, and this may be a product of concern by retailers and brands regarding consumer reaction to possible increases in retail prices."

A decision on June 23 by the IEA to release up to 60 million barrels, or 2 million barrels a day for a month, prompted Brent crude oil to tumble by more than \$7 a barrel, or 6%, to a seven-week low of \$105.7. The announcement added to downward momentum already caused by a strong U.S. dollar and weak equity markets. Commerzbank researchers noted in a written report released June 24 that this was only the third time since being established in 1973 that strategic reserves had been tapped on IEA's request. (The other two times were after the Gulf War in 1991 and Hurricane Katrina in 2005.) The IEA cited short supply due to Libyan supply outages as its reason for the decision, although Commerzbank researchers noted the timing of the measure suggested it was "firstly a reaction to OPEC's lack of willingness to increase production quotas, and secondly the release of reserves probably aimed at calming the oil market and oil prices in the near term."

The Dow Jones-UBS Single Commodity Indexes for sugar, feeder cattle and orange juice had the strongest gains with month-to-date returns of 16.88%, 11.44%, and 7.84%, respectively.

Sugar prices gained some momentum thanks to difficulties at Thailand ports and a slow start to the Brazilian crop. In Thailand, the world's second-biggest sugar exporter, a sunken ship creating a blockage, a shortage of barges and a lack of labor caused congestion and delayed exports.

Feeder cattle futures touched limit up for successive sessions in June after data showed a decrease in feedlot animal populations. USDA figures released on June 17 showed U.S. feedlots running at 10.9 million cattle, with some 140,000 fewer animals as of the start of the month than investors had expected.

Orange juice prices reached a 4 1/2-year high in June as the market anticipated a smaller-than-expected crop in the 2010-11 season due to the impact of a winter freeze, drought and diseases. The USDA said that Florida – the largest orange producing state in the U.S. - would produce 140 million boxes this season, compared to 162.5 million in the 2008-09 season.

The Dow Jones-UBS Orange Juice Sub-Index posted the highest gain year-to-date with a gain of 24.41% so far in 2011. Dow Jones-UBS Wheat Sub-Index had the most significant downside YTD performance, down 26.83%.

Year to date, the Dow Jones-UBS Commodity Index is down 4.24%.

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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.*