

Industry Commentary March 2011

Dow Jones-UBS Commodity Indexes in March: Up Slightly As Focus Centers on Geopolitical Issues, Technical Factors

By Christine Marie Nielsen

The [Dow Jones-UBS Commodity Index](#) was up 1.56% for the month of March as geopolitical issues and technical factors took center stage. Investors paid close attention to the situation in Japan as it added to uncertainty about future worldwide economic growth, which was already roiled as a result of unrest in the North Africa and the Middle East.

The Dow Jones-UBS Single Commodity Indexes for silver, natural gas and cotton had the strongest gains in March with month-to-date returns of 9.55%, 9.25%, and 6.93%, respectively.

Gold and silver prices set all-time and 31-year highs as rising global nervousness fueled investor appetite for a safe haven. On March 24, silver reached its highest level since February 1980 at more than \$38 a troy ounce as fiscal problems in Europe continued, and Fitch downgraded Portugal's bond rating to A-. In contrast to gold, silver's rally was accompanied by high inflows in Exchange Traded Funds (ETFs); the world's largest silver ETF, iShares Silver Trust, reported a rise in its holdings of 79 tons. According to Barclays Capital research, March 11's massive 8.9-magnitude quake that hit northeast Japan will likely cause negative demand in platinum group metals, given auto-catalyst consumption losses following the closure of auto-production facilities.

Some strength was seen during the month in natural gas, largely due to the looming nuclear crisis in Japan. Commerzbank, in a March 25 research report, said a post-earthquake nuclear disaster in Japan "should mean a decline in liquefied natural gas imports to the U.S., which could be reflected in a lower inventory build in the coming months." Market bulls also embraced a larger-than expected weekly withdrawal from storage and a colder outlook for the end of March.

Escalating prices in cotton have failed to ration scarce supplies in the commodity, and this appeared to underscore the underlying demand awaiting price pullbacks. Bullish sentiment in the commodity was buoyed further by strong U.S. export expectations and strength in domestic mill use. This overshadowed the fact industry publication *Cotlook* cut its estimate of 2010-11 world mill consumption and the underlying concern that world's largest cotton user, China, has said it will reduce imports.

The three most significant downside performing single commodity indexes in March were cocoa, wheat and orange juice, which were down 12.26%, 10.25%, and 6.99% respectively.

A sharp pullback occurred in the cocoa market after cocoa futures rallied to a fresh multi-decade high in early March. While the focus on technicals was a major factor for the downward move, some fundamental news did limit the losses. Talk has surfaced that European chocolate makers may face a critical shortage of cocoa in the coming months if supply problems in the Ivory Coast – the top producer of cocoa – continue.

Wheat lost some ground in tandem with the rest of the grains market during the month as concerns surfaced regarding when Japan - one of the U.S.' largest coarse-grained buyers - would be back online. There were also expectations of increased supply. A report from the Food and Agriculture Organization of the United Nations (FAO) forecasted world wheat production in 2011 at 676 million tons, representing a growth of 3.4% from 2010. Further, grains industry lobby group Cocal raised its estimate for the European Union 2011 wheat harvest by 3.5%, or 4.39 million metric tons, to 131.44 million tons from its December forecast.

Bearish technical factors on charts weighed on the orange juice market. Investors also pondered the fact that the World Trade Organization ruled the U.S. has been illegally taxing about \$2 billion a year of imported Brazilian frozen orange juice. Brazil is the world's largest exporter of frozen orange juice, selling mainly to the European Union and the U.S. The complaint was filed in 2008, stating that the U.S. artificially inflates dumping margins.

Year to date, the Dow Jones-UBS Commodity Index was up 3.91% with the Dow Jones-UBS Cotton Sub-Index posting the highest gain of 43.49% so far in 2011. The Dow Jones-UBS Wheat Sub-Index had the most significant downside YTD performance, down 10.93%.

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