

Metals hurt by dollar as rout in currencies roils commodities

AGENCIES
September 26

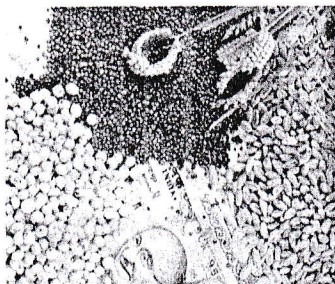
COMMODITIES CRASHED ON Monday because of a rally in the dollar and concerns of a global recession. The greenback extended gains to a record in a tumultuous start to the week that also saw the pound hit a record low and China's currency neared its weakest since 2008. Investors are turning to dollar as a haven as monetary tightening clouds growth prospects, putting pressure on commodities that are priced in it.

"Recessionary concerns are gripping the market, with the fact that the US dollar is scaling higher and likely to continue to rise," said Jessica Amir, a strategist at Saxo Capital Markets in Sydney.

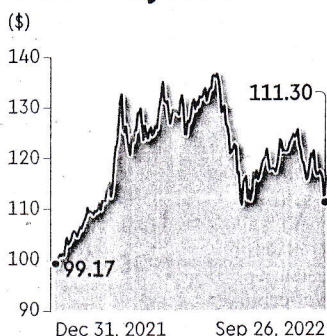
Most base metals traded lower, with copper dropping as much as 1.9% before paring some of the loss, and nickel slipping 4.5%. Bullion steadied, after earlier touching the lowest in more than two years. While gold is a traditional haven in times of economic distress, the precious metal has slumped over the past month in the face of the greenback's relentless gains and hawkish moves by central banks. Bullion has entered a bear market, trading at a level 20% below its record high in 2020, alongside consistent outflows from exchange-traded funds back by it.

"We don't see any revival until at least the first half of 2023 — a meaningful Fed pivot or consensus on the magnitude of a US/global recession would be needed," UBS Global Wealth Management strategists wrote in a note. "Current dynamics could see prices drop into the low-to-mid \$1,500s."

Copper, often seen as a bellwether of global growth, hit its lowest since July as investors bet on



**Bloomberg
Commodity index**



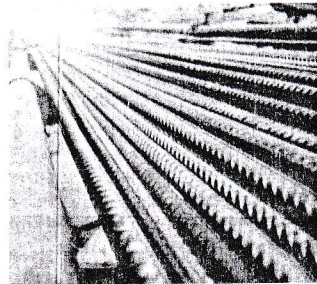
Source: Bloomberg

sharp slowdowns in the US, and more demand turbulence in Europe amid the energy crisis. The weak yuan also added to a burgeoning list of demand headwinds for China — the world's top metals consumer — which is already dealing with a slump in the property sector and its strict Covid-zero policy.

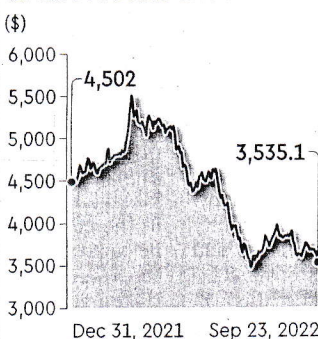
London Metal Exchange copper stockpiles have continued to build, rising to the highest in over a month on Monday. That signals weakening demand, though the inventories are climbing from a historically low level.

Metals bears

Money managers last week became the most bearish on gold in



**London Metal Exchange
LMEX Metals Index**



almost four years as central banks around the world hiked rates in an effort to contain soaring prices. Copper speculators on the LME also cut their bullish bets to the lowest in three years.

In the coming week, markets may face fresh volatility from US inflation data and speeches by Federal Reserve officials, including vice chair Lael Brainard and New York Fed president John Williams. Continued hawkish messages from the Fed, or signs there's no abatement in price pressures, could pressure metals. Copper, aluminum and zinc retreated on the LME while tin rose 1%.

Chinese rebar futures slipped on Monday after reaching an eight-ses-

sion high in the previous session, as traders opted to wait and see if the fragile pace of a recovery in demand for the construction material can be sustained this week. Prices of iron ore and other steel-making inputs in China, the world's biggest steel producer, also pulled back.

Agri commodities

Chicago wheat, corn and soybeans fell on Monday as fears of a global economic downturn and expectations of a bumper wheat crop in Russia weighed. Corn and soybeans were weakened also by forecasts of dry weather during the US harvest.

"Fears of recession risk with reduced global demand is weakening wheat, corn and soybeans today," said Matt Ammermann, StoneX commodity risk manager. "The US Federal Reserve and other central banks are taking a firm stand on inflation by raising rates, regardless of arguments about whether this is appropriate."

Chicago Board of Trade most active wheat fell 1.5% to \$8.67-1/4 a bushel at 1104 GMT, after dropping over 3% on Friday. Corn fell 0.5% to \$6.73-1/4 a bushel, soybeans fell 0.3% to \$14.21-1/2 a bushel.

Russia's Sovecon consultancy on Thursday raised its forecast for Russia's 2022 wheat crop to the psychologically-important level of 100 million tonne. "The stronger dollar will be a burden to US exports, especially at a time when a huge Russian wheat harvest is expected," Ammermann said. "Corn and soybeans are also seeing weakness from forecasts of dry US weather this week which will be positive for US harvest work."

But there is also attention on the stock reports from the USDA on Friday, with background expectations that US soybean inventories may be smaller than anticipated, he added.