+--+

Raw-Materials Rebound Seen as Economy Skirts Slump: Commodities
2012-01-04 04:29:45.720 GMT

(For more commodity columns, click CMMKT.)

By Nicholas Larkin and Maria Kolesnikova

Jan. 4 (Bloomberg) -- Commodities may rebound from their first retreat in three years as developing economies shore up global growth, driving demand higher at a time when raw-material producers are already struggling to keep up.

Precious metals will advance 27 percent or more, industrial metals at least 17 percent and grains 5 percent, according to the median estimates in a Bloomberg survey of 143 analysts, traders and investors. Nine of the 15 commodities covered by a similar survey a year earlier reached their predicted highs in 2011, with another five no more than 4 percent away.

The Standard & Poor's GSCI Total Return Index of 24 raw materials rose 16 percent through April, before tumbling 15 percent on mounting concern that Europe's debt crisis and slower Chinese growth would curb demand for commodities. A 6.1 percent expansion in developing economies this year will help sustain global growth at 4 percent, above the average over the past decade, the International Monetary Fund predicts.

"The biggest thing driving commodities is the emerging world," said James Paulsen, 53, the Minneapolis-based chief investment strategist at Wells Capital Management, which oversees about $330 billion of assets. "The emerging world slowdown bottoms out in the first half of the year and by the second half it's accelerating again. You've also got the U.S. economy not just avoiding recession, but growing again."

World Index

The S&P GSCI gauge fell 1.2 percent last year, the first decline since a 46 percent slump in 2008, with cotton, natural gas, cocoa and sugar leading the retreat. That still beat the 9.4 percent drop in the MSCI All-Country World Index as $6.1 trillion was wiped off the value of global equities. The Dollar Index, a measure against six major trading partners, advanced 1.5 percent and Treasuries returned 9.8 percent, a Bank of America Corp. index shows.

While only gold is predicted to reach a record in 2012, rising as much as 33 percent to $2,140 an ounce, respondents in the survey anticipated that every one of the 15 commodities covered would gain. Gold for immediate delivery traded at $1,599.52 at 12:26 p.m. in Singapore after losing 0.3 percent.

Silver, the precious metal most used in industry, will advance as much as 44 percent to $42.20 an ounce, a price last reached in September, the median of 41 estimates shows. Zinc may be the best-performing industrial metal, rising as much as 28 percent to $2,400 a metric ton, a level last touched in August, based on the median of 21 expectations.

Starbucks Corp.

Arabica coffee, the variety favored by Starbucks Corp., may be among the best performers in so-called soft commodities, gaining as much as 22 percent to $2.725 a pound, the median of 26 forecasts shows. Corn will outperform wheat and soybeans, advancing as much as 6 percent to $7 a bushel, according to the median of 36 predictions. Both prices were last reached in September.

"The highest quality in every asset class wins," said Charles Morris, who oversees about $2.2 billion at HSBC Global Asset Management in London. "The highest-quality commodity is gold. High-quality currencies, high-quality equities, high- quality bonds, high-quality commodities have been the best place to be in 2011, and I expect that to be repeated."

Commodities tumbled since April as Europe's debt crisis widened. Yields on two-year Greek debt surged to 152 percent last month, compared with 0.29 percent for Treasuries of a similar maturity, and the euro weakened almost 12 percent against the dollar since the start of May. The region accounts for 19 percent of global copper demand and consumes about one in six barrels of the world's oil.

Global Growth

Fewer youths keeping factories going and more pensioners to support in developing markets such as China and Brazil means the world economy is set to slow, says Goldman Sachs Group Inc. As the so-called BRIC nations slow, global growth probably will peak at about 4.3 percent this decade, according to a Dec. 7 report by the bank's analysts. Russia and India make up the other BRIC nations.

Hedge funds and other money managers reduced their net-long position, or wagers on higher prices, across 18 commodities by 65 percent since April and in the week ended Dec. 20 were the least bullish since March 2009, Commodity Futures Trading Commission data show. They anticipate declines in copper, cocoa, soybean oil and meal, wheat and natural gas.

Investors took $10 billion out of commodities in September, the largest monthly amount ever, because of concerns about European growth, according to Barclays Capital. Commodity assets under management rose 12 percent to $426 billion in the first 11 months of 2011, on track for the worst year since an 18 percent contraction in 2008.

Europe Concern

"The commodities market right now is driven by sentiment, and I think it's fear," said John Stephenson, who helps manage $2.7 billion of assets at First Asset Investment Management Inc. in Toronto. "We are starting into a bear market, because the problems in Europe aren't easily solved. People are liquidating without regard to fundamentals or the attractiveness of a commodity going forward."

Among metals, there will be shortages in copper, tin and palladium this year and narrowing surpluses in aluminum, zinc, silver and platinum, Barclays predicts. In agricultural commodities, Rabobank International anticipates shortfalls in corn, soybeans, coffee and cocoa.

Oil supply will probably lag behind demand for at least a third consecutive year in 2012, Barclays estimates. Inventories in the U.S., the biggest consumer, fell 12 percent since May, Department of Energy data show. Crude traded in New York will average a record $100 a barrel this year, according to the median of 27 analyst estimates.

Weaker Dollar

Commodities may also appreciate in 2012 on prospects for a weakening dollar. The Dollar Index will average 76.1 in the fourth quarter, compared with 79.8 yesterday, the median of nine economist estimates shows. Commodities moved in the opposite direction to the currency in 13 of the past 20 quarters, according to data compiled by Bloomberg.

Growth in China, the biggest user of everything from copper to cotton to coal, will slow to 8.5 percent this year, from 9.2 percent in 2011, the mean of 14 estimates shows. That's still four times the anticipated pace of the U.S. and five times the projected speed of Japan. China accounts for 38 percent of copper consumption and 11 percent of oil demand, according to Barclays and the International Energy Agency.

"China may slow, but it's still seeing crazy growth, and Europe and the U.S. aren't in recession yet," said Christoph Eibl, co-founder of Zug, Switzerland-based Tiberius Asset Management AG, which manages about $2.5 billion of assets.

"Funds are sitting on a lot of cash and eventually they'll have to buy risk assets again, which will include commodities."

For Related News and Information:
Top commodity reports: CTOP <GO>
Top metal and mining stories: METT <GO>
Collector-coin prices: CCEX <GO>
Commodity arbitrage calculator: CARC <GO>

--With assistance from Agnieszka Troszkiewicz, Isis Almeida and Tony C. Dreibus in London, Jae Hur and Yasumasa Song in Tokyo, Helen Sun in Shanghai, Glenys Sim and Luzi Ann Javier in Singapore, Supunnabul Suwannakij in Bangkok, Sungwoo Park in Seoul, Swansy Afonso in Mumbai, Jeff Wilson and Whitney McFerron in Chicago and Joe Richter, Yi Tian, Debarati Roy, Marvin Perez and Elizabeth Campbell in New York. Editors: Claudia Carpenter, John Deane, Jake Lloyd-Smith

To contact the reporters on this story:
Nicholas Larkin in London at +44-20-7673-2069 or nlarkin1@bloomberg.net; Maria Kolesnikova in London at +44-20-7073-3306 or mkolesnikova@bloomberg.net.

To contact the editor responsible for this story:
Claudia Carpenter at +44-20-7330-7304 or ccarpenter2@bloomberg.net