
Macroeconomic indicators - EIU sees big fall in industrial commodities

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According to Economist Intelligence Unit's latest forecast, the free fall in industrial commodities is likely to continue in 2009 with the average raw material price index expected to decline by 41% this year. In 2010, however, it expects a limited rebound in the prices of most of the industrial raw materials.

EIU said that although the global economy will remain weak, investors will become more optimistic about longer term prospects. Commodity stocks will be low, partly because of cutbacks to production enacted in 2009. Furthermore, investment in raw materials industries will be at a low level, partly owing to lack of available financing in late 2008 and in 2009, creating some concerns about future supply and the risk of shortages once demand starts to grow more strongly.

The EIU report forecast base metals index to fall by 47% in 2009 while fibers and rubber indices may slump by 10% and 44% respectively. The falling property markets and consumer demand in the OECD countries, with particularly negative consequences for the auto and consumer electronics sectors, have left base metal prices looking particularly vulnerable.

EIU report estimates crude oil prices to decline by 64% this year despite relatively low stocks. This offered little price support, as market participants priced in a contraction in demand in 2009 amid signs that many OECD countries would be in recession and emerging market growth was set to slow significantly. Crude oil prices in 2009 declined to an average of just USD 35 per barrel for West Texas Intermediate also known as Texas Light Sweet.

The industrial raw materials index accounts for about 44% of the EIU's world commodity forecasts index, the remainder being accounted for by soft commodities. The prices of soft commodities are also expected to be weak in 2009 but they are not so closely linked to the business cycle and thus the WCF index is expected to fall by 32% in 2009.

(Sourced from www.business-standard.com)

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