

Real Assets: Commodities

- The weakness in commodities that has been seen over the past year continued this week as the Bloomberg Commodity Index fell to the lowest level since 2002. Additionally, as of July 28, the Index has fallen 9.5% month to date, which is on pace to be the worst month since September 2011.
- While the fall in energy, in particular crude oil (-19.3% month-to-date, MTD), has led the weakness, it is interesting to note that this Index decline is not just a crude oil story as all five commodities sectors are negative MTD.
- Precious metals have declined as gold (-7% MTD) fell to the lowest level since 2010 as we move closer to the first Fed rate hike.
- Additionally, as investors fear slowing global demand due to the slowdown in Chinese growth, industrial metals have also suffered. Copper (-8% MTD) fell to the lowest level since 2009 due to its sensitivity to China.
- While commodities may stabilize in the near term from oversold levels, further US dollar strength could pose a continued headwind.

Global FX

- The primary driver of the U.S. dollar going forward will be the market's perception of the timing and magnitude of eventual Fed rate hikes.
- With the much anticipated Q2 GDP coming in relatively in line with expectations, the Fed can be optimistic that the acceleration is underway.
- In the absence of a Fed meeting in August, any significant deviations from expectations in key economic data such as next week's payroll report (Friday), ISM report (Monday) and inflation data throughout the month could fuel volatility.
- From a technical perspective the U.S. Dollar Index (DXY)* has been able to bounce above the 50 day moving average which may suggest this could be a near term support level.
- Due to this, we expect the U.S. dollar to appreciate to parity against the euro and to 130 against the Japanese yen by June 2016.



Figure 3: Bloomberg Commodity Index at lowest level since 2002
Source: Bloomberg Finance LP, Deutsche AWM.
Data as of July 30, 2015.

Focus of the week

Commodities: Recent weakness in commodities is likely to continue as the dollar strengthens ahead of the first Fed rate hike.

Global FX: Diverging monetary policy should continue to drive dollar appreciation.



Figure 4: U.S. Dollar Index (DXY)*
Source: FactSet, Deutsche AWM
Data as of July 30, 2015.
* Weighted index against a basket of six other currencies.

No assurance can be given that any forecast or target can be achieved. Forecasts are based on assumptions, estimates, opinions and hypothetical models which may prove to be incorrect. Past performance is not indicative of future returns. Investments come with risk. The value of an investment can fall as well as rise and you might not get back the amount originally invested at any point in time. Your capital may be at risk.