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Federal Reserve Action Touches Off A Rally In Commodities, Weakens the Dollar

On March 17, 2009, the U.S. Federal Reserve announced it would buy \$300 billion in long-term Treasury securities to stop the deepening slide in the U.S. economy and lesson the cost to borrow money. Since the Fed has already lowered rates to practically zero, the only actions left for the Fed is to inject capital directly through its open market operations. The Fed's actions caused the dollar to plunge and gold to spike as more money in the system leads to inflationary pressures and further weakens the dollar. As a result, all commodities, which are very sensitive to the strength of the dollar and inflation, rallied sharply, especially crude oil.

Palm Oil (prices in Malaysian Ringgit (RM) per MT, \$ value based on most recent exchange rates)

Crude Palm Oil (CPO) is still bouncing off of RM2,000 (\$548) resistance levels despite the surge in crude oil prices after the Fed's actions last Wednesday. However, we still feel that for now based on the market fundamentals, there is not enough demand or support to push CPO that much higher and expect a pull back to the RM1,700 – RM1,800 range once price breaks out of this tight consolidation.

At RM2,000, palm oil remains somewhat uncompetitive with soybean oil. Recently, India, a major vegetable oil buyer, announced it would cut import duties on soybean oil to keep domestic prices stable. This will make soybean oil even cheaper relative to palm oil and could slow palm oil purchases out of India. Although soybean oil has also participated in this commodities rally, we think falling



demand and competition from soybean oil will put downward pricing pressures on palm oil in the coming weeks.

Crude Oil (\$ per barrel)



Crude oil price movements are very sensitive to changes in the U.S. dollar and the recent actions taken by the Fed touched off a sharp drop in the value of the dollar and a bump up in the price of crude oil from \$47 to over \$50 a barrel. The rally was purely a weakening dollar based rally and we have not seen any change in the economic fundamentals or demand projections.

Although crude has broken up over \$50, it is still trading within the upward pricing channel highlighted in the chart. Right now the price is hitting some significant resistance and it remains to be seen if the Fed's actions are strong enough

to overcome oil's fundamentals and keep prices at these levels. Unless the upper line of this channel is broken and holds, we still see a pullback coming in oil based on the fundamentals and the economy but a higher target of \$47 - \$48 given the buying support the weakening dollar has brought in.

Soybean Oil (\$ per pound)



Soybean oil got a nice bump up on the rally in commodities after the fed action but also some fundamental developments which had lead to price support and a spike above our downward red trend line. First, India scrapped its 20% import duty on crude soybean oil which should lead to more imports and thus more demand internationally from Argentina and Brazil.

Second, concerns about farmer's protests in Argentina which could interrupt supply and recent purchases by China of soybeans has helped boost prices in soybeans and soybean oil. Finally, with the push in

crude oil back above \$50 a barrel, it will certainly pull up soybean oil somewhat.

However, with crude oil jumping mainly on weak dollar concerns we think recent developments in soy fundamentals and the price action breaking above the downward trend line has now created some pricing support in the \$0.30 - \$0.33 range.

Chinese Paraffin Wax (\$ per MT FOB)

Continued demand for Chinese paraffin has led to more price increases across all grades. In the past week alone, we have seen price increases in the \$30 - \$50 range per metric ton as tight supply conditions remained and orders have been slowly increasing. With oil above \$50 a barrel and holding these levels, it should also support current Chinese pricing levels. We think that as long as the current inventory conditions continue and demand keeps picking up, more price increases are likely in the coming weeks.

If you have any questions or comments about this report or are interested in price quotes on any products, please contact:

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