

2007 – A YEAR OF PAUSE

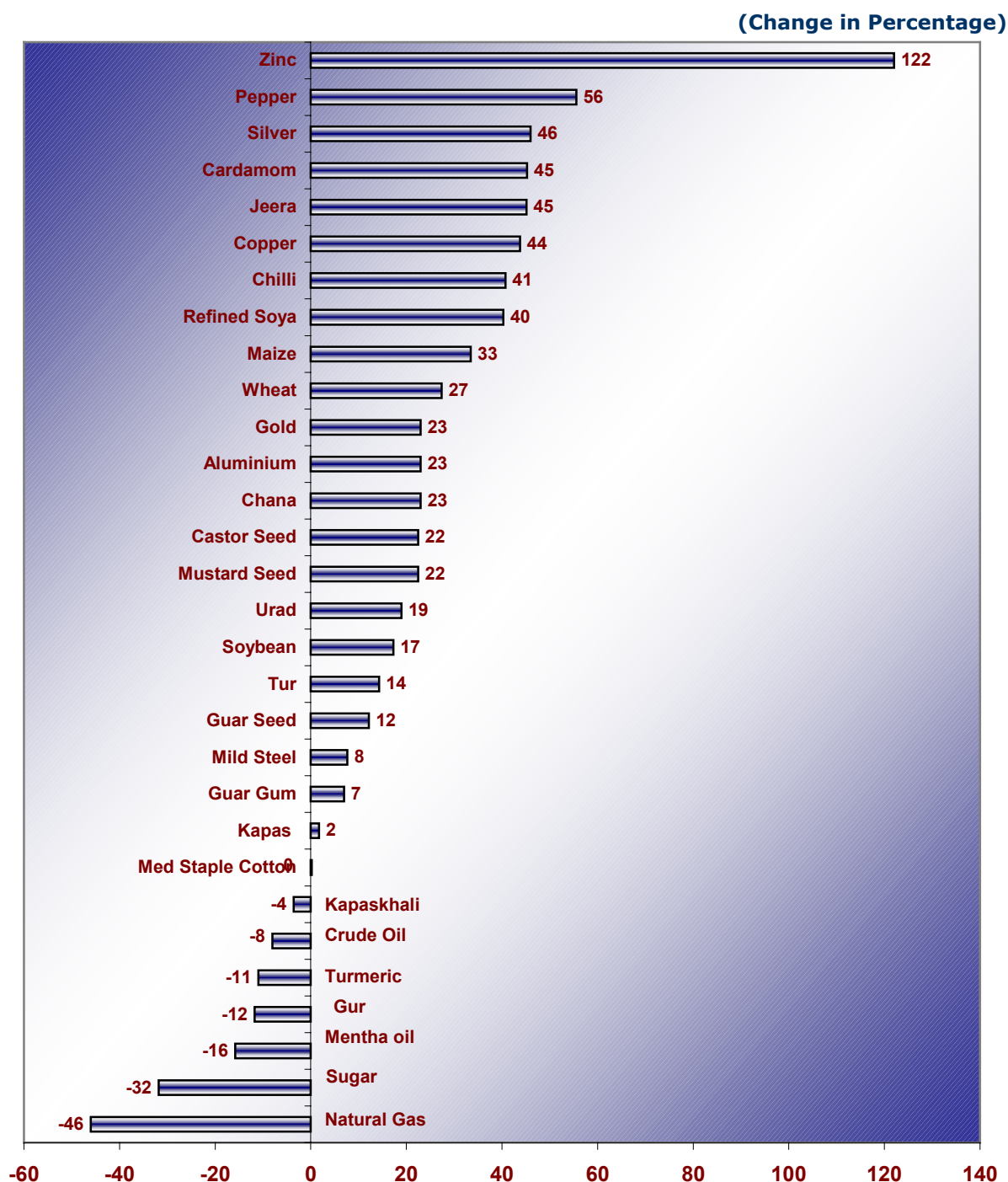
Since the turn of commodities cycle in early 2000, prices of various commodities ascended in tandem with rising demand. The gains were moderate in some, but few went through the roof. From 2001 the sugar price has doubled; oil, steel and gold prices have tripled; and the price of base metals has increased fivefold.

Apart from strong demand from countries like China, demand emanated from traders eager to speculate, that has kept the market soaring. Miners and drillers have also had trouble bringing new supplies to market, further stoking prices.

Experts believe that commodities cycles typically last for couple of decades and in such large phases, there are likely to be periods where gains need to be digested. 2007 is likely to be the year where we pause, and form a plateau albeit higher than the previous ones. As prices have surged, and the typical economic theory suggests, that sellers are going to respond by producing more; leading to a price consolidation.

Slower economic growth, especially in the rich world, rising interest rates and risk-averse investors are likely to look for safer avenues than roller-coaster ride of commodities. Industrial commodities are likely to feel the pinch most. Sugar, maize and oilseeds, which are used for biofuels, will benefit from high-energy prices.

It is said a picture is worth more than 1000 words. We present to you two such graphs, the first shows what happened in the year gone by and the other is our humble effort to crystal gaze into 2007.

2006- A YEAR THAT WAS...


CRYSTAL GAZING INTO 2007
