

Ask the expert: The commodity bull market

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Jim Rogers has been the most prominent and consistent champion of the commodity bull market. Long before sharp price rises of commodities started to attract headlines, Mr Rogers forecast a long-term bull market for the sector.

With commodity prices showing some recent weakness, Mr Rogers can answer your questions on the future direction of the market - has the commodity bull market burst? Will oil weaken further? Can gold still hit \$1000 an ounce as he forecast earlier this year?

Mr Rogers answers your questions below

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Since the Fed has stopped giving us M-3 figures and the money supply eventually shows up in commodity prices, do you know a reliable way to estimate money supply growth? And do you think that data is useful?

Jack Adamo

Jim Rogers: The Fed clearly has something to hide. I recently saw someone who had figured out a way to determine the number independently. His conclusion was that M-3 is now even higher than before. I do not remember who he was nor do I know a way to determine it myself but I do think the numbers are useful.

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Only a few weeks back, we were hearing analysts talking about oil hitting the 80s or the 100 mark. At the same time we heard about gold hitting advancing well above 700, especially in September / October. Apart from any likely or unlikely geo-political issues is there any reason to anticipate the sharp (or mild) plummeting in such markets to continue, or are they likely to reverse dramatically? What may be the major reasons for such dramatic recent reversals in the recently and highly anticipated bull oil and gold markets?

Brennan Kabrabjc

Jim Rogers: Oil did hit \$78 spot and several contracts were over \$80. Gold did sell over \$700. Both are correcting now as always happens in all bull markets. A lot of people built up large inventories of oil during the run-up and these are now being worked off.

I have no idea how long the corrections will last or how deep they will be but I do think the secular bull market has years to go.

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I would like to know your opinion about the Goldman Sachs Commodity Index? What do you think - can it turn up or will the decrease continue? The index consists mostly from energy (74 per cent) and therefore the coming development of crude oil prices is for me very important.

Klestinec Michal

Jim Rogers: I talk about it in my book. I find it not a very good index which is why I had to develop my own index for my money. The energy concentration is only one of its problems.

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Could you please elaborate on how and why agriculture looks overlooked and favourable going forward? Also, what's your view on sugar? Do you share the view of many today about growing use of sugar-based ethanol production?

Thomas Grevenitis

Jim Rogers: Most agriculture prices are far below all time highs and are very depressed. In fact, adjusted for inflation, many are 60-90 per cent below all time highs yet fundamentals are changing. For example, the number of hectares devoted to wheat has been declining for 30 years. Inventories of most agricultural products are the lowest since 1972. We have not had major droughts for years. Demand has continued to grow.

I am optimistic about sugar and expect it to be much higher sometime during the bull market.

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Commodities have until now primarily featured as a diversifier in investors' portfolios due to a tendency to rise in times of poor equity and bond market returns. The Dow Jones index has been hitting record highs this week after consistent performance this year, while many commodities also remain at high levels.

Do you think this change in trading patterns is permanent? Will this recent development weaken commodities' attractiveness as a diversifier for institutional investors?

Elisabeth Behrmann, UK

Jim Rogers: Commodities have not correlated to stocks for many decades. I am speaking of the major secular trends, not a few quarters or even a year or two. I do not see the recent trends as being significant and doubt the major, secular trends will change. The bull market in commodities probably has years to go so I would not move away from them at all.

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What is the best way to invest in agriculture if one does not want invest through futures contracts? If through stocks, are there any in your view worth looking at?

Nilesh Nanavati, New York, NY

Jim Rogers: You might consider some of the structured products that people like UBS and ABN Amro have. Some protect your principal too.

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Has the flow of money into commodity futures from commodity indices, ETFs, hedge funds and CTAs had an effect on commodity prices? What is your mid to long term view on wheat and corn prices?

Kevin Morrison, London

Jim Rogers: Yes, there has been an effect, but not much. Whenever there is a bull market, new investors come and old investors invest more. But the commodity markets are the second biggest in the world after currencies so the effect has not been too great. Plus we need to remember that many of the hedge funds and CTAs have been short of many commodities.

These are huge markets. In fact oil alone trades more in a day than all the stock markets in the world. Remember oil trades \$6 thousand billion a day and when you throw in all the other commodities, the numbers are gigantic. I am very bullish on all agriculture including wheat and corn.

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In your opinion which of oil or gold has the more durability and is less of a risk in the next 12-18 months. Do you think the time to get on board is now? How do I play it - via equity or another vehicle?

Dilip Patel

Jim Rogers: I would prefer gold to oil in that time period. I expect to make more in agriculture than in either gold or oil. Futures are better unless you are a great stockpicker. There are also specialised structured products tied to agriculture.

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If base metals drop because of a US recession, is gold likely to drop with them or will it still stay up because it is viewed as a good store of value against the dollar, which might drop because of a recession.

Peter, UK

Jim Rogers: Gold will probably fall less because the Fed will be printing a lot of money, which will hurt the dollar.

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What are your projections for corn and in what sort of timeframe will they be achieved? Personally I'm very bullish regarding to ethanol en El Nino in progress.

Ab de Jonge, The Netherlands

Jim Rogers: Corn will certainly make all time highs before the bull market ends for many reasons including ethanol, weather and others.

Does Mr Rogers think that sugar prices will recover any time soon? Production has been raised very quickly in response to last year's and earlier year's price surge.

Niru Devani

Jim Rogers: I am the world's worst market timer so I couldn't say it will recover any time soon. I do know sugar will be much higher in years to come.

What is the future of the mining companies share prices? Are we expecting to see consolidation or a fall in the near to medium term?

Tony Davies

Jim Rogers: The ones with increasing reserves will do well, even during the corrections. I am a horrible market timer so I have no idea about the near term.

Do you think gold can still reach \$1000 an ounce?

Tony Tassell, London

Jim Rogers: Yes. sometime during the bull market and perhaps more than \$1000

What do you believe are drivers behind the recent downturn in prices of oil and industrial metals? Will this be a long-term trend due to shifting fundamentals, or is this simply a temporary supply/demand reversal?

A.J. Kaneko, London, UK

Jim Rogers: Many people stockpiled huge oil inventories during the run-up and they are now being worked off. All bull markets have corrections and setbacks and this one is in oil. Likewise with some metals, but most base metals have not corrected much. Lead, for example, is at an all time high.

1. With world wheat stocks at their lowest levels for more than 25 years, and orange juice prices at record levels, how do you rate the relative prospects of hard and soft commodities?

2. What is your view of the Singer-Prebisch thesis that commodity prices show a long run relative decline compared with manufactured goods?

3. Do you favour trading commodities directly, including ETFs, or via equities of producing companies?

Bob Curray, Birmingham, UK

Jim Rogers: 1. I have been buying agriculture commodities in the past few weeks. I have not been buying 'hards', but I have not been selling them either.

2. It could be true, but it is irrelevant to what is happening now. There have been recurring long bull markets in commodities and we are now in another one. The bull markets have averaged about 19 years or so whenever supply and demand have gotten out of balance.

3. My experience and studies show that you will make more in commodities themselves unless you are an extraordinary stockpicker.

I am believer that commodities are still in a long-term bull run. But what do you see as the main risks to that run?

Dennis McStay, Berkshire, UK

Jim Rogers: Perhaps something like bird flu or a sudden unexpected war or a major financial collapse, but these would only be temporary setbacks. The only thing that will end the bull markets is huge new supply, and that is not on the cards.

A worldwide economic collapse would end it, but other things would suffer more.

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The signals coming out of OPEC at the moment seem to be pretty confused. What is your view on whether OPEC can actually deliver production cutbacks?

Jack Palmer, London, UK

Jim Rogers: I doubt it. There are too many who will cheat.

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Do you have any thoughts on the viability of switchgrass for ethanol production and is there a market for trading switchgrass?

Brian C. Kelly

Jim Rogers: I am told it is great, but have not done my own homework on it. I know of no market for trading it.

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1. What's your impression with your first few months in Asia?

2. Do you think there are too much investments in Asia right now?

3. What need to happen to change your view on oil?

Ming Jiang, US

Jim Rogers: 1. Asia is the future. We do not live there permanently yet, but hope to if we can sell our house.

2. No, the opportunities are huge especially when compared to the West.

3. Huge new discoveries in accessible areas.

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Is there one area of commodities that you think has been overlooked, that investors should be paying closer attention to?

Bethan Jones, Wales

Jim Rogers: Agriculture

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Background

Mr Rogers made a name for himself when - together with George Soros - he set up the Quantum Fund in 1969. In more recent years he has also become known for globe-gallivanting adventures, through his books *Investment Biker* and *Adventure Capitalist*. He wrote the first after travelling the world on a motorcycle and the second featured the same journey undertaken in a yellow customised Mercedes-Benz. His third, *Hot Commodities*, published last year, outlined his bullish outlook on the sector.

In an interview this year, Mr Rogers stated: "The shortest bull market for commodities lasted 15 years, the longest 23 years...they've got a long way to go."

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