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Commodities Erase This Year's Gains in Selloff

By Sharon Lindores - Sep 22, 2011

Commodities erased this year's gains after the U.S. [Federal Reserve](#) said the world's biggest economy faces "significant downside risks," boosting speculation raw-material demand will falter.

The Standard & Poor's GSCI Index of 24 commodities dropped 4.1 percent as of 2:44 p.m. in [London](#), bringing the decline this year to 3.1 percent. Copper fell to a one-year low in New York and London and oil dropped to the lowest in four weeks.

The Federal Reserve said yesterday it will replace \$400 billion of short-term debt with longer-term Treasuries to spur growth, saying it sees "significant downside risks" to growth. The Dollar Index gained to a seven-week high, making commodities trading in the U.S. currency more costly for buyers using other monies.

"We're seeing the dollar strengthen and that's weighing down on the whole commodity complex," [Dan Smith](#), an analyst at Standard Chartered Plc in London, said today by phone.

The world economy will expand 4 percent this year and in 2012, the [International Monetary Fund](#) said on Sept. 20, cutting forecasts made in June for a 4.3 percent expansion this year and 4.5 percent in 2012.

Manufacturing in [China](#), the world's largest metals user, may shrink for a third month in September, according to a preliminary index of purchasing managers from HSBC Holdings Plc and Markit Economics released today. The initial reading for this month was 49.4 compared with a final 49.9 for August and 49.3 for July. Figures below 50 signal a contraction.

'Risk Aversion'

"On the back of the plentiful bearish news and the further rise of [risk aversion](#), it is not surprising that metal prices have come under strong pressure," Commerzbank AG said in a report. The U.S. is the second biggest metals consumer.

Three-month copper on the London Metal Exchange fell as much as 6.6 percent to \$7,750 a metric ton, the lowest price since Sept. 22 last year. Prices in London have dropped 24 percent from the record \$10,190 on Feb. 15, qualifying for a [bear market](#) if they close at or below \$8,152.

Copper may drop to as low as \$7,000 as concerns grow about the global economic slowdown, Im Byeong Chlo, an executive at [South Korea's](#) Public Procurement Service, said on Sept. 21. The contract hasn't traded below \$7,000 since July 2010.

Gold for December delivery declined as much as 4.3 percent to \$1,731.20 an ounce on the Comex in [New York](#). Immediate-delivery gold fell as much as 2.9 percent to \$1,730.28 an ounce.

Silver futures for December delivery dropped 8.4 percent to \$37.06 an ounce on the Comex.

November-delivery oil fell as much as 6.6 percent to \$80.25 a barrel, the lowest price for a most-active contract since Aug. 19, on the [New York Mercantile Exchange](#).

Wheat for December delivery fell as much as 3.3 percent to \$6.45 a bushel on the Chicago Board of Trade.

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