



## Commodities Surge to Record as Inflation Concern Sparks Demand

By Millie Munshi

Feb. 19 (Bloomberg) -- Commodity prices surged to a record, led by gains in energy and metals, on signs that increased global demand for raw materials and the weakening dollar are fueling inflation.

The UBS Bloomberg Constant Maturity Commodity Index gained as much as 2.8 percent to 1,441.593, the highest ever. Platinum, soybeans and gasoline touched records, and oil reached the highest price in more than a month.

China's inflation accelerated at the quickest pace in more than 11 years last month, the government said today. Investors are buying more physical assets on speculation inflation will spur price gains, said William O'Neill, a partner at Logic Advisors in Upper Saddle River, New Jersey. The dollar fell the most this month against the euro, making commodities priced in the U.S. currency cheaper for most importers.

"Commodities are one of the only instruments that can keep pace with inflation as goods become more expensive," said Stu Flerlage, who helps manage more than \$600 million at NuWave Investment Corp. in New York. "There's a huge pool of capital that's going to be going into commodities, and prices will continue to rise."

Chinese consumer prices rose 7.1 percent in January from a year earlier, the statistics bureau said today, after gaining 6.5 percent in December. Inflation in the world's fastest-growing major economy has soared since last year partly because of food and fuel costs.

"Commodity markets are exploding in a broad inflationary move," O'Neill of Logic Advisors said. "Global inflation has been underestimated, and commodities are coming into play as people want more hard assets."

### Prices Rise

Gasoline gained as much as 4.6 percent to \$2.6084 a gallon on the New York Mercantile Exchange, the highest since the reformulated contract began trading in October 2005. On the Chicago Board of Trade, soybeans for May delivery rose as much as 2.7 percent to a record \$14.2875 a bushel. Platinum reached \$2,174 an ounce on the Nymex, the highest ever.

Copper rose as much as 5.7 percent to a four-month high of \$3.7415 a pound on the Comex division of the Nymex. Gold gained as much as 3.1 percent to \$934.40 an ounce.

Commodities advanced as a weaker dollar raised interest in physical assets as an inflation hedge, said Evan Smith, who helps manage \$1.5 billion at U.S. Global Investors Inc. in San Antonio.

"With the dollar continuing to be weak, it's driving commodities higher," Smith said. Raw materials, which are mostly priced in dollars, become relatively cheaper as the U.S. currency slumps, he said.

### Dollar Falls

The dollar fell today on speculation the Federal Reserve will keep cutting interest rates to avoid a recession. The U.S. currency dropped to \$1.4741 per euro from \$1.4658 yesterday. That would

mark the biggest one-day decline since Jan. 30.

The Fed in September cut rates for the first time since 2003 and has since reduced the benchmark borrowing cost to 3 percent from 5.25 percent.

“The problem with all this extra money is that it is boosting inflation pressures, as is evident in commodity prices and the falling dollar,” said Tony Crescenzi, the chief bond-market strategist at Miller Tabak & Co. in New York.

Raw-material demand has boomed, leading to record prices, as consumers in China used more grains, metals and energy products. Expansion in the Asian country and other emerging economies has fueled six straight years of gains for the UBS Bloomberg index.

#### Asian Demand

“As China and India have become major industrial players, we've seen that demand for commodities just isn't going away,” Flerlage said. “A lot of people tried to say this was a bubble. They're just flat-out wrong.”

Most commodities are in short supply as producers have struggled to keep up with demand, Flerlage said.

Wheat has more than doubled since May as stockpiles dropped. Disruptions at mines in South Africa led to soaring prices for precious metals including platinum and gold. Crude oil and gasoline have advanced on concern supplies may be limited.

Investor demand also has climbed on speculation gains from commodity markets will beat returns from bonds and equities this year, said Jaime Menahem, a broker with Alaron Trading Corp. in Miami.

`` With the economy being bad, funds have to put their money somewhere and commodities is where they're putting it," Menahem said.

The UBS Bloomberg index of 26 commodities is up 13 percent this year, compared with a 7.4 percent decline for the Standard & Poor's 500 Index.

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