

Oil shock reshapes commodity rally as yields surge and metals retreat

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Key Points:

- Energy dominates the record rally: The BCOM Total Return Index heads for a fifth consecutive weekly gain and fresh record high, driven by surging crude, diesel and European natural gas.
- Oil shock becomes a macro risk: Middle East supply disruptions are lifting fuel prices, inflation concerns and bond yields, raising the prospect of further monetary tightening.
- Metals retreat as yields surge: Gold tests key support while copper's tariff-driven premium narrows sharply, despite longer-term fundamentals remaining supportive.
- Crowded agriculture trade loses momentum: Record speculative length leaves grains and softs increasingly dependent on fresh bullish catalysts after the recent rally stalled.

The commodity rally has extended into another week, but beneath the headline strength an increasingly fragmented picture has emerged. The Bloomberg Commodity Total Return Index is heading for a fifth consecutive weekly gain and another record high, rising around 2% and lifting its year-to-date advance above 36%. Without the energy sector, however, the BCOM Index would have gained only around 13.5% this year, with grains and industrial metals making the main contributions.

Once again, energy has been the main driver, gaining around 8% despite weakness in US natural gas. Crude oil has risen close to 8%, while diesel has jumped around 11% as already tight refined-product markets face another deterioration in the Middle East supply outlook. The biggest gainer of the week was EU natural gas, which rose 13% to a fresh three-year high amid a tight supply outlook ahead of the coming peak winter demand period.

Elsewhere, however, the picture looks very different. Precious metals are heading for a third consecutive weekly decline of around 2%, industrial metals have weakened as well, falling by around 1.5%, while agriculture is broadly unchanged despite an extraordinary recent rush by hedge funds into grains and softs.

This divergence highlights an important change in the current commodity narrative. The energy shock is no longer simply lifting commodity prices. Through its impact on global growth, inflation expectations, monetary policy and bond yields, it is increasingly creating headwinds elsewhere in the sector.

Energy shock intensifies

Brent crude surged more than 6% on Thursday as fighting across the Middle East intensified and concerns about Saudi Arabian supply added another layer of risk to an already severely disrupted market. Houthi attacks on Saudi energy facilities forced some operations to halt, while unconfirmed reports suggested the strategically important East-West pipeline to Yanbu had been damaged. The pipeline, capable of transporting around 5 million barrels per day for export, has become particularly important during the disruption to normal shipping through the Strait of Hormuz, allowing Saudi crude to

reach Red Sea export terminals without passing through the narrow strait.

Adding to the bullish momentum, Saudi Arabia told OPEC that its crude production slumped to 6.23 million barrels per day in August, the lowest level since 1990. Together with multiple tit-for-tat attacks on ships around the Strait of Hormuz, the decline has further tightened an already stressed physical market.

However, as mentioned on several occasions, focusing exclusively on Brent risks understating the scale of the energy squeeze. Refined products remain under even greater pressure, with diesel once again outperforming crude this week, trading well above USD 200 per barrel. Middle distillates sit at the heart of the global economy through trucking, shipping, aviation, agriculture, construction and industrial activity, meaning sustained high prices can transmit rapidly into broader inflation.

This helps explain why the latest surge in oil has increasingly become a macroeconomic story rather than simply a commodity-market story. Some hopes now hinge on a meeting on Monday, when Gulf foreign ministers are due to meet their Iranian counterpart as Oman and Iran push to secure support for an arrangement to manage shipping through the Strait of Hormuz temporarily.

Oil and inflation send bond yields sharply higher

Global bond markets suffered another sharp sell-off on Thursday as rising energy prices combined with hawkish signals from the European Central Bank to revive concerns that inflation may remain elevated for longer.

The ECB raised its core inflation forecasts for the next two years and upgraded next year's growth outlook, triggering a sharp sell-off in German bonds. Meanwhile, US Treasuries saw yields rising sharply across the curve. The two-year yield surged more than 15 basis points to above 4.58%, a new cycle high, while the ten-year yield climbed above 4.96%, bringing the psychologically important 5% threshold back into focus.

The sell-off came ahead of Friday's August CPI report, the final major inflation reading before the Federal Reserve's 15–16 September meeting with the interest rate market putting the risk of a hike at 70% while increasingly pricing two additional hikes through December.

A prolonged energy shock risks keeping inflation elevated even as higher borrowing costs increasingly weigh on economic activity. Markets are therefore testing policymakers' ability to contain renewed inflation pressure without creating broader financial stress.

Gold caught between geopolitical risk and rising yields

The impact of this shift has been particularly visible in precious metals, with the latest surge in crude and bond yields driving gold towards, but not through, support around USD 4,300 and leaving it on course for a third consecutive weekly decline. At first glance, weakness in bullion during an intensifying Middle East conflict may appear counterintuitive. However, the transmission mechanism from geopolitics through energy prices and into bond markets currently provides a powerful offset to traditional safe-haven demand.

Higher crude and fuel prices are raising inflation expectations, which in turn are lifting government bond yields and expectations for additional monetary tightening. With the opportunity cost of holding non-interest-bearing gold increasing, geopolitical support has struggled to offset the pressure from higher yields.

From a technical perspective, gold has returned towards the lower end of the range established following

its August rebound. Support around USD 4,300 has so far prevented a deeper slide towards the established floor closer to USD 4,000. On the upside, the 200-day moving average, currently around USD 4,537, remains the key hurdle.

The current correction does not necessarily undermine the longer-term constructive outlook. Central-bank demand remains strong, concerns about fiscal sustainability have not disappeared, and the latest energy shock may ultimately reinforce demand for inflation protection and portfolio diversification. In the short term, however, the direction of yields and the dollar remain dominant.

Silver and platinum have suffered even greater losses this week, reflecting their additional exposure to the deterioration in industrial-metal sentiment.

Copper's tariff premium meets reality

Copper reached fresh record highs in London and New York before suffering a sharp setback led by the High Grade future after Reuters reported that inflation and affordability concerns had stalled a US government decision on whether to impose tariffs on refined copper imports. Expectations of tariffs have played a major role in copper's rally this year. Traders rushed metal into the US ahead of a potential announcement, creating a record build in COMEX inventories while simultaneously tightening availability elsewhere.

In the latest weekly update, some 71%, or 696,400 tonnes, of visible exchange-monitored copper inventories were sitting in the US, despite the country accounting for only a fraction of global consumption. Copper had effectively piled up in the wrong place.

This week's sell-off therefore represents an unwinding of a policy-driven premium rather than a sudden disappearance of copper's underlying structural challenges. The New York premium over London has narrowed but has not disappeared, and it would likely need to shift into a substantial discount relative to London before metal begins moving back towards markets where physical availability remains tighter.

Meanwhile, the longer-term copper story remains supported by constrained mine supply and rising consumption from power grids, renewable energy, electric vehicles and rapidly expanding AI and data-centre infrastructure. Collapsing treatment charges in China continue to underline the shortage of concentrate available to smelters.

Crowded agriculture trade loses momentum

Agriculture provides another example of positioning becoming increasingly important. During the week to 1 September, the managed-money net long across ten major grain and soft commodity futures jumped to a record 1.37 million contracts, the highest since comparable data began in 2006, representing a nominal value of approximately USD 53 billion. The increase capped an extraordinary four-week period during which the aggregate position almost tripled as the Bloomberg Agriculture Index surged to a three-year high. Record net longs were established in several individual contracts, including corn, sugar, soymeal and cotton.

Yet agriculture has struggled to extend its rally this week, with the grains sector trading broadly unchanged. Soybean reached a 2023 high as traders assessed China's purchases of US beans ahead of the expected meeting between US President Donald Trump and Chinese President Xi Jinping. A rebound in wheat was offset by profit-taking in corn ahead of Friday's USDA WASDE report. The report will provide a clearer assessment of the damage caused by hot and dry conditions across the US Midwest this summer, with updated estimates for yields, production, inventories and export demand

likely to help determine the next direction for grain prices.

The market is also monitoring developments in the Black Sea, where the Russia-Ukraine war continues to threaten production, storage and export infrastructure. Renewed diplomatic efforts to end the conflict have so far produced no meaningful breakthrough, and the prospect of a more durable ceasefire has weighed on prices at times by raising expectations of improved export flows. The Black Sea remains one of the world's most important agricultural export hub and further Russian attacks have kept attention on the continuing disruption to the region's grain and vegetable-oil trade.

Despite the latest pause following a strong run-up in prices, the underlying bullish themes and risks have, in our opinion, not disappeared. El Niño-related weather risks, Chinese buying, geopolitical disruption, strong demand and concerns about supply continue to provide support across parts of the sector. However, when positioning reaches such elevated levels, the hurdle for additional gains rises.

Record speculative length means markets increasingly require fresh bullish news merely to sustain momentum. In its absence, profit-taking and long liquidation can amplify even relatively modest setbacks.

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