

Commodity weekly Macro pressure meets supply tightness

Saxo Bank · 2026-09-25 · English original

Key Points:

- Macro headwinds intensified, with surging US bond yields and a stronger dollar putting pressure on commodities, particularly precious metals.
- Physical tightness remains a powerful counterweight, helping industrial metals, energy and selected agricultural markets resist the broader macro pressure.
- Oil remains caught between improving flows and persistent disruption, as diplomacy, renewed attacks and costly workarounds keep the physical market far from normal.
- Copper and soybean meal highlight the supply story, with low inventories, strong demand and weather-related disruption supporting prices despite an increasingly challenging macro backdrop.

Commodities faced a difficult macro environment this week as US bond yields surged to fresh multi-year highs and the dollar strengthened, yet the overall response was surprisingly resilient. The Bloomberg Commodity Total Return Index slipped around 0.7%, leaving it up around 36% year-to-date, while underneath the headline number there was considerable dispersion.

Precious metals bore the brunt of the pressure, losing around 2%, while industrial metals gained 0.8%. Agriculture was mixed, and energy weakened modestly with energy and fuel price softness being offset by strength in natural gas.

Besides the macro headwinds, weather developments and geopolitical developments, the divergence highlights a continued theme across commodities: macro stress versus physical scarcity. Rising yields and a stronger dollar represent obvious headwinds for investment demand and economic activity, but tight inventories, disrupted supply chains and geopolitical uncertainty continue to support commodities where physical availability remains constrained.

Bond yields turn up the pressure

The macro headwind strengthened considerably during the week as Treasury yields surged, with the US 10-year yield rising to a 19-year high above 5.2% amid renewed concerns about inflation, Federal Reserve policy and fiscal sustainability.

For commodities, the combination of higher real yields and a stronger dollar is in normal times particularly challenging for precious metals. The US 10-year real yield reached 2.88%, its highest level since 2008, increasing the opportunity cost of holding non-interest-bearing assets. However, despite these strong headwinds, gold, silver and platinum suffered only moderate weekly declines, with gold down around 1.8%, silver 2.7% and platinum 2.3%.

Gold traded lower on the week, but considering the increasingly hostile macro backdrop, the weakness was relatively muted. Underlying demand from non-interest-rate-sensitive investors remained firm, with

ETF holdings rising for a tenth consecutive week to 3,133 tonnes (Source: Bloomberg), just 5 tonnes below the February peak when gold traded almost USD 1,000 above current levels. Higher yields remain a near-term headwind, but they also raise longer-term financial risks as elevated borrowing costs increase pressure on governments, companies and other leveraged parts of the financial system.

For now, price action will determine which force dominates. Gold's recent support low around USD 4,235 is the first level to watch. A break could expose the market to a deeper correction and potentially renewed focus on the June-July area around USD 4,000. Conversely, an ability to withstand the current onslaught from rising yields and dollar strength would underline the resilience of underlying demand, with a break above USD 4,400 resistance in my opinion needed to change the current defensive focus.

The coming sessions therefore represent an important test. Gold may struggle while yields and the dollar continue higher, but continued demand for ETFs and exceptionally strong Chinese demand suggest investors are not abandoning the metal. Instead, some appear to be buying gold precisely because the financial stresses reflected in today's bond market are becoming harder to ignore.

Oil: plenty of headlines, few answers

Crude oil provided another reminder that rising supply does not necessarily mean a return to normality. Brent experienced another roller-coaster week, trading across a range of more than USD 10 as the market reacted to a steady flow of conflicting supply, geopolitical and diplomatic developments in New York after reports that US and Iranian negotiators were discussing a possible phased agreement to reopen the Strait of Hormuz.

Unfortunately, we did not get much wiser on the short-term direction of crude. Tanker data point to increased flows through Hormuz, while Saudi Arabia's East-West pipeline has restarted. However, Brent remains above USD 100, while the physical market continues to signal significant stress, with Dated Brent maintaining a premium of close to USD 20 over Brent futures throughout the week.

The workarounds themselves illustrate the problem. Ship-to-ship transfers in the Gulf of Oman have almost reached capacity, helping Gulf producers maintain exports. But the additional complexity and risk have pushed VLCC freight costs on Gulf-to-China routes above USD 30 per barrel. Add elevated fuel prices and insurance costs, and the global oil market remains far from anything resembling normality. More barrels may be moving, but the underlying plumbing is still creaking.

The latest diplomatic efforts offer some hope. US and Iranian negotiators in New York are reportedly exploring a phased arrangement under which Tehran would reopen Hormuz while Washington gradually lifts its economic blockade. The central obstacle remains sequencing, with neither side willing to surrender its main bargaining chip first.

Gas prices converge – slightly

Natural gas provided one of the week's more interesting divergences, with US and European prices moving towards each other for a change. US natural gas gained almost 7% on the week, while European prices fell almost 10% from recent highs. The narrowing spread does not, however, imply that the global gas market is returning to normal.

The rally in US Henry Hub gas was triggered by a major but temporary pipeline disruption in Appalachia affecting flows equivalent to around 1.6% of total US gas supply, compounding an already tighter production backdrop as producers have been shutting in output for several weeks ahead of the seasonally weak autumn shoulder period.

Europe continues to face tight inventories and restricted LNG supply from the Gulf, forcing it to compete aggressively with Asia for available cargoes. Forward markets are pricing tight conditions extending well beyond the coming winter, reflecting uncertainty surrounding Qatari LNG exports and Europe's ability to rebuild storage.

The economic consequences are also becoming more important. The ECB this week warned that changes in wholesale gas prices are feeding through to euro-area inflation faster than they did following the 2022 energy crisis.

Copper defies the macro headwind

Copper provided another example of physical fundamentals offsetting macro pressure. Despite surging US yields and a stronger dollar, HG copper gained around 1.5% on the week, while the broader industrial metals sector rose 0.8%.

The resilience reflects an increasingly tight physical market in China. SHFE-monitored inventories at one point slumped to just 47,000 tonnes, a 2½-year low and near the bottom of the seasonal range ahead of the Mid-Autumn Festival and Golden Week. Meanwhile, the Yangshan premium over LME copper has surged to around USD 124 per tonne, close to a four-year high, while requests to withdraw metal from Asian LME warehouses have jumped.

Supply growth is also coming under pressure. China's net copper imports fell 18.5% year-on-year in August as the import arbitrage flipped towards exports, while growth in domestic refined production turned negative for the first time since late 2024 amid collapsing treatment charges, tight scrap availability and reduced smelter profitability.

The combination of low inventories, high physical premiums and constrained supply helps explain copper's resilience. LME copper remains just 1% below its recent record of USD 14,875 per tonne, while COMEX copper is around 2% below Monday's record of USD 6.9285 per pound. Longer term, structural demand from electrification, grids, data centres and defence continues to collide with the mining industry's difficulty in bringing sufficient new supply to market.

For now, the weekly message is simple: macro conditions tried to push copper lower, while physical tightness pushed back.

Soybean meal bucks the grain weakness

Agriculture delivered a similar divergence. Corn and wheat weakened during the week, but soybean meal rose 3.9%, extending a six-week advance of around 20% that recently lifted prices to a two-year high.

Wet weather across parts of the US Midwest has slowed the soybean harvest, while export demand remains supportive. Recent US soybean export sales have been running well ahead of their normal seasonal pace, although soybean meal sales themselves remain closer to historical averages.

European demand provides another potential source of support. US soybean meal has become increasingly competitive against South American supply, while the EU's deforestation regulation could encourage some European buyers to diversify towards US-origin meal. EU imports of US soybean meal have already risen substantially, albeit from a relatively small base compared with supplies from Argentina and Brazil.

Managed money traders have responded aggressively. In the week to 15 September, the net long in

soybean meal surged to a record 186,000 contracts, the highest in data going back to 2006, equivalent to 18.6 million short tons, or roughly one-third of annual US soybean meal production, depending on the crop-year estimate used. The scale of the position highlights both the strength of the current bullish momentum and a growing positioning risk: a long this crowded will require a continued flow of supportive weather, demand and trade news to be maintained.

Macro stress meets physical scarcity

In conclusion, higher yields, a stronger dollar and tighter monetary conditions are raising the macro hurdle for commodities, with precious metals demonstrating how those forces can bite.

Yet physical markets continue to tell a different story. Oil logistics remain severely disrupted, global gas supply is tight, copper inventories are under pressure and weather is creating pockets of strength across agriculture.

Against this backdrop, the BCOM Total Return Index remains up almost 36% this year, comfortably ahead of the roughly 25% gain in the technology-heavy Nasdaq 100. Heading into the final quarter, the key question is whether tightening financial conditions eventually overwhelm these supply constraints – or whether persistent scarcity continues to make commodities unusually resilient to traditional macro headwinds.

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