

Commodity weekly Broad losses mask persistent supply risks

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Key Points:

- Commodities retreat broadly, with the BCOM Total Return Index down 2.1% as improving crude flows, harvest pressure and tighter financial conditions weigh on prices.
- Fuel shortages persist despite recovering crude supply, with potential emergency stock releases easing diesel prices while refinery disruptions and restricted exports constrain availability.
- Metals face competing pressures, as higher yields weigh on gold despite resilient ETF demand, while copper's retreat leaves tight availability outside the US unresolved.
- Weather risks lift sugar and coffee, with El Niño threatening agricultural supply while grains face harvest pressure and speculative selling.

Commodities traded broadly lower this week as a challenging macro backdrop outweighed persistent physical tightness across several markets. The Bloomberg Commodity Total Return Index fell around 2.1%, with losses across energy, metals and grains partly offset by gains in soft commodities, led by sugar and coffee.

The weakness nevertheless needs context. The index remains up 32% year-to-date, reflecting powerful supply-driven rallies, especially across the energy sector, which including a 24% slump in natural gas has still managed to deliver a total return of around 83.5%. This week's correction reflects tighter financial conditions rather than a broad improvement in commodity availability, with rising global bond yields and a stronger dollar creating headwinds.

The tension between macro pressure and stubborn supply constraints remains a defining theme. Energy offers the clearest example: Middle East crude flows continue to recover but refined-product markets remain exceptionally tight.

Bond markets: US relief, European fiscal concerns

Rising bond yields and a stronger dollar weighed on metals for much of the week, before a late recovery in US Treasuries offered some relief. Softer-than-expected PCE inflation and jobs data pushed yields lower, all but removing expectations for an October rate hike. The risk of a December increase could recede further if energy prices stabilise and US data continue to weaken.

The European picture remains a concern. French yields have risen while German government bonds have attracted a haven bid, widening the spread between the two amid concerns about France's fiscal sustainability and the political challenges of reducing deficits.

Higher borrowing costs tighten financial conditions, while elevated real yields increase the opportunity cost of holding gold. Heavy government debt burdens add another dimension: sustained increases in debt-servicing costs and refinancing pressure could raise financial stability risks. For gold, easing US

yields may offer near-term relief, while European fiscal concerns continue to support the longer-term case for protection.

Gold remains caught between yields and fiscal concerns

Gold is heading for another weekly decline despite signs of stabilisation towards the end of the week following the release of softer than expected U.S. economic updates. Its roughly 1.7% loss compares with a fall of more than 4% in silver, while platinum and palladium have also weakened.

Investors remain caught between the rising opportunity cost of holding gold and concerns that elevated yields, against a backdrop of heavy debt burdens, may eventually cause financial stress.

The latter supports demand for an asset that sits outside the traditional financial system. This helps explain the divergence seen during September, when gold prices fell while holdings in bullion-backed ETFs increased. Strategic buyers appear willing to maintain or add exposure despite difficult short-term conditions.

For now, bond markets remain the key driver. Further increases in real yields and the dollar could sustain pressure. Signs of broader financial stress could strengthen demand for protection, although an initial scramble for liquidity might also trigger gold sales. From a technical trading perspective, gold is currently trading within a well-established downtrend from the August peak, with a break above USD 4235 needed to change that, while fresh weakness below USD 4,115 may put USD 4,000 back into focus.

Energy: improving crude flows, persistent fuel shortages

Energy markets are heading for a weekly loss, but the underlying picture remains fragmented. Middle East crude supply continues to improve, easing some of the tightness created by disruptions around the Strait of Hormuz. These barrels nevertheless move at punitive freight and insurance costs, while Iranian exports remain severely constrained.

Renewed military escalation remains a major risk. The US decision to send another carrier group towards the region underlines why improving flows have yet to remove the market's risk premium. Meanwhile, the main physical stress has increasingly shifted from crude availability to refined-product supply.

Reduced refinery capacity and output across the Middle East and Russia, together with China cancelling product-export cargoes to support domestic supply, continue to constrain fuel availability. However, prices of ULSD and gasoil futures both eased on Friday, falling to a one-month low around USD 185 per barrel from above USD 200 earlier in the week, after the US has pressured France and Germany to release emergency diesel stocks or potentially face restrictions on US diesel exports. France has reportedly proposed releasing 50 million barrels of European diesel alongside 50 million barrels of crude across IEA members, conditional on Washington removing its threat to cut diesel exports.

Stock releases could provide temporary relief into the peak demand period, but restoring refinery output and trade flows remains essential. Until then, elevated refining margins may limit the benefit consumers receive from falling crude prices. A sustained move lower in Brent therefore requires broader normalisation: improving crude supply, recovering product exports and reduced political and financial risks to shipping.

US natural gas presents a different picture, falling around 9% this week as milder forecasts lower

expected demand. El Niño could reinforce the pressure if winter conditions reduce heating requirements across major consuming regions.

Industrial metals: macro selling meets physical tightness

Industrial metals suffered broad losses, with copper down around 3% and aluminium, zinc and lead falling more than 4%. Higher yields, a stronger dollar and concerns about Chinese industrial activity weighed on sentiment following September's strong gains.

Copper nevertheless remains at historically elevated levels, supported by persistent supply constraints. The threat of US tariffs on refined copper has encouraged traders to move hundreds of thousands of tonnes towards America, distorting global inventories as US stocks expand while availability elsewhere tightens.

Low Chinese exchange inventories and upcoming smelter maintenance add to supply concerns, while labour negotiations at a major Chilean mine raise the possibility of further disruption. Earlier in the week, a Deutsche Bank analyst warned that copper could see further sharp price increases in the coming months. The bank argued that the global market has little capacity to absorb continued US stockpiling, additional Chinese inventory building, significant disruptions to refined supply or stronger-than-expected demand.

This week's selling reflects weaker macro conditions and profit-taking, but it has done little to resolve the geographical imbalance in inventories or the challenges facing mine supply. Copper remains caught between cyclical demand concerns and constrained availability, leaving prices sensitive to any further tightening in the physical market.

Agriculture: harvest pressure meets weather risk

Grains and soybeans traded lower, with corn falling more than 5%, soybeans around 3% and soybean meal almost 5%. Seasonal harvest pressure and expectations for ample US supplies encouraged speculators to reduce bullish positions.

Soft commodities provided the exception. Sugar rose more than 4% and Arabica coffee gained almost 6%, with concerns about a potentially powerful El Niño bringing weather risks back into focus.

Sugar appears particularly exposed. Excessive rainfall can disrupt harvesting and reduce cane sugar content in Brazil, while drought risks in India and Thailand could threaten production. The combination has raised concerns that an anticipated global surplus could shrink substantially or potentially become a deficit.

However, the outcome depends on the timing and location of weather disruption. El Niño increases risks rather than guaranteeing crop losses, and production estimates will need to confirm whether the recent rally reflects lasting damage.

Looking ahead

Bond yields and the dollar remain central to the outlook. Stabilisation would ease pressure across commodities, while further increases could prolong selling despite persistent supply constraints.

Energy traders will monitor Middle East flows, escalation risks and negotiations over emergency stock releases. The key question is whether improving crude availability translates into lower fuel prices.

For copper, Chinese demand and inventory developments remain critical. In agriculture, harvest

progress and evolving El Niño forecasts could widen the performance gap between grains and weather-sensitive soft commodities.

The coming week will test whether easing macro pressure allows physical fundamentals to regain influence, or whether tighter financial conditions continue to dominate.

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