

Daily: Commodity fundamentals speak for further upside

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Thought of the day

Brent crude started the week lower after US President Donald Trump claimed on Sunday that Russia and Ukraine had agreed to an “energy ceasefire” effective immediately. This came after Trump on Friday said Russia had agreed to supply diesel to global markets in an effort to lower fuel prices.

But the oil price decline has since moderated. The exact terms of the ceasefire deal were unclear, and Ukrainian President Volodymyr Zelenskyy said his country is “awaiting details” from the US. Trump’s announcement of the diesel agreement also faces bipartisan criticism in the US, as Congress has banned imports of Russian energy since 2022. Separately, conflicts in the Middle East remain ongoing. Yemen’s Houthis extended attacks on Saudi Arabia’s main airport over the weekend.

We continue to expect traffic through the Strait of Hormuz to recover gradually, and history suggests that geopolitical events are rarely a sufficient reason to stop investing. But we think exposure to broad commodities, including energy, can boost diversification and strengthen portfolio resilience. Current fundamentals are supportive of a commodity upcycle.

Oil remains vulnerable to supply disruptions. With traffic through both the Strait of Hormuz and the Red Sea still disrupted amid continued attacks, the physical oil market remains tight globally. While crude exports from the Middle East have improved in recent months, the latest data showed that loadings from Gulf countries remain below pre-conflict levels. Seaborne diesel exports in September remained significantly lower than levels seen at the start of the year. Additionally, while the recent G7 decision to release 100 million barrels of emergency oil stocks through the International Energy Agency (IEA) could offer some relief temporarily, it does not resolve the current market imbalance. In fact, as emergency inventories are drawn down, the market’s buffer against future disruptions shrinks. If geopolitical tensions remain elevated or new supply outages emerge, oil prices could become increasingly sensitive to adverse supply surprises.

Gold remains an important portfolio diversifier. Gold prices may fall toward USD 4,000/oz as rising US real yields and a stronger US dollar have increased the opportunity cost of holding the non-yielding asset. But the latest data point to resilience in ETF holdings, with steady inflows in recent weeks. Preliminary figures also showed that central bank purchases remained solid in September, with China buying 23 metric tons, Poland acquiring 25 metric tons, and Uzbekistan taking 7 metric tons. This suggests that structural demand is providing a stronger offset than in previous cycles, in our view. Central bank diversification, concerns about rising public debt levels and debt-servicing costs, and robust Chinese buying should all continue to underpin the market. We expect gold prices to stabilize and resume their uptrend toward year-end and into 2027.

We hold a constructive outlook on industrial metals and agricultural commodities. We remain constructive on industrial metals, with copper our preferred exposure. The market is tight amid constrained mine production, strong Chinese demand, and falling inventories outside the US.

Meanwhile, investment in power grids, data centers, and electrification should support longer-term demand. The outlook for agricultural commodities is also supportive. Global food prices rose in September to their highest level since November 2022, as a strengthening El Niño is disrupting rainfall across major growing regions. With inventories tight and supply chains already facing geopolitical and energy-related pressures, weather disruptions could have a more pronounced effect on prices than in previous cycles.

So, as commodities have historically exhibited low correlations with equities and bonds, we think exposure to broad commodities can provide both a structural source of return and portfolio defensiveness. We favor actively managed strategies that maintain diversified exposure across precious metals, energy, industrial metals, and agriculture to capture a broad range of opportunities.

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