

Commodity weekly Gold steadies as oil tightness and growth fears divide markets

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Key Points:

- **Commodities diverge:** The Bloomberg Commodity Index trades virtually unchanged on the week, with energy and soft commodities offsetting losses across metals and grains.
- **Energy supply risks deepen:** Elevated freight and crude acquisition costs are undermining refinery profitability, threatening further fuel supply constraints despite recovering Middle East crude exports.
- **Precious metals find support:** A sharp reversal lower in Treasury yields and the dollar helps gold challenge its downtrend, while silver's recovery from its weekly lows suggests renewed investor interest.
- **Grains search for a floor:** Bearish USDA revisions, harvest pressure and speculative long liquidation have driven a sharp correction, raising questions about whether selling has become overextended.

A flat commodity index conceals growing market divisions

The Bloomberg Commodity Total Return Index heads for a marginal weekly decline of 0.1%, leaving it up 1.6% month-to-date and nearly 35% year-to-date. Beneath the calm headline performance, some divergence has emerged, with strength in energy and soft commodities offsetting losses across metals and grains.

The mixed performance reflects a market caught between persistent supply disruptions, weakening economic confidence and the unwinding of crowded speculative positions. Nowhere is this tension more evident than in energy, where elevated prices signal physical scarcity even as the economic consequences of prolonged disruption become more apparent.

The macroeconomic backdrop has also turned increasingly unsettled. A hotter-than-expected US September inflation report initially sent Treasury yields sharply higher, raising concerns about renewed Federal Reserve tightening. The reaction subsequently reversed dramatically as weakness in technology stocks, particularly those exposed to the AI investment boom, triggered a short covering rally in Treasuries. The two-year yield fell from a post-CPI high of 4.95% to 4.73%, leaving it six basis points lower on the week, while the ten-year benchmark reversed from 5.32% to 5.08%, a weekly decline of 16 basis points.

The dollar also lost momentum, heading for its first, albeit modest, weekly decline in five weeks. These developments helped precious and, to a lesser extent, industrial metals recover ahead of the weekend, reducing earlier losses. Importantly, falling yields failed to generate a sustained recovery in technology shares. While a few days of selling do not necessarily signal a deeper correction, the divergence raises questions about the durability of the equity rally and growing concerns about valuations and earnings.

For commodities, lower yields and a weaker dollar are generally supportive. However, if falling yields increasingly reflect growth concerns rather than expectations of easier monetary policy, the benefits may be uneven, particularly for industrial commodities.

Oil: High costs increasingly threaten the economics of refining

Crude oil prices remain elevated, with Brent trading around USD 105 per barrel and WTI outperforming during the week. The Middle East conflict continues to dominate supply conditions, even as crude shipments recover towards pre-war levels. However, recovering exports should not be mistaken for normalisation. Attacks on vessels in and around the Strait of Hormuz, combined with exceptionally high freight and insurance costs, continue to disrupt the economics of moving crude and refined products.

A growing concern is the pressure on refinery profitability. According to the International Energy Agency's October Oil Market Report, elevated crude acquisition and freight costs have severely undermined refining margins in Europe and Asia, despite historically high diesel and other middle-distillate prices.

This creates an apparent contradiction: diesel remains exceptionally expensive, yet producing it is becoming increasingly difficult to do profitably. Refiners cannot simply convert every barrel of crude into diesel. Alongside diesel and jet fuel, they produce gasoline, naphtha and fuel oil, whose margins have deteriorated sharply. Gasoline cracks have turned negative in some markets, while other fuels also trade at discounts to crude.

Consequently, strong diesel cracks are increasingly insufficient to offset weaker returns elsewhere, particularly when crude must be transported over longer distances at extraordinary cost. European and Asian refiners dependent on imported crude are especially exposed, while US operators generally benefit from cheaper domestic feedstocks.

Continued margin deterioration could force some refiners to reduce throughput, deepening the shortage of middle distillates and adding further upward pressure on diesel prices. These risks may end up creating a vicious circle in which high acquisition costs contribute to reduced fuel availability. The recent US-Russia agreement allowing limited Russian diesel shipments is unlikely to materially change the picture. The quantities discussed remain modest relative to disrupted global product flows, while Russian refining and exports face their own constraints.

Meanwhile, elevated European natural gas prices add to the energy squeeze ahead of winter. With storage less comfortably filled than last year and uncertainty surrounding Middle East LNG supplies, Europe remains vulnerable to cold weather and further disruptions.

The key question in the short term is therefore not simply whether sufficient crude can be produced, but whether it can be transported, refined and delivered at an economically sustainable cost.

Gold challenges its downtrend as silver finds tentative support

Precious metals experienced another volatile week, with gold recovering from selling pressure following the stronger-than-expected US inflation report. The subsequent reversal lower in Treasury yields and the dollar provided support, leaving gold little changed on the week.

Despite the correction from last year's record highs, underlying investment demand remains resilient. As highlighted in our recent gold and silver update, rising ETF holdings have contrasted with speculative futures selling, suggesting that longer-term investors continue to absorb supply from more rate-sensitive traders.

Gold is showing tentative signs of breaking its recent downtrend. In our view, a sustained recovery above USD 4,235 would provide further evidence that the corrective phase is ending. Whether this develops into a sustained bullish trend will depend partly on momentum-driven traders, including hedge

funds, shifting from net sellers to net buyers. Renewed speculative buying alongside resilient ETF demand could provide the necessary momentum.

The changing relationship between bond yields and equities may also become important. Gold traditionally struggles when real yields and the dollar rise, but declining yields driven by concerns about growth and equity valuations could provide a more supportive backdrop.

Silver has struggled to keep pace, recording a weekly decline of more than 5%. However, encouraging signs are emerging. Following a break above resistance around 72.60, the gold-silver ratio swiftly retraced part of its advance, suggesting investors may be rebuilding exposure at lower prices. If sustained, this could keep the ratio broadly rangebound around 68, as it has been since July.

Silver's industrial exposure leaves it vulnerable to weaker risk sentiment, but its dual role as an industrial and precious metal could become an advantage if lower yields, a softer dollar and renewed investor interest outweigh growth concerns. While an independent uptrend has yet to emerge, recent price action suggests underlying demand remains intact.

Gold retains the stronger technical picture, but silver's ability to attract buying on weakness offers encouragement. A sustained decline in the gold-silver ratio towards 68 would strengthen the case for renewed silver outperformance, particularly alongside improving risk appetite and a broader metals recovery.

Grains: Speculative liquidation adds to harvest pressure

The grain sector has suffered a correction of around 10% since early September, driven by accelerating US harvest pressure, disappointing Chinese buying and increasingly bearish supply estimates. Corn has been particularly hard hit following the USDA's latest World Agricultural Supply and Demand Estimates report, which raised its forecasts for US production and ending stocks.

December corn futures have consequently suffered a top-to-bottom decline of around 15% since early September, retracing 61.8% of the rally from July into early September. This represents an important technical area where traders may begin assessing whether the correction has become overextended.

Positioning has undoubtedly contributed to the weakness. During August, speculative investors accumulated exceptionally large long positions across key grain and soft commodity futures, leaving markets vulnerable to liquidation once prices began reversing. The subsequent selling has therefore reflected not only deteriorating fundamentals but also the unwinding of crowded positions, a combination that can produce sharp and occasionally exaggerated price movements.

The key question now is how much liquidation remains. The latest available CFTC data showed that speculative length in corn remained substantial ahead of the USDA report, suggesting that additional selling may have followed the bearish revisions. The next positioning update will be particularly important in assessing whether the market has moved closer to clearing the excess speculative exposure.

Soybeans have also struggled, with Chinese purchases falling short of earlier expectations. Although renewed buying could provide support, a sustained recovery will likely require stronger evidence of demand alongside signs that speculative selling is becoming exhausted.

For now, bearish fundamentals remain a challenge, but the combination of substantial price corrections, important technical support levels and potentially reduced speculative exposure raises the possibility of a recovery should the flow of negative news begin to ease.

Industrial metals: Iron ore highlights China's persistent demand problems

Industrial metals have struggled to benefit fully from the softer dollar and declining yields, reflecting concerns about global growth and, in particular, the weakness of China's traditional construction-related demand. Copper has shown some resilience, supported by longer-term demand linked to electrification, power grids and data centres. However, elevated exchange-monitored inventories and uncertain near-term demand continue to limit upside momentum.

Iron ore presents an even clearer example of the challenges facing China's industrial economy. Singapore futures slipped below USD 90 per tonne to a two-year low, extending this year's decline to around 15%. The weakness reflects the combination of subdued steel demand and ample global supply, with new production from projects adding to an already well-supplied market. China's prolonged property downturn continues to weigh heavily on construction activity, with crude steel production during the first eight months of the year falling to its lowest level for that period since 2018.

The contrast with copper is notable. While both metals are exposed to Chinese economic activity, copper benefits from structural investment in electrification and energy infrastructure, whereas iron ore remains more directly dependent on construction and traditional steel-intensive growth.

Outlook: Scarcity and slowing growth create an increasingly difficult balance

The commodity market enters the remainder of the year facing two potentially conflicting forces. Persistent energy supply constraints continue to support crude, diesel and natural gas prices, while weaker risk sentiment, uncertainty surrounding economic growth and speculative liquidation weigh on other sectors.

Gold's resilience suggests that defensive investment demand remains intact, while silver's recovery from its weekly lows offers tentative evidence of renewed investor interest. At the same time, iron ore's continued decline highlights concerns about the industrial outlook.

The longer these disruptions persist, the greater the risk that inflationary pressure from energy eventually contributes to weaker demand elsewhere. For commodities, that points towards continued divergence rather than a broad-based advance, with physical scarcity supporting selected markets even as concerns about growth limit the upside in others.

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