

Commodity weekly Crowded trades unwind as energy risks intensify

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Key Points:

- Positioning drives volatility: Crowded trades across bonds, equities and commodities are being unwound, amplifying price movements and, in some cases, overwhelming underlying fundamentals.
- Energy remains the inflationary outlier: Escalating Middle East tensions support crude oil and refined products, while European and Asian gas prices rise amid concerns about winter supplies.
- Metals face contrasting challenges: Gold and silver suffer technical selling despite lower bond yields, while copper remains vulnerable to US tariff uncertainty and the potential reversal of extraordinary inventory stockpiling.
- Growth concerns meet supply risks: Iron ore weakness highlights China's struggling steel sector, while selling across grains and soft commodities reflects a combination of bearish fundamentals and elevated speculative positioning.

A week dominated by positioning and conflicting signals

Commodity markets have gone through another mixed and at times turbulent week amid a broader risk-off environment, with AI-led weakness across global equity markets, mounting concerns about French government debt and rising energy prices all weighing on investor sentiment. Together, these developments have heightened concerns about the outlook for growth and inflation, triggering sharp reversals across financial markets and exposing increasingly stretched speculative positions.

The Bloomberg Commodity Total Return Index is heading for a modest weekly decline but remains up more than 35% year-to-date. Energy has once again provided the main support, led by gasoil and Brent crude, while precious metals and grains have suffered the heaviest losses. Silver has fallen around 5.5%, wheat close to 5%, and gold more than 3%, while industrial metals and soft commodities have delivered mixed performances.

The common theme has been the unwinding of crowded positions. Previously oversold US Treasuries have rallied sharply, while selling was seen in several commodities such as copper and sugar that in recent weeks had attracted substantial speculative interest. This has produced some seemingly contradictory developments: bond yields have fallen despite renewed inflation concerns, gold has weakened despite safe-haven demand, and oil has rallied even as worries about economic growth intensify.

The correction does not necessarily signal a fundamental change in the longer-term commodity outlook. Instead, it highlights how positioning can temporarily dominate price discovery, particularly when investors become less willing to carry risk.

Energy: Supply risks intensify despite mounting growth concerns

Crude oil remains the clearest example of supply concerns outweighing a deteriorating demand outlook. Brent has climbed above USD 114 per barrel and is heading for its highest weekly close since June 2022 as attacks on Saudi Arabian infrastructure raise fears of wider Middle East supply disruptions.

Meanwhile, reports that the US and Israel have developed plans for potential renewed strikes against Iran following next month's US midterm elections have added another layer of geopolitical uncertainty. This risk is reinforced by reports that a third US aircraft carrier strike group is en route to the Middle East.

WTI is trading back above USD 100 but continues to lag Brent, leaving the international benchmark's premium above USD 13. The widening spread reflects the increasingly uneven impact of the Middle East conflict on regional crude availability, transportation costs and the value of barrels located outside the disrupted supply chains.

For now, crude exports from the region have proved relatively resilient, helped by alternative routes and logistical adjustments. However, the market is increasingly concerned that further attacks could damage production, processing or export infrastructure, creating disruptions that cannot easily be resolved by rerouting shipments.

Refined products remain particularly exposed, with diesel and gasoil continuing to trade above USD 200, supported by tight supplies amid a very slow recovery in shipments from the Persian Gulf, a major global refinery hub. European and Asian natural gas prices have also risen amid concerns about winter supplies, with benchmark European TTF futures gaining around 7% this week, reaching a four-year high at EUR 93.50 per MWh ("H USD 30.5 per MMBtu), as relatively low storage levels leave the region increasingly dependent on continued imports through the approaching winter.

To put the supply challenge into perspective, European gas inventories currently stand at around 845 TWh, approximately 100 TWh below the level recorded at this time last year. That shortfall alone is equivalent to the energy carried by more than 80 large LNG carriers, highlighting the scale of additional imports required to rebuild the buffer ahead of winter. Relative to the five-year average, the shortfall increases to almost 140 LNG carriers.

In contrast, US natural gas has fallen sharply, heading into the weekend around USD 2.70 per MMBtu, amid mild weather demand and strong production, highlighting the distinctly different regional supply balances.

The broader concern is that another sustained rise in energy prices could reinforce inflation pressures just as economic activity shows signs of slowing. Such a development would complicate the outlook for monetary policy and increase the risk of stagflation, with energy remaining supported even as other commodities struggle.

Precious metals: Technical selling overwhelms traditional support

Gold's decline has been particularly notable because it has occurred alongside a powerful rally in US Treasuries. Normally, falling bond yields and increased demand for safe havens would provide support, but this week momentum-driven selling and long liquidation have overwhelmed those influences.

Spot gold briefly dipped below USD 4,000 during Friday's Asian session after Thursday's break below support around USD 4,060 accelerated technical selling. The metal is heading for its steepest weekly decline in several months and potentially its weakest weekly close since November, despite continued geopolitical uncertainty and growing concerns about the stability of the equity market rally.

Silver has suffered an even sharper setback, falling towards an 11-month low near USD 54. The gold-silver ratio has climbed above 74, also an 11-month high, reflecting silver's relative weakness amid broader risk reduction and concerns about industrial demand.

The latest price action suggests that short-term speculative selling is currently outweighing demand from longer-term investors, who have continued to accumulate gold through ETFs almost uninterrupted since July, seeking protection against fiscal instability, currency debasement and geopolitical risks.

Importantly, the correction does not necessarily invalidate gold's longer-term investment case. However, it demonstrates that even assets supported by structural demand can suffer substantial setbacks when speculative positions are reduced.

Attention now turns to whether gold can stabilise, with focus on an ascending trendline connecting the October 2025 and July 2026 lows, currently providing support near USD 3,985. Meanwhile, the broken USD 4,060 level may offer initial resistance ahead of key resistance around USD 4,230. A sustained recovery will likely require stabilising energy prices, continued demand from central banks and ETF investors, and, not least, evidence that the recent wave of long liquidation has run its course.

Copper: Extraordinary US stockpiles put tariffs firmly in focus

Copper remains under pressure, with HG futures lower on the week after breaking below support around USD 6.52. Although concerns about the sustainability of AI-related investment have contributed to weaker sentiment, there is currently limited evidence of a material deterioration in the longer-term demand outlook from electrification, power grids and data centres.

A more immediate concern is the extraordinary geographical imbalance in copper inventories and uncertainty surrounding future US trade policy.

Inventories monitored by the three major futures exchanges have risen for a fourth consecutive week to approximately 1.05 million tonnes. A 19.6 kt decline in Shanghai, taking stocks near a two-and-a-half-year low, was more than offset by increases of 6.8 kt on COMEX and 47.5 kt at the LME, with most of the latter entering US warehouses.

Combined COMEX and US-based LME stocks have now reached 893 kt, representing approximately 85% of the global exchange-monitored total. This remarkable concentration reflects months of tariff-driven stockpiling, leaving inventories outside the US relatively tight despite the overall increase. Against this backdrop, traders will increasingly focus on Washington's pending decision on whether to impose tariffs on refined copper imports, potentially from January 2027.

A decision against tariffs could trigger an unwinding of the stockpiling trade if changes in regional spreads provide sufficient incentive to release US-held metal back into international markets. Such a development could weigh on prices, although the timing and scale of physical outflows would depend on regional price incentives, freight costs and warehouse logistics. Conversely, the introduction of tariffs could reinforce regional price distortions and encourage metal to remain within US borders, thereby keeping stockpiles tight elsewhere.

Iron ore: China's structural weakness becomes increasingly visible

While copper's immediate challenges centre on trade policy and inventory distortions, iron ore faces a more fundamental problem: weak Chinese demand combined with abundant global supply. Singapore-traded iron ore futures briefly slipped below USD 90 per tonne this week, reaching a two-year low and extending their year-to-date decline to approximately 15%.

China's prolonged property downturn continues to undermine steel consumption, while subdued construction activity is keeping steel mills under pressure. At the same time, ample seaborne supplies and the prospect of additional production are limiting the potential for a sustained recovery.

The contrast with copper is important. Copper's long-term demand outlook remains supported by electrification and infrastructure investment, while iron ore remains heavily dependent on China's traditional construction and property sectors. Without a meaningful improvement in Chinese steel demand or stronger production discipline, iron ore may struggle to recover.

Agriculture: Crowded positions meet less supportive fundamentals

Grains and soft commodities provide further evidence of positioning-driven volatility. Wheat has fallen close to 5% this week on the prospect of de-escalation in the Russia-Ukraine war, while corn and sugar have also suffered substantial losses. The grain correction follows several weeks of speculative long liquidation, initially triggered by increasingly bearish supply estimates, including the latest USDA report pointing to higher US corn production and inventories.

Managed money had accumulated more than one million net long grain contracts last month, leaving the sector particularly exposed when bullish expectations began to fade.

Sugar has experienced a similar positioning challenge, with speculative net longs recently reaching a five-year high. Such elevated exposure can amplify downside movements when prices fail to respond to supportive narratives.

Looking ahead, weather developments, including the potential impact of a Super El Niño on global agricultural production, remain important. However, near-term price behaviour may continue to be dominated by the reduction of speculative exposure before fundamentals regain control.

Outlook: When does liquidation give way to fundamentals?

The coming weeks will test whether the recent correction primarily reflects the removal of excessive speculative positioning or the beginning of a more sustained deterioration in global demand.

The distinction matters. A positioning-driven selloff can create opportunities once liquidation subsides, particularly in markets where underlying supply remains constrained. A fundamentally driven downturn, by contrast, would require a more cautious assessment of demand prospects.

For now, energy remains supported by immediate supply risks, precious metals are searching for stability following technical breakdowns, and industrial commodities face sharply different challenges. Copper's outlook hinges increasingly on US tariff policy and inventory flows, while iron ore continues to reflect China's structural slowdown.

The central message is that the unwinding of crowded trades has weakened commodity prices across several sectors, but it has not removed the underlying supply risks. Whether those risks reassert themselves will depend on how quickly speculative selling subsides and whether global growth concerns deepen.

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