From barrels to bushels and bullion as scarcity broadens the commodity rally

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Key Points:

Commodity markets are heading towards the end of August with another strong monthly gain, but beneath the headline performance there has been a notable rotation in leadership. The Bloomberg Commodity Total Return Index (BCOM TR), which tracks a basket of 24 major commodity futures spread almost evenly between energy, metals, and agriculture, remains on course for its highest monthly close on record, lifting its year-to-date return to around 31%, despite some late-month weakness across energy and industrial metals.

The standout development has instead been the powerful rebound across precious metals and agriculture. Precious metals have gained around 15% this month, while grains and soft commodities are both heading for double-digit advances. Grains are on course for their strongest month since February 2022, while softs are heading for their best monthly performance in 12 years. Despite some weakness across US-focused livestock contracts after Trump temporarily lifted tariffs on some foreign imports, the BCOM Agriculture Index is heading for its best month in more than five years.

The common thread linking these otherwise very different markets is scarcity. In precious metals, concerns about fiscal sustainability, currency debasement and the ability of bond markets to absorb rising government debt have renewed demand for hard assets. Across agriculture, war, weather and logistics have raised concerns about future supply. Energy, meanwhile, has lost some momentum as the market cautiously prices an ongoing improvement in flows through the Strait of Hormuz.

Bullion returns to the front

Precious metals have been the strongest commodity sector in August, rising around 15%, led by silver, gold and platinum. Gold briefly reached a three-month high near USD 4,700 this week before consolidating ahead of Fed Chair Kevin Warsh's Jackson Hole speech.

The latest rally has several layers. The first is renewed concern about US fiscal sustainability and the dollar following the Treasury's decision to expand buybacks of longer-dated government bonds. While the programme itself remains relatively modest compared with the size of the Treasury market, the signal was arguably more important than the amount involved. It highlighted the authorities' sensitivity to elevated long-term borrowing costs at a time when government debt continues to rise.

That has helped revive the debasement theme that has supported gold during much of the past two years. Importantly, gold has performed strongly despite elevated bond yields and inflation remaining well above the Federal Reserve's target. Besides an underlying and increasingly constant bid from central banks, this suggests investors are increasingly distinguishing between high yields driven by monetary tightening and high yields reflecting concerns about fiscal sustainability and government borrowing requirements.

Investor participation has also strengthened through ETF demand and futures positioning, while the technical picture improved when gold earlier in the month reclaimed its 200-day moving average. Silver has subsequently outperformed gold, while platinum has also participated, reinforcing the impression of renewed investor interest across the precious-metals complex.

Agriculture takes centre stage

Grains are heading for a monthly gain of around 13%, their strongest performance since February 2022, while soft commodities have risen even more strongly. The current gain of around 14% puts the sector on track for its best month in 12 years. The breadth of the rally is worth noting, with corn, wheat, sugar, cocoa and cotton all recording double-digit gains.

The grain rally has increasingly been driven by a combination of war, weather and logistics. Wheat prices have soared to a three-year high as Black Sea disruption has become more serious, with Russia's grain exports slowing sharply, with August grain exports expected to total only slightly above 2 million tonnes, compared with a five-year average of around 5.7 million tonnes. Meanwhile, Ukraine's Black Sea ports which previously handled 90% of the country's exports, remain effectively blocked after Russian attacks while alternative corridors like the Danube is suffering from congestion.

The disruption is also reducing farmers' cash flow and raising concerns about planting and input use for next year's harvest. Russia and Ukraine account for roughly 25% to 30% of global wheat exports, so prolonged disruption could force major importers to source more expensive supplies elsewhere. Chicago wheat prices have risen sharply since early July as buyers increasingly price this risk.

For corn, the Black Sea story has been accompanied by a deterioration in the US production outlook. The USDA recently lowered its yield estimate for this season, while subsequent crop surveys have reinforced concerns that yields may fall short of earlier expectations. Weather concerns elsewhere, including China and Brazil, have added another layer of uncertainty.

El Niño puts soft commodities back in focus

Weather has been equally important across soft commodities, where sugar has been the standout performer, gaining close to 25% this month. A strengthening El Niño threatens to create different problems across major producing regions. Excessive rainfall can disrupt harvesting and exports in Brazilian, while weaker rainfall elsewhere can hurt crop development. India has already faced concerns about monsoon conditions and domestic sugar availability, while increasingly volatile weather is raising uncertainty across several tropical crops.

Sugar's rally has also been amplified by positioning. Earlier this month, speculative funds moved from a sizeable net short to a net long for the first time in more than a year, highlighting how rapidly a fundamentally driven move can accelerate when short covering and momentum buying are added to the mix.

Cocoa has also rallied by double digits as attention shifts towards the next West African crop. Concerns about delayed harvesting in Ivory Coast and a weaker production outlook in Ghana have reinforced the market's sensitivity to weather after several years of exceptionally volatile supply conditions.

This does not mean every weather concern will translate into an actual shortage. Agricultural markets have a long history of pricing the weather forecast before ultimately trading the harvest. But with inventories relatively tight across several markets, geopolitical disruptions complicating trade flows and weather patterns becoming increasingly volatile, the tolerance for disappointing crops has fallen. Markets that only a few months ago were comfortable pricing abundant supplies are increasingly being forced to attach a higher risk premium to future availability, particularly as disruptions to planting, harvesting and export logistics can amplify the impact of an initially modest production setback.

Copper remains supported

Industrial metals have lagged the broader commodity rally during August, but zinc and copper remain important exceptions. LME copper is heading for a ninth consecutive weekly gain and continues to trade within a well-defined uptrend close to record levels, while zinc surged to a four-year high amid signs of ore shortages before slipping back, but remains on track for a 7% gain. Both markets are displaying signs of near-term supply tension after a turbulent few weeks in which dwindling inventories in London Metal Exchange warehouses drove the cost of metal for immediate delivery well above prices for future delivery.

With regard to copper, one unusual feature of the current market is the geographical distortion in inventories. Huge volumes of refined copper have accumulated in the US ahead of the possibility of future import tariffs, effectively pulling metal away from other markets. COMEX inventories have risen to record levels while available stocks elsewhere have tightened.

Crude softens as more barrels move through the Strait of Hormuz

Oil prices have fallen sharply this week as the market increasingly senses that both Washington and Tehran are looking for an exit ramp from a conflict that has imposed a heavy economic cost on both sides. Energy has therefore moved in the opposite direction during the latter part of August. Brent crude has fallen back below USD 90 per barrel and is heading for its first weekly decline in three weeks as traders cautiously price an improvement in Gulf exports and the possibility of an eventual reopening of the Strait of Hormuz.

Ship-tracking data supports that view, pointing to increased activity through the Strait of Hormuz and helping to underpin expectations of a gradual improvement in supply. Persian Gulf producers are increasing exports, with Goldman Sachs estimating that flows have recovered to around two-thirds of pre-war levels. Crude transits through the Strait are now estimated at 6–8 million barrels per day.

The improvement is nevertheless uneven. While the outlook for crude supply has become less constrained, refined-product markets remain extremely tight. Refinery capacity within the Gulf is still impaired, while a temporary ban on Russian exports has removed additional supplies from international markets. As a result, the market is experiencing a growing divergence between improving crude availability and continued shortages of gasoline and distillates.

The latest weekly update from the US EIA showed that refinery utilisation had risen to its highest seasonal level since 1998. Record refining margins have incentivised refiners to maximise production, while export demand has remained strong because of the Russian export ban and stranded capacity in the Persian Gulf. Even with refiners operating at such high rates, gasoline inventories fell to their lowest seasonal level since 2012, at 209.4 million barrels. Distillate inventories also plunged to a record low of 105.6 million barrels.

This helps explain why energy can underperform even while geopolitical risks remain unusually elevated. Crude prices are trading the direction of change in supply disruption rather than its absolute level, while tight refined-product inventories continue to signal that the physical market remains vulnerable to further shocks.

Commodities as a portfolio allocation

The increasingly broad nature of this year's rally also highlights why commodities can play a role beyond short-term tactical trading. A broad allocation to commodities can provide an additional source of long-term returns and potentially help protect portfolios during periods when rising inflation expectations challenge both equities and bonds. The drivers are also becoming increasingly diverse.

Oil demand remains strong, with continued growth expected over the coming years, particularly across emerging economies. Industrial metals, in particular copper, should benefit from structural demand linked to electrification, the energy transition and the ongoing global buildout of AI-related infrastructure. Meanwhile, increasingly volatile weather, including the developing El Niño pattern, could restrict agricultural supply and keep food commodity markets sensitive to production setbacks.

None of these themes provides a straight line to higher prices. A diplomatic breakthrough in the Middle East could remove additional risk premium from energy, improved weather could quickly pressure agricultural markets, while slower global growth would challenge industrial-metal demand. Precious metals could also face renewed profit-taking should real yields and the dollar strengthen further.

For now, however, the message from August is clear. The commodity rally is no longer being carried primarily by barrels. Bullion and bushels have joined the advance, and with war, weather, trade policy and fiscal concerns affecting different parts of the complex, scarcity in its various forms remains the dominant theme.

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