Energy scarcity powers commodities index towards a record high

Saxo Bank · 2026-09-04 · English original

Key Points:

• Energy drives the commodity rally: Crude and refined products lead weekly gains as the US-Iran conflict and tight physical supply keep risk premiums elevated.

• Refined fuels highlight the severity of the squeeze: European gasoil has surged 123% this year, with the total return reaching 185% as tight supply adds a substantial positive roll contribution.

• Precious metals rebound as rate fears ease: Waller's comments triggered lower yields and a weaker dollar, while strong gold ETF and central-bank demand continue to provide underlying support.

• Agriculture cools after a powerful rally: Crowded positioning magnified profit-taking, although Black Sea disruption and weather risks remain unresolved.

The commodity sector is heading towards another record weekly closing high, supported by continued strength across energy markets as geopolitical tensions, supply constraints, and tight physical markets continue to outweigh concerns about higher interest rates and a stronger dollar. In addition, recent rate-hike worries have faded, while the dollar has turned lower, primarily driven by renewed Japanese yen strength.

The Bloomberg Commodity Total Return Index is heading for a weekly gain of around 2%, lifting its year-to-date advance above 34%. Energy has done most of the heavy lifting, gaining around 6%, while industrial metals have recorded a modest advance. Precious metals are close to unchanged following a late-week rebound, while agriculture has retreated following four consecutive weeks of gains that last month saw the sector deliver the strongest monthly return in 12 years.

The contrasting performances underline a key theme across commodities this year: markets facing the greatest physical supply constraints continue to attract the strongest support, while sectors where speculative positioning has become stretched remain vulnerable to sharp corrections when the news flow changes.

Energy tightness keeps crude and products in the lead

Crude oil trades steady following a three-session rally that has propelled energy to the top of this week's performance table. Brent is up around 8%, followed by WTI and diesel at around 7%, as renewed fighting between the US and Iran keeps the geopolitical risk premium elevated.

Brent reached a six-week high above USD 95 per barrel after renewed US strikes on Iran increased concerns about further disruptions to Middle Eastern supply. While oil continues to flow through the Strait of Hormuz, volumes remain constrained and the threat of renewed disruption continues to hang over a waterway that normally handles around one-fifth of global petroleum liquids consumption.

The scale of this year's energy rally becomes even more striking when looking beyond outright prices.

Brent has risen almost 56% this year, but tight supply and the resulting positive roll yield have lifted the return for a long-only investor to around 93%.

Refined products have delivered even more spectacular returns. European gasoil futures, the main European benchmark for diesel and other middle distillates, have risen 123% in price terms and around 185% on a total-return basis. The combination of Middle Eastern disruption, the Russia-Ukraine war and limited refining flexibility has created an acute shortage of products at a time when crude supply itself remains constrained.

The strength of refined products also highlights an increasingly important distinction: having sufficient crude oil globally does not necessarily mean having the right fuels available in the right locations. Refinery capacity, product inventories and trade flows have therefore become increasingly important price drivers.

OPEC+ ministers meet on Sunday, with Reuters reporting that the group is expected to leave its October production policy unchanged after completing the unwinding of one layer of earlier production cuts. With geopolitical disruptions preventing several producers from fully translating higher quotas into additional exports, the group's ability to influence near-term prices has arguably diminished.

Gold rebounds as rate-hike fears ease

Precious metals endured another volatile week, with gold staging a powerful rebound after an earlier correction driven primarily by long liquidation, rising bond yields and renewed expectations of another US rate hike.

Gold jumped as much as 2.9% on Thursday to above USD 4,500 an ounce, its biggest intraday gain since 19 August, after Federal Reserve Governor Christopher Waller said he would favour leaving rates unchanged this month if incoming data confirms that inflation pressures are cooling. His comments reduced the probability of a September hike from around 65% to roughly 50%, triggering lower Treasury yields, a weaker dollar and renewed demand for bullion.

The speed of the recovery supports the view that the recent correction was primarily about reducing stretched positioning rather than investors fundamentally abandoning gold. Open interest in COMEX futures declined during the sell-off, while investment demand outside futures remains firm.

Notably, the largest bullion-backed exchange-traded fund attracted USD 1.41 billion in a single session, its biggest inflow since January, helping lift total global ETF holdings to around 3,095 tonnes, a six-month high. Central-bank purchases meanwhile continue to provide an important structural source of demand.

Attention now turns to next week's US August CPI report, which could have an outsized impact on both rate expectations and gold. Waller explicitly linked his September view to the incoming inflation data, making the release an important test for markets after several weeks of rising yields.

From a technical perspective, gold's rebound has brought the 200-day moving average, currently around USD 4,534, back into focus. A sustained break above this level would strengthen the recovery signal and potentially encourage fresh momentum buying.

Industrial metals remain resilient

Industrial metals have meanwhile continued to show surprising resilience despite higher global borrowing costs and periods of renewed dollar strength.

Supply constraints remain the dominant supportive force, particularly across copper and zinc, where tight availability and disruptions have offset concerns about demand and higher funding costs. Zinc recently reached a four-year high, while copper continues to trade close to historically elevated levels.

The broader message is that industrial metals are increasingly behaving as supply-constrained physical commodities rather than simply proxies for Chinese economic growth. Electrification, grid investment and the rapid expansion of power-intensive infrastructure continue to support the longer-term demand outlook, while supply has struggled to respond quickly enough.

Agriculture takes a breather

Agriculture has moved in the opposite direction this week following four consecutive weeks of strong gains. The recent rally had driven speculative positioning sharply higher, leaving several markets vulnerable to profit-taking when supportive headlines began to fade.

Wheat provides the clearest example. Prices retreated after Russian President Vladimir Putin raised the possibility of progress towards a peace agreement with Ukraine, prompting traders to remove some of the geopolitical premium built up during the recent surge. Yet the physical disruption has not disappeared. Asian importers have recently purchased at least 500,000 tonnes of Australian and Argentine wheat to replace delayed Black Sea cargoes, reportedly paying sizeable premiums to secure alternative supply.

Elsewhere, cocoa and coffee have also come under pressure as improving near-term supply expectations encouraged profit-taking, while cotton has weakened amid subdued demand. Sugar has been relatively resilient, supported by expectations that the global balance could tighten again during the coming season.

After the scale of the recent agriculture rally, some consolidation was probably inevitable. The underlying risks from Black Sea disruption, extreme weather and El Niño have not disappeared, but the rapid build-up of speculative longs means markets have become more sensitive to even modest changes in the fundamental outlook.

Scarcity remains the common thread

Overall, commodities remain supported by supply constraints that are particularly visible across energy and parts of the industrial metals sector. The BCOM Total Return Index heading towards a record weekly closing high despite corrections across agriculture and precious metals illustrates just how powerful these forces have become.

At the same time, this week's sharp reversals in gold and agriculture provide a reminder that positioning matters. Markets can remain fundamentally tight while still experiencing sizeable corrections when speculative exposure becomes crowded.

For now, energy remains firmly in the driving seat, with the combination of geopolitical risk, constrained supply and exceptionally strong refined-product markets providing the main engine behind the commodity sector's push into record territory.

The chart below shows the performance of the BCOM Total Return Index, in this case tracked by the

USD 4.6 billion Invesco Bloomberg Commodity UCITS ETF, one of several ETFs tracking the BCOMTR Index.

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