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Geopolitics inject renewed volatility into commodities

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Geopolitical pressure has been exerting its own pull on broader commodity markets, adding to price volatility and dislocations. While the tail risk of a geopolitics-driven hit on global growth cannot be ruled out, we think most scenarios will support prices for the asset class. We retain our constructive view on gold, oil, and base metals—all of which we think will be supported beyond this current bout of geopolitical pressure

Middle East flare-up helps gold withstand surge in Treasury yields

Safe-haven buying amid flaring geopolitical tensions has added to upward momentum for gold, which has gained 15% this year and hit an all-time high despite a strong dollar, higher Treasury yields, and more modest Federal Reserve rate-cut expectations.

Central banks and Asian investors have been prominent buyers—encouraged in part by the sanctioning of USD-based assets, Chinese yuan devaluation fears, and renewed inflation risks. We expect these buyers, who are less price-sensitive, to continue accumulating gold in the months ahead. ETF investors have been fairly absent in this rally, with ETF holdings at a four-year low. We expect this to reverse trend once the Federal Reserve starts cutting rates later this year, since ETF buyers tend to move more in sync with interest rate adjustments.

We forecast gold trading near USD 2,500/oz at end-2024. With volatility picking up, some investors may also consider structured strategies to purchase gold at levels below our forecast trajectory six months out. Gold mining equities are another way to express this view, though they are more tactical in nature and do not function as a portfolio hedge.

Investors may also consider some exposure to silver, which has not rallied to the same extent as gold, in anticipation of rising manufacturing activity.

Israel-Iran risks keep oil prices near five-month highs.
Brent crude rose to USD 92.18/bbl on 12 April in anticipation of Iran's response to an Israeli strike on an embassy compound in Syria's capital. However, Iran's subsequent drone and missile strike on Israel, the first ever direct exchange, was largely blocked and has yet to draw an Israeli response. Involved parties currently seem to be working to contain tensions and avoid a direct major confrontation, so we maintain our base case of cooler heads prevailing. But attacks and fighting between Israel and Iranian proxies will likely continue in the coming months.

Hydrocarbons, including crude, remain the key transmission channel for the Israel-Iran conflict into global markets. There are risks of disruption of oil flows through the Strait of Hormuz or attacks on oil facilities in the region. Energy prices would likely spike in the downside risk case, and—depending on the duration and the magnitude of supply disruptions—oil prices could stay high for some time. That would in turn pose risks to global growth while keeping inflation level elevated—a negative mix for financial markets.

Still-constrained supply and our forecasts for higher demand growth in both 2024 (1.5mbpd) and in 2025 (1.3mbpd) should keep oil markets undersupplied. We retain our constructive view on oil, and suggest investors consider long positions on Brent crude oil as a way to hedge against further escalation. Regardless of the geopolitical premium, we think Brent is likely to trade in the upper half of our USD 85–95/bbl trading range forecast. We continue to advise investors with a high risk-tolerance to sell Brent's downside price risks or to add exposure to longer-dated Brent oil contracts.

Base metal prices rise after US-led sanctions target Russia-produced supply.
Officials in the US and the UK have banned key metals exchanges including the LME and the CME from adding new Russia-produced metals into their trading systems. The new measures, which exempt Russia production from before 13 April, do not disallow bilateral trade between individual companies off exchange. The news sent aluminum and nickel prices to a 22-month and seven-month high, respectively, reflecting Russia's central role as a producer.

Beyond this latest geopolitical flare-up, industrial metal prices have been on the rise since mid-February amid tightening supply conditions. We would be careful not overstate this as a driver, but we do think the fundamental picture still calls for higher metal prices ahead. Constrained mine output should limit refined copper supply in particular, and we also see near-deficit conditions for in aluminum and zinc.

On the demand side, we anticipate a lift in manufacturing activity during 2H that should drive increased base metal use. While the US timeline for rate cuts may be pushed back slightly, a step-down in global policy rates has already begun, and this should facilitate a manufacturing boost into year-end and 2025. The return outlook for the base metal sector remains compelling, in our view, with room for high-single-digit spot gains and mid-teens volatility.

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