For UBS marketing purposes

CIO holds a most preferred view on commodities, crude oil and gold. (ddp)

Playing the long game in commodities

27 April 2023, 1:26 pm CEST, written by UBS Editorial Team

CIO continues to believe the structural bull case for commodities is intact, so they recommend investors play the long game.

Our stance is backed by China's recovery, an expected inflection point in the Fed's rate-hiking cycle and the associated weaker US dollar, several unresolved supply-side issues due to lacking investment or geopolitics, persistently low inventories in key consuming countries, and ongoing weather risks. These catalysts for higher prices will endure amid elevated volatility in other risk assets, in our view. So, we maintain our total return outlook of around 20% over the next 12 months for the whole asset class. Sector-wise, we expect energy, industrials, and precious metals to make the greatest contributions to our broad index target, which is reflected in our active commodity strategy. Risks to our view include a deeper recession in the US, a loss of momentum in key parts of China's recovery like property, and a swift end to the war in Ukraine.

The surprise "voluntary" production cut by nine oil producers is set to tighten the oil market further from May onwards. Together with rising Chinese crude imports, we continue to expect higher oil prices ahead.

Industrial metal prices are likely to be volatile in the near term on global growth concerns. But with China activity gathering momentum, structurally low inventories, and ongoing supply challenges, we expect market balances to stay tight for most metals and favor higher prices over the coming quarters.

Recent shocks in global banking have altered the script on growth, rates, and ultimately precious metals prices. We now forecast the gold price to eventually break its previous record high and target USD 2,200/oz by the end of March 2024. Hence, with uncertain times set to continue over the year ahead, we recommend holding gold as a portfolio hedge.

The extension of the Black Sea grain deal and strong export volumes from Brazil have weighed on prices. But the production outlook in the US and Europe remains unclear, and the probability of an El Niño event by yearend has risen to 60%. Historically, this event has negatively affected yields for corn, rice, and wheat. Weaker lean hog performance has weighed on the index overall. We expect the current liquidation of animals to tighten fundamentals in the US, particularly for cattle. We expect cattle prices to rise into 2024 as weather conditions normalize and drive restocking of herds across key producing regions in the US.

Main contributors: Giovanni Staunovo, Wayne Gordon, Dominic Schnider

Content is a product of the Chief Investment Office (CIO).

See the **CIO Active Commodity Strategy**, 6 April, 2023.