



CIO sees higher commodity prices ahead, and expect total returns of around 10% for broad commodity indexes over the next six to 12 months. (UBS)

# Commodities should have room to rally on positive fundamentals

28 May 2024, 3:16 pm CEST, written by UBS Editorial Team

**Tensions flared again in the Middle East following the Israeli airstrike over the weekend that killed at least 40 in a tent camp near the Gazan city of Rafah, according to Gazan health officials. Amid condemnation from global leaders, Israeli Prime Minister Benjamin Netanyahu said the strike had not been intended to cause civilian casualties, calling it a “tragic mistake.”**

On Monday, an Egyptian guard reportedly died during a clash with Israeli troops at a Gaza border crossing. Israeli Defense Forces said discussions with Egypt were ongoing without giving more details. Meanwhile, a rocket attack by Hamas on Tel Aviv underlined the persisting threats for Israel.

We have held the view that commodities such as oil and gold remain potentially helpful geopolitical hedges. Year to date, the broad commodity UBS CMCI Composite Index has risen nearly 11%. But we retain a positive outlook for the asset class based on fundamentals as well. Likely lower US interest rates this year and a modest restocking cycle bode well for a more sustained upturn in global industrial activity.

More specifically, we like strategies that generate yield in gold and crude oil, and recommend positioning for further upside in copper.

**Oil demand remains strong, and output cuts are likely to be extended.** There has been market concern about the recent increase in oil inventories, with a milder winter in parts of the Northern Hemisphere and higher crude exports by some OPEC countries in March playing a role for the buildup. However, OPEC crude exports in the first 19 days of May stood at the lowest level since August 2023, and compliance with the OPEC+ production cut deal remains important. Russia recently announced it will compensate with deeper cuts after its modest overproduction in April, and we expect OPEC+ to extend the current cut for at least another three months at its upcoming meeting on 2 June. With real time

mobility data indicating healthy oil demand, we expect an expansion of 1.5 million barrels per day (mbpd) this year, above the long-term annual growth rate of 1.2mbpd.

**Central bank and Chinese demand should keep gold well-supported.** Following the strongest first quarter purchases from global central banks on record, we raised our demand forecast for this group of buyers this year to 950–1,000 metric tons, from 800–850 metric tons. In addition, Swiss trade data signaled strong buying continuing in China, while demand for gold as hedges should remain healthy amid geopolitical uncertainties from wars in the Middle East to US-China trade tension. The start of the Federal Reserve's easing cycle later this year should also drive more inflows into exchange traded funds. We recently raised our year-end price forecast for gold to USD 2,600/oz, and recommend buying on dips at around USD 2,300/oz or below.

**Supply challenges keep copper market tighter than expected.** While copper prices have consolidated after the COMEX contract short squeeze earlier this month, we believe physical market tightness should drive further price gains. Fundamentally, little progress has been made in resolving the metal's supply challenges, while China's renewed policy emphasis on stabilizing housing should support investor interest. Our latest supply and demand estimates point to a roughly 390,000 metric tons (mt) deficit for both this year and 2025. We now expect copper prices to reach USD 11,500/mt by year-end, and USD 12,000/mt or above by mid-2025. We recommend investors to stay long the metal and add on dips.

So, we see higher commodity prices ahead, and expect total returns of around 10% for broad commodity indexes over the next six to 12 months. While we keep our preference for oil, we also recommend a more active investment approach within the asset class, which may help sidestep some execution and passive index risk while still delivering compelling risk-adjusted returns.

Main contributors - Solita Marcelli, Mark Haefele, Daisy Tseng, Tilmann Kolb, Giovanni Staunovo, Dirk Effenberger, Christopher Swann

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