



Commodity prices are likely to remain volatile in the near term amid uncertainty over the supply outlook. (ddp)

What's next for commodities?

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Commodity prices have been volatile this year as investors weigh the disruptions from the war in Ukraine against China's lockdowns, US oil reserve releases, and recession risks.

We think a recession is unlikely in the next 12 months. We see room for another 10% move up in total returns for broad commodity indexes over the next six months, and we believe broad commodities can be an effective geopolitical hedge for portfolios. Over the longer term, tight market fundamentals and the green transition should be supportive of the asset class.

Commodity prices have been volatile due to the war in Ukraine, China lockdowns, and recession fears.

- Oil prices hit a 14-year high of USD 139/bbl when the war broke out. They have since swung between USD 96.93 and 123.74/bbl as the US released its strategic reserves, while lockdowns in China and Fed rate hikes both have stoked recession fears.
- Europe's gas prices have soared on concerns over Russian supply disruption.
- The UN FAO Food Price Index was near record highs in April, up 30% y/y.

Tapping reserves or curbing exports may ease, but not fix, structural imbalances.

- The US's decision to tap its strategic reserves will ease near-term supply pressure, but sets up restocking pressure down the line.
- Crude oil in the U.S. Strategic Petroleum Reserve (SPR) has dropped by 5 million barrels in the week to May 13 to 538 million barrels, its lowest level since 1987.
- The International Grains Council cut its 2022–23 forecasts for corn and wheat production.

Broad commodities can be an effective geopolitical hedge for portfolios.

- We see another 10% upside in total returns for broad commodity indexes over the next six months, with Brent rising to around USD 115/bbl through to March 2023.
- We prefer an active commodity strategy, longer-dated oil contracts, and selling volatility in crude oil, copper, aluminum, platinum, corn, and live cattle.

Did you know?

- Russia accounts for around 40% of the EU's gas imports and 30% of its oil imports.
- Russia also accounts for around 19% and 18% of global wheat and barley exports, respectively, while Ukraine makes up about 8%, 13%, and 46% of global wheat, corn, and sunflower oil exports.

Investment view

Commodity prices are likely to remain volatile in the near term amid uncertainty over the supply outlook. The asset class can be an effective geopolitical [hedge in portfolios](#), and we think the medium-term outlook for commodities is supported by tight market fundamentals and structural trends like the [energy transition](#).

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