Hopes for upswing continue to drive oil and industrial metal prices higher

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Hopes for an economic recovery, but also the latest inflation fears, have recently fuelled the price rally on the commodity markets, with prices for crude oil and industrial metals continuing to soar. Several metal prices recently rose to multi-year highs; the exception being gold, which is continuing its correction.

Oil prices continued to benefit in February from the prospect of rising oil demand in the event of an economic recovery. Demand, for example, should benefit significantly from normalizing global travel after lockdowns are lifted around the world. According to its last monthly report, OPEC also expects global oil demand to increase in 2021.

The continuation of the expansive monetary policy recently announced by US Federal Reserve Chairman Powell also had a positive effect: the price of North Sea Brent crude oil, which is considered an important benchmark, recently climbed above USD 67 per barrel on the futures market, reaching a 13-month high.

Cold snap in USA and Russia providing additional support for oil prices

In addition to the expectation of an improving economy, some special factors are likely to support crude oil prices, one being a strong cold wave in the US, which gave oil prices an additional boost in February. Freezing temperatures led to extensive production losses and delivery problems in the American oil industry. In Texas, the cold spell brought practically all refinery operations to a standstill, and in Russia, production recently also declined due to arctic temperatures.

The further development of oil prices will probably also depend on the production discipline of the OPEC countries. The oil cartel and its ten cooperation partners (OPEC+) last agreed in January on a largely stable production level for February and March.

Copper price continues to climb towards all-time high

Key industrial metals also continued their price rally with the prospect of an economic recovery and related increasing demand. In February, the price of copper on the futures market intermittently rose to around USD 9,500 per tonne and is thus continuing the ascent towards its all-time high of just under USD 10,200 from 2011. Since its collapse in March 2020 following the escalation of the Corona pandemic, the copper price has thus more than doubled within a year. In February alone, copper recorded the strongest monthly price increase in more than four years.

Copper prices are currently supported by excess demand. According to the latest data from the International Copper Study Group (ICSG), there was a supply deficit of around 590,000 tonnes in the first 11 months of 2020. The Corona-related closures of many copper mines have had a noticeable impact on copper production – notably in the second quarter, at 3.5 per cent reduction year-over-year. According to the ICSG, this was offset by a strong increase in copper demand from China in the previous year.

The copper price should also benefit from the expectation of an economic recovery and thus also a recovery in demand. Copper is by far one of the most important industrial metals and is used in numerous goods, from household wares to industrial plants, for pipes, tubes, precision parts and much more. Copper price is therefore considered a good early economic indicator.

Other industrial metals have also been able to make strong gains recently in the light of a potential economic upturn: nickel prices recently rose for the first time in almost seven years to over USD 20,000 per tonne, doubling over a five-year period.

According to the International Nickel Study Group (INSG), the nickel market recorded its highest supply surplus in seven years in 2020; however, the INSG expects a significant recovery in demand this year. Nickel demand has also recently been driven primarily by China's strong growth. According to INSG, 54 per cent of global nickel demand is accounted for by China alone, compared to 5.5 per cent in 2000.

Commodity prices should also benefit from the demand of financial investors who want to hedge against looming inflation with commodity investments. The background to this is the recent sharp rise in US bond yields, which had fuelled fears worldwide of rising interest rates and prices in an expected economic upswing.

Gold price suffers from rising bond yields

The gold price, on the other hand, has recently suffered from rising yields and price gains on the stock markets. Both make investing in gold – which is crisis-proof but yields no interest –less attractive by comparison. Gold price thus retraced significantly this year after its strong rise. The price of a troy ounce was at 1,747 dollars at the end of February, suffering a monthly loss of more than 6 per cent, the biggest monthly loss since 2016.

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*Performance calculated on the basis of the OeKB method. It assumes the full reinvestment of the dividend and takes into account the management fee and performance-based fees, if any. Any one-time load fee and any individual transaction fees or ongoing fees (e.g. account of depositary fees) are not accounted for by the model. Past performance is no reliable indicator for the future development of a fund.

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