GLOBAL X INSIGHTS

Monthly Commodities Tracker

Global X Research Team

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Topic: Commodities

The Global X Research Team is pleased to announce the release of its Monthly Commodities Tracker. This commentary covers key takeaways for an array of commodities, from base and precious metals to uranium, lithium, and other disruptive materials that are powering next-generation technologies. Click the banner below to access the chart packs for all the listed commodities.

Nuclear Energy and Uranium

Fresh supply-side concerns linked to Russia may support uranium prices, while data centers and artificial intelligence could further boost demand for nuclear power.

In recent weeks, the uranium market has been underpinned by fresh supply-side concerns, with Russian President Vladimir Putin expressing the possibility of limiting uranium exports to the West in a televised conference.[1] Russia has around 5% of the world's mine supply of uranium and 45% of the world's ability to enrich uranium.[2,3]

Concurrently, there were a plethora of announcements concerning the spread of nuclear energy worldwide. In Africa, Kenya plans to begin building its first nuclear power station in 2027.[4] The country is dedicated to bolstering its regulatory framework and supporting global efforts to secure radioactive and nuclear materials.[5] Moreover, South Africa's power chief recently urged the government to help make nuclear power more "fashionable, funky, youthful" to increase its use.[6]

When it comes to artificial intelligence, the corporations that provide fuel for nuclear power reactors appear ahead of the game. Nuclear power is quickly replacing fossil fuels as the preferred energy source for powering massive data centers and manufacturing facilities. Data centers and artificial intelligence are anticipated to increase electricity demand. This is one of the reasons why Japan stated that it will need to make the most of its current nuclear power reactors.[7]

Against this backdrop, the International Atomic Energy Agency's (IAEA) forecast for nuclear power has risen for the fourth-consecutive year, contributing to the global momentum for nuclear expansion. According to the new IAEA best-case scenario, nuclear energy generation might increase 2.5x by 2050.[8] The IAEA considers several aspects when making its projections, including finding ways to prolong the lifetime of current reactors, constructing new reactors of generation III/III+, and developing and deploying tiny modular reactors.[9] Nuclear power can help the global economy shift away from fossil fuels and may accelerate economic growth.

On the same path, uranium production is on the rise. The latest numbers from the U.S. Energy Information Administration (EIA) show that year-to-date output in the U.S. for 2024 is already three times more than the total for 2023.[10]

Base Metals and Copper

Copper demand could accelerate due to supply constraints, renewed stimulus in China, U.S. Federal Reserve (Fed) interest rate cuts, and the unwinding of uncertainty after the U.S. Presidential election.

After Chinese factory activity contracted for the fifth-consecutive month in September, China announced a massive stimulus package to support its economy.[11,12] The measures include monetary easing and real estate support. The unprecedented pace and intensity of Beijing's pronouncements boosted market sentiment by signaling a feeling of urgency to meet the Chinese Communist Party's objective of 5% GDP (gross domestic product) growth.[13] Beijing was the latest major metropolis to remove home buying restrictions, as the government tries to revive the property market, a pillar of metals demand.[14]

China's latest economic stimulus package has been called the country's "Draghi moment" because authorities seem determined to do whatever it takes to stabilize the economy.[15] Other major stimulus measures include cuts to the 7-day repo rate and required reserve ratio (RRR), as well as mortgage rate drops. In housing, second-home purchasers' required down payment ratios will drop from 25% to 15%.[16] Despite China's electric grid spending having wholly offset the weakness in housing this year, the support in the real estate sector could limit its drag on copper demand.

On the supply side, some risks unwound as Chile began to recover from operational and developmental setbacks that lowered output to 20-year lows.[17] However, with major smelter expansions and limited mine supply increases, the concentrate market may face a shortfall in the coming months.[18] Indeed, refined supply is limited by new copper units hitting the market from mine supply expansion and scrap. Copper treatment charges have dropped sharply, indicating mine supply constraints.[19]

In fact, the mine pipeline has been depleted over the past decade due to low investment.[20] The constraint on ore supplies has widened the gap between last year's treatment and refining charges benchmark of $80 per tonne and $0.08 per pound of contained metal and spot sale prices.[21] Participants in a straw poll of over two dozen miners, merchants, and smelters estimated that the standard would be $20–$40 a tonne and $0.02–$0.04 a pound.[22] Copper smelters have warned that they may close or go out of business if processing fees decrease too much.[23] That could further exacerbate the potential deficit in the refining market.

Gold and Silver

The U.S. Federal Reserve's first interest rate cut in September marked the start of an easing cycle, which is expected to support both precious metals.

Both gold and silver appear to be supported by dovish monetary policy from the Fed and the need for safe havens due to geopolitical threats. The Fed eased monetary policy for the first time in four years at the September 2024 Federal Open Market Committee meeting, lowering interest rates by 50 basis points.[24] The new target interest rate range is 4.75% to 5%.[25] Jerome Powell, Chairman of the Federal Reserve, has stated that barring unexpected economic developments, the Central Bank will maintain its policy of gradual monetary easing.[26]

The stimulus measures announced in China may add support to industrial silver demand. They were made rapidly and intensely, boosting market sentiment and indicating that Beijing is determined to bring GDP back on track to achieve its target of roughly 5% annual growth.[27]

Regarding the physical demand for gold, while China's imports of the precious metal fell for the third-consecutive month in August, reaching the lowest level since February 2021, demand in India, the world's second-largest consumer of gold, is expected to be robust in the coming months, due to a reduction in the import tax, as well as the joyous festival and wedding season.[28,29]

Oil and Gas

Geopolitical risks in the Middle East could lead to turbulent spikes in the oil and gas markets amid fears of production disruptions.

Oil supplies from the Persian Gulf are causing markets to be on edge because of Israel's threat to react against Iran for a large-scale missile attack on the country.[30] A disruption in Iran's approximately 3 million barrel/day supply could occur if Israel follows through on its threats of retaliation against Iran's oil facilities. OPEC estimates that Iran's crude oil production is around 3% of the world's total.[31] Additionally, the Straits of Hormuz are believed to be vulnerable to blockage by Tehran, which could affect nearly 30% of the world's oil traffic.[32] The IEA's predicted oil glut in 2025 could potentially be wiped away entirely if tensions between Iran and Israel were to escalate or if sanctions or output were to change.[33] As tensions between Israel and Iran escalate, there is a danger that energy infrastructure in the Middle East could be damaged, leading speculators to gamble that oil prices would climb further.[34]

At the same time, more production is expected to come online as OPEC+ remains committed to its original plan to progressively ramp up oil output by year's end.[35] Saudi Arabia is gearing up to increase production in an effort to reclaim market share, and it is also getting ready to forsake its unofficial $100/barrel oil price target.[36] Moreover, after a political impasse in the OPEC member country ended, Libya was able to restart oil production, bringing back hundreds of thousands of barrels per day to the global markets.[37] On the demand side, China's cooling economy has caused oil demand growth to hit a 10-year low, the worst level since the pandemic.[38] Still, the new China stimulus measures and Fed easing cycle could support oil consumption in the coming months.[39]

On the gas side, as rivalry for maritime fuel heats up between Europe and Asia, the International Energy Agency predicts that demand for natural gas will reach a record high next year.[40] In the current quarter, despite gas storage across Europe being higher than the seasonal median over the past five years, disruptions at important Israeli gas fields are sparking European fears that supplies may be tighter as the heating season begins.[41] Chevron temporarily shut down its two largest platforms, Tamar and Leviathan, as a precautionary step in response to Iran's attack on Israel.[42] Indeed, the vulnerable market in the region is reacting to the likelihood of reduced world gas supplies.[43]

Critical Minerals, Battery Tech, and Lithium

Increasing hybridization and fears over a battery metal surplus are constraining manufacturing growth. Still, an improved charging station network may boost demand for EVs.

This year should see a significant acceleration in the rollout of electric vehicle charging infrastructure. In the second half of 2024, there could be an increase of 800,000 EV charging station installations, which is approximately 30% more than in the first half of the year, according to projections by BloombergNEF.[44] Indeed, many believe that a better network of charging stations will encourage more people to buy electric vehicles.[45]

However, there has been a decrease in projected near-term lithium demand, due to increasing hybridization.[46] A remarkable renaissance has occurred in hybrids as the uptake of electric vehicles has lagged in key markets like the U.S.[47] Hybrid vehicles are able to run on a combination of gas and smaller batteries.[48] Also, in August, battery electric vehicle (BEV) registrations in the European Union (EU) fell over 40% year over year.[49] Germany and France had the greatest declines, with drops of 68% and 33%, respectively.[50]

Still, with a present surplus in the worldwide market, Chile is attempting to exploit more of the world's greatest sources of lithium by offering new territories to the private sector.[51] As prices recover from a steep decline and Chile's abundant reserves provide cheap manufacturing costs, the country is relying on investors who are looking at the big picture and believe in the strength of demand for electric vehicles.[52]

Footnotes

1. World Nuclear News. (9/12/2024). Russia to consider restricting uranium exports, Putin says.
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15. Bloomberg Surveillance. (10/8/2024).
16. Reuters. (9/25/2024). China's central bank unveils most aggressive stimulus since pandemic.
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18. Bloomberg. (10/4/2024). Copper Smelters Warn of Closures as Crunch Talks Get Underway.
19. Bloomberg data as of 10/1/2024. China Copper Concentrate TC.
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29. Bloomberg. (9/20/2024). India Gold Demand Buoyed by Import Tax Cut Before Wedding Season.
30. Bloomberg. (10/3/2024). Here's a Map of Iran's Most critical Oil and Gas Infrastructure.
31. Bloomberg. (10/2/2024). Oil Traders Have Been Complacent About Geopolitical Risks.
32. Bloomberg. (10/2/2024). Trifecta of Middle East, China and Liquidity May Keep Oil Aloft.
33. Bloomberg. (10/2/2024). Oil Traders Have Been Complacent About Geopolitical Risks.
34. Bloomberg. (10/3/2024). Oil Options Show Market Braced for More Gains on Mideast War.
35. Bloomberg. (10/2/2024). OPEC+ Makes No Changes to Plans for Reviving Oil Production.
36. Reuters. (9/26/2024). Saudi Arabia to drop $100 crude target to win back market share, FT reports.
37. BNN Bloomberg. (10/3/2024). Libya Resumes Oil Production, Ending Crippling Crisis.
38. Bloomberg. (9/12/2024). World Oil Demand Growth Is Slowest Since Pandemic as China Cools, IEA Says.
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48. Ibid.
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In the copper market, the concentrate market refers to the trade of copper ore concentrates. Refined supply relates to processed copper ready for use, while new copper units refer to newly mined copper entering the market. Copper treatment charges are fees paid by miners to smelters for processing copper concentrate into refined copper. Lower treatment charges often indicate tightening mine supply.