GLOBAL X INSIGHTS

Monthly Commodities Tracker

Global X Research Team

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Topic: Commodities

This commentary covers the key takeaways for the listed commodities. Click the name of the sector to see the respective monthly chart pack.

Nuclear Energy and Uranium

While supply threats ease, uranium demand remains strong. Uranium's long-term price is catching up to the spot level as nuclear energy opinion shifts.[1] Italy's recent efforts to revive nuclear power were emblematic of Europe's ambitions to re-establish nuclear energy as a significant energy source. Restarting and building new mines are crucial to closing the supply/demand gap and may lead to some consolidation in the market.

The catch-up between uranium's long-term price and spot price continues, with the long-term price increasing month-on-month to $80.50/pound at the end of July.[2] The spot price continued to lose ground amid the subsiding of supply-related worries.[3] In fact, Centrus Energy Corp. obtained a waiver to import Russian-enriched uranium.[4] The waiver lets Centrus import low-enriched uranium from Russia for "deliveries already committed by the company to its U.S. customers in 2024 and 2025."[5] Meanwhile, the world's largest uranium miner, Kazatomprom, announced a rise in production in the first half of 2024, which led the state-owned behemoth to continue increasing output.[6] However, in a move that might further dampen investment in uranium mining projects and contribute to global supply challenges, the world's leading uranium producer, Kazakhstan, unveiled an unexpected mineral extraction tax for uranium products, with the prospect of an additional hike in 2026.[7] The Mineral Extraction Tax (MET) on uranium is currently 6%. In 2025, the MET will be raised to 9%. In 2026, the government will implement a two-tier MET, considering uranium production and Triuranium Octoxide (U3O8) prices.[8]

In an encouraging move towards reducing carbon emissions, Italy is contemplating the revival of nuclear power.[9] The government is considering investing in small modular nuclear reactors that could be operational within a decade, with the intention of creating legislation to facilitate such investments.[10] By 2050, nuclear power is projected to contribute 11% of the nation's total electricity, a significant step towards a cleaner energy landscape.[11] Nuclear cooperation is also on the horizon, with groups in France and Italy exploring potential collaborations. Ansaldo Nucleare SpA, Electricite de France SA, Edison SpA, Ansaldo Energia SpA, and Federacciai, the Italian Federation of Steel Industries, have all signed an agreement to promote collaboration in the utilization of nuclear power.[12] Furthermore, Italy's increasing need for cooling, driven by rising temperatures, has led to a boost in its imports of atomic energy from France.[13]

Back home, Bill Gates' vow to pour billions of dollars into the sector underlined investors' increased interest in nuclear power.[14] Moreover, the United States and Singapore have inked a civil nuclear cooperation agreement to strengthen their power sector capabilities and meet "the highest" global standards. This, together with the decision of the United States and Sweden to collaborate on atomic energy, underscores the persisting global interest in nuclear power in recent weeks.[15,16]

Base Metals and Copper

Several factors, such as worsening global manufacturing data and disappointment following Chinese policy meetings, drove risk-off sentiment. Despite the recent price reversal and pessimism about demand, the copper spot price remains above the 90th percentile mine cost support, and the "fundamental deficit," which refers to the imbalance between supply and demand, appears far from being filled.[17,18]

Despite a 2Q economic slowdown in China, the Third Plenum and Politburo meetings yielded no bullish policy surprises.[19,20] However, the weaker-than-expected 2Q GDP growth has put China's full-year growth target at risk. Thus, the potential for further policy stimulus to stabilize growth in 2H remains a hopeful prospect, providing a potential upside to the current situation.

On this path, The People's Bank of China cut its one-year policy loans by the most since April 2020, just days after slashing a crucial short-term rate to bolster the faltering economy.[21] This move, which was not widely anticipated, adds an element of surprise to the current economic landscape. At the same time, changes in Chinese tax law may reduce scrap processing and thus tighten supply, as scrap can be used as an alternate feedstock instead of ore concentrate, which has been scarce this year.[22]

Fundamentally, China started showing price-responsive purchasing that could further materialize after summer. Indeed, in the month of July, Chinese copper stocks started drawing down both in bonded warehouses and in the Shanghai Future Exchange.[23] However, total visible inventories increased 8% month-on-month, strongly driven by LME builds in Asia, reinforcing signals that refined metal is flowing from China into neighboring countries.[24]

In addition to China, European and U.S. economic data appear to be stalling, with manufacturing PMIs still in the contraction area.[25] Moreover, recent data showing a slowdown in U.S. job growth triggered worries about a potential slowdown and the possibility of the

Federal Reserve lagging behind the curve.[26] U.S. elections could increase volatility and risk in the copper market too, presenting both upside and downside risks. If Donald Trump wins, a potential tariff increase that he has touted might weigh on Chinese economic growth and weaken the CNY currency, potentially reducing the Chinese purchasing power of dollar-denominated raw material metals imports.[27] However, if a Red Wave majority prioritizing other growth-friendly programs were to happen, it could support base metals in 2025.[28]

From a supply-side mining perspective, the concentrate market continues to appear tight, and further disruptions have been registered and are in sight. In particular, due to decades of underinvestment, lengthy project delays, and mining disruptions, Codelco's first-half production was 8.4% lower than its first half of the previous year.[29] Looking forward, Teck Resources cut its production guidance for the entire year by around 7%.[30] There was also a risk of disruption due to a labor dispute at Escondida, the world's biggest copper mine, but a strike there that began on August 13th was resolved on August 16th.[31]

Gold and Silver

Dovish monetary policy expectations, uncertainty about U.S. elections, geopolitical risks, and overall market volatility support safe-haven assets such as gold and silver. Despite weak consumption in China, gold reached yet another record high in July, while silver is expected to play catch-up once again.

Midway through July, gold achieved a new all-time high amidst a declining U.S. dollar and bond yields, while silver edged lower amid industrial slowdown concerns.[33] With gold outpacing silver last month, the gold-to-silver ratio has recovered to levels last seen in April.[34] Looking forward, amid strong tailwinds for both precious metals, we expect silver to play catch-up with gold again, potentially supporting the ratio's convergence to its long-term mean.

In early August, implied stock volatility (VIX) experienced the third-highest increase on record, due to a combination of factors, including growing wagers on a Federal Reserve emergency rate decrease and concerns of a deeper U.S. economic slowdown.[35] After the disappointing August data prints, markets are pricing in two interest rate cuts this year with nearly 100% certainty.[36]

In the wake of recent disappointing U.S. data prints, market posture is becoming more dovish, which is typically a strong positive catalyst for precious metals. Now the focus is on wording and statistics preceding the 47th annual symposium scheduled for August 22–24 at Jackson Hole, a crucial event that could significantly impact the precious metals market.[37] However, if the Fed's wording falls short of what the market anticipates, precious metals may have downside risk, as well.

The uncertainty surrounding the U.S. Presidential election persists, yet the policies of both parties are probably precious-metals friendly. The differences in policy between the parties are less evident than they formerly were, but markets might still be uneasy about the national debt and deficit and seek refuge in safe-haven assets.[38] Worries about a potential regional war sparked by the ongoing turmoil in the Middle East could lead to the same flight to safety.[39]

Regarding gold fundamentals, China's weakness appears to be mitigated by India's stimulus. In the face of record-high gold prices, China's Central Bank didn't buy gold for a third month in July, Chinese jewelers saw sales drop almost 6% in the first half of the year, and Chinese gold imports plummeted by about two-thirds.[40,41,42] At the same time, Indian buyers may support the gold market after the latest tariff drop.[43] Indeed, India, the second-largest consumer of precious metals worldwide, lowered its import tariff on gold to encourage jewelry production.[44]

Oil and Gas

In the oil markets, supply disruptions amidst escalating tensions in the Middle East mitigate signs of slowing economic growth in China and the U.S., the world's top consumers. In the gas market, hot weather in the U.S. and renewed supply risks in Europe appear to be supporting prices.

Geopolitical risks in the Middle East, together with expectations of a potential U.S. interest rate cut, could support oil prices and limit their declines.[45] However, indicators of sluggish economic progress in the world's two largest consumers—China and the United States—weigh on the health of crude demand.[46] China’s total fuel oil imports dropped 11% in the first half of 2024.[47]

In view of this, OPEC downgraded its prediction for the world's oil consumption growth in 2024 from 2.25 million barrels per day to 2.11 million. This is the first major modification to a prediction that remains higher than the petroleum industry.[48] OPEC+ has been limiting production for almost two years to avoid a surplus threatened by rising supplies from the Americas, led by the U.S., Brazil, and Guyana; while looking forward, it may revive 543,000 barrels a day in the fourth quarter and 2.2 million by late 2025.[49]

Due to declining demand, U.S. oil refiners are reducing their run rates this quarter, which heightens worries that a global petroleum glut may be developing.[50] Market anxiety persists about the U.S. election narrative, as well. Trump strongly advocates for increased drilling in the United States.[51] On the other hand, Kamala Harris has previously expressed her approval for a ban on fracking.[52] Trump favors the sector but may increase commodity price risk. Eliminating drilling and pipeline development barriers could boost economic growth but hurt commodity prices and industry profitability. Against this backdrop, recent sessions saw a softening of the backwardation in the Brent and WTI structures.[53]

On the market for gas, prices appear to be supported by hot weather in the United States and the renewed supply issues in Europe. U.S. natural gas futures could be supported by temperatures, which were predicted to rise in the country's east and southwest.[54] At the same time, major U.S. natural gas producers anticipate cutting much more in the second half of 2024 in response to the over 40% price drop seen in previous months.[55] Concerns over gas supply via Ukraine caused European natural gas futures to spike to the highest level in eight months.[56] The continued threat of military operations in the Sudzha region, especially in light of Ukraine’s recent incursion into Russia's Kursk region, put a vital gas transit route in jeopardy.[57] Still, inventories continue to provide a cushion against disruptions: on August 10th, the European gas storage was 87% filled, compared to the seasonal average of 79% during the previous five years.[58]

Critical Minerals, Battery Tech, and Lithium

Oversupply risks influence miners' decisions, who need to readjust to remain profitable. Still, a number of factors, including accommodating government regulations, could support critical minerals and battery demand in the long run.

As a result of the current low and volatile price environment, numerous lithium producers have continued to hold down their expansion plans and work on decreasing costs. Particularly noteworthy is the fact that Albemarle, a significant producer of lithium, made the announcement towards the end of July that it intends to initiate a "comprehensive review of its cost and operating structure" with the expectation that prices will remain "lower for longer." [59] On a similar path, the mining giant BHP has temporarily halted nickel mining in Western Australia, citing worldwide oversupply and a decline in demand for electric vehicles as the reasons for the decision.[60] More broadly, the lack of significant policy revisions in China's Third Plenum conference could weigh on the majority of the transition metals.[61] As the world's largest consumer of key metals and a leader in renewable energy technologies, China's decisions can significantly impact the global market.[62]

Still, there are recent developments that reinforce the positive long-term outlook on critical minerals. The United States has initiated discussions with Indonesia, proposing a multinational partnership.[63] This collaboration aims to expedite the establishment of sustainable supply chains for essential metals, potentially paving the way for a more environmentally conscious and efficient global metals market.[64] Moreover, India has made a significant move by waiving import taxes on 25 minerals crucial for the electrification and clean energy industries.[65] This decision, which includes minerals like lithium, copper, cobalt, and rare earth elements, is expected to boost domestic processing and refining with the goal of ensuring a steady supply of these minerals within India.

Footnotes

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Glossary

Triuranium Octoxide: A compound of uranium, represented by the chemical formula U_3O_8. It is one of the most stable forms of uranium oxide and is a key material in the nuclear fuel cycle.
