

Commodity prices on the rise again

Not just gold: double-digit boom for many commodities

SANDRA RICCIO

PUBLISHED

3 August 2020

Not all that glitters is gold on financial markets. The precious metal has jumped 15% in the last three months to nearly \$2,000 an ounce. The prices of many other commodities and various foodstuffs have also started to rise again. Silver has risen 60% in the last three months, up by 30% in July alone. During the same period, platinum advanced 16% and copper 22%. Sugar is up 21% and coffee 12% on the financial markets over the last three months. This means that the world is recovering from the lows of April, when it was in lockdown. There's still room, however. Many of these resources still need to recover 80% of the ground lost since their peaks in 2008. That's not all. Commodities have a lot of room to grow because, for some years now, they have been somewhat in the shadows. Now, petrol is weakened by the dollar as well as the ultra-expansive monetary policies put in place by the central banks in the face of the crisis caused by COVID-19. Are we facing the return of commodity inflation? And what will central banks do about it?

"Inflation from commodities is caused by a combination of various dynamics among individual commodities", said **Angelo Meda**, Head of Equities at Banor SIM. "If there is no sustained post-pandemic recovery for global economies, it's difficult to predict a significant rise. However, positive and negative dynamics remain for some commodities due to financial or supply factors which can influence the equilibrium price".

The expert explained that the commodities world is very diversified. For example, it ranges from rare materials like gold, used mainly for investment, to the elements like aluminium, widely found in the earth's crust, which require large investments to be industrialised. Therefore, it's a matter of separating the products connected to demand, namely industrial raw materials, from those with prices defined by changes in supply, like oil or agricultural products, and lastly precious metals, which are more driven by financial changes.

For precious metals, and especially gold, low or negative interest rates have been an important contributor to the rise in recent months.

"The recent weakening of the dollar, driven by the agreement on European Recovery Fund and the comparatively better pandemic numbers in Europe versus the US, has further pushed up the yellow metal, with other commodities following suit, like silver and platinum, which have a more significant cyclical component due to their industrial uses but which are often compared to gold—following its trend in the medium term—making them safe havens in times of uncertainty", Meda explained.

Analysts are optimistic about the sector, and the focus is on gold more than anything else, which has risen in the last two years. "We're optimistic about commodities because prices are being adequately supported, especially because of the enormous monetary and fiscal quantitative easing put in place by governments that will continue for the next two years", stated George Cheveley, Global Gold strategy Portfolio Manager at Ninety One. "In the meantime, considering the uncertainty about the coronavirus and that investors are seeking safe havens, we believe that gold prices will be well supported and may even increase further over the next two years".

©ALL RIGHTS RESERVED