

AcF 304 Financial Markets



Commodities – OIL & GOLD

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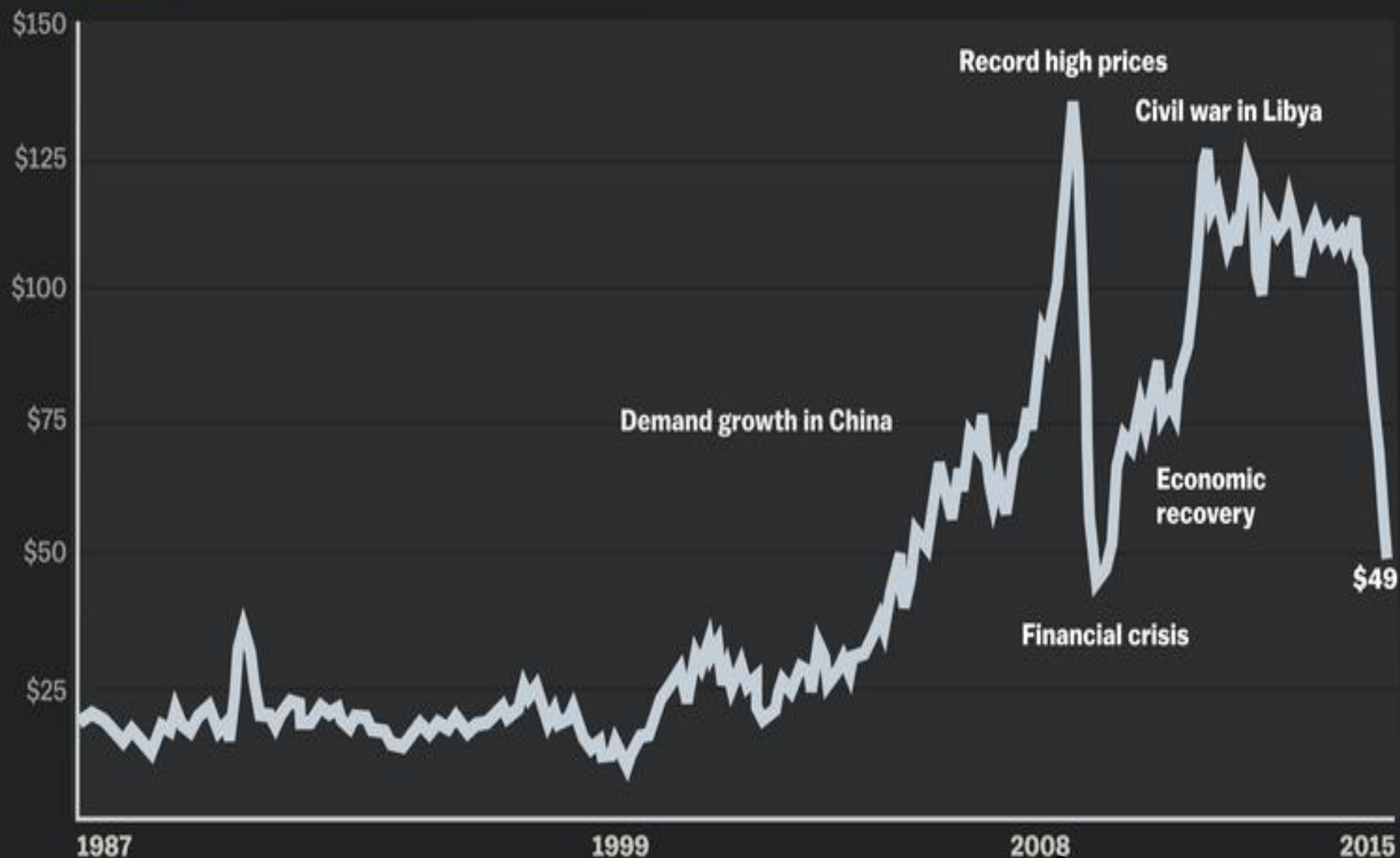
Commodities - OIL





Oil prices since 1987

BRENT CRUDE PRICE PER BARREL - EIA & NASDAQ AS OF JAN. 23, 2015



The days of \$100 oil prices are over

Demand will continue but potential world supply is likely to peg back the cost



Saudi Arabia's energy ministry has asked the state oil company Saudi Aramco to halt a planned 1mn barrels per day expansion in oil production to 13mn b/d © Bloomberg

JANUARY 30 2024

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Oil will be part of our lives for decades to come. But its value to the consumer has already topped out. Consider the long-term trend for oil prices. Futures markets hint at little concern about supply since the latest Middle East tension began in October.

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Commodities - OIL

- OPEC stands for the Organization of Petroleum Exporting Countries
- It consists of 15 countries - led by Saudi Arabia
- OPEC's mission is to control the price of oil
- Some major oil producers i.e Russia, China and the United States are not members of OPEC and pursue their own agenda
- OPEC member countries control the majority of world crude oil reserves and nearly half of natural gas reserves in the world
- The advent of new technology, especially 'fracking' in the United States, has had a major effect on worldwide oil prices and lessened OPEC's influence on the oil market *(In November 2019, the United States became a net exporter of all oil products and is the world's largest oil producer (19% of global output)).*

Commodities - OIL

- OPEC began capping supply with Russia and several other countries in 2017 - 2020 to force up the price of oil
- It has been a volatile relationship
- Brent Crude is the international benchmark for oil prices
- West Texas Intermediate (WTI) is the US pricing benchmark.

Brent inflation-adjusted crude price

\$/barrel



Source: Bloomberg

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FEB 14, 18:42

Saudi Arabia posts 2023 budget deficit after Opec output cuts

Ahmed Al Omran in Jeddah

Saudi Arabia has posted a budget deficit for last year, as its income from oil sales was hit by Opec member production cuts and lower prices.

Though the deficit, at SR81bn (\$21.6bn), was slightly narrower than original [government estimates](#), it was in stark contrast to the \$28bn surplus recorded in 2022 on the back of high crude prices.

While the country has attempted to lower its dependence on oil through an ambitious economic reform programme launched in 2016, oil accounted for 70 per cent of revenues in last three months of 2023.



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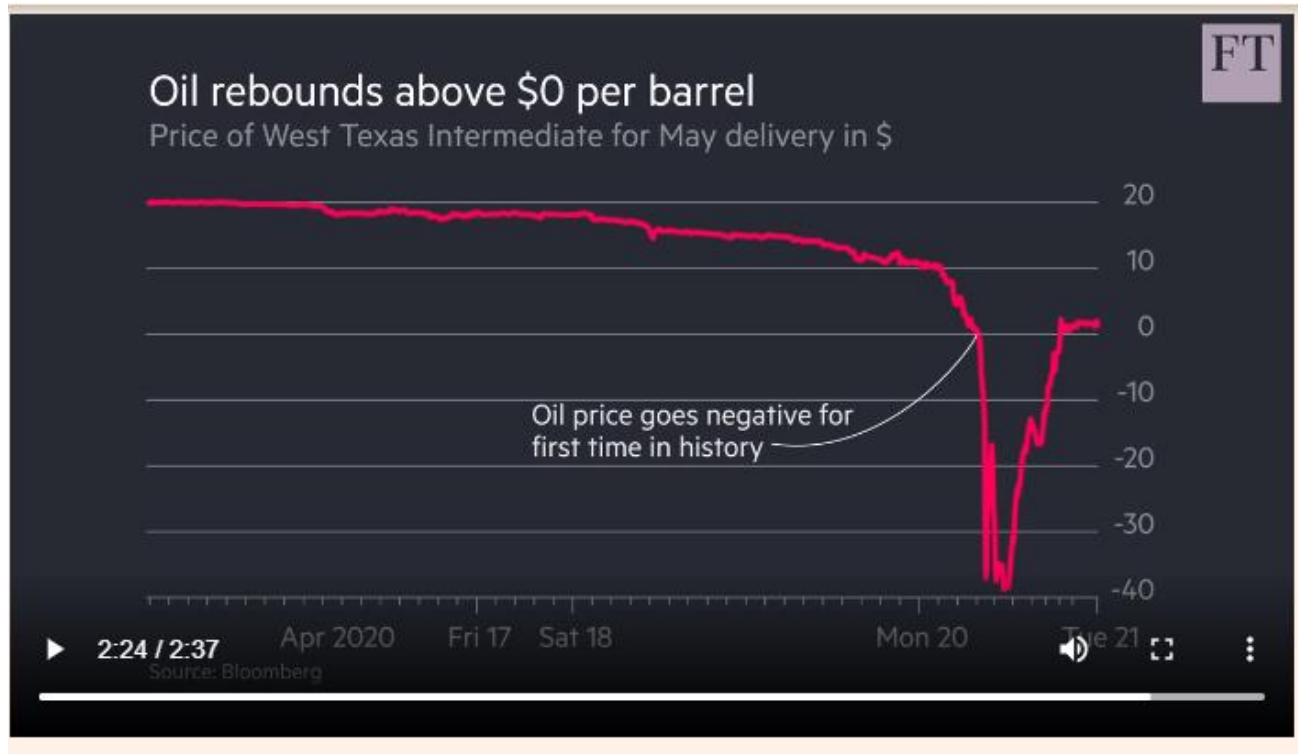
April 2020 – Covid Oil

- Global demand is down about one third
- Brent dropped below \$20 p.b.- first time in 18 years
- WTI fell with a severe drop in demand coinciding with levels of US production remaining robust despite storage tanks being just weeks away from reaching capacity!
- Futures Contracts for the US benchmark West Texas Intermediate for delivery next month (*Futures CME*) tumbled to minus \$40 per barrel -1st time in negative territory

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April 2020 – Covid Oil



- *This means producers paid you to take oil off them! First time in history!*

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Opec secures record global oil cuts deal under US pressure

Oil prices fall back on doubts over the impact of agreement



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2020 Post Covid Recovery



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2022 Russia / Ukraine Impact



Nearly 40% of Europe's gas and **25%** of its crude oil comes from Russia – a \$70 billion price tag in 2021

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Commodities – GOLD



Commodities – GOLD

- Gold is regarded as a 'safe haven' investment. It has been around for 5000 years as a medium of investment.
- Gold does not pay any interest nor have obvious capabilities for capital appreciation however, investors buy gold when financial markets are falling or if there is a strain on the financial system
- Gold is priced in 'dollars per ounce'
- At the height of the 2008 Financial Crisis, when demand for gold was strongest, the price of gold reached over \$1,900 per ounce.
- In the height of the 2020 Covid-19 financial crisis gold reached \$2,050 per ounce
- March 2022 \$2,050 reached again on Russia / Ukraine conflict

Commodities – GOLD – Last 5 years



Gold and \$ - an inverse price relationship

- Gold price has an inverse relation with the dollar i.e. when the Dollar strengthens, all other things being equal, the price of gold will fall. When the Dollar weakens, the price of gold will rise
- A bar of gold has intrinsic value it is worth a 'bar of gold'
- If the \$ strengthens by 10% then for anyone buying gold using a non-dollar currency the price of gold will cost you 10% more
- But if nothing has changed around the fundamental attractiveness/unattractiveness of holding gold it is not worth 10% more so the price of gold would fall by 10% (in theory) so that its value remains the same as before

Commodities – GOLD – Early 2020 as Covid hit



Gold not behaving as typical safe-haven asset in 2020 crisis!

Commodities – GOLD – mid 2020



Gold ‘safe haven’ fundamentals reassert themselves!

Commodities – GOLD – 2021



Gold prices down in 2021

- The world is not in a financial crisis anymore
- Higher Bond Yields reduce gold's attractiveness

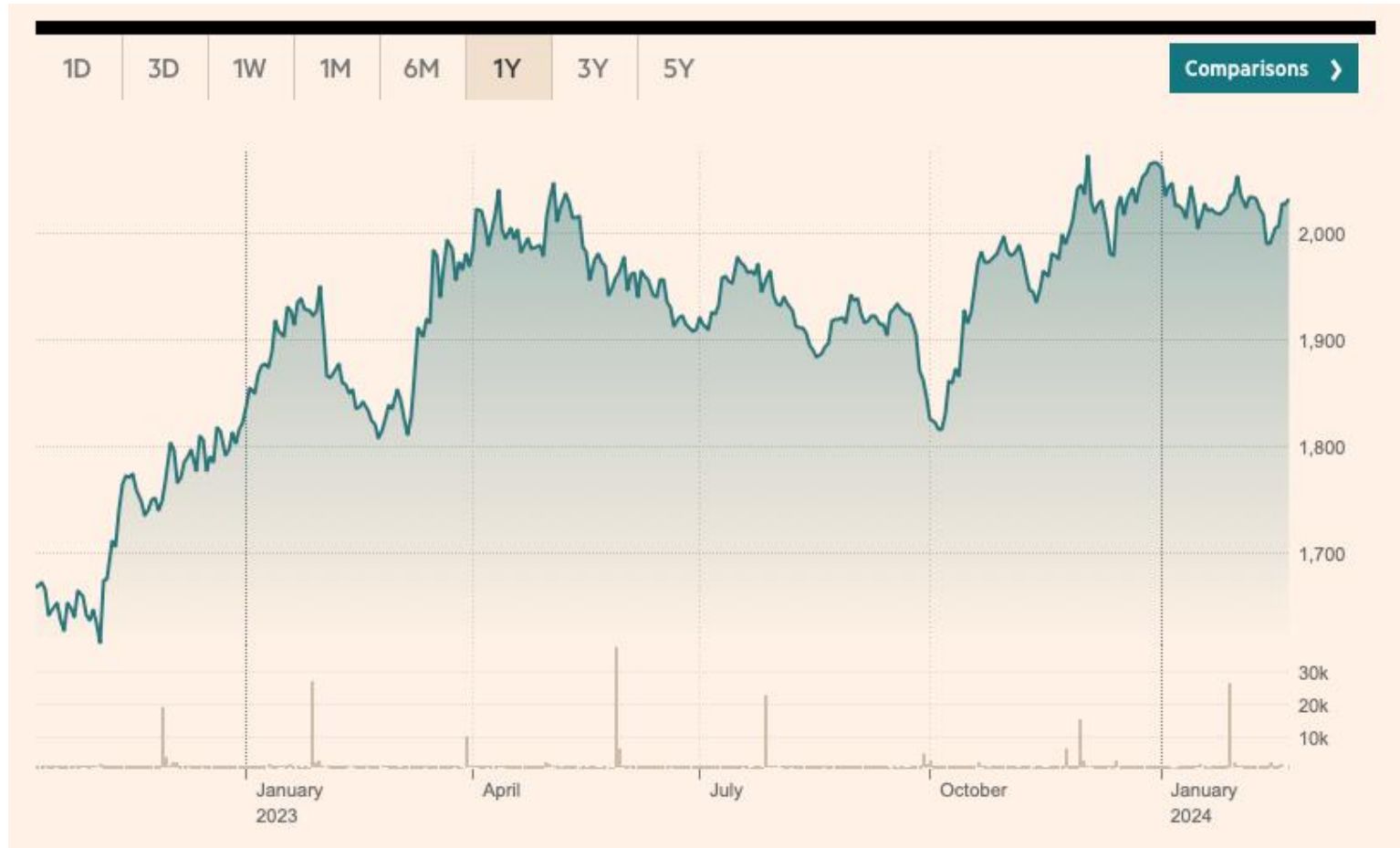
- Investors buy gold, and prices rise, when financial markets are falling or if there is a strain on the financial system such as rising inflation.
- Gold is a non-interest bearing asset. In 2022 bond yields rose sharply which reduced the relative attractiveness of gold despite rising inflation.

Commodities – GOLD – 2022



Gold prices back to all-time highs on Russia / Ukraine crisis

Commodities – GOLD – 2023 & 2024



FirstFT: Gold price hits record high

Also in today's newsletter, White House warns on aid for Ukraine, and how the ESG backlash affects fund managers like BlackRock



The gold price hit a record high of \$2,111 per troy ounce earlier today

Gordon Smith DECEMBER 4 2023

Bullion rallied as much as 2 per cent to \$2,111 per troy ounce this morning, a fresh all-time high, before slipping to \$2,064 per troy ounce, according to Refinitiv data.

The shift higher adds to a powerful rally in motion since November last year driven by rampant central bank purchasing and geopolitical tensions because of the conflicts in Ukraine and Israel and Gaza. That demand helped the metal to rise despite a rise in real interest rates over most of the past year — something which typically dulls appetite for non-yielding gold.

The recent fall in bond yields, as investors bet that interest rates have peaked and will soon start to fall, has added extra impetus to gold's ascent. Fed chair Jay Powell warned on Friday that the central bank could increase rates further but added that policy was already in “restrictive territory”.



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Gold prices have surged to an all-time high, boosted by a fall in the US dollar as traders ratchet up their bets that the Federal Reserve will cut interest rates next year.

Gold

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Chinese investors buy gold as property and stock markets fall

'Blistering' demand from central banks also helps keep yellow metal above \$2,000 per troy ounce



Chinese investment demand for gold — spanning bars, coins and exchange traded funds — grew 28% to 280 tonnes in 2023 © Jason Lee/Reuters

Harry Dempsey in London JANUARY 31 2024

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Gold rallies as geopolitical turmoil overshadows rising bond yields

Gains for precious metal break its long-term correlation with US Treasuries



Investors have ploughed into the haven asset of gold since Hamas attacked Israel, with prices hitting a five-month high © Bloomberg

Harry Dempsey in London OCTOBER 21 2023

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Gold prices have rallied sharply since the Hamas-Israel conflict broke out, further highlighting the divergence in its long-term relationship with US Treasuries as investors flee to the haven asset.

Gold sticks above \$2,000 as Chinese households snap up bullion

\$ per troy ounce



Source: Refinitiv

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Finished – Simple !

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