Economic overview

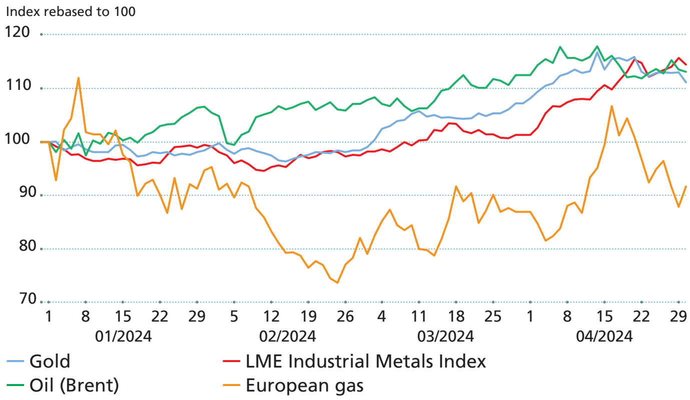
May 2024

Partial rebound in commodity prices

This year, following the rollercoaster ride of 2022 and 2023, commodities such as metals and energy have posted strong gains.

Let's first take a look at precious metals. **Gold** has taken centre stage in recent months. In one year, one ounce has risen 17.6%, and since the start of the year alone, the metal has risen 13%; this, after peaking at 17% in mid-April. Both structural and cyclical factors explain this surge. First, there is inflation; forgotten for nearly four decades, its return has rekindled the appetite for gold. Although inflation is now being brought under control, its average will undoubtedly be higher in the long term due to the demographic and energy transitions underway. Secondly, given the disruptions in the geopolitical balance, emerging central banks have increased the proportion of gold in their reserves. Although still marginal compared with the central bank holdings of the so-called 'advanced' countries, a legacy of the gold standard, the proportion is nevertheless increasing. This diversification should provide some protection to countries amid rising political tensions with the US and the surge in US public debt. In other words, central banks, like China's PBoC, are shedding US Treasury bonds and accumulating gold, without any impact on the dollar, and not necessarily in response to a reduction in real interest rates (storage costs). The proportion of gold in Chinese reserves rose from 3.4% in October 2022 to 5% at the end of this past March. The situation is similar in India. Of course, price appreciation is also reflected in the book value of the reserves held; but in the case of the PBoC, the volume also rose by 16% over the period. Recent heightened tensions in the Middle East have also rekindled appetite for this safe-haven asset.

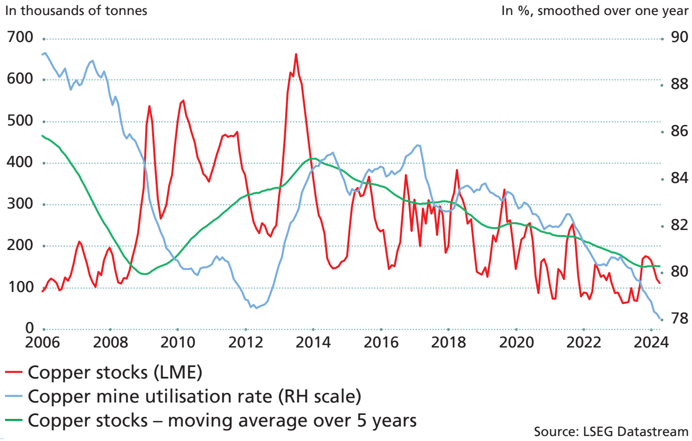
Metal and energy prices



Source: LSEG Datastream

Since the beginning of the year, **industrial metals** listed on the London Metal Exchange (LME) have increased at a similar rate to gold, but for very different reasons. First of all, supply has at times been disrupted. Take copper production, which has suffered since the end of 2023 from the closure of the Cobre Panama mine – equal to 1.5% of global production in 2022. The Canadian company *First Quantum Minerals* had been awarded a licence for the mine, but this was withdrawn and the mine closed when massive protests by the local population ensued. This episode illustrates the sector's vulnerability to political, regulatory and environmental risks. On the demand side, copper prices were buoyed by expectations of a rebound in the Chinese economy and the needs associated with the energy transition. This is because copper is critical for construction and electrification. As a result of this combination of events, production capacity utilisation rates and inventories are falling. Thus prices are rising.

Copper market



Source: LSEG Datastream

In the energy sector, the voluntary reduction in production volumes by the OPEC+ countries as well as the resilience of the economy and geopolitical tensions have led to rising **oil** prices. Although oil initially reacted only slightly to the conflict between Israel and Hamas, more recently its price shot up as a result of the attacks in the Red Sea and in particular the escalation of hostilities between Israel and Iran. And though **European gas** prices have been falling in general since the beginning of the year, they have also increased following recent events in the Middle East. Between 1 April (when Israeli strikes took place on a consulate in Syria) and 16 April (the day after the Iranian attack on Israel and calls for restraint from the international community), the price of gas soared by 23%; oil rose by 7.8% over the same period.

Following their highs in 2022 and their subsequent normalisation last year, prices for industrial and precious metals as well as for energy have been rising again since the beginning of 2024. This increase can be explained both by the risks of escalation in the Middle East and the uptake in global economic activity. Though geopolitical tensions do not appear to be having much of an impact on economic development at present, they are leading to fluctuating expectations, including with regard to monetary policy. Megatrends, such as the demographic paradigm shift and the energy transition, are having a major influence on the price trends of the forementioned commodities. These megatrends are bolstering long-term investment opportunities from which the industrial, technology and healthcare sectors in particular can benefit (in addition to extra help from government support programmes). It should be noted that the performance of precious metals and industrial mining companies has not yet benefited from the appreciation of any underlying assets. Their stock market valuations could also offer an opportunity for exposure.

Looking beyond current geopolitical issues, we continue to recommend selecting **companies that are exposed to and prepared for the demographic, energy and digital megatrends**.

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