

COMMODITIES ON THE RISE

by Tobias Stöhr, Sales Executive at Spectrum Markets



One of the reasons so many traders eye commodities are the price swings that occur in these markets on a regular basis. Indeed, a lot of traders focus solely on commodities, hoping to benefit from market-moving events that may send prices up or down. Obviously, the spread of Covid-19 was such a market-moving event – and the disease continues to keep commodity traders around the world on their toes.

When a global disaster like the coronavirus pandemic strikes, commodities are bound to be negatively impacted. From energy and industrial metals to agricultural products, the prices of more or less all basic goods registered significant losses when global markets crashed in unison in the first quarter of 2020. Lockdowns and widespread uncertainty led to shrinking demand – or an anticipation of shrinking demand – in nearly all aspects of life, with the oil price being the most prominent victim.

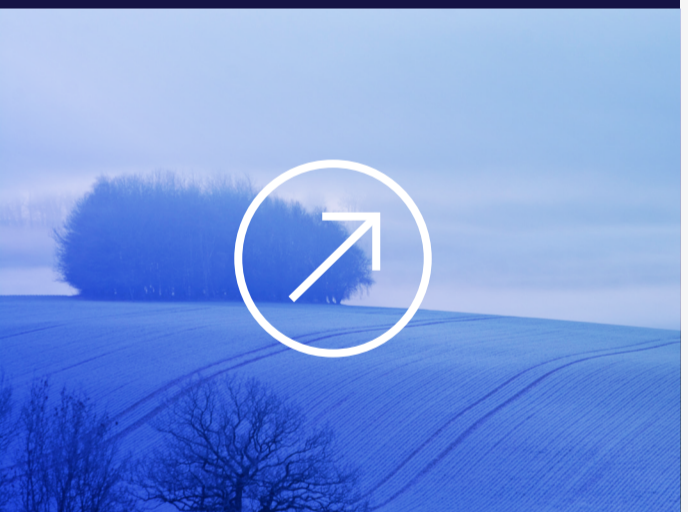
Fast forward to spring 2021: While Covid-19 is still very much defining and restricting the lives of billions of people, most commodity prices have not only recouped their losses but surpassed their pre-pandemic levels. This cannot only be explained by the cheap money that governments and central banks flooded the markets within order to support the economy; cheap money does not automatically create demand, at least not at a time when so many people still cannot travel, go shopping or participate in cultural events.

While the reasons for these commodity price increases are complex, a number of factors can be identified in relation to certain types of commodity, for example:



Base metals like copper have become more expensive as the mines experienced production shortfalls due to employees affected by Covid-19, demand from China for construction and manufacturing increased, and rising oil prices impacted production and transportation costs.

Grains like wheat registered price increases due to globally disappointing yields, low water levels in European rivers that pushed the cargo costs up, and a strong demand for wheat from China.



Energy like oil initially recovered strongly after the dramatic decline in the first quarter of 2020. However, while the “black gold’s” quick rise impacted the prices of other commodities, at the time of writing oil prices generally still just move around pre-pandemic levels.

Most experts’ outlook on the commodity markets pretty much reflects their outlook on the economy as a whole: it’s all about the vaccination programmes that have kicked off in developed countries. If Covid-19 can eventually be brought under control, a strong economic rebound is expected.

In time this could lead to a more balanced supply and demand dynamic returning to commodities markets. However, for the time being this market segment is likely to remain volatile, and there will be risks but also opportunities for those traders able to move quickly as new developments emerge.

today to discuss how we can help you to grow your retail client business.

Please don't hesitate to get in touch if you wish to receive further detail.

spectrum-markets.com

Tobias Stöhr

Sales Executive

+49 69 4272991 81

tobias.stoehr@spectrum-markets.com

Spectrum is the trading name of Spectrum MTF Operator GmbH. Headquartered in Frankfurt, Germany, we offer a new way of dealing in leveraged products for the European retail market; introducing a purpose built 24/5 lit trading venue, with complete transparency, increased choice and maximum control