Demand for global commodities may take a hit

DESPITE RED SEA CRISIS. Range of factors may result in prices easing, diluting the geopolitical impact, says BMI

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The global commodities complex looks to be under pressure to rise, particularly due to the Red Sea crisis. Still, it faces resistance due to price-related destruction on the demand side and potential headwinds to economic growth stemming from the latest geo-political crisis, say research analysts.

According to research agency BMI, a unit of Fitch Solutions, the aggregate commodity price index has lost 5.6 per cent of its value since October 7, the day when the Palestinian militant group Hamas launched its attack on Israel.

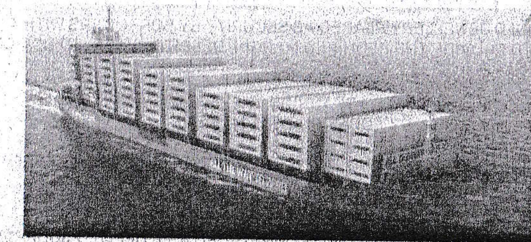
This is despite the seven-day moving average number of cargo and tanker ships transiting the Bab el-Mandeb Strait falling by 55 per cent, per PortWatch data.

BMI said a range of factors are influencing commodities prices, diluting the impact of the Red Sea disruptions. "Moreover, while the Bab el-Mandeb strait is a key chokepoint for maritime trade, few commodities originate from the region itself," it said.

ING Think, the financial and economic wing of Dutch multinational financial services firm ING, said the increased tension poses supply risks for commodity markets, with energy markets being the most vulnerable. "However, for oil and LNG, we are not seeing any fundamental impact on supply yet," it said.

BMI said the loss of access to the Red Sea, as such, does not necessarily translate into loss of supply on a global scale.

The research agency said it expects tensions in the Red Sea to remain elevated over the coming months as the war in Gaza drags on.



MIXED BAG. Metal prices are set to decline again as the slower growth in China further weighs on metal demand, while there will be no fundamental impact on energy commodities

The World Bank said in its Global Outlook that the recent conflict in West Asia the Middle East "has heightened geo-political risks and raised uncertainty in commodity markets, with potential adverse implications for global growth".

Last week, JP Morgan warned that the fight against global inflation could stall if shipping costs push up commodity prices.

BMI said the slowdown in China will weigh to the downside, particularly for industrial metals. That being said, growth prospects should improve over the second half, supporting the price performance heading into 2025.

ALUMINIUM BULLISH

For metals shipped in containers, the Red Sea conflict poses an upside risk, said ING Think. It is bullish for aluminium, particularly for premiums, rather than the LME price. "Primary aluminium premiums in Rotterdam have increased by around 10-15 per cent since the beginning of December after months of decline," said its head of commodities strategy, Warren Patterson, and commodities strategist, Ewa Manthey.

Metal prices are set to decline again as the slower growth in China further weighs on metal demand, said the World Bank global outlook.

BMI said industrial metal prices have taken a hit between January 1 and 23, with the Bloomberg Industrial Metals sub-index declining by 3.8 per cent. "The Chinese recovery in conjunction with US dollar strength has exerted downward pressure on metal prices," it said.

The research agency said "Overall, we believe 2024 will be a close tug-of-war between fundamentals and sentiment driven by macro factors throughout the year," it said. On energy commodities, ING Think said it does not see any fundamental impact on the supply of crude oil and LNG yet.

FOOD PRICES TO EASE

The World Bank global outlook said food prices are expected to soften further this year amid ample supplies for major crops, but remain elevated. ING Think said agricultural flows are less likely to be significantly disrupted by developments in the Red Sea.

BMI said between January 16 and 23, the Chicago grain markets found rare price support on increased tensions in the Red Sea.

But, it said market speculators have remained bearish, with the net short positions held by money managers in corn, soyabean, and wheat futures and options contracts all widening through 2024 to date.