

Oil, utilities, copper and lithium: The new leaders in the race for raw materials

Analysts: Dividends, economic recovery and the environment will continue to drive commodities on the stock market in the coming months



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The start of 2022 has been marked by strong growth for most commodities, with analysts predicting further gains in the coming months. Oil and precious metals have been most affected by the boost. The trend is due to several factors. The economy has reopened, triggering a spike in demand that is driving almost all commodities higher, while supply is suffering from procurement challenges due to bottlenecks and increases in sea freight and container ship costs. As a result, prices have jumped, in some cases by double figures. “As the economy bounces back after COVID, many commodities markets are struggling to cope with renewed demand”, explains Gianmarco Rania, Head of Equities at Banor Capital. “This is particularly true of oil, which has risen sharply, with further price increases expected in the months to come”. Much of the demand for crude oil has not yet recovered, explains the expert. For example, tourism and air travel, which represent 10% of oil demand, have not yet returned to normal. “It is likely that crude oil prices will reach around US \$100 a barrel in 2022”, says Gianmarco Rania. US investment giant Goldman Sachs has made similar observations recently. Its latest report revised up forecasts for Brent oil prices, stating that prices could hit US \$100 per barrel in the third quarter of the year. The estimated average for 2022 has risen from US \$81 per barrel to 96. In 2023, the average price could be around US \$105 per barrel, 20 more than the previous estimate.

This scenario would be highly favourable for oil companies. “Profits are rising, and we can also expect to see higher dividends”, says the expert, citing the oil giants Eni, Total and Shell. In terms of valuation, these are very attractive companies, but the list of beneficiaries of the current trends also extends to businesses that provide services and materials for manufacturing, such as the Italian firm Tenaris.

Utilities is another sector that is benefiting from the rapid rise in commodities. We are currently in the middle of the energy transition, and huge investments are planned in the coming year as part of Europe's green plans. “Businesses such as Enel and the Spanish company Iberdola could benefit from this process”, Gianmarco Rania explains. “Their appeal is further bolstered by the promise of generous dividends, above 5%”.

Oil and utilities are not the only sectors which stand to benefit. The spotlight is also on industrial metals, particularly those used to transition to more environmentally friendly production. “The green transition has long been a driver, combined with a weak supply of certain key commodities such as copper and lithium”, says Norman Villamin, Chief Investment Officer (Wealth Management),

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at Union Bancaire Privée (UBP). Copper has increased by around 20% in the last twelve months. The recent interest rate cut by the Central Bank of China has added further impetus to the trend, and prices have exceeded US \$1,000 in response to expectations of a stronger Chinese economy and the consequent increased demand. Lithium has also seen growth in the past year. The use of electric car batteries is leading to a boom in demand that analysts believe will drive prices to record levels in the course of the year.

Yet while most commodities are expected to gain in the coming months, the future of gold is less rosy. “Gold could be facing difficult times ahead”, says the expert. “Even without a rapid return to inflation, the US Federal Reserve Board has signalled its intention to increase interest rates, a move which is generally a negative factor for precious metals”.

The key to benefiting from the expected growth in commodities is through the use of dedicated investment funds, which performed quite well in the last period. One such fund is the Vontobel Commodities Fund (in US dollars), which climbed 52% in the last year. BNP Paribas Flexi - Commodities (US dollars) also performed well, gaining 42% in the last 12 months, as did PIMCO GIS Commodity Real Return Fund (in US dollars), which jumped 41% in 2021. ETFs and ETCs are also worth considering because they represent instruments focused specifically on one commodity. The ETF Wisdom Tree Industrial Metals (in euro), for example, gained 31% in 2021.