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## COMMODITIES TEST RECORD HIGHS AS WAR HEATS UP

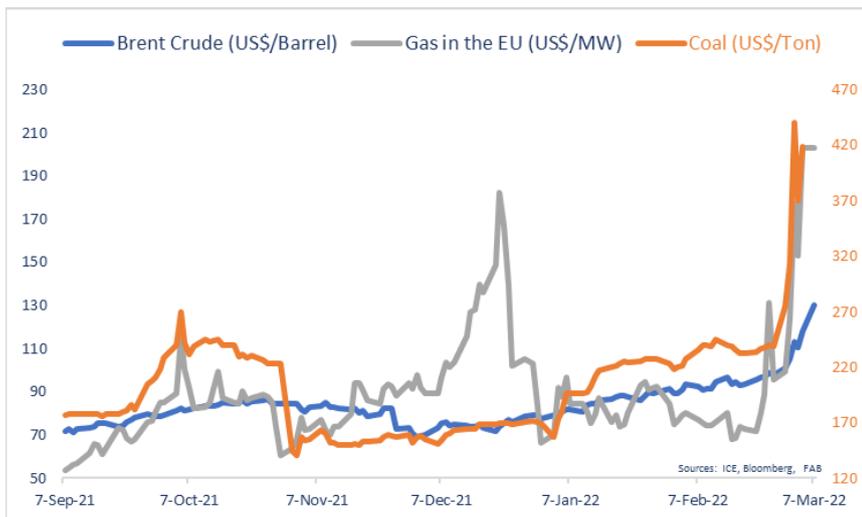
March 7<sup>th</sup> 2022

- Brent crude trades as US\$139/barrel amid talks of an embargo on Russian oil
- Coal and natural gas are testing record highs, as is wheat and aluminum
- Europe could face a recession this year, even amid high inflation
- GCC economies could benefit from the stronger dollar and high energy prices

Markets are a constant force of divination, seeing the outcomes of uncertain events sometimes months before the rest of the world views them. Now, they seem to be saying that Europe could face a recession this year amid continued high inflation. They are also starting to price in fewer rate hikes in the US and the potential for tighter supply of several key commodities.

As the war in Ukraine rages, markets seem to be waiting for clarity about whether it could escalate into neighboring countries. They also seem to be waiting to know how far sanctions against Russia will go. Once there is some certainty on these issues, risk assets could stabilize and, depending on the answer, even start to rise. For now, however, markets remain uncertain.

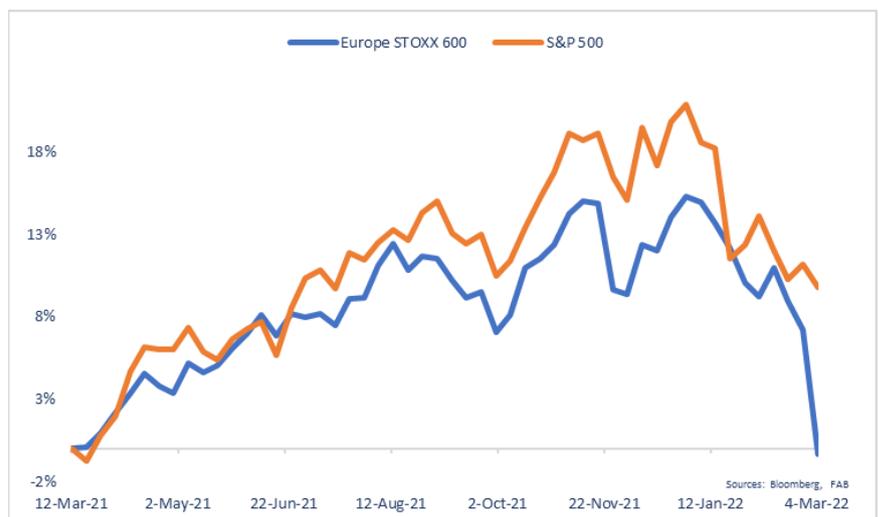
## ENERGY PRICES ARE AT OR NEAR RECORDS, NO MATTER WHERE IT COMES FROM



- Newcastle coal hit US\$440/1,000 tons last week, while natural gas in the Netherlands hit EUR203/MWh, both all-time highs.
- Brent crude traded as high as US\$139.13 today, the highest since July 2008, and close to its US\$146.08/barrel record hit.
- Considering its energy generation capability, natural gas prices suggest crude prices could rise further.
- Today's spike was driven by talk of an embargo against Russian oil, which exports 4.8 million barrels/day.

## STOCK MARKETS ARE SIGNALING EUROPE'S ECONOMY COULD BE HURT WORSE

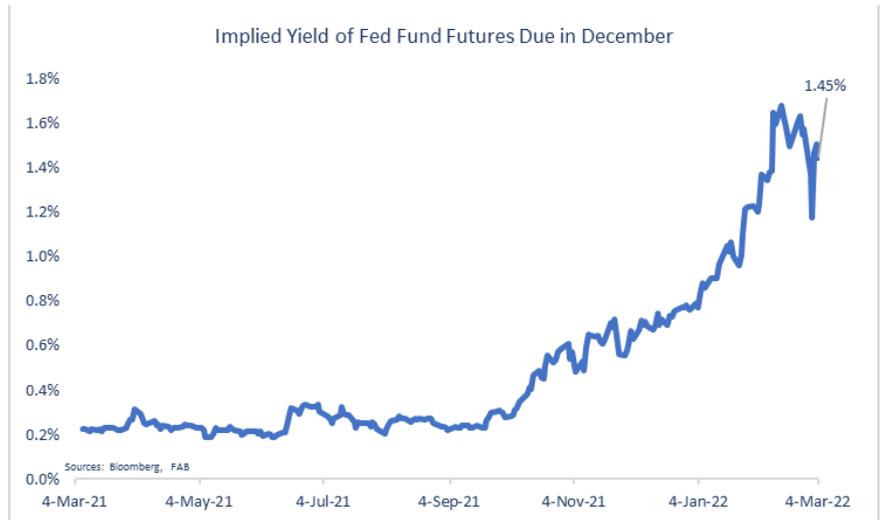
- The European STOXX 600 index is down 13.53% so far this year, having fallen 7% last week alone.
- The index has erased nearly all of its gains of the past year in a month.
- The S&P 500 is down 9.18% year-to-date and fell 1.27% last week.
- The US is a net exporter of oil, while Europe's more industrial economy relies heavily on energy.
- The latest sign of US strength came last week as the Bureau of Labor Statistics said 678,000 jobs were created in February.



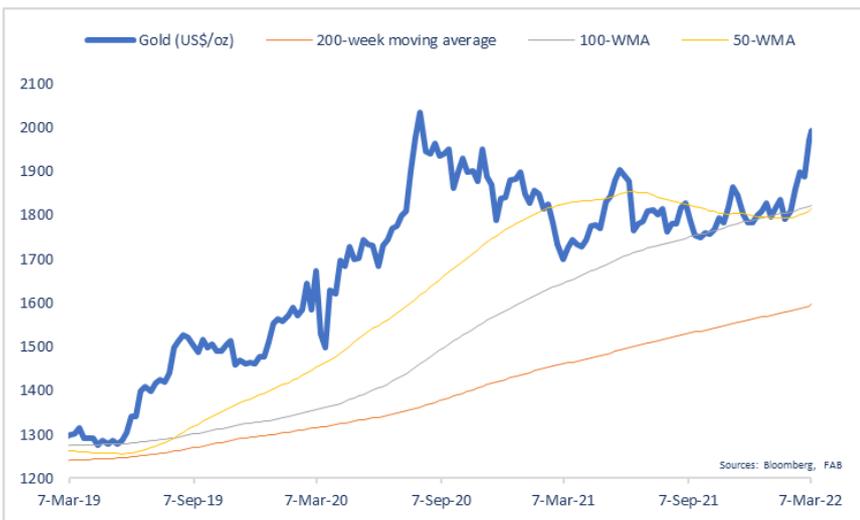


## MARKETS HAVE STARTED TO PRICE IN A LESS AGGRESSIVE RATE HIKE PATH BY THE FED

- Fed fund futures now imply fewer than five rate hikes by December, down from seven a month ago.
- Strong jobs growth and comments by Chairman Jerome Powell last week suggested, however, that the Fed will still hike rates several times this year.
- Tight dollar liquidity, which is helping boost the value of the currency, however, could prompt a slower pace of quantitative tightening ahead.
- The current commodity supply shock is more akin to that of the late 1970s, and could mean stickier inflation.



## HAVEN DEMAND AND EXPECTATIONS OF FEWER RATE HIKES ARE SUPPORTING GOLD



- Gold prices have risen 5.16% over the past two weeks and were closing in on US\$2,000/oz today.
- The metal has breached several key resistances and is not far from its all-time high of US\$2,063.54/oz.
- Uncertainty about how far the war could escalate adds to gold's allure.
- The caveat, however, is that Russia holds the equivalent to about US\$130 billion in gold as reserves, which it may have to use to defend the ruble, that has already fallen 35.63% in the past two weeks alone.

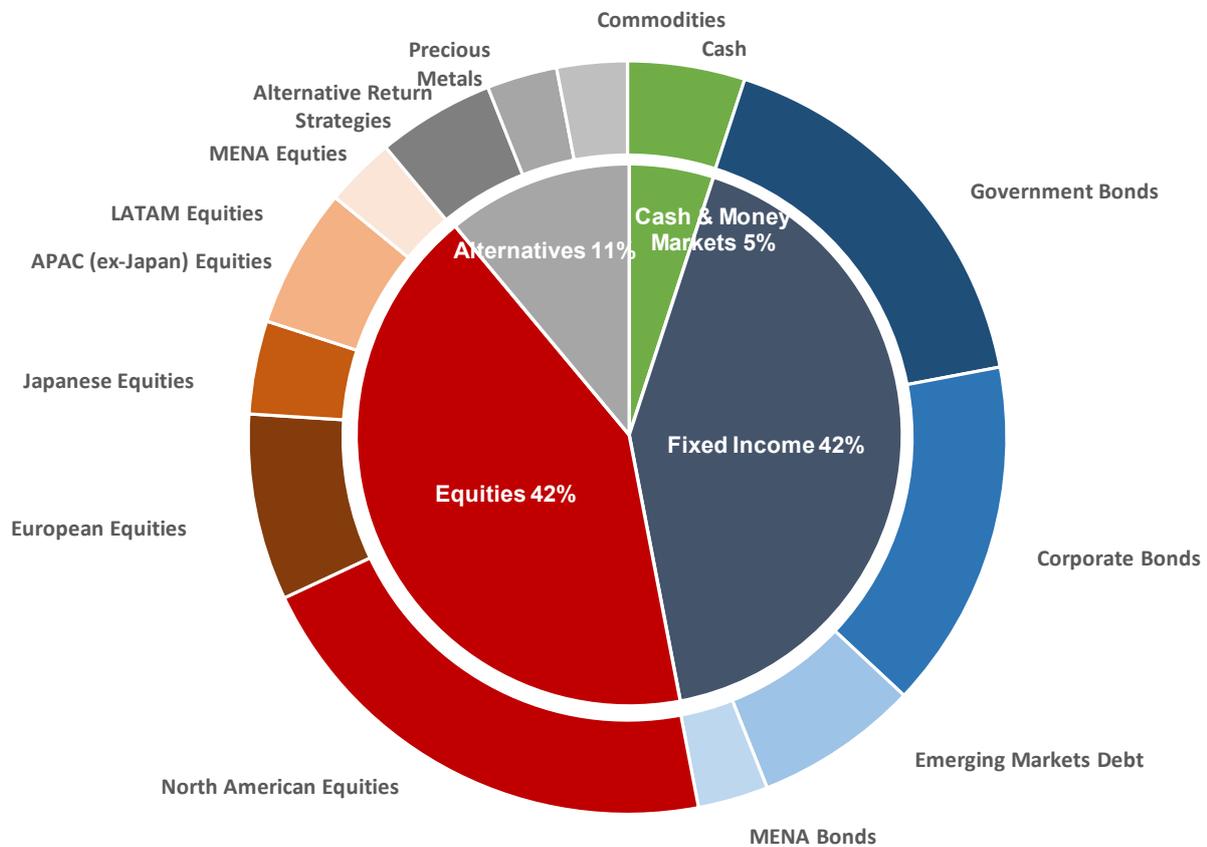
## RUSSIA PRODUCES NEARLY 40% OF GLOBAL PALLADIUM, SO PRICES ARE AT A RECORD

- The metal, used in catalytic converters for combustion engines, is now more valuable than gold, last quoted at US\$3,349.17/oz.
- There are no sanctions on Russian palladium, but most of it is transported as cargo in passenger airplanes, and the majority of air routes from Russia have been closed.
- The next big producer is South Africa, but replacing Russian palladium will take time, especially after years of underinvestment in palladium and platinum mining.





Asset Class	Positioning	Detail
Cash	Underweight	Putting cash to work in risk assets.
Fixed Income	Overweight	Keeping a slight overweight focused on EM dollar debt.
Equities	Overweight	Slightly overweight in Asia ex-Japan and US markets.
Alternatives	Underweight	However, reducing the underweight in hedge funds.





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