

Weekly bulletin: Commodity markets take centre stage

Key takeaways

Amid the ongoing conflict in Ukraine, the devastating human costs continue to mount. As financial markets attempt to account for the crisis in asset pricing terms, commodity prices in particular have experienced considerable volatility, with concerns growing about supply levels.

- Russia is one of the world's leading oil exporters, and US President Biden has been urging US oil companies to step up production in the face of potential Russian supply losses. US oil output currently remains well below pre-pandemic levels, but the Biden administration's long-term goals include shifting away from fossil fuels, and shareholders are reluctant to sanction more investment in production. Meanwhile, Venezuela and Iran have the potential to increase production, but both countries are currently under sanctions from the US.
- In Europe, huge increases in European gas prices reflect the region's reliance on Russian gas supplies. Gas prices have fallen back in recent days as European countries ruled out an outright ban on Russian gas exports, but Europe has announced steps to wean itself off Russian gas over the coming five years.
- Turning to other commodities types, Ukraine accounts for around 25% of global wheat exports. Wheat prices had already risen ahead of Russia's invasion, following a poor harvest due to various weather-related issues, though this has eased off somewhat following a huge spike in early March. Serious worries about supply constraints for nickel pre-date the crisis too. Nickel is used in a huge range of applications, such as stainless steel, jet engines, coinage and batteries for electric vehicles (where demand is increasing). Last week, the London Metal Exchange suspended trading in nickel after its price doubled.
- Meanwhile, economic data released last week showed that US inflation (Consumer Price Index) had reached its highest level since the early 1980s. Increases to prices were recorded across the board, though gasoline, airline fares and fruit & vegetables were among the most significant rises. Food prices climbed by the most since April 2020, rising 1% versus the previous month. In Europe, inflation continues to gather pace, presenting a similar picture to the US.
- The UK economy grew by a healthy 1.3% over the three months to the end of January 2022. Despite rapid increases in input costs, construction and production have registered three consecutive months of expansion, and the UK economy (measured by GDP) is now 0.8% above pre-pandemic levels. The news confirms that concerns around the economic impact of Omicron have failed to materialise.

Weekly market moves

Riskier assets types like shares endured a decidedly mixed week. North American stock markets ended the week lower, while shares in the UK and Europe performed well, trimming some of their losses so far this month. Substantial exposure to energy and materials has allowed the UK stock market to outperform.

In bond markets, yields across all major markets moved higher (prices, which move inversely to yields, fell).

Gold continued in its role as a traditional investor 'safe haven', pushed higher still by a strengthening US dollar.

What to look out for this week

On Wednesday, all eyes will be on policymakers at the US Federal Reserve Bank, who are widely anticipated to raise interest rates for the first time since 2018.

Market moves (as at 11 March 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,045.2	2.7%	-3.4%	-0.8%
MSCI United Kingdom Mid Cap	1,244.2	3.0%	-5.9%	-14.9%
MSCI United Kingdom Small Cap	402.8	4.2%	-5.0%	-15.6%
MSCI World (GBP)	2,179.0	-0.9%	-2.1%	-8.7%
S&P 500 (GBP)	4,204.3	-1.9%	-1.4%	-8.4%
MSCI Japan (GBP)	1,099.9	-3.4%	-3.8%	-8.9%
MSCI Europe ex-UK (GBP)	1,504.0	4.1%	-5.0%	-13.5%
MSCI Pacific ex-Japan (GBP)	1,609.1	0.2%	1.7%	-0.3%
MSCI Emerging Markets (GBP)	62,797.8	-4.1%	-4.8%	-8.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,259.5	-3.4%	-1.3%	-6.7%
BoA Merrill Lynch Index-Linked Gilts	637.9	-2.8%	0.6%	-2.5%
BoA Merrill Lynch £ Corporate	434.7	-2.5%	-1.4%	-7.1%
Commodities				
Oil (West Texas Intermediate, GBP)	\$109.3	-4.6%	16.6%	50.2%
Gold (GBP)	\$1978.7	2.7%	6.2%	13.4%
S&P / GSCI (GBP)	3,777.8	-2.7%	15.0%	40.9%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

Important Information

Handelsbanken Asset Management is a trading name of Handelsbanken Wealth & Asset Management Limited which is authorised and regulated by the Financial Conduct Authority (FCA) in the conduct of investment business and is a wholly-owned subsidiary of Handelsbanken plc.

This document has been prepared by Handelsbanken Asset Management for clients and/or potential clients who may have an interest in its services. Nothing in this communication constitutes advice to undertake a transaction and professional advice should be taken before investing. Any observations are Handelsbanken Asset Management's commentary on markets and its own investment strategy. This material is not investment research and the content should not be treated as an offer or invitation to buy or sell securities or otherwise trade in any of the investments mentioned.

Registered Head Office: No.1 Kingsway, London, WC2B 6AN. Registered in England No: 4132340. www.wealthandasset.handelsbanken.co.uk
Telephone: 020 7045 2600