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Investing in Commodities

What can we expect regarding oil?

In an increasingly volatile and uncertain world, investing in commodities emerges as an appealing strategy for many investors seeking diversification and decorrelation. Commodities such as Oil or Gold play a crucial role in the global economy, and its market behaviour can have significant implications. In this article, we shall explore what to expect from commodities, taking into account factors such as the energy transition, geopolitics, and fluctuations in supply and demand.

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A lot of investors are acting as traders. They mostly just chase the trade of the day. Similar to boatmen, bringing local restaurants the catch of the day. Found in the waters nearby. Perfect to make some money, but not to make you rich and wealthy.

When the tide turns, you see some of these men return home naked. The catch was gone, as so many others fished the same waters. In a trial to become a good fisherman, you rather do some studies first and explore the waters deeper. Miles Ahead, where other sailors didn't explore yet.

The history of demand disruption

Where I fished some gold at prices below 400 USD back in my early days as an investor, I picked 'oil' out of the heavy waves this asset had in 2020. The price of Black Gold collapsed from over 60 USD to less than 20 USD a barrel during the pandemic. It took more than a year before the oil price could climb back to 60 USD+. So it was a profitable catch, in waters many others didn't dare to come.

It was worth the risk, as it was just an **exercise in supply and demand. Demand was hit** on the short run as the **herd of investors ran away.** The thoughtful economist could know demand would return. Even if it wouldn't, oil firms would cut supply to restore prices. Sooner or later prices would return above the marginal cost of more than 60 USD a barrel. And so it happened, the rest is history.

The future of supply disruption

Over the years, and with the crises the sector faced, energy became the most hated sector of them all. If it wasn't bad enough, policymakers even made this worse. Endless procedures and denials for investments shaped uncertainty for the future of our energy supply. New large explorations have become scarcer with time. Some seem to have forgotten a 'transition to zero' needs a lot of oil and gas first. Windmills aren't made of wood you know.

In the recent past we were witness of a **short supply disruption.** The war in Ukraine pivoted oil to **prices of over 120 USD.** Although this was just a temporary shock, muted by the release of half the Strategic Petroleum Reserves of the US, it should learn us lessons for the future. Disruptions due to **sustained underinvestment** are more **difficult to solve.** It takes years to establish new oil fields from scratch.

While new large projects became rare fish in the water, inflation hit the cost side of production too. Breakeven prices for the time ahead aren't that far of the current crude prices. With fewer supply ahead, and prices not that far from their breakeven prices, one can only draw the following conclusion: **the risk for oil is to the upside.**

But as always, to catch an opportunity in uncharted waters, it takes brave men. The waves will be heavy, but your catch might be huge too. Good luck!

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