

Goldman Sachs Exchanges

Gold, Oil, and Rare Earths: Commodities on the Move

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Allison Nathan: We've seen some really significant moves in the commodity markets of late. Crude oil is rising on the back of new US sanctions on Russia, rare earth minerals are playing a central role in US-China tensions and gold has given back some of the huge gains it's made this year.

So what's ahead for these markets and how can commodities fit into portfolios today? I'm Allison Nathan, and this is Goldman Sachs Exchanges.

This week I'm joined by Daan Struyven, co-head of commodities research in Goldman Sachs research. Daan, welcome back to the program.

Daan Struyven: Thanks for having me, Allison.

Allison Nathan: So there's so much going on right now with commodities, but let's start with crude oil. I think our listeners have probably heard about the news that the US is imposing new sanctions on Russian oil, but just bring us up to date, what has happened so far and how important is that to oil markets?

Daan Struyven: So the two largest Russian oil producers, Rosneft and Lukoil got hit with fresh sanctions by the US. Together, those two companies have been exporting 3 million barrels per day of oil, year to date.

That's a lot of oil, roughly 3% of the global markets. Our simulations suggest that prices could end up almost \$20 per barrel higher in 2026, if you were to see a sustained and large disruption in the export volumes from those two companies. Assuming other OPEC plus producers like Saudi Arabia don't fill in the shortfall. In practice, we think the impact will be likely more limited to global oil imports because core OPEC has spare capacity to offset some of the shortfall I would expect some of the buyers of Russian crew to get exemptions via licenses.

And third, trade networks often get reorganized in the aftermath of sanctions. Perhaps some of the Russian oil will flow via non-sanctioned companies, very much as what we saw in the aftermath of the January 2025 Biden administration sanctions where the trade flows were reorganized and the Russian flows continued.

Allison Nathan: So what is our oil forecast off the back of this news?

Daan Struyven: We continue to expect over prices to decline another \$10 per barrel with Brent in the mid-fifties in 2026.

Allison Nathan: Right. Okay. So that is still relatively low. You've been on the bearish side of I think, consensus estimates and you're sticking with that even despite these disruptions?

Okay. Interesting. We have seen oil prices obviously rising, you know, fairly dramatically in the wake of this. So is the market just overreacting?

Daan Struyven: I don't think so. It was indeed a big move. We rose about \$5 per barrel based on our models that corresponds to the market upgrading its estimate of the chance of a large one and a half million barrel split disruption by 60 percentage points.

So that's a pretty big change. That said, I don't think the market reaction was outsized, in fact, if we go back to the summer when we had attacks on Iran, the price increase was three times bigger. And the cost of upside protection call options rose much more than it has over the past.

In fact, the oil price level is now pretty much in line with what fundamentals would suggest in terms of where are the global and OECD inventory levels. And so the question is, why is the market reaction more muted than in June? I think some of it has to do with the effect that the tail is less extreme.

In the summer, we were thinking about a tail scenario where, a closure of the Strait of Hormuz would reduce global supply by 20%. Today we're talking about potentially an upside of 3% disruptions. We are also seeing very significant inventory builds. In the last few months, which we didn't see yet over the summer, which is ultimately the driver of a bearish call driven by strong supply growth and inventory builds.

And I think third, some investors may have inferred from some of the events this year that the US administration may escalate to eventually deescalate.

Allison Nathan: Okay, but what I'm hearing is volatility, maybe not as much volatility as we had had, during prior developments. But we still expect quite a bit of volatility as these policy developments work through.

Daan Struyven: Yes, we'll have count the barrels and see where the Russian flows are flowing.

Allison Nathan: So let's pivot and talk about another major area of focus, rare earth minerals. They have obviously become a flash point in global trade and geopolitics. First, just give us some perspective and context and size them up for us.

Daan Struyven: Yeah, there's a bit of a paradox. It's an incredibly small market, about 33 times smaller than the copper market in terms of the value of global production in 2024.

On the other hand, this market is extremely critical to produce defense goods to produce advanced computer chips, batteries low carbon energy solutions. It's really an extremely important input, but the market itself is very small and at a high level, I think it's the one area where China has the greatest leverage across the range of potential policy tools.

Allison Nathan: And so ultimately though can investors gain exposure? Clearly these are scarce commodities that are in high demand, and as you said, they are a negotiating tool at this moment.

So where do we see that playing out in terms of markets?

Daan Struyven: Mostly to equities markets as opposed to commodity markets.

Yes, some of these rare earths commodities they trade, but they trade in the China exchange. And in fact, when China restricts exports, so it has more supply in the domestic market, these prices, they don't spike. In contrast, you have some Australian, some Canadian, some western companies active in this supply chain miners, refiners, that tend to perform very well when there are concerns about China restricting supply of railroads.

Allison Nathan: But this is a very headline driven situation, right? Because we got a headline in the last 24 hours that talks between China and the US are taking a more favorable tone and we've actually seen those equities selling off.

Daan Struyven: Yes, they're still up to very significant extents year to date.

But it's, it's very much a policy driven market. On the headlines specifically, I think ultimately the final contours of any US-China trade deal. Still have to be signed off by the two respective presidents. And I don't think this issue is going to go away anytime soon because as we discussed rare earths and magnets are extremely critical for some of the most strategic sectors.

Second, China's dominance is truly massive. 92% of refining of rare earths in the world happens in China. 98% of the magnets production in the world happens in China. And third. It's going to take years to build up independent supply chains in the west. Building a refinery of rare earths takes about five years or so.

Some of the heavy rare earths deposits are extremely scarce outside of China and Myanmar, and it takes about

10 years to build a mine. So I think this issue is going to stay with us and with investors for years to come.

Allison Nathan: Interesting. Okay, let's turn to the other major commodity experiencing tons of volatility, gold.

It's obviously seen incredible upside momentum for almost all of this year record breaking new highs. But last week that just came to what seemed like a very abrupt halt, and the market is down pretty substantially. Give us some perspective. It's still up as our rare earth minerals equities dramatically. But give us some perspective on that and why the abrupt pullback last week?

Daan Struyven: Yeah, I think the short explanation is prices had just gone a little bit too quickly and ran a little bit ahead of fundamentals. We did see some correction in more speculative positioning, long positioning especially in the call options market.

And if you look at open interest, a proxy for speculative investors positioning that has come off quite a bit. Our conviction, however, has not changed. We continue to expect gold to rise to \$4,900 per troy ounce by the end of next year because we do think that most of the rally year to date, or in fact over the last few years is by sticky purchases, especially of central banks.

We think they will continue to diversify into gold. This is a multi-year bull market, and in fact, the risk store bullish forecast, I think are to the upside because we don't incorporate upside from what we call private sector diversification. For instance, sovereign wealth funds or pension funds, realizing that gold is a strategic asset that has a place in portfolios or bullish forecast, does not

incorporate upside from that potential diversification team in the private sector.

Allison Nathan: Right, and you made that point before on the podcast, but I think it's very important to reinforce it, that this is a structural story of strategic reallocation towards gold.

This is not a bunch of hedge funds or retail investors buying gold. That's really driven this rally.

Daan Struyven: Absolutely.

Allison Nathan: So it's got staying power from your perspective.

Daan Struyven: Absolutely.

Allison Nathan: So along with gold, we've seen a lot of volatility in silver. So is the story the same or are there differences?

Daan Struyven: So I think the commonality is that Fed cuts make it more attractive to invest in, non-yielding assets such as gold and silver. And so we expect that additional ETF inflows as the Fed cuts by another a hundred basis points over the next three quarters probably puts upward pressure on ETF buying of silver, and therefore on the price.

However, I think the list of differences is longer than the list of similarities. Number one, there is no central bank anchor under silver prices. Central banks, they buy gold, they don't buy silver. Second, while the gold market is quite modest compared to the treasury market or the stock market, the silver market is even nine times smaller than the gold market. So it's less liquid, it's

smaller, it's a much riskier asset. And third, a bit of a technical point, some of the very sharp rally we saw this summer and in the start of the fall in the silver market was driven by what we call the London squeeze. There was basically a lack of silver in the London physical market.

Because earlier this year a lot of the silver had gone to the US ahead of a potential US tariff. And so you ran out of silver in the London market and that created an enormous amount of upward pressure on silver prices. Now metal is flowing in into the London market because of relative price differences.

So that squeeze, that tightness is unwinding and that's amplifying the sell off in the silver market. We don't see this in the gold market. So, big picture. I think the outlook for gold is structurally more attractive, less risky. Whereas for silver, my base case is upside with a lot more volatility and two-sided risks.

Allison Nathan: And it's just a fascinating reminder that when you're talking about commodities, you're talking about physical assets and so a lot of the price action and volatility really depends on where those commodities live and are flowing. Fascinating, but let's talk about the broader portfolio perspective here.

So what does all of this mean for asset allocators and multi-asset investors and thinking about the role of commodities today?

Daan Struyven: So our main message for investors remains diversifying into commodities, especially gold. While our base case outlook for commodity industries doesn't show large, positive returns with large upside concentrated in gold and US natural gas, we do think the

attractiveness of commodities portfolios is really for the risk cases.

One key risk is the debasement risk, the concern that fiscal policy may be on an insistent metal path in several countries, the possibility that central banks' independence may be challenged in those situations, I think there's even more upside to precious metal prices, especially gold, than in our base case. The other risk is that countries increasingly could use commodities as geopolitical and economic leverage.

We're seeing it with rare earths; Russia sanctions on oil suggest that oil could potentially also be used as form of economic and geopolitical leverage. And with commodity supply becoming increasingly concentrated, often in geopolitical or trade dispute hotspots, we think that the risk of supply disruptions has grown.

And so I think the value of commodities as a diversifier, as a hedge against those negative supply shocks, has definitely grown further.

Allison Nathan: And so is that what you're actually seeing with clients? That they are diversifying more with commodities?

Daan Struyven: Yes. We are having more and more conversations with clients to invest in commodities to diversify against these growing risks.

Allison Nathan: Especially in gold.

Daan Struyven: Especially in gold, yep.

Allison Nathan: Thanks again for joining us, Daan.

Daan Struyven: Thank you, Allison.

Allison Nathan: Thanks for listening to this episode of Goldman Sachs Exchanges, which is recorded on Monday, October 27th, 2025. I'm Alison Nathan.

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