

Why have gold and commodity prices been climbing?

Understanding the market forces driving up the cost of raw materials

You may have noticed that everything seems a little more expensive lately. While the price of your weekly shop is one indicator, the raw materials behind the scenes, such as gold, oil and copper, have been on a significant upward trajectory over the past few years. This trend isn't just about jewellery becoming more expensive; it signals deeper shifts in the global economy.

Several factors have created a perfect storm for these price hikes. Understanding these drivers can help clarify why the cost of goods and services continues to rise and what it means for your financial outlook.

INFLATION: THE PUSH TOWARDS TANGIBLE ASSETS

One of the most significant drivers of rising commodity prices is inflation. When the general price of goods and services rises, the purchasing power of money falls. A pound today buys you less than it did last year. This erosion of value pushes individuals and institutions to seek out assets that can maintain their value over time.

This is where tangible assets, particularly gold, come into play. Gold has a long-established reputation as a reliable store of value. Unlike fiat currencies, which central banks can print, the physical supply of gold is finite. During periods of high inflation or economic uncertainty, investors

often flock to gold, viewing it as a 'safe haven' to protect their wealth. This increased demand naturally drives up its price.

SUPPLY CHAINS AND GEOPOLITICAL STORMS

The global supply chain is a complex network, and disruptions in one part of the world can have ripple effects across the globe. Recent years have seen unprecedented challenges, from pandemic-related lockdowns to ongoing geopolitical tensions. For instance, when conflicts arise in key oil-producing regions, crude oil flows can be restricted. This squeeze on supply, when met with consistent demand, leads to higher fuel prices for everyone.

The same principle applies to industrial metals. Trade disputes, sanctions or instability in major exporters of materials such as copper or aluminium can make these metals harder to source and more expensive. Manufacturers who rely on these metals for everything from construction to

electronics must pay more, and these costs are often passed on to the end consumer. This is a clear demonstration of supply and demand playing out on a global scale.

GREEN ENERGY TRANSITION FUELS DEMAND

A powerful, long-term trend influencing commodity prices is the global shift towards green energy. As countries work to meet climate targets, demand for specific raw materials has skyrocketed. This transition is highly resource-intensive, creating sustained pressure on supply that mining operations are struggling to meet.

CONSIDER THE COMPONENTS OF GREEN TECHNOLOGY:

Copper: Essential for all things electrical, it is used extensively in electric vehicles (EVs), wind turbines and solar panels. An EV uses significantly more copper than a traditional petrol-powered car.

Lithium: As the primary component of rechargeable batteries, lithium is at the heart of the EV revolution and large-scale energy storage.

Silver: Although known as a precious metal, it is also a key industrial commodity. Its high conductivity makes it essential for solar panels.

This structural shift in demand means that prices for these 'green metals' are likely to remain elevated as the world continues to move away from fossil fuels.

CENTRAL BANKS DIVERSIFY WITH GOLD

It isn't just individual investors who are turning to gold. Central banks around the world have been steadily increasing their gold reserves. Many nations are seeking to diversify their holdings away from a heavy reliance on a single currency, such as the US dollar. By purchasing large quantities of gold, they are placing a long-term vote of confidence in the metal's stability.

This institutional buying has a significant impact on the market. It effectively removes a large amount of gold from open-market circulation, reducing the supply available to other buyers. When powerful institutions consistently buy, it sends a strong signal about gold's perceived value and contributes to its price strength.

CURRENCY FLUCTUATIONS AND THE UK CONSUMER

Finally, the value of the British pound against other currencies, particularly the US dollar, is crucial. Most

major commodities, including oil and gold, are priced in US dollars on international markets.

This means that even if the dollar price of a commodity remains stable, a weaker pound will make it more expensive for UK-based buyers. If the pound falls against the dollar, you need more pounds to buy the same amount of a dollar-denominated asset. This exchange-rate effect can amplify price increases and is another reason why costs can rise for British consumers.

GOLD: A TIME-TESTED FINANCIAL HEDGE

Beyond the immediate price drivers, gold's enduring appeal lies in its role as a long-term strategic asset. For centuries, it has served as a powerful hedge against a range of economic and political risks.

Gold is widely used as a hedge against inflation because it tends to hold its value as the purchasing power of paper money declines. It also acts as a shield against currency devaluation and significant geopolitical instability. During market crises, when assets such as stocks and bonds may be falling, investors often turn to gold as a safe haven, helping preserve capital.

Furthermore, gold often exhibits a negative correlation with stocks and bonds. This means that when traditional financial markets are struggling, gold's price may rise or hold steady. Including gold in a diversified investment portfolio can therefore help reduce overall volatility and provide a layer of protection during turbulent

times. It protects purchasing power when fiat currencies falter and offers a stabilising influence when other assets do not. ■

READY TO SECURE YOUR FINANCIAL FUTURE?

Interested in learning more about how gold and other commodities could strengthen your investment portfolio? We are here to help. Contact us today for tailored advice and practical strategies to protect and grow your wealth, no matter what the market brings.

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