

Positioning across commodities & crypto amidst the sell-off

Published 6 August 2024

Mobeen Tahir

Director, Research

Blake Heimann

Senior Associate, Quantitative Research

Dovile Silenskyte

Director, Digital Assets Research

Key Takeaways

- Oil prices have pulled back sharply on expectations of weak demand hovering close to the lower bound seen over the last two years.
- Investor sentiment towards industrial metals has suffered and will likely revive when US interest rates are cut. Precious metals are likely to withstand ongoing market volatility better.
- Bitcoin and digital assets have experienced a selloff alongside broader markets, exacerbated by deleveraging, potentially leaving them oversold, offering a potential entry point for investors.
- As “digital gold”, Bitcoin serves as a portfolio diversifier during times of economic and geopolitical uncertainty; while it remains a 'risk asset,' it is well-positioned to benefit from any upcoming central bank policy easing.

Recent market volatility has created ripples across the spectrum of asset classes. In this blog, we outline the impact of the volatility on commodities and cryptocurrencies, highlighting how investors can navigate market movements.

Commodities

The sell-off in risk assets, catalysed by the weak US jobs report, has extended to commodities. Sentiment towards risk assets within the commodities basket has further deteriorated due to contractionary manufacturing activity in both the US and China, as evidenced by the July Manufacturing Purchasing Managers' Indices¹.

The most significant reaction has been observed in energy markets, where oil prices have pulled back sharply on expectations of weak demand, reaching levels not seen since December 2023. Brent prices have remained range-bound between \$70 and \$90 per barrel for nearly two years, and the recent pullback is testing the floor of this range. At these levels, oil markets appear to disregard geopolitical risks in the

Middle East. However, further escalation in tensions could drive prices back up. Additionally, if the US Federal Reserve (Fed) responds with an immediate rate cut, [as some market commentators suggest](#), this could also lift oil prices further within the range.

Industrial metals have similarly been impacted, particularly by weak manufacturing data from China. Currently, markets seem unconvinced that stimulus measures in China will ignite a sustainable rally in this sector. Investor sentiment, as reflected in net positioning in futures, has declined since copper prices peaked in May, with supply seemingly sufficient to meet short-term demand. We believe this price dip presents an opportunity for long-term investors interested in the structural growth in metals demand driven by the energy transition. The catalyst for a revival in industrial metal prices is most likely to be a rate cut by the Fed.

Precious metals are likely to be the sector best able to withstand ongoing market volatility. Although the initial reaction of gold to the US jobs report was negative, we anticipate that the pullback in long-dated US Treasury yields and the US dollar, concerns about an impending recession, volatility in equity markets, and geopolitical risks will all boost demand for gold as a defensive asset. Moreover, we believe silver is undervalued relative to gold, given a gold-to-silver ratio of around 88 compared to an average of 68 since 2000². This undervaluation of silver could generate increased interest in the metal, which often exhibits a delayed reaction to gold price movements.

Cryptocurrencies

Shifting focus to crypto, bitcoin, often called "digital gold", also participated in the recent market selloff. Over the weekend, bitcoin's price dropped sharply, with reports of \$900 million in liquidated leveraged long positions on crypto exchanges, marking the worst liquidation event since April 2024⁴. This intensified the crypto downturn, with bitcoin falling from over \$64,000 on Friday to around \$52,000 by Monday morning.

This market reaction highlights a significant response to new economic data, further exacerbated by a deleveraging event. Market participants are now awaiting a response from central banks – particularly the Fed, with markets pricing in a 50bps cut in both September and November⁵. Acting according to market expectations could help stabilise or even buoy crypto asset prices – particularly if recession is avoided.

In the event of a strong Fed reaction to the broader market selloff, we might witness a scenario like the early COVID-19 pandemic. During that time, bitcoin's price dropped from approximately \$10,000 in February 2020 to as low as \$5,000 in mid-March before recovering to \$10,000 by mid-May 2020. By the end of 2020, the bitcoin price had surpassed \$20,000. During this period, the Fed swiftly cut rates, driving the two-year yield from over 1.5% in January to just 25bps by the end of March 2020.

We've observed the two-year US treasury yield drop over 50bps from levels above 4.2% at the end of July, to as low as 3.65% on the 5 August. Bitcoin is down roughly 30% from its all-time highs, trading at around \$52,000⁶. If the economy is deteriorating as much as perceived by broader financial markets, we could see drawdowns approaching 50% or more from all-time highs, potentially bringing bitcoin to the \$35,000 range. According to options markets, the implied move for end-of-August expiry is just under \$8,500⁷, indicating a drop to the \$35,000 range by month-end is roughly a two-standard deviation price move. However, we

view the risk associated with this major drawdown scenario as overstated. While some data points have shaken markets, they haven't yet triggered a crisis comparable to the COVID-19 pandemic or the 2008 financial crisis.

Prior to late last week, crypto investors were slowly positioning themselves further out on the risk curve with altcoins – anticipating potential rate cuts and cyclical tailwinds for altcoins, like small cap positioning within equity markets. With heightened recession risk, this repositions bitcoin back into the limelight amongst digital asset peers. Bitcoin, serving as digital gold, provides an alternative currency beyond the traditional financial system and can offer diversification benefits during times of macro and geopolitical volatility. While still a 'risk asset', it also stands to benefit from loosening economic policy.

Notably, large bitcoin holders, or 'bitcoin whales' (accounts holding more than 0.1% of the bitcoin supply, often considered "smart money" in the crypto ecosystem) accumulated \$5.4 billion worth of bitcoin in July, marking the fastest accumulation in 10 years. They added over 84,000 bitcoin, taking advantage of recent market lows at similar price levels at the beginning of July, signalling their confidence in bitcoin's long-term value despite current volatility.

For investors with long-term horizons, now may be an entry point into bitcoin. Those who can handle near-term volatility may find it beneficial to add to their bitcoin holdings during these times of uncertainty. For those looking to limit risk while maintaining exposure, options markets could be a viable choice. Hedging through year-end may be a more cost-effective hedging strategy while awaiting clearer economic conditions, due to the strong negative skew of shorter-dated options⁸.

Source

1 Trading Economics, 05 August 2024

2 Bloomberg, 05 August 2024

3 3-4 August 2024

4 <https://www.coinglass.com/LiquidationData>

5 <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

6 Bloomberg, 05 August 2024

7 <https://www.deribit.com/options/BTC/BTC-30AUG24>

8 <https://www.theblock.co/data/crypto-markets/options>

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area (“EEA”): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.