The Tatton Weekly

May oil drop

29 May 2026

This week's topics:

Calmer markets

SpaceX: to the moon or rapid disassembly?

Commodity nationalism

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29 May 2026

Fuel price pressure, Matt Davies, 28 May 2026

Calmer markets

Global stocks pushed higher this week, led yet again by global tech stocks. Semiconductor chip makers were especially strong. On Thursday, Axios reported that US and Iranian officials had agreed a 60-day ceasefire extension, during which they would negotiate a resolution to Iran's nuclear program. The ongoing talks have calmed nerves and substantially lowered oil prices – to below $90pb at the time of writing, down from $110pb at the start of last week.

Government bond yields dropped back too, easing a key source of recent market tension. Small and mid-cap companies have had a period of underperformance given the increase in financing costs so the decent fall in bond yields has helped them resume upward momentum.

In the end, May will turn out to be another strong month for global stocks with falling price volatility, both in implied and realised terms. More surprisingly, bond yields will end roughly where they started in the US and lower in the UK and Europe. Contrary to the chaos still playing out in the headlines, markets look sanguine.

Time is more on our side than we thought

A US-Iran deal has been supposedly "imminent" for about seven weeks now and the ceasefire memorandum still needs final sign-off from Donald Trump, so we should not hold our breaths. We at least get the impression that Trump wants the war wrapped up before the US midterm elections in November, and China is reportedly pressuring its Iranian ally to accept the proposal. In any case, lower oil prices help relieve near-term inflation.

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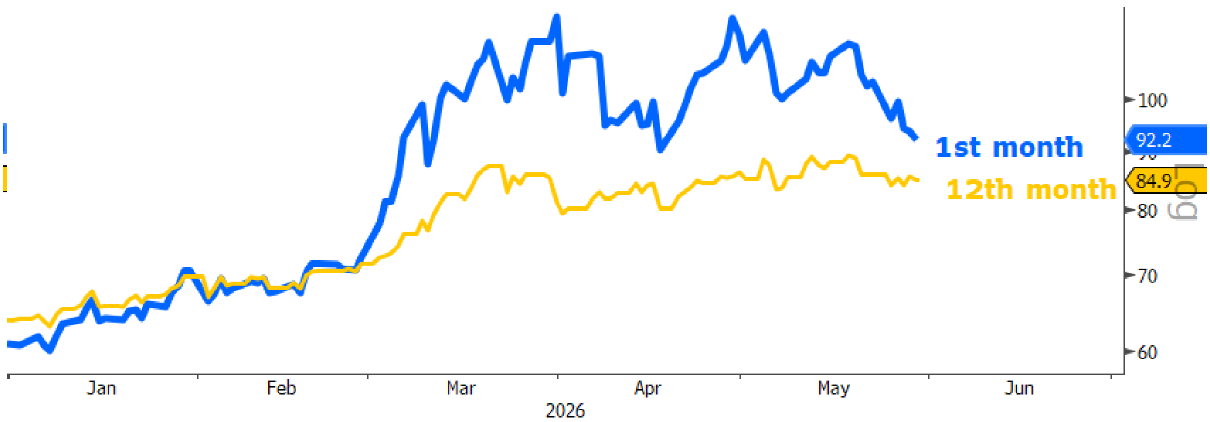
Even if the Strait of Hormuz stays closed, the global energy market is clearly more flexible than it seemed a few months ago. The Middle Eastern crude deficit is ameliorated by a mix of production increases elsewhere, strategic reserve releases, the lifting of Russian sanctions and – most importantly – a reduction in oil demand. The warmer weather helps with that, as does the fall in Chinese consumption.

We said before that time was not on our side in this war. The surprising thing this month has been how western countries have been able to muddle through the oil shock without it feeling too much like a crisis, even if other regions are feeling real pain (African farmers are unable to plant crops, and Vietnam has a jet fuel shortage). However, while a sense of global crisis has declined, the longer oil contracts have not fallen as much. This indicates that global energy traders think supply will remain tight into the winter.

Brent crude oil futures contracts
1st and 12th month (adjusted for estimated financing costs)



Source: Tatton IM, Bloomberg: G2016
CO1 Comdty (Generic 1st 'CO' Future) Brent oil fut 1-12 ratio Daily 31DEC2025-29JUN2026 Copyright© 2026 Bloomberg Finance L.P. 29-May-2026 12:55:39

If it does so, we will certainly feel the effects too (Europe's gas storage levels are towards the bottom of the seasonal range and are rising less quickly than usual), but for now, the squeeze on markets has not been as bad as many prognosticated.

Sluggish China might want to pressure Iran

China's oil utilisation has fallen since the war started – suggesting constraints on domestic demand. The government has also effectively tightened financial liquidity; it has asked companies to pay suppliers more quickly (which is related to the "anti-involution" measures). While this improves supplier company cashflows, it means the paying companies are raising debt to cover the cashflow. Thus, there's been a step up in both local government and corporate bond issuance.

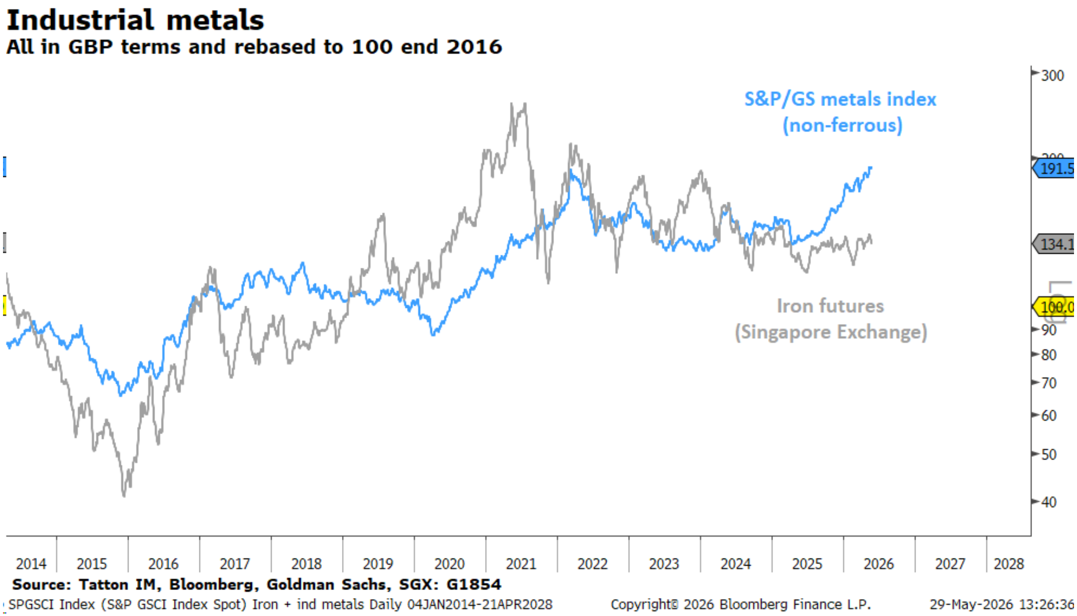
The interesting thing is that the oil shock is coming through stronger as a direct growth problem rather than indirectly through broad inflation. That could be a result of centralised economic policy leaning on economic activity itself, rather than letting markets do it through prices. Chinese bonds are the only ones with lower yields now than at the outbreak of the war – reflecting lower growth potential. That growth hit is now reflected in lower stock prices too. Unless Beijing steps up its economic support yet again, Chinese companies will struggle.

Alternatively, Beijing could lean on Tehran to accept a deal with the US. Rumour has it that Chinese officials are already doing so but, realistically, Xi Jinping has enough leverage over Iran to force its submission if he really needed it. China's current malaise is not dire enough to pull out that option. In the meantime, they are happy to let the US get bogged down in another costly Middle Eastern war.

Growth isn't as good as it once looked

Another reason bond yields fell this week is because global growth looks a little worse than we thought at the start of the month (bond yields, in theory, reflect future growth and inflation). US growth for the first quarter disappointed slightly, and personal income figures were notably lower than expected. Retail sales are still holding up, thanks to the ever-resilient US consumer, but that basically means Americans are funding their spending out of savings.

US – and even global – economic growth is driven overwhelmingly by AI infrastructure investment. This is once again pushing up computer chip prices, exemplified by a stunning rise in share prices for semiconductor companies. This is also contributing to a sharp rise in prices for industrial metals (though we discuss a different factor underlying metals in a separate article). Curiously, one industrial metal has not joined the party: iron.



Steel is a crucial building component, so this suggests overall global construction is soft. Residential construction numbers from the US and UK back that up, although Europe is doing better on this front.

The massive funds that AI firms are raising will go into constructing datacentres, but iron prices do not tell us there is currently a big step up in actual work. We suspect that the discrepancy comes from stockpiling critical components like copper and lithium, but the building has yet to start in earnest.

If that is right, the current global growth picture looks a little drearier. On the flipside, it should mean lower inflation and future interest rates, reinforcing the helpful bond yield falls we have seen and that there will be strength in construction in the not-too-distant future. It is a reversal of the narrative we had a few weeks ago – where growth looked a little *too* resilient, in the face of higher input costs, leading to inflation and bond worries. Instead, we see some slight gloom, but certainly no doom.

SpaceX: to the moon or rapid disassembly?

Investors are lining up to buy shares in SpaceX, once it makes its initial public offering [IPO] later this year. The futuristic tech company, owned by Elon Musk and other private investors, spans several sectors, but is most famous for its rocket launches.

At a proposed valuation of $1.75tn, SpaceX would immediately become one of the most valuable companies on the US stock exchange. But with only $70bn worth of shares set to come onto the market, many foresee problems in how SpaceX shares will be included in index-tracking funds. Forced buying of a limited number of shares certainly would provide the "rocket ship to the moon" – if only for a little while.

SpaceX is a tech conglomerate with added Musk factor
The investor prospectus released by SpaceX last week paints a picture of passenger ships to the Moon, asteroid mining and AI datacentres floating in space. It also details a huge share incentive for Musk personally, if he can establish a permanent million-strong human colony on Mars.

These futuristic claims, coupled with its gargantuan IPO (the $70bn fundraising target dwarfs the previous largest IPO in history, Saudi Aramco's $29.4bn raised in 2019) make many analysts and commentators sceptical, to put it politely. Its $1.75tn valuation would make SpaceX the sixth largest company in the world by market cap, despite its estimated $19bn revenue barely cracking the top 500.

We should point out that SpaceX's actual business is a little more down to Earth than its marketing. It is essentially a tech conglomerate covering satellites, rocket design and manufacturing, and AI (the division which incorporated the social media platform X). Reportedly, 60% of its revenue comes from Starlink, the profitable satellite broadband business, and while its current growth is hardly exceptional, the company's collection of high-risk, high-reward bets (e.g. AI datacentres in space) has appeal to a broad set of investors.

Martin Peers of The Briefing suggests that, valued in line with the sectors it straddles, SpaceX should be worth around $700bn. The extra $1tn comes from investors' belief that SpaceX will be the one able to take that next giant leap for mankind – what we might call the Musk factor. The Musk factor is not to be scoffed at. His companies have an enduring appeal to investors – US investors in particular. This appeal has handsomely rewarded Tesla shareholders over many years, for example.

Not enough SpaceX for index-tracking funds

It is not just retail investors wanting on board the rocket ship. As one of the largest US stocks by market cap, funds that track US stock indices will have no choice but to buy its shares – and quickly. The tech-focussed Nasdaq has already changed its rules to fast-track SpaceX's inclusion in its index, down to 15 days after IPO, rather than the usual three months. The FTSE Russell has made similar allowances.

If you know many people are going to buy a stock 15 days after IPO, it might be a good idea to buy it in advance and sell it to them. This becomes a more pressing issue if – as in SpaceX's case – there are not enough outstanding shares to go around.

The S&P 500 index adjusts its stock weightings by *free-float* market cap, meaning it will weight SpaceX in line with the $70bn of shares to be made available. The Nasdaq's strict *cap-weighting* is different. However, to avoid Nasdaq-tracking funds weighting SpaceX as one of their largest holdings, Nasdaq announced a change to its weighting system earlier this month (along with the 15-day fast-track): companies with less than a third of shares free-floating (SpaceX will be 4-5%) will be weighted at three times the free-float market cap.

That ostensibly helps the imbalance but does not actually solve it. This is because of an odd effect regarding the original pre-IPO shareholdings. As these are sold after their "lock-up" agreement expires, the Nasdaq 100 will recognise this and the weighting will rise. Of course, it will rise at three times the pace of the increase in the free float; the more they sell, the more the trackers have to buy! This will go on until the free float gets to 33.3% (the effective cap level). Quite how this will play out is a question only game theorists can answer.

The bigger picture: more equity issuance is coming

Predictable forced buying from passive funds is a problem for passive investors. Active investors can get ahead of this significant demand for SpaceX shares by purchasing at IPO (or even right now in the 'grey market'). Index-tracking funds, bound by their passive methodologies, typically cannot. Prices may be pushed up before the stock becomes included in index-tracking funds (particularly those linked to the S&P 500, which has a longer time to inclusion), and investors will have missed out on the upside.

This is not a big deal if you expect SpaceX shares to keep steadily rising after that; timing is just one of those things you have little control over as a passive investor. The bigger problem is what might come after for SpaceX. Its IPO is one of several trillion-dollar listings expected this year, including AI firms OpenAI and Anthropic. That is expected to result in $210bn of new US equity issuance this year, the largest addition ever. That figure will likely be added to as existing private shareholders unwind their holdings (once lockup clauses expire). As we argued last week, that is a less supportive balance of buyers and sellers for equities overall.

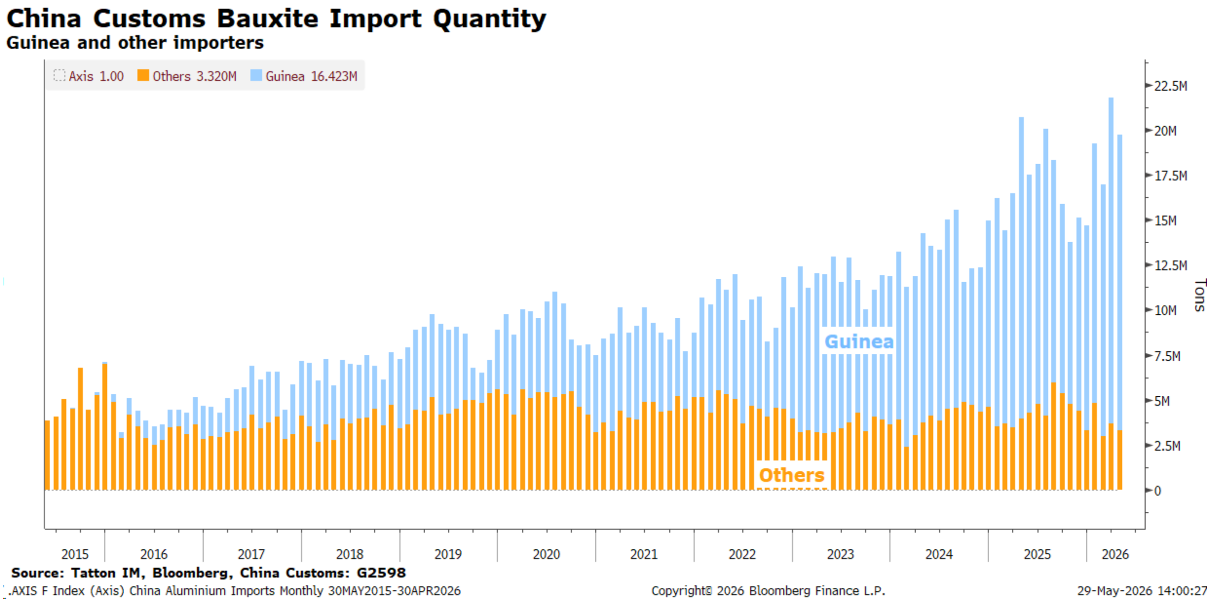
The short-term problem for forced buyers of SpaceX is that there may not be enough tradable equity, relative to expected demand, to which Nasdaq tracking investment products would add roughly $6bn. The medium-term problem is the opposite: too much equity available for sale on the market, leading to a shortfall of capital to buy it. That is without even thinking about the company's long-term viability. We could therefore see considerable volatility after its IPO. SpaceX might well be a rocket ship to the moon upon its launch, but it might not be long before we see a "rapid unscheduled disassembly".

Commodity nationalism

Chinese smelters got a nasty shock this week: Guinea announced plans to limit exports of bauxite, an ore that gets refined into aluminium. Guinea is not alone in restricting exports of raw materials. Several emerging market nations have curbed their output in recent months, either to control prices or encourage higher-end production. Right now, China looks especially vulnerable to the growing commodity nationalism. Later down the line, though, it could be another unwelcome source of global inflation.

Guinea gets fed up

Guinea became the world's largest producer of bauxite in 2024, overtaking Australia. It exported roughly 183mn tonnes last year, a 25% increase on the year before. Exports even overtook production, with bauxite producers running down inventories to match extensive demand. Most of



that demand comes from China, and Guinea accounts for most of China's bauxite imports. The two nations' aluminium sectors are deeply dependent on each other.

The relationship has grown significantly in recent years because of China's ravenous demand for aluminium. China is itself one of the world's largest producers of raw bauxite, but its refining capacity is significantly larger – with the metal being a crucial input to China's industrial and technological growth. Global aluminium trade has now grown so large as to become a key driving force of global freight shipping prices (along with iron ore and coal), which have surged this year.

For years, bauxite exports benefitted Guinea's industry. Exporters from the West African nation even used to get a better price by selling to China, compared to global markets. But prices for bauxite imports to China fell 50% from January 2025 to March 2026 (they have since risen slightly, after the export curb news), despite export volumes surging. Guinea's government has started to feel like the relationship has become one-sided – a means for Chinese producers to keep costs low.

That is why Guinea's Mines and Geology Minister Bouna Sylla announced plans to control exports from June, with the intention to "regulate the quantity to raise prices back to reasonable levels".

Commodity exporters discover their pricing power

Guinea's export controls are just the latest in a string of interventions from commodity-rich nations. DR Congo introduced export caps on cobalt late last year, while Zimbabwe just banned exports of raw lithium. Indonesia has announced plans for a new state export body that will control commodities including coal and ferroalloys. China itself restricted exports of key rare earth minerals last year, in an escalation of its trade war with the US.

Not all of these export controls are for the same reason. Guinea and DR Congo's restrictions are largely motivated by supporting prices, while Zimbabwe and Indonesia's are more about discouraging raw production and moving up the value chain (though we note that Guinea's Sylla also referenced this aim). China's restrictions were not about economic gain at all, but rather flexing its geopolitical muscle.

Still, the fact all these nations feel able to implement controls right now is no coincidence. It is part of the longer-term macroeconomic story we have seen since the pandemic, where producers increasingly realise they have the power to pass on costs. This is especially relevant for commodities right now: many saw China's rare earth restrictions and Iran's Strait of Hormuz closure and realised how effective these moves could be.

It is also no coincidence that metals are at the heart of this pricing power. We wrote recently about the surge in prices of copper and silver, thanks to demand from AI infrastructure and – again – China's ravenous demand.

Commodity nationalism is a consequence of anti-globalisation

Protectionist sentiments have been on the rise for at least the last decade – exemplified by Trump's tariff policies, aimed at rebuilding US industry. Those sentiments never really went away, even during the 1990s-2010s era of rapid globalisation. Emerging market resentments were just easily overwhelmed by the promises of developed market capital, and the threat that your biggest customer could just switch provider.

Richer nations were often able to go for the cheapest option because globalisation made supply chains interchangeable. By contrast, the tide of anti-globalisation over the last decade (along with fears over supply-chain security) makes it harder to switch commodity providers.

This looks like a particular strategic weakness for China. The world's second-largest economy has spent over a decade developing hundreds of bilateral trade relationships through its Belt and Road Initiative. China's trade partners are often receptive at the start but, like Guinea, come to feel increasingly hard done by over the years.

Exporters to the US and Europe have made similar exploitation complaints over the years (see African agricultural exporters' longstanding critiques of the EU's common agricultural policy, for example). The difference is that the US-dominated system of global trade is, by its nature, multilateral. Multilateralism creates a competitive market, and in a market the customer can just switch providers and vice versa. In China's system of bilateral relationships, making that switch is harder.

For the rest of the world, the upshot is that commodity nationalism is another global inflation risk. Emerging markets becoming more muscular means supply chains are less secure.

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Global Equity Markets	29-May			Technical		Valuations			
Market	Level	% 1 Week	% 1 Week (GBP)	Short	Medium	Div YLD %	LTM PE	NTM PE	10Y AVG NTM PE
UK FTSE 100	10418	-0.3	-0.3	→	→	3.1	15.1	12.8	12.7
UK FTSE 250	23456	+1.5	+1.5	→	→	3.5	11.3	12.3	13.3
UK FTSE All-Share	5609	-0.1	-0.1	→	→	3.2	14.8	12.8	12.7
FTSE Small x Inv_Tsts	6454	+1.1	+1.1	→	→	4.2	21.6	9.8	10.0
EU STOXX ex UK	801	+0.6	+0.9	⬀	→	2.9	17.8	15.7	15.1
France CAC 40	8205	+1.1	+1.4	→	→	3.0	17.2	14.6	14.1
Germany DAX 40	25066	+0.9	+1.2	⬀	→	2.6	17.9	15.2	13.3
US S&P 500	7590	+1.6	+1.2	↗	⬀	1.1	25.8	21.1	19.0
US NASDAQ comp	27017	+2.5	+2.1	↗	↗	0.5	36.6	26.3	26.2
Japan Nikkei 225	66330	+4.7	+4.3	↗	↗	1.3	24.7	24.0	18.7
World Bloomberg	2620	+1.7	+1.4	↗	⬀	1.5	22.6	18.1	16.7
China Bloomberg	1327	-0.5	-0.9	→	→	2.3	15.5	12.4	12.5
Emerging Bloomberg	1868	+3.6	+3.3	↗	↗	2.0	18.5	12.3	12.5

FTSE100 Top 6

Company	%
JD Sports Fashion	+9.7
Int'l Consolidated Airlines	+9.1
Metlen Energy & Metals	+7.5
Antofagasta	+7.5
Rolls-Royce	+7.2
Burberry	+6.8

S&P Global Top 6 (GBP terms)

Company	%
Dell Technologies	+36.7
Murata Manufacturing	+34.5
Super Micro Computer	+30.9
NetApp	+29.4
Akzo Nobel	+27.3
Micron Technology	+27.3

Global Sectors (GBP terms)

Sector	%	Sector	%
Tech	+5.1	Staples	-2.6
Financials	-0.2	Energy	-5.2
Health	-0.5	Materials	+2.3
Discretionary	+1.7	Utilities	-1.6
Industrials	+1.3	Real_Estate	-1.3
Communicatic	+0.3		

FTSE 100 Bottom 6

Company	%
BT	-8.0
Tesco	-6.8
Melrose Industries	-6.8
BP	-6.2
Centrica	-6.1
British American Tobacco	-6.1

S&P Global Bottom 6 (GBP terms)

Company (GBP terms)	%
ASX	-21.8
Boston Scientific	-15.6
AutoZone	-13.1
Lumentum	-12.2
Rollins	-11.0
ONEOK	-10.5

Fixed Income

Govt bond	%Yield	1 wk chg
UK 5yr Gilt	4.34	-0.12
UK 10yr Gilt	4.80	-0.09
UK 15yr Gilt	5.21	-0.09
US 10yr Treasury	4.43	-0.15
France 10yr OAT	3.53	-0.13
Germany 10yr Bund	2.93	-0.11
Japan 10yr JGB	2.66	-0.09

Currencies

Pair	last	%1W
USD per GBP	1.344	+0.1
GBP per EUR	0.866	+0.3
USD per EUR	1.164	+0.5
JPY per USD	159.33	+0.1
CNY per USD	6.763	-0.5
USD per Bitcoin	72,899	-5.3

Commodities

Cmdty	last	%1W
Oil Brent $:bl	92.21	-11.7
Gold $:oz	4544	+1.0
Silver $:oz	75.34	+0.0
Copper $:lb	639.1	+0.9
Alumnm $:mt	3752	+1.2
Agriculture BBG	57.63	-1.3

UK Mortgage Rate Estimates

Rates (LTV c.75%, no fee)	29-May	29-Apr
UK BoE base rate	3.75	3.75
2yr fixed	4.75	4.45
3yr fixed	4.86	4.37
5yr fixed	4.67	4.43
10yr fixed	5.21	4.82
Standard variable	6.60	6.60

Where possible, prices taken levels at 29 May 3:00 PM (today) and 22 May 3:00 PM. Mortgage estimates from moneyfacts.co.uk
LTM PE is the index price as a ratio of last 12 months earnings. NTM PE is next 12 months earnings.

Lothar Mentel