InCred Global Wealth

Insights

The Divergence: Why energy, interest rates and gold no longer align

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Executive summary

- **Oil** prices suggest the disruption is manageable, but the supply of energy - especially **liquefied natural gas** - is already under strain
- Higher energy costs are pushing **inflation** up while economic activity is starting to slow, leaving central banks with limited room to adjust interest rates
- **Gold** is moving with interest rate expectations rather than acting as a hedge against geopolitical risk, showing that market signals are out of alignment
- The adjustment will come either through **weaker demand and lower prices**, or through **higher prices that reflect ongoing supply constraints** - markets are currently positioned for the first, but the risk is the second

Oil is above $100 but not at crisis levels. Interest rates are on hold. Gold has weakened despite geopolitical escalation.

That combination would normally suggest the disruption remains contained. In part, it does. However, energy supply is already under pressure, while markets continue to expect a return to normal.

Energy: prices no longer reflect physical reality

Energy markets no longer clear on a single price. Brent crude is trading around $105–115, having briefly approached $120, but this understates the stress in the system. Physical markets are materially tighter, with certain grades outside the Gulf trading above $150 as buyers compete for deliverable supply.

Benchmarks remain anchored to expectations of normalisation, while physical markets reflect the cost of securing supply today. Brent is therefore no longer a reliable proxy for marginal input costs.

The initial phase of the shock constrained movement through the Strait of Hormuz. The current phase involves direct risk to supply, as attacks on refineries, upstream fields and export infrastructure extend disruption beyond logistics.

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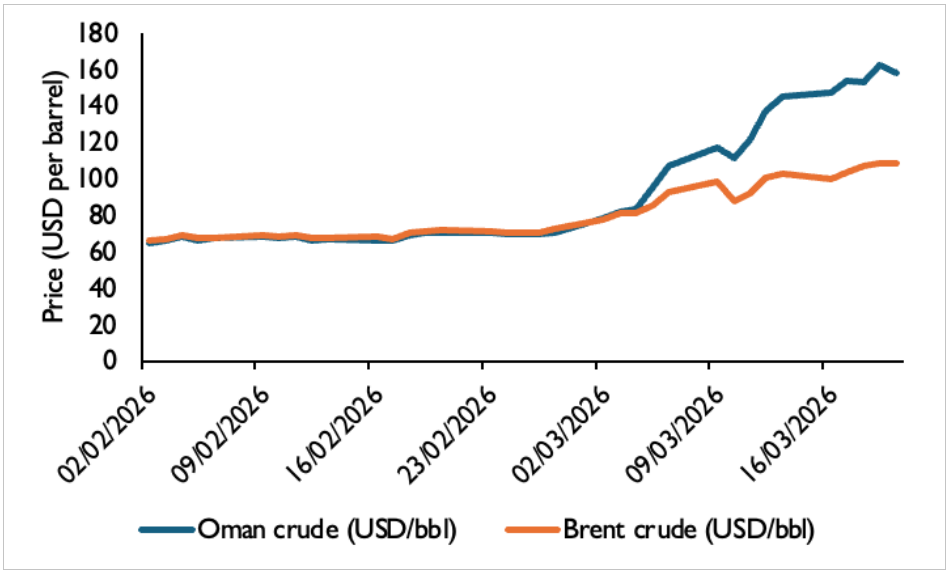


Figure 1: Divergence of Brent versus Oman crude oil prices

Gas markets are where the strain is most visible. European prices have risen 30–35% in days and, in some cases, have more than doubled since the conflict began. The strike on Qatar's Ras Laffan complex shifts the risk from disruption to sustained impairment. The facility represents roughly a fifth of global liquefied natural gas (LNG) supply, and this type of infrastructure is both slow to repair and difficult to replace. A multi-year loss of capacity is not compatible with a temporary shock. LNG is inherently less flexible than crude. Its supply depends on specialised infrastructure, storage is limited, and substitution options are constrained, so when capacity is lost the system cannot restore itself quickly.

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Adjustment is already visible, particularly in **Asia**. Refined product flows have fallen sharply, industrial users are reducing throughput, airlines are cutting routes, and governments are introducing rationing measures. This is not primarily a response to price. It is a constraint on availability.

Europe sits at the centre of this dynamic. Its energy system depends on LNG imports, and the loss of Qatari supply forces competition for a reduced pool of cargoes, pushing marginal prices higher. This feeds directly through power prices into industrial costs and household energy bills, with more acute and potentially non-linear effects than oil alone.

Historical recession thresholds, often framed around Brent levels of $130–140, assume alignment between paper and physical markets. That alignment has broken. If users are already paying those levels for physical supply, the adjustment is already underway. **The most severe effects of the shock are therefore not where benchmarks are set, but where supply is least flexible.**

Interest rates: policy is constrained despite rising inflation

Policy expectations have shifted quickly. The Federal Reserve has held rates at 3.5–3.75% and emphasised uncertainty, and market pricing has moved in the same direction. **Near-term interest rate cuts are no longer expected.**

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Sustained **oil prices around $100 are estimated to add roughly 0.25 to 0.5 percentage points to inflation**, with a similar drag on growth. At higher effective input costs, the impact is larger.

Central banks are now operating within a narrower set of options. **Inflation is rising, but growth is already starting to slow.** Both problems are happening at the same time:

- Cutting interest rates risks **reinforcing inflation**.
- Keeping interest rate policy tight risks **deepening the slowdown** as higher energy costs reduce real incomes and disrupt activity.

If the shock persists, central banks are less likely to cut interest rates and more likely to support the financial system directly if stress builds. That support would come through providing liquidity to banks and markets, rather than lowering rates.

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Gold: reacting to rates, not to risk

Gold has declined in recent sessions. This reflects real yields dominating safe-haven demand. Higher energy prices have reduced expectations of near-term easing, pushing real yields higher. Gold is therefore responding to rates rather than to geopolitical conditions.

This relationship is specific to the current phase. **If the shock persists, the driver changes. Gold shifts from reacting to interest rates to hedging policy constraint.**

In that environment, it functions as protection against a scenario in which central banks can no longer anchor inflation expectations because they are forced to prioritise financial stability over price control.

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How the divergence across energy, interest rates and gold resolves

The divergence reflects how different parts of the system are adjusting at different speeds. Energy markets are already under physical constraint, interest rates are responding to inflation risk, and gold is reacting to those rate expectations rather than to the underlying disruption. Taken together, they describe the same process at different stages. The gap between market pricing and physical reality can narrow in two ways:

- The first is through **demand destruction**. Activity slows, reducing pressure in energy markets, bringing down physical prices, easing inflation and allowing interest rates to fall. In that scenario, gold would begin to respond more to growth and policy easing than to inflation risk. This is broadly the outcome implied by current pricing, with oil benchmarks below physical tightness, policy still expected to ease, and gold driven by real yields.
- The second is through **repricing**. Benchmarks move higher to reflect sustained scarcity in energy, keeping inflation elevated and constraining interest rate policy. In that environment, gold is more likely to shift from reacting to rates to reflecting broader policy constraint.

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Which path dominates depends on three variables:

- The first is **whether energy flows can be stabilised**. Even a partial reopening of shipping routes would reduce pressure in physical energy markets and ease inflation, allowing interest rates to move lower.

- The second is **whether infrastructure damage escalates**. Further disruption to LNG and key upstream capacity would tighten energy markets, reinforce inflation pressures and limit the scope for interest rate easing.

- The third is **duration**. If elevated energy prices persist, inflation remains higher for longer and interest rates stay restrictive, raising recession risk and increasing the likelihood that gold shifts from a rate-driven asset to a hedge against policy constraint.

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At the same time, this environment places greater emphasis on portfolio structure. Outcomes are less likely to be determined by direction alone, and more by how portfolios are positioned across liquidity, concentration and flexibility – including the ability to adjust as conditions shift between demand pressure and repricing.

The system is already operating under constraint. What happens next will be shaped less by forecasts of direction and more by whether energy conditions ease in time to allow interest rates and gold to realign, or whether sustained pressure in the physical system forces a broader repricing across all three.

About the author

Nick Perryman is Vice Chairman at InCred Global Wealth Limited and Chairman of its Investment Committee. He has over 25 years of investment and wealth management experience, holds advanced qualifications in investment management, financial planning and psychology, and was previously a managing director at UBS where he was head of its international business in London and before that head of investment products and services. He is a doctoral researcher at Durham University and an honorary fellow of Royal Holloway, University of London. He is co-author of the book, "Leadership in Wealth: Mastering the opportunities of wealth in your family, firm and society"

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