Commodities Outlook

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ADCB

Commodities and the new regime

- **Persistent inflation, geopolitical fragmentation, supply chain insecurity, and energy-transition demand are restoring commodities as a strategic asset class. Tight supply across metals, agriculture, and energy reinforces higher floors and stronger diversification benefits.**
- **Agriculture faces a very strong El Niño, structurally tight fertilizer markets, and thin inventories; precious metals see cyclical weakness but structural support; PGMs remain supply-constrained; base metals – especially copper – sit in multi-year deficits driven by underinvestment, electrification, and US-China policy dynamics.**
- **Oil markets remain tight but shock-prone as Middle East disruptions, slowing US shale, uneven demand, and OPEC+ uncertainty collide with faster-than-expected non-OPEC supply responses. Our base case is a range-bound oil market, with news flow periodically forcing prices above or below.**

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Commodities: entering a strategic regime

Commodities are reasserting themselves as a core asset class as the global economy transitions into a structurally different macro regime defined by persistent inflation, geopolitical fragmentation, and supply chain insecurity. After two decades of relative calm, inflation volatility has re-emerged and proved difficult to suppress restoring the relevance of commodities as both an inflation hedge and a diversification tool.

Commodities have re-emerged as a key asset class primarily due to renewed inflation concerns amidst structural shifts in the global economy.

Exhibit 01: We have a positive view on commodities over the 6m-12m time frame

	View				
Asset Class	--	-	N	+	++
Commodities				●	
Gold				●	
Silver			●		
Copper			●		
Crude oil			●		
Agriculture				●	

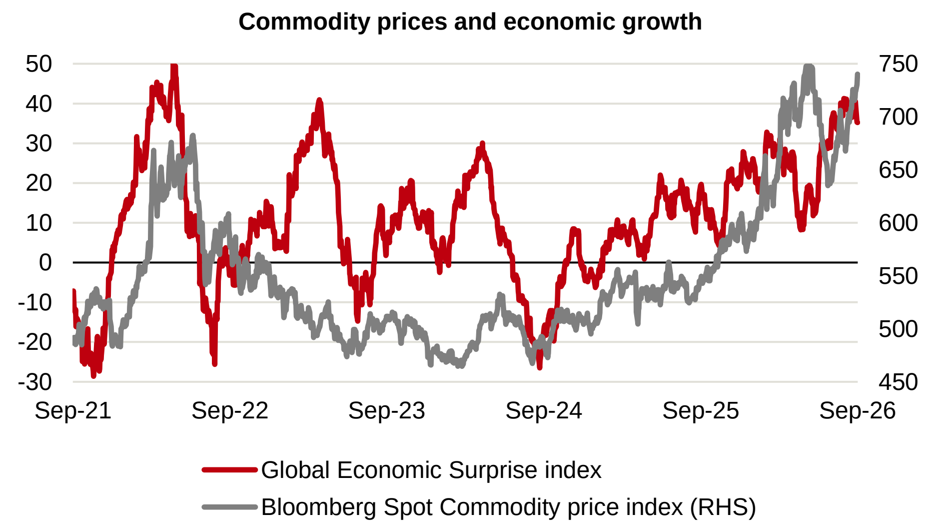
Sources: ADCB Asset Management

Geopolitics is now a structural driver of commodity demand. Strategic competition between the US and China has elevated supply chain security to a national priority, and in the case of US, a central pillar of its economic and national security strategy. This shift encourages redundancy, stockpiling, and strategic reserves, supporting long-term demand for critical minerals, energy, and agricultural inputs.

Energy markets reinforce this dynamic. The US has become the global "supplier of last resort," stabilizing flows during Middle Eastern disruptions, while China's demand management and stockpiling shape global balances. The energy transition remains metal-intensive, with renewables, batteries, and AI-driven electricity demand accelerating consumption of copper, lithium, and other critical minerals. Supply constraints – declining ore quality, rising costs, and processing bottlenecks – tighten the backdrop.

Agriculture faces similar pressures, with fertilizer shortages, logistical disruptions, and climate volatility amplifying risks. Meanwhile, equity-bond correlations are reverting to pre-2000 patterns, increasing the value of commodities as a diversifier. Systematic strategies benefit from roll yield, inflation sensitivity, and structural demand. Together, these forces create a volatile but fundamentally supportive environment, restoring commodities as a strategic, multi-faceted asset class.

Exhibit 02: Commodities are not only an inflation-hedge but also a growth-play



Sources: Citi Economic Surprise Indices, Bloomberg, LSEG Workspace, and ADCB Asset Management

Agriculture: El Niño, fertilizer tightness, and thin inventories

Strong El Niño calls for focus on agriculture commodities (cocoa, coffee, sugar, rice, and wheat).

Agriculture has just entered one of the strongest weather shocks in decades. The National Oceanic and Atmospheric Administration (NOAA) assigns an 81% probability that El Niño will reach very strong intensity, placing it among the most powerful events since 1950. This is already visible in markets: arabica coffee prices have surged c30% since June, while cocoa futures climbed more than 60%, reflecting expectations of widespread crop damage.

Historical evidence underscores the scale of the threat. The ECB estimates strong El Niño episodes typically lift global food prices by c9%, while the impact could be larger given current geopolitical pressures. Fertilizer supply remains structurally tight – the FAO highlighted strained affordability, and the World Bank recently described nitrogen and potash markets as structurally tighter. Lower fertilizer usage leaves crops more vulnerable to drought, heat, and excessive rainfall, magnifying El Niño's impact.

Physical stress is already visible. Peru suspended anchovy fishing due to warm waters, sending fishmeal prices sharply higher. Cocoa is particularly exposed – 88% of global production is concentrated in regions typically harmed by El Niño, and past strong episodes have resulted in 6-13% production losses. Coffee, sugar, palm oil, and rice face similar risks.

Inventories across key crops are thin – cocoa stocks remain depleted, rice inventories outside China are at multi-year lows, and coffee stocks sit below historical averages. Climate change compounds volatility, with the UN's Intergovernmental Panel on Climate Change (IPCC) concluding rainfall variability is very likely to increase. Export restrictions remain a risk, as seen in the 2023 rice crisis.

Overall, a very strong El Niño, tight fertilizer supply, thin inventories, and climate-driven volatility create a powerful backdrop supporting a constructive view on agriculture over the next 12-18 months.

Exhibit 03: El Niño is expected to strengthen into the year-end

NOAA probability of El Niño strength* by rolling 3M period (%)

Season (2026)	Weak	Moderate	Strong	Very Strong
Jun - Aug	2	73	25	0
Jul - Sep	1	26	57	16
Aug - Oct	0	10	42	48
Sep - Nov	0	4	25	71
Oct - Dec	0	3	16	81

*Sources: The National Oceanic and Atmospheric Administration (NOAA), LSEG Workspace, and ADCB Asset Management | Notes: *Based on Relative Oceanic Niño Index (RONI): weak +0.5°C to below +1.0°C; moderate +1.0°C to below +1.5°C; strong +1.5°C to below +2.0°C; very strong +2.0°C or above.*

Gold: Cyclical weakness, structural strength

We would use any price weakness to add exposure to gold.

Gold has corrected sharply after reaching a record USD 5,450/oz in January 2026, falling more than 20% to USD 3,942/oz by late June. The Iran conflict unexpectedly strengthened the USD and pushed yields higher, prompting heavy liquidation across ETFs and futures. Gold sold off as investors sought USD liquidity – triggering 'flight-to-liquidity' from 'flight-to-safety'.

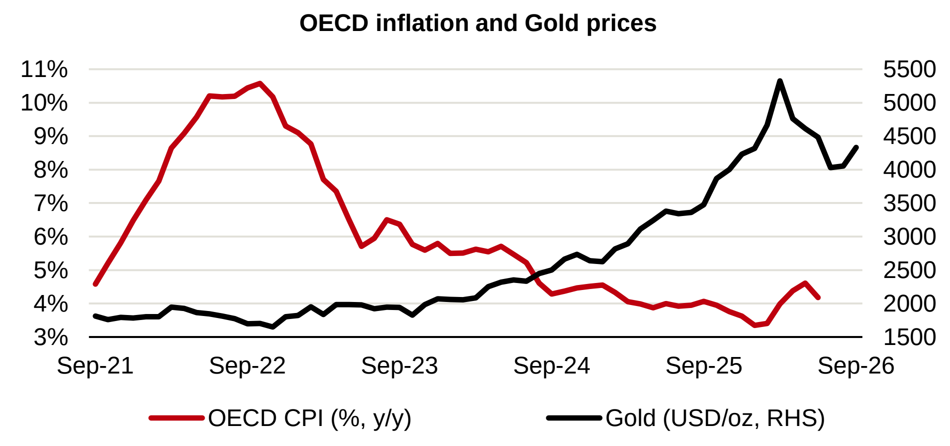
The second leg of weakness followed Kevin Warsh's appointment as Fed Chair, whose hawkish tone shifted rate expectations decisively. A firm USD and rising front-end yields capped rallies.

Despite this, we believe the structural bull case remains intact. Fiscal profligacy, elevated geopolitical risks, sovereign debt concerns, and diversification demand continue to support long-term interest. Central banks are expected to resume buying gold as part of reserve diversification strategies, helping define a price floor. Investor positioning has been washed out, offering room for rebuilding once monetary policy expectations stabilize.

Supply growth remains modest. Mine output is rising slightly, recycling is increasing, but neither overwhelms demand. Institutional bar demand is strong, supported by regulatory changes in India and China.

Overall, we remain positive on the outlook for gold.

Exhibit 04: Inflation which was not a problem for gold prices in 2021-2022 has turned into a headwind in 2026 as real rates rose aggressively



Sources: OECD, LSEG Workspace, and ADCB Asset Management

Silver: Tight supply meets industrial demand

Silver entered the summer in an improved fundamental position, supported by disciplined mine supply, resilient industrial demand, and a gradual return of investor interest. Production discipline among primary miners has constrained supply growth, tightening the physical market. Solar remains the most important driver of incremental demand. Global installations have surged, lifting silver consumption in PV manufacturing. However, thrift trends – higher efficiency cell designs using less silver – are expected to reduce consumption by c11% in 2026. The market will still run a deficit, but the longer-term outlook is more nuanced if substitution accelerates.

Investment behaviour in silver increasingly resembles that of a precious metal. Macro uncertainty and geopolitical risk are reviving interest, while China's imports add a supportive tailwind. ETF liquidation remains a drag, and higher prices could incentivize additional mine supply.

Overall, silver is transitioning into a market with higher floors and more precious-metal-like dynamics, supported by near-term deficits but facing longer-term risks from technological substitution. We have recently turned neutral on the outlook for silver prices, we had a negative outlook previously.

PGMs: undervalued but facing structural headwinds

Platinum and palladium have undergone sharp pullbacks driven by macro shocks, investor liquidation, and structural demand erosion. Platinum fell from USD 2,918/oz in January 2026 as surging oil prices, a stronger USD, and higher yields triggered broad selling. Weak auto demand – with EV penetration eroding ICE catalyst usage – and soft jewelry demand added pressure. ETF liquidation intensified declines. Despite this, mine supply remains structurally constrained after years of underinvestment. Platinum is expected to run a 531,000 oz deficit in 2026, supportive of prices. Platinum below USD 2,000/oz should be viewed as undervalued. We expect a recovery, albeit bumpy, over the next 6-12 months.

Palladium followed a similar trajectory, falling from USD 2,175/oz to USD 1,189/oz. Structural demand erosion from EV adoption continues to weaken gasoline vehicle catalyst consumption. Mine supply is limited – Russian output is constrained by sanctions, South African production faces operational challenges, and North American volumes continue to decline.

Across PGMs, supply constraints remain a defining feature, but upside is capped by structural demand headwinds.

Exhibit 05: We see agriculture and precious metals posting gains and outperforming other commodity segments over the next 6-12 months

Performance (%) *	1Y	YTD	6M	3M	1M
Commodity Agg	**35.8**	**26.5**	**12.0**	**3.8**	**9.4**
Agriculture	**25.3**	**28.3**	**25.4**	**17.6**	**13.4**
Cocoa	-14.8	8.3	117.5	68.7	10.6
Coffee	-19.9	-11.3	8.7	18.8	-3.2
Corn	29.9	24.0	22.5	23.0	21.5
Cotton	37.6	42.5	41.7	19.5	10.9
Soybeans	25.0	25.8	13.2	11.6	10.5
Sugar	12.2	22.3	32.0	27.1	22.3
Wheat	46.5	54.3	35.6	28.5	20.2
Energy	**37.8**	**50.1**	**25.5**	**2.5**	**11.3**
Brent Crude	40.3	55.6	21.8	-0.4	13.0
Crude Oil (avg.)	41.0	57.1	26.7	-2.1	12.3
Natural Gas	-3.1	-21.2	-1.9	-8.7	4.4
Industrial metals	**30.1**	**12.5**	**7.4**	**-3.7**	**1.9**
Aluminum	25.5	9.9	2.5	-12.6	1.7
Copper	45.3	15.2	9.7	3.7	3.1
Iron Ore	-4.0	-5.5	0.1	-5.0	6.0
Lead	-3.3	-4.4	-1.5	-4.3	3.2
Nickel	8.0	-0.1	-2.7	-13.5	-2.3
Tin	55.2	34.1	1.4	-3.7	-1.6
Livestock	**-11.5**	**-6.3**	**-10.2**	**-13.4**	**-4.4**
Precious metals	**35.8**	**0.3**	**-19.1**	**-4.6**	**8.5**
Gold	25.0	1.3	-17.2	-2.4	7.5
Palladium	18.4	-19.4	-25.9	-3.8	5.9
Platinum	28.9	-13.6	-23.7	-8.4	8.6
Silver	60.5	-7.4	-26.4	-13.1	13.0

*Sources: LSEG Workspace, and ADCB Asset Management | Notes: *As of September 01, 2026.*

Base Metals: tight supply, policy-driven demand

Base metals are currently experiencing a structurally tight but uneven environment. Copper remains the strongest story. Years of underinvestment, declining ore grades, and disruptions in Latin America and Africa have kept supply muted. Inventories remain low, and visible stocks have not been rebuilt meaningfully. Electrification, grid investment, and AI-driven data center expansion accelerate demand.

Copper's decisive catalyst is US policy – specifically the Section 232 tariff review. The market has evolved into a US-China tug of war, with the US pulling large volumes via COMEX/LME arbitrage. Phased tariffs could convert excess US inventory into a strategic reserve. Escalation is bullish; no escalation is bearish.

Aluminium faces mixed fundamentals: constrained Chinese smelters, limited ex-China supply, and gradually improving demand. Nickel remains bifurcated – Indonesia's NPI/HPAL expansion pressures prices, but Class 1 nickel remains tight. Zinc supply is constrained by mine closures and cost pressures.

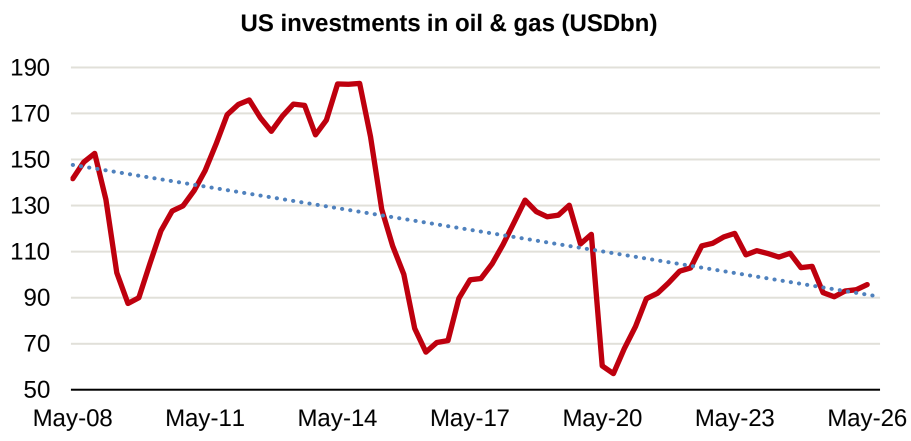
Across the complex, supply discipline, energy transition demand, and constrained inventories support a constructive medium-term outlook, though macro headwinds may cap rallies.

Oil: tight but volatile balances

While prices are likely to be headline driven, the fundamental backdrop warrants range-bound oil prices.

Oil markets have experienced a precarious equilibrium defined by geopolitical fragility and uneven demand. The Middle East remains the dominant swing factor. Although the Strait of Hormuz has reopened, infrastructure remains vulnerable and normalization is slow. Gulf producers rely heavily on stored barrels, while refinery capacity will take longer to recover. A key question is why the largest supply shock on record – a loss of roughly 1.9bn barrels – produced only average price outcomes. Three factors explain this: smaller-than-expected inventory draws, larger-than-expected demand losses, and faster-than-expected supply responses outside the Gulf. Non-OPEC supply growth reached 2.44 mbd, the strongest pace of the decade.

Exhibit 06: US investments in energy sector have been on a structural decline



Sources: LSEG Workspace, and ADCB Asset Management

The US continues to act as the "supplier of last resort," but elevated exports are drawing down inventories. Shale growth is slowing due to capital discipline and declining well productivity. OPEC+ adds uncertainty. Voluntary cuts support prices, but cohesion is weakening. Non-OPEC supply growth is modest, with Brazil and Guyana contributing meaningfully. Demand is improving but uneven. Inventories remain thin, leaving markets sensitive to shocks. The IEA expects tightening into 2027.

Overall, oil remains a market defined by tight balances, high volatility, and policy-driven price direction. We expect brent crude prices to average USD85/bbl – USD90/bbl for 2026.

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