

The Straitjacket economy: how Hormuz turned commodities into the macro

- ▶ The closure of the Strait of Hormuz has morphed from an oil disruption into a full spectrum supply side shock, tightening inventories across energy, metals, fertilizers, and petrochemicals.
- ▶ Markets continue to price a temporary inflation hump but are not pricing in any growth risks; this could change quickly should the current conditions prevail for longer.
- ▶ Central banks have shifted toward a more hawkish stance as inflation expectations rise, yet growth risks remain under-priced despite mounting evidence that the shock acts as a tax on consumers and firms.
- ▶ Until flows through Hormuz normalize, commodities will remain the anchor of the macro narrative, with gold supported, copper structurally tight, oil elevated, and petrochemicals and metals squeezed by cascading supply constraints.

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The supply shock is now the macro

The global commodities complex has entered a new phase in which the closure of the Strait of Hormuz has transformed what initially was a conventional oil price spike into a broad, multi-layered supply-side shock. Markets continue to behave as though the disruption will prove temporary, pricing a short-lived inflation hump and a swift normalization of flows, which is in line with our base-case. Looking through the 'tail-risks lens', the underlying mechanics across energy, metals, fertilizers, petrochemicals, and industrial gases suggest a more persistent and more complex disruption. The system is now operating with thinning inventories, impaired logistics, and rising production constraints, and the longer the Strait remains closed, the more likely it becomes that the shock migrates from an inflation story to a growth story. This transition – from inflation pricing to growth-risk pricing – is the central theme that will define commodities as an asset class in the months ahead.

Exhibit 1: Aggregate commodity prices, driven by energy, have risen sharply over the past three months*

Performance (%)	1Y	YTD	6M	3M	1M
Commodity Agg	41.5	27.7	26.0	18.8	8.1
Agriculture	10.6	13.0	5.8	12.6	5.6
Cocoa	-65.2	-37.5	-30.2	14.4	15.6
Coffee	-27.8	-24.2	-31.9	-7.4	-7.1
Corn	7.6	8.4	6.1	9.2	4.3
Cotton	29.0	30.2	30.0	31.3	4.9
Soybeans	15.5	15.8	5.2	5.6	2.5
Sugar	-15.9	-1.9	0.2	7.1	9.3
Wheat	26.6	31.1	18.9	20.3	10.9
Energy	46.6	61.3	32.9	47.6	20.9
Brent Crude	65.9	76.6	66.8	54.1	24.2
Crude Oil (avg.)	68.4	81.8	72.1	60.5	26.4
Natural Gas	-13.7	-13.5	-30.6	8.7	13.3
Industrial metals	33.0	12.9	23.7	9.0	1.7
Aluminum	44.6	20.2	29.4	16.4	0.3
Copper	43.5	9.0	26.7	5.4	1.8
Iron Ore	8.7	2.5	6.4	12.8	2.4
Lead	-1.1	-1.2	-1.9	1.3	0.8
Nickel	18.7	11.5	26.9	7.6	2.5
Tin	60.2	29.3	42.3	14.5	3.6
Livestock	11.9	11.2	18.0	4.9	0.5
Precious metals	64.2	7.3	22.4	-6.9	-5.9
Gold	42.9	5.8	12.0	-8.3	-5.9
Palladium	49.2	-12.5	0.2	-19.1	-9.7
Platinum	99.7	-3.3	27.1	-6.4	-7.7
Silver	139.4	9.7	51.4	-1.0	-6.1

Source: LSEG Workspace, and ADCB Asset Management | Notes: *Data as of May 18, 2026.



At the heart of the current environment is the physical constraint imposed by the near-total shutdown of Hormuz traffic. Tanker flows have collapsed to a fraction of normal levels, LNG shipments have effectively ceased, and even the shadow fleet that has attempted to bypass the blockade is insufficient to stabilize supply. The global economy is therefore being forced to rebalance through the only mechanism available: inventories. Crude stocks have already drawn by roughly 110 million barrels from their recent highs, and oil-on-water has fallen by around 100 million barrels since the conflict began. Similar patterns are emerging across fertilizers, sulphur, LNG, and petrochemical feedstocks, particularly in Asia. Inventories are the last buffer between a supply shock and a price shock, and that buffer is eroding quickly.

What distinguishes this episode from previous oil disruptions is its breadth. The Strait of Hormuz is not merely a conduit for crude; it is a critical artery for gas, diesel, jet fuel, fertilizers, petrochemical feedstocks, helium, and even aluminium-related inputs. The closure has therefore propagated through multiple supply chains simultaneously. Fertilizer markets have tightened sharply as urea, ammonia, and sulphur exports from the region have been curtailed. Petrochemical markets have seen operating rates collapse in the Middle East due to the inability to ship output, while Asia – highly dependent on imported naphtha and LPG – has been forced to reduce utilization as feedstocks run short. Industrial gases such as helium, for which the US, Qatar, and Russia dominate global production, have also been affected. Metals supply chains are experiencing rising cost pressures as diesel prices surge and freight rates climb, while sulphuric acid shortages threaten hydrometallurgical copper production in countries such as the DRC. The shock is therefore not confined to energy; it is a full-spectrum supply squeeze.

This breadth is why the shock is simultaneously inflationary and growth-negative. Higher energy and input costs are feeding directly into headline inflation, with March and April prints showing pronounced upside surprises across several emerging markets. Inflation expectations have adjusted sharply, and monetary policy expectations have repriced accordingly. The global policy rate diffusion index has turned positive for the first time since 2023, indicating that more central banks are raising rates than cutting them. Some have already moved in a hawkish direction, while others have signalled readiness to act if higher energy and commodity prices spill over into expectations or underlying inflation. The risk here is that Central banks do not need to believe the shock is permanent to respond; they only need to fear that it will last long enough to influence wage-setting behaviour or generate second-round effects. This is why the easing narrative has faded and why front-end rates have become more sensitive to incoming data.

Yet despite the inflation focus, markets have not meaningfully priced the growth consequences of a prolonged disruption. Economic activity has remained resilient so far, supported by strong carry-over momentum from last year, robust corporate and household balance sheets, AI-related investment, and targeted fiscal measures designed to cushion the immediate hit to households and firms. Inventory drawdowns have also provided a temporary boost to production. These offsets have allowed investors to treat the conflict as inflationary but not growth-negative. However, these supports are time-limited. A persistent supply shock acts like a tax on consumers and firms: it reduces real disposable income, raises input costs, squeezes margins, delays investment, and tightens financial conditions. The longer the disruption lasts, the closer the system moves toward inventory tipping points, at which the shock transitions from a price event to a volume event. At that stage, growth complacency becomes untenable. For now, we think markets should be looking to price at least left tail risks with growth.

Commodities Outlook

Oil: Oil remains the epicentre of the shock. With supply curtailed and inventories thinning, the system is moving through the classic adjustment sequence – spare capacity activation, inventory draws, emergency releases, refinery run cuts, and ultimately demand destruction. Demand destruction may have already begun in Europe and parts of Asia, though the inelasticity of short-run oil demand means that prices must rise significantly to ration consumption. The forward curve still implies a relatively swift normalization, and we agree with this as our base-case. However, we are concerned about the tail risks and what is priced in the markets – focus has only been on inflation and not growth. Historical evidence suggests that supply-driven oil shocks tend to last longer than typical price spikes, with an estimated half-life of more than six months. If the reopening of the Strait is delayed into the second half of the year, oil prices are likely to

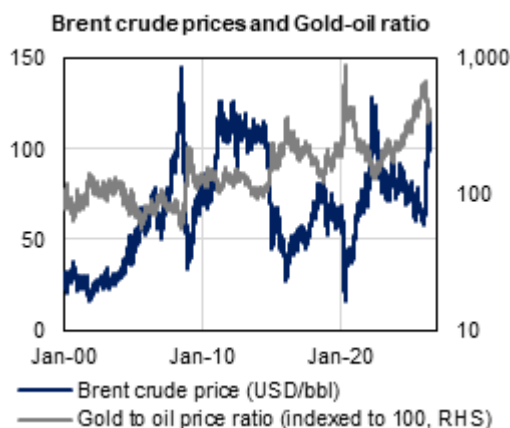
remain above USD100/bbl for an extended period, with broad macro consequences. We now see brent crude prices averaging between USD85/bbl – USD90/bbl for 2026. Yet, once the geopolitical dust settles, brent prices should shift into a range below USD85/bbl over the medium-term. After all, higher oil prices – if they persist for long – can become a precursor for lower oil prices as demand destruction and substitution take hold.

Petchems: The petrochemical sector offers one of the clearest illustrations of the shock’s complexity. The Middle East is the world’s third-largest producer of ethylene and propylene, and its facilities rely on the Strait of Hormuz to ship output. With the Strait closed, operating rates in the region have collapsed. Asia, which accounts for nearly half of global ethylene capacity and roughly 60% of propylene capacity, relies heavily on imported naphtha and LPG. Reduced feedstock flows have forced utilization rates below 70%, with some countries falling below 60%. China has fared better due to its vast oil stockpiles and continued access to some Middle Eastern and Iranian supplies, but even China is not immune, as other links in the value chain – such as aromatics and LPG imports – are being disrupted. The longer the Strait remains closed, the more petrochemical capacity globally will be at risk, and the more persistent the inflationary impulse will become.

Gold: Gold has been one of the clearest beneficiaries of the current environment, even though it briefly hit an “air pocket” as oil surged and markets worried about a more hawkish Federal Reserve reaction. The underlying supports for gold remain intact: elevated US fiscal deficits, a weaker USD impulse, persistent geopolitical uncertainty, and strong investor inflows into precious metals. Central bank selling has not broadened, and the metal continues to serve as a hedge against both inflation risk and policy uncertainty. The broader commodity supply squeeze reinforces gold’s appeal, as investors seek assets that can withstand both price volatility and macro instability. Gold therefore retains a constructive outlook, supported by both cyclical and structural factors.

Silver: Silver presents a more nuanced picture. Demand from solar panel manufacturers has softened as producers reduce silver intensity, weakening one of the metal’s strongest structural demand pillars. However, the market does not appear poised to flip into surplus, as supply tightness and the broader precious metals bid continue to provide support. Silver trades as a high-beta version of gold, benefiting from the same macro hedging dynamics but with greater sensitivity to industrial activity. In an environment where growth risks are rising but not yet fully priced, silver is likely to remain volatile, oscillating between its role as an inflation hedge and its exposure to the industrial cycle. We retain our cautious outlook.

Exhibit 2: Gold-oil ratio has risen sharply reflecting squeeze in oil supplies and the resultant energy inflation



Source: LSEG Workspace, and ADCB Asset Management

Exhibit 3: Rising silver-gold ratio indicates that the market has not yet priced in the impact on growth due to commodities’ squeeze



Source: LSEG Workspace, and ADCB Asset Management



Copper: Copper sits at the intersection of structural tightness and cyclical uncertainty. Mine supply remains constrained, and investment in China's grid has re-accelerated, reinforcing medium-term demand. Energy resilience spending across multiple economies is also lifting copper consumption structurally. Yet new supply risks are emerging. Sulphur and sulphuric acid shortages threaten hydrometallurgical copper production, particularly in the DRC, where roughly one million tonnes of supply – around 3% of global output – are at risk. China's suspension of sulphuric acid exports tightens the market further. Freight costs have surged, diesel prices have risen sharply, and smelter disruptions are spreading. These factors keep the copper market tight even as demand risks rise. A combination of higher energy prices, weaker business sentiment, and reduced fiscal space could weigh on industrial activity, but the supply side remains the dominant force in the near term.

Other Metals: The metals complex is also being reshaped by the shock. Aluminium markets have tightened as Middle Eastern smelters sustain damage, prompting upward revisions to price forecasts. Zinc markets outside China remain tight due to continued Chinese imports of mine supply and export duties that limit refined outflows. Diesel prices have become a major cost driver for mining operations, particularly in Australia, where mining is the largest consumer of diesel and where 90% of demand is met through imports that rely heavily on crude flows through Hormuz. Freight rates have surged across dry bulk routes, adding further cost pressure. Coal production, especially in open-cast mines, is highly exposed to diesel availability and pricing, reinforcing the upward pressure on marginal costs. These dynamics collectively support metals prices as demand risks accumulate.

Conclusion

Taken together, the evidence across energy, metals, fertilizers, and petrochemicals points to a commodities complex that is adjusting to a supply side shock. Markets have priced the inflation consequences but not the growth consequences. A swift and credible reopening of the Strait would allow inflation hedges to unwind, ease central bank repricing, and extend the recovery in risk assets. But a delayed reopening would push the system toward inventory exhaustion, demand destruction, and a more challenging macro environment in which duration outperforms, the USD strengthens, and growth-sensitive assets struggle. Commodities would remain central to this macro narrative, not only as price signals but as indicators of how close the global economy is to the tipping point where inflation risk gives way to growth risk.

In this environment, commodities as an asset class remain defined by scarcity, fragility, and the non-linear dynamics of supply disruption. The market is still trading the shock as temporary, but the underlying mechanics argue for a longer and more complex adjustment. The Strait of Hormuz remains the fulcrum on which the entire macro outlook pivots, and until flows normalize, commodities will continue to anchor both inflation expectations and growth risks across the global economy.



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