Commodity currents: Navigating volatility and uncovering opportunity

- **Commodities have regained importance as a hedge against inflation and market volatility.**
- **Oil prices expected to remain between 65-80USD/bbl – both floor and ceiling firmly defined.**
- **Copper markets face near-term risks, but long-term fundamentals support higher prices.**
- **Gold remains a core portfolio asset, while silver is poised for renewed strength in H2'25.**

Asset Allocation perspective: Commodities and inflation

Over the past couple of years, with persistent inflation and rising macro volatility, commodities have regained importance as a long-term hedge against market instability. Traditional assets often falter during rapid price changes, while commodities tend to outperform, especially when supply growth is limited. Historical data shows that structural factors, rather than demand spikes, drive commodity returns – making strategic, not tactical, allocation to commodity asset class more effective. Gold's recent surge, driven by central bank buying amid uncertainty, exemplifies this trend.

Taking a more near-term approach, commodities can add value to multi-asset portfolios by hedging risks associated with inflation (exhibit 1) and weaker USD (exhibit 2). Fortunes of both global inflation and the USD may now be more tied to policy choices of the US administration. While the market is worried that tariffs contribute to US inflation, attack on Fed independence has created downward pressure on the USD. Commodities provide a hedge against both these risks.

In this note we discuss outlook for Oil (page 2), Copper (page 3), Gold (page 4), and Silver (page 5).

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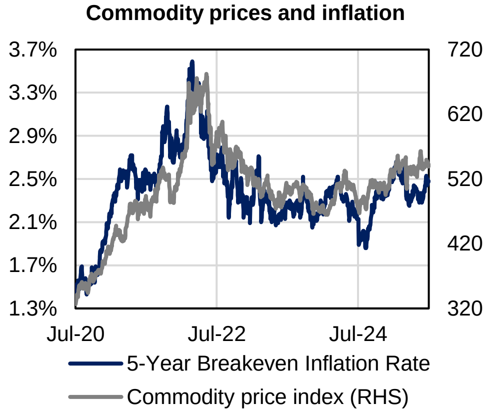
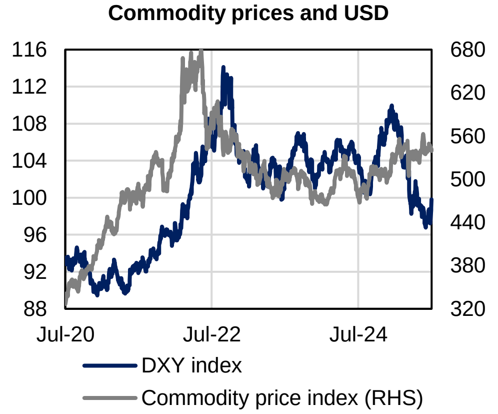
Exhibit 1: Commodities provide hedge against inflation



Source: Bloomberg, FRED, LSEG Workspace, and ADCB Asset Management

Exhibit 2: A weaker USD is positive for commodity prices



Source: Bloomberg, LSEG Workspace, and ADCB Asset Management

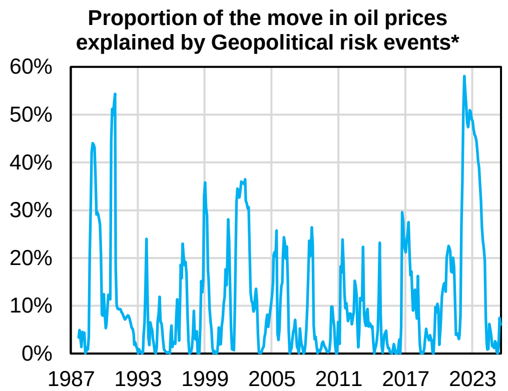
Oil

We expect oil prices to remain range-bound between USD65/bbl and USD80/bbl over the next 12 months, supported by a confluence of structural and geopolitical factors. Inventories across OECD remain stubbornly low, with reserve life declining and visible spare capacity eroding faster than anticipated. Tight supply outside the OECD, falling non-OPEC investments, and the long-tail effect of constrained upstream projects continue to reinforce a firm price floor. Even in bearish scenarios – such as OPEC+ unwind or recessionary demand weakness, Brent's downside is cushioned by strategic builds, elevated risk premiums, and persistent supply fragilities. Marginal improvements like Nigeria's refinery ramp-up are unlikely to meaningfully alter this dynamic. As such, geopolitical risks have ceased to be a sustainable driver of oil prices recently (exhibit 3).

At the same time, the ceiling for Brent prices appears contained. The potential for surplus in 2026 remains a headwind, with OPEC8+ expected to unwind cuts and widen excess capacity to 1.7mb/d. Tail risks such as intensified Chinese stockpiling or a sharp decline in Iranian supply could push prices out of our projected range (exhibit 4), but these scenarios remain unlikely. With demand growth steady but not explosive, and some margin pressures easing, Brent is more likely to oscillate within this structurally supported corridor than break out sharply to the upside.

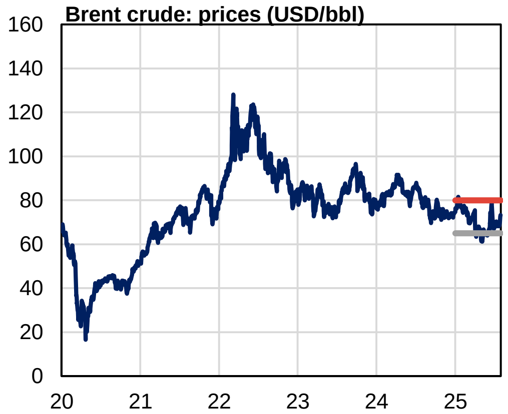
Wild cards remain potent, especially around Russian oil flows. The Trump administration's tightening diplomacy with China and India – and its 10-day ultimatum to end war with Ukraine – could trigger disruptions of up to 2.3mb/d if India aligns with secondary sanctions. In response, Russia might close the CPC pipeline, removing an additional 1.5–1.6mb/d from the market and sending prices sharply higher. However, absent such disruptions, Brent could stay stable based on core fundamentals. In short, volatility may spike – but a firm floor and a capped ceiling define Brent's outlook for the coming year.

Exhibit 3: Geopolitical risks have ceased to be a sustainable driver of oil prices recently



*Source: ICIS Pricing, Economic Policy Uncertainty, LSEG Workspace, and ADCB Asset Management | Notes: *calculated as the r-squared of the rolling 2Y regression (using monthly data) with Brent crude oil price as dependent variable and Geopolitical Risk index as independent variable.*

Exhibit 4: Oil prices have been volatile but range-bound so far during 2025



Source: ICIS Pricing, LSEG Workspace, and ADCB Asset Management

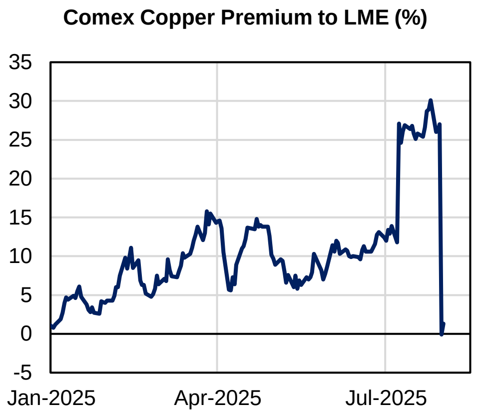
Copper

The newly announced 50% tariff on US imports of semi-finished and copper-intensive products has introduced near-term price volatility, especially across COMEX markets. Refined copper and concentrates have been exempted from tariffs, preserving supply for the 50% of domestic demand they serve. However, the exemption has collapsed the COMEX premium over LME (exhibit 5), exposing domestic prices to inventory excess (exhibit 6). With US refined copper now trading at or below LME to discourage imports, the rebalancing is triggering short-term dislocations and front-load unwinds that leave LME prices vulnerable in the coming months.

Despite the turbulence, the long-term copper story remains intact. The tariff bypasses primary inputs like cathodes and concentrates, ensuring the backbone of US copper consumption remains shielded. While semi-finished product flows are being rerouted, this could incentivize domestic production in the US and self-sufficiency in downstream copper manufacturing over time. Market fundamentals remain resilient, and unless refined copper tariffs are extended in 2027, core supply dynamics will not meaningfully derail structural demand trends.

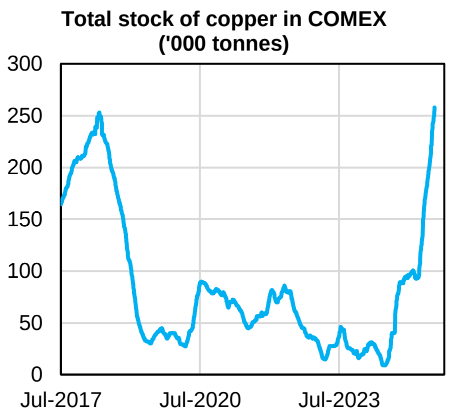
Risks remain two-fold. Direct deliveries into LME sheds could increase inventories faster than expected, further pressuring global prices. Any future tariff extension to refined copper in 2027 could significantly reshape the cost base and supply chain. For now, the near-term will see volatility and localized price impacts, but the broader copper framework continues to hold steady – buoyed by strategic exemptions, disciplined supply responses, structural growth, and a tempered path to monetary policy recalibration.

Exhibit 5: COMEX-LME copper price spread rose sharply on tariff speculation and fell subsequently



Source: COMEX, LME, Bloomberg, LSEG Workspace, and ADCB Asset Management

Exhibit 6: Copper stock on COMEX has reached a multi-year high



Source: COMEX, Bloomberg, LSEG Workspace, and ADCB Asset Management

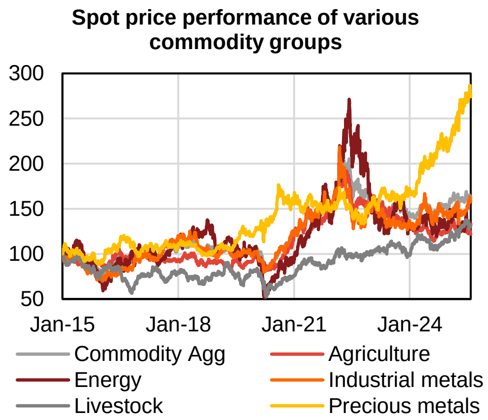
Gold

Gold prices have rallied sharply in recent months (exhibit 7), consolidating within the USD3,200–3,450/toz range since April. Much of the earlier surge was driven by speculative positioning, which has now largely unwound post–"Liberation Day" margin calls, reducing downside risk and restoring a more balanced setup. The more recent move to USD3,355/toz reflects renewed trade tensions and gold's defensive appeal, but with speculative froth cleared, short-term price action may stabilize. From a technical standpoint, this cooling period supports a constructive medium-term outlook as momentum resets.

Central bank gold buying continues to be the bedrock of demand. The latest reading of non-US institutional purchases on the London OTC market came in at 31 tons – nearly double the pre-2022 average. Year-to-date, central bank buying has averaged 77 tons, just shy of expectations, indicating resilience in official sector accumulation. This structural flow, alongside ETF inflows when real yields fall, reinforces price floors and allows gold to hold steady even when speculative interest fades. Our forecasts are for gold to reach USD3,700/toz by end-2025 and USD4,000/toz by mid-2026, the long-term trajectory remains bullish.

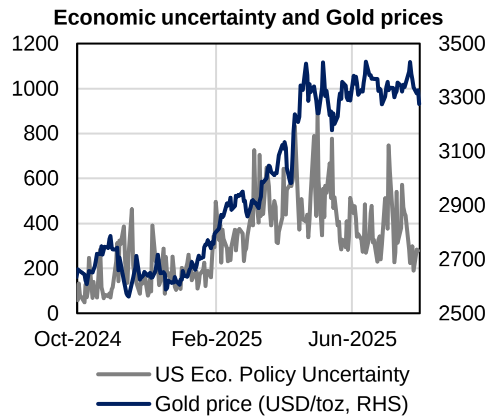
The structural case for gold as a core allocation in multi-asset portfolios is underpinned by persistent macro vulnerabilities (exhibit 8). Political interference in monetary policy – particularly mounting tensions between the White House and the Fed – is reviving concerns around inflation expectations and fiscal dominance. If central bank independence erodes under rising budget deficits, gold's hedge appeal strengthens further. While ETF flows remain sensitive to real rates, any Fed cut – especially one prompted by labour market weakness – could spark renewed demand. In short, gold is pausing after a strong run, but the long-term thesis remains intact.

Exhibit 7: Precious metal prices rose sharply over the past 18 months significantly outperforming other commodities



Source: Bloomberg, LSEG Workspace, and ADCB Asset Management

Exhibit 8: Gold prices may be discounting a significant level of economic policy uncertainty already



Source: Bloomberg, LSEG Workspace, and ADCB Asset Management

Silver

Silver has seen a bumpy ride recently, falling more sharply and recovering more slowly than gold. This reset in the gold-to-silver ratio (exhibit 9) more recently reflects cautious sentiment around silver's industrial exposure amid muted growth forecasts and soft solar demand signals from China. Still, the fundamental deficit in the silver market persists, and investors may regain confidence as broader industrial metals find footing. This is supportive of our view that silver prices are likely to strengthen in H2'25.

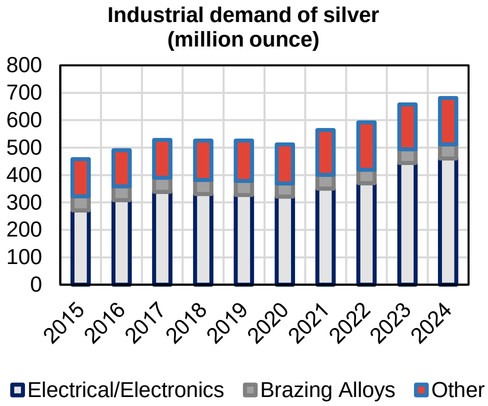
Silver's dual identity – as both an industrial metal (exhibit 10) and a precious asset – gives it a unique edge. Its use spans clean energy technologies, electronics, and investment portfolios, making it highly sensitive to both macroeconomic trends and technological innovation. This blend also makes silver a quasi-safe-haven during geopolitical uncertainty. While gold may remain the primary focus short-term, silver's versatility sets it up well for the next leg of demand-driven strength.

Looking ahead, silver's 12-month outlook appears robust, supported by supply deficits and tailwinds from industrial and financial demand. However, risks linger. A significant slowdown in global manufacturing, breakthroughs that reduce silver usage, or tighter monetary policy could pressure prices. On the flip side, easing rates, inflationary trends, or persistent geopolitical instability would reinforce silver's appeal.

Exhibit 9: Silver is a precious metal (gold-alternative) …

Source: LSEG Workspace, and ADCB Asset Management

Exhibit 10: …but has industrial applications too



Source: The Silver Institute (World Silver Survey 2025), and ADCB Asset Management

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