Express Insights

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ADCB ASSET MANAGEMENT LIMITED

Commodities' veracity

Bottom line: commodities have been the only asset class that got the macro narrative right this year; we review the recent price action and update our views on oil and goldminer equities.

- **Continued weakness in commodity prices is discounting the growth slowdown risks and the resumption of disinflation in major developed countries.**
- **We now see oil prices ranging between 70 and 85USD/bbl and averaging 78USD/bbl over the next 12 months.**
- **Continue to prefer gold as a hedge against a range of risks; we now turn neutral on goldminer equities after the strong rally over the past six months.**
- **For copper, we think the constructive investment case remains; while the price rally has been delayed it has not been derailed.**

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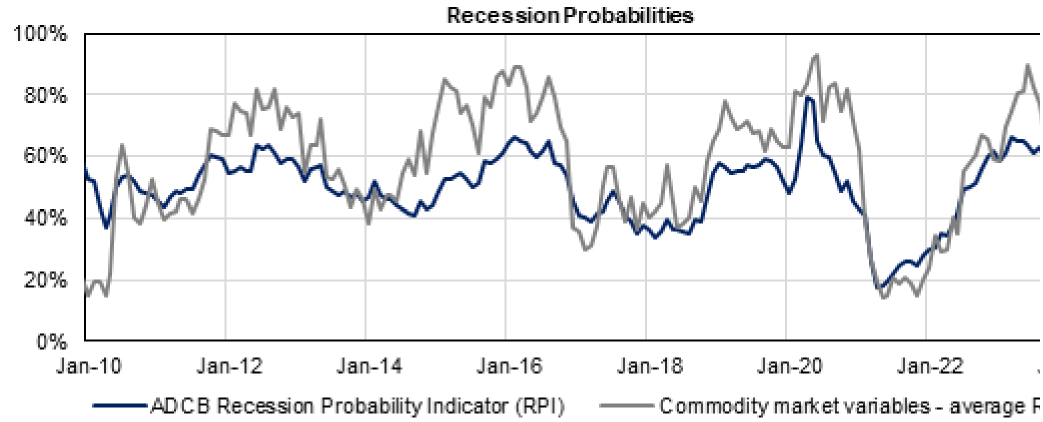
- **Commodity prices are reflecting an imminent slowdown in growth**
  - Commodity price action at the index level continues to be negative, and in our view, aptly reflecting growth slowdown risks and the resumption of disinflationary trend across major developed economies.
  - Even within the asset class, the underperformance of cyclical commodities (industrial metals) vs. the haven assets (precious metals) also highlights the imminent growth weakness.
  - Commodity price action of the recent months (which has been to the downside) is also aptly discounting the rise in recession probability (see chart below).

Commodity prices are reflecting the growth slowdown and rising recession risks appropriately



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

- **Oil: we lower our expected 12-month price range for Brent to 70-85 USD/bbl**
  - Higher than expected supplies from the US and weaker than expected demand from China have exerted a downward pressure on oil prices in recent weeks. Also, a general sell-off in cyclical commodities did not help oil prices.
  - Less than expected demand during the summer months (partly due to cautious Chinese consumer), and a broader shift away from combustion engines to electric vehicles in China has been a defining factor in the demand side of the equation.
  - While OPEC+ has deferred its planned supply increase by two months, we think it is not sufficient to push oil prices materially higher from here.
  - Considering this, we downgraded our 12-month range for Brent crude prices to 70-85USD/bbl (from 80-90USD/bbl previously). We expect Brent crude prices to average 78USD/bbl (85USD/bbl previously) over the next 12 months.
  - On the energy equities, oil producer subsector may be vulnerable to any further downside in oil prices. We note that value is beginning to emerge in the energy equipment & services sub-sector.
- **Gold: we stay positive on gold commodity; but turn neutral on gold miner equities after the strong rally**
  - Central bank buying remains the key source of strength for gold prices. *2024 Central Bank Gold Reserves (CBGR) survey* shows that more than 80% of the 69 central banks surveyed expect global central bank gold holdings to increase over the next 12 months, and the rest expected no change (with none expecting a decrease).
  - While it is true that gold prices have risen through the period of rising real rates and stronger USD defying historical correlations, price-insensitive buyers in the form of global central banks provide the demand support.
  - Further, we like gold as a hedge against a range of risks – geopolitical, recessionary, and inflationary.
  - However, given the recent strength in share prices, we now drop our preference for goldminer equities; we now move neutral from a positive earlier.
- **Copper: investment case delayed, not derailed**
  - Copper prices rallied between February and May this year but fell subsequently. On a cyclical basis, rising recession risks, and slower growth in China have continued to weigh on the prices of industrial commodities.
  - For copper, stocks in London Metal Exchange (LME) warehouses have recently risen sharply to their five-year high exerting further pressure on prices.
  - However, beyond the near-term, we believe that the long-term demand-supply dynamic is supportive of higher copper prices. While demand from green economy sectors is likely to be high and rising, the supply is likely to fall creating a considerable deficit helping prices.
- Taking the rough with the smooth, we think a further rally in copper prices is being delayed due to cyclical factors while the structural case remains strong.

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