

COMMODITY DIGEST

Headline Fatigue

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WHAT'S TOP OF MIND

In an environment defined by headline volatility and growing headline fatigue, maintaining a strategic allocation to commodities can help investors look through short-term market swings and remain positioned for the longer-term inflationary and geopolitical risks that continue to build beneath the surface.

1

GEOPOLITICS

Broken Barometer

The Russia-Ukraine war and Middle East conflict continue to escalate, with repeated calls for de-escalation yielding little tangible progress.

2

ENERGY

Upside Risks Grow

The reaction function for oil prices is weak, but the underlying risks have shifted from crude to diesel, refining capacity, and freight costs.

3

AGRICULTURE

El Niño Dominates

Weather volatility continues to be top of mind amid an intensifying Super El Niño, but geopolitics and Chinese demand also matter.

4

METALS

Macro vs Micro

September's rate hike brought macro concerns back to the forefront, but micro fundamentals continue to provide support.

Commodity Market – Month in Review

+3.41%
in September 2026

The **DBIQ Optimum Yield Diversified Commodity Index ("DBIQ Index")** continued to move higher in September as geopolitical tensions remained front and center, although several sectors were also influenced by commodity-specific developments. Year-to-date (YTD) to end September, the DBIQ Index was up 45.21%.

What Happened

Energy remained the top-performing sector as markets continued to grapple with disruptions to Middle Eastern and Russian energy supplies. A key development was the temporary shutdown of the East-West pipeline, a critical bypass route for the Strait of Hormuz, which briefly pushed Brent close to \$110/barrel (bbl). Refined products led the way, with diesel and gasoil outperforming as tighter trade flows, higher freight costs, and constrained availability deepened shortages across the supply chain.

Agricultural commodities also pulled back. Wheat and corn fell on improving harvest outlooks and easing Black Sea concerns, while soybeans proved more resilient, supported by strong Chinese and US demand and record US crushing. The disappointing outcome of the Trump-Xi meeting provided an additional headwind. Soft commodities plunged, especially cocoa, as easing El Niño concerns sparked an unwind of weather premiums, though sugar proved more resilient.

In **industrial metals**, copper briefly reached a record high before retreating on reports that the White House may take a more cautious approach to cathode tariffs. Despite the pullback, copper remained supported by bullish fundamentals. Nickel was weighed down by persistent Indonesian oversupply.

Precious metals struggled after the Federal Reserve (Fed) rate hike dented the appeal of non-interest-bearing gold.

What We Think

We continue to believe the balance of risks remains skewed to the upside for commodities, especially energy. While oil has struggled to respond to new bullish headlines, the fundamental backdrop continues to tighten as Houthi attacks have steadily increased in frequency and scope, raising concerns that the conflict could spread beyond its current footprint. At the same time, Iran's patience with the status quo appears to be wearing thin as the US midterms approach.

The market's focus has increasingly shifted away from crude oil itself and toward the areas where bottlenecks are most acute: diesel availability, elevated freight costs, and limited refining capacity. Any further disruption to shipping lanes or refining systems would likely be felt first through product markets and freight rates before materially impacting outright crude prices.

Outside of energy, agricultural markets remain highly exposed to a strengthening El Niño, particularly soft commodities such as sugar and cocoa. A constructive backdrop also remains for industrial metals with copper vulnerable to potential El Niño-related supply disruptions, strike activity at key Chilean mines, tighter diesel availability, and higher freight costs. Precious metals continue to benefit from resilient central bank demand and concerns surrounding long-term fiscal deficits and currency debasement, though a higher-for-longer rate environment is likely to exert downward pressure in the near-term.

Geopolitical Update: Broken Barometer



Middle East: US-Iran

Despite President Trump's recent statement that the US will not attack Iran before the November 3 midterm elections, events on the ground continue to point toward escalation. Recent Houthi attacks on Saudi Arabia's airports and Saudi Aramco's headquarter, increased targeting of tankers in the Strait, and growing warnings for personnel to evacuate and avoid critical energy infrastructure have reinforced concerns that the conflict is expanding. While occasional headlines still suggest a diplomatic path forward, a meaningful breakthrough appears increasingly remote. Markets continue to watch for signs of a deal, but repeated cycles of escalation and de-escalation have created a degree of headline fatigue, limiting crude oil's reaction function despite deteriorating fundamentals. The key question is whether the US's current restraint survives the election or merely postpones the next phase of the conflict, as the political calculus could shift once the US midterm elections are in the rear-view mirror.



Russia-Ukraine

Calls for an energy ceasefire between Russia and Ukraine have gained renewed attention, with President Trump announcing multiple efforts to halt attacks on regional energy infrastructure, though neither side appears to have signed on. Russia has continued striking Ukrainian energy assets, while Ukraine maintains it will only stop targeting Russian refineries if Moscow does the same. Ukraine's drone campaign has targeted all but three of Russia's 32 major refineries, with repeated strikes increasingly focused on complex processing units that can take months to repair.¹ While minor damage may be resolved within weeks, more severe outages could last six to eight months, leaving any broader recovery timeline highly uncertain. The disruptions have contributed to domestic fuel shortages and prompted Russia to extend its diesel export ban through October 31. Markets remain skeptical that a lasting ceasefire is imminent, with continued tit-for-tat attacks appearing more likely than a negotiated settlement.

Key Drivers to Watch

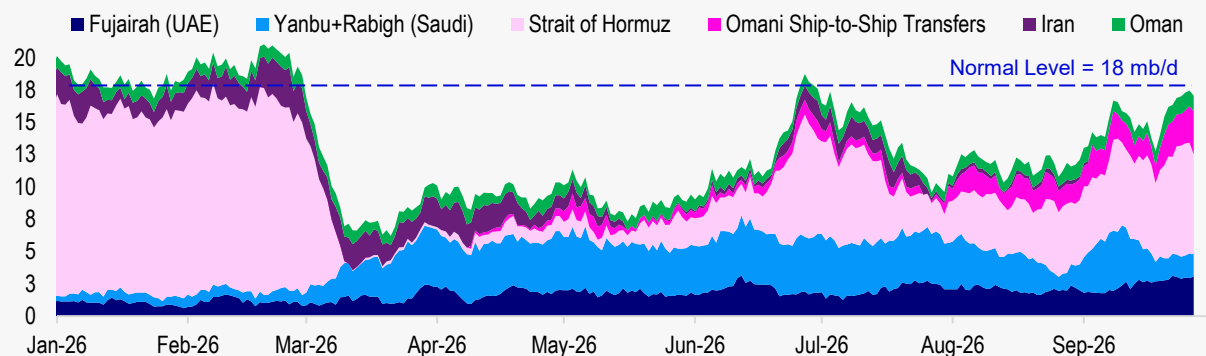
Energy

Upside Risks Grow

- **Middle East crude flows have largely recovered, but refined products remain the real pressure point.** Gulf crude exports have rebounded to roughly 98% of pre-war levels as of the end of September, thanks to bypass routes and dark-transit workarounds, yet product exports have recovered to just 58% of pre-war levels, while US distillate inventories have remained well below seasonal norms since August.^{2,3} At the same time, maintaining these flows while the Strait of Hormuz remains effectively closed requires significant US military and logistical support, with roughly 30% of US naval assets already tied up enforcing the US maritime blockade.⁴ Should Iran escalate efforts to disrupt the alternative routes as it continues to face a double blockade (imports and exports), the recovery in crude flows could prove far less durable than headline export data suggests, leaving already-tight diesel markets dangerously exposed into peak winter heating months.

Total Middle East crude oil exports have recovered to 98% of the pre-war levels²

Million barrels per day (mb/d)



Source: JP Morgan, Kpler as of September 30, 2026.

- **While the return of Gulf oil flows has eased concerns about crude availability, it has exposed a new bottleneck: shipping.** Ongoing disruptions in and around the Strait of Hormuz, combined with sanctions that have sidelined ~13% of the global tanker fleet, are forcing more ship-to-ship transfers and longer voyage routes, reducing effective shipping capacity. Freight rates have surged as a result, with Middle East-to-China shipping costs rising 10x, from roughly \$3/bbl earlier this year to around \$35/bbl recently. Those elevated transportation costs are now squeezing refining margins and increasing the risk of refinery run cuts at a time when diesel inventories are already exceptionally tight and winter heating demand is set to pick up.⁵
- **The US Treasury's decision to waive Russian diesel sanctions through April 2027 grabbed headlines, but the real question is whether Russia has the barrels to sell.** Following months of Ukrainian attacks on refining infrastructure, refinery outages and reduced processing capacity appear to be a larger constraint than sanctions themselves. Meanwhile, despite President Trump's calls for an energy ceasefire, fighting continued, with both Moscow and Kyiv showing little appetite for unilateral de-escalation. While the move removes an important sanctions hurdle and is a clear attempt to ease tight product markets, its effectiveness ultimately hinges on Russia's ability to restore refining, making it unlikely to be a silver bullet for current shortages.
- **The SPR's ability to cushion future energy shocks has rapidly diminished.** While recent drawdowns have slowed, US Strategic Petroleum Reserve (SPR) inventories have fallen to just 283 mb, only modestly above the estimated operational minimum of ~250 mb – as inventories approach the operational floor, withdrawal rates decline and infrastructure damage risks increase. The SPR has served as a key buffer, blunting price spikes earlier in the conflict through releases averaging roughly 5-6 mb/week since April, but its ability to absorb future supply shocks is becoming increasingly constrained.
- **US natural gas has been supported by storm-related supply disruptions and recent cooler weather, but the broader Super El Niño backdrop still points to a generally mild winter.** While forecasts currently call for below-normal heating demand through mid-November, episodic cold outbreaks and freeze-offs could trigger significant volatility. Meanwhile, Europe enters winter with a smaller cushion than usual (74% full), particularly in Germany, home to the continent's largest gas storage system, where inventories are only about 60% full. A colder winter could quickly tighten balances and intensify competition for liquefied natural gas (LNG) cargoes, especially as the European Union's ban on long-term Russian LNG contracts goes into effect January 1.⁶

Past performance is not a guarantee of future results.

Agriculture

El Niño Dominates

- **With the US corn and soybean harvest progressing largely as expected, investors are increasingly focused on the implications of Super El Niño for soft commodities.** Unlike US grains, where El Niño has historically been neutral to bearish for prices, crops such as sugar, coffee, and cocoa are generally more vulnerable to weather disruptions. Sugar has emerged as one of the clearest beneficiaries, with the global market expected to swing from a 5.3M ton surplus in 2025/26 to a 5-6M ton deficit in 2026/27, pushing inventories to a 15-year low.⁷ The key risk to watch is whether production disappointments spread beyond Brazil into India and Thailand, which could deepen the deficit and keep upward pressure on sugar through early 2027, though some of that may already be priced in given elevated investor positioning. Cocoa also bears watching, as adverse conditions in West Africa could weigh on output in Ivory Coast and Ghana, the world's two largest cocoa producers. However, ample inventories and weaker demand are currently limiting the upside.
- **Wheat and corn remain the agricultural commodities most directly impacted by today's geopolitical backdrop.** Black Sea export flows have proven more resilient than many initially feared with Russia still expected to be the world's largest wheat exporter in 2026/27 even as war-related logistical constraints weigh on export volumes.⁸ However, recent attacks on commercial vessels near Romania and Bulgaria highlight the growing risks facing the southern Black Sea corridor, through which many rerouted grain exports now move.⁹ At the same time, US wheat exports are forecasted to fall to a three-year low, with domestic supplies constrained by drought and the smallest planted area on record dating back to 1919.⁸ Beyond wheat, agricultural markets continue to face pressure from elevated diesel, freight, and input costs, while stronger biofuel economics provide support for crops such as corn, soybeans, and sugar.
- **Chinese demand remains a key swing factor for agricultural markets.** The bright spot has been soybeans, with China already purchasing over 50% of its annual US soybean commitment of 25M metric tons.¹⁰ However, the recent Trump-Xi summit disappointed investors by failing to deliver any new agricultural purchase agreements, limiting expectations for a broader acceleration in Chinese buying. Soybeans remain the clearest beneficiary of Chinese demand, while purchases of other agricultural products, particularly corn, continue to lag. Looking ahead, weaker feed consumption, elevated inventories, and soft crush margins in China raise questions about how much incremental soybean buying will be needed beyond existing commitments.

Macro vs Micro

Industrial Metals

- **Industrial metals continue to face macro headwinds from a stronger US dollar, higher-for-longer interest rates, and concerns that persistent geopolitical tensions and elevated energy prices keep inflationary pressures elevated.** China's uneven economic recovery also remains a source of uncertainty, with ongoing weakness in the property sector offsetting strength in manufacturing, power infrastructure, electric vehicles, and renewable energy investment. As a result, industrial metals could remain susceptible to periods of near-term volatility and macro-driven pressure, but the longer-term outlook remains constructive. Data centers, grid expansion, and electric vehicles are already expected to account for roughly 40% of global copper demand this year and could drive as much incremental copper demand growth in the years ahead as the entire copper market generated over the past decade.¹¹ This should continue to provide an important tailwind for copper and the broader industrial metals complex, even against the challenging macro backdrop.
- **Copper remains one of the industrial metals most exposed to supply-side disruptions.** Demand has recently received support from China's return from Golden Week, with China's Yangshan premium climbing to a four-year high, signaling stronger import demand.¹² At the same time, tariff concerns continue to distort inventory flows, with US stockpiles hitting record highs while inventories elsewhere remain relatively tight. Against that backdrop, the market continues to face a triple threat from potential diesel tightness in South America (diesel is used to power machinery), El Niño-related weather risks, and labor disputes at major Chilean mines. Recent discussions surrounding a potential US diesel export ban highlighted a key concentration risk, as Chile and Peru account for roughly 40% of global copper mine supply yet rely on the US for more than 70% and 50-60% of their diesel imports, respectively.¹³ Meanwhile, a strengthening El Niño raises the risk of flooding and operational disruptions across Chile and Peru's main copper-producing region.
- **After years of relentless oversupply, nickel's long-running bear market may finally be starting to turn.** Production curbs and tighter mining permits in Indonesia have significantly slowed supply growth, while demand from stainless steel and electric vehicles continues to expand. Although the market is not yet tight, surpluses have narrowed sharply, inventories have stabilized, and the balance sheet is moving in the right direction, suggesting downside risks are becoming increasingly limited after a prolonged bear market.¹⁴

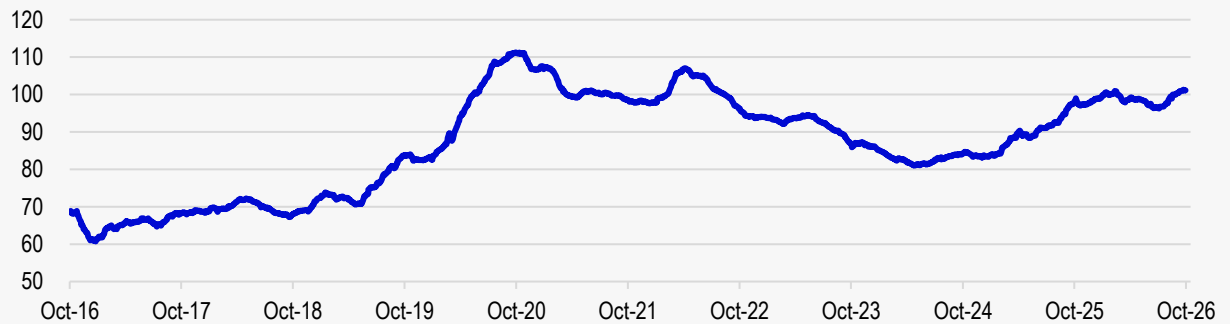
Precious Metals

Near-Term Pressure

- Gold faces near-term headwinds as expected higher-for-longer interest rate expectations continue to push real yields higher.** While markets largely see the Fed holding rates steady at its October meeting (72% probability for no change¹⁵), the stronger-than-expected September inflation print and concerns that geopolitical tensions drag out have led some investors to price in another quarter-point hike before year-end. Those expectations have weighed on gold, but the metal has remained remarkably resilient, falling only modestly. A key source of support has been sticky ETF holdings, alongside a renewed pickup in central bank buying and ongoing demand from investors seeking protection against long-term currency debasement. As a result, gold could remain vulnerable to further near-term weakness if rate expectations continue to firm, but we expect structural buyers to provide support on dips, with a more constructive backdrop emerging if the Fed ultimately under-delivers on additional tightening.
- Silver's upside appears more limited from here despite the market remaining in deficit.** The key driver is weakening industrial demand, particularly from the solar PV sector, which has been the largest source of incremental silver consumption in recent years. High silver prices have accelerated efforts by manufacturers to reduce silver loadings, while solar installation growth is slowing, especially in China after a pull-forward in 2025 demand. As a result, the silver deficit is expected to shrink dramatically in 2026, leaving the market vulnerable to even modest investor selling. While a continued rally in gold could provide support and drive periodic silver strength, easing fundamental demand suggests silver is unlikely to sustain the kind of outperformance seen over the past several years.¹⁴

Total Known Holdings of Gold in ETFs

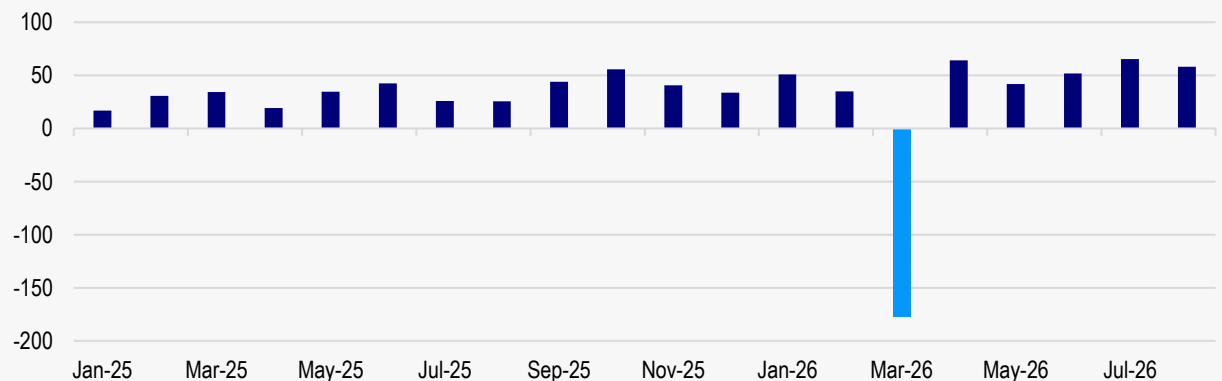
Million troy ounces



Source: Bloomberg L.P. as of October 15, 2026. Represented by the Total Known ETF Holdings of Gold (ETFGTOTL) index which is an aggregate measure of physical gold held across a set of major physically backed gold ETFs tracked by Bloomberg L.P. An investment cannot be made into an index.

Global Central Bank Gold Purchase Have Resumed

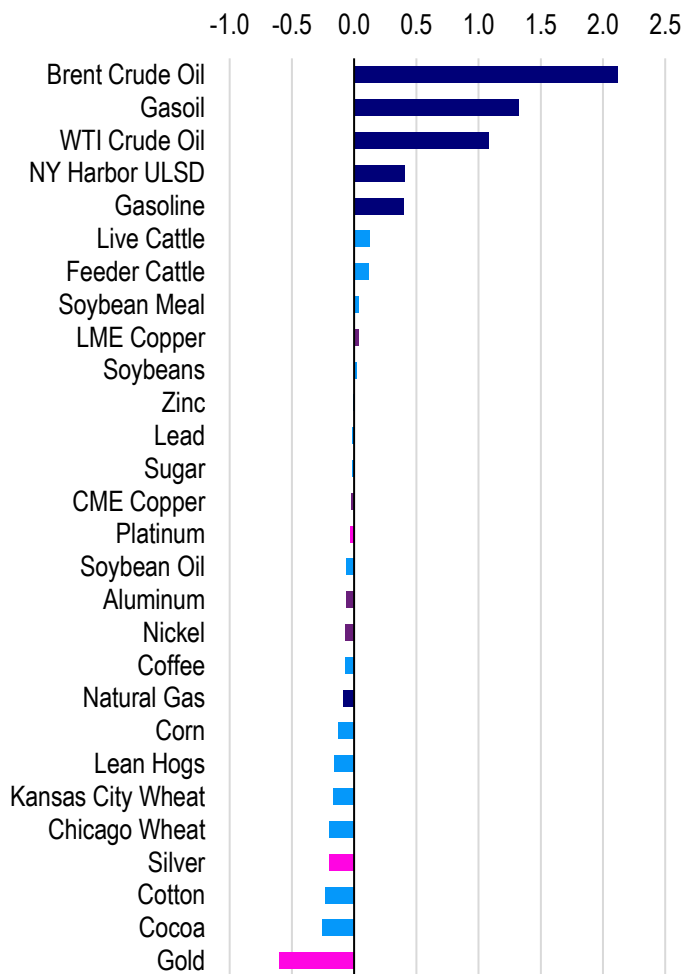
Tonnes



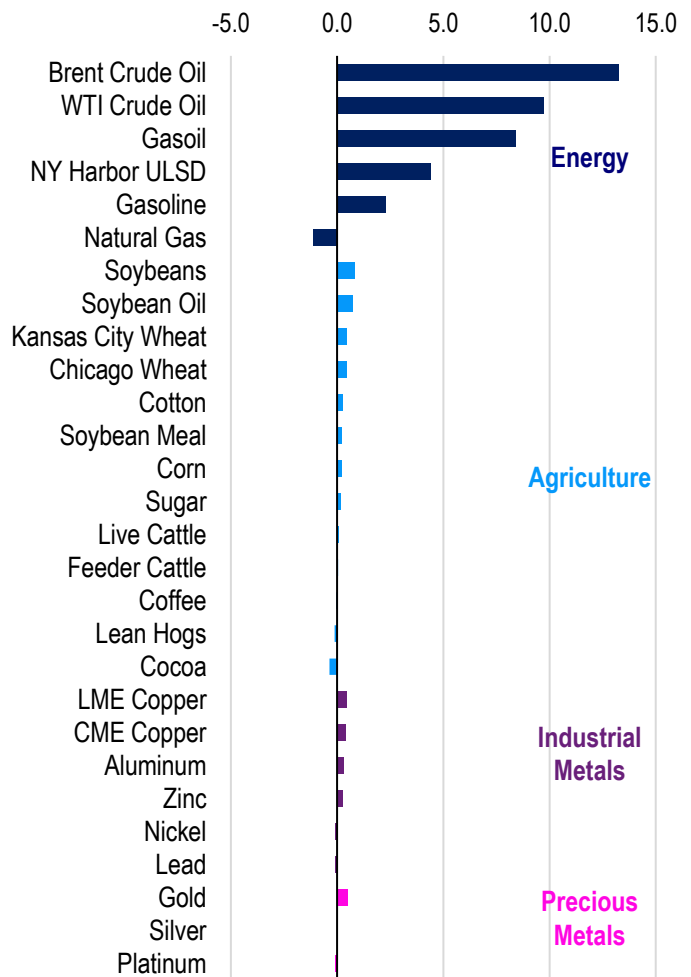
Source: World Gold Council (WGC). Recent reported changes in central bank reserve holdings. Updated as of October 2026. Data as of August 2026, sourced from IMF International Financial Statistics; ECB, Weekly Financial Statement, national sources.

DBIQ Optimum Yield Diversified Commodity Index

Attribution by Commodity (%) – September 2026



Attribution by Commodity (%) – YTD 2026



Source: FactSet as of September 30, 2026. DBIQ OY Commodity Index is a rule-based index composed of futures contracts of the most heavily traded and important global commodities across energy, metals, and agriculture. An investment cannot be made into an index. CME = Chicago Mercantile Exchange. LME = London Metal Exchange.

Notes

1. International Energy Agency (IEA), Russian Refinery Attacks Tracker, October 12, 2026. Coverage includes Russian oil refineries with a crude processing capacity of at least 40,000 b/d. Smaller processing facilities and mini-refineries are not included. Only confirmed drone and missile strikes are tracked. Attempted or intercepted attacks as well as suspected sabotage are excluded.
2. JP Morgan, Oil Flash Note: The final 11%, September 29, 2026.
3. US Energy Information Administration (EIA), Weekly US Ending Stocks of Distillate Fuel Oil, October 02, 2026.
4. RBC Insight, Commodity Comment: At What Cost?, October 01, 2026.
5. JP Morgan, Oil Flash Note: April comes twice, October 09, 2026.
6. RBC Insight, Energy Flashpoints: Contagion Effect, October 13, 2026.
7. JP Morgan, Agricultural Markets Weekly, October 02, 2026.
8. US Department of Agriculture (USDA), Wheat Outlook: September 2026, September 15, 2026.
9. Goldman Sachs Research, Agriculture Analyst: Black Sea Grains Rerouting: Only Partial and Risky, October 13, 2026.
10. The New York Times, China Promised to Buy More US Farm Goods. It Hasn't Happened, September 21, 2026.
11. Bank of America Research, Metals Strategist: Electrifying outlook for metals, June 26, 2026.
12. Bloomberg L.P. as of October 15, 2026. Represented by the China Yangshan Copper Cathode Premium (Warehouse Warrant against LME Spot) Index (CECN0002).
13. JP Morgan, Metals Weekly: El Niño and diesel refocus attention on supply risks; Copper faces a triple threat, September 25, 2026.
14. Bank of America Research, Metals Strategist: Mined commodities resilient, but Iran war remains a headwind, June 26, 2026.
15. CME Group, FedWatch Tool, as of October 15, 2026.

Investment risks

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