



ICBC  Standard Bank

EMCO

Interim 2026

The Aftershock

Emerging Markets and Commodities Outlook

Contents

Foreword	2
Executive summary	3
Emerging Markets: Resilient through the crisis	11
RMB: The next “hard currency”	23
Commodity Markets: Transition in a new global order	51

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Foreword

Events since our year-end 2025 inaugural EMC0 report inspired us to look beyond business cycles and market reactions. The aftershock from prolonged geopolitical uncertainty and market volatility has accentuated the resilience of emerging markets, global recognition of RMB as the next 'hard currency' and accelerated energy transition.

Emerging markets have demonstrated notable resilience in the face of recent geopolitical shocks, with limited financial stress reflecting structurally stronger macro frameworks, improved policy credibility, and enhanced external buffers. Investor confidence has remained broadly intact, and performance dispersion is increasingly driven by country-specific fundamentals rather than systemic vulnerability.

The global monetary system is gradually evolving toward greater multipolarity, with the RMB emerging as a credible future hard currency. Progress in offshore liquidity, capital market development, and commodity-linked usage is reinforcing its role as a reserve, settlement, and diversification asset. This trajectory is expected to accelerate over the next decade as RMB adoption deepens across trade, FX, and financial markets.

Against this backdrop, commodity markets are entering a structural transition, with pricing increasingly shaped by geopolitical risks, supply constraints, and strategic competition rather than purely cyclical demand. Tightening supply conditions, alongside sustained demand from energy transition and technological investment, are reinforcing commodities' strategic importance while driving persistently higher volatility.

“

风向变时，有人筑墙，
有人造风车。

”

(When the wind changes,
some build walls, while others
build windmills.)

“

**A smooth sea never
made a skilled sailor.**

”

Executive summary

Emerging Market resilience

EM and frontier markets remained resilient through the Iran-US shock, with limited spread widening and broadly stable currencies.

Stronger policy frameworks, larger FX buffers and improved external positions have reduced systemic vulnerability.

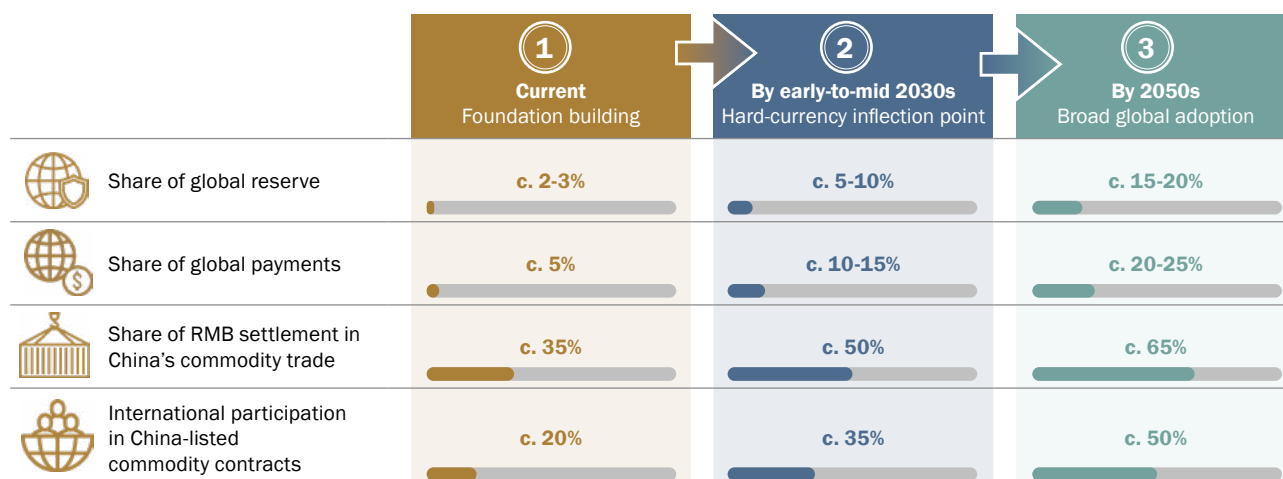
Performance dispersion is increasingly country-specific, with risks more tied to prolonged supply disruption than to price levels alone.

RMB as next 'hard currency'

RMB is emerging as a credible hard currency in a more multipolar monetary system, with CNH benefiting from rising convertibility, credibility and liquidity.

We expect CNH to achieve hard-currency status by mid 2030s, supported by higher share of reserves, broader global payments and settlements in commodity trade.

Together, these trends strengthen RMB's role as a settlement, invoicing and investment currency, thereby consolidate its adoption in global markets.



Commodity dynamics under energy transition

Commodity markets are shifting from a cyclical, demand-led framework to one increasingly shaped by geopolitics, supply-chain risk and strategic competition.

Disruptions in the Strait of Hormuz have tightened energy balances, raised transport and input costs, and increased volatility across energy and metals.

Energy markets have moved from surplus to deficit, while base metals are supported by energy transition demand and rising national strategic focus on critical mineral security. Gold continues to benefit from sustained central bank buying and broader reserve diversification.

Over the medium term, electrification, energy transition and AI-related infrastructure should support demand, while constrained supply points to tighter markets and higher volatility.

Map one – RMB Internationalisation: Countries and regions with most diversified trade with China likely to enhance RMB adoption

Total Trade Volume with China



1

5

Level USD mn

Total Trade (Level 1 – 5)

Level	USD mn
5	>=100,000
4	<100,000
3	<30,000
2	<15,000
1	<7,500



RMB opportunities: Vietnam, the Philippines, India, Uzbekistan, Kazakhstan, Saudi Arabia, the UAE, Peru, Mexico, and New Zealand



International RMB hub: Hong Kong, Singapore, London

Corridor-based internationalisation



Trade and
FDI ties



RMB settlement
demand



Clearing banks /
swap lines /
CIPS access



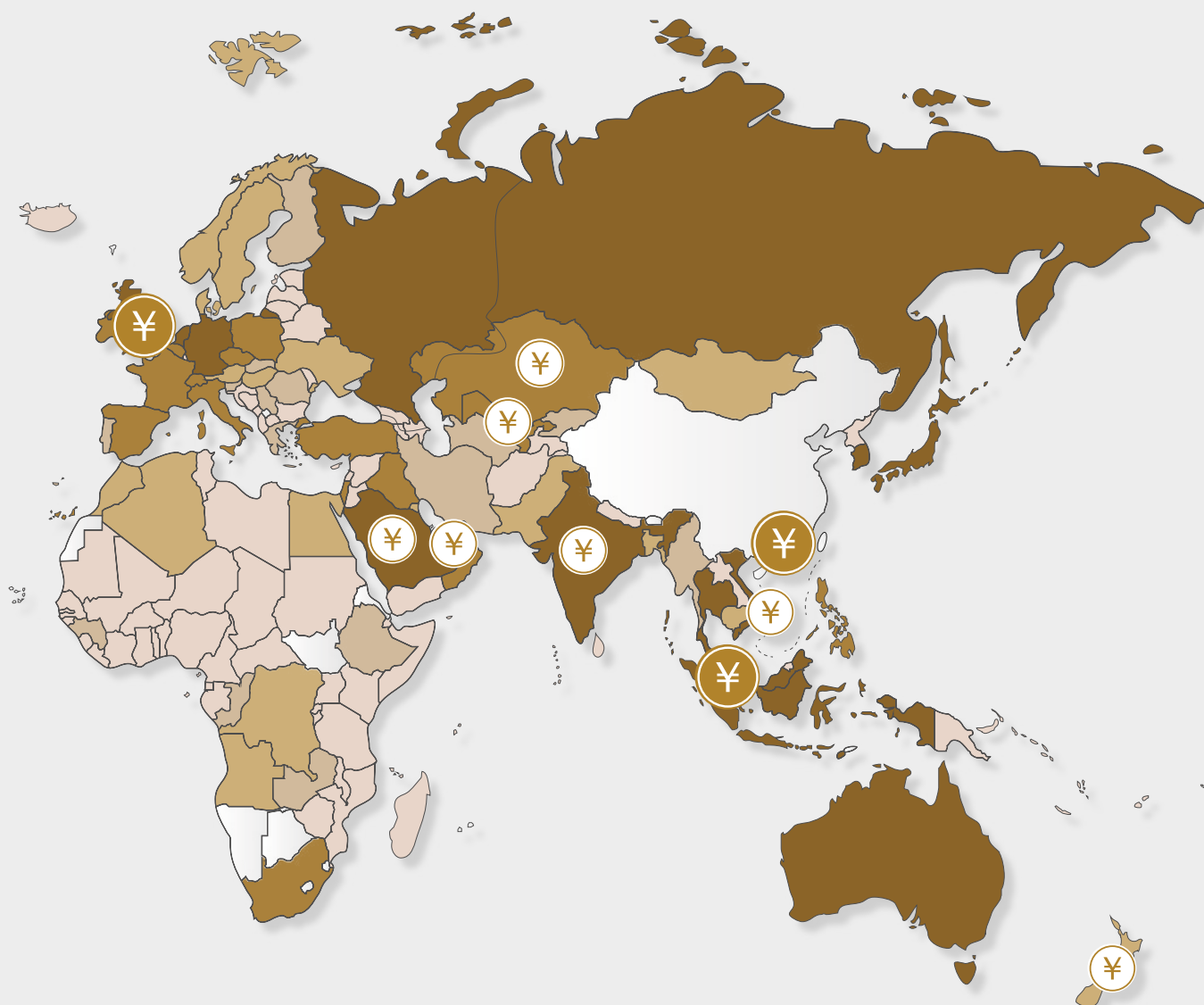
Offshore liquidity
and hedging



Bonds, repo,
reserve and
treasury use



Regionalisation is emerging as a strong engine of RMB internationalisation. It deepens first in dense trade and financial corridors, where repeated use can evolve into financing, investment and store-of-value functions.



Differentiation of RMB usage

International RMB hubs Hong Kong, Singapore, London

- Clearing banks access and/or direct CIPS connectivity
- Deeper liquidity pools and stronger institutional ecosystems
- Better legal, custody and treasury infrastructure
- More investable RMB assets and financing channels

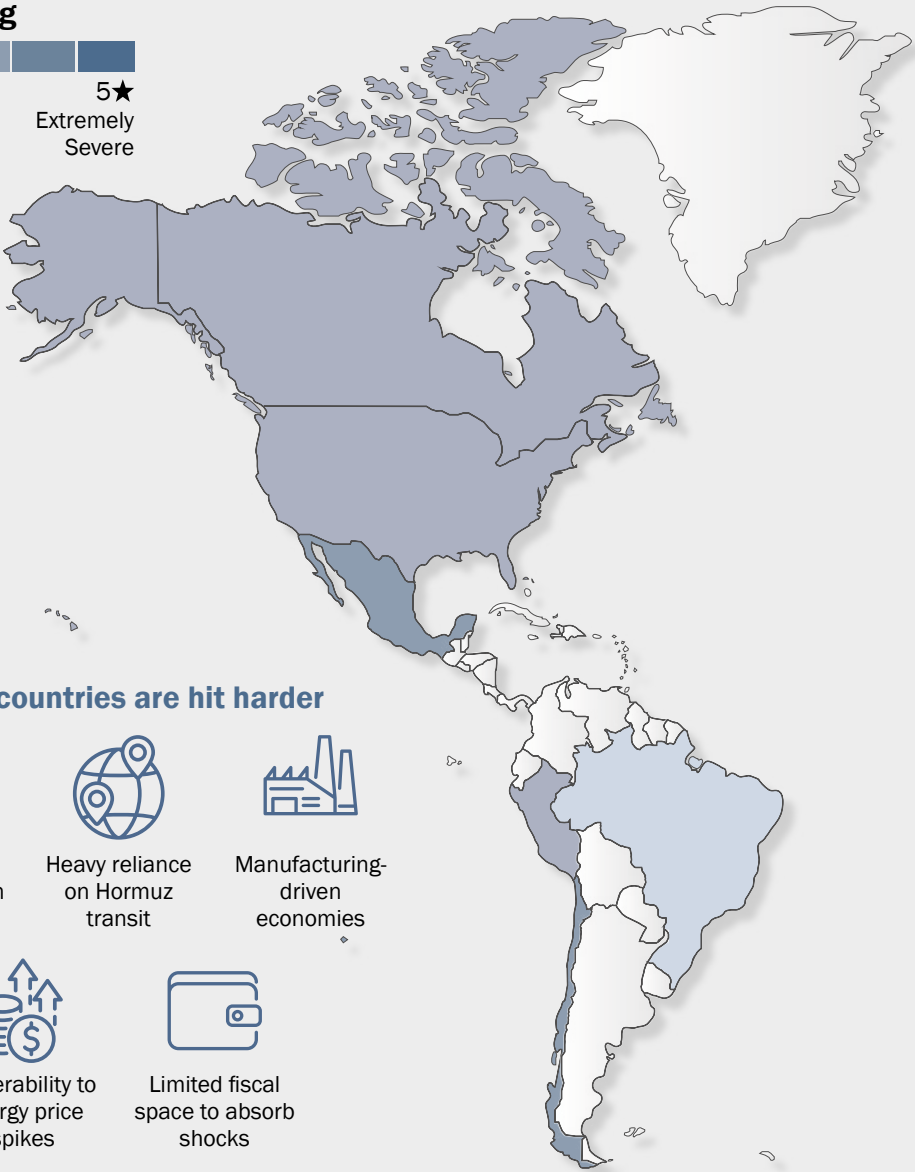
VS

RMB Demand Originators ASEAN, Gulf, Africa, CIS

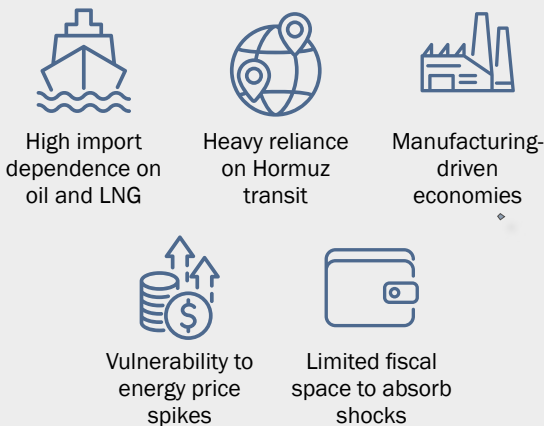
- Trade and payment demand for RMB
- Limited CNH market depth, infrastructure, hedging solutions, and capital market access

Map two – Countries and regions most affected by the Iran war and the closure of the Strait of Hormuz

Impact Rating



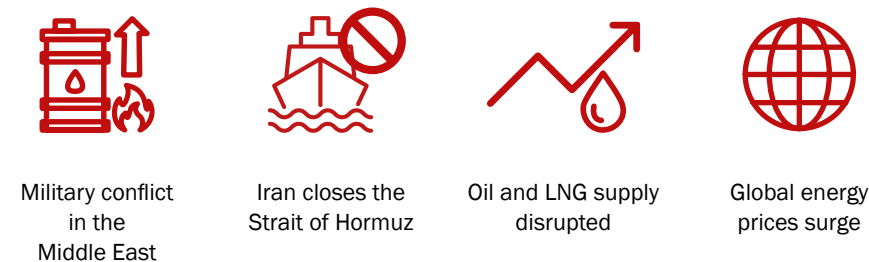
Why some countries are hit harder



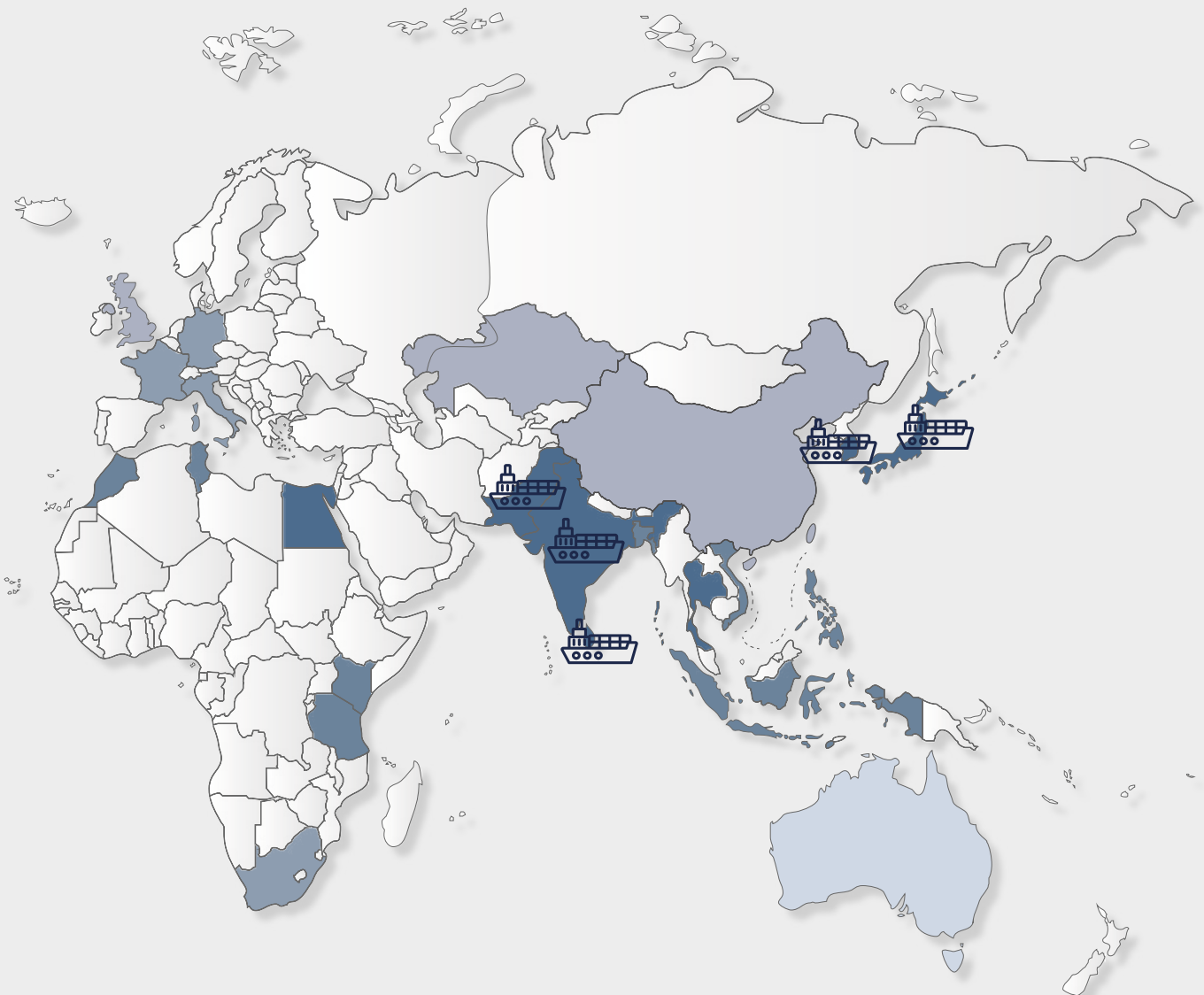
Country Impact Rating

Japan	★★★★★
South Korea	★★★★★
India	★★★★★
Pakistan	★★★★★
Sri Lanka	★★★★★

The crisis trigger: Iran war and Hormuz Strait closure



 The Strait of Hormuz carries ~20% of global oil and ~20% of Global LNG seaborne trade 



Importance of the Strait of Hormuz



~20%
of global oil
seaborne trade



~20%
of global LNG
seaborne trade



~17 m
barrels of oil
per day



~1/3
of Asia's LNG
imports

No easy alternatives. Disruption = higher prices, longer routes, supply risks

Map three – Strategic supply position in energy transition metals

Share of primary energy consumption from renewable sources



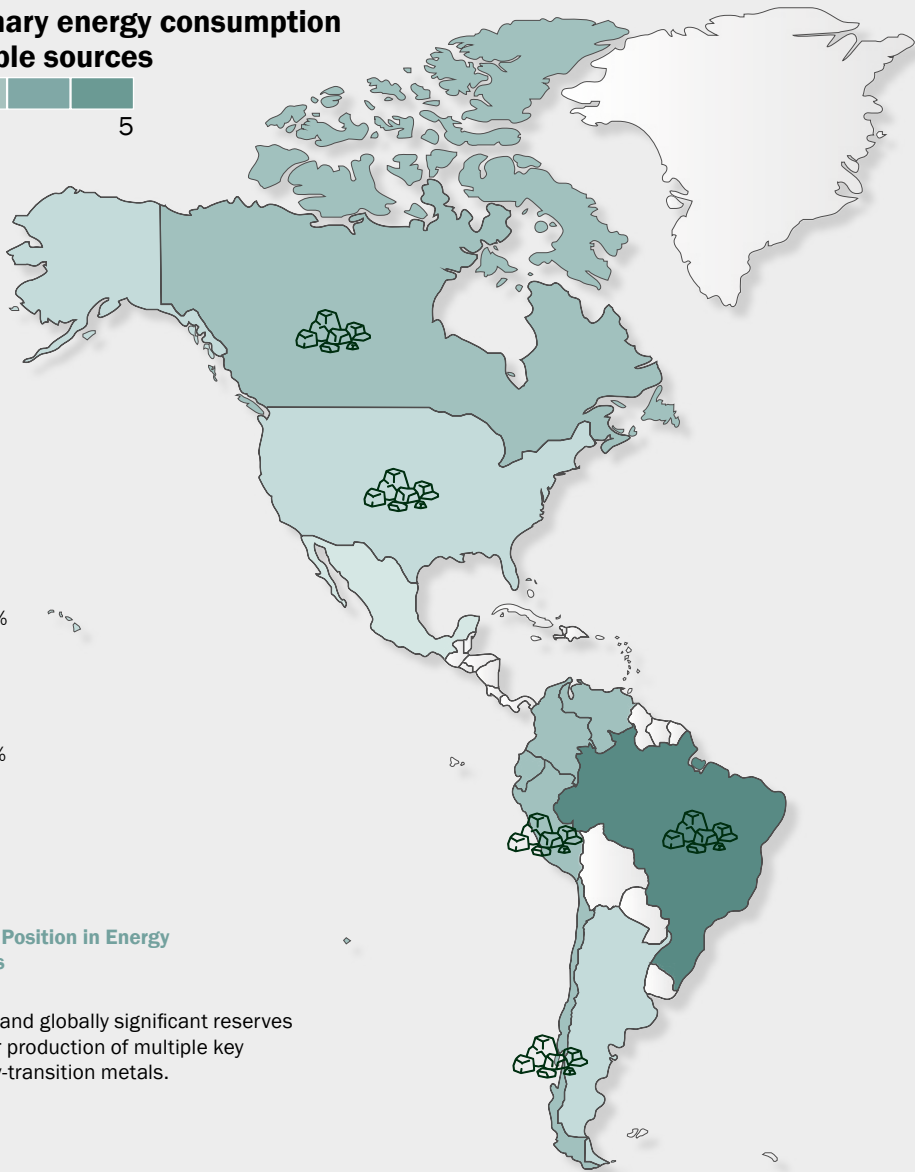
(Level 1 – 5)

Level	%
5	>=50%
4	>30%
3	>20%
2	>=10%
1	<10%

Strategic Supply Position in Energy Transition Metals



Broad and globally significant reserves and/or production of multiple key energy-transition metals.



Accelerated energy transition and electrification

Faster build-out of clean energy infrastructure



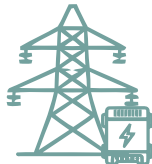
Wind power



Hydro power



Nuclear power



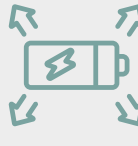
Grid and Storage infrastructure

More investment, faster deployment, stronger grids

Acceleration of EV transition



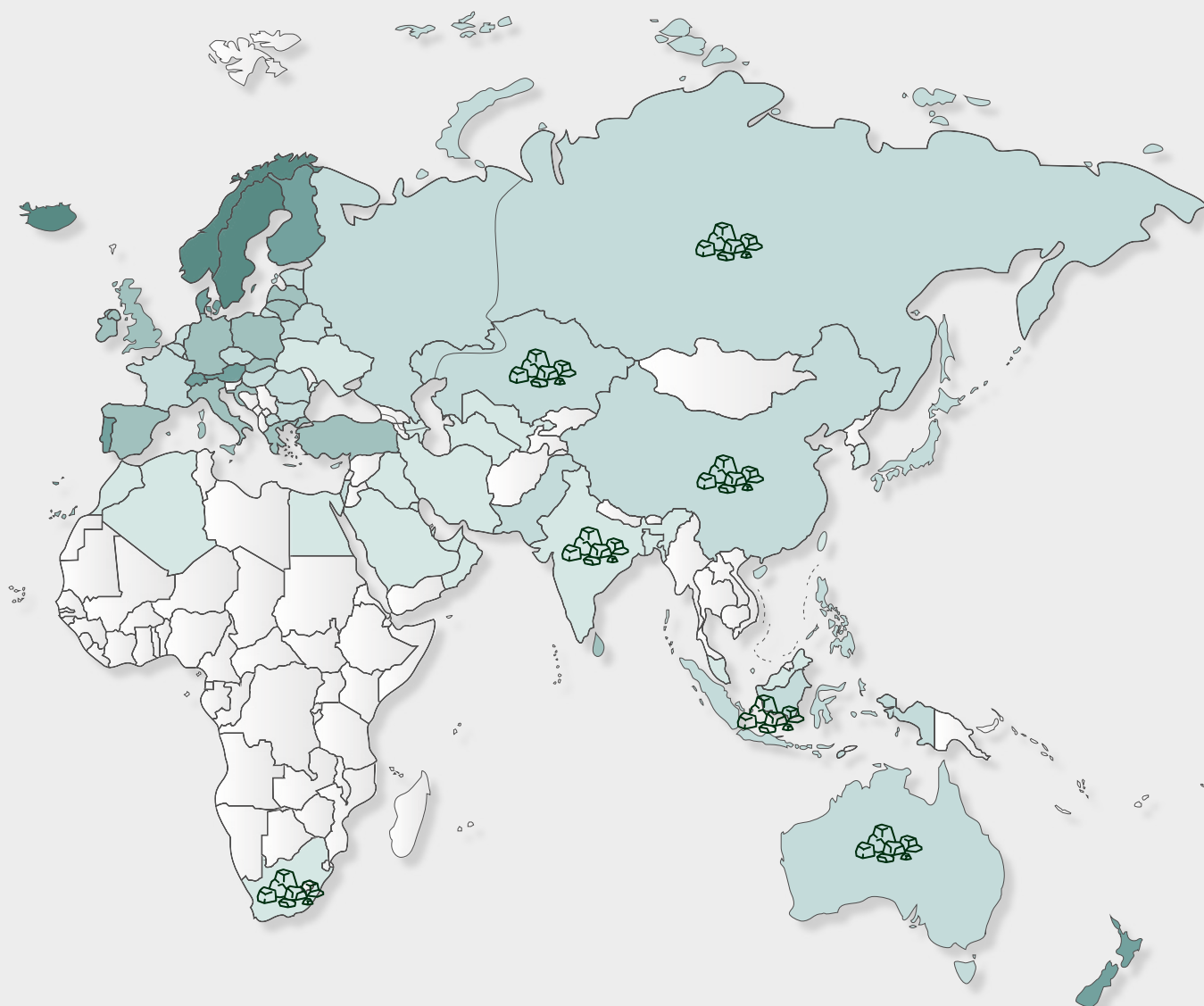
EV adoption accelerates



Battery capacity expands



Charging infrastructure scales



A divided world: Resource endowment vs. capability gap

Resource-rich countries

(Abundant in critical metals, symbols on the map)



Rich in copper, nickel, aluminium, cobalt, etc.
Often emerging economies
Limited capital, technology, and industrial capacity
Slower energy transition and industrial development

Capability-rich countries

(Strong demand and limited resources, darker shading on the map)



Strong economy, technology, and innovation
High ambition for energy transition
Limited domestic reserves of critical minerals
High dependence on imports

Map one – RMB Internationalisation: Countries and regions with most diversified trade with China likely to enhance RMB adoption

Countries with strong trade linkages to China but partial RMB infrastructure (e.g., clearing bank designations, PBoC bilateral swap lines) and exhibiting considerable development potential include Vietnam, the Philippines, India, Uzbekistan, Kazakhstan, Saudi Arabia, the UAE, Peru, Mexico, and New Zealand.

Against this backdrop, RMB liquidity and investment activity are mainly concentrated in core offshore hubs, notably Hong Kong (within the Asian time zone), Singapore (as a key commodities hub), and London (as the primary centre outside Asia).

In particular, London plays a strategic role in RMB internationalisation by extending CNH market functioning beyond Asian hours, bridging global liquidity pools, and reinforcing RMB's role as a trade and financing currency in global commodity and EM markets.

Map two – Countries and regions most affected by the Iran war and the closure of the Strait of Hormuz

The geopolitical tensions involving Iran and the effective closure of the Strait of Hormuz—disrupting c. 20% of global seaborne crude oil and LNG supply—have triggered a major energy shock. This map benchmarks countries most affected under this scenario using a framework combining (i) energy import dependence, (ii) supply-route concentration, and (iii) macro buffers. Results are illustrated through varying shade intensity, with darker shades indicating greater vulnerability.

The most affected economies are concentrated in Asia and parts of the Middle East's extended trade network—particularly Japan, South Korea, India, Pakistan, Sri Lanka and Egypt—due to their heavy reliance on Middle Eastern crude oil and LNG transported through the Strait of Hormuz. Several also face pressure from imported fertilisers and industrial inputs, alongside limited FX and fiscal buffers, amplifying inflation and balance-of-payments risks. A second group, including Thailand, Indonesia, Vietnam and the Philippines, is represented by moderately dark shading, reflecting significant but comparatively lower exposure supported by larger domestic markets or strategic reserves. Overall, the crisis highlights the structural risks of concentrated energy supply chains and reinforces the need for greater energy diversification and renewable investment.

Map three – Strategic supply position in energy transition metals

This map evaluates countries along two dimensions: (i) the share of primary energy consumption from renewable sources; and (ii) strategic positioning in energy transition metals based on the scale and diversity of critical mineral reserves and production. Both dimensions are represented through varying shade intensity to facilitate cross-country comparison.

The distribution highlights a structural divergence between emerging and advanced economies in the energy transition. Emerging markets such as Chile, Peru, Indonesia, South Africa and Kazakhstan combine strong critical mineral endowments with relatively lower renewable integration, positioning them mainly as upstream suppliers benefiting from stronger transition-metal demand. Brazil stands out as a more balanced case, combining renewable capacity with substantial mineral resources, potentially enabling greater downstream development. By contrast, advanced economies including Iceland, Norway and Sweden display darker renewable-energy shading, reflecting stronger integration of hydropower, geothermal and wind systems and lower exposure to fossil-fuel shocks, but remain reliant on imported critical minerals due to limited domestic resources. This divergence is increasingly reshaping global critical-minerals supply chains and long-term trade dynamics.



Emerging Markets: Resilient through the crisis

Emerging markets remain resilient through the crisis

Summary

- Emerging and frontier markets proved resilient during the Iran-US crisis, with limited bond spread widening and broadly stable or appreciating currencies relative to past global shocks.
- This resilience reflects years of improved macro frameworks, including stronger FX reserve buffers, more flexible exchange rates, tighter fiscal management, and more credible monetary policy regimes.
- De-dollarisation trends and a structural rise in remittance inflows have strengthened external positions, increasing FX liquidity and helping cushion higher energy import costs.
- Investor sentiment remained supportive, with strong inflows into EM assets ahead of the crisis and only partial, concentrated outflows thereafter, indicating sustained confidence.
- The energy shock, while sharp, remained moderate in historical real terms with risks from a protracted duration of the conflict that leads to potential supply disruptions rather than from price levels alone.
- Performance dispersion has been driven primarily by country-specific fundamentals and policy credibility, with frontier currencies delivering strong, quickly recovering returns and highlighting attractive risk-adjusted opportunities.

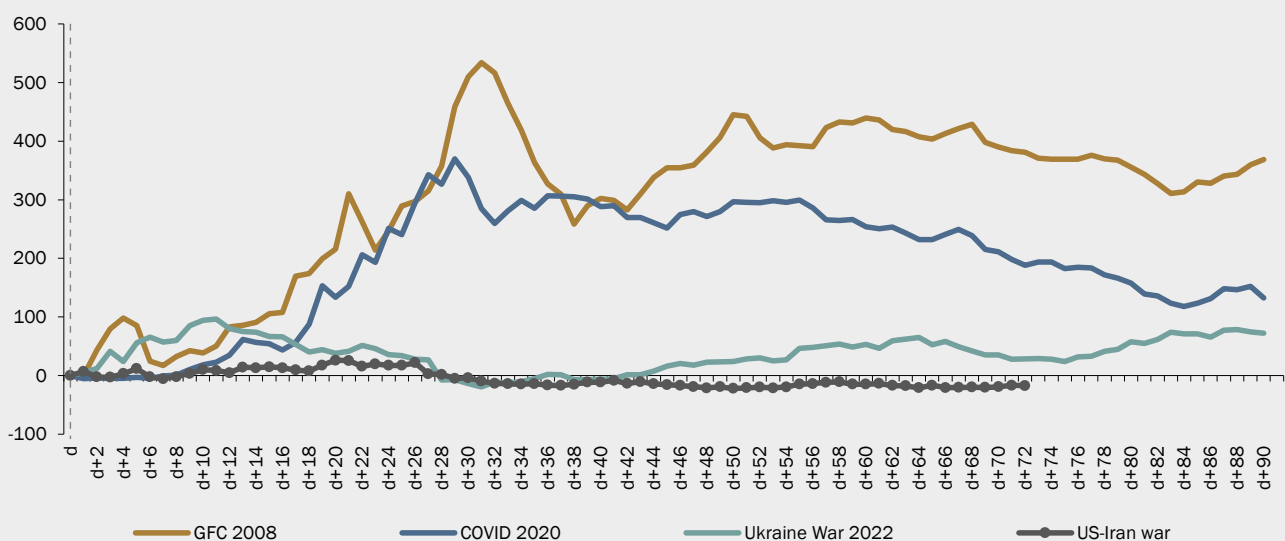
As we expected, emerging markets have performed well through the energy crisis that ensued from the Iran-US war

In our inaugural EMCO report of December 2025, we set out the case for investing in emerging and frontier markets, arguing that these economies had become structurally more resilient to external shocks. The Iran-US war offered a real-time test of this thesis, and in our view, emerging markets as a whole have passed it convincingly.

Compared to other crisis episodes, market indicators have performed relatively well. US-denominated government bond spreads barely moved in a departure from previous crisis episodes that affected markets globally, such as the Global Financial Crisis of 2008 or the COVID 2020 pandemic and had a more measured initial adjustment compared to the spreads widening post the 2022 invasion of Ukraine.

The currencies of emerging market countries did also behave as a whole better than in previous crises. Most currencies have appreciated against the USD year-to-date, with the currencies of east Asian countries performing worse than those in central Asia, Latin America and Africa.

EM sovereign bond spreads in times of recent crises (change in bp)



Source: Bloomberg and ICBCS

A trend towards sounder external and domestic policies has provided a strong support

Our original assessment was grounded in a series of policy improvements observed across the asset class in recent years, which have contributed to stronger sovereign credit profiles.

On the external front, many countries have built more robust buffers and greater exchange rate flexibility, moving away from unsustainable managed pegs, and leading to strong reserve accumulation.

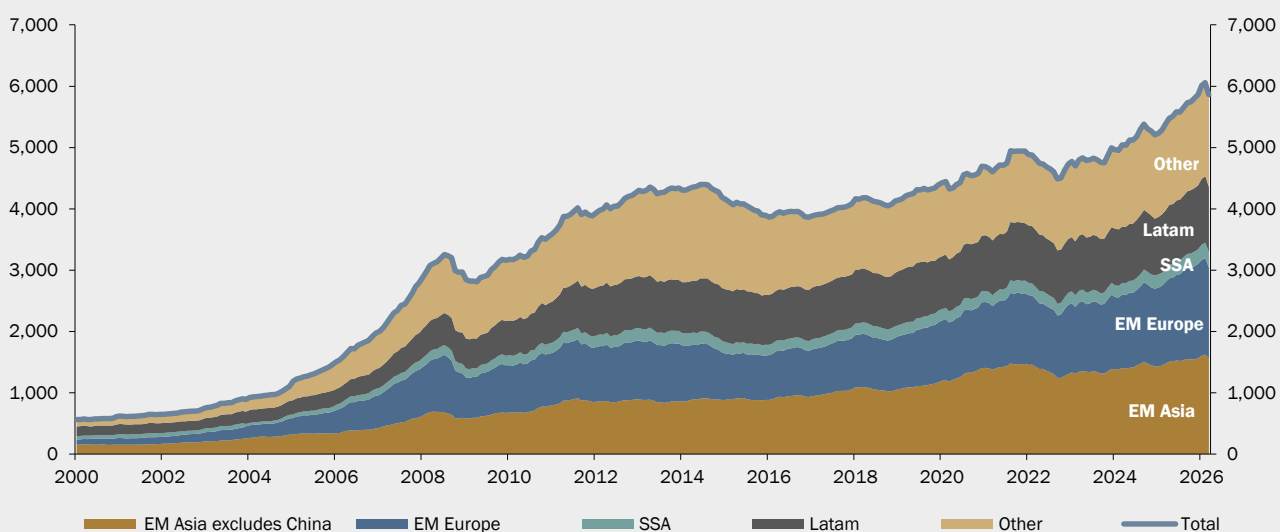
Fiscal policy has also improved, with a broader shift towards balanced budgets, more targeted subsidy regimes, and increased reliance on local currency borrowing, helping to deepen domestic debt markets and strengthen debt sustainability in the face of FX shocks. Most emerging markets have refrained from increasing indiscriminate energy subsidies in favour of more targeted allocations.

On the monetary side, a growing number of central banks have either adopted or are progressing towards inflation-targeting frameworks, supported by stronger data dissemination, enhanced transparency, and implementing more effective communication and investor engagement.

The improvement of external positions has been helped by domestic trends towards de-dollarisation and through a significant increase in remittances

With greater economic stability and domestic market developments the trend towards de-dollarisation has become more pronounced in recent years and has accelerated for several countries. The wider availability of FX through these two means has helped central banks in attaining reserve accumulation goals.

EM FX reserves (USD bn)



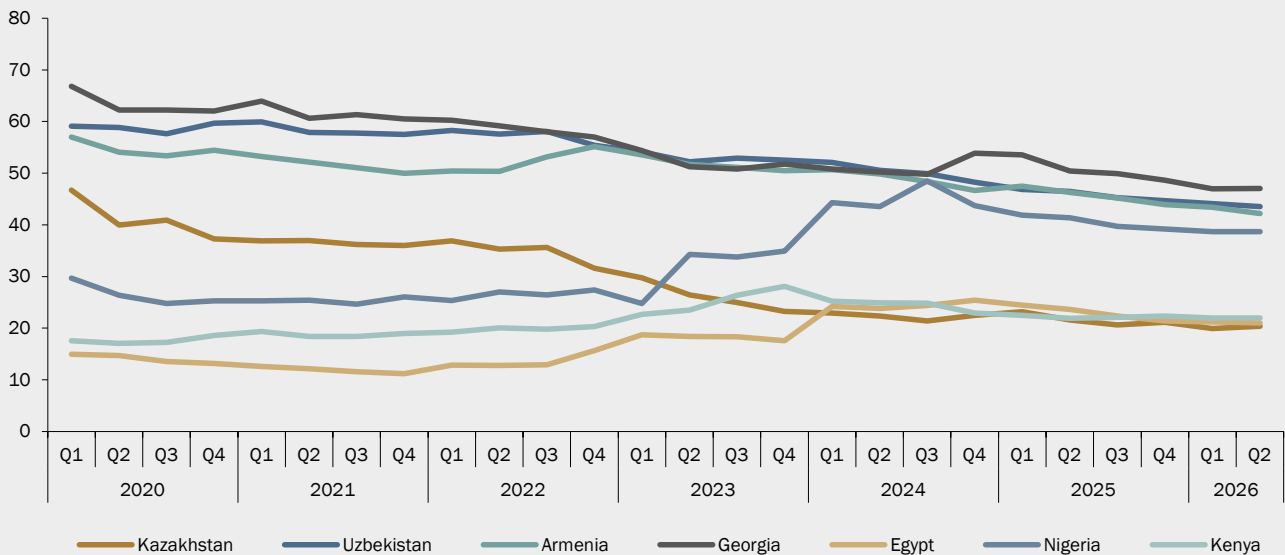
Source: IMF and ICBCS.

Changes in regulations have also led to de-dollarisation, such as increases in reserve requirements for banks with high level of FX-deposits or requirements to repatriate foreign export earnings into local currency, such as those observed for some commodity export countries.

A higher flow of remittances has also helped in increasing FX availability in many countries. For several oil importer countries such as Uzbekistan, Pakistan or Kenya, this increase in remittance flows has helped to cushion the negative external shock from higher oil prices.

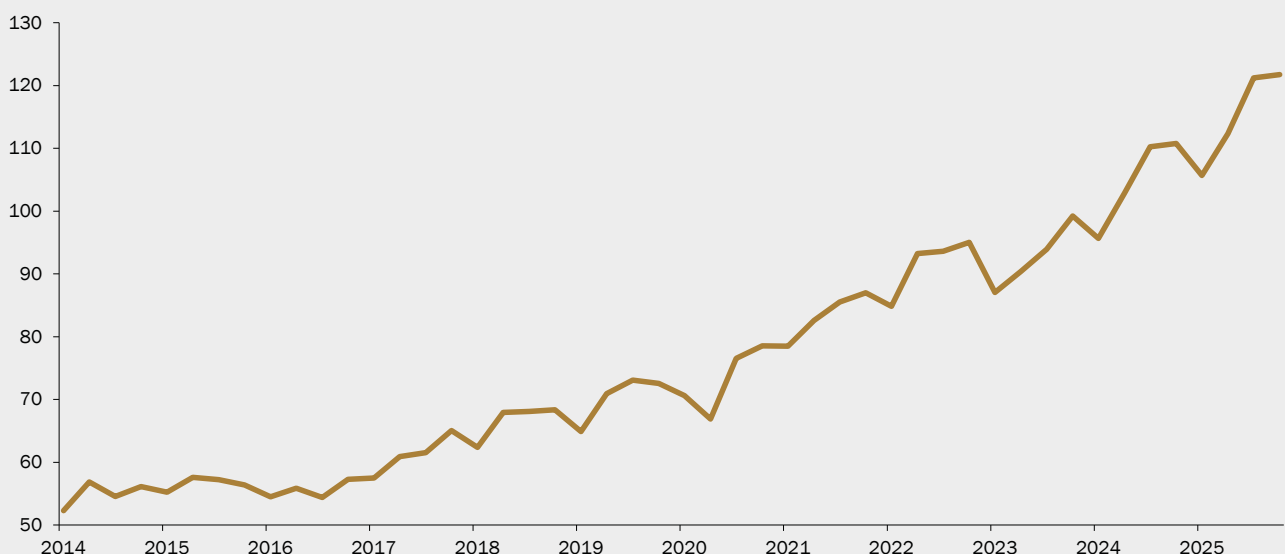
We expect remittance flows to continue growing driven by global migration trends towards the US, Europe and the GCC countries and the trend towards increased digitalisation and payment cost reduction which improves formalisation of these flows.

Deposit dollarisation ratios (in %)



Source: IMF and ICBCS.

Remittances flows to 41 EM countries (USD bn, quarterly)



Source: IMF and ICBCS

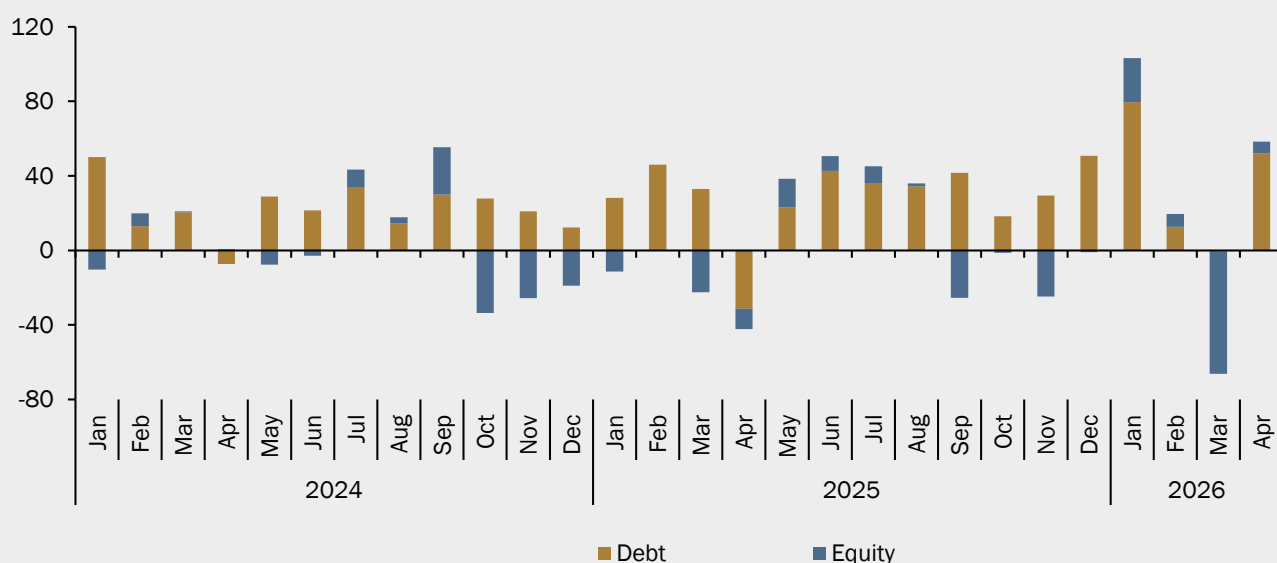
Investors' reaction to the crisis has been on the whole constructive.

The last months of 2025 and beginning of 2026 saw a large increase in allocations to emerging and frontier markets across a variety of traditional longer-term investors and also opportunistic investors with shorter-term horizon.

In domestic fixed-income markets, foreign positions were largely increased in high-yielding countries such as Brazil, Nigeria and Egypt and when the crisis hit the outflows were initially concentrated in these markets. Real-time estimates of portfolio flows to emerging markets are subject to a large uncertainty given data gaps and multiple estimates exist that often differ significantly.

The chart below shows the IIF's estimate and illustrates the acceleration in inflows that started in Q4 2025 until the crisis hit in March 2026 and subsequent partial reversal. We observe similar patterns in flows into major EM fixed-income ETFs and in the activity on our trading desk, suggesting that investors have broadly held their nerve through the crisis.

Estimates of portfolio flows into EM (USD bn, monthly)



Source: IIF and ICBCS

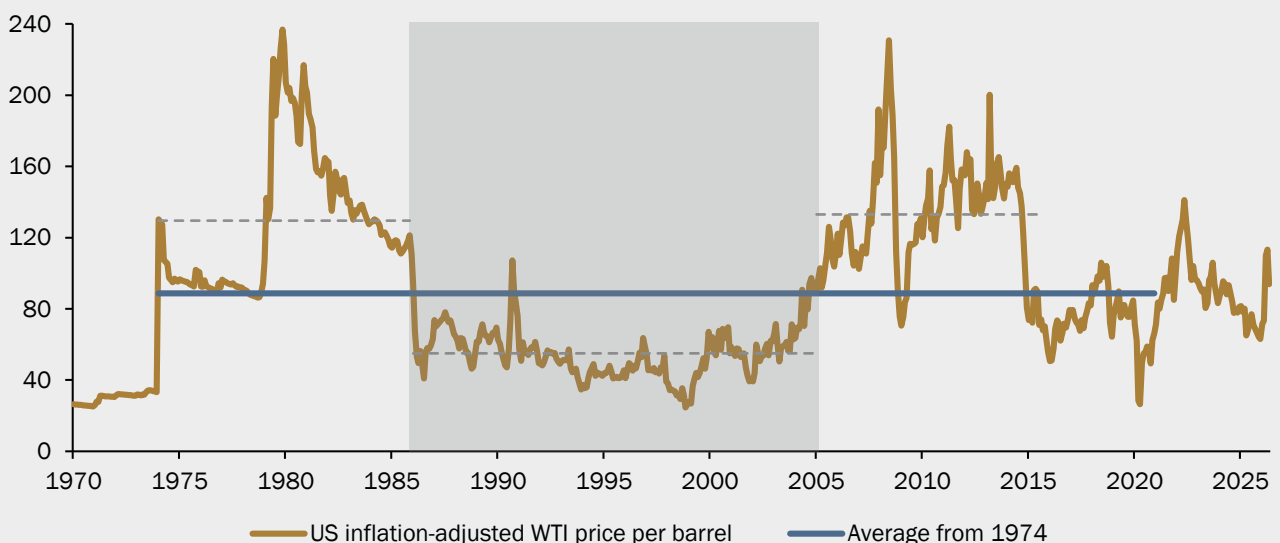
The energy price shock has been moderate from a historical perspective, but the risk is a continuation of the crisis

Although the March 2026 energy shock led to a more than 50% increase in WTI prices, from an average of \$62/bbl in the first two months of the year to c. \$96/bbl in the post-war period, this level was not materially above the long-term inflation-adjusted average of roughly \$90/bbl observed over the past 50 years.

In real terms, oil prices reached during previous crises were significantly higher: they peaked at c. \$240/bbl (in today's dollars) during both the 1980 Hormuz Strait disruption and the run-up to the 2008 Global Financial Crisis and averaged c. \$130/bbl over the 2005-2015 period.

This highlights that the global economy has historically endured prolonged episodes of materially higher energy costs. What distinguishes the current episode is not the high price level, but the elevated risk of supply disruptions across the production chain, driven by constraints in fuel and chemical availability, dynamics more reminiscent of the COVID period than of recent oil price shocks.

WTI price adjusted by CPI (USD/barrel)



Source: Bloomberg and BLS. Rebased to last WTI spot price

The distinction between emerging and developed markets has not been a useful metric in identifying winners and losers from this crisis.

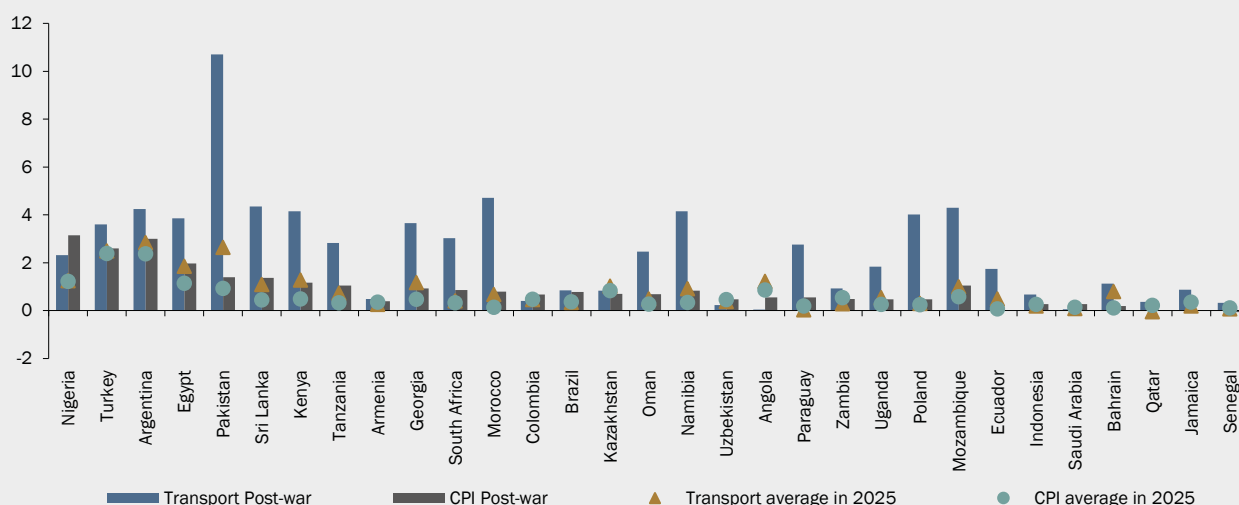
A simple exporter-versus-importer framework is also insufficient: some exporters, particularly those located near the Strait of Hormuz, have faced significant disruptions across production, logistics and revenues. Conversely, among importers, vulnerability has depended less on import status and more on supply sources: countries with diversified sourcing or stable long-term agreements with neighbours (e.g. Armenia, Georgia, Egypt) have been relatively insulated, while those heavily reliant on the Gulf countries, such as several East African and Asian economies, have faced much higher risks.

In the short-term a key dynamic to monitor will be the first and second-round effects on inflation but hitherto the impact has been relatively tame.

However, the impact will accrue with time if a sustainable peace deal is not agreed. We measure first-order effects tracking the impact on the transport component of the CPI which has varied significantly among emerging countries, to some extent a function of subsidies and domestic fuel production capacity.

The second-round effects, or impact on headline inflation, is also moderate so far, partly because the weight of the transport component in the inflation basket is typically c. 10% of total for most EM countries and because most currencies have remained stable or appreciated since the war started.

Monthly inflation changes pre and post-war



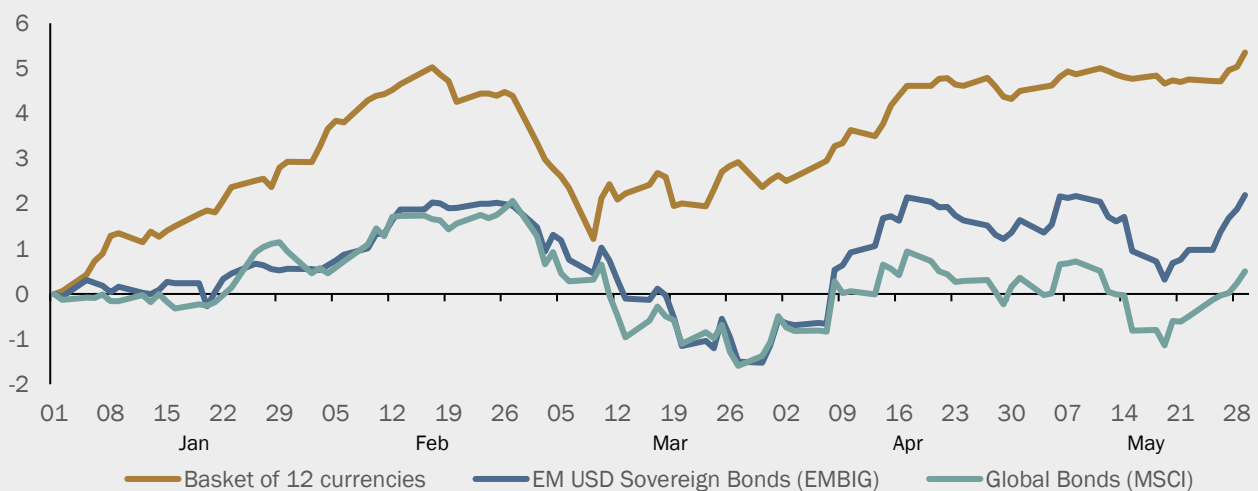
Source: National sources, ICBCS

The performance of frontier and emerging markets during the crisis has been resilient and underscores the attractiveness of these markets.

The chart below illustrates the total return performance of a basket comprising the 12 most actively traded frontier market currencies against the US dollar, based on rolling six-month NDF contracts. We apply a simple weighting scheme, capping the allocation to more liquid currencies at 10% and to less liquid ones at 5%. Using NDF contracts to compute total returns ensures consistency by relying on offshore, investable instruments, while also incorporating carry, a key driver of FX returns, and enabling a systematic rolling methodology for constructing the basket.

The 2026 performance of the basket indicates that, during the Iran-US crisis, frontier currencies outperformed both a diversified basket of EM USD bonds and global bonds. Notably, the initial drawdown observed at the onset of the shock has since been fully recovered, underscoring the resilience of the asset class.

Total return in USD of diversified basket of frontier currencies from 2026 (in %)



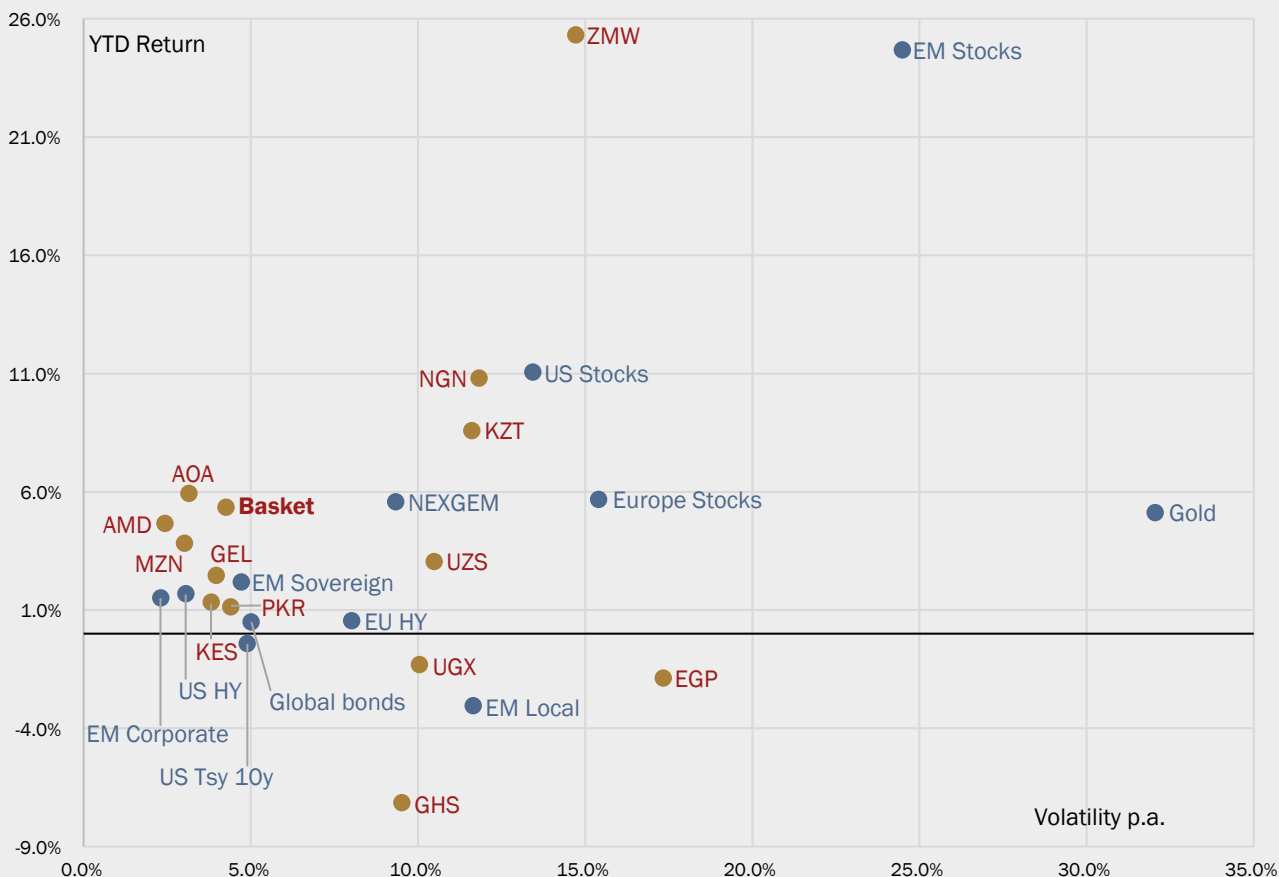
Source: ICBCS. Basket returns based on rolling 6m NDF contracts

In the chart below, we calculate the USD-equivalent total returns and annualised volatilities between January and May 2026 for the large risk-asset classes using available indices and for frontier currencies we use NDF contracts.

The **top frontier currency performer was the Zambian kwacha**, supported by a surge of FX supply from copper export receipts and portfolio inflows and policies to enhance a greater use of the kwacha leading to de-dollarisation.

Oil exporting currencies also stood out as key beneficiaries, in particular the **Nigerian naira and Kazakh tenge**, both far from the conflict area and offering high domestic yields. Several other frontier market currencies offered higher returns than those obtained from emerging and developed market bonds whether of investment or high-yield grade. This was the case of oil-importer currencies such as the **Armenian dram, Georgian lari and Uzbek sum**, where the increase in oil prices was either mitigated from advantageous long-term agreements with their neighbours and close economic partners for the first two, and by a high level of remittances and gold exports for the latter.

Risk assets: YTD return and annualised volatility



Source: Bloomberg, ICBCS

We observed the **surprising performances of large energy importers** such as **Pakistani rupee**, which had its large energy import bill cushioned by surging remittance inflows delivering Q1 2026 one of the largest current account surpluses of the last 20 years, or the case of **Kenyan shilling**, which despite a large energy dependence from Gulf supply, the central bank's proactive use of its large level of reserves stabilised the shilling after initial depreciation pressure.

Three frontier countries had negative total returns motivated by different reasons: in the case of the **Egyptian pound** the currency depreciation was the appropriate policy response to the sharp outflows at the outset of conflict, a welcome departure from past policies that appeared to defend a pre-defined currency level. The investment outlook for the pound is constructive and the commitment to exchange rate flexibility is positive for market development.

On the contrary, **the depreciation of the Ghanaian cedi is surprising**: the central bank has accumulated a record level of FX reserves but continues to ration the supply of FX to the market for reasons that are not clear and exacerbate the demand for foreign currency.

Conclusion

In **conclusion**, the experience of the March 2026 Iran-US crisis provides strong validation of our original thesis: emerging and frontier markets have become structurally more resilient to external shocks. Improvements in policy frameworks, ranging from greater FX flexibility and stronger external buffers to more disciplined fiscal management and more credible monetary policy, have enhanced the ability of these economies to absorb volatility. The crisis also underscored that performance differentials are now driven less by broad EM vs. DM distinctions, or simple exporter-importer classifications, and more by country-specific fundamentals, policy credibility, and the composition of external exposures.

Importantly, the rising remittance inflows and ongoing de-dollarisation trends have continued to provide an important anchor for external stability. Despite a significant energy shock and heightened supply disruption risks, inflation pass-through has remained contained so far and investor behaviour has proven broadly constructive.

Against this backdrop, the strong and rapidly recovering performance of frontier currency total returns, outpacing both EM USD bonds and global fixed income, highlights the attractiveness of frontier markets on a risk-adjusted basis. While near-term risks remain, particularly around inflation dynamics and potential persistence of geopolitical tensions, the overall evidence points to a more robust, policy-anchored EM and frontier universe that is better equipped to withstand global shocks than in previous cycles.

Summary of Investment Themes

Country	Commodity link	Outlook
Armenia (AMD)	Importer	Elections in June present an opportunity to mend relations with neighbouring countries, become a key transit Middle Corridor country. Growth has been strong with moderate inflation, and the strength of the external accounts has led to a significant reserve accumulation.
Angola (AOA)	Oil	Angola has been a beneficiary of the oil price spike providing support for the issuance of a Eurobond in March. The kwanza continues to be heavily managed with limited access to the domestic bond market.
Egypt (EGP)	Importer	The Egyptian authorities allowed the pound to adjust in response to the external shock and domestic fuel prices adjusted accordingly. After initial outflows from the bond market investors are returning, attracted by high rates and a more favourable currency valuation.
Georgia (GEL)	Importer	Georgia benefits from long-term energy agreements which limit the domestic price impact, high growth and sustained external inflows which have supported currency appreciation.
Ghana (GHS)	Gold	Despite a strong current account and record central bank reserves, the central bank has limited the supply of FX to the market leading to some depreciation.
Kenya (KES)	Importer	Kenya's strong reserve position and flow of remittances allowed it to weather the energy crisis with relative ease despite an increase in inflation and bond yields.
Kazakhstan (KZT)	O&G and gold	Kazakhstan has been one of the beneficiaries of the energy price spike, leading to currency appreciation, disinflation and a policy rate cut. High yields and strong external position continue to attract foreign inflows.
Mozambique (MZN)	Gas	The country will not enjoy the full benefits of the expected large gas exports from the fields in the north of the country. In the meantime, the macroeconomic picture is challenging which limits investors' appetite.
Nigeria (NGN)	Oil	Together with Kazakhstan, Nigeria is another beneficiary from the oil price spike. This has led to further investor inflows and some currency appreciation attracted by high yield levels.
Uganda (UGX)	Gold and future oil	Further to the oil price spike, the shilling depreciated but has found a level consistent with its medium-term average while yields remain high, particularly in inflation-adjusted terms.
Uzbekistan (UZS)	Gold	Uzbekistan continues to benefit from a large inflow of remittances, high gold-related export receipts and domestic companies borrowing abroad that meet an increasing investment appetite from foreign investors.
CFA Franc (XOF)	Gold and cocoa	The WAEMU region's FX reserves have reached record highs, providing a strong support for the peg to the Euro.
Zambia (ZMW)	Copper	The Zambian kwacha was the best frontier currency performance in the first five months of 2026 thanks to strong commodity performance with copper prices up by 10% but also aided by a policy of de-dollarisation.

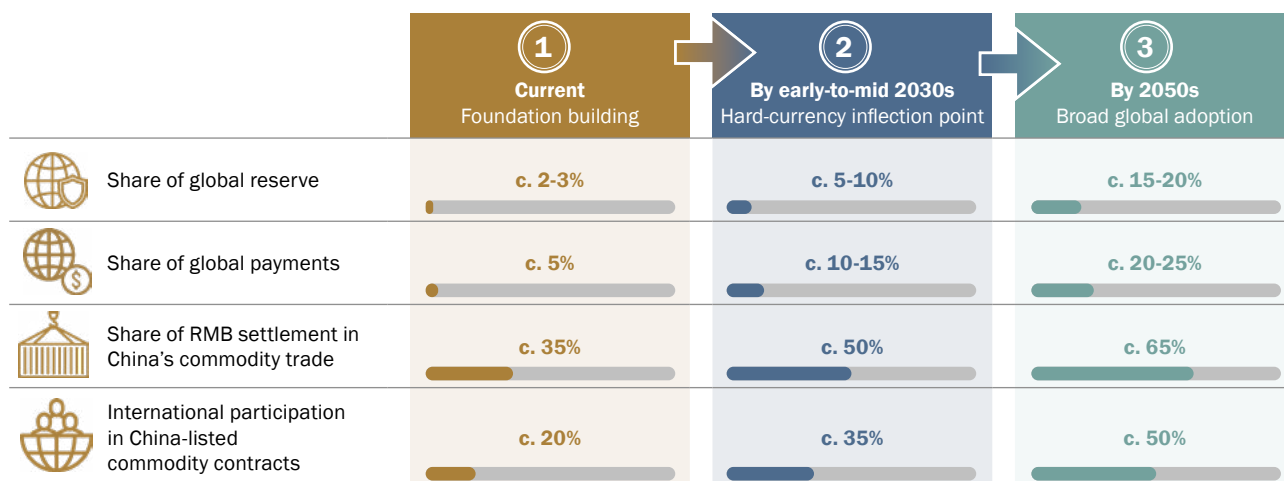


RMB: The next “hard currency”

RMB to become a “hard currency”

Summary

- 1 RMB is emerging as a potential hard currency in an increasingly multipolar monetary order. The following sections assess CNH's progress against three core pillars—convertibility, credibility and liquidity—given its offshore framework.
- 2 Based on this framework, we expect CNH to reach hard-currency status by the early-to-mid 2030s, supported by global RMB reserve share rising to 5-10%, a 10-15% share of global payments, and over 50% of China's total cross-border commodity trades settled in RMB.
- 3 Specifically, regarding liquidity, CNH is emerging as the most credible non-G10 HQLA candidate, supported by expanding infrastructure, deeper bond market access, improving offshore liquidity and growing reserve adoption, positioning RMB as a regional liquidity, collateral and diversification asset within global reserve portfolios.
- 4 In commodities, China's dominant role across metals, energy and agricultural trade enables the build-out of a closed-loop ecosystem spanning settlement, collateral and investment. This ecosystem in turn strengthens RMB-denominated pricing and benchmark formation, supporting its progression towards a hard currency.
- 5 In FX markets, CNH is moving beyond its role as a trade currency, underpinned by a growing suite of instruments and deepening market. Diversified FX products provide corporates and investors with scalable risk-management tools, while broader offshore liquidity and non-USD currency pairs will reinforce its hard-currency credentials.
- 6 In capital markets, CNH's internationalisation is increasingly anchored by investable and collateralisable RMB assets. Expanding Dim Sum bond issuance, offshore RMB deposits and potential repo-collateral usage are building a deeper capital-market ecosystem that can support global reserve and allocation demand.
- 7 Crucial statistics to track



RMB’s path to hard-currency status: A CNH perspective

RMB, the currency of the world’s second-largest economy, has attracted significantly greater attention from market participants this year. Topics such as Dim Sum bonds, digital RMB and use of RMB bonds as collateral are being closely tracked and debated, reflecting a clear shift in market interest across asset classes. **Against a turbulent global backdrop, concerns over the resilience of the dollar-centric financial system have intensified, strengthening the case for a more multipolar international monetary order in which RMB plays a larger role.**

Over the past decade, the RMB has strengthened its global position through rapid growth. Its share of global payments has increased from less than 1% in 2010 and stabilised at c. 5% in 2025, ranking among the top 3 currencies globally, while its share of FX reserves rose from near zero pre-2016 to 2-3% in recent years, making it the 5th largest reserve currency; in trade finance, it has already reached 6.0%, ranking 2nd worldwide.

China has promoted RMB internationalisation and the development of the offshore CNH market for more than a decade, starting at the same time when RMB was added to the IMF’s Special Drawing Rights (SDR) basket. According to Kenen (2009) and Eichengreen et al. (2023), currency internationalisation rests on a set of interrelated conditions. Both studies argue that capital account liberalisation is a key enabler of currency internationalisation. Building on this foundation, international use tends to deepen progressively, typically advancing from trade settlement to financing and investment before ultimately gaining traction as a reserve asset. **For the RMB, China’s capital account is on a gradual path toward liberalisation, reflecting the authorities’ focus on balancing opening up with financial stability.**

While RMB internationalisation is supported by a well-developed body of economic theory, “hard currency” remains a more empirical classification without explicitly universal benchmarks. At a conceptual level, RMB internationalisation is a necessary pathway towards hard-currency status, as it captures the growing scale, scope and frequency of RMB use in international trade, finance and reserve management before the currency achieves broader global recognition. **On that basis, we define the key dimensions of hard-currency status as follows:**

- **Convertibility:** the degree of freedom with which a currency can be exchanged for foreign currencies or gold
- **Credibility:** the issuing central bank’s ability to maintain price stability, contain inflation, and operate with a high degree of policy independence and transparency
- **Liquidity:** eligibility as a high-quality liquid asset (HQLA) under Basel III

Moreover, because CNH is the form of RMB that is more market-driven and freely traded offshore, **our discussion of RMB as a hard currency in the following sections will focus primarily on CNH.**

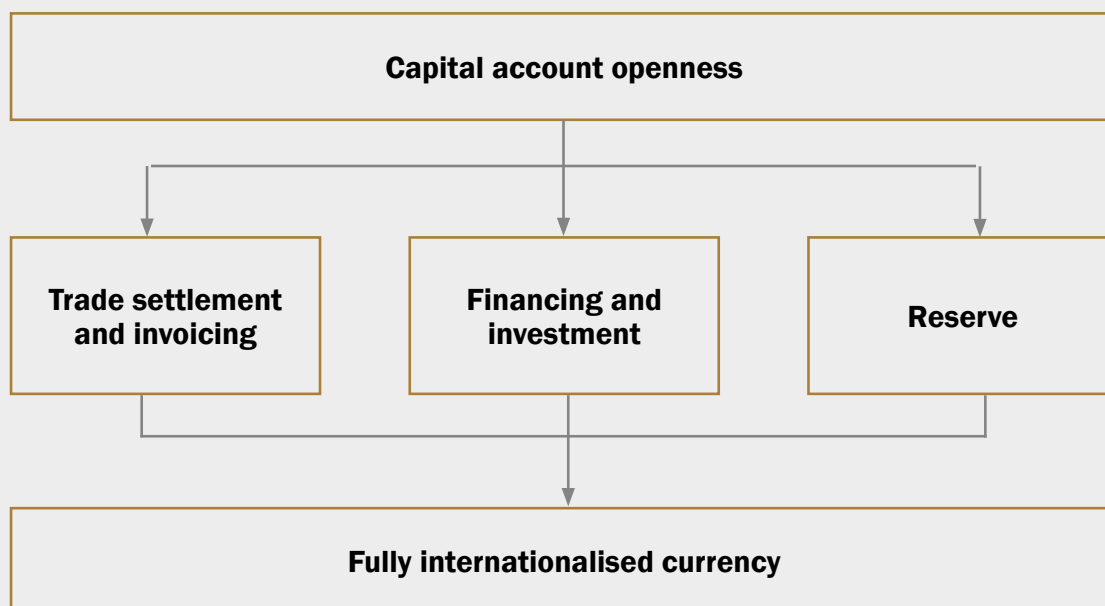
Looking ahead, a meaningful increase in RMB's global reserve share toward 5–10%, alongside a 10–15% share of global payments and RMB settlement exceeding 50% of China's cross-border commodity trade, would be sufficient to anchor its status as a hard currency. This transition would be anchored in the growing centrality of China in global trade and supply chains, increasing RMB-denominated commodity flows, and stronger network effects across emerging markets, ultimately enabling RMB to evolve into a credible hard currency by the early-to-mid 2030s.

Assessing CNH's hard currency status through three pillars

Convertibility: CNH is fully convertible, which strengthens its hard-currency credentials

In terms of convertibility, CNH benefits from a market environment that supports free exchange.

CNH as a hard currency



Source: ICBCS

Credibility: PBoC policy independence and currency stability strengthen CNH adoption

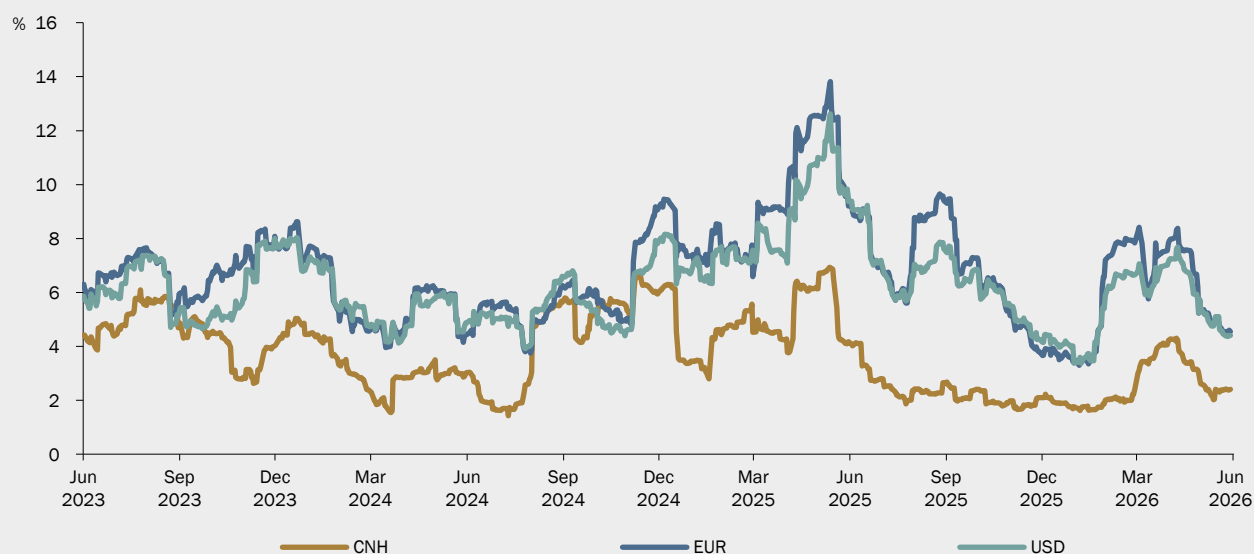
On credibility, CNH has exhibited relatively high stability (2026YTD 30D volatility average level is at 2.7%, while USD at 5.7% and EUR at 6.3%), modest inflation pass-through amid geopolitical shocks (2026Apr CPI at 1.2%, while US at 3.8% and Eurozone at 3.0%), and a low correlation with most G10 currencies.

China's policy rate framework is gradually evolving toward a more market-determined setup. Recent signalling from PBoC points to greater emphasis on overnight rates as a benchmark, bringing the framework closer to conventional hard-currency regimes and strengthening the credibility of monetary policy.

More importantly, PBoC has demonstrated improving communication transparency and policy independence. By maintaining a structural targeted policy approach, it has remained largely insulated from cyclical market pressures, reinforcing policy consistency and longer-term credibility.

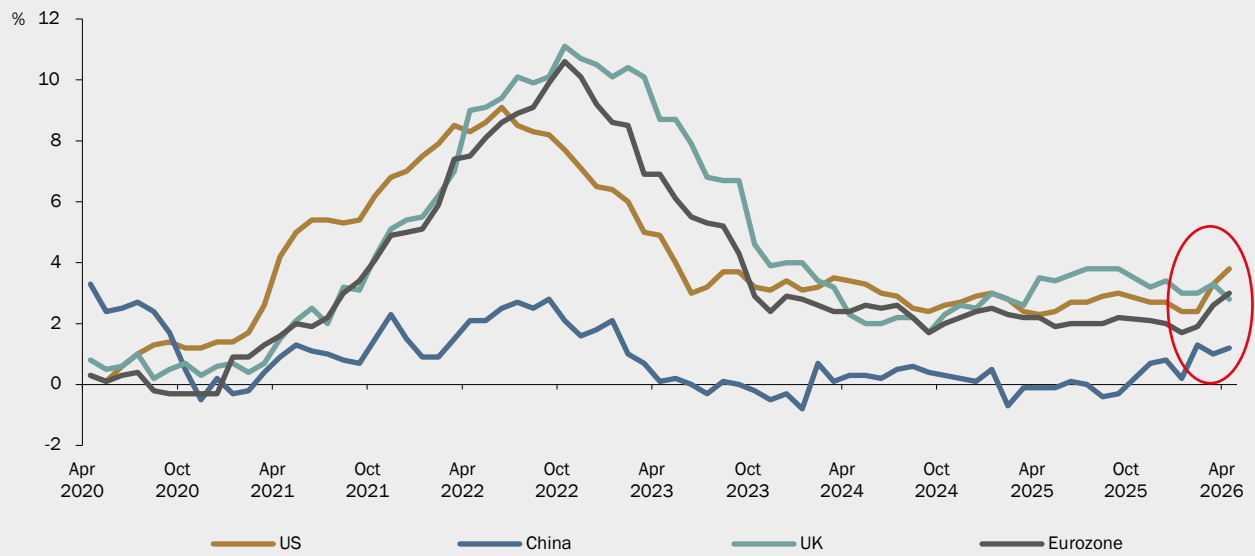
These characteristics help limit devaluation risk, support confidence among international holders, and strengthen the case for a gradual rise in RMB reserve allocation.

Contained CNH Volatility Signals Underlying Stability and Its Role as a Reliable Anchor



Source: Bloomberg, ICBCS

China's Mild Reflation Contrasts with Rapid Inflation Pressures in Major Economies



Source: Bloomberg, ICBCS

Weak Correlation with G10 Currencies Underscores CNH's Appeal and Diversification Value as a Reserve Asset

	CNH	USD	EUR	JPY	GBP	CHF	CAD	AUD	NZD	SEK	NOK
CNH	1	0.563	-0.511	0.549	-0.531	0.538	0.451	-0.597	-0.591	0.618	0.515
USD	0.563	1	-0.967	0.778	-0.935	0.923	0.841	-0.789	-0.795	0.848	0.73
EUR	-0.511	-0.967	1	-0.63	0.895	-0.88	-0.772	0.729	0.734	-0.808	-0.676
JPY	0.549	0.778	-0.63	1	-0.687	0.725	0.609	-0.584	-0.588	0.626	0.547
GBP	-0.531	-0.935	0.895	-0.687	1	-0.826	-0.788	0.731	0.726	-0.786	-0.666
CHF	0.538	0.923	-0.88	0.725	-0.826	1	0.803	-0.763	-0.768	0.773	0.67
CAD	0.451	0.841	-0.772	0.609	-0.788	0.803	1	-0.849	-0.846	0.785	0.742
AUD	-0.597	-0.789	0.729	-0.584	0.731	-0.763	-0.849	1	0.913	-0.777	-0.804
NZD	-0.591	-0.795	0.734	-0.588	0.726	-0.768	-0.846	0.913	1	-0.845	-0.807
SEK	0.618	0.848	-0.808	0.626	-0.786	0.773	0.785	-0.777	-0.845	1	0.861
NOK	0.515	0.73	-0.676	0.547	-0.666	0.67	0.742	-0.804	-0.807	0.861	1

Source: Bloomberg, ICBCS

Note: Table shaded by absolute value of correlation between currencies

Liquidity: CNH as an Emerging HQLA

On liquidity, the key benchmark is widespread recognition and adoption as a High-Quality Liquid Assets (HQLA). Under the Basel III Liquidity Coverage Ratio framework, HQLA is defined by its ability to be converted into cash easily and immediately with little or no loss of value under a 30-day stress scenario.

CNH HQLA is currently an emerging and under-allocated segment within global liquidity and reserve frameworks. While CNH has not yet achieved USD-equivalent status, it is increasingly developing into the most credible non-G10 candidate for reserve diversification, offering a compelling mix of yield enhancement, balance-sheet efficiency, and settlement optionality. The core investment thesis is that CNH HQLA sits at an inflection point: structural under-ownership across reserves, payments, and collateral usage coexists with a meaningfully strengthened market infrastructure.

Over recent years, key building blocks supporting CNH liquidity have matured. CIPS has expanded in scale and usability, Hong Kong continues to anchor offshore RMB activity, Bond Connect has normalised foreign access to onshore rates markets, and offshore RMB funding conditions have improved alongside rising FX turnover. Collectively, these developments enable CNH-denominated assets—particularly Chinese government bonds (CGBs) and policy bank bonds—to function increasingly as HQLA-style instruments suitable for liquidity management and high-quality collateral pools.

CNH HQLA represents an actionable allocation opportunity rather than a deferred structural theme. Investors can already deploy a layered toolkit spanning onshore duration, offshore funding markets, and derivative overlays to integrate CNH into liquidity portfolios today. Over a medium- to long-term horizon, we expect CNH HQLA to evolve into a broader regional reserve-liquidity sleeve, with increasing adoption across central banks, institutional investors, and treasury portfolios.

A traditional defensive reading says RMB assets are not yet universal Level 1 HQLA for all offshore investors, but RMB is the only large-scale emerging reserve currency with the sovereign asset base, payment infrastructure, policy support and trade footprint to move materially closer to hard-currency status over the next decade. Therefore, RMB should be positioned as a liquidity sleeve with a different function from USD HQLA. USD assets remain the first-line crisis buffer. RMB assets can serve as a second-line regional liquidity asset, a China/Asia trade-settlement buffer, a diversification instrument for sovereigns, and a yield/carry allocation for investors who can manage currency and policy risk.

From regulatory HQLA to market HQLA

Concept	Definition	Implication
Regulatory HQLA	Basel-focused classification of eligible liquid assets	Emphasises haircuts, stress liquidity and supervisory recognition
Market HQLA	Client-facing liquidity product with practical monetisation routes	Emphasises repo access, swap liquidity, settlement routes and operational usability
CNH opportunity	Bridge between RMB safe assets and funding/hedging demand	A diversification instrument for liquidity management

Source: ICBCS

HQLA Scoring Card

Composite formula:

$$HQLA\ Score\ (c) = \sum_k Score\ (c,k)$$

Normalisation formula:

$$Score\ (c,k) = \frac{Metric\ (c,k)}{Metric\ (USD,k)} \times Weight\ (k) \times 100$$

where c denotes the currency and k denotes the individual scoring dimensions (metrics).

HQLA dimensions and proxies

Dimension	Weight	Proxy / score basis	Why it matters for HQLA
Repo and collateral monetisation	30%	Based on repo depth, collateral eligibility and cross-border usability	HQLA value depends on monetisation, not just ownership
FX market depth	20%	BIS global FX turnover share	Measures the ability to convert and hedge size without large price impact
Stress behaviour and safe-haven quality	20%	Based on crisis behaviour and market perception	A hard-currency HQLA should attract demand during stress
Payment and settlement network	10%	SWIFT payment share and supporting infrastructure	Measures network effects and settlement usability
Safe-asset supply and foreign usable float	10%	Based on the stock of high-quality liquid government securities and the volume freely accessible to foreign holders	Determines whether sufficient investable and liquid assets are available for reserve managers and market participants at scale
Central bank acceptance	10%	IMF COFER reserve share	Shows official-sector trust and allocation depth

Source: ICBCS

Note: data-driven dimensions are mechanically normalised against USD. Judgement-based dimensions are explicitly treated as analytical scores rather than official data.

Dimension	Weight	USD	EUR	JPY	GBP	CHF	CNH
Repo and collateral monetisation	30%	100	90	80	75	70	60
FX market depth	20%	100	32	19	11	7	10
Stress behaviour and safe-haven quality	20%	100	85	80	75	85	70
Payment and settlement network	10%	100	25	9	10	5	15
Safe-asset supply and foreign usable float	10%	100	60	50	50	30	40
Central bank acceptance	10%	100	36	10	8	0.3	4
Composite HQLA Score	100%	100	63	51	47	43	40

Source: ICBCS

The current CNH score of 40 should not be read as a static ceiling. If RMB internationalisation continues through larger foreign participation in the China government bond market, deeper offshore repo facilities, broader CNH derivative liquidity, stronger CIPS usage and more RMB settlement along trade corridors, CNH could plausibly move towards a range of 50-60 over the next decade and be among the most adopted hard currencies.

Scenario	Indicative CNH score	Key assumptions	Implication
Current	c. 40	Low reserve share, low payment share, limited foreign usable float, still-developing repo and collateral channels	CNH is a strategic diversifier rather than a universal first-line HQLA buffer
2028-2030	c. 45	Incremental opening; RMB remains mostly regional; repo and payment usage improve gradually	Selective client demand for CNH liquidity, swaps and RMB bond access
2031-2033	c. 50	Foreign CGB participation rises; CIPS and CNH hedging deepen; more trade corridors settle in RMB	CNH becomes a mainstream regional liquidity and reserve-diversification product
mid-2030s	c. 60	Materially larger foreign usable float, deeper repo markets, broader central-bank and corporate adoption	CNH approaches hard-currency HQLA status, creating a broader sell-side product ecosystem

Source: ICBCS

Demand Pull and Policy Push

At this stage, CNH is increasingly becoming demand-driven, with international demand playing a growing role in shaping its usage and liquidity. This shift reflects rising global adoption of RMB for trade, investment, and diversification purposes, beyond purely policy-driven support.

Pull factors (demand-driven)		Push factors (supply-driven)	
Factors	Examples	Factors	Examples
Commodity trade demand	China is the world's largest commodity trading partner and consumer, accounting for c. 13% of global trade flows and c. 40% of global commodity demand	Infrastructure build-out	- Short-term RMB Repo Facility for Foreign Central Banks and Sovereign Institutions - CIPS as an alternative cross-border payment system to SWIFT - PBoC bilateral swap lines (please see the detailed table below) - Commodity international futures and options contracts
Business overseas expansion	Internationalisation of Chinese domestic corporates & Foreign business expansion in China (ODI & FDI)	Rise of financial institutions that equip RMB capabilities	- Chinese FI overseas subsidiaries and branches - International banks with RMB business - Esp. banks being appointed as clearing banks generate RMB flows
Investment portfolio diversification	Central banks allocate to RMB and CGBs due to their low correlation with USD assets	MoF/ Policy banks bond issuance	Enhances RMB market liquidity and builds benchmark curves
RMB as a funding currency	Rapid growth in Dim Sum bond and Panda bond issuance volumes helped by low funding costs	Corporate signalling / branding	Global corporates' issuance is primarily driven by brand presence rather than funding needs
Geopolitical risk management	Countries looking for alternatives are led to CNH as a viable option, e.g., RMB settlement for crude trades		

Source: ICBCS

Bilateral Currency Swap Agreements signed with PBoC (As of 21 July 2026)

Country / Region	Amount (CNY bn)	Country / Region	Amount (CNY bn)	Country / Region	Amount (CNY bn)
1 Hong Kong, China	800	12 Switzerland	150	23 South Africa	30
2 South Korea	400	13 Russia	150	24 Pakistan	30
3 Indonesia	400	14 Argentina	130	25 Egypt	30
4 European Union	350	15 Thailand	70	26 New Zealand	25
5 United Kingdom	350	16 Chile	50	27 Mongolia	15
6 Singapore	300	17 Saudi Arabia	50	28 Nigeria	15
7 Canada	200	18 Macau, China	50	29 Sri Lanka	10
8 Australia	200	19 Hungary	40	30 Laos	6
9 Japan	200	20 Qatar	35	31 Serbia	5
10 Brazil	190	21 Turkey	35	32 Iceland	3.5
11 Malaysia	180	22 United Arab Emirates	35	33 Mauritius	2

Source: PBoC announcements

Case studies

1 Historical experience of EUR internationalisation

EUR’s international rise rested on a powerful economic base: Europe already accounted for a large share of global output, trade and cross-border finance before monetary union. EUR then pooled the legacy of the Deutsche Mark into a larger integrated market, allowing that economic weight to translate into broader use in reserves, debt issuance and trade settlement. The historical lesson is that international currency status is built first on economic scale, with monetary unification acting as an amplifier.

A key reason for EUR’s success was that its international use was anchored in the real economy. A large internal market, dense intra-regional trade and Europe’s central role in global commerce created natural demand for EUR invoicing, settlement and funding. **For CNH, the main lesson is that broader recognition is still driven by stronger trade networks, deeper supply-chain integration and wider use of RMB in real-economy transactions.**

By contrast, the EUR crisis illustrated the risks that arise when financial integration outpaces the broader institutional framework. Monetary union advanced more quickly than fiscal coordination, banking repair and crisis management, leaving EUR exposed during the sovereign debt shock. **For CNH, the key caution is that external use should not outpace the economy’s capacity to absorb shocks, because durability depends not only on scale, but also on resilience.**

2 RMB regionalisation

RMB regionalisation provides an important bridge between China’s domestic financial deepening and the RMB’s longer-term hard-currency trajectory. Unlike the dollar, whose international role is global and system-wide, the RMB is developing through **corridor-based adoption**: first in regions with dense China-linked trade, investment, commodities and banking relationships, and then gradually into financing, hedging and asset-holding functions.

Hong Kong is the most advanced case. It already combines an offshore RMB deposit pool, clearing infrastructure, Dim Sum bond issuance, Bond Connect, Swap Connect and RMB liquidity facilities. HKMA data show that RMB deposits in Hong Kong stood at RMB926.6bn at end-2024, while RMB remittance for cross-border trade settlement reached RMB1.4tn in December 2024 alone. **This makes Hong Kong not only a settlement hub, but also the closest example of a functional offshore RMB liquidity centre.**

Beyond Hong Kong, regionalisation is more uneven but increasingly visible. In ASEAN, RMB usage is supported by supply-chain integration, local-currency settlement frameworks and Singapore's role as a regional treasury and financing hub. In the Gulf, RMB adoption is driven by energy trade, sovereign financial cooperation and the strategic need to diversify settlement channels. In Africa, RMB usage remains more gateway-based, led by South Africa and selected clearing-bank or swap arrangements, but the direction is toward broader payment-network penetration. **This regional pattern suggests that RMB adoption is not uniform, but follows specific trade, energy and infrastructure corridors.**

The institutional backbone is also expanding. By March 2026, CIPS had 194 direct participants and 1,597 indirect participants across 126 countries and regions, with business coverage reaching more than 5,100 banking institutions globally. This supports the core conclusion: **RMB is not becoming a hard currency through immediate global substitution, but through regional hardening – turning China-linked corridors into repeatable ecosystems for RMB settlement, liquidity, financing and eventually reserve use.**

Building on this general framework, the following sections assess whether RMB's role across commodity, FX and capital markets represents a meaningful step towards hard-currency status.

RMB in Commodity Markets

China's significance in global commodities reflects the combination of large-scale demand, deep industrial processing capacity and integrated supply chains. As the world's largest trading nation and commodity consumer, it accounts for c. 13% of global commodity trade flows and c. 40% of global commodity demand, with significantly higher shares in key bulk markets. This positioning extends China's influence beyond upstream raw materials trade into midstream and downstream value chains. Against this backdrop, RMB's role in commodity markets is increasingly shaped by system-level relevance rather than by demand size alone.

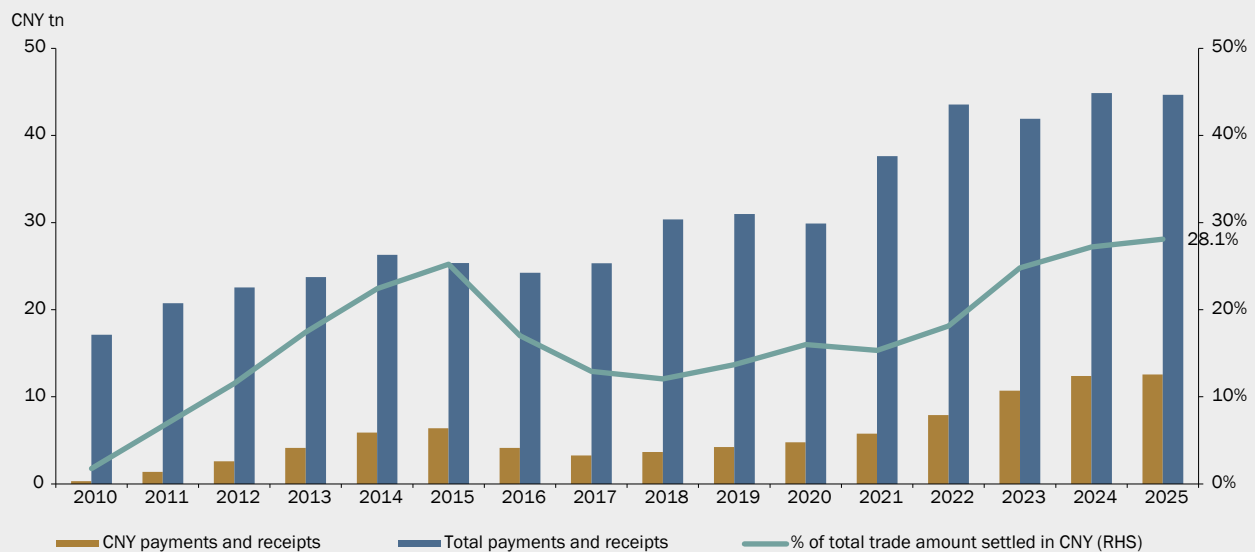
China's imports across key commodities

	Category	Notes
Base Metal	Copper	China accounts for c. 50% of global refined copper production, while the majority of copper ore and concentrates are imported.
	Aluminium (Bauxite)	Aluminium production is largely self-sufficient, but c. 45% of bauxite supply is imported.
	Nickel	Imports of nickel ore and intermediate products are significant.
	Zinc	China is a major producer and smelter of zinc, with c. 20% of supply coming from imports.
Precious Metal	Gold	China is the world's largest producer and consumer of gold.
	Silver	c. 40% of China's silver consumption is met through imports.
Energy	Gas	Imported natural gas accounts for c. 40% of total domestic consumption.
	Oil	China is the world's largest crude oil importer.
Agriculture	Soybean	China is the world's largest soybean importer.

Source: Bloomberg, ICBCS

The first step in RMB's transition to a hard currency from a commodities perspective is facilitating RMB-denominated trade settlement. By 2025, China's total cross-border receipts and payments in goods trade had reached c. CNY 45tn, with a record-high 28.1% settled in RMB. This progress has been supported by more efficient settlement infrastructure: CIPS now covers 126 countries and processes more than CNY 920bn in daily transactions, while e-CNY pilots in cross-border energy trade have reduced settlement time from several days to under five hours. The key point is that settlement is not yet pricing power, but it is the operational foundation from which pricing power can emerge.

Rising RMB trade settlement is laying the groundwork for broader commodity pricing use



Source: SAFE, PBoC, ICBCS

The next stage is pricing capability. What matters here is not any single contract, but the emergence of an ecosystem in which firms can hedge procurement, processing and distribution risk within the same currency domain. As contract depth broadens across sectors from upstream to downstream, the gap between settlement currency and benchmark currency begins to narrow, making RMB-denominated pricing more commercially viable.

China is steadily building a broader RMB contract ecosystem across sectors

Date Introduced to Foreign Participants	Product	Exchange	Contract Size	Price Unit
Mar-2018	Crude Oil (medium sour crude)	INE	1,000 Barrels/lot	CNY/Barrel
May-2018	Iron Ore	DCE	100 MT/lot	CNY/MT
Nov-2018	PTA (Purified Terephthalic Acid)	ZCE	5 MT/lot	CNY/MT
Aug-2019	TSR 20 Rubber	INE	10 MT/lot	CNY/MT
Jun-2020	Low Sulfur Fuel Oil (LSFO)	INE	10 MT/lot	CNY/MT
Nov-2020	Bonded Copper (International Copper)	INE	5 MT/lot	CNY/MT
Dec-2020	Palm Oil	DCE	10 MT/lot	CNY/MT
Dec-2022	Soybean Complex (No.1 Soybean, No.2 Soybean, Soymeal, Soy Oil)	DCE	10 MT/lot	CNY/MT
Jan-2023	Rapeseed Oil / Rapeseed Meal / Peanut Kernel	ZCE	5-10 MT/lot	CNY/MT
Aug-2023	Containerised Freight Index (Europe service)	INE	Index-based	CNY/Index point
Mar-2025	Stainless Steel / Fuel Oil / Woodpulp	SHFE	5–10 MT/lot	CNY/MT
Jan-2026	Nickel (International Nickel)	SHFE	1 MT/lot	CNY/MT
May-2026	Para-Xylene (PX) / PET Resin (Bottle-grade, PR) / Polyester Staple Fiber (PF)	ZCE	5 MT/lot	CNY/MT

Source: INE, DCE, ZCE, SHFE, ICBCS

China’s major commodity exchanges have progressively launched internationalised futures and options contracts open to overseas participants, embedding RMB into global pricing and risk management systems. These contracts allow overseas traders to hedge directly within RMB denominated markets, supported by delivery, quality and risk management frameworks aligned with international norms. As liquidity accumulates, RMB usage arises endogenously from genuine trading demand rather than administrative design.

Case study one: Gold global trading hubs

Combining attributes of both a financial asset and a physical commodity, gold represents one of the most operationally feasible entry points for advancing monetary diversification. Gold market infrastructure across Asia—centred on Shanghai, Hong Kong and Singapore—is accelerating along a multi-hub, complementary path. Shanghai leverages a complete ecosystem spanning trading, clearing and physical delivery, directly linked to the world’s largest sources of physical demand. Hong Kong, meanwhile, draws on its mature financial system, legal framework and offshore RMB hub status to build an integrated gold platform covering trading, central clearing, vaulting and cross-border delivery.

Rising cooperation between the Shanghai and Hong Kong gold markets reflects this logic. **Enhanced cross border connectivity and central clearing arrangements allow gold transactions to support parallel settlement in US dollars, euros, Hong Kong dollars and offshore RMB.** This four-currency structure reduces institutional reliance on a single currency while creating more stable use cases for offshore RMB within the international commodity system. As clearing and custody capabilities improve, Hong Kong is well positioned to attract global institutions seeking Asian time zone gold trading with multi-currency settlement.

In parallel, Singapore is strengthening its role as a gold trading and storage hub for Asia Pacific. By expanding internationally compliant vaulting and logistics, developing central clearing for large bars, and promoting gold linked financial products, Singapore is building a platform anchored in institutional neutrality and stability. Offshore RMB has also been incorporated as an eligible settlement currency alongside the US dollar and other majors, further increasing the practicality of RMB use in regional precious metals trade.

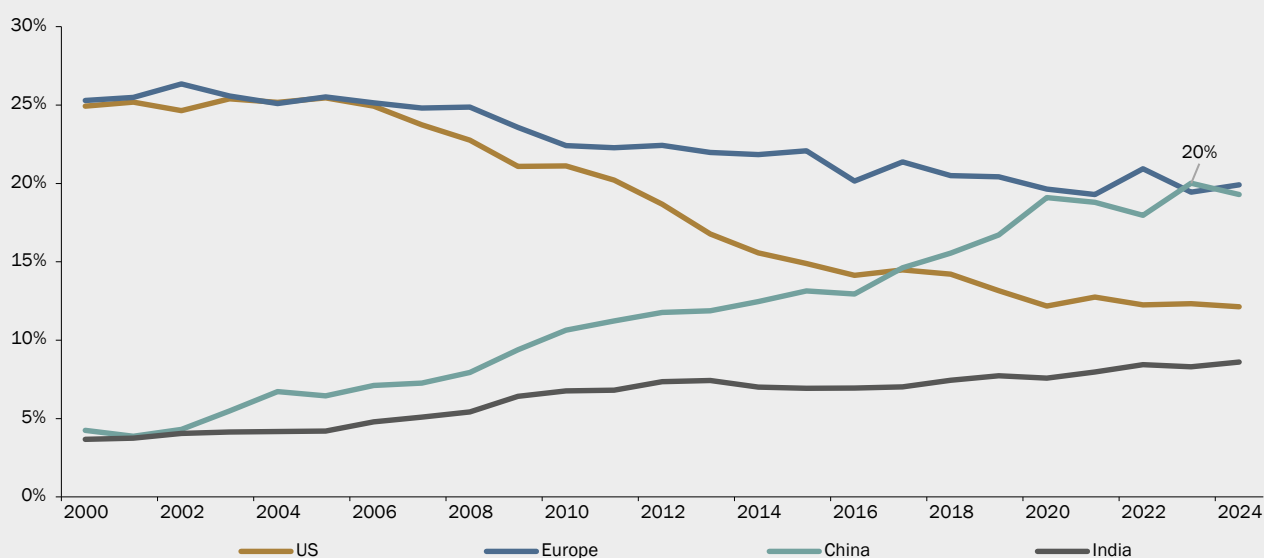
Internationalised commodity contracts complement the multi-currency settlement framework developing in the gold market. **Gold enables parallel currency settlement across Shanghai–Hong Kong–Singapore, while industrial metal futures integrate RMB into daily risk management activities of global supply chains.** This pathway—settlement first, liquidity accumulation later, and pricing influence thereafter—allows RMB internationalisation to advance simultaneously across high frequency, real economy trading scenarios.

Case study two: RMB pricing crude benchmark INE Crude (SC)

Oil is one of the clearest lead case because it combines large, recurring physical flows with strategic supplier relationships and a persistent need for active hedging. This makes crude the segment in which China's demand weight is most likely to translate into currency usage, contract liquidity and, eventually, benchmark relevance.

China was already the world's largest crude oil importer by 2023, accounting for one-fifth of global oil imports. At the same time, the RMB had become the second-largest global settlement currency for oil and gas by 2025, and its share in Middle East crude trade with China had reached 41% by March 2026. This suggests that the oil market is no longer merely a theoretical pricing opportunity for currencies other than the USD, particularly the RMB; settlement acceptance is already evident in the most strategically important import corridor.

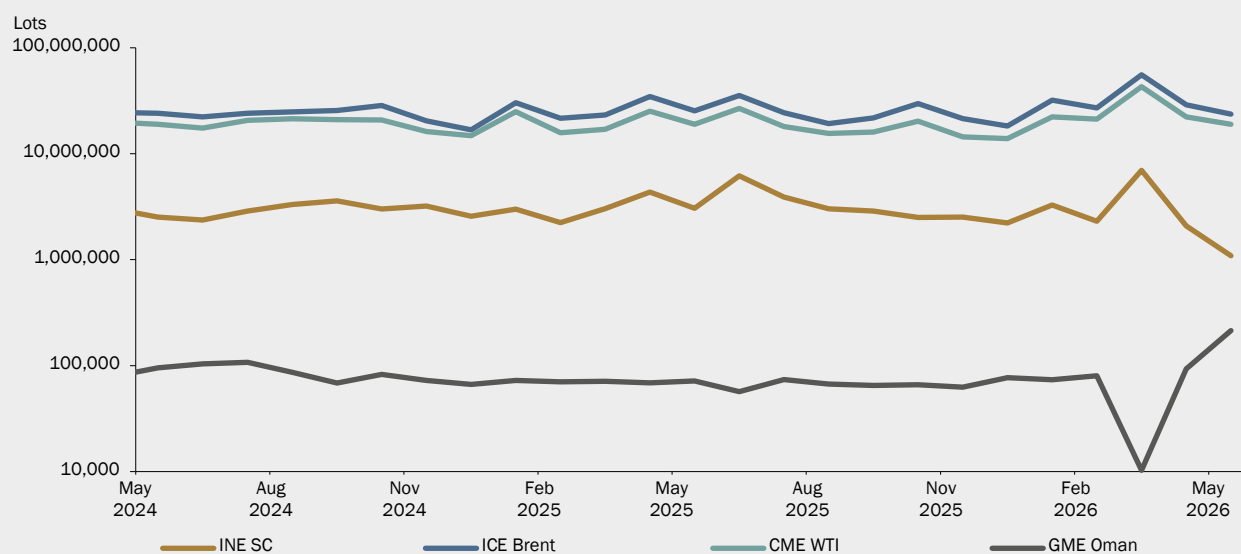
China's scale in oil imports gives RMB pricing contracts strong room to grow



Source: Energy Institute, ICBCS

INE should therefore be viewed as a benchmark-building process rather than as a static comparison with incumbent contracts. Benchmark status strengthens as deliverability broadens, participation deepens and futures prices become more relevant to physical trade decisions. INE is targeting an increase in international participation from approximately 20% current level to above 30% by 2030, with an interim validation threshold of above 25% by 2027. On that basis, INE matters because it anchors the RMB oil-pricing story in a tradable contract with growing regional relevance, rather than in policy aspiration alone.

INE crude is strengthening its position as a rising regional RMB oil benchmark



Source: Bloomberg, ICBCS

The final step is the development of a “Closed-Loop Ecosystem”

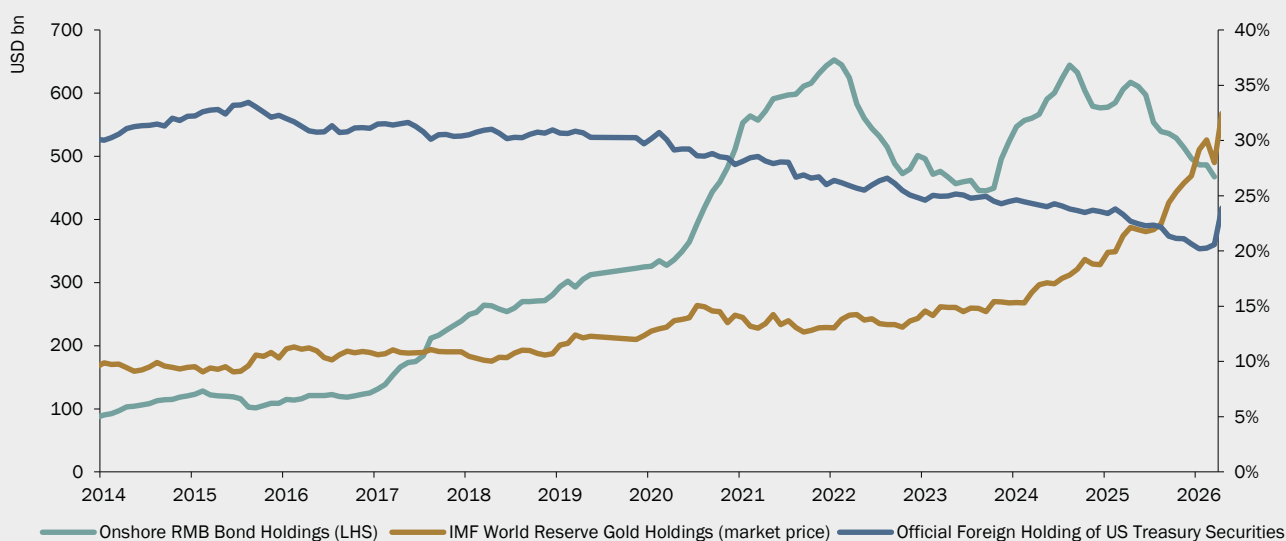
around RMB commodity trade. This is where the RMB’s shift towards vendor currency pricing (VCP) becomes more durable. Under this model, a dominant buyer increasingly uses RMB not only for trade settlement, but also for price formation and post-trade recycling. In iron ore, RMB settlement rose from 5% in 2023 to 25% in 2025 and is targeted to exceed 40% by 2030, creating a growing need for investable RMB assets to absorb and recycle these flows. This need is increasingly being met by improvements in offshore market depth where the share of CNH bonds with maturities of seven years or more has increased from 4% in 2023 to 13% in 2025. Moreover, earlier this year the London Clearing House (LCH) expanded its eligible non-cash collateral to include CNH-denominated China Government Bonds, while LME Clear increased by 50% the maximum amount of CNH that each member can use as collateral and shortened the notification period for CNH deposits and withdrawals by one day. As a result, this ecosystem broadens the RMB’s functionality across trade, hedging, and investment, reinforcing its role in commodity markets.

Taken together, the logic is now clearer. Real demand underpins trade centrality; trade centrality supports settlement usage; settlement usage creates the foundation for pricing capability; and pricing capability becomes more sustainable when embedded in a “Closed-Loop Ecosystem” that gives offshore RMB a clear post-trade function. The next validation points are also becoming more concrete, including over 50% of China’s total cross-border trades settled in RMB, INE Crude monthly trade volume reaches 30% of ICE Brent. This is why RMB commodity pricing now looks more cumulative, more coherent and more institutionally grounded than in earlier phases.

RMB in FX Derivatives & Capital Markets

We believe RMB is crossing the threshold from a settlement currency into a functional hard currency, not only defined by official reserve adoption, but also by whether global investors and corporates can hedge, fund and transform currency risk across products and tenors. On the reserve side, the RMB's share in global official FX reserves rose from 1.1% when it was first separately reported in 2016 to a peak of c. 3% in recent years. This suggests that the currency has been establishing a structural holding base beyond trade settlement. In practice, global markets require four functions before a currency can be treated as hard: broad acceptance in trade and payments, deep hedging instruments, a scalable investable asset pool, and the ability to serve as financing collateral. On this framework, CNH has already moved materially beyond the early internationalisation phase.

Reserves are shifting away from USTs towards RMB and Gold



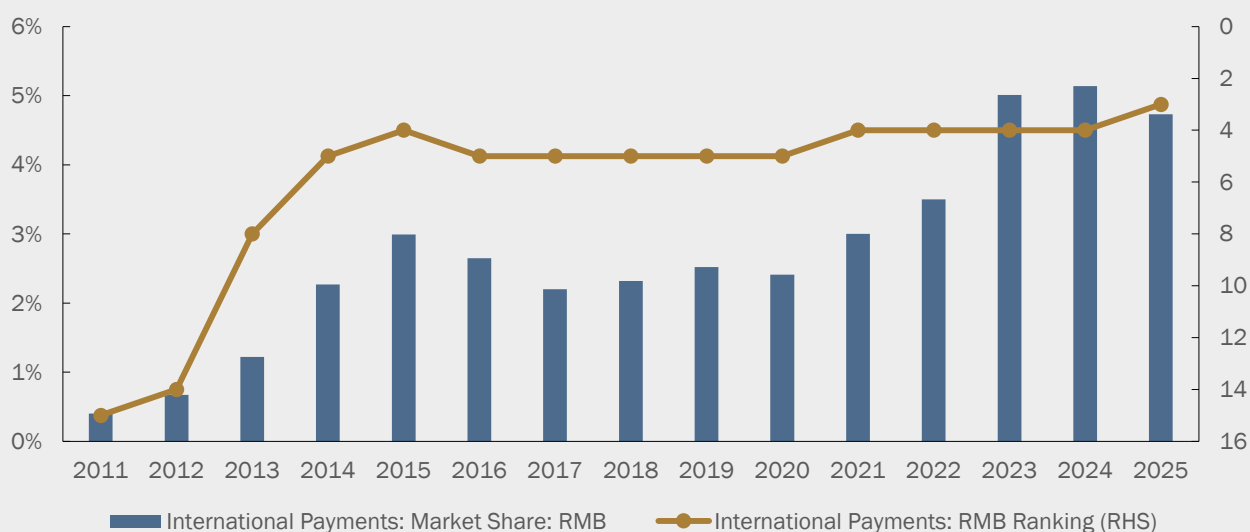
Source: Bloomberg, Wind, ICBCS

Finally, a currency can only become more widely used if market participants have reliable, scalable and low-cost channels to settle it. From an infrastructure perspective, m-Bridge is evolving as a strategically important building block for RMB usage. The project is not merely a digital-currency experiment, but a potential wholesale settlement rail that could improve the efficiency, resilience and interoperability of cross-border RMB payments. By enabling real-time, peer-to-peer settlement in bank money across multiple jurisdictions, it reduces dependence on legacy correspondent-banking chains, lowers operational frictions and strengthens the RMB's usability in trade, commodities and regional financial transactions. M-Bridge itself enhances the RMB's transactional utility and embeds the currency more deeply into next-generation cross-border payment architecture.

Hard-currency requirement	CNH evidence	Interpretation
Payment and settlement acceptance	Global share of RMB international payment reached 5% in recent years.; second-largest trade-finance currency and third-largest payment currency on full-scale calculation.	The settlement layer is no longer experimental; it now provides the real-economy flow base required for offshore money creation.
FX hedgeability	USD 817bn RMB/FX total daily turnover in 2025 with global share of 8.5%; over 60% of total turnover are from FX derivatives.	CNH is already tradable and hedgeable for global institutions, with swaps supporting funding and forwards/options supporting risk transfer.
Investability	Foreign holdings of onshore RMB financial assets reached RMB 10.4tn by Jun-2025, including RMB 4.3tn of bonds and RMB 3.1tn of stocks.	The asset base is large enough to support strategic allocation, not only transactional balances.
Collateral and funding utility	China's repo market turnover totaled RMB 2,332.5tn in 2025, with interbank repo turnover of RMB 1,709.6tn, accounting for c. 73% of the domestic repo market.	RMB bonds are moving from portfolio assets toward collateral assets, the decisive upgrade for hard-currency status.
Infrastructure and policy direction	CIPS processed RMB 180tn in 2025; PBOC will develop RMB/FX derivatives, consider RMB/FX futures and support offshore RMB liquidity mechanisms.	The policy path is not passive liberalisation; it is targeted global build-out around hedging, clearing and collateral.

Source: ICBCS

International payments provide flow base for RMB liquidity



Source: Swift, PBOC & media reports

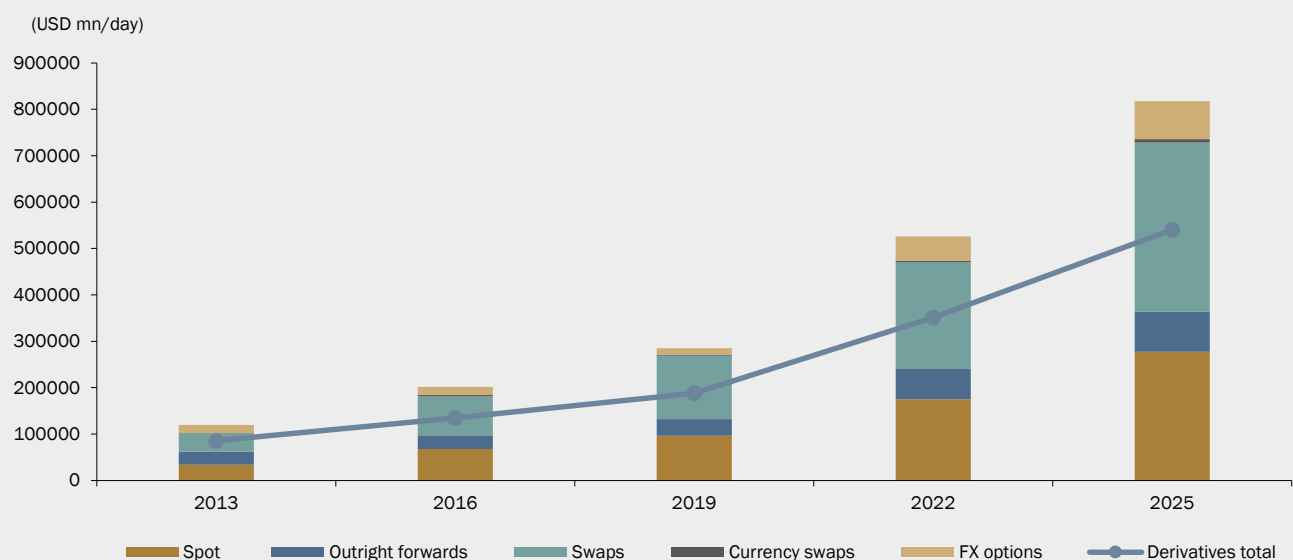
FX Derivatives: RMB Is Becoming a Hedgeable Hard Currency

The first step of a hard currency is whether it can be traded and hedged in institutional size. On this stage, RMB has

passed the early-stage threshold. The RMB/FX market is no longer just a spot conversion market linked to goods trade. It is now a multi-product risk-transfer platform spanning spot, swaps, forwards, cross-currency swaps and options.

RMB’s share of global OTC FX turnover increased from c. 4% in 2019 to 7% in 2022 and 8.5% in 2025, while daily turnover rose from USD285bn to USD817bn over the same period. More importantly, growth has been increasingly derivatives-led: RMB FX derivatives turnover rose from USD188bn per day in 2019 to USD540bn in 2025, with FX swaps becoming the largest product and FX options expanding materially. This indicates that RMB is evolving from a spot-driven settlement currency into a hedgeable, fundable and investable risk-management currency, which is therefore not yet a full hard currency, but its derivatives liquidity is creating hard-currency optionality. These instruments matter because they are used by corporates, banks, asset managers and sovereign investors for duration hedging, liability matching and structured funding. A currency that cannot be hedged beyond spot settlement cannot become a hard currency; CNH is steadily building that hedgeability.

RMB derivatives turnover proves it’s becoming more hedgeable and fundable



Source: BIS

The main challenge is not product availability, but breadth. Most RMB/FX liquidity is still concentrated in USD/CNH and USD/CNY legs. The report shows that RMB spot trading against non-USD currencies reached RMB 1.8 trillion in 2024, only 2.7% of total interbank spot trading. That figure is small relative to the scale of China's trade and investment footprint in ASEAN, the Middle East, Africa and Central Asia.

This is precisely where the next hard-currency upgrade is likely to occur. The PBOC explicitly states that it will further develop the RMB/FX derivatives market, consider RMB/FX futures trading, facilitate listing and trading of RMB against currencies of neighbouring and Belt and Road countries, onboard more product types and improve liquidity. This policy direction addresses the current bottleneck directly.

Our base case is that CNH evolves from a USD/CNH hedging currency into a corridor currency: a pricing and hedging currency for China-linked trade, commodities, infrastructure and capital flows across Asia, GCC and selected frontier markets. In that environment, CNH liquidity will be increasingly endogenous, generated by trade invoices, bond issuance, swap lines and local clearing arrangements rather than only by USD conversion.

Capital Markets: RMB is Becoming an Investable and Collateralisable Hard Currency

The second step of a hard currency is whether global investors can hold meaningful assets in that currency. CNH benefits from a dual-market structure: offshore CNH provides the global balance-sheet and funding channel, while the onshore CNY market provides the scale, credit curve and sovereign-risk anchor. Together they form the investable RMB ecosystem.

The opening of China's financial markets has moved from pilot access to a multi-channel architecture. Overseas investors can access domestic markets through direct market access, Bond Connect, QFII/RQFII and mutual recognition of funds. Cross-border RMB settlement of securities investment reached RMB 36.9 trillion in 2024, up 28.8% year on year, and RMB 20.8 trillion in the first half of 2025, up 19.5% year on year.

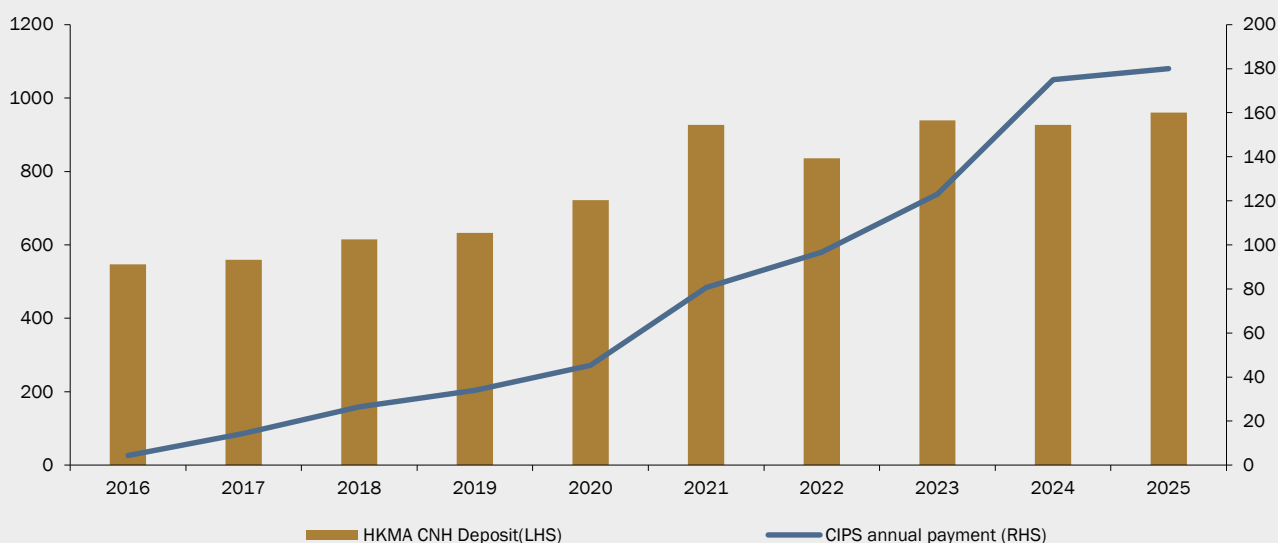
Foreign holdings of onshore RMB financial assets reached RMB 10.38 trillion by June 2025. Bonds are the largest component, at RMB 4.28 trillion, followed by equities at RMB 3.07 trillion, deposits at RMB 1.88 trillion and loans at RMB 1.15 trillion. This matters because a hard currency needs more than a settlement account: it needs a full asset stack across cash, bonds, equities, loans and derivatives.

The offshore RMB deposit pool is the balance-sheet base for CNH.

At end-2024, major offshore RMB markets held c. RMB 1.6 trillion of deposits. Hong Kong remained the anchor hub with RMB 926.5 billion, followed by London and Singapore. This pool is still smaller than the onshore CNY system, but it is large enough to support an offshore money-market and bond-investment ecosystem.

Capital-market internationalisation cannot scale without clearing infrastructure. CIPS is a crucial part of the CNH hard-currency thesis because it reduces dependency on fragmented correspondent flows and provides a dedicated RMB payment channel.

In recent years, the balance of RMB deposits and CIPS payment in Hong Kong has shown a fluctuating upward trend (RMB mn)

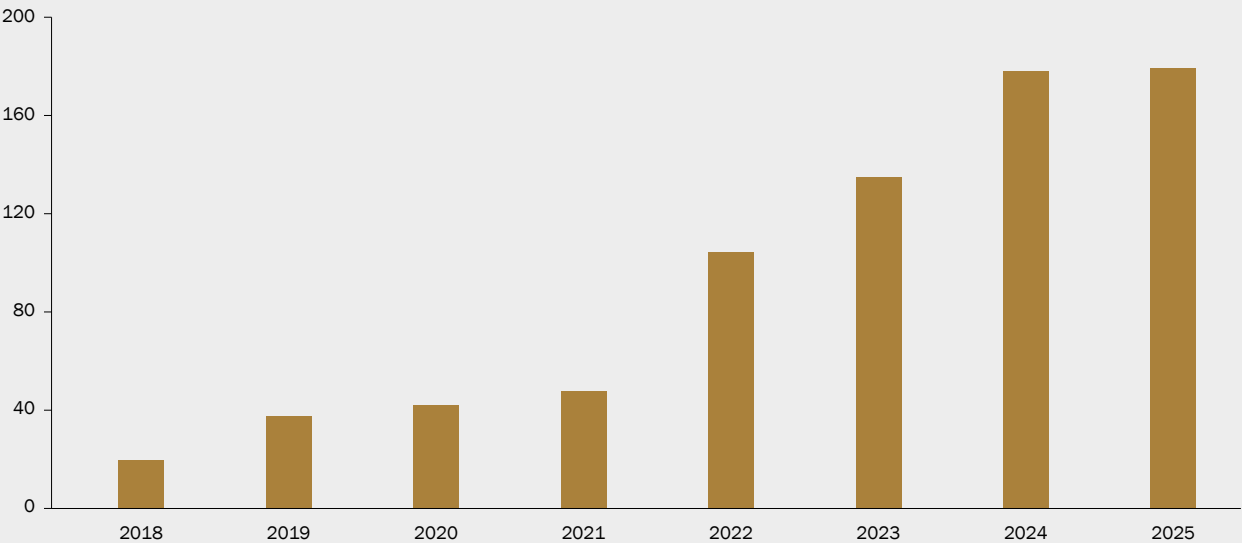


Source: HKMA, CIPS

Hard currencies must be used not only to buy assets but also to raise funding.

Offshore RMB issuance is also scaling. The PBOC report states that offshore RMB-denominated bonds reached RMB 1.2 trillion of issuance in 2024, up 27% year on year. Another section highlights that the outstanding balance of RMB international bonds reached USD 256.1 billion at end-2024, 2.6 times the level of end-2019. This is the beginning of an offshore RMB credit market that can support funding, yield enhancement and reserve diversification.

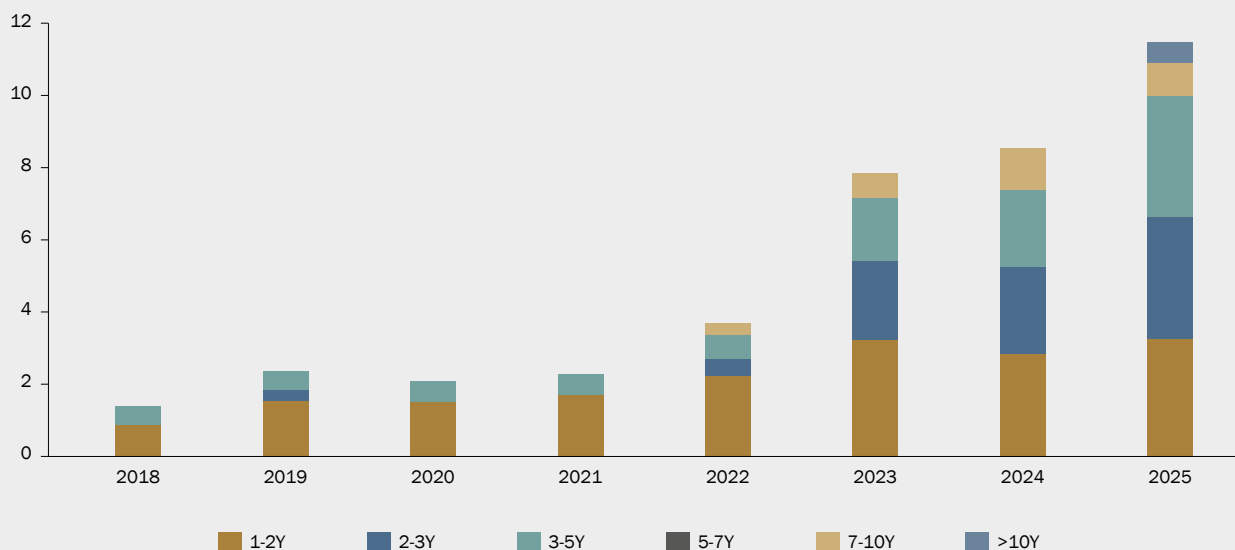
Annual gross issuance of Dim Sum bonds (in USD bn)



Source: Wind

The role of official issuance is also important. Regular offshore issuance of RMB government bonds and central bank bills helps to form a CNH risk-free curve. The PBOC has indicated that regular offshore issuance will be sustained to improve the offshore RMB yield curve and expand the supply of RMB risk-free assets. This is a critical hard-currency feature: investors need a curve against which to price credit, swaps and repo.

Gross CNH CGB issuance (in USD bn)



Source: Wind

The crucial upgrade: from RMB assets to RMB collateral

A significant phase of currency internationalisation is collateral utility. A currency becomes hard when its sovereign and high-quality credit assets can circulate in the global collateral chain. As RMB bonds are becoming a new option for global repo collateral, amid the global financial industry increasingly values high-quality collateral for risk and liquidity management.

China's repo market already has domestic scale. According to PBOC, China's repo market transaction volume reached RMB 2,332.5tn in 2025, of which interbank repo turnover accounted for RMB 1,709.6tn, representing c. 73% of the domestic repo market.

The PBOC's recent launch of RMB Repo for overseas sovereign institutions marks an important step in upgrading the RMB from a settlement currency into a collateral-backed liquidity currency. By allowing foreign central banks, sovereign wealth funds and other official institutions to pledge Chinese government bonds and PBOC-approved securities for short-term RMB funding, the facility enhances the liquidity value of RMB assets and reduces the friction of holding them as reserves. Similar to the Fed's FIMA Repo framework, it provides an official-sector backstop for payment stress and liquidity management, strengthening confidence in RMB-denominated collateral. This deepens the institutional infrastructure required for the RMB to evolve toward hard-currency status.

It's also clear that overseas RMB fund pools are the key to offshore repo development. At present, many foreign investors still obtain CNH mainly through FX swaps, while RMB bond repo has not become a mainstream offshore financing choice. That is a gap, but it also defines the upside: as CNH deposits, offshore bonds, central bank bills, repo access and collateral recognition expand, RMB bonds can move from passive portfolio holdings into active balance-sheet collateral.

Collateralisation metric	Evidence from market activities	Hard-currency implication
China repo market	China's repo market trading volume reached RMB 2,332.5tn in 2025, up 6.5% YoY.	Domestic liquidity management market is already systemically large.
Interbank repo market	Interbank repo market reached RMB 1,709.6tn, accounting for c. 73% of China's total repo market.	The institutional repo market has deep turnover and broad participation.
Foreign investor bond repo access	Policy direction supports overseas institutional investors conducting bond repo in domestic market.	Cross-border collateral utility is a future catalyst.
Offshore RMB fund pool	Major offshore deposits c. RMB 1.6tn at end-2024.	CNH funding pool is the prerequisite for offshore RMB repo and collateral reuse.

Source: PBOC, CCDC-ICMA White Paper



Commodity Markets: Transition in a new global order

Commodity market in a new global order

Summary

Commodity markets are undergoing a structural shift from a demand-driven, cyclical framework toward one increasingly shaped by geopolitical disruption, supply-chain risk and strategic competition. The escalation of the geopolitical tensions involving Iran and the disruption of the Strait of Hormuz have acted as a central transmission shock, tightening global energy balances and raising both transportation costs and market volatility across both energy and metals markets. As a result, commodity prices are increasingly reflecting not only supply–demand fundamentals, but also risk premia linked to security concerns, trade disruption and policy uncertainty.

Across asset classes, energy markets have shifted from surplus into deficit, reinforcing price sensitivity to geopolitical developments, while base metals are caught in a persistent dynamic balance between supply-side constraints and macro-driven demand headwinds. Disruptions to energy, logistics, and key inputs such as sulphur have tightened production conditions across aluminium, copper and nickel, even as higher inflation and “higher-for-longer” rates weigh on demand, resulting in elevated volatility rather than a sustained directional trend. At the same time, gold has reasserted its role as a strategic asset, supported by strong central bank demand and a broader shift toward reserve diversification.

Looking beyond the cycle, structural demand from electrification, energy transition and AI-related infrastructure continues to underpin the medium-term outlook, while supply expansion remains constrained by long project lead times, policy restrictions and rising costs. Against this backdrop, commodity markets are entering a phase of rebalancing, characterised by structurally tighter supply conditions, stronger strategic value, and persistently higher volatility.

The impact of rising geopolitical uncertainty on macro conditions and commodities

Geopolitical and policy uncertainty in the global macro environment has risen markedly and is increasingly exerting broader systemic effects on the economic outlook and commodity markets. First, sustained geopolitical shocks have weakened global growth expectations by intensifying policy uncertainty and raising the probability of disruptions to trade, energy transportation and financial systems. In this setting, investors are becoming more cautious about the future growth path, and geopolitical risk is increasingly seen as a structural drag rather than a short-term disturbance on demand and business confidence.

Second, geopolitical conflict has exacerbated supply-side tightness by disrupting already fragile supply chains. Security risks along transport routes and instability in resource-producing regions can quickly translate into supply bottlenecks and higher costs. With industrial chains more fragmented and inventories generally lean, shocks are more easily transmitted into supply-driven price spikes—meaning inflation is increasingly influenced not only by demand cycles but also by geopolitics.

The consequence is a more complicated policy backdrop for major central banks. Slower growth and higher market volatility argue for support, while higher commodity prices and supply-driven inflation pressures limit the room for easing. In this process, commodity prices are becoming a key transmission channel through which geopolitical shocks feed into inflation expectations, monetary policy and capital flows, as prices increasingly embed geopolitical and policy risks.

Crude oil volatility surges to multi-year highs amid Iran war and strait disruption

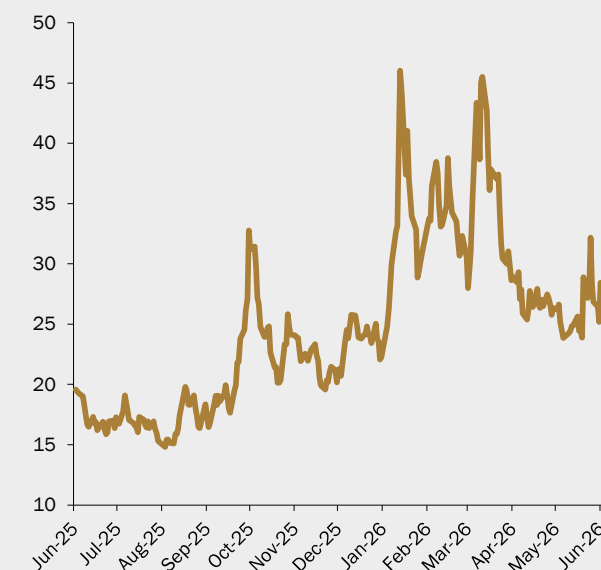
Cboe crude oil volatility index



Source: Cboe Global Markets, Bloomberg

Gold volatility caught between hawkish Fed signals and safe-haven demand

Cboe gold volatility index



Source: Cboe Global Markets, Bloomberg

The Middle East conflict disrupts global energy flows, hitting Asia the hardest

Since the outbreak of the conflict, the Strait of Hormuz has re-emerged as a core variable in global energy markets. As the sole maritime passage linking the Persian Gulf to global markets, the strait carries around one-fifth of global crude oil and LNG trade, making it both the most critical and most vulnerable chokepoint in the global energy system. Iran's de facto blockade and restricted access have sharply reduced the accessibility of Middle Eastern crude oil and LNG, pushing global energy prices higher and keeping markets highly sensitive to diplomatic signals.

In terms of global oil supply–demand dynamics, the IEA's May 2026 Oil Market Report highlights a sharp shift from surplus to deficit following the escalation of the conflict and the disruption of flows through the Strait of Hormuz. While the market was comfortably oversupplied throughout 2025, conditions reverse sharply in 2026 as supply losses dominate.

At the country level, economies highly exposed to the Strait of Hormuz are the most exposed to the shock. Asia has emerged as the most affected region, including Japan, South Korea, India, and Southeast Asian importers such as Thailand and the Philippines, all of which rely heavily on Middle Eastern crude and LNG and have limited alternatives in the near term. Japan and South Korea face pronounced risks of cost inflation and pass-through due to high import dependence and energy-intensive manufacturing; India faces greater fiscal and current-account pressure; and Southeast Asia is grappling with tighter LNG and refined product supply and rising power generation costs. Policy responses have focused on strategic reserve releases, supply diversification and the use of subsidies or price controls, which can mitigate near-term pressures but cannot fully offset prolonged Hormuz-related disruption.

Although the United States is not a major direct importer via the Strait of Hormuz, higher global benchmark prices have quickly fed into domestic markets. US gasoline prices rose sharply in March–April, eroding real household purchasing power and lifting inflation expectations.

Disruptions in the Strait of Hormuz exacerbate aluminium supply tightness

In the current geopolitical environment, base metals—particularly copper, aluminium and nickel—face opposing forces from tightening supply and weak demand. Disruptions to routes and shortages of key inputs can create regional supply stress, while higher recession risks and tight financial conditions weigh on industrial demand and cap upside.

The supply impact is especially direct for aluminium. As a highly energy-intensive metal, smelting costs are extremely sensitive to electricity and gas prices. Rising energy costs and regional disruptions have increased the risk of curtailments. In addition, the Middle East accounts for c. 9% of global aluminium capacity; disruptions through Hormuz can restrict exports and interfere with inflows of upstream raw materials, raising the risk of regional tightness.

Hormuz Strait disruptions are constraining aluminium feedstock supply



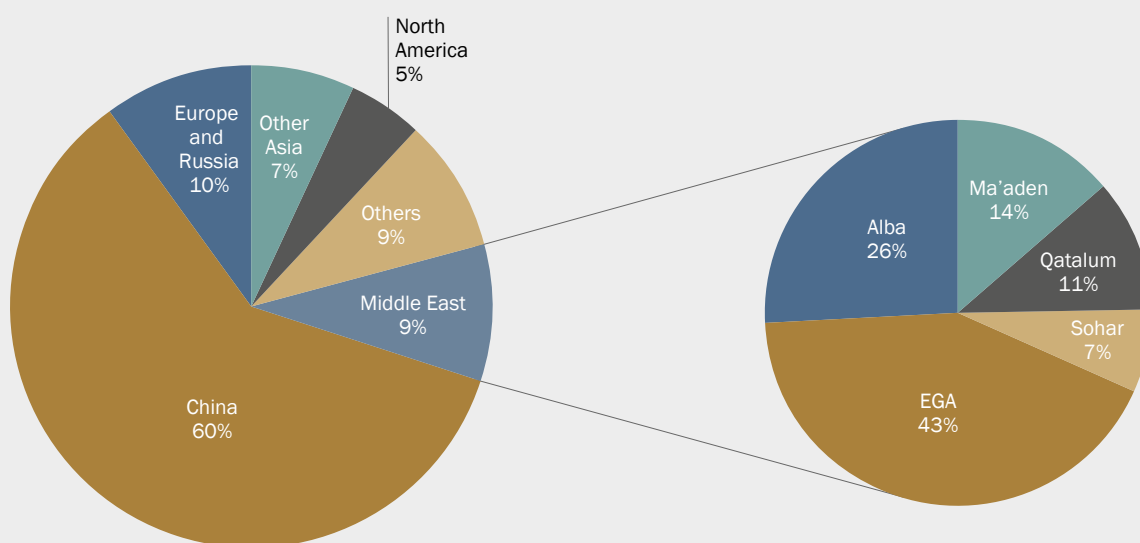
Source: CRU International

Hormuz disruption tightens sulphur supply, threatening copper and nickel output

For copper, the impact is more indirect and works through chemical inputs. The conflict has severely restricted global sulphur supply, lifting sulphur and sulphuric acid prices. Since sulphuric acid is a critical input for copper mining—particularly in Chile and the DRC where SX-EW processes are widely used—continued tightness could constrain output. For nickel, sulphur scarcity matters most for HPAL production, which is highly sulphuric-acid intensive; this is especially relevant for Indonesia, which is heavily reliant on imported sulphur for key nickel industrial clusters, raising costs and disrupting operations in some projects.

However, base metals are simultaneously facing demand-side pressure. Higher commodity prices and inflation can keep interest rates higher for longer, weighing on manufacturing and capital-intensive activity. A short-term stronger USD expectation can further pressure dollar-denominated prices. As a result, base metals are characterised by elevated volatility rather than a clear directional trend, as markets repeatedly reprice the balance between supply disruption risk and weakening demand.

The Middle East accounts 9% of the global aluminium capacity - Global aluminium production by region



Source: International Aluminium Institute (IAI); Bloomberg Intelligence

Energy-driven inflation reinforces Fed rate hike expectations, pressuring gold prices

Gold has once again demonstrated its distinctive asset properties under heightened uncertainty. Historically, gold tends to outperform during periods of escalating geopolitical conflict (via safe-haven demand) and phases of monetary easing (via declining real rates), while higher real yields and a stronger US dollar can increase holding costs and pressure prices.

In 2025, amid rising geopolitical risks and mounting strains on fiscal and monetary systems across major economies, gold prices surged by more than 64%. In early 2026, direct US military action against Venezuela and the forcible seizure of President Maduro further lifted risk aversion, briefly pushing gold to c. USD 5,600/oz toward the end of January. Gold then corrected as markets reassessed US monetary policy after President Trump nominated the more hawkish Kevin Warsh as his preferred candidate for Federal Reserve Chair.

A second, more pronounced adjustment followed after March as the Middle East conflict escalated and the Strait of Hormuz was obstructed. The strait handles c. 20% of global seaborne crude oil and LNG flows. It also constrains exports of c. 9% of global aluminium capacity and affects nearly one-third of global sulphur supply – intensifying inflationary pressures and constraining central banks' policy flexibility. In April, the Federal Reserve, Bank of England and European Central Bank all left policy rates unchanged, reinforcing a cautious 'wait-and-see' stance. A persistently high-rate environment reduced gold's near-term appeal as a non-yielding asset and contributed to the March–April pullback.

Despite near-term sensitivity to rates, gold's longer-term support remains intact. According to the World Gold Council, central bank demand remained strong, with net purchases of 244 tonnes in Q1 2026, above recent averages. In a world of persistent geopolitical risk and higher uncertainty around financial infrastructure, central banks' demand underscores gold's strategic role in reserve diversification and value preservation. If growth risks rise and markets re-price the prospect of future easing, gold can gain renewed support from safe-haven demand.

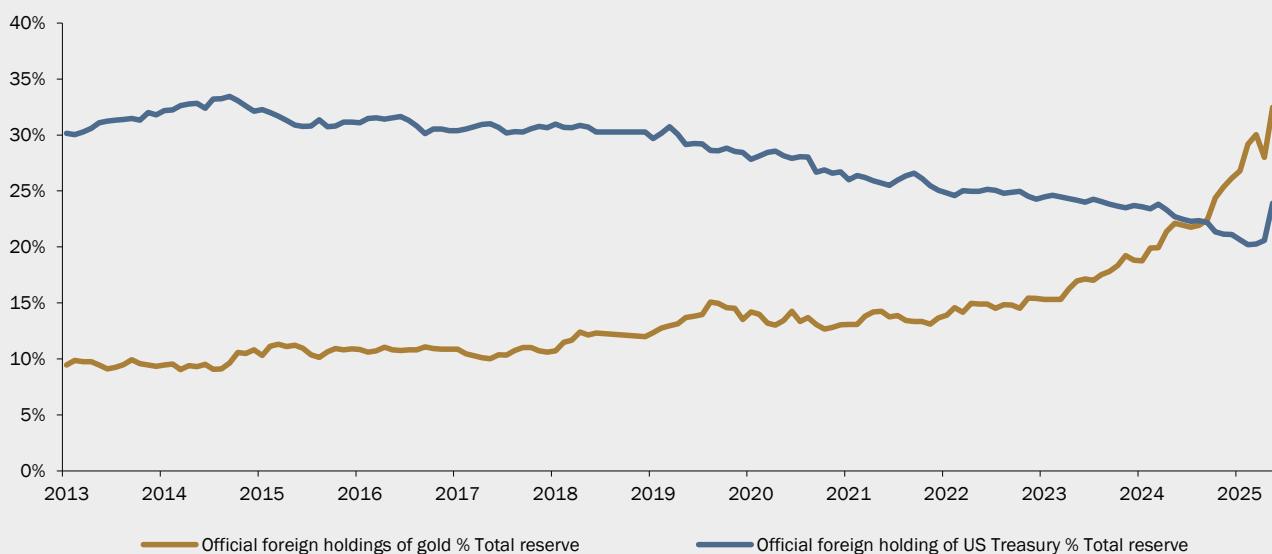
Gold has overtaken US Treasuries to become the largest official reserve asset

Following President Trump's return to office, volatility in the global macro and policy environment has increased, contributing to greater uncertainty around US dollar assets. Frequent adjustments in trade, fiscal and foreign policy, alongside shifting expectations for monetary policy, have raised the risk premium associated with dollar-denominated assets and amplified exchange-rate and capital-flow volatility.

Against this backdrop, investors and central banks are reassessing the concentration of reserves and transactions within a single currency framework. While the US dollar remains the dominant reserve currency, its share in global foreign-exchange reserves has gradually declined from above 60% in the 1990s to c. 40% today, reflecting a shift toward a more diversified and multipolar financial system.

In this context, gold has regained prominence within reserve portfolios. Because it is not tied to any single sovereign credit system or policy framework, gold can be more resilient during periods of geopolitical stress and financial fragmentation. Central banks—particularly in emerging markets—have increased gold allocations as part of a broader diversification strategy. Central bank gold demand has been led by a range of emerging economies since 2022, reflecting a broad-based diversification away from dollar assets. In 2025, global official gold holdings have climbed above 36,000 tonnes, approaching levels last seen during the Bretton Woods era. Gold's share of global reserves has risen to c. 30% in recent years, surpassing U.S. Treasuries to become the largest official reserve asset globally and is likely to trend higher over the long term, reinforcing its role as a store of value and a hedge against systemic risk.

Gold as a share of global central bank reserves has risen strongly since pandemic



Source: IMF

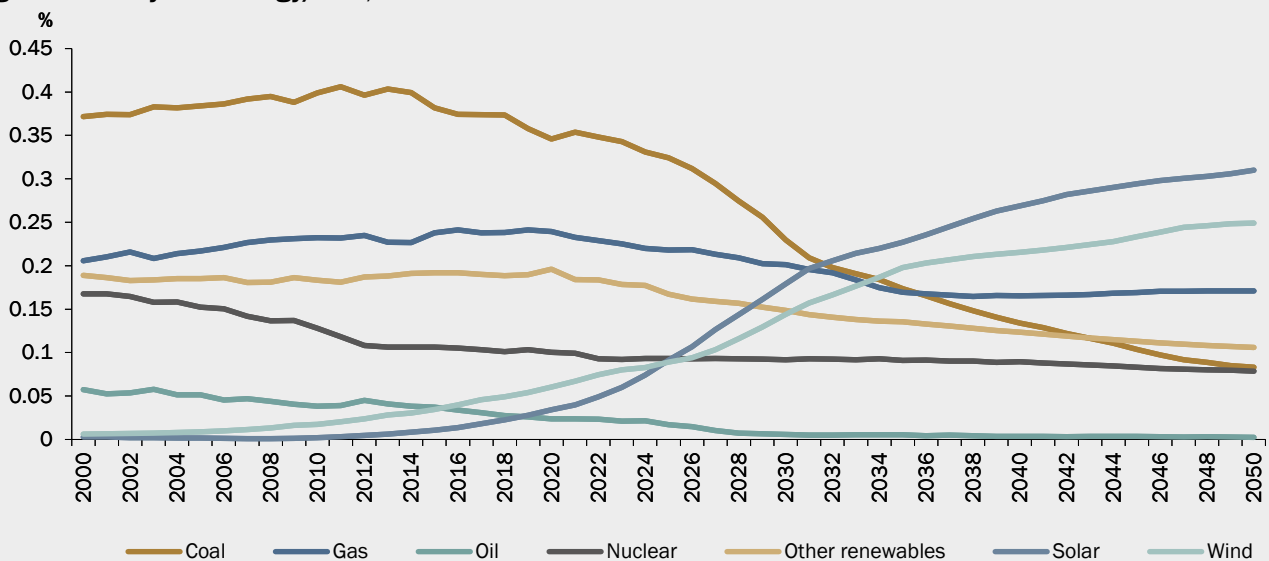
Strategic implications: Supply security, critical minerals, and energy transition

The United States and Iran reached a preliminary agreement on June 18, with U.S. President Trump and Iranian President Pezeshkian signing a memorandum of understanding (MOU) remotely, establishing a 60-day ceasefire and initiating discussions on a permanent peace deal and restrictions on Iran's nuclear program. The MOU also provides for the release of c. \$25 billion in frozen Iranian assets, the immediate issuance of U.S. sanctions waivers, and the reopening of the Strait of Hormuz.

While this agreement signals a temporary easing of geopolitical tensions in the Middle East, the conflict has nevertheless highlighted a structural vulnerability in commodity markets: when supply is concentrated in a single region and dependent on a critical transport chokepoint, localised disruption can quickly translate into systemic risk. Once the Strait of Hormuz shifts from an efficient corridor to a high-risk zone, accessible physical supply can fall abruptly, forcing a repricing across inventories, prices, and trade patterns.

The first visible transmission channel has been shipping. As transit risk surged, carriers re-routed flows, raising transit times, fuel consumption and delivered costs. These adjustments can become structural: once schedules, port calls, bunkering and inland logistics are reorganised around new routes, creating lasting changes in trade routes and cost structures, while insurers' risk perception of Middle Eastern sea lanes can remain elevated even if conditions ease.

Renewable energy to become the dominant source of power generation – Share of global electricity generation by technology/fuel, %



Source: Bloomberg, NEF

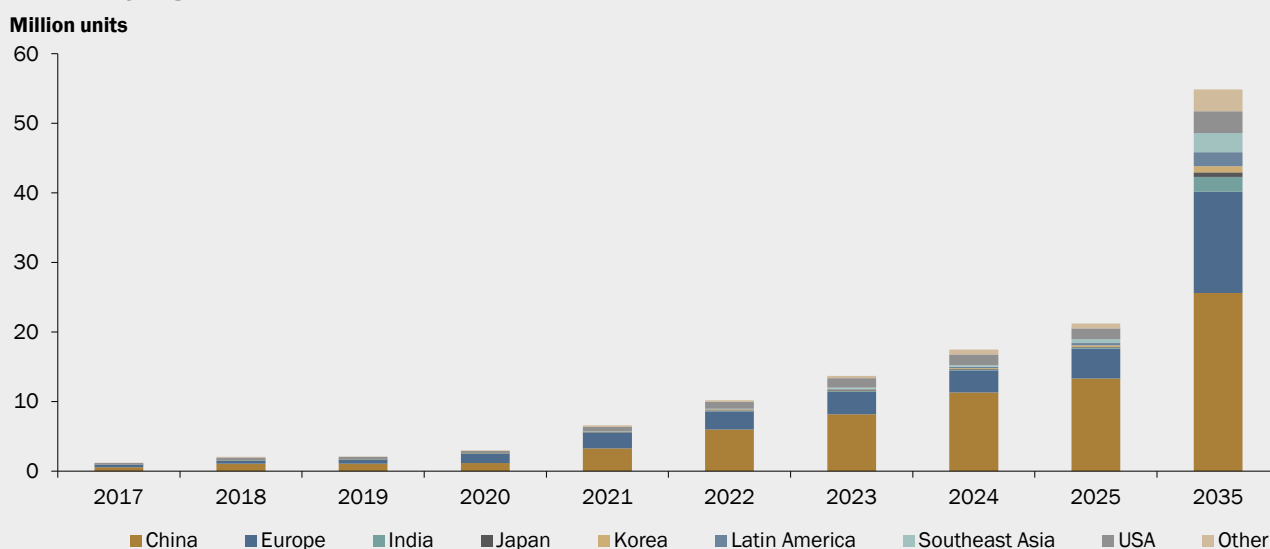
The same logic is extending to critical minerals. With intensifying geopolitics, a continuing energy transition and rapid AI expansion, minerals such as copper, aluminium, nickel, cobalt, lithium and rare earths are increasingly treated as strategic resources tied to long-term competitiveness and industrial security. Major economies are upgrading critical-minerals supply chains into policy priorities, using tools ranging from domestic support and stockpiles to partnerships and trade policy.

Securing supply now requires more than upstream resource access. It increasingly depends on integrated supply chains spanning mining, processing, logistics and strategic reserves—reflecting a broader shift from cost efficiency toward supply security and resilience.

Under this framework, critical-minerals endowment increasingly translates into strategic economic advantage. Producing countries can benefit not only from export revenues, but also from attracting investment into refining and downstream processing, enhancing their role within the global value chain.

In addition, the energy crisis triggered by the Middle East conflict is likely to accelerate the shift toward electric vehicles (EVs). The IEA's Global EV Outlook 2026 highlights strong momentum: global EV sales rose 20% y/y in 2025 to surpass 20 million units, roughly a quarter of global new car sales, and are projected to reach 23 million units in 2026 (c. 30% of total sales). By 2035, global EV sales are projected to rise to 54.9 million units, led by China and Europe.

Energy crisis is accelerating the global shift to electric vehicles EV sales by region, million units



Source: IEA

Rebalancing industrial metal demand and constrained supply

While industrial-metal demand remains sensitive to the economic cycle in the near term, the medium- to long-term outlook is underpinned by structural drivers—power generation, electrification, energy transition investment and AI-related infrastructure. These forces are more diversified and policy-anchored than traditional property- or manufacturing-led cycles, implying a structural upward shift in demand intensity even if growth slows episodically.

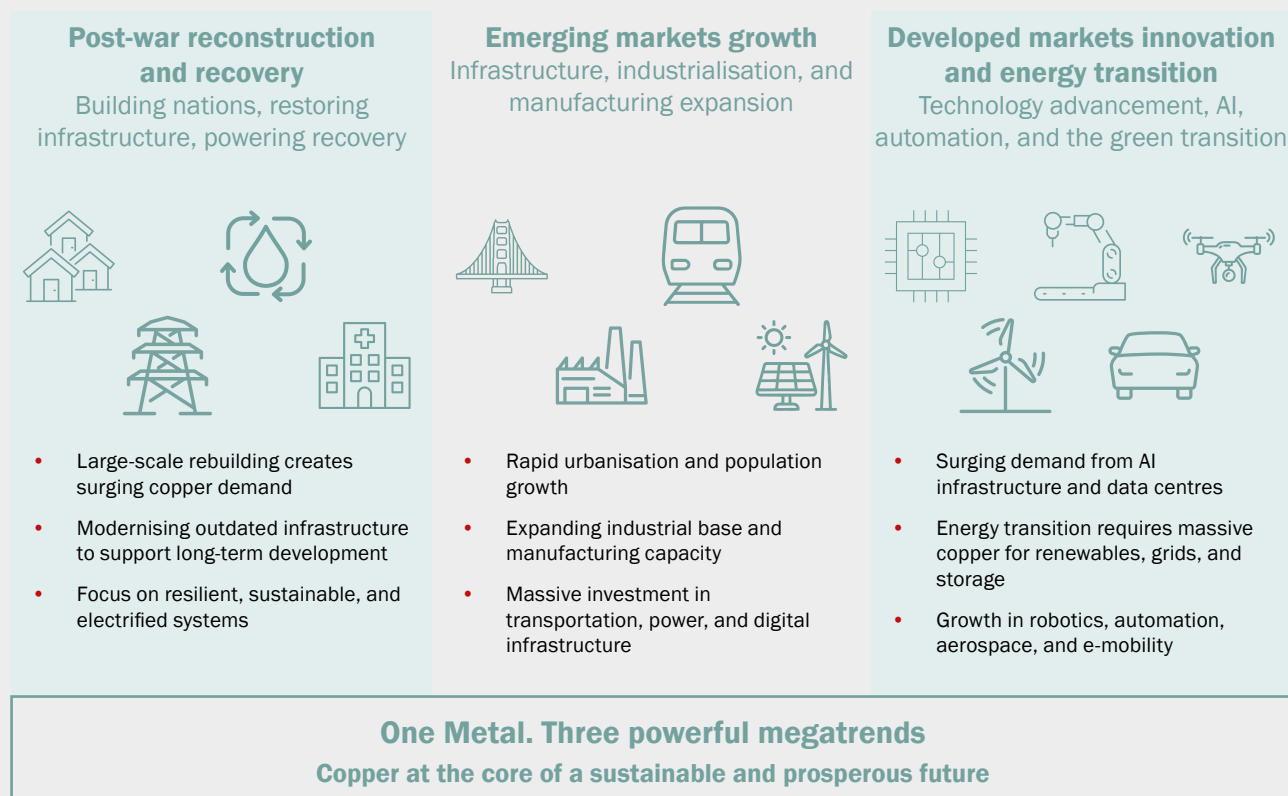
Supply expansion has lagged. For copper, declining ore grades, rising costs and long project lead times constrain responsiveness. For aluminium, policy and energy constraints shift incremental supply dependence to overseas projects, which face execution and power-security challenges. Nickel remains concentrated but not scarce: supply is geographically concentrated and sensitive to policy shifts, particularly in Indonesia, increasing volatility.

Taken together, the market is undergoing a rebalancing driven by structurally rising demand and constrained supply responsiveness. Prices may remain volatile amid short-term macro swings, but over the medium to long term, industrial metals closely tied to power systems, the energy transition and new-technology infrastructure are more likely to see an upward shift in price levels driven by persistent mismatches.

Global copper demand drivers

Key growth pillars over the next 10 - 30 years

Three powerful, long-term forces will drive structural growth in global copper demand over the coming decades



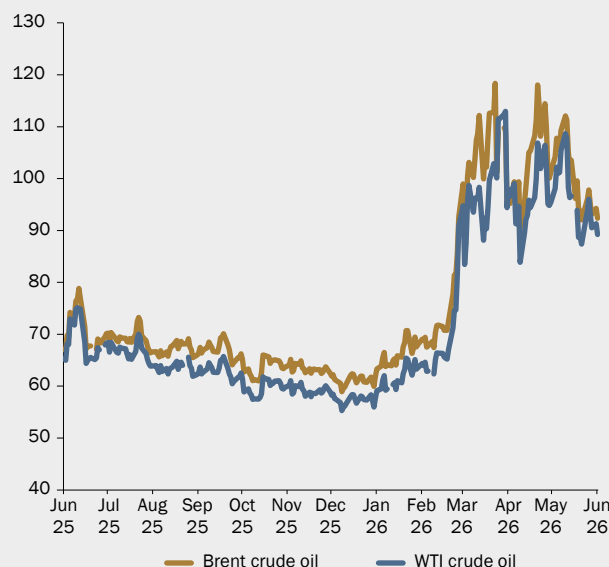
Commodity profile: crude oil

Crude oil markets have been driven by geopolitical disruptions and supply risks year-to-date, resulting in elevated volatility. Escalation of the Middle East conflict and disruptions in the Strait of Hormuz triggered a major supply shock. OPEC output fell to multi-decade lows, with Iran accounting for most of the decline. As a result, prices increased significantly earlier in the year before partially retracing, as the market adjusted via higher-cost alternative routes, SPR releases, and weakening demand. Both crude imports and refined product consumption declined sharply. Prices have remained highly volatile, with sharp two-way moves driven by shifting expectations around US–Iran ceasefire negotiations. On fundamentals, the global oil market has swung from a surplus in 2025 into a deficit in 2026, with supply at c. 102 mb/d versus demand c. 104 mb/d, implying a full-year deficit of roughly 1.8 mb/d. Quarterly data show the market moves into a moderate deficit in Q1 2026, before collapsing to a peak shortfall of c. 6 mb/d in Q2 (March–June), and remains undersupplied through Q3 before recovering toward a modest surplus in Q4 as supply gradually normalises.

Looking ahead, the market is expected to remain highly sensitive to geopolitical developments. While any progress toward a ceasefire and supply normalisation could ease the deficit, weakening demand is likely to act as a key headwind. Overall, oil prices are expected to remain volatile, with geopolitical risks offsetting softer macro demand conditions.

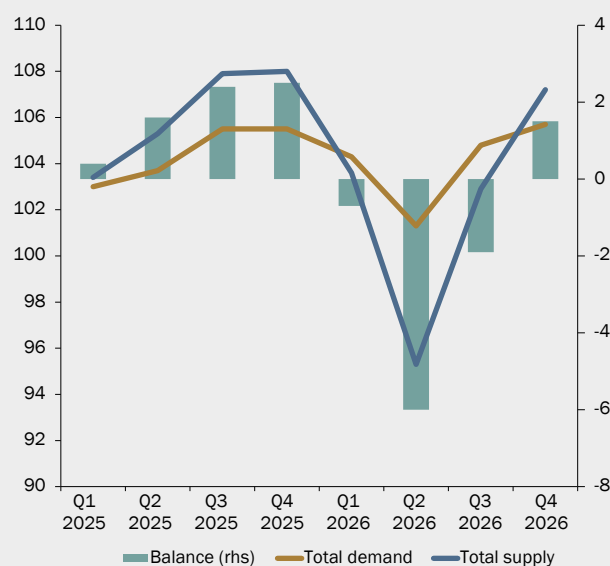
Geopolitics and tight supply keep crude oil prices elevated, keeping oil central to global inflation and monetary policy dynamics

Crude oil prices surged on geopolitical disruption and remained highly volatile
Crude oil prices, \$/bbl



Source: ICE, CME

Global oil market shifts into deficit amid Iranian conflict-driven supply disruptions
Global oil demand/supply balance, mb/d



Source: IEA

Commodity profile: natural gas

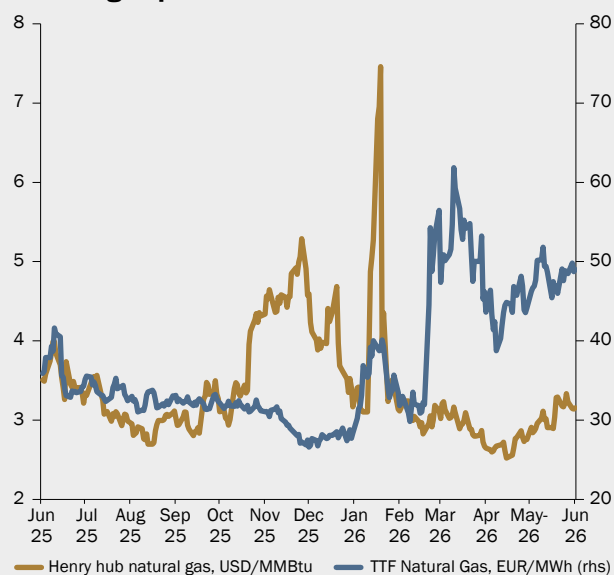
US natural gas has seen some of the highest volatility this year among commodities. A severe cold weather event in late January drove Henry Hub to extraordinary levels, before prices collapsed back to a much lower range as temperatures normalised and storage injections resumed. The subsequent trend has been broadly sideways-to-soft, with inventories remaining well above seasonal norms, LNG export terminal maintenance reducing feedgas demand, and hedge funds turning net-short for the first time since 2024 in late May. In contrast, European TTF prices have been more resilient, supported by uncertainty around LNG re-routing linked to the Strait of Hormuz and a storage deficit relative to the five-year seasonal average. As a result, US and European gas markets have moved on very different fundamentals— domestic oversupply versus geopolitically driven tightness — which has been a defining feature of the year.

A fragmented market where regional imbalances, weather conditions and geopolitical risks drive diverging natural gas prices

Looking ahead, the divergence is likely to persist. US prices should stay under pressure amid high inventories and weak demand, while European prices remain supported by geopolitical risks and tighter storage. Weather conditions, LNG flows and geopolitical developments will remain the key drivers of price direction.

US and European gas markets diverge on fundamentals

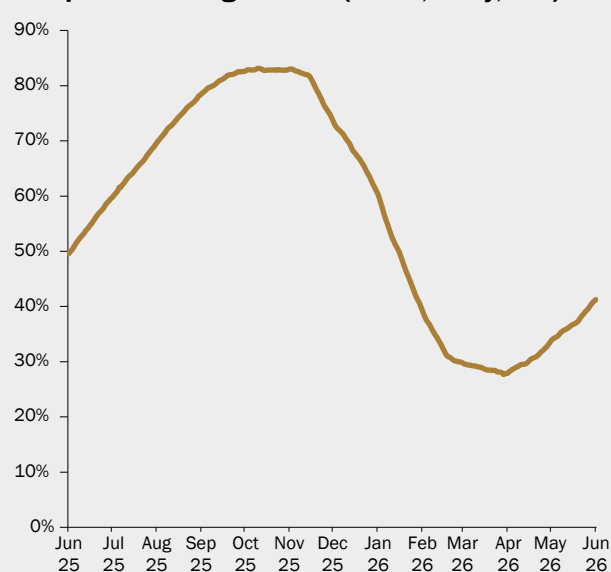
Natural gas prices



Source: ICE Endex

European gas remains supported by geopolitical risks and tighter storage

Europe Gas Storage Levels (% Full, Daily, GIE)



Source: Gas Infrastructure Europe

Commodity profile: copper

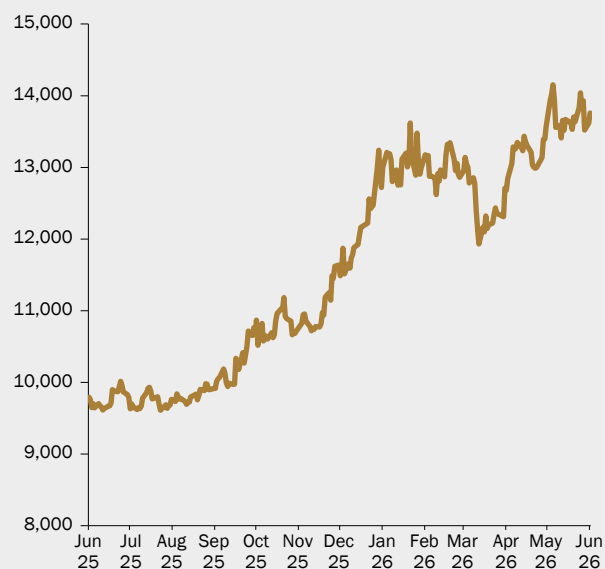
Copper prices have been strong year-to-date, supported by both supply-side constraints and robust demand drivers. A series of mine disruptions has tightened copper concentrate availability, while disruption to sulphur flows linked to tensions around the Strait of Hormuz has constrained acid supply, impacting leaching-based copper production in key regions such as Peru and the DRC. On the demand side, structural themes including the energy transition and AI-related infrastructure build-out have remained supportive, reinforced by strong US equity market performance. In addition, renewed concerns over potential US import tariffs on refined copper have driven a sharp rise in the CME–LME arbitrage premium, pulling metal into the US and driving a sharp drawdown in LME inventories. In China, domestic demand has remained relatively strong, with SHFE inventories falling to their lowest levels this year.

Structural copper concentrate supply constraints and surging demand from energy transition and AI continue to support higher copper prices

Looking ahead, while copper remains fundamentally supported by persistent supply tightness and structural demand drivers, macro headwinds are becoming more visible. Higher-for-longer interest rates and potential global growth moderation may cap further upside, although electrification and AI demand are expected to provide a strong medium-term floor.

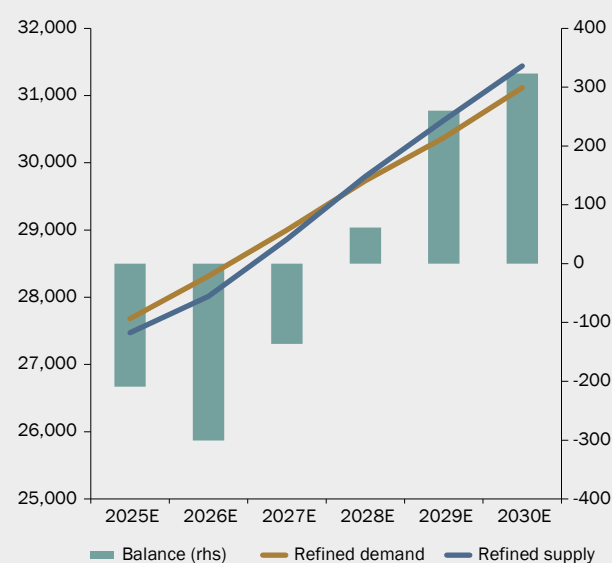
Copper prices rallied on supply constraints and strong demand

LME 3-month copper prices, \$/t



Source: LME

Supply disruptions and strong demand drive tightening copper fundamentals – Global copper demand/supply balance, '000 tonnes



Source: Bloomberg Intelligence

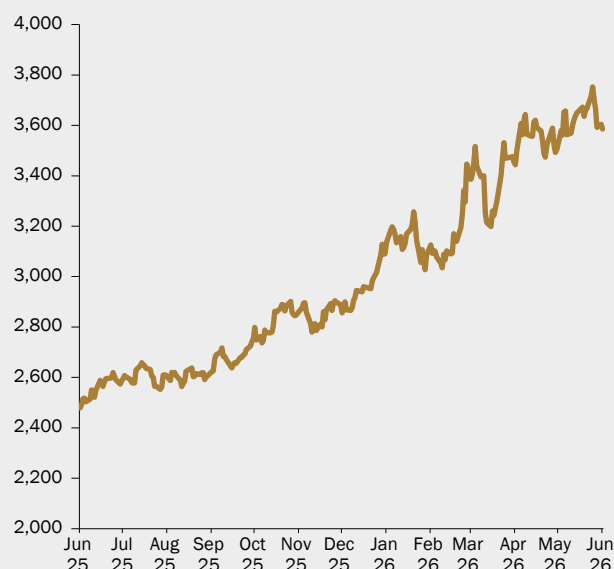
Commodity profile: aluminium

Aluminium has delivered one of the strongest year-to-date performances, rising c. 21% and reaching multi-year highs earlier in the year. The dominant driver has been supply disruption linked to the Strait of Hormuz, which curtailed output from energy-intensive Gulf smelters and created a significant supply deficit in the international market. Japan has been particularly exposed, with c. 70% of imports sourced from the Middle East. This has forced downstream manufacturers to cut production and seek alternative supply. CRU estimates a global deficit of 1.4 million tonnes, while LME prices have traded at their steepest premium to SHFE since 2022, incentivising a surge in Chinese exports that has partially offset the shortfall. Meanwhile, Chinese production may rise to 45.5 million tonnes this year, and European supply remains constrained by elevated energy costs.

Conflict-driven disruptions to Middle East supply are reshaping the aluminium market and global trade flows

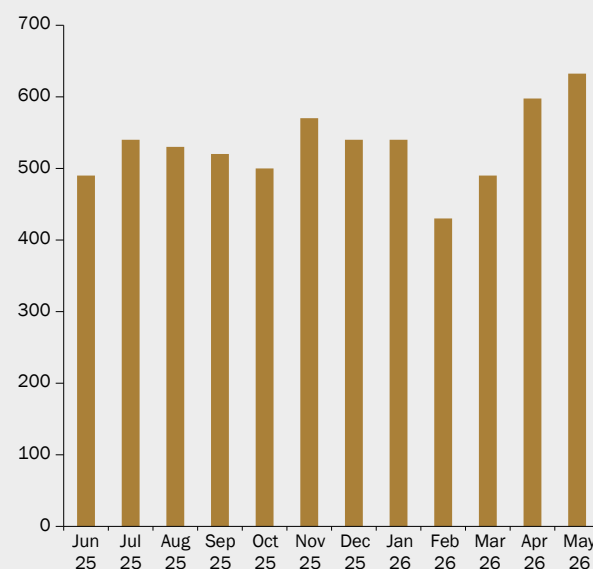
Looking ahead, aluminium markets are likely to remain tight. The recovery of Middle Eastern supply could take up to a year, suggesting continued elevated prices. While increased Chinese output and exports may alleviate some pressure, persistent supply constraints and energy costs are expected to keep the market in deficit.

Aluminium surged to multi-year highs on supply disruption
LME 3-month aluminium prices, \$/t



Source: LME

China's Aluminium exports increase to help offset global supply shortfalls amid the Iran conflict, '000 tonnes



Source: Customs General Administration PRC

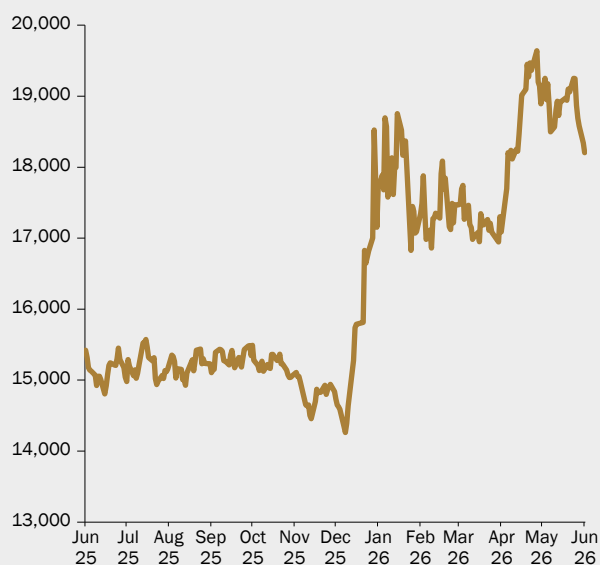
Commodity profile: nickel

Nickel markets entered the year following a weak 2025, with persistent oversupply and projected surpluses weighing on prices. However, prices have rebounded year-to-date, driven primarily by tightening supply expectations in Indonesia. The government reduced ore mining quotas to roughly one-third below previous levels, and several producers announced output cuts, increasing concerns about feedstock supply. More recently, the rally has partially reversed as macro headwinds — including a stronger US dollar — have renewed downside pressure.

Indonesia policy-driven ore supply tightening supports nickel prices but uncertain supply outlook caps upside

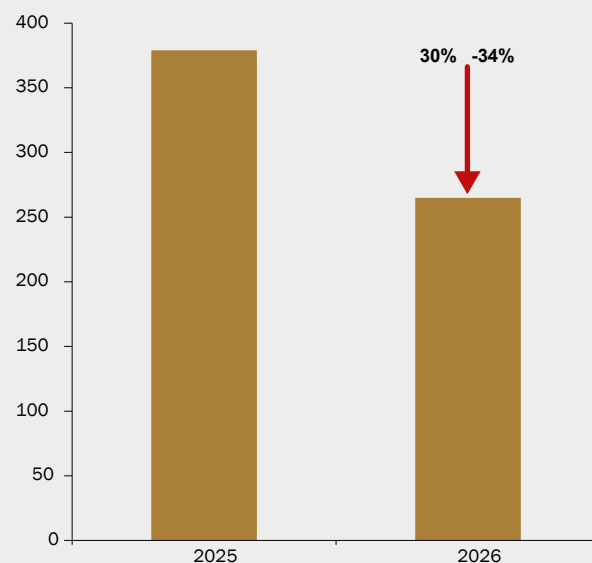
Looking ahead, the supply outlook will remain highly dependent on Indonesian policy implementation and enforcement. While tighter ore availability could support prices episodically, continued global surpluses and elevated inventories are expected to cap upside, leaving the market structurally oversupplied.

Nickel rebounded on Indonesian supply tightening despite macro weakness
LME 3-month nickel prices, \$/t



Source: LME

Policy-driven tightening of Indonesian nickel ore supply by one-third in 2026
Million tonnes



Source: Bloomberg

Commodity profile: zinc

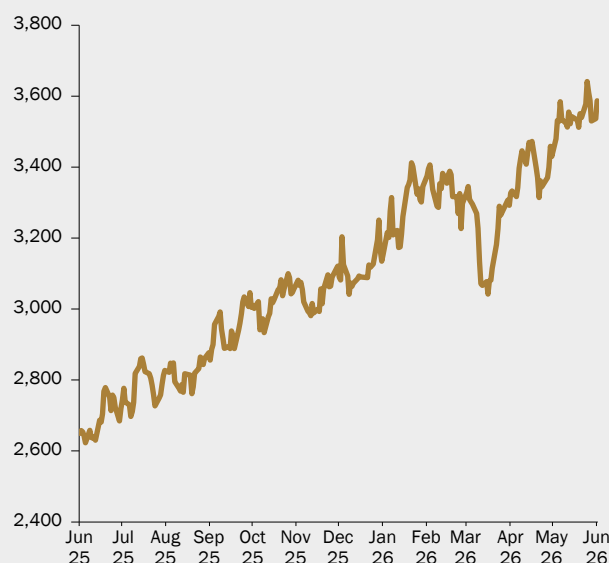
Zinc has delivered a solid year-to-date performance, rising c. 14% and reaching three-year highs in recent sessions. The primary driver has been persistent supply side concerns, with geopolitical disruptions repeatedly lifting prices on a week-to-week basis. At the same time, inventories have shown mixed trends: LME stocks have seen periodic increases, which have capped the upside, while SHFE stocks have remained broadly stable. Spot premiums in key markets have softened in recent weeks, suggesting some moderation in near-term physical demand.

Supply disruptions continue to support zinc prices, but weak and uncertain demand conditions limit upside potential

Meanwhile, upstream tightness remains evident, with zinc concentrate treatment charges repeatedly falling to historical lows. Global concentrate output has been disrupted by declining ore grades, earthquakes and floods in Australia in H1 2026. In addition, Trafigura has halted some Cuban zinc sales due to US sanctions, further tightening supply.

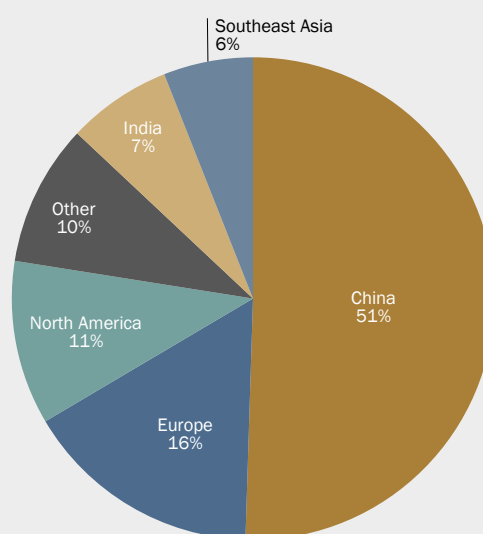
Looking ahead, the demand outlook is becoming more uncertain. China accounts for approximately half of global zinc consumption, primarily driven by galvanised steel used in construction and automotive sectors, and the ongoing cyclical adjustment in the property sector is expected to have some impact on demand growth. Overall demand is likely to grow broadly in line with global GDP, providing a more stable but less dynamic demand base. On the supply side, Ivanhoe Mines' Kipushi project in the DRC is ramping up and is expected to become one of the world's largest zinc producers in 2026, potentially easing supply tightness over time.

Zinc trended higher on supply concerns but upside has become more limited
LME 3-month zinc prices, \$/t



Source: LME

China accounts for more than 50% of the Global zinc demand
% of total



Source: Bloomberg

Commodity profile: lead

Lead has been the most subdued performer among base metals year-to-date, trading broadly flat in a narrow range. Prices have gradually drifted lower from the January high, with macro weakness acting as the dominant headwind, while tight scrap battery raw material supply has provided intermittent support to primary smelter purchasing. A notable divergence has emerged between LME and SHFE prices, with LME outperforming. Overall, price moves have largely tracked broader macro sentiment and US dollar movements rather than metal-specific drivers.

Lead demand remains focused on mature industries, with limited exposure to energy transition and AI, keeping prices largely range-bound

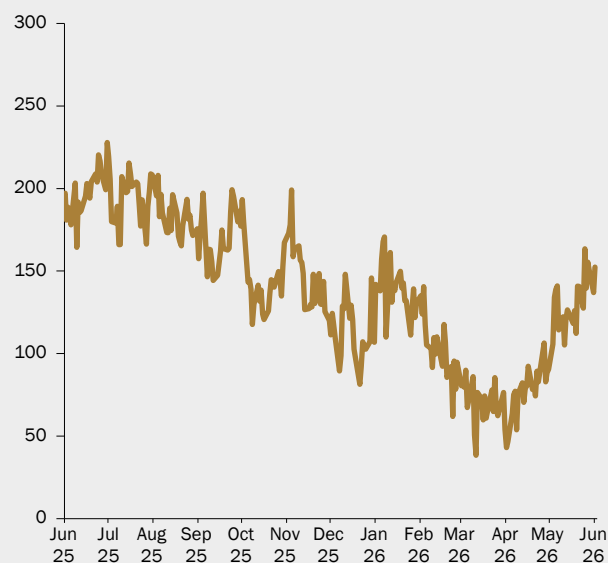
Looking ahead, lead is expected to remain largely rangebound. Demand is highly concentrated in lead-acid batteries, particularly for automotive starter batteries, backup power systems and industrial applications, providing stable demand through the replacement cycle. However, unlike copper, aluminium and nickel, lead has limited exposure to structural growth themes such as electrification, energy transition and AI-related infrastructure build-out. As a result, the market has not benefited from a structural demand re-rating, with consumption growth expected to remain relatively mature and closely tied to replacement demand rather than new capacity expansion.

Lead has traded largely sideways and persistent underperformance
LME 3-month lead prices, \$/t



Source: LME

LME outperforming SHFE lead prices
LME - SHFE lead arbitrage (ex-VAT), \$/t



Source: LME, SHFE

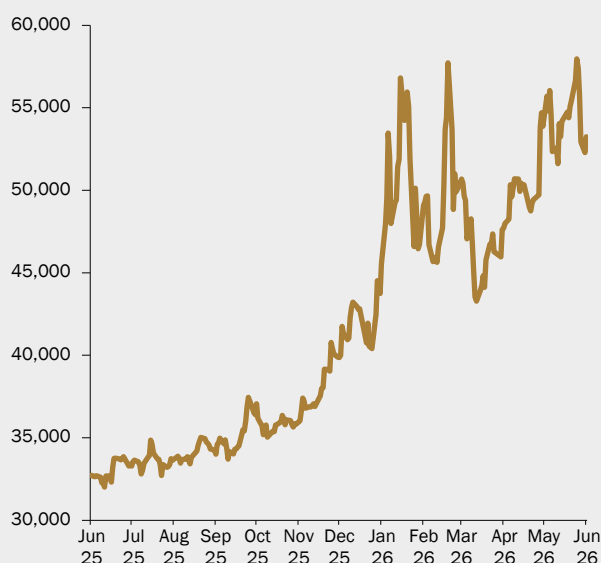
Commodity profile: tin

Tin has been the most dramatic performer in the base metals complex year-to-date, rising c. 31% and surging to multi-year highs earlier in the year. The rally has been driven by a combination of structural supply tightness in key producing regions and strong demand narratives linked to artificial intelligence infrastructure, as tin is a key input in semiconductor soldering. This “computing power metal” theme has drawn strong speculative buying, pushing prices to elevated levels. More recently, however, the market has experienced sharp two-way moves, with the AI demand premium coming under scrutiny and a notable build in SHFE inventories adding near-term corrective pressure.

Tight supply and rising demand from electronics, semiconductors and AI-related applications keep tin prices highly sensitive and prone to elevated volatility

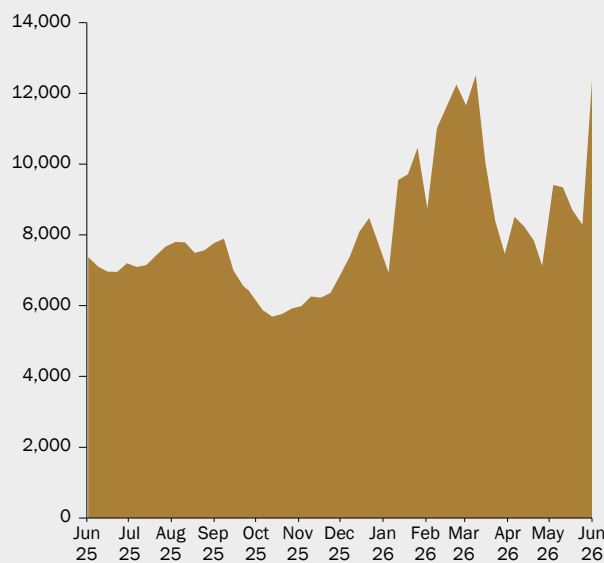
Looking ahead, tin prices are likely to remain elevated but increasingly volatile. While structural demand from electronics and AI continues to provide support, the extent of speculative positioning and recent inventory builds suggest that the pace of the rally may moderate further, with correction risks remaining in the near term.

Tin surged on supply tightness and AI demand but prices remain highly volatile
LME 3-month tin prices, \$/t



Source: LME

A notable build in SHFE tin inventories show signs of weaker demand
SHFE weekly tin deliverable stocks, tonnes



Source: SHFE

Commodity profile: gold

Gold has had an exceptionally strong start to the year, surging to an all-time high amid heightened geopolitical tensions. Prices subsequently moderated as expectations for a more hawkish Federal Reserve — including the nomination of Kevin Warsh as the next Fed Chair reduced rate cut expectations. The escalation of the Middle East conflict and the associated spike in oil prices are reinforcing inflation concerns and expectations of higher-for-longer rates, weighing on non-yielding gold. In recent months, price action has been more subdued, with a gradual downward bias. At the same time, ETF holdings have declined year-to-date, pointing to continued institutional profit-taking, while central bank demand has remained robust, with purchases reaching c. 244 tonnes in Q1 2026, according to the World Gold Council.

Gold remains supported by official sector demand as a portfolio diversifier and geopolitical hedge, but faces headwinds from higher interest rate expectations

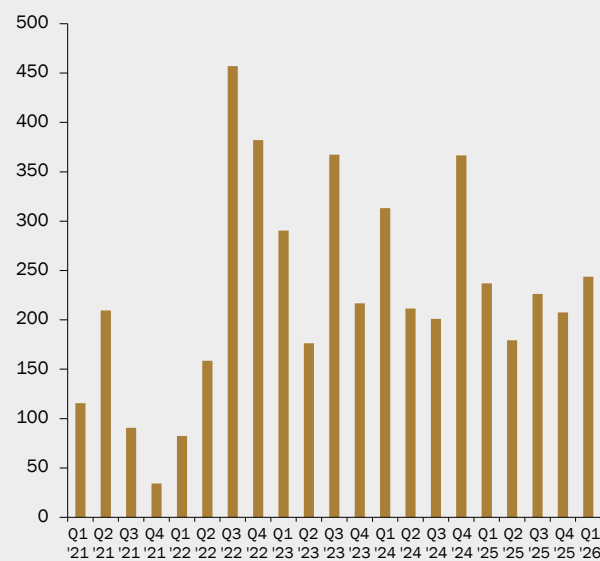
Looking ahead, gold is likely to remain under pressure. Sticky inflation and a resilient US labour market are expected to pave the way for further Fed rate hikes later this year, with higher interest rates reducing the appeal of non-yielding assets such as gold. In addition, a more bearish price outlook is beginning to weigh on investor sentiment, dampening demand for gold bars and coins. Overall, macro headwinds are likely to dominate, keeping gold prices biased to the downside.

Gold reached record highs before declining on higher rate expectations
Gold spot price, \$/oz



Source: LBMA

Central bank gold demand remained robust in Q1 2026 despite elevated prices
Quarterly central bank net purchases, tonnes



Source: World Gold Council

Commodity profile: silver

Silver has experienced highly volatile price action this year, surging to an all-time high in late January before correcting rapidly and retracing to leave prices roughly flat to slightly lower year-to-date. The initial rally was driven by gold's safe-haven strength, optimism around industrial demand linked to solar manufacturing and AI infrastructure, and aggressive speculative positioning. The subsequent decline reflected a sharp unwind of those positions. Since the January peak, the price trend has been characterised by ongoing weakness and high volatility, with silver underperforming gold. The escalation of the Middle East conflict and rising energy prices have reinforced inflationary pressures and expectations of "higher-for-longer" rates, weighing on both investment and industrial demand.

Silver's dual role as a safe haven and industrial metal, alongside growing demand from energy transition and solar, keeps price volatility elevated

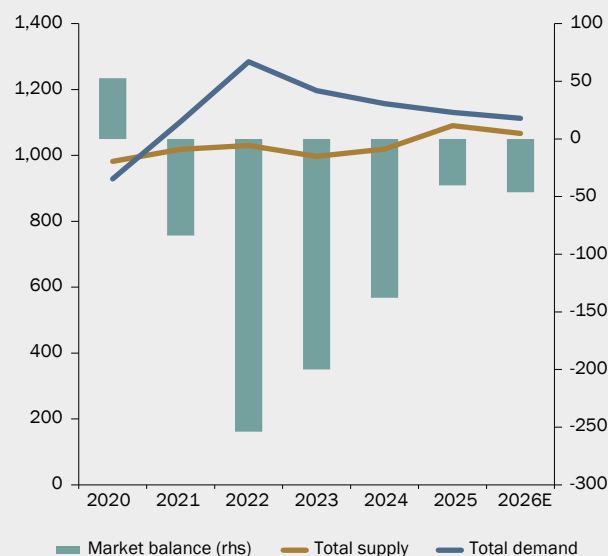
Looking ahead, silver faces a mixed outlook. While macro headwinds and higher rates are likely to continue to pressure prices, the global market is expected to remain in structural deficit for a sixth consecutive year, providing an important layer of underlying support.

Silver spiked early this year before retreating as speculative positions unwound
Silver spot price, \$/oz



Source: LBMA

Silver remains in deficit for a sixth consecutive year amid strong demand – Global silver demand/supply balance, million ounces



Source: The Silver Institute

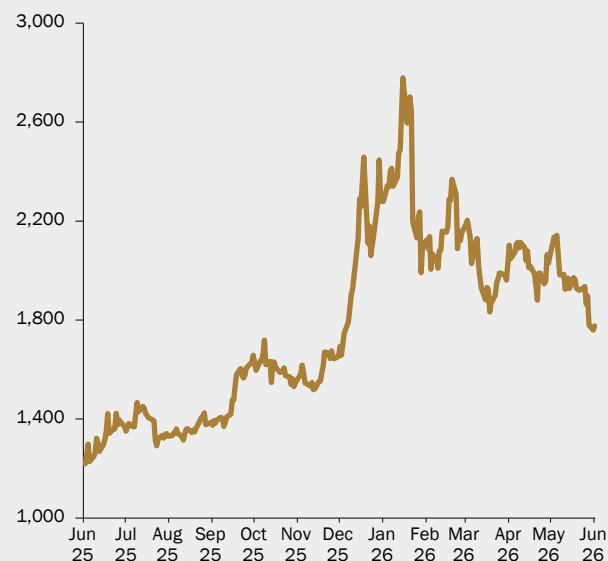
Commodity profile: platinum

Platinum has had a volatile but ultimately disappointing year, rallying sharply to a high in late January before retracing to trade in the \$1,800–1,900/oz range, broadly flat to slightly lower year-to-date. Despite relatively constructive supply fundamentals — with the market projected to remain in deficit for a fourth consecutive year and South African supply only partially recovering — prices have struggled to sustain gains. This year's sell-off has also been amplified by rising inflationary pressures, expectations of further monetary tightening, and a stronger US dollar.

Persistent platinum market supply deficits are offset by weak demand, keeping prices largely range-bound

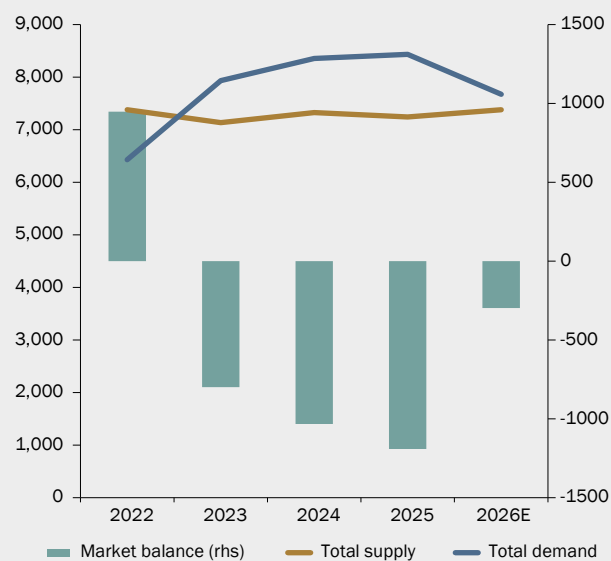
Looking ahead, demand-side headwinds remain the key constraint. The ongoing shift toward electric vehicles continues to erode autocatalyst demand, historically one of platinum's core end-uses, while jewellery demand has weakened significantly and lacks the cultural support seen in gold markets. Although emerging applications in areas such as new energy, drones and robotics were highlighted during LPPM Week, these remain small in scale. As a result, platinum consumption is expected to stay weak despite supportive supply fundamentals.

Platinum rallied briefly before reverting to rangebound and volatile price action
Platinum spot price, \$/oz



Source: LPPM

Persistent supply deficit fail to lift prices amid bearish demand prospect – Global platinum demand/supply balance, '000 ounces



Source: WPIC

Commodity profile: palladium

Palladium has been one of the weakest performers in the precious metals complex year-to-date, declining c. 23% to trade slightly above \$1,200/oz. The primary driver has been the ongoing structural shift away from gasoline vehicles, which has weighed heavily on demand expectations. On the supply side, Nornickel indicated that output could fall by as much as 11% in 2026 due to declining ore grades, and the global deficit is expected to widen to c. 280 koz. However, the tighter supply has provided limited support, as weak demand continues to dominate. In addition, US trade measures — including significant duties on Russian palladium — have disrupted trade flows, while China's imports surged and speculative positioning has turned increasingly bearish.

Structural decline in autocatalyst demand continues to weigh on palladium, keeping prices under pressure

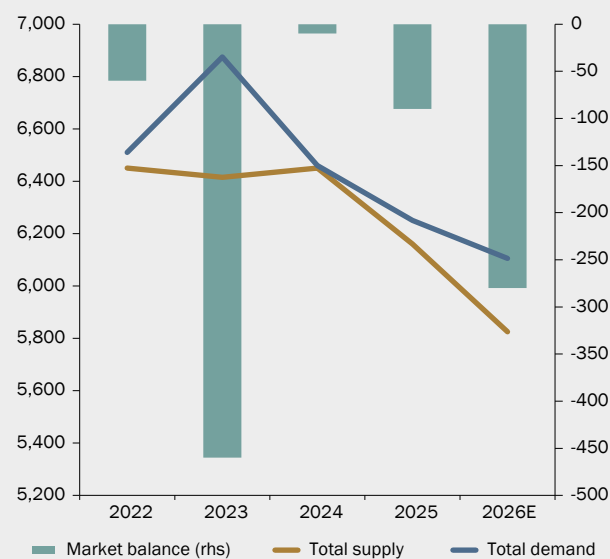
Looking ahead, palladium is expected to remain under pressure. Structural demand decline linked to electrification is likely to continue to outweigh supply-side tightening, with limited catalysts for a sustained price recovery in the near term.

Palladium declined amid structural demand weakness despite tightening supply
Palladium spot price, \$/oz



Source: LPPM

Palladium faces declining supply and demand, market deficit to widen in 2026 – Global palladium demand/supply balance, '000 ounces



Source: SFA Oxford

Commodity profile: rhodium

Rhodium has staged a partial recovery from deeply depressed levels, rising sharply in the first two months of the year before retracing to leave prices broadly flat to slightly lower year-to-date. The February rally was driven by improved sentiment in autocatalyst demand and broader strength across the PGM complex, but the subsequent reversal has been pronounced. Prices continue to reflect the metal's thin liquidity and sensitivity to gasoline vehicle production. Wide bid-offer spreads amplify moves in periods of uncertainty. Supply remains highly concentrated in South Africa, further increasing volatility.

Looking ahead, rhodium is expected to remain highly volatile. While supply concentration leaves the market vulnerable to disruptions, demand remains closely tied to internal combustion engine production, limiting structural upside in a rapidly evolving automotive landscape.

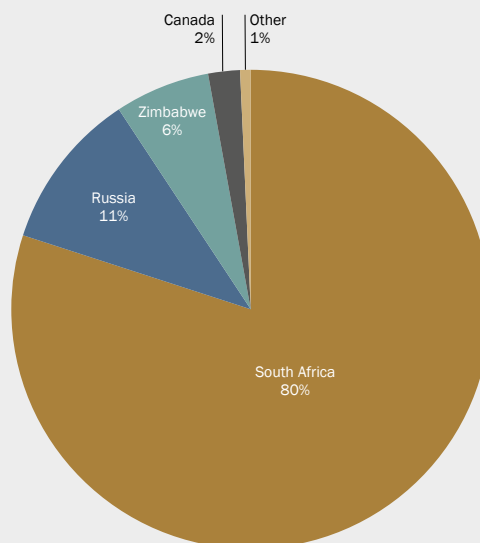
Highly concentrated supply and strong dependence on auto demand drive extreme rhodium price volatility in an illiquid market

Rhodium rose sharply early in the year before retracing and remaining highly volatile
Rhodium spot price, \$/oz



Source: Johnson Matthey

Extreme supply concentration leaves prices vulnerable to disruptions
Rhodium supply by region, % of total



Source: SFA Oxford

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