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How global commodity prices fared during the war

Since the outbreak of war between US and Iran at the end of Feb'26, global commodity prices have risen notably till May'26. Apart from war related concerns, we observe that adverse weather conditions have also impacted prices of grains and raw materials like cotton and rubber. Strong demand for renewable fuels, metals is also adding to price pressures. In this note we have explored how commodity prices have moved between Feb and May'26 this year, compared with last year. Going forward, we believe that prices may remain elevated even in the next few months as it will take some time for supply chains to completely normalise even after the war ends. For India, the impact will be felt on WPI, which is expected to average between 7-8% in FY27.

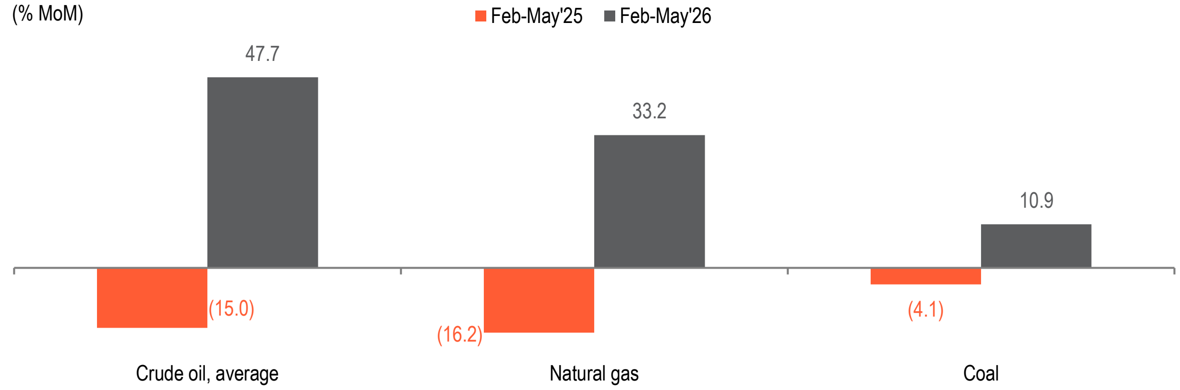
Since the outbreak of the war between US, Israel and Iran on 28 Feb 2026, markets entered a new volatile era from Mar'26 onwards. By 1 Mar 2026, Iran had attacked neighbouring Gulf countries which housed US military bases and by 4 Mar 2026, it had claimed full control of the Strait of Hormuz and announced a blockade for all commercial ships. Since then, commodity prices have remained elevated.

Impact on energy prices:

World Bank's pink sheet data shows that between Feb'26 and May'26, the headline index (nominal US$, 2010=100) for all commodities has registered 30.7% increase, following (-) 10.9% decline last year during the same period. This was a result of sharp rise in crude oil prices, which not only increased the input cost of other materials but have also led to higher freight cost.

The energy price index rose the most by 44.9% this year (Feb-May), after declining by (-) 15.2% last year during the same period. Crude oil prices on an average increased sharply by 47.7%, and natural gas prices (average of US, Europe and Japan) registered 33.2% increase between Feb-May'26. Coal prices too inched up by 10.9%, after recording (-) 4.1% decline last year. Coal prices have been impacted through secondary effects. As price of diesel goes up due to rise in crude oil prices, transportation cost of coal is also pushed higher.

Figure 1: Energy prices under significant pressure

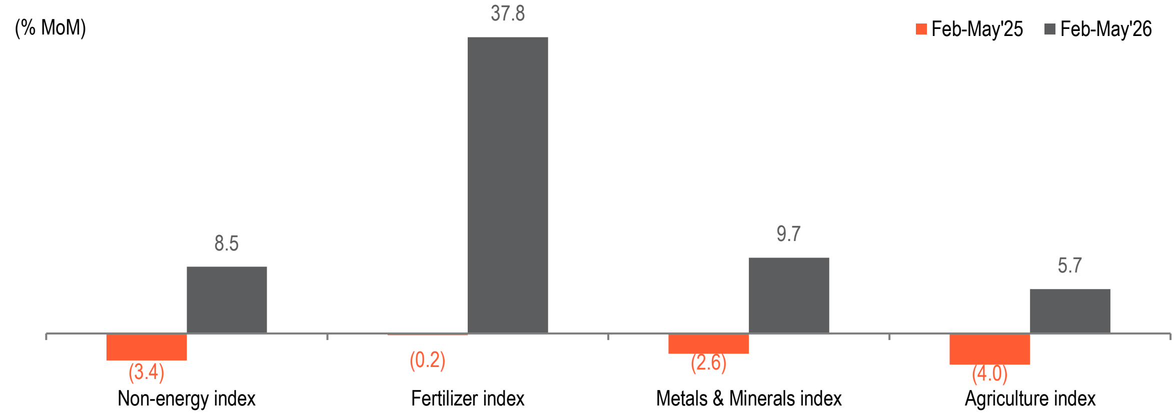


Source: World Bank Pink Sheet, Bank of Baroda Research

Impact on non-energy prices:

Non-energy price index rose less sharply by 8.5%, following (-) 3.4% drop last year. Within this, fertilizer index led the jump with 37.8% increase in Feb-May'26 versus (-) 0.2% dip last year. Index for metals & minerals rose by 9.7% till May'26 and for Agricultural produce it has risen by 5.7%.

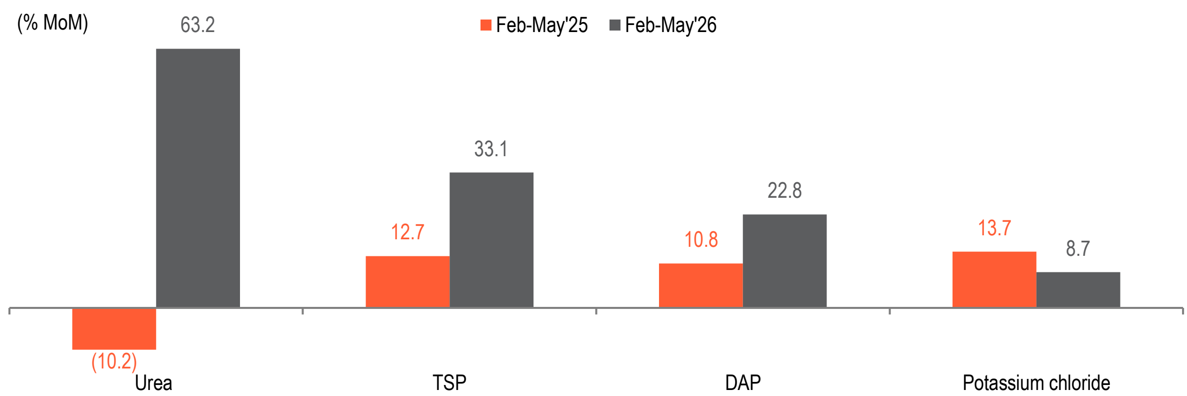
Figure 2: Non-energy index driven by jump in fertilizers mainly



Source: World Bank Pink Sheet, Bank of Baroda Research

Fertilizers: Increase in fertilizers index was driven by steep rise in prices of Urea (63.2% rise versus -10.2%), Triple Super Phosphate-TSP (33.1% versus 12.7%) and Diammonium Phosphate-DAP (22.8% versus 10.8%). Urea prices have jumped significantly, as its production depends heavily on natural gas, which has been in tight supply ever since war broke out and Iran attacked energy infrastructure in Gulf countries. With ships also stuck and unable to cross the Strait of Hormuz, the supply glut got further aggravated. For phosphate-based fertilizers, Morocco and Saudi Arabia are major suppliers. With shipping routes in the Middle East impacted by the war, the supplies in the market remain tight.

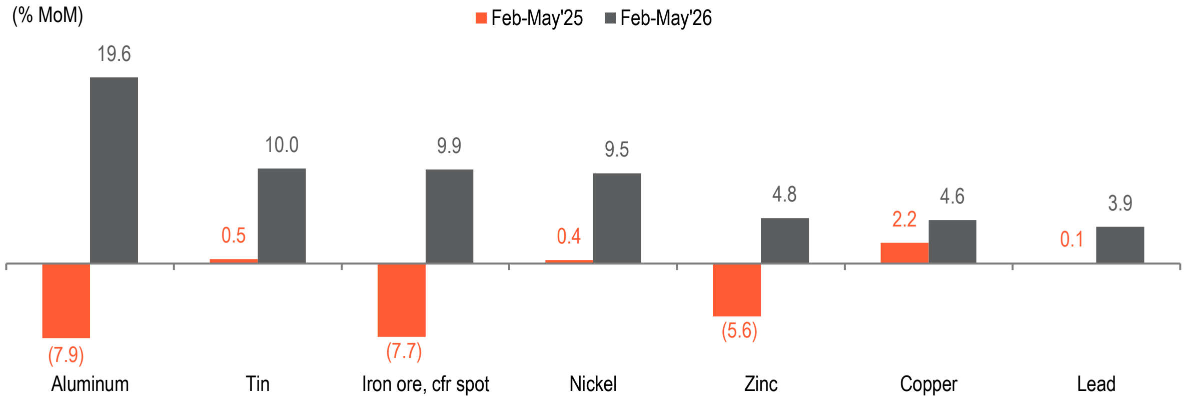
Figure 3: Urea prices, driving fertilizer index higher



Source: World Bank Pink Sheet, Bank of Baroda Research

Metals: Within metals, the base metal index (ex-iron ore) rose by 9.7% after falling by (-) 1.9% last year. Amongst the base metals, price of Aluminium (19.6%), Tin (10%), Nickle (9.5%) rose the most, followed by that of Zinc (4.8%), Copper (4.6%) and Lead (3.9%). Iron ore prices have also inched up by 9.9%.

Figure 4: Aluminium and Tin prices driving growth in metals and minerals index



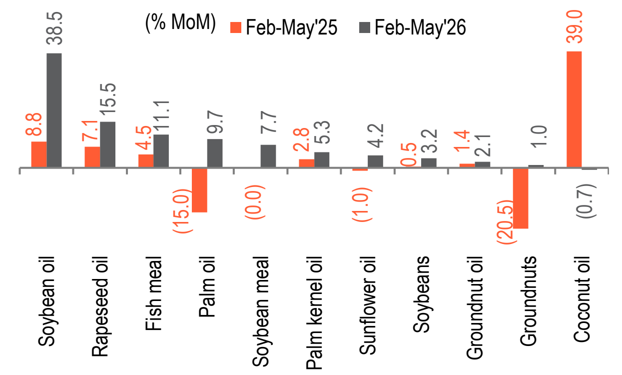
Source: World Bank Pink Sheet, Bank of Baroda Research

Aluminium prices have been impacted by supply concerns. Major exchanges (LME and MCX) have reported declining inventories. Further, news reports indicate that there have been attacks by Iran on aluminium production facilities operated in UAE (Emirate Global Aluminium alone accounts for 4% of total global supply) and Bahrain. In case of tin, China is the largest producer and consumer of refined tin. Tightening of export regulations by China, domestic political developments in other producer countries (Myanmar, Indonesia, Democratic Republic of Congo) and escalating demand due to tremendous growth in AI, has kept tin prices elevated. Following the disruption in the Strait of Hormuz, nickel producers have been facing rise in prices and diminished supply of Sulphur (key component to extract nickel). This has resulted in rise in nickel prices. Also, lower mining quota set by Indonesia (largest producer of nickel) has also led to surging prices. Indonesia has set mining quota at 2.6-2.7bn tons, lower than estimated industrial demand by ~0.8-0.9bn tons. However, now the Indonesian government is looking at loosening some controls, noting declining capacity utilization of smelting firms. For other metals (copper, zinc lead, iron ore) as well, rising demand by emerging economies for infrastructure development and growth of EV market has pushed demand and thus prices higher.

Agriculture produce: The rise in Agriculture index has been led by food sub-index (6.5% versus -4.8%), particularly oils & meals index (11.3% versus -1.6%) and grains (8.1% versus -6.6%). Amongst oils & meals, prices of soybean oil (38.5%), Rapeseed oil (15.5%), fish meal (11.1%) and Palm oil (9.7%) have risen the most so far. Renewable energy push by countries has pushed soybean oil (used for producing biodiesel) and corn (for ethanol production) prices higher. Also, India is world's largest importer of edible oil. High demand and transportation bottlenecks due to the US-Iran have led to decline in global inventories and rise in prices. Other items such as soyabean meal, palm kernel oil, sunflower oil and groundnut oil have increased only moderately. In contrast, only prices of coconut oil have declined between Feb-May’26, by (-) 0.7%, following 39% increase noted last year.

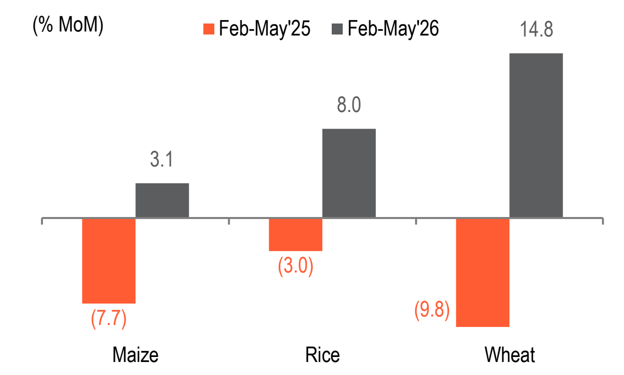
In case of grains, prices of wheat have jumped the most (14.8%), followed by price of rice (8%) and maize (3.1%). Adverse weather conditions, elevated input cost (diesel, fertilizers) are adding to pressure on prices of grains. Russia, Canada and Australia are major global exporters. Apart from this, prices of Chicken (3.9%) and Lamb (11.7%) have also registered an increase, due rising cost of fodder. Sugar prices have recorded 9.7% jump. On the other hand, fruits such as banana (-3.8%) and orange (-2.1%) have witnessed a decline between Feb-May’26, following similar trend from last year, implying that this decline is seasonal.

Figure 5: Oils & meals have registered significant increase so far



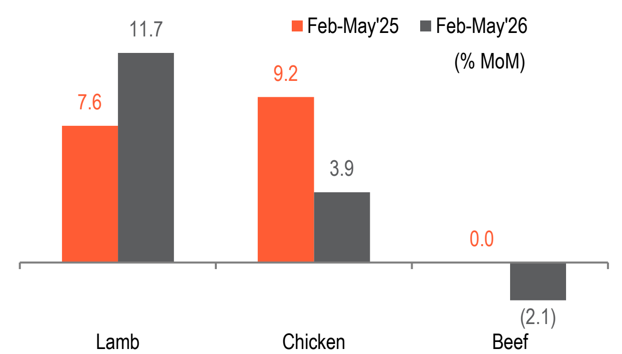
Source: World Bank Pink Sheet, Bank of Baroda Research

Figure 6: Grain prices also impacted



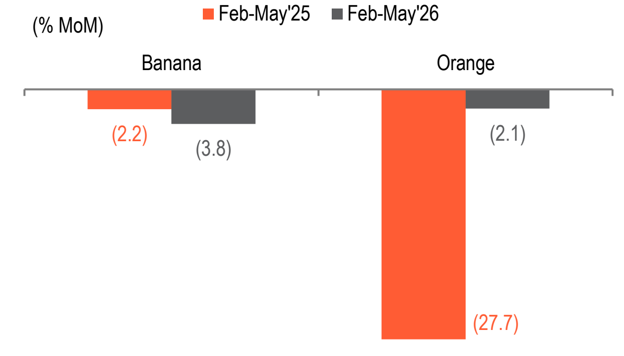
Source: World Bank Pink Sheet, Bank of Baroda Research

Figure 7: Meat products facing higher prices



Source: World Bank Pink Sheet, Bank of Baroda Research

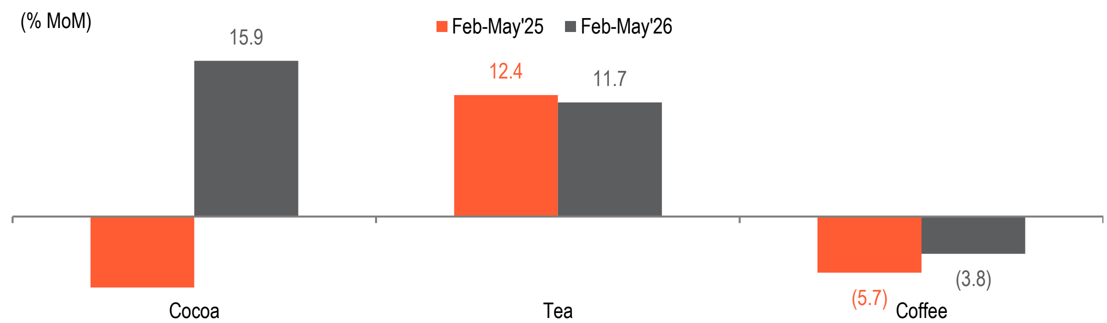
Figure 8: Only fruits have recorded a decline so far



Source: World Bank Pink Sheet, Bank of Baroda Research

Beverages: Index for beverages has also inched up since Feb'26 (4.2% versus -5.7%). Amongst the beverages, price of tea has noted significant rise (11.7% versus 2.4% last year), while that of coffee has fallen by (-) 3.8% (-5.7%). Cocoa prices have also risen by 15.9%. In case of tea, China, Kenya, Sri Lanka and India are amongst the major exporters. Robust demand is one of the key reasons for continued rise in prices. In addition to this, stranded shipments at ports/warehouses due to closure of the Strait of the Hormuz has further added to price pressures. For Cocoa, heat and excess rains are the biggest threats. West Africa's cocoa belt (mainly Ivory Coast and Ghana which account for ~70% of total produce) is facing extreme weather conditions, which has resulted in lower output. That combined with strong demand, higher fertilizer cost and transportation cost is keeping prices elevated.

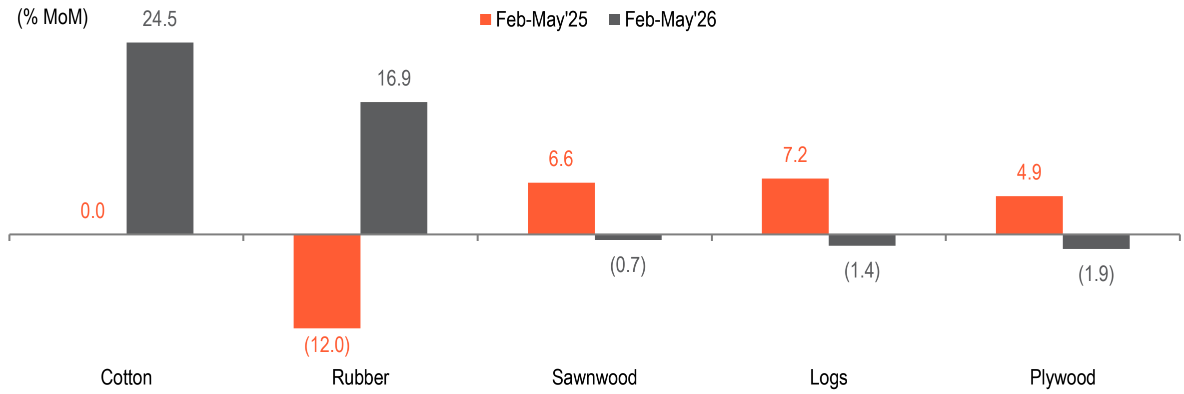
Figure 9: Prices of tea remain consistently high; coffee prices easing



Source: World Bank Pink Sheet, Bank of Baroda Research

Raw materials: Raw materials (4.2% versus 1.4%) index has risen less sharply so far. Increase in raw materials index is led by non-timber related products. Index for timber fell by (-) 0.9% between Feb and May'26, while that of other raw materials rose by 9.5%. Within timber, price of plywood (-1.9%), logs (-1.4%), and sawnwood (-0.7%), all have declined this year since the war started. Elevated policy rates across economies are impacting housing demand. New home sales in the US have declined by (-) 3% between Feb-Apr'26 and time period for clearing the inventory of houses has also increased from 9.1 months in Feb'26 to 9.4 months in Apr'26. However, other materials such as cotton (24.5%), rubber (16.9%) have recorded considerable increase. Rise in production cost of synthetic fibres (due to higher prices of petroleum derivatives) has led to increased demand for cotton. Apart from this, supply deficit already remains for cotton and rubber, due to adverse weather conditions, causing pressure on prices.

Figure 10: Cotton and rubber have registered notable increase during the war



Source: World Bank Pink Sheet, Bank of Baroda Research

<u>Outlook:</u>

Volatility in the global market continues as geopolitical uncertainty in West Asia continues. This is expected to keep commodity prices near the current levels. For India, the impact of this is visible in WPI, which registered 9.7% increase in May'26—highest since Apr'24 in the new WPI series (2022-23=100). Manufactured product inflation also reached its highest in the new series May'26 (7.5%), led by 12.3% increase in index for basic metals. Therefore, elevated global commodity prices impact our wholesale inflation, which in turn will eventually creep into our retail prices. Even after the war has ended, it will still take some time for supply chains to normalise and freight cost (including cost of insurance) to come down. In addition, EL Nino this year is expected to be the strongest since 1950. This will lead to adverse weather conditions across the globe and have an impact on agricultural products. Therefore, we can continue to expect some pressure on global prices in the next few months. We thus expect India's WPI to average ~7-8% in FY27.

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