Commodities Outlook 2025: A bearish horizon

We see large parts of the complex edging lower in 2025 with relatively comfortable supply and demand balances. The potential for an escalation in trade tensions is a downside risk, while markets are waiting to see if and when Chinese support measures feed their way into commodity markets in the form of stronger demand

We came into 2024 with a cautiously optimistic view on the commodities complex, and looking at the complex as a whole we think this has turned out to be the right view. The S&P GSCI index is basically flat on the year. There are some commodities that have performed well this year as central banks have embarked on their easing cycle. It's for this reason – along with the geopolitical environment – that precious metals have been the best performing part of the complex, with gold hitting record levels repeatedly this year. Industrial metals started the year on a strong footing, but this rally has run out of steam and it's clear that short-term fundamentals remain bearish.

Price action in oil has been odd, with prices weakening despite a significant amount of geopolitical risk in the Middle East. Meanwhile gas markets have strengthened as Europe faces numerous supply risks. On the agri front, comfortable supply has seen grain prices trend lower, while softs (cocoa, coffee and to a certain extent sugar) have seen more volatility due to weather concerns.

Looking ahead, we expect energy markets to come under pressure. The oil market is set to see fairly modest demand growth once again in 2025, which is partly cyclical and partly structural. In addition, we see another year of strong non-OPEC supply growth while OPEC still sits on a significant amount of spare production capacity, which should continue to provide comfort to the market. For now, we expect the oil market to be in surplus next year – although much will depend on OPEC+ production policy.

For European natural gas, we are cautiously bearish on prices through 2025, but this hinges on developments over the winter. Assuming a normal winter, we believe Europe should exit the heating season with comfortable storage. The ramping up of new LNG export capacity should allow the EU to refill storage comfortably even without Russian pipeline gas via Ukraine. However, the ramping up of US LNG export capacity leaves us more bullish on US natural gas prices with the market expected to tighten up.

For metals, we believe gold will hit new record highs in 2025. Central banks are set to continue to ease monetary policy, and there could be a move to safe haven assets due to an escalation in trade tensions. We also believe that central banks will remain strong buyers of gold as they look to diversify their reserves.

The outlook for industrial metals looks somewhat cloudy, with trade frictions and potential changes to the Inflation Reduction Act in the US weighing on metals. Metal markets will also be waiting to see if recent support measures from China will finally feed through to the commodities complex, and if not, whether there is more stimulus on the way.

Finally for agriculture, grains are likely to get caught up in any trade friction, particularly if we see retaliatory tariffs targeting US agricultural exports as we did in 2018. If so, we would expect to see pressure on prices. Meanwhile, weather remains a key risk and concern for soft commodities, and so we expect volatility in cocoa and coffee to continue into 2025 – at least until we get a better idea on how supply shapes up for next season.

Overall, we hold a somewhat bearish view on large parts of the commodities complex for 2025 on the back of relatively comfortable fundamentals, while expectations of a stronger USD should also provide some headwinds. In addition, external risks facing markets appear to be skewed to the downside.

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