

Our three calls for commodities in 2022

Commodity prices should moderate in 2022 after an extraordinary year for markets; the post-pandemic recovery and numerous supply issues boosted prices. We now think we'll see better supply and demand balances



People walk past a screen displaying company details of Saudi Arabia's state-owned oil firm Aramco in Riyadh

Supply to improve in 2022

Commodities, in general, are on course for their best annual performance in twenty years, mainly driven by energy markets. Cautious OPEC+ policies have supported oil prices; low gas supplies coupled with reduced Russian flows suggest prices will remain supported here in the coming months. But change is coming. Supply in many commodities is increasing and any economic slowdown, Covid-related or not, will weigh on prices. A higher US dollar and more tightening in monetary policy will also play a part.

Here are our three calls for commodities in 2022:

1 Oil market to return to surplus

We believe that we'll see oil prices easing in 2022 from the high levels that we've become used to this year. Our expectation is that strong non-OPEC supply growth combined with a further easing in OPEC+ supply cuts will tip the global oil market back into surplus next year. Our view is that the market returns to building inventories as soon as the first quarter after significant drawdowns

through 2021. As a result, we see ICE Brent averaging \$76/bbl over the full year of 2022. The Omicron variant is a clear downside risk.

2 European gas tightness to persist

Concerns over low gas storage levels in Europe have not eased and this is likely to be a concern through the winter, as heating demand only grows. These worries over tightness should mean that prices remain elevated, yet volatile for the remainder of this year and into early next year.

We expect that European gas prices will start to ease once we are past the peak of winter demand, although given that Europe could finish winter with historically low inventories, we still believe that prices will remain seasonally high over much of 2022.

3 Aluminium to stand out in metals

Most metal markets should be better supplied in 2022 which suggests that prices will trend lower. Monetary tightening and a stronger US dollar should provide some further headwinds. However, aluminium is likely to be the outlier. The aluminium market is moving into a structural deficit, given the lack of investment in smelting capacity. While we will see some smelters bringing back capacity over the course of 2022, it will not be enough to alleviate the tightness in the market. As a result, we expect prices to average close to US\$3,000/t in 2022.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.