

OPEC+ adds to uncertainty in the oil market

We expect oil and European gas prices to fall throughout 2025, with both balances looking more comfortable. The macro and geopolitical backdrop suggests there is more upside for gold



The Mittelplate oil drilling platform in the North Sea

OPEC+ delayed supply increase leaves uncertainty

A combination of Chinese stimulus hopes and elevated geopolitical risks following Iran's missile attack on Israel boosted oil prices in early October, pushing Brent above \$80/bbl. However, Israel's limited retaliation raised hopes of a de-escalation in tensions, which saw oil prices fall back into the low \$70s by the end of October. However, recent comments from Iran suggest that this view may be a bit presumptuous.

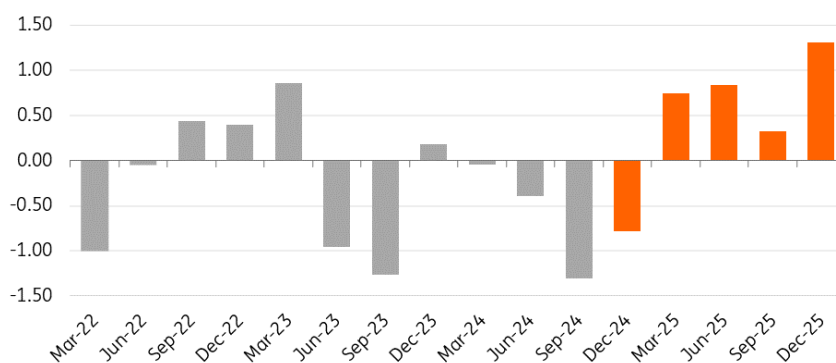
Putting aside geopolitical risks and focusing on fundamentals, the outlook for the oil market remains bearish in 2025, with an oil surplus through the year. However, the key assumption behind this is that OPEC+ will go ahead with the gradual unwinding of 2.2m b/d of additional voluntary supply cuts. This leaves a big risk in our view because if OPEC+ decides to continue rolling over these cuts through 2025, the global oil balance will likely look very different to how we currently see it.

The risk of this has also increased, with OPEC+ recently deciding to delay the return of these barrels by one month. We had previously held a view that the lack of compliance amongst some members and the loss of market share that members were facing would push the group to increase supply. However, it seems that the Saudis and the broader group may be more committed to supporting the market than originally thought.

Geopolitical risks continue to be countered somewhat by demand concerns. Global oil demand is estimated to grow by less than 1m b/d in 2024 and 2025. China has been a key driver in the revisions lower of demand in recent months, where cumulative crude oil imports this year are down around 3% year-on-year.

While we have lowered our fourth quarter 2024 Brent forecast from \$79/bbl to \$74/bbl, our 2025 forecast remains unchanged at \$72/bbl.

Global oil market to return to surplus if OPEC+ unwinds cuts as planned in 2025 (m b/d)



Source: ING Research, IEA, EIA and OPEC

European natural gas storage peaks

European natural gas prices have continued to strengthen over the last month. TTF traded to a year-to-date high and prices remain around EUR40/MWh. Supply risks have supported prices. In addition, while European gas storage is very comfortable at a little more than 95% full, storage levels are below last year's levels and also below where we expected them to start the heating season, which will only provide further support to prices.

Speculators continue to hold a sizeable net long in TTF, which does leave some positioning risk in the market. If supply risks or a tighter-than-expected market do not materialise as we move through the winter, there is the potential for an aggressive sell-off as speculators liquidate their longs.

One of the big concerns for the market is the loss of Russian pipeline gas flows through Ukraine at the end of this year when the transit deal expires. This would equate to Europe losing around 15bcm of gas per year. While Ukraine has made it clear for more than a year that they do not plan to extend this transit deal, the loss of this supply could still provide some support to the market, particularly if we see a colder winter. Involved parties are looking for a solution to the potential loss of this supply, which includes possibly a deal with Azerbaijan, which would see gas continuing to transit Ukraine. Failing that, Europe would have to rely on further LNG imports, something that

should be manageable as we see a ramp-up in new US LNG export capacity.

The ramping up of this capacity and the expectation that European storage will end the 2024/25 winter at around 40% full suggests that prices will fall through 2025. We continue to assume that TTF will average a little under EUR30/MWh.

Key risks to this view include any significant delays in LNG start-ups and a colder-than-usual Northern Hemisphere winter. Forecasters currently see a 60% probability for a La Nina weather event over the winter months (which can bring cooler weather). However, if it occurs, it is expected to be a weak event.

Gold hits another record high

Gold set another all-time high last month, peaking at \$2,790.10/oz, driven by the uncertain geopolitical landscape. Gold has been one of the best performers among major commodities this year. It has surged more than 30% year-to-date, hitting a series of records on the way. It has been supported by safe haven demand amid heightened geopolitical risks and uncertainty ahead of the US election. Rate cut optimism, strong central bank buying, and robust Asian purchases have also supported gold's record-breaking rally this year.

We believe gold's positive momentum will continue in the short to medium term. The macro backdrop will likely remain favourable for the precious metal as interest rates decline and foreign reserve diversification continues amid geopolitical tensions, creating a perfect storm for gold. Safe haven demand combined with bullish bets from hedge funds – hovering around four-year highs, with gold-backed ETF holdings posting a fifth consecutive month of gains in October – could mean the rally in gold prices is not over just yet.

China stimulus rally runs out of steam

Copper and other industrial metals fell last month after initial optimism over a recovery in demand, following a series of stimulus announcements from China, had slowly run out steam. China has been a drag on metals demand for more than two years. A broad economic slowdown and the crisis in the property sector have weighed on demand for industrial metals. We have seen plenty of property support measures this year, but so far, they have failed to have a meaningful impact on metals demand.

Beijing is expected to unveil more support measures in November at the National People's Congress Standing Committee meeting. More fiscal stimulus measures are likely to revive investor sentiment and boost metals prices.

We believe demand prospects for industrial metals in late 2024 and early 2025 are now looking brighter. Improving manufacturing sentiment following US Fed rate cuts and more certainty on US-China policy are likely to create an upside to metals prices.

Chinese policy provides an upside risk to our outlook, depending on the strength and the speed of the rollout of measures, which we will monitor closely. On the downside, we believe rising protectionism and trade barriers are the major risks to our price outlook.

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