

Our 3 calls for commodities

This year has been extraordinary for commodity markets. Supply risks led to increased volatility and elevated prices. However, demand concerns have taken the driving seat as we approach year-end. Next year is set to be another year plagued by uncertainty and volatility



1 Tighter oil market

There is still plenty of uncertainty over Russian oil supply given the EU's ban on Russian crude oil and refined products. However, we believe that Russian supply will fall significantly early next year – in the region of 1.8MMbbls/d year-on-year in the first quarter. This supply loss coupled with continued OPEC+ supply cuts suggests that the oil market will tighten over the course of 2023. US supply growth will not be able to fill the gap, with US producers showing a lot more capital discipline. As a result, we expect ICE Brent to average US\$104/bbl next year.

2 European natural gas prices to remain elevated

This winter appears as though it will be more manageable for Europe due to the late start to the heating season. This left European natural gas storage virtually full in mid-November. However, 2023 will be a tough year for the European natural gas market. It is unlikely the region will be able to build storage at the same pace as seen in 2022. Annual Russian gas flows will fall in the region of 60% YoY, even if flows remain at similar levels to what they are currently. Unfortunately, the

liquefied natural gas (LNG) market will not be able to fully offset losses. Therefore, demand destruction will need to continue to ensure adequate supply for the 2023/24 winter. In order to see this demand destruction, prices will have to remain at elevated levels. We forecast TTF to average €175/MWh over 2023.

3 Demand woes take centre stage for aluminium

Aluminium prices have been highly volatile this year due to the Russia-Ukraine war, logistical issues, increasing recessionary fears and the Covid-19 pandemic. Looking ahead to the first quarter of next year, the risk for aluminium prices will be mainly to the downside, with the prolonged war in Ukraine, rising energy prices, low gas availability, high inflation and weakening downstream demand all adding to the bearish outlook for the lightweight metal. In the short-term, the market's focus will remain on the bigger macroeconomic and demand-side problems, with prices expected to fall further to \$2,150/t in the first quarter of 2023. We believe a recovery in price should start in the second quarter, although any recovery is likely to be slow.

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