

Three calls for commodity markets

Despite more recent weakness in the oil market, a tight balance in the second half of next year should see prices trade higher. Meanwhile, we expect Europe to end the 2023/24 winter with comfortable gas storage. In the metals market, we see gold prices hitting record levels in 2024 as the Federal Reserve starts to cut rates



Gold to hit record levels in 2024

Oil back above \$90 in second half of 2024

The oil market is expected to be largely balanced over the first half of 2024 if Saudi Arabia extends its additional voluntary supply cut through until the end of the year's first quarter. Doing so should ensure that Brent remains above US\$80/bbl over the first half of the year. However, we do forecast a tighter market through the latter part of 2024 and, as a result, expect Brent to average a little over US\$90/bbl in the second half of next year.

A key downside risk is if the Saudis decide against rolling over their voluntary cuts. This would be a strange move, given the effort they have put in this year to support the market – although there are signs of growing disagreement between some OPEC members.

While geopolitical tensions have eased somewhat – at least for the oil market – this can change quickly and so remains an upside risk. In addition, the potential for stricter and more effective enforcement of US sanctions against Iran would leave upside to our current forecasts.

European natural gas storage to remain comfortable through 23/24 winter

European gas storage started the 2023/24 heating season full, and up until now, storage is drawing at a slow pace. This means that it remains at record highs for this time of year. Our balance shows that European storage is likely to end the heating season somewhere between 45-50% full. While this would be lower than the levels we ended last winter, it would be comfortably above the five-year average. This would make the job of refilling storage next summer much more manageable again and suggests that there is limited upside in European gas prices through much of 2024. We assume that European gas demand will remain at around 15% below the five-year average through until the end of March.

However, it is important to point out that the European gas market remains vulnerable to any supply disruptions or demand spikes, particularly over the winter months.

Gold to hit record levels in 2024

Gold prices have held up well this year, considering both the rates environment and the stronger US dollar. The market has seen significant ETF outflows, where higher real yields have made gold less attractive to the investment community. However, weak investment demand has been offset by strong central bank buying.

We are bullish on gold through 2024 with the expectation that the US Federal Reserve will start to ease monetary policy throughout the year. Our US economist expects the Fed to cut rates by 150bp between the second quarter and the end of 2024. Lower rates and expectations for a weaker USD should see investment demand picking up once again. We also believe that central bank buying will remain robust next year. This will propel spot gold to record levels. We expect spot gold to average US\$2,100/oz in the fourth quarter of 2024.

The biggest risk to this view is rates staying higher for longer.

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