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COMMODITIES, FOOD & AGRI

Commodities Outlook 2024: Cautious optimism

Supportive fundamentals, lingering geopolitical risks and expectations of Federal Reserve easing suggest the complex will trend higher next year. However, with plenty of uncertainty over global growth, we hold a cautiously optimistic view for commodities in 2024



Commodities were the best performing asset class in 2021 and 2022. But the complex has fallen this year.

Executive summary

2023 was meant to be a year of strength for the commodities complex. Commodities were the best-performing asset class in 2021 and 2022, and coming into this year, it was a potential contender to be the top performer again, particularly with fears around gas supply over the 2022/23 European winter, and heightened geopolitical tensions.

However this has not been the case, with the complex down on the year. Europe had an unusually mild 2022/23 winter, which left the gas market very comfortable. Markets also underestimated the ability of trade flows to adjust to sanctions and bans related to Russia's invasion of Ukraine, while China's reopening story has not gone as planned, with a number of weak spots in the economy, particularly the property sector. Meanwhile, central bank tightening and a stronger US dollar have provided strong headwinds to commodity markets.

We hold a moderately supportive view on large parts of the complex for 2024.

Fundamentals for most commodities range from neutral to mildly bullish. In addition, the heightened geopolitical environment will likely persist through 2024. Expectations that the US Federal Reserve will reverse policy tightening and start to cut interest rates next year, along with a weaker USD should also provide some tailwinds to commodities. However, there are clear demand risks given expectations for softer global growth next year.

For oil, OPEC+ policy will be crucial for the outlook. The group and in particular Saudi Arabia have demonstrated their desire to support prices this year and we do not expect this to change through 2024. Admittedly, the more OPEC+ cuts, the more difficult it will become for the group to agree on deeper cuts. For now, we see the oil market balanced over the first half of 2024 before moving into deficit in the second half of the year, which should see prices trade higher from current levels. A key risk around oil supply remains tensions in the Middle East and the potential for stricter enforcement of US sanctions against Iran. This would leave the oil market much tighter than expected.

We hold a neutral view on European natural gas having started the 2023/24 heating season with full storage. We expect storage to exit this winter below last winter's levels, but still well above average. This should once again make the job of refilling storage next summer manageable. The risk of a strong demand response and limited LNG supply in the short term is also why we believe the downside in TTF is limited. However, global gas markets will start to see new LNG export capacity starting up towards the end of 2024, leaving Europe less vulnerable from late 2024.

A large portion of LNG capacity additions in 2024 will be driven by the US, which will see export demand growing at a time when domestic natural gas output growth is expected to slow. As a result, we hold a relatively more constructive view on US natural gas prices next year.

The outlook for metals largely hinges on China. The property sector is likely to remain weak through 2024, suggesting that there will not be a significant recovery in metals demand. In addition, LME base metal inventories have edged higher in recent months (from multi-decade lows), easing concerns over tight markets in the short term, although on a historical basis, exchange inventories are still tight. For 2024, most base metal markets are expected to either be largely balanced or in small surplus though these balances could flip into deficit quite easily, depending on how demand plays out. Constructive longer-term fundamentals for several metals and historically tight inventories suggest that there is still some upside for most metals in 2024, despite largely balanced markets.

Among base metals, nickel has the most bearish fundamentals for 2024, with the market set to remain in large surplus for several years, driven by strong Indonesian output growth.

Precious metals are likely to move higher next year, and we see gold trading to new record highs in 2024. Expectations that the Fed will start cutting rates, along with the expectation of a weaker US dollar should see investment demand return, following strong ETF outflows this year. Stronger investment demand, combined with a continuation of central bank buying will be bullish for gold prices.

Food protectionist measures are something that arose following Russia's invasion of Ukraine, with worries over food security. El Nino has meant this trend has continued for much of this year. And with elections in several developing nations next year, it is likely that food protectionism will persist in 2024.

Grain markets have come under pressure this year despite Ukrainian grain exports falling following the suspension of the Black Sea Grain Initiative. Strong supply growth from other key suppliers has offset concerns over lower Ukrainian exports. Heading into 2024, corn prices are likely to remain under pressure with rising stocks, while we expect soybean prices to edge lower on the back of strong South American output. We are relatively more supportive towards the wheat market, with global stocks set to continue to tighten this season.

Soft commodities have had a volatile year with El Nino and broader weather events leading to significant concerns over supply. London cocoa has traded to record levels and with expectations of a third consecutive deficit, the cocoa market is likely to remain volatile through 2024. Given current stock levels, however, it is difficult to justify the degree of strength that we have seen in the market. The sugar market has also been a strong performer this year with El Nino expected to hit output in Asia and leave the global market in deficit over 2023/24. We see prices remaining elevated at least until the start of the next Centre-South Brazil harvest, which is set to be another big crop.

Overall, we go into 2024 with a cautiously optimistic view on the commodities complex.

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