THINK Economic and Financial Analysis

Commodities Outlook 2025

December 2024

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Commodities Outlook 2025: A bearish horizon

We see large parts of the complex edging lower in 2025 with relatively comfortable supply and demand balances. The potential for an escalation in trade tensions is a downside risk, while markets are waiting to see if and when Chinese support measures feed their way into commodity markets in the form of stronger demand

We came into 2024 with a cautiously optimistic view on the commodities complex, and looking at the complex as a whole we think this has turned out to be the right view. The S&P GSCI index is basically flat on the year. There are some commodities that have performed well this year as central banks have embarked on their easing cycle. It's for this reason – along with the geopolitical environment – that precious metals have been the best performing part of the complex, with gold hitting record levels repeatedly this year. Industrial metals started the year on a strong footing, but this rally has run out of steam and it's clear that short-term fundamentals remain bearish.

Price action in oil has been odd, with prices weakening despite a significant amount of geopolitical risk in the Middle East. Meanwhile gas markets have strengthened as Europe faces numerous supply risks. On the agri front, comfortable supply has seen grain prices trend lower, while softs (cocoa, coffee and to a certain extent sugar) have seen more volatility due to weather concerns.

Looking ahead, we expect energy markets to come under pressure. The oil market is set to see fairly modest demand growth once again in 2025, which is partly cyclical and partly structural. In addition, we see another year of strong non-OPEC supply growth while OPEC still sits on a significant amount of spare production capacity, which should continue to provide comfort to the market. For now, we expect the oil market to be in surplus next year – although much will depend on OPEC+ production policy.

For European natural gas, we are cautiously bearish on prices through 2025, but this hinges on developments over the winter. Assuming a normal winter, we believe Europe should exit the heating season with comfortable storage. The ramping up of new LNG export capacity should allow the EU to refill storage comfortably even without Russian pipeline gas via Ukraine. However, the ramping up of US LNG export capacity leaves us more bullish on US natural gas prices with the market expected to tighten up.

For metals, we believe gold will hit new record highs in 2025. Central banks are set to continue to ease monetary policy, and there could be a move to safe haven assets due to an escalation in trade tensions. We also believe that central banks will remain strong buyers of gold as they look to diversify their reserves.

The outlook for industrial metals looks somewhat cloudy, with trade frictions and potential changes to the Inflation Reduction Act in the US weighing on metals. Metal markets will also be waiting to see if recent support measures from China will finally feed through to the commodities complex, and if not, whether there is more stimulus on the way.

Finally for agriculture, grains are likely to get caught up in any trade friction, particularly if we see retaliatory tariffs targeting US agricultural exports as we did in 2018. If so, we would expect to see pressure on prices. Meanwhile, weather remains a key risk and concern for soft commodities, and so we expect volatility in cocoa and coffee to

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continue into 2025 – at least until we get a better idea on how supply shapes up for next season.

Overall, we hold a somewhat bearish view on large parts of the commodities complex for 2025 on the back of relatively comfortable fundamentals, while expectations of a stronger USD should also provide some headwinds. In addition, external risks facing markets appear to be skewed to the downside.

Oil market set to be in surplus despite OPEC+ action

The global oil market is set to return to surplus in 2025 despite OPEC+ extending supply cuts. This surplus should see prices trending lower next year. However, there are risks

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2025 oil surplus

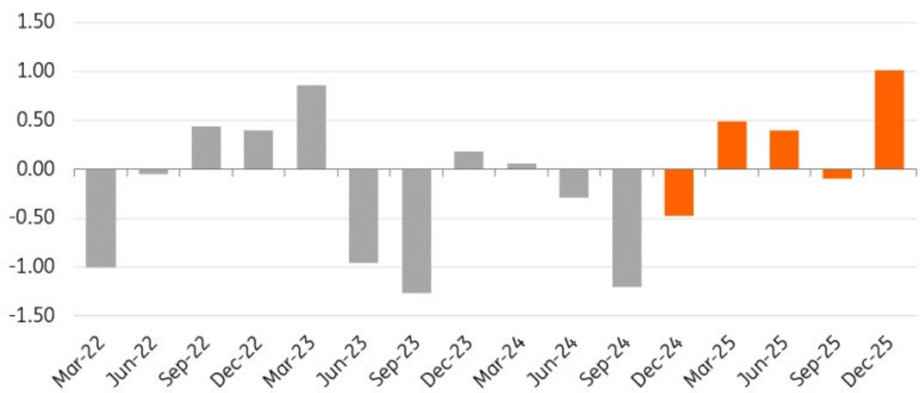
Oil prices have come under a fair amount of pressure this year, with the market worried about demand and the surplus outlook for 2025. Even after a handful of OPEC+ members decided to further delay the return of 2.2m b/d of additional voluntary cuts, our balance is still showing that the market will be in surplus through 2025 – although admittedly the surplus is more modest following action taken by the group. The scale of the expected surplus has shrunk from more than 1m b/d to around 500k b/d now.

Non-OPEC supply in 2025 is forecast to grow by around 1.4m b/d, which exceeds demand growth estimates of a little under 1m b/d next year.

The surplus environment means that prices are likely to remain under pressure and we expect ICE Brent to average US$71/bbl over 2025.

There are clear risks to this view, including a stricter enforcement of sanctions against Iran and OPEC+ deciding to further delay the return of 2.2m b/d of supply. In addition, there is growing instability in the Middle East – something the market remains fairly complacent about.

Global oil market in surplus in 2025 (m b/d)



Source: ING Research, IEA, EIA, OPEC

OPEC+ has proved the market wrong, but can it continue?

Action taken by OPEC+ in early December has shown participants that the group appears committed to trying to keep the market in balance. We were of the view that falling prices, rising non-OPEC supply and some members producing above production targets would make it increasingly difficult for the group to continue with the significant supply cuts we are seeing.

The group proved us wrong at its December meeting by not only delaying the gradual return of 2.2m b/d of supply from January to April, but also by planning to increase supply at a slower pace. This means that the group is planning to take 18 months to return this full supply, compared to 12 months previously. So instead of increasing supply by around 180k b/d every month, the group will increase supply by a little less than 140k b/d.

While the delay in returning supply likely lifts the floor for the market slightly, we do not believe it changes the underlying issue. Eventually, the group will have to accept lower prices. Otherwise, it will continue to lose market share to non-OPEC producers.

Following recent action from OPEC+, it looks more likely that the group will extend cuts further if needed in 2025. However, it is important not to rule out the risk of growing disagreement between the group, particularly if oil prices remain under pressure. Lower oil prices translate to lower oil revenues for OPEC members and this has weighed on many Middle Eastern producers' fiscal budgets.

The way to try to maintain oil revenues is by pumping more. So, compliance among some members may slip if prices trend lower. We have seen a handful of producers already pumping above their production targets for much of the year. The Saudis raised concerns over some members not sticking to production targets and the risk that oil prices could fall substantially lower – possibly an indirect threat that if members do not stick to cuts, they would increase output, potentially starting a price war. We don't have to go back very far to see the potential impact this can have on the market. In 2020, a price war between Saudi Arabia and Russia saw oil prices plummet, although this also coincided with the Covid-19 pandemic.

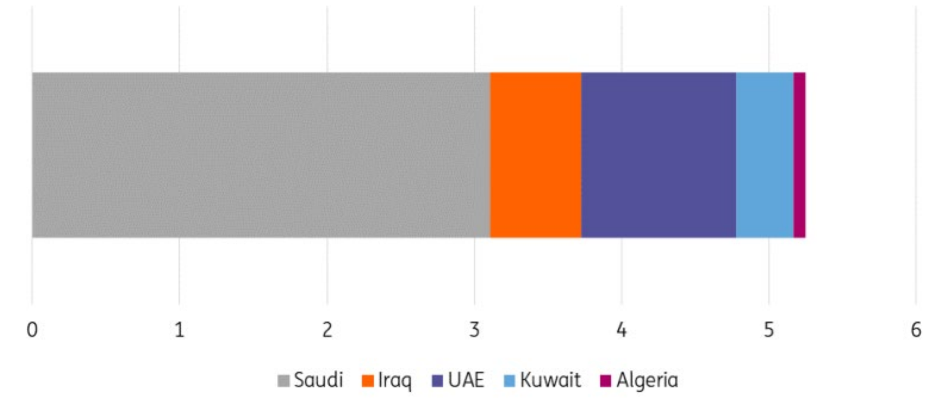
OPEC spare capacity to continue providing comfort to the market

For much of this year, there has been plenty of focus on geopolitical events in the Middle East and concerns that escalation could have an impact on Iranian supply as well as potentially regional supply. However, despite tensions, the lack of disruption to oil supply has meant that the market has become increasingly immune to developments in the Middle East. We would likely need to see an actual supply disruption in order to push oil prices significantly higher.

The amount of spare production capacity OPEC is sitting on also provides some comfort to the market. OPEC sits on more than 5m b/d of spare production capacity, so in the event of a supply disruption, there is sizeable capacity to make up for any disruptions. However, OPEC would likely be slow to bring capacity back online, holding out for higher prices. Saudi Arabia's fiscal breakeven oil price is over US$90/bbl, so they would like to see prices trading closer to this level – although they would not want to push prices too high, given the risk of demand destruction.

In the event that we see disruptions to oil flows through the Strait of Hormuz, this spare capacity wouldn't prove very helpful, given that most of OPEC's spare capacity sits in the Persian Gulf and this supply would have to move through the Strait of Hormuz.

OPEC sitting on a large amount of spare production capacity (m b/d)



Source: IEA, ING Research

What does Trump mean for Iranian oil supply?

Iran has increased supply significantly over the last two years, pumping around 3.4m b/d, up from around 2.5m b/d in early 2023. The US has not enforced oil sanctions against Iran strictly, which has allowed for export flows to increase. However, with US President-elect Donald Trump set to enter the White House in January, there is potential that he will take a more hawkish stance against Iran, like he did in his first term.

This potentially leaves around 1m b/d of supply at risk, if Trump is able to effectively enforce sanctions. However, with almost all Iranian exports heading to China, it may be challenging to significantly reduce these flows. We are assuming that Iranian supply remains flat at around 3.3m b/d over 2025, with obvious downside risks to this number. However, any reduction in Iranian supply would likely leave OPEC+ more comfortable in starting to unwind its additional voluntary supply cuts as currently planned.

What does Trump mean for US oil supply?

In the near term, we do not expect the incoming Trump presidency to significantly move the needle when it comes to oil supply. US oil producers will be more price dependent and with the global market well supplied in 2025, there will be little incentive for US oil producers to significantly increase drilling activity.

WTI 2025 and 2026 values are trading around the US$65/bbl level, which is not far from levels that producers need to profitably drill a new well. Both the Dallas Fed Energy Survey and the Kansas Fed Energy survey show that producers on average need US$64/bbl.

We are assuming that US oil production will grow by around 300k b/d to a record 13.5m b/d in 2025. This is similar to the growth estimated for 2024, but obviously much more modest than growth rates seen prior to Covid.

In the medium to longer term, a Trump presidency could provide upside through less regulation (which would help lower production costs), fast-tracking approvals for pipeline infrastructure (which will help with persistent bottlenecks in the supply chain) and the reversal of some of President Joe Biden's policies with regards to federal land leases. Onshore oil production on federal lands accounted for 12% of total oil output in 2023; including offshore production, this number grows to around 26%.

The Biden administration reduced lease sales on federal land and also increased royalty payments and bond requirements for production on federal land. If we compare the number of new leases issued during Trump's first three years in office, it totalled more than 4,000. In Biden's first three years, new lease issuances totalled a little over 1,400.

However, lower issuances of leases are having little impact on output so far, with oil production on federal lands growing every year that Biden has been in office.

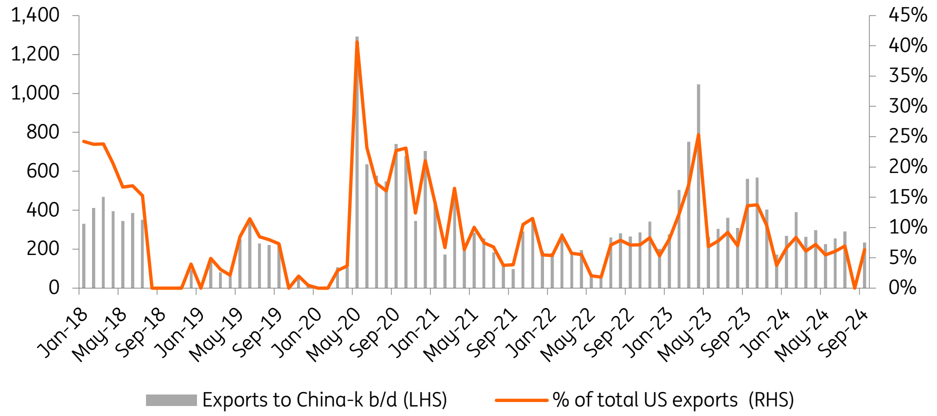
Trade tensions and oil

A ratcheting up in trade tensions is a concern for the oil market and risk assets in general. The recent rhetoric from Trump suggests that he may tackle trade policy sooner than expected, which signals potential for tariffs to start being implemented in the second or third quarter of 2025. The difference between the 2018 US-China trade war and this time around is that Trump is looking to potentially impose tariffs on all trading partners.

The risk is that we see some trading partners responding with retaliatory tariffs against the US, which could have an impact on demand for US oil and refined products.

In 2018 during the US-China trade war, Chinese oil buyers were reluctant to purchase US crude oil due to the risk and the eventual implementation of tariffs. This saw the WTI-Brent discount widen from around US$3/bbl to more than US$11/bbl in 2018. A ratcheting up in the trade war with retaliatory tariffs – or even the risk of tariffs – could see the WTI-Brent spread coming under pressure once again. However, we may not see as much pressure on the spread given that in early 2018, close to a quarter of US crude exports went to China and this share has fallen to around 7% currently.

US crude oil exports less exposed to China



Source: EIA, ING Research

Modest oil demand growth in 2025

Global oil demand in 2024 has disappointed, with growth of less than 1m b/d expected this year. China has been a key driving force here. At the start of the year, China was expected to make up more than 50% of global demand growth. It's now set to be only around 20%.

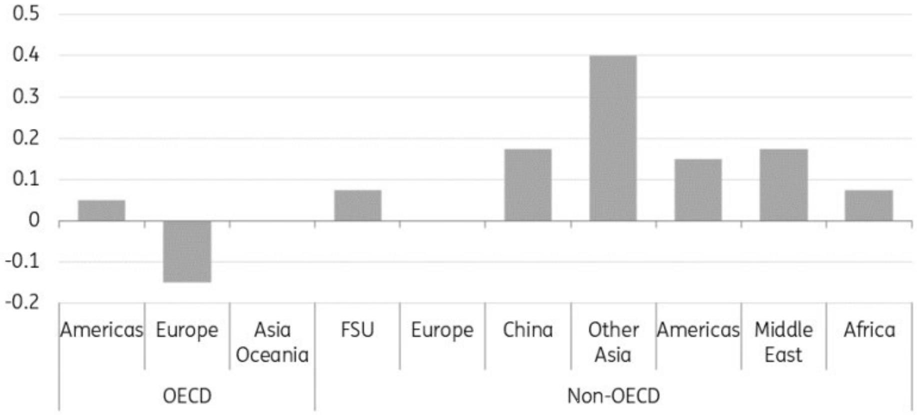
There are both cyclical and structural trends which are driving this slower growth in China. Obviously, the economy has been performing weaker than expected, with the property sector still a drag, while manufacturing activity and consumer spending have not been not great. The government has announced a number of support measures, but the full impact of stimulus is yet to be seen – and with the potential for trade frictions next year, China may have to roll out further stimulus.

In addition, China has been seeing stronger sales of new energy vehicles in the domestic market, which will be displacing oil demand. More than 40% of vehicle sales are now new energy vehicles. In parts of China, there has been a significant pick up in the sale of LNG-powered trucks, which will also be displacing diesel demand.

However, it is not just China where there is demand weakness. Refinery margins around the globe have weakened this year, suggesting weaker demand for refined products.

Modest growth in global oil demand is expected once again next year, and is forecast to grow by just under 1m b/d. This growth is expected to be driven predominantly by Asia.

Asia set to drive 2025 global oil demand growth (m b/d)



Source: IEA, ING Research

ING forecasts

	1Q25	2Q25	3Q25	4Q25	FY25
ICE Brent (US$/bbl)	73	71	72	68	**71**
NYMEX WTI (US$/bbl)	70	68	69	65	**68**

Source: ING Research

Weaker natural gas assuming no surprises

The European gas market faces several risks heading into 2025, although our balance suggests prices should trend lower next year. Meanwhile, the US gas market is set to tighten, supporting prices

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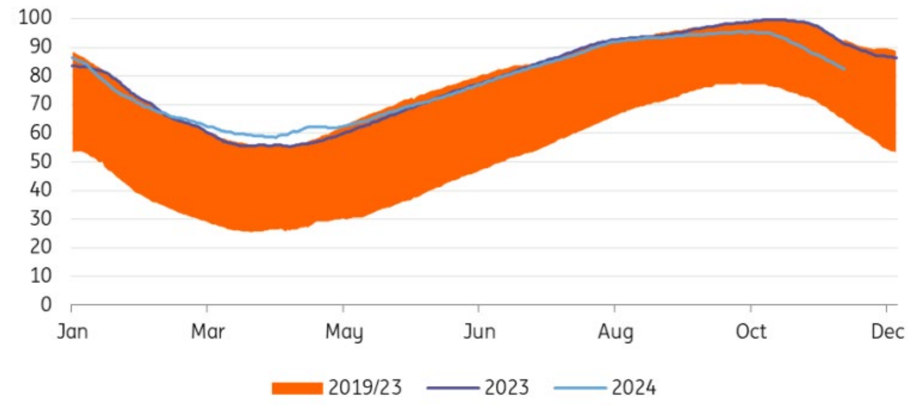
European storage draws quicker than expected

The European natural gas market has strengthened as we move deeper into the 2024/25 winter. TTF front-month prices have traded close to EUR50/MWh and to levels last seen back in November 2023. Storage started the heating season at 95% full, and while comfortable, it was slightly lower than we were expecting. In addition, a lack of wind power generation in November saw the power sector turn more heavily towards natural gas for power generation. This saw storage falling at a quicker-than-expected pace at the start of the heating season. At 82% full, European gas storage is below the five-year average for this time of year. This means that, assuming a normal winter, storage will end the heating season lower than initially expected.

Our European balance shows storage at the end of March 2025 at around 40% full. This is down from the 58% full at the end of March 2024. While significantly down year-on-year (due to a mild 2023/24 winter), this storage is still fairly comfortable on a historical basis and supports the view that European prices should trend lower through next year. We are forecasting TTF to average EUR33/MWh over 2025. However, there are plenty of risks.

In our balance we are assuming that Russian pipeline flows via Ukraine will stop on 31 December 2024. We are also assuming that the EU can pull in 4bcm of additional LNG supply between November and the end of March, compared to the same period last year. In addition, we expect European gas demand to increase by around 2% YoY in 2025. This is where there is most uncertainty, given that demand is going to be largely weather-dependent.

EU gas storage falling quicker than expected (% full)



Source: GIE, ING Research

Russian flows via Ukraine to stop

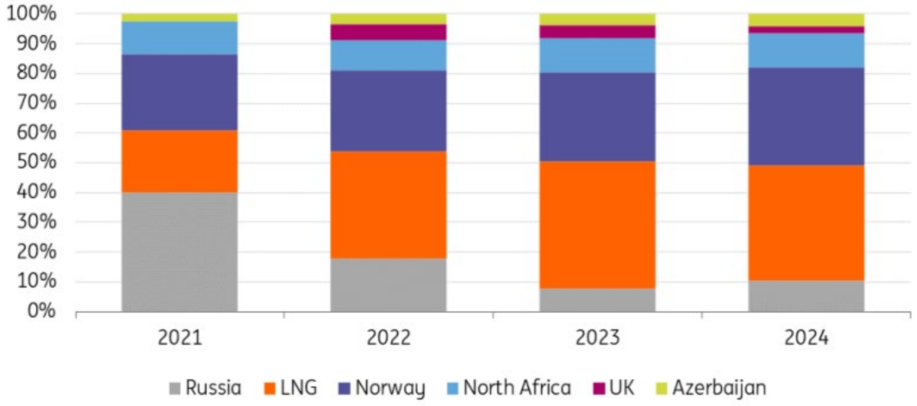
As mentioned, we are assuming that Russian gas flows via Ukraine will come to a stop on 31 December 2024. Gazprom's transit deal with Ukraine expires at the end of 2024 and Ukraine has made it very clear that it has no intention to extend this deal. This means that the EU will lose around 15bcm of gas supply annually, which is equivalent to around 5% of total imports. While there have been some efforts to try to keep gas flowing through a possible swap with Azerbaijan, it appears that these flows will stop and we believe this should be priced into the market. This leaves a downside risk to the market. If for any reason these flows continue, the European market will be left better supplied than many were expecting.

While Russian flows via Turkstream may increase marginally, the EU will have to rely further on LNG imports to make up for this shortfall.

Recent moves by Russia also suggest that it is more willing to continue supplying Europe than in 2022. This is evident in Russia's recent decision to continue to sell volumes into the spot European market after having stopped delivering gas to OMV under a long-term contract. This was after OMV said it would not pay Gazprom for gas, in order to recoup money it was awarded in an arbitration related to flows that Gazprom halted in 2022.

A factor that needs to be followed closely is how recent US sanctions against Gazprombank will impact Russian gas flows, if at all. This was the bank used by European buyers to pay for Russian gas. The Russian government has allowed for changes in the way payments can be made, but it is still yet to be seen if this will hinder flows. We should get more clarity following the wind-down period for transactions, which ends on 20 December 2024. This puts all Russian gas flows to the EU (including volumes via Turkstream) at risk. Russian volumes via Ukraine and Turkstream make up around 9% of EU gas imports.

The EU still imports a sizeable share of Russian pipeline gas (%)



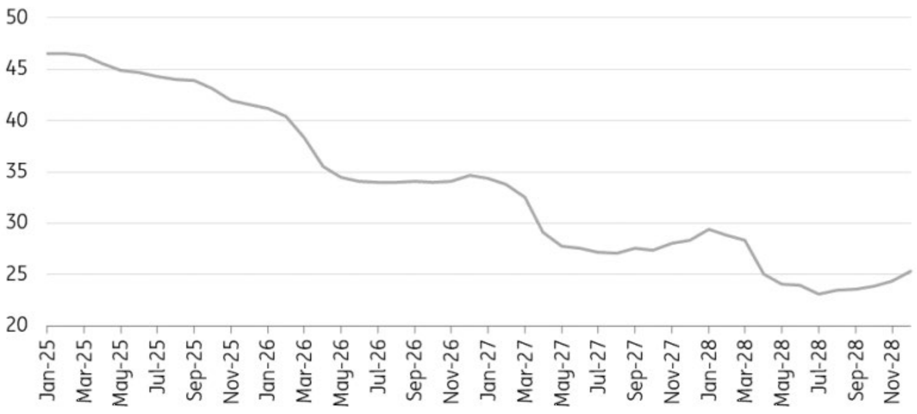
Source: ENTSOG, GIE, ING Research

The TTF forward curve tells us a lot

The shape of the TTF forward curve is interesting. It's currently showing that summer 2025 prices are trading at a premium to winter 2025/26 prices. Usually, you would expect summer prices to be at a discount to winter prices to incentivise the storage and carry of gas for the higher demand winter period. The forward curve is reflecting a possible rush to fill storage and meet the European Commission's target of having storage 90% full by 1 November. Recently, the Commission also increased its intermediary targets, wanting storage to be 50% full by 1 February, up from a previous target of 45%. These intermediary targets are to try to ensure that storage is filled steadily. Our European balance suggests the region is already set to meet this target.

Sticking with the forward curve, and looking further out, it is not until 2026 that we see the curve taking a significant step lower, which reflects expectations of the startup of new LNG export capacity from Qatar. This ties in with our LNG balance, which shows the market relatively balanced in 2025, but well supplied in 2026.

TTF forward curve in backwardation through 2025 (EUR/MWh)



Note: Price data as of 6 December 2024
Source: LSEG, ING Research

European gas demand to tick higher

In our balance, we are assuming that EU gas demand will grow by around 2% YoY. This still leaves demand around 17% below the 2017-21 average. Where demand ends up will depend on how winter weather evolves. In addition, if the higher prices we are seeing persist for a while longer, this will likely not help with the recovery in industrial demand.

While gas demand from the power generation sector was stronger in November, forward spark spread values for 2025 – currently in negative territory – show that gas demand from the power sector should remain fairly weak.

Robust Asian LNG demand

Asian demand for LNG has been strong this year. Lower prices have seen price-sensitive buyers in the region returning to the market. Chinese LNG imports have been strong despite growing pipeline volumes from Russia. There has been a significant pick up in the sale of LNG-powered trucks in parts of China, which has proved supportive for LNG demand while weighing on diesel demand. Chinese LNG imports have exceeded 98bcm over the first 11 months of the year, up 13% YoY and on course to hit record levels this year, exceeding the 107bcm imported in 2021.

While spot Asian LNG continues to trade at a premium to TTF, there is little between the two markets through summer 2025. This suggests that we could see increased competition between the two regions, particularly if Europe faces a bigger job (relative to 2024) to refill its storage.

There is also a fair amount of regasification capacity in Asia set to start in 2025, with more than 115bcm expected to start. This capacity is dominated by China, which makes up almost 70% of the total. While increased regasification does not translate into a guaranteed increase in demand, it does show that demand from the region is expected to grow strongly with investment in the necessary infrastructure.

LNG supply growth in 2025

There is a fair amount of US LNG export capacity ramping up at the moment, and further capacity is expected to start up over the course of 2025. In addition to the US, there is also a capacity set to start up in Canada and Mexico. With the capacity added this year and next, we are looking at around 50bcm of additional LNG supply in 2025.

There are, however, clear risks with ramp-ups – and there is certainly the risk of unplanned outages at already-producing plants, which could see the net addition of LNG supply coming in lower.

US natural gas market to tighten in 2025

US natural gas prices have rallied as we head into the 2024/25 winter. Front-month Henry Hub futures recently traded to their highest level since November 2023. While US natural gas storage is still comfortable and 7.8% above the five-year average, the gap to the average has narrowed as we have moved through the year.

US natural gas production is estimated to have marginally fallen this year. Demand has remained robust, driven by stronger demand from the power sector along with firm demand from LNG export plants.

For 2025, US natural gas production is expected to edge higher, growing by 1.1Bcf/day. Demand growth is expected to be even stronger. This is driven by the ramping up of new LNG export plants with Plaquemines, Corpus Christi stage 3 and Golden Pass. Natural gas demand from US LNG export plants next year is expected to grow by around 1.7Bcf/day.

This stronger demand, coupled with the potential for upside in gas demand from the power sector, means that the US gas market is likely to continue to tighten next year. We currently forecast Henry Hub to average US$3.50/MMBtu in 2025.

ING forecasts

	1Q25	2Q25	3Q25	4Q25	FY25
TTF (EUR/MWh)	40	32	29	30	**33**
Henry Hub (US$/MMBtu)	3.3	3.2	3.4	4.0	**3.5**

Source: ING Research

A sluggish year ahead for carbon demand

We expect a modest recovery in EUAs over 2025 with the removal of further free allowances. However, there are demand risks, while supply will remain strong with auction volumes brought forward for REPowerEU

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Weak demand and strong supply

EU Allowances (EUAs) have been under pressure for much of the year. Weak industrial production and strong renewables output have weighed on demand for EUAs over the year. This saw prices trading down to EUR52/t in February, the lowest levels since 2021. However, it has not just been the demand side of the equation which has put pressure on prices. The front loading of auction allowances for REPowerEU has increased supply, only adding to the downward pressure.

Speculators have been bearish on EUAs for much of the year, holding a net short. However, more recently speculators have flipped back to a net long, possibly suggesting a shift in sentiment. But there are plenty of risks from the trade front as we move into 2025, and a recovery in renewables generation (following a decline in November) could potentially see speculators head for the exit.

We see prices trending higher next year, though the move is likely to be more modest than initially expected. Offering support to the market is the further removal of free allowances for the aviation sector, further shipping sector emissions covered, and the market preparing itself for the start of the removal of free allowances for Carbon Border Adjustment Mechanism (CBAM) sectors from 2026.

EUA demand remains sluggish

In 2023, EU verified emissions fell to their lowest level since the implementation of the EU Emissions Trading Scheme (EU ETS) in 2005 as well as seeing their largest year-on-year decline. This was largely driven by the electricity sector, with emissions falling significantly due to a strong switch from fossil fuels to renewables, as well as lower overall power generation. For 2024, it is looking as though emissions will see another YoY decline. Live tracking of EU emissions show that they have been largely trending below 2023 levels. Once again, the electricity generation sector will have played a key role in this, with strong renewables generation yet again.

Industrial activity in Europe remains sluggish; production in the eurozone has fallen YoY every month so far this year. A combination of high energy prices and subdued demand continues to weigh on output. And there is downside risk to industrial activity in 2025 with the potential for an escalation in trade tensions next year.

However, next year the aviation sector loses further free allowances, which is part of the gradual phasing out of free allowances for the industry. Free allowances were reduced by 25% this year and will be reduced by 50% in 2025 (from the initial free allocation). For

2026, there will be no more free allowances for the EU aviation sector. This should provide some support to demand. Looking further ahead, there is also the potential that the Commission includes emissions for flights departing EU airports to non-EU destinations, rather than just intra-EU flights as is currently the case.

Furthermore, 2025 will see more of the shipping sector's emissions covered. 2024 was the first year of inclusion of the shipping sector in the ETS and as part of a gradual phase in, only 40% of the sector's emissions were covered in 2024. For 2025, this rises to 70% and from 2026, 100% of emissions will be covered. Again, this is broadly supportive for demand dynamics.

In addition, we are currently in the transitional phase of CBAM but from 2026 it will be fully implemented, which will see CBAM sectors starting to gradually lose their free allowances.

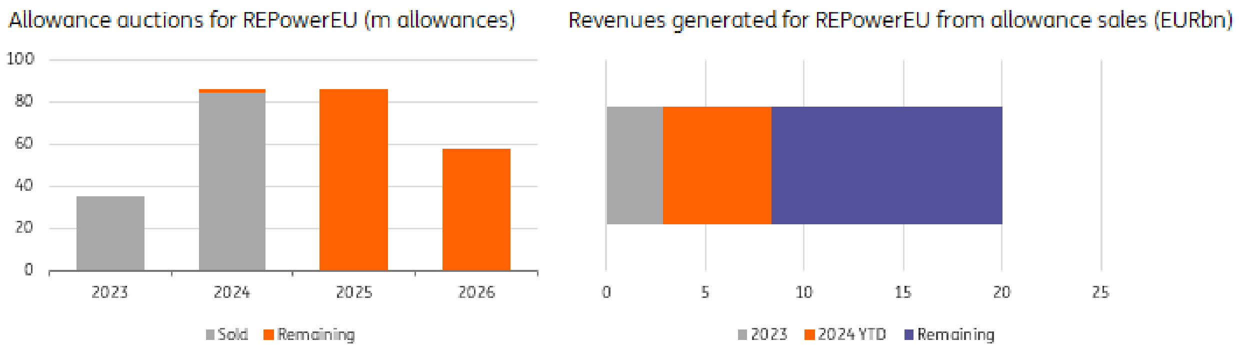
Allowance supply adds to the pressure

The selling of allowances to fund REPowerEU has added to the pressure on EUA prices. The European Commission is wanting to raise EUR20bn from allowance sales in order to partly fund REPowerEU. This supply has come from the Commission bringing forward volumes which were set to be auctioned later in the decade. In total, the plan is to bring forward 266.7m allowances for auction between 2023 and 2026.

In 2023, 35.2m allowances were sold. So far this year, 84.86m allowances have been sold. This has raised a total of EUR8.3bn for REPowerEU. The Commission still has almost 147m allowances to auction between now and the end of 2026, and given the target to raise EUR20bn in total, this means that it would need to achieve an average price of close to EUR80/t – far above current levels. This suggests that the EU will either have to sell even more allowances to achieve its EUR20bn target for RepowerEU or lower its target. If it is the former, that would only provide further headwinds to EUA prices.

While the bringing forward of this supply has been a bearish factor for the market, the fact that supply from 2027 has been reduced by a similar amount should prove supportive for EUA prices in the longer term.

Allowance sales for REPowerEU adds to the pressure for EUAs



Source: EEX, EC, ING Research

ING forecasts

	1Q25	2Q25	3Q25	4Q25	FY25
EUA (EUR/tonne)	70	73	75	78	**74**

Source: ING research

Trump and China add to copper headwinds in 2025

Downside risks for copper have increased, especially following Donald Trump's victory in the US presidential election. We believe that potential US tariffs and a stronger dollar could further depress copper prices, affecting global commodity demand

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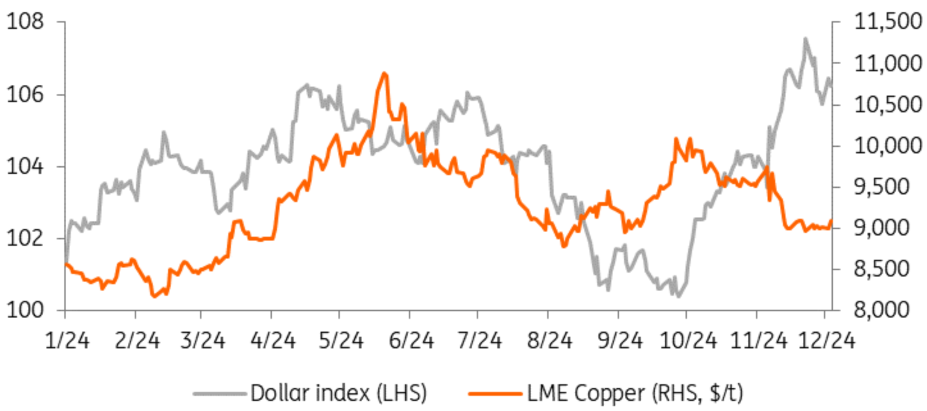
Copper has been under pressure despite Beijing's efforts to boost the economy, with Chinese domestic consumption remaining sluggish amid deflation threats and the prolonged property market crisis. The US election has further complicated the outlook for the metal with a threat of tariffs on Chinese goods looming over the market. The dollar's spike since Trump's presidential win has added to the bearish sentiment in copper and other industrial metals.

Strong dollar weighs on copper



Source: LME, Refinitv, ING Research

China stimulus underwhelms

Beijing has issued a slew of stimulus measures since late September, its largest stimulus package since the Covid-19 pandemic, including interest rate cuts and targeted support for the property sector. The stimulus initially sparked a rally across industrial metals, with copper reaching $10,000/t, but it then slowly ran out of steam, in part due to concerns over a lack of fiscal support from Beijing. The finance ministry's most recent pledges included $1.4 trillion to bail out heavily indebted local governments but stopped short of direct steps to shore up consumer spending.

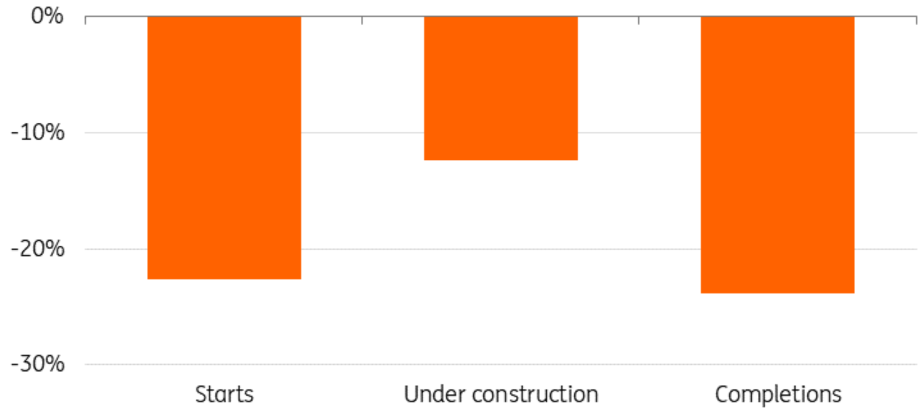
China, the world's biggest consumer of metals, has been a drag on metals demand for more than three years now. A broad economic slowdown and, in particular, the crisis in the property sector has weighed on copper and other industrial metals. We have seen plenty of property support measures this year, but, so far, they have failed to have a meaningful impact on metals demand.

Any sustained pick up in metals prices will depend on the strength and speed of the rollout of the measures.

However, as China's recent stimulus has focussed on clearing property inventories rather than boosting new starts, copper and aluminium are likely to have an advantage over iron ore. Both metals are heavily used in the completion stage when copper wirings and aluminium framings are added. Copper and aluminium are also more heavily used in the green energy sector, including Electric Vehicles (EVs) and renewable energy.

Trump's return to power has also complicated China's efforts to re-energise the economy. However, the prospect of a prolonged trade war has raised expectations for Beijing to unveil more aggressive stimulus measures. Our China economist thinks there may be more stimulus to come once policymakers have more clarity on what a new Trump administration may do next year.

China's property sector remains a drag on copper demand



Source: National Bureau of Statistics, ING Research

Trump's win adds uncertainty

We believe the bulk of Trump's proposed policies will be negative for global metals demand, including copper. Policies, including tax cuts, tariffs, looser regulation and stricter immigration controls, which are inflationary, could limit interest rate cuts from the US Federal Reserve. At the same time, higher rates along with higher tariffs and greater geopolitical uncertainty will push up the dollar, providing headwinds to copper demand.

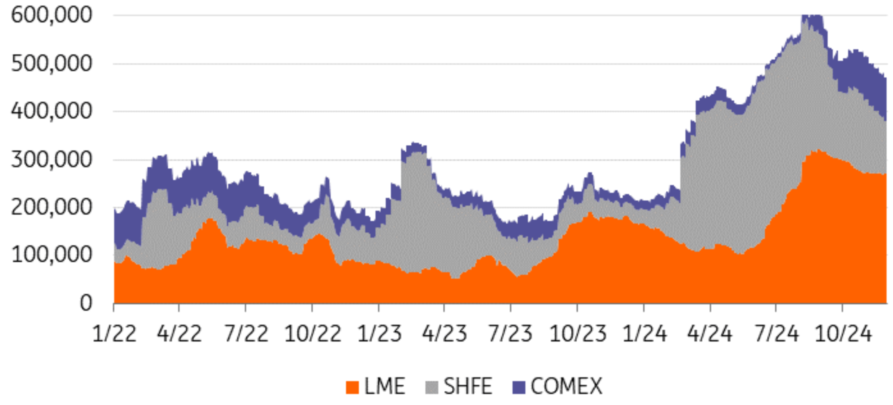
Our US economist still expects another cut in December but thinks the Fed may choose to pause in January and go more slowly. He expects rates to peak slightly higher than we previously thought, at 3.75%.

With Trump likely to deprioritise environmental policy, and sustainability and energy transition targets taking a back seat during his term, demand expectations for green energy metals like copper will need to be adjusted. However, we don't expect the Inflation Reduction Act (IRA) to be completely repealed given the economic benefits it has created, particularly in the Republican states. However, we could see a reversal of Biden's EV policy and a cancellation of the nationwide EV production and sales targets, which would negatively impact copper demand.

Global copper stocks remain elevated

Meanwhile, global copper stocks remain elevated, underscoring soft spot demand in China and elsewhere. Global exchange-tracked stockpiles stand at their highest level for this time of year since 2017.

High stockpiles underscore soft spot demand
(tonnes)



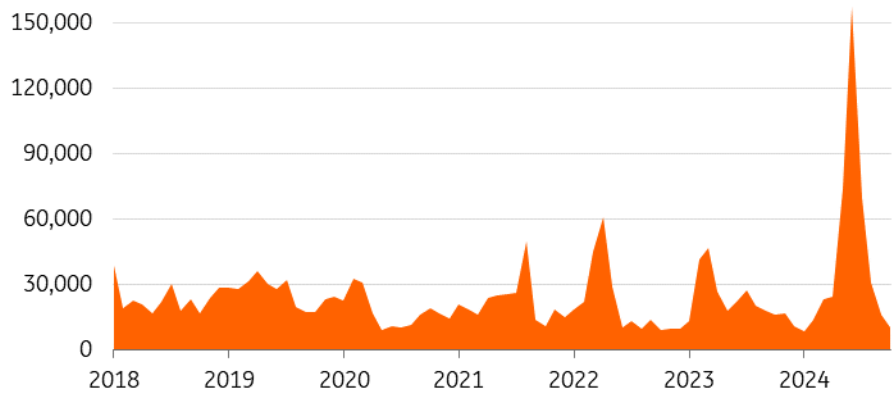
Source: LME, SHFE, COMEX, ING Research

The rise in warehouse stocks has come amid a surge in Chinese exports. China is usually a major net importer of refined copper but at times turns to exports when it is profitable to do so. Exports have jumped to record levels this year as supply from China's smelters expands while demand from manufacturing and construction sectors lag.

However, exports are set to weaken due to higher tariffs and following China's removal of export tax rebates for copper products and other commodities.

We also believe it will take some time for China's demand to align with high exchange stocks due to ongoing strong domestic production. Additionally, high global inventories suggest that the copper market is currently well supplied, making a significant price recovery unlikely in the short term.

China copper exports surged this year
(tonnes)



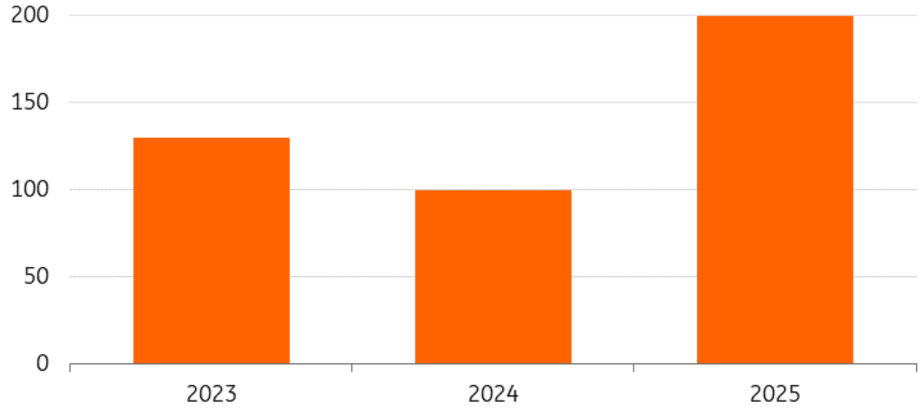
Source: China Customs, ING Research

Refined market to remain in a small surplus

On the supply side, the refined copper market will remain in a surplus next year. Although production will gain from the continued expansion of Chinese capacity and the ramp-up of new smelters and refineries in Indonesia and India, the increase in refined production is expected to be capped by the constrained availability of concentrates. We expect a surplus of around 200k tonnes next year.

Surplus to persist in 2025

Global refined copper balance (kt)



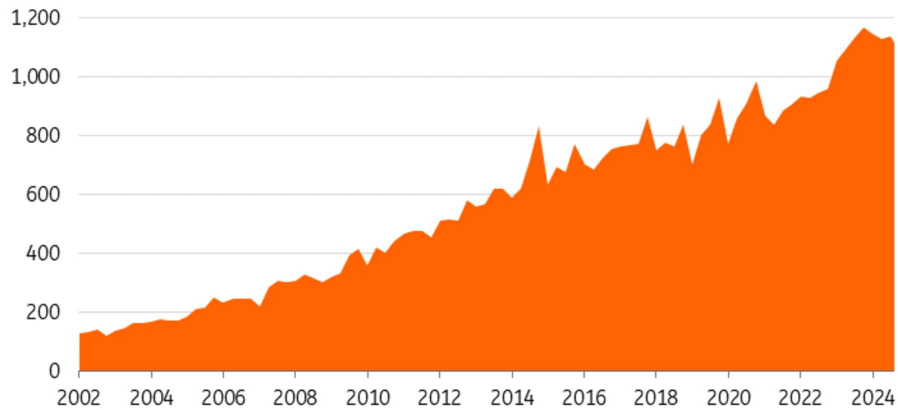
Source: ICSG, WBMS, ING Research

Copper smelters in China have continued to expand capacity despite low profits, heading for another output record this year. Most capacity is state-owned, requiring it to meet growth targets set by local governments despite low processing fees.

China's top copper smelters agreed on price guidance for third-quarter processing charges at $30/t, a sharp cut from the first quarter's $80, and the lowest since at least the third quarter of 2015 – a sign that the copper ore market is tightening as smelters expand. Treatment charges are a key sign of copper's future direction. Meanwhile, spot copper treatment charges in China continue to hover near record lows. The drop in TCs is not only a reflection of the tightening concentrates market but also of a rapid expansion in copper smelter capacities in China.

China refined copper output hits record high

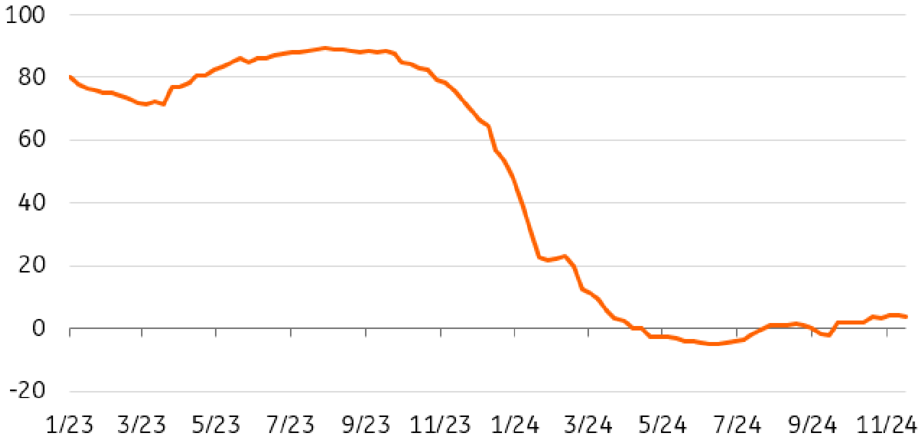
(kt)



Source: National Bureau of Statistics, ING Research

Spot copper concentrates TC sank below zero this year

Copper concentrates TC index, cif Asia Pacific ($/tonne)

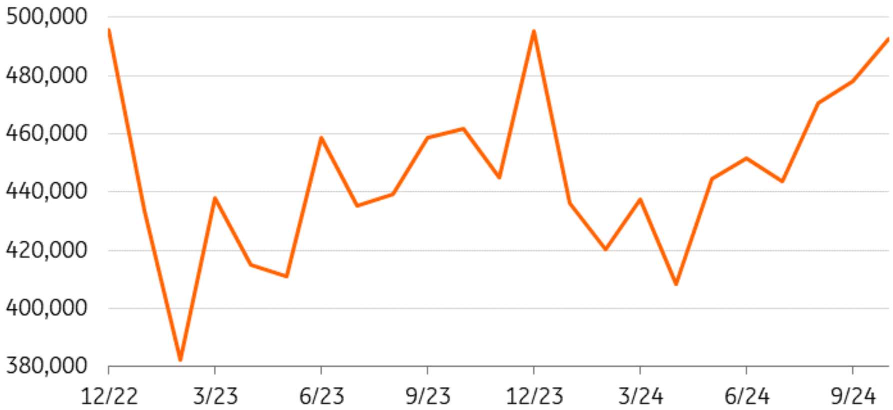


Source: Fastmarkets, ING Research

On the other hand, the concentrates market is set to remain relatively tight in the coming year amid continued smelter project expansions and slow progress in new mines projects. Chile and Peru are the biggest mining countries, but their mines have continued to face ageing issues. However, production in Chile is on the rise after slumping to 20-year lows. The country just recorded its best October copper production since before the Covid-19 pandemic. October's production in the top copper miner was 6.7% higher than the same month last year as mining companies in the country invest in projects to restore ageing operations and combat deteriorating ore quality.

Chile posts best October copper production since 2019

Chile monthly copper output (tonnes)



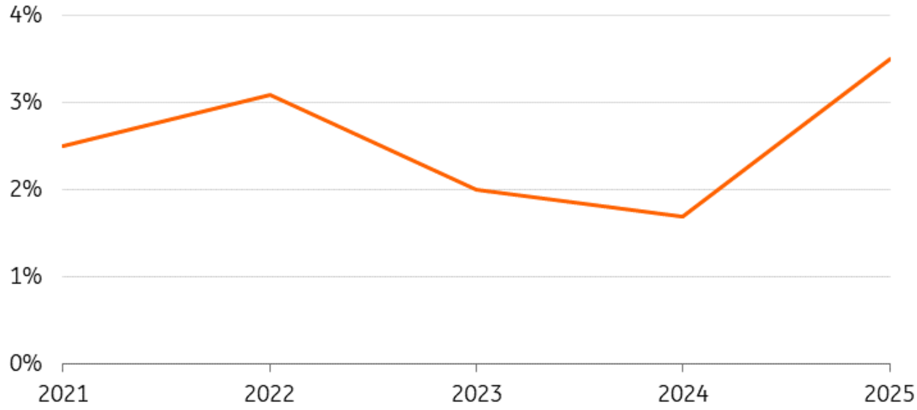
Source: Chile Bureau of Statistics, ING Research

Meanwhile, uncertainty over the potential timing of a restart of mining at Cobre Panama continues to weigh on the supply outlook. The Cobre Panama mine closure removed 330,000 tonnes of copper from global output in 2024. We don't expect a restart until at least the second half of next year. The restart of Cobre Panama provides a downside risk to our price outlook.

World copper mine output is expected to be slightly lower in 2024 (than the 2% growth seen in 2023) at 1.7% (according to the International Copper Study Group). In 2025, growth is expected to be higher at 3.5% with global growth mainly benefitting from a further ramp-up in capacity at mines in the DRC, including Kamoa-Kakula, and in Mongolia (Oyo Tolgoi), as well as from the restart of the Malmyzhskoye mine in Russia. Several expansions and the opening of medium and small mines will also add to production.

World copper mine production will increase in 2025

World copper mine production (% growth)



Source: ICSG, ING Research

Risks remain for copper outlook

With Trump soon back in the White House, the outlook for copper looks more challenging. Geopolitical tensions, an uncertain path for China's economic recovery (despite the recent stimulus boost) and rising protectionism remain the key downside risks to our copper outlook. We believe copper prices will remain volatile and will continue to be guided by geopolitics and tariffs.

A stronger-than-expected stimulus from Beijing provides an upside risk to our price forecast. A drawdown in warehouse stocks in China due to higher exports ahead of a possible rise in tariffs next year and following the end of the export tax rebate for copper products could provide an upside risk to prices in the first quarter.

We think prices will trend down from there as US tariffs are likely to come into effect from late second quarter and early third quarter. We see an average of $8,900/t in 2025. However, Trump’s tariffs could trigger bigger stimulus from China, capping the downside to copper prices next year.

ING forecast

	1Q25	2Q25	3Q25	4Q25	2025
LME Copper (US$/t)	9,100	8,900	8,700	8,900	**8,900**

Source: ING Research

Aluminium deficit to support prices in 2025

We expect the global aluminium market to return to a deficit in 2025 on slower output growth, supporting prices at higher levels

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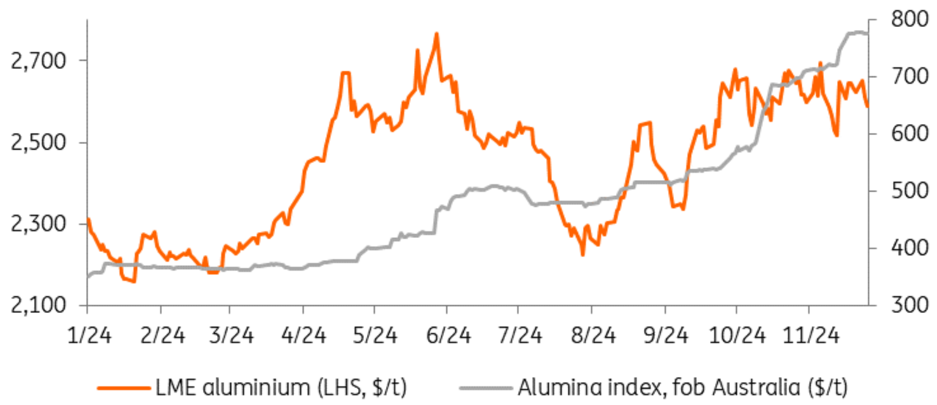
Aluminium gets a boost from alumina

Aluminium prices have risen lately, driven by record high alumina prices. Alumina prices jumped to a record this year, squeezing profitability for smelters. Prices for the raw material doubled this year, driven by a series of supply chain disruptions from Australia to Jamaica amid a steady increase in demand driven by record aluminium production in China.

The cost of alumina now accounts for more than half of the cost of making aluminium, compared with a usual level of between 30% and 35%, according to some producers. The tightness in the alumina market is likely to continue into early 2025 – although new capacity ramp-ups in Indonesia and China are expected to ease pressure later in the year.

Supply worries have helped to mitigate the impact of the stronger dollar for aluminium following Donald Trump's win in the US presidential election.

Alumina hits record highs sparking aluminium supply fears



Source: LME, Fastmarkets, ING Research

Most recently, Rusal said it will cut its aluminium output by up to 500,000 tonnes due to the soaring cost of alumina. The first stage of its "production optimisation programme" is expected to reduce output by 250,000 tonnes, equivalent to around a 6% cut in production. The Russian producer has its own sources of alumina, but it still gets more than a third of its raw material supplies from the open market. Rusal is the biggest producer of aluminium outside of China; it produced around 3.8 million tonnes of the metal in 2023.

Sanctions, self-sanctioning and tariffs continue to limit destinations for Russian metal, with flows mostly continuing to China. China imported 263,000 tonnes of primary aluminium from Rusal in the first three quarters this year, accounting for 33% of the total imports from Russia this year. We expect this trend to continue in 2025.

Market will tighten in 2025

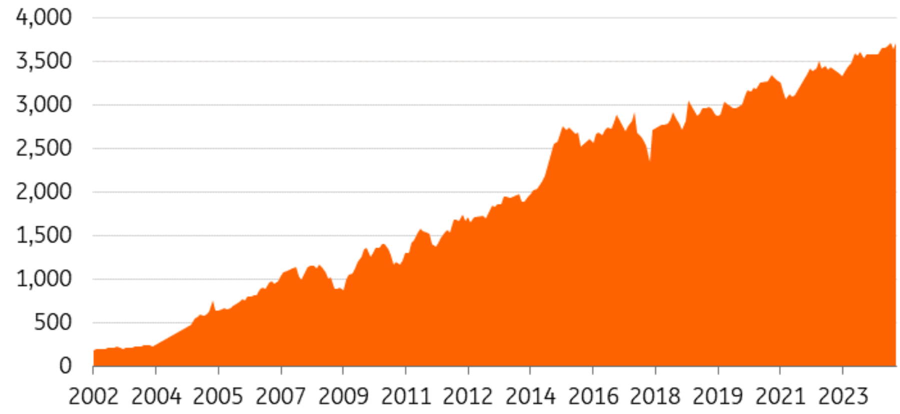
The surplus in the global market is tightening this year, and we see the market returning to a small deficit next year.

We see consumption slowly starting to recover as interest rates fall, while production restarts will be subdued. This will give support to a higher aluminium price.

In China, aluminium output is hitting record highs. The production rate is closing in on Beijing's 45 million tonnes annual capacity cap (currently running at around 43 million tonnes) following ample rainfall this year, which has enabled full capacity operations in the hydro-powered Yunnan province after a few consecutive years of output cuts. This leaves limited further growth potential for Chinese production. China's capacity cap also means that the country remains a net importer of aluminium.

China is nearing its cap on domestic aluminium production

China primary aluminium output, kt



Source: National Bureau of Statistics, ING Research

Restarts have begun in Europe, but significant capacity remains offline. Europe's aluminium sector was one of the worst affected industries during the energy crisis, with more than one million tonnes per annum taken offline.

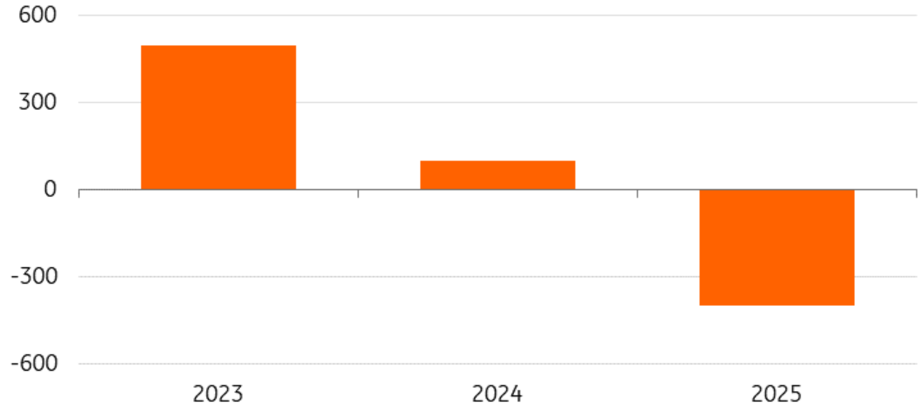
We don't expect any new restarts to be announced soon in Europe or the US amid high alumina prices and with demand recovery still uncertain, particularly in Europe. The readings for the eurozone's PMIs remain in contractionary territory, indicating ongoing weakness in the construction and transport sectors. The transition to EVs has also slowed down in the region due to cutbacks and delayed future battery and EV projects.

We expect the global market to be in a deficit of around 400kt tonnes in 2025 following a surplus of around 100kt tonnes in 2024.

Potential disruptions to output in China due to a lack of hydropower – and/or slower-than-expected capacity restarts outside of China due to high alumina prices and lower aluminium prices – provide upside risks to this view.

Modest deficit will support prices in 2025

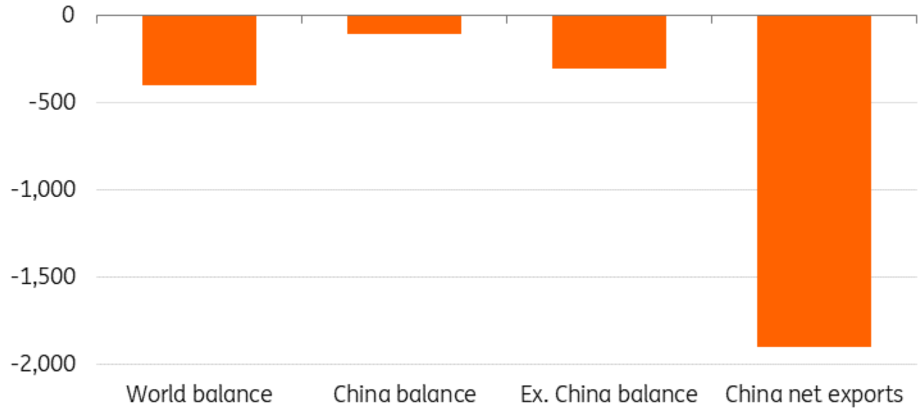
World aluminium market balance, kt



Source: IAI, WBMS, ING Research

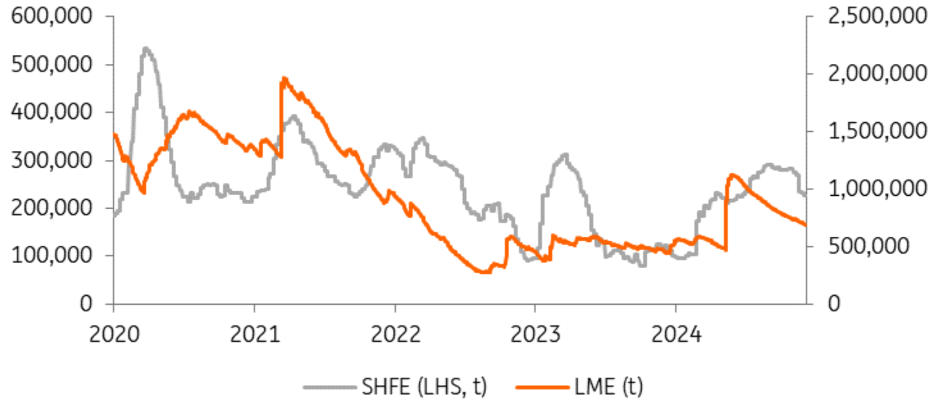
2025 aluminium market balance

(kt)



Source: IAI, WBMS, ING Research

LME and SHFE inventories trends diverge



Source: LME, SHFE, ING Research

While LME inventories have been trending lower, supporting higher aluminium prices, stock levels in China have been more stable. Beijing's latest policy on the removal of the removal of the aluminium products export tax rebate could mean even more domestic supplies. This would be negative for the Shanghai Futures Exchange (SHFE) aluminium price. The removal of the tax rebate, which was introduced to support China's sales abroad, could ease industrial capacity that has caused trade tensions with the US and Europe after aluminium smelters closed globally due to excess supply, low prices, and high energy costs. It could also be seen as a strategic move in the context of trade tensions following Trump's win in the US elections, which China might use as leverage in trade negotiations.

The tax rebate was also removed or lowered for copper, some refined oil, solar, battery and non-metallic mineral products. Aluminium has been the most sensitive to the change, given the importance of Chinese exports of the metal to the global market. Last year, China's exports of aluminium semi-finished products were equivalent to around 7% of the global aluminium products.

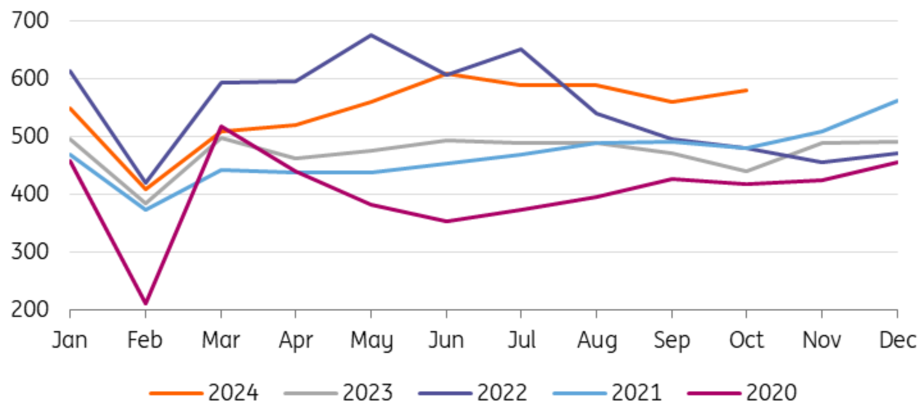
In the short term, the removal of the tax is likely to restrict flows from China and increase prices. However, with the capacity for output growth elsewhere limited, Chinese producers could have room to pass on tax costs to international customers.

In the domestic market, reducing exports of aluminium products could help ease the tightness in the aluminium supply chain. China's production is closing in on the annual capacity cap, ensuring the country's self-sufficiency over the coming years when demand from the green energy sector is expected to increase. China has more than 80% of the world's solar manufacturing capacity. The International Energy Agency (IEA) expects China to account for almost 60% of the world's renewable energy capacity installed between 2024 and 2030.

In the longer term, this policy change could lead to further shifts in global trade dynamics, benefiting other commodity producers as countries try to diversify their raw material source dependencies on China.

China's overseas aluminium sales have soared

China exports of unwrought aluminium and products (kt)



Source: China Customs, ING Research

China and US will be key to global demand

With demand in Europe likely to remain weak next year, in particular from the construction and automotive sectors, China and the US will be key for the global aluminium demand picture. China accounts for 60% of global aluminium demand, while US accounts for around 8%.

In China, the property market remains a drag on demand. Without further stimulus measures, there is little hope for a near-term recovery for the property and construction sectors. Unsold housing inventories remain high, and sales have been slow. As long as inventories remain elevated, new investment and building activity will remain depressed, and the drag on growth will persist. The low level of housing starts will also continue to weigh on aluminium and copper demand looking ahead, given the lag between starts and metals usage. A recovery in completions usually lags two to three years behind the growth in starts.

But if Chinese stimulus is more powerful than anticipated, this will provide an upside to aluminium prices.

Meanwhile, demand in the US might weaken if we see policies centred around renewable energy and electric vehicles becoming less favourable under the new administration.

On the upside, the beginning of the monetary easing cycle will support aluminium prices, with lower rates easing borrowing costs for manufacturers. There is a risk, however, that if US inflation is more persistent – or even rebounds – fuelled by increases in tariffs, this could lead to delayed or higher interest rate cuts from the Federal Reserve. Delays in rate cuts would set a recovery in building and construction sectors further back, negatively impacting aluminium demand.

The timing as well as the scope of the US tariffs and the speed and the strength of Chinese stimulus measures will be key for aluminium and other industrial metals demand next year.

Tariffs will have an impact

US President-elect Donald Trump has threated to impose additional tariffs of 10% on Chinese goods and 25% levies on imports from Mexico and Canada. Aluminium is likely to be most impacted by potential tariffs on Canadian imports.

The US imports about 70% of its aluminium from abroad, with around 60% coming from Canada. Tariffs would result in higher aluminium prices in the US, representing a significant upside risk to the US Midwest premium next year.

Meanwhile, the US has minimal direct exposure to China's aluminium, with tariffs and trade actions in recent years reducing China's desirability as a trading partner when it comes to aluminium products. In 2023, US aluminium imports from China reached their lowest point since 2012, accounting for only 3% of the total imports share. US tariffs on imports of Chinese aluminium currently stand at 25%.

Prices will recover in 2025

With the global market tightening, we believe aluminium prices will find higher levels of support in 2025. High alumina prices provide an upside risk to our forecast.

However, downside risks remain in the market. Geopolitical tensions are lingering, and supply chains and trade flows are likely to shift over the next year. A continued trade war could be another drag on demand in the long term. We see prices averaging $2,625/t in 2025.

ING forecast

	1Q25	2Q25	3Q25	4Q25	2025
LME Aluminium (US$/t)	2,700	2,650	2,600	2,550	**2,625**

Source: ING Research

Downside risks persist for nickel amid supply glut

Nickel has been the worst-performing metal on the LME so far this year, with prices down around 3% year-to-date. We believe this underperformance is likely to continue – at least in the near term – amid weakening demand and a sustained market surplus

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Indonesia drives supply growth

A surge in output in Indonesia has dragged nickel lower over recent years, and demand from the stainless steel and electric vehicle batteries sectors continues to disappoint. Nickel prices recently hit their lowest point since 2020.

Nickel smelting has expanded in Indonesia since the government imposed a permanent ban on nickel ore exports in January 2020 in a drive to attract foreign investors, encourage domestic processing and further downstream use of its materials. The ban has enticed foreign investors, mainly from China, to build local smelters and has helped to boost the value of Indonesia's exports. Indonesia now accounts for more than half of global nickel output.

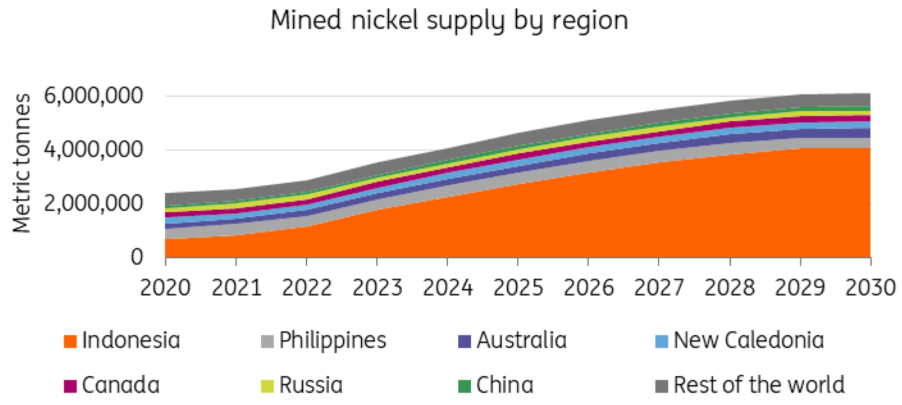
Indonesia hosted 44 nickel smelter operations as of September this year, compared to three nickel smelters in 2014, according the country's Directorate General of Mineral and Coal.

Indonesian officials said they expect the market to hold near current levels as new plants start up. In more recent comments, Indonesia's Minister of Energy and Mineral Resources, Bahlil Lahadalia, said the country will manage the amount of nickel ore produced domestically to balance supply and demand.

Tight nickel ore availability – due to government licensing issues, declining ore grades and a higher level of rainfall in the early part of the year – has contributed to a tighter domestic nickel ore market this year in Indonesia. In turn, this has forced some primary nickel producers in Indonesia to import nickel ore from the Philippines, the world's second-largest mined nickel producer. The issues with the Indonesian mining production and sales quotas, known as RKAB, have persisted since the start of the year.

Shipments of nickel ore into Indonesia increased 57 times to 9.3mt in the first 10 months of the year from the 161,917t in the corresponding period of 2023, data from the country's statistics bureau shows.

Indonesia's share of the nickel market continues to grow
Mined nickel supply by region (metric tonnes)



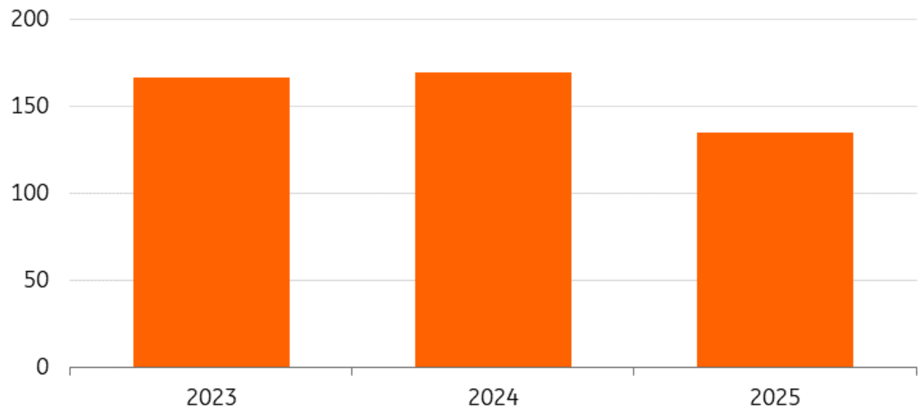
Source: BNEF, INSG, company reports, ING Research

Indonesia's supply boom has already forced several mines to close. The nickel market this year has seen a number of announcements of mine suspensions and closures from producers struggling amid low nickel prices. In Australia, First Quantum Minerals placed its Ravensthorpe nickel mine on care and maintenance, and BHP Group suspended its Nickel West operations and West Musgrave nickel project.

Despite the mine supply cuts this year, rising primary nickel from Indonesia will keep the market in surplus next year. The surplus is mostly in Class1 due to strong supply growth in China and Indonesian cathode production. The Class 2 market is much tighter on the back of lower-than-expected growth in Indonesian nickel pig iron (NPI).

The world primary nickel market is expected to be in a surplus of 170kt in 2024. The surplus will lessen next year, however, totalling 135kt (according to INSG data). Meanwhile, world primary nickel production is forecast to reach 3.515mt in 2024 and 3.649mt in 2025. It's worth noting that there is a risk of more production shutdowns if prices stay low.

Nickel market heading for another surplus in 2025
Nickel market balance (kt)



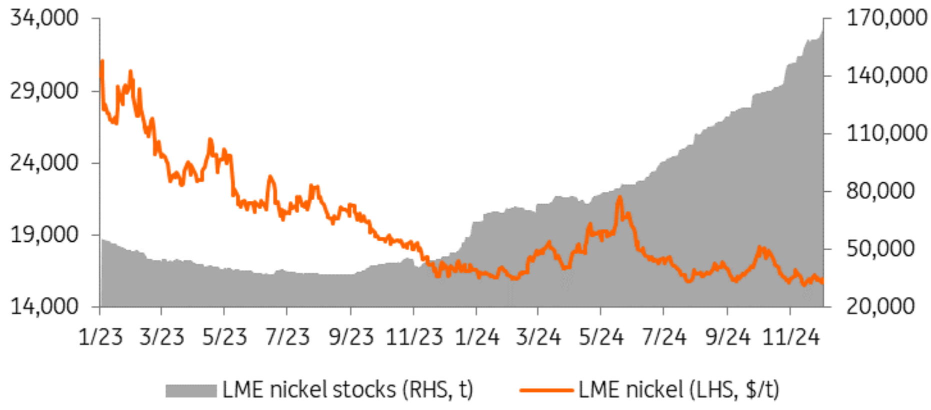
Source: INSG, ING Research

The recent supply curtailments also limit the supply alternatives to the dominance of Indonesia, where the majority of production is backed by Chinese investment. This comes at a time when the US and the EU are looking to reduce their dependence on third countries to access critical raw materials, including nickel.

In the US, the incoming Trump administration could make the US Inflation Reduction Act's foreign entity of concern (FEOC) guidance stricter. The guidance states that any company with at least 25% ownership held directly or indirectly by a “covered nation”, of which China is one, is a FEOC and as a result ineligible for the Act’s $7,500 EV tax credit. Indonesia has been trying to reduce China-based ownership of new nickel projects to help its nickel sector qualify for the IRA tax credits. Tighter FEOC rules would create more issues for nickel supply chains and would be an obstacle to Indonesia’s goal of expanding its export market to the US. If the rules are tightened, it would mean that Indonesian primary and intermediate nickel products will continue to be largely exported to China.

We don't believe that the 2025 supply and demand outlook is supportive of a significant rise in nickel prices.

Class 1 surplus reflected in rising exchange stocks



Source: LME, ING Research

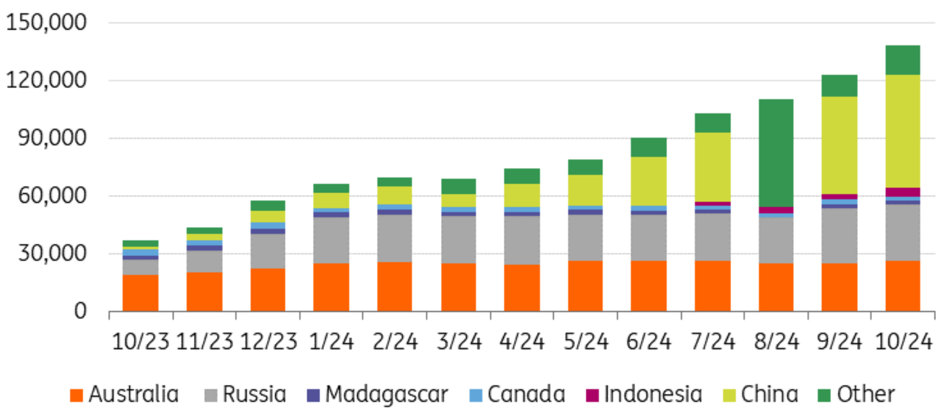
LME stocks keep rising

The surplus in the Class 1 market is reflected in the rising exchange stocks. LME data showed more refined Class 1 nickel from China and Indonesia being delivered in October. The LME saw first deliveries from Indonesia into the exchange’s warehouses in July this year following the LME’s approval of Indonesian brands.

Most of the inflows have come from China, which in July shifted to a net exporter of primary nickel. Further inflows of Chinese and Indonesian metal into the exchange’s sheds could put additional downward pressure on the LME’s nickel prices.

More China, Indonesia material arrives in LME stocks

(tonnes)



Source: LME, ING Research

Demand faces headwinds

Demand from stainless steel – the biggest market for the metal – has mostly disappointed this year. China's economic growth has slowed in 2024, dragged down by tepid consumer demand and a slump in the real estate sector, which has weighed on demand for nickel.

China's latest official PMI data showed that manufacturing activity in the country has only just returned to expansionary territory, with a reading of 50.1. The last time the PMI was above the 50-point line that determines contraction from activity was in April, with a reading of 50.4 This rebound was mostly attributed to government stimulus measures introduced in September, including interest rate cuts and targeted support for the property sector. The sector remained in expansionary territory in November. Its recovery, however, remains slow.

Uncertainties remain as to whether or not the recent trend can be sustained and if the recent stimulus measures will translate into higher stainless output.

Nickel demand is also facing headwinds from the batteries sector due to slower electric vehicle (EV) sales, the pick-up of lithium iron phosphate (LFP) batteries and an increase in demand for plug-in hybrid EVs at the expense of battery EVs. Batteries now account for around 17% of total nickel demand, behind stainless steel.

Looking into next year, global consumption of nickel is expected to increase to 3.514mt from 3.346mt in 2024 (INSG). However, supply growth from Indonesia will remain strong and more than sufficient for meeting demand growth, keeping the market in a surplus next year.

Prices to remain under pressure

We forecast nickel prices to remain under pressure next year as the surplus in the global market continues. We see prices averaging $15,825/t in 2025, with the main upside revolving around stronger stainless steel output and/or restricted ore supply from Indonesia. The main downside risk to our view would be a slower uptake of EVs and a potential of a reversal of some of the EV incentives in the US during Trump's second presidential term.

ING forecast

	1Q25	2Q25	3Q25	4Q25	2025
LME Nickel (US$/t)	16,000	15,800	15,500	15,500	**15,700**

Source: ING Research

Iron ore set to struggle amid subdued steel demand

Iron ore has been the worst-performing industrial metal this year, with prices down more than 20% year-to-date in November. We believe downside risks are likely to prevail in 2025 amid subdued steel demand

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China slowdown weighs on iron ore

Iron ore is among the most vulnerable to China's slowdown risks, as the country's property market constitutes the bulk of steel demand.

China, the world's biggest consumer of iron ore, has continued to act as a drag on demand this year. A broad economic slowdown and, in particular, the crisis in the property sector have weighed on iron ore and other industrial metals. The property sector accounts for about 40% of demand for iron ore. We've seen plenty of property support measures this year but so far, they have failed to provide any meaningful impact on metals demand.

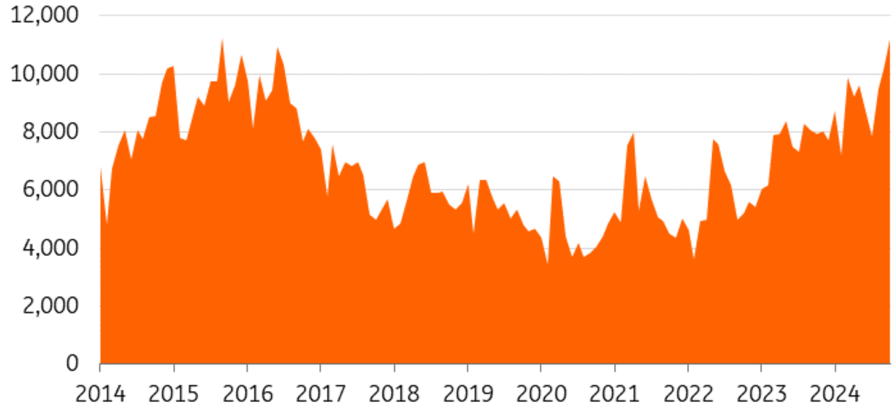
In September, Beijing released a slew of stimulus measures – its largest stimulus package since the Covid-19 pandemic, including interest rate cuts and targeted support for the property sector.

China's new home starts – the biggest steel demand driver – have continued to fall, now down more than 20% year-to-date. This should continue to suppress steel demand in 2025. The country's recent stimulus policies have focused on clearing property inventories rather than boosting new starts, and this will limit the impact on steel demand as it requires new construction rather than clearing unsold stock.

A subdued domestic market has spurred exports this year. China's steel exports have hit their highest level since 2016, with volumes up more than 20% so far this year. This is, however, likely to slow down moving forward, with more countries globally imposing restrictions or conducting anti-dumping investigations against Chinese steel products. This would prove a further drag on iron ore demand.

The increase in exports has also been fuelled by a slump in domestic prices. Rebar and hot rolled coil collapsed to the lowest level seen since 2017.

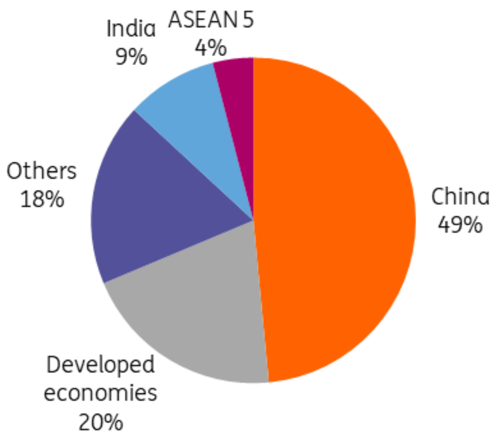
China steel exports highest since 2016
(kt)



Source: China's General Administration of Customs, ING Research

China's domestic steel demand is expected to fall 3% this year to about 869 million tonnes – a fourth year of declines, even as the rest of the world posts growth of 1.2% to 882 million tonnes (according to the World Steel Association). China's share of global steel demand will account for less than half of global steel consumption for the first time in six years (World Steel Association). That share will shrink further in 2025, according to the Association, as the end of China's decades-long infrastructure and property boom reshapes the country's steel consumption. Instead, Beijing is focusing on high-tech manufacturing and green technologies to power the economy.

China's share of global steel demand will fall below half
Projection for 2025 from World Steel Association

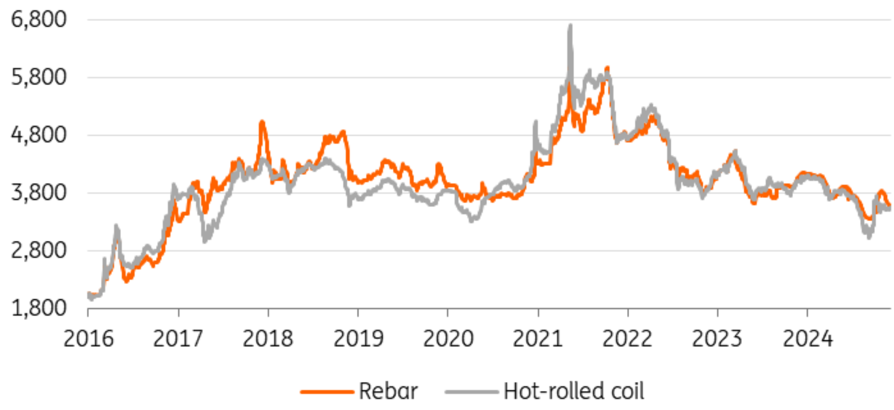


Note: ASEAN 5 comprises Indonesia, Malaysia, Philippines, Thailand, Vietnam
Source: worldsteel, ING Research

China's steel industry has raised alarm about how tough conditions can become. Baowu Steel Group, the world's largest steelmaker, warned that the steel sector was facing a long, cold winter that could be worse than previous steel crises of 2008 and 2015.

China steel prices slump

Yuan per tonne



Source: Shanghai Steelhome E-Commerce, ING Research

The continued weakness in the property sector in China remains the main downside risk to our outlook for iron ore.

We believe iron ore remains dependent on economic stimulus from China. With the recovery path for China still bumpy, the market will remain sensitive to Chinese policies and prices are likely to remain volatile. Until the market sees signs of a sustainable recovery and economic growth in China, we think we'll struggle to see a long-term move higher for iron ore prices.

Supply from majors increases

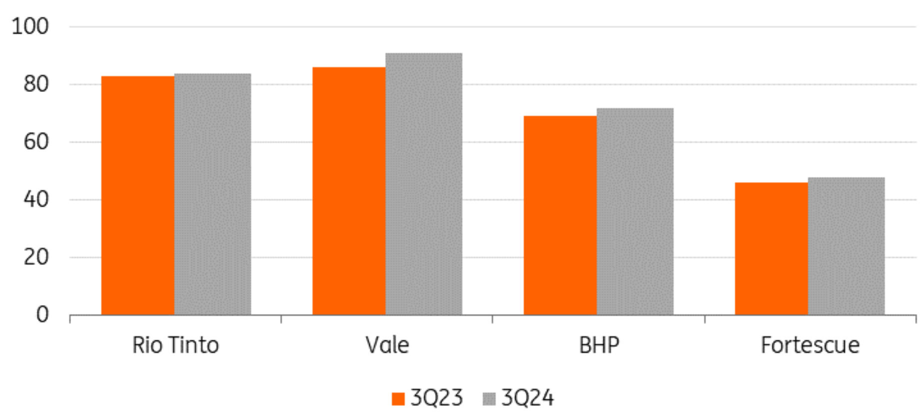
Healthy production from the four iron ore majors compared to a year ago has pressured prices lower and also helped to keep port stocks in China at high levels.

Total iron ore production from the top four iron ore producers – Vale, Rio Tinto, BHP and Fortescue – reached 259 million tons in the first half of the year, up 1.4% from the first half of the year in 2023. Production in the third quarter also saw an increase compared to the same period a year ago. Heading into 2025, major producers are looking to maintain their production levels.

We believe that with the supply side largely stable, it will be demand in China that continues driving iron ore prices going forward.

All majors report higher Q3 production

(Mt)



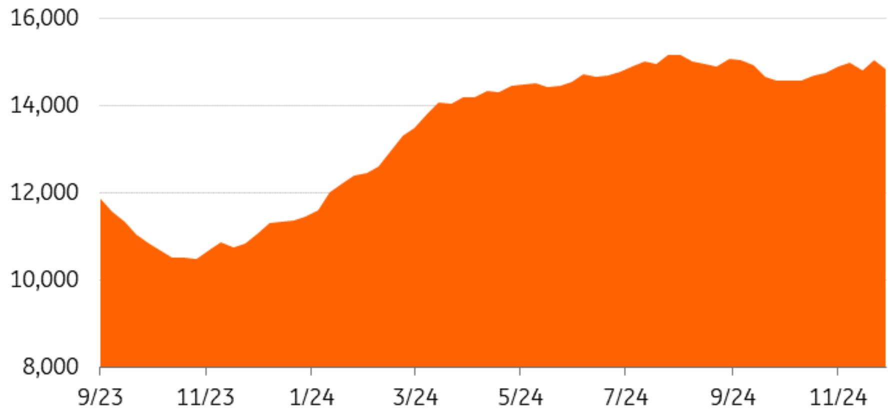
Source: Company reports, ING Research

High iron ore stocks pressure prices

Iron ore port holdings in China have continued to rise, back above 150 million tonnes and standing at their highest ever for this time of year in a sign of abundant seaborne supplies. China's iron ore port inventory is a key indicator that reflects the supply and demand balance, as well as the safety net and imbalance between the iron ore supply and the steel mill demand.

China iron ore inventories remain elevated

(kt)



Source: Steelhome, ING Research

Iron ore imports have also been increasing, up 6% in the first half of the year compared to the first half of 2023. In October, China imported 103.8MMt, staying above the 100MMt per month level for eight of the 10 months to date this year. However, Chinese demand growth may be insufficient to absorb the extra imports. We believe high iron ore availability in China will continue to put pressure on prices.

Risks skewed to the downside

We expect iron ore prices to remain under pressure in 2025 amid a combination of a bearish demand outlook for steel, ongoing strong shipments and elevated port inventories of iron ore.

We believe China will continue to drive iron ore prices going forward, and the supply and demand balance will largely depend on the country's steel demand outlook. A further boost for China's property sector will be crucial in supporting demand.

We see stronger prices in the first quarter, supported by restocking ahead of the Lunar New Year holiday in late January – although the support might be limited given the already high existing inventories in China.

Prices will trend down from there to average $90 in the fourth quarter. We see a 2025 average of $95/t.

ING forecast

	1Q25	2Q25	3Q25	4Q25	2025
Iron ore 62% (US$/t)	100	95	95	90	**95**

Source: ING Research

Gold's rally isn't over just yet

Gold has had a record-breaking rally this year, supported by the Fed's easing cycle, central bank purchases and safe-haven demand amid heightened geopolitical and economic risks. We believe the bullish macro picture combined with safe-haven demand and central bank buying will continue to drive gold to new highs in 2025

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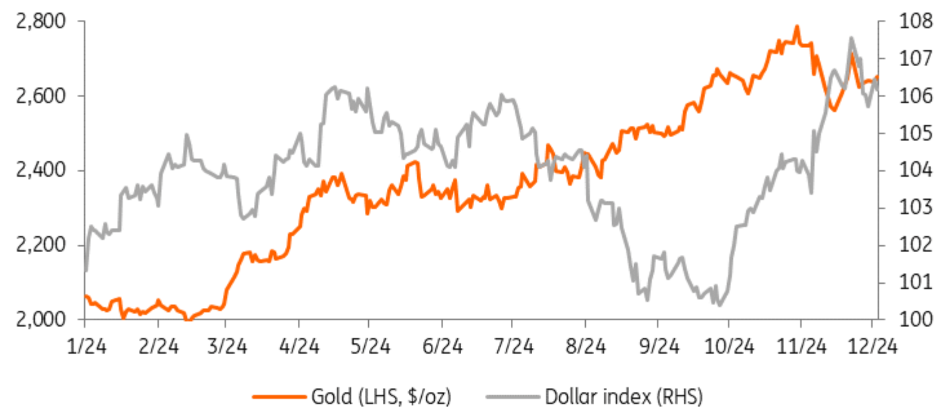
Gold sees new highs in 2024 amid Fed rate cut, Middle East tensions



Source: Refinitiv, ING Research

Gold has been one of the best performers among major commodities this year. The precious metal has surged more than 25% year-to-date, hitting a series of records on the way, supported by rate-cut optimism, strong central bank buying and robust Asian purchases. Safe-haven demand amid heightened geopolitical risks as well as uncertainty ahead of the US election in November have also supported gold's record-breaking rally this year.

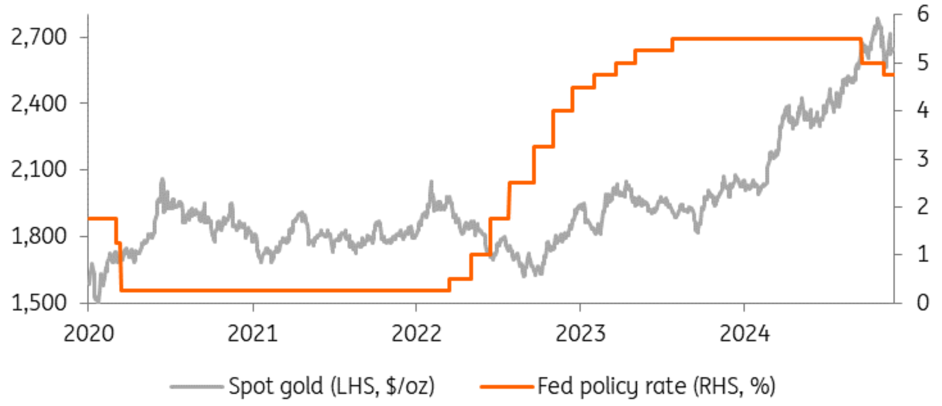
US rate cuts boost gold

The Federal Reserve implemented its highly-awaited interest rate cut on 1 September, its first since March 2020, clipping rates by 50bp and providing a tailwind to gold prices. Another 25bp came at the Fed's November meeting, leaving the target range for the federal funds rate at 4.5-4.75%.

Lower borrowing costs are positive for gold as the metal doesn't pay interest. The Fed has held its key policy rate in a target range of 5.25% to 5.5% – the highest level in more than two decades – since last July.

The main question for the gold market now is the pace at which the Fed will ease its policy following Donald Trump's win in the US presidential election; the inflationary impact of Trump's policies could lead to fewer rate cuts than previously expected. Our US economist, James Knightley, thinks that the US central bank will cut by 25bp again in December – but the outlook thereafter is less clear, and there is a strong chance of a pause at the January FOMC meeting. Rather than cutting rates by 50bp per quarter, he now favours 25bp per quarter from the first quarter of 2025, with rates perhaps bottoming higher than he previously thought at 3.75% in the third quarter of 2025.

Lower borrowing costs are positive for gold



Source: Federal Reserve, Refinitv, ING Research

Central banks are still bullion hungry

Central banks have continued to boost their gold reserves, although the pace of buying slowed in the third quarter, with high prices deterring some buying. The National Bank of Poland (NBP) was again the largest buyer in the third quarter, adding 42 tonnes to gold reserves and lifting gold holdings to 420 tonnes, or 16% of total reserves. NBP Governor Adam Glapinski reiterated again the bank's aim to increase gold's share of currency reserves to 20%.

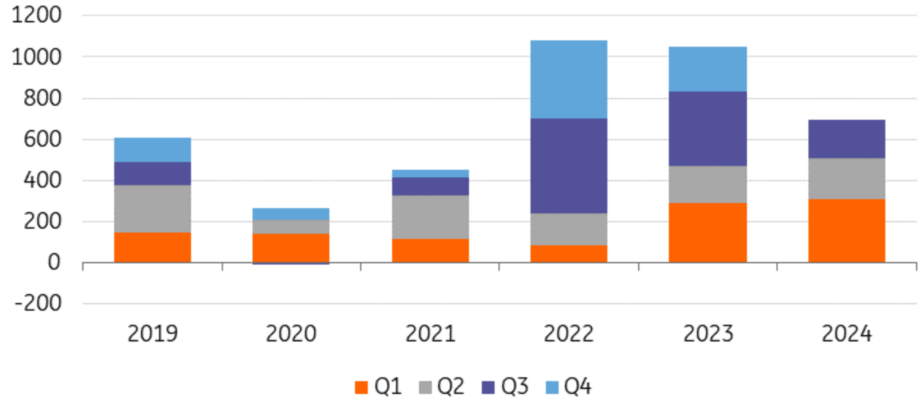
The Reserve Bank of India (RBI) continued its 2024 buying streak, adding gold to its reserves in every month during the quarter. It bought a total of 13 tonnes in the third quarter. Its gold reserves have now risen to 854 tonnes, 6% higher than at the end of 2023.

Meanwhile, the People's Bank of China (PBoC) didn't add gold to its reserves for the sixth month straight in October. Bullion held by the PBoC was unchanged at 72.8 million troy ounces at the end of last month, according to official data. China has seen a slowdown in gold purchases over recent months. China's central bank ended an 18-month buying spree in May that had driven gold prices to all-time highs. Still, the central bank's year-to-date total remains strong, primarily boosted by the record-breaking start to the year, with third-quarter net purchases of 186 tonnes lifting it to 694 tonnes – below the 2023 record but in line with the same period of 2022.

In 2023, central banks added 1,037 tonnes of gold – the second highest annual purchase in history – following a record high of 1,082 tonnes in 2022, as geopolitical concerns pushed central banks to increase their allocation towards safe assets. Central banks' healthy appetite for gold is also driven by concerns from countries about Russian-style sanctions on their foreign assets in wake of decisions made by the US and Europe to freeze Russian assets, as well as shifting strategies on currency reserves.

While central bank buying remains strong this year, it is now looking likely that the full-year total will fall short of that seen over the previous two years.

Annual central bank demand likely to fall short of previous two years
Annual central bank purchases by quarter (tonnes)



Source: WGC, ING Research

Looking ahead into next year, we expect central banks to remain buyers due to geopolitical tensions and the economic climate.

A World Gold Council survey conducted in April 2024 found that 29% of central bank respondents intend to increase their gold reserves in the next 12 months.

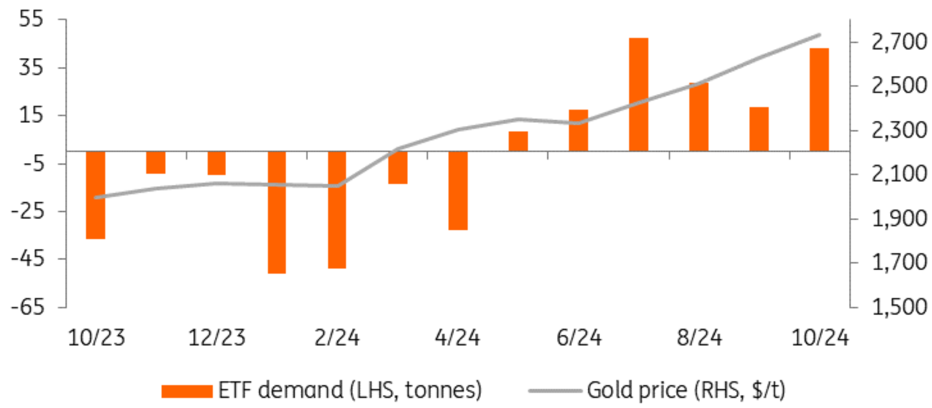
ETFs will see more inflows

Global gold ETFs have seen inflows for six months in a row, supported by North America and Asian flows.

Investor holdings in gold ETFs generally rise when gold prices gain, and vice versa. However, gold ETF holdings have been in decline for much of 2024, while spot gold prices have hit new highs. ETF flows finally turned positive in May.

However, the beginning of November saw a slide in ETF holdings after the US election. Still, looking ahead into 2025, we believe inflows should continue as the Federal Reserve continues to cut rates.

ETF holdings have been rising since May



Source: WGC, ING Research

Rally not over yet

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.

In the longer term, Trump's proposed policies – including tariffs and stricter immigration controls, which are inflationary in nature – will limit interest rate cuts from the Federal Reserve. A stronger USD and tighter monetary policy could eventually provide some headwinds to gold. However, increased trade friction could add to gold's haven appeal. We see prices averaging $2,760/oz in 2025.

ING forecast

	1Q25	2Q25	3Q25	4Q25	2025
Spot gold (US$/oz)	2,800	2,800	2,750	2,700	**2,760**

Source: ING Research

Why the corn market is set to tighten

US corn area is set to increase in 2025 and 2026. However, global ending stocks are still forecast to fall, which means some modest upside to prices through 2025. We see an escalation in trade tensions as a key risk to this view

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Global ending stocks edge lower in 2024/25

The global corn balance is forecast to tighten over the 2024/25 season. Global ending stocks this season are estimated to fall by a little more than 10mt year-on-year to 304mt, which would be the lowest ending stocks since the 2020/21 season. The move is largely driven by the supply side, where global output is expected to fall by 9.7mt YoY. Large declines are estimated in the US, EU and Ukraine, driven by a combination of lower area and weaker yields.

Despite the global corn market tightening in the current marketing year, prices are still down on the year as corn yields in the US surprised to the upside, partly offsetting the lower plantings seen in 2024/25.

For the 2024/25 season, area estimates for US corn have remained largely stable at around 90m acres. However, there have been revisions higher in yield estimates. They've risen from 181bu/acre earlier in the year to a little over 183/bu/acre currently – a record high and up from 177.3bu/acre in 2023/24. As a result, estimates for the domestic US crop have grown by more than 280m bushels (7.1mt). This leaves this season's output at 15.14b bushels (385mt), down from a record high of 15.3b bushels (390mt) produced in 2023/24.

Corn production in the EU has been under pressure this year. Output is estimated at 58.8mt, down 4.3% YoY and the third smallest corn harvest over the last decade. This has been largely driven by central and eastern Europe, where weather has weighed on yields. As a result, the EU has relied more on imports this season.

Ukrainian corn production has also suffered in the 2024/25 season, with dry weather weighing heavily on yields. Domestic output is estimated to total 26.2mt, down 19% YoY and the lowest production level since the 2017/18 season.

In Brazil, 2024/25 summer corn plantings are nearing completion, although the second crop is a larger contributor to total production in the season. Total Brazilian corn production is expected to hit 127mt in 2024/25, up 4% YoY, driven by a combination of larger area and stronger yields YoY. However, how the crop performs will also depend on how quickly the soybean crop is harvested, allowing for the planting of the second corn crop.

2025/26 corn balance looking tighter

Our early forecasts suggest that despite a recovery in EU and Ukrainian corn production in the 2025/26 season, global corn stocks will likely edge down towards 290mt next season due to lower US output (with yields returning to more normal levels) and global consumption growth. However, much will depend on how the weather through the spring and summer develops, while trade policy will also be important. The tightening in the balance suggests that there is upside for corn prices through next year and we expect CBOT corn to average US$4.50/bu. However, limiting the upside is the fact that the stocks-to-use ratio is still forecast to be relatively comfortable at more than 23% (vs just under 25% this year), while uncertainty over broader trade policy through 2025 is unlikely to help sentiment.

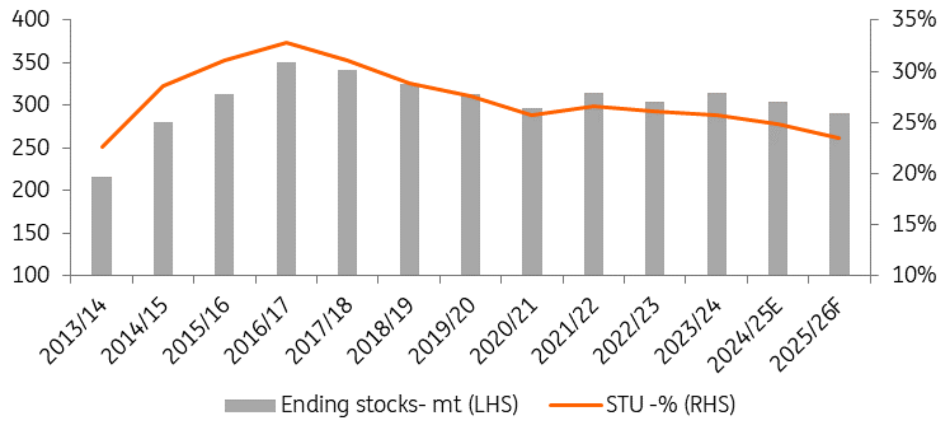
The market will be paying closer attention to 2025 spring planting prospects. And despite the broader weakness seen in the corn market this year, US farmers are expected to increase corn area for next season. The soybean/corn ratio for next year's crop is trading in territory where farmers should favour corn over soybeans. The planted corn area is expected to grow by 1.4% YoY and assuming yields aligned with the five-year average (below the record yields seen in 2024/25) would mean that US production still falls year-on-year.

This will, however, be highly weather-dependent. Furthermore, given the potential for further trade tensions throughout the year, there is the risk that farmers increase corn and reduce soybean plantings, given that soybeans would likely be more exposed to a ratcheting up in trade tensions with China.

For the EU, we forecast somewhat of a recovery in corn output assuming a marginal increase in area and yields recovering to somewhere closer to the five-year average. We expect output in the EU to grow by around 5% YoY to 61.7mt.

In Ukraine, early estimates suggest that area in 2025/26 will increase by around 7% YoY. This larger area coupled with yields in line with the five-year average would mean that Ukrainian corn output hits 30mt, up almost 15% YoY.

Global corn stocks set to continue trending lower

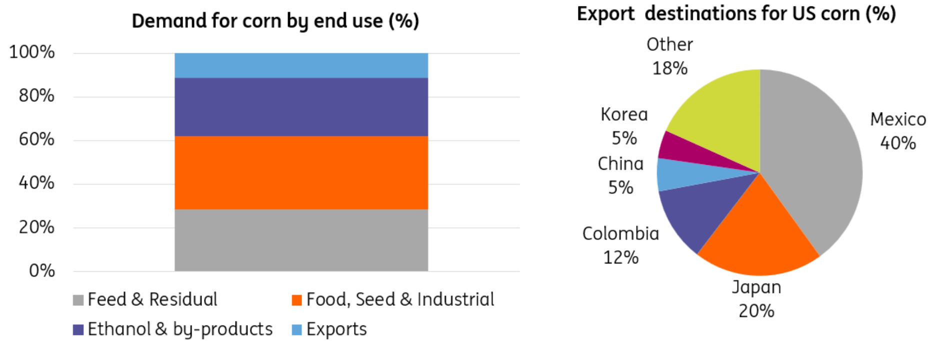


Source: USDA, ING Research

How exposed is US corn to trade tensions?

An escalation in trade tensions could have ramifications for the US corn market. However, US corn is less exposed than soybeans and wheat, with a smaller proportion of production exported. Still, in absolute terms, the volume of corn exports exceeds both soybean and wheat export volumes. US corn is also relatively more exposed to China than it was during the 2018 trade war. Back in the 2017/18 season, less than 1% of US corn exports ended up in China. However, in 2023/24, this share grew to 5%. We think this should still be manageable. The bigger risk for US corn would be escalation with Mexico, given that it's the largest destination.

US corn less exposed to escalation in trade tensions



Source: USDA, ING Research

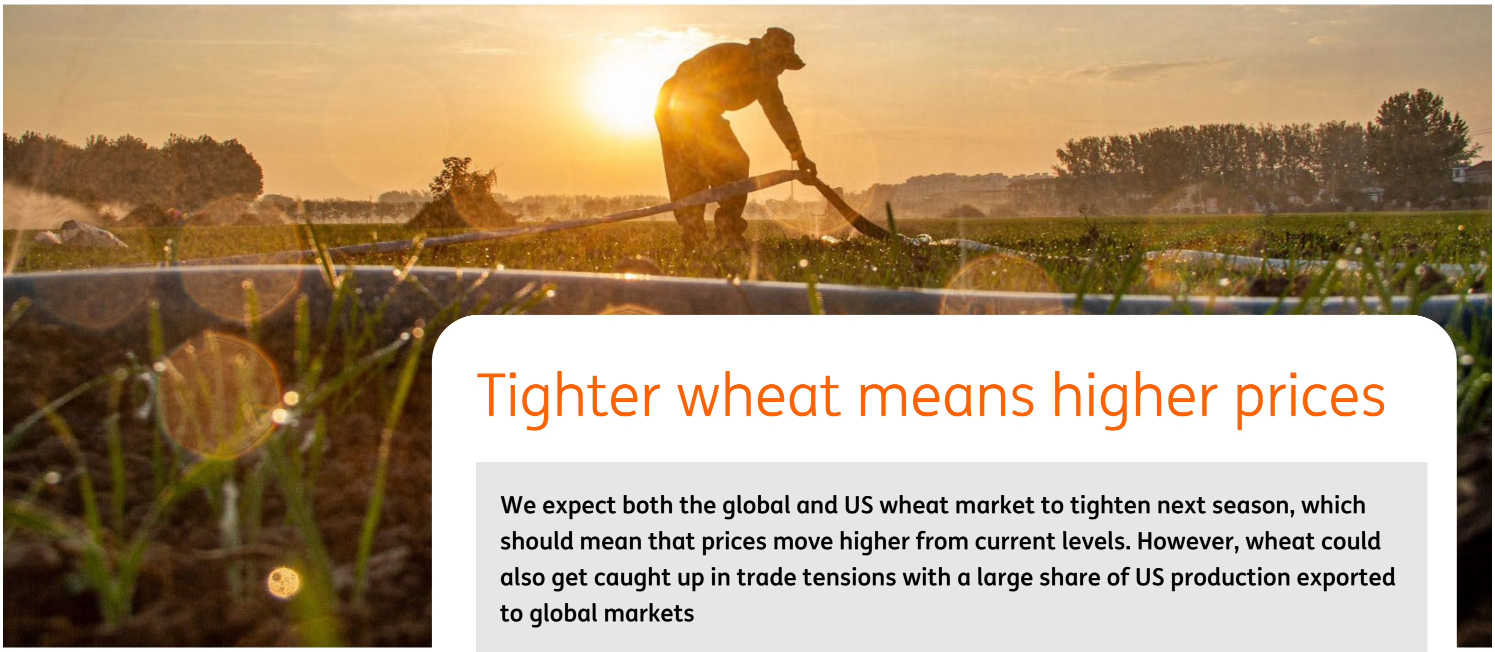
Secondly, if President-elect Donald Trump's aggressive trade agenda starts soon after he enters office, it could very well see US farmers adjusting their planting plans for 2025/26, as they would have time to react ahead of spring plantings. With 55% of US soybeans going to China, farmers may decide to reduce these plantings, which could result in larger corn area, potentially loosening up the global corn balance.

In addition, trade frictions may not be isolated solely to China. Trump has threatened tariffs for all trading partners, which increases the risk of broader retaliatory tariffs on US agricultural exports.

ING forecasts

	1Q25	2Q25	3Q25	4Q25	FY25
CBOT Corn (USc/bu)	425	430	460	480	**450**

Source: ING Research



Tighter wheat means higher prices

We expect both the global and US wheat market to tighten next season, which should mean that prices move higher from current levels. However, wheat could also get caught up in trade tensions with a large share of US production exported to global markets

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Wheat market tightens over 2024/25

The global wheat market is set to tighten over the 2024/25 season, with ending stocks falling 3.3% year-on-year to less than 258mt, which if realised would be the lowest ending stock number since the 2015/16 season. Despite the expectation of a tighter market, CBOT wheat prices have still come under pressure this year. This is likely due to the fact that the US market is expected to be looser over 2024/25, with ending stocks this season estimated to grow 17% YoY to 815m bushels (22mt).

However, European wheat prices have held up relatively better due to the EU crop falling to its lowest level since the 2007/08 season. Output is estimated to have fallen 9% YoY to less than 123mt. Weather conditions in winter 2023 weighed on EU plantings and yields have also not performed, which has hit output heavily. This has been largely driven by the EU's largest producer, France.

Another key producer which has seen a large decline in output this season is Russia. Production is estimated to have fallen 11% YoY to 81.5mt, the lowest level since 2021/22. A combination of frost and dry weather has led to a number of revisions to this season's Russian crop.

These large declines from Russia and the EU have been partly offset by increases or at least expected increases elsewhere. US wheat production is estimated to have grown around 9% YoY on the back of stronger yields. Meanwhile, Australian wheat output is also expected to see a strong recovery this season, growing 23% YoY to 32mt with a rebound in yields after last year's poor performance.

Aggregate global wheat production in 2024/25 will trend higher and despite marginal consumption growth, stocks are still forecast to edge lower.

And further tightening expected in 2025/26

Winter wheat plantings in the northern hemisphere for next season are now complete, and we're left with something of a mixed bag.

The initial condition of the US winter wheat crop was not great in late October. It has, however, improved through November, with the last reading of this year rating 55% of the winter wheat crop in good-to-excellent condition compared to 50% last year. For 2025/26, there is expected to be little change in total US wheat area. However, assuming yields fall back towards a five-year average, the domestic crop would fall by around 10% YoY. Coupled with little change in both domestic and export demand would mean that US ending stocks edge lower in 2025/26.

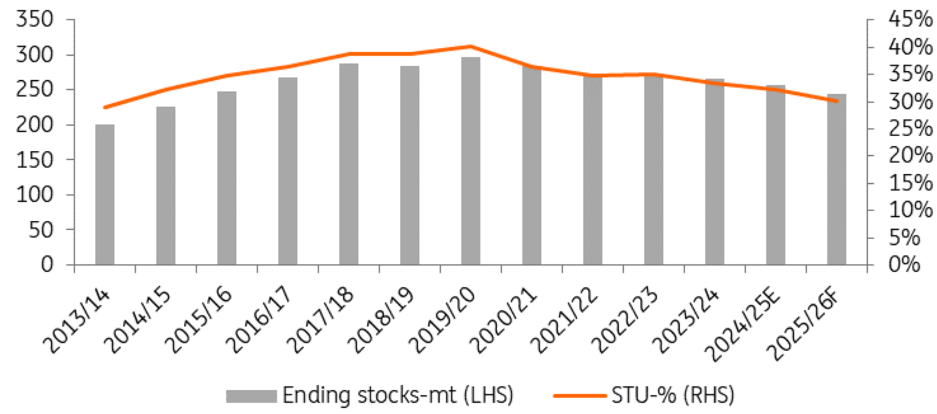
Following the poor EU crop this season, expectations of a recovery are expected for next season. Area is expected to grow, while yields being in line with the average should see the EU crop grow by 7% YoY to almost 132mt.

Similarly, it appears Ukraine has seen stronger winter wheat plantings, which could see the total wheat harvest growing by around 9% YoY to 25mt.

However, Russia is expected to see yet another poor crop. Dry weather through the autumn delayed plantings and as a result, area has also shrunk. This could see Russia's wheat crop fall around 1.5% YoY to almost 80mt. Concerns over a small crop have seen the Russian government reduce its export quota to 11mt from 15 February to 30 June 2025, down from 29mt for the same period this year. The cut in the quota wasn't too surprising given the poorer harvest this season and with prospects of another poor harvest. In addition, the government also raised the export duty for wheat.

Our early forecasts for the 2025/26 season see a further decline in ending stocks, with them potentially falling to their lowest level in over a decade. As a result, we expect CBOT wheat prices to trend higher through 2025 and currently forecast prices to average $6/bu over the year. However, similar to other grains, trade tensions are a downside risk.

Global wheat stocks set to fall further



Source: USDA, ING Research

US wheat vulnerable to a flare up in trade tensions

In the 2024/25 season, a little over 40% of the US wheat crop is estimated to be exported (fairly similar to the proportion of the US soybean crop exported), while only around 15% of the US corn crop is exported.

The large share of US wheat exported does leave the market vulnerable to an escalation in trade tensions. Around 11% of US wheat exports go to China, so US wheat is not as vulnerable as soybeans to escalation with China. However, US wheat is obviously more vulnerable in the case of a broader escalation in trade tensions.

Mexico is the largest offtaker of US wheat, taking 17% of US wheat exports. Clearly, any retaliatory tariffs on agricultural exports the US faces for a potentially aggressive trade approach could weigh on US exports, leaving its domestic market with larger-than-expected ending stocks and removing some of the constructiveness for the US market.

ING forecasts

	1Q25	2Q25	3Q25	4Q25	FY25
CBOT Wheat (USc/bu)	590	580	610	620	**600**

Source: ING Research

Trade friction clouds an already bearish soybean market

The global soybean market is set to be well supplied through 2025, which should continue to cap prices. Meanwhile, the potential for escalation in trade tensions is a bearish risk hanging over the market

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Record high stocks in 2024/25

Soybeans have come under significant pressure through 2024, with the global balance looking increasingly comfortable. Ending stocks for the 2024/25 season are estimated at a record high of almost 132mt, up more than 17% year-on-year. It also leaves the stocks-to-use ratio at a very comfortable 33%, compared to 29% in 2023/24.

US soybean supply has been bearish for the market. Soybean area in 2024/25 increased by 4.2% YoY, while yields also increased by more than 2% YoY. As a result, US soybean production is estimated to increase by 7% YoY to 4.46b bushels (121mt), which as a result also saw ending stocks surging higher. Through the peak of the US harvest, the outlook appeared even more bearish, however yield estimates have been lowered somewhat from earlier expectations.

Adding to the bearishness is the expectation that South American soybean output will also surge. Brazilian and Argentine production are expected to grow by 10% and 6% respectively. This would see Brazilian soybean production hit a record high of 169mt, surpassing the previous record high of 162mt in 2022/23. For Argentina, production is forecast to hit 51mt, its highest level since 2018/19.

While the outlook for the soybean market is somewhat subdued, there is uncertainty going into 2025. This uncertainty arises from soybeans potentially getting caught up in trade tensions, particularly for US flows to China.

Global balance to remain comfortable next season

The 2024/25 US soybean harvest is largely complete, so the market is now more focused on the outlook for the 2025/26 crop, with plantings set to get underway in the spring. Currently the soybean-corn ratio suggests that farmers should reduce soybean plantings in favour of corn. Soybean area is expected to fall by 2.4% YoY to 85m acres. Assuming average yields, this would translate to crop of almost 4.3b bushels (116mt), down 4.1% YoY.

However, if US President-elect Donald Trump moves aggressively with his trade agenda soon after entering office, this could influence plantings – particularly if it becomes clear early on that China will respond with retaliatory tariffs on US agricultural exports. This would potentially mean that we see a more aggressive switch from soybeans to corn plantings.

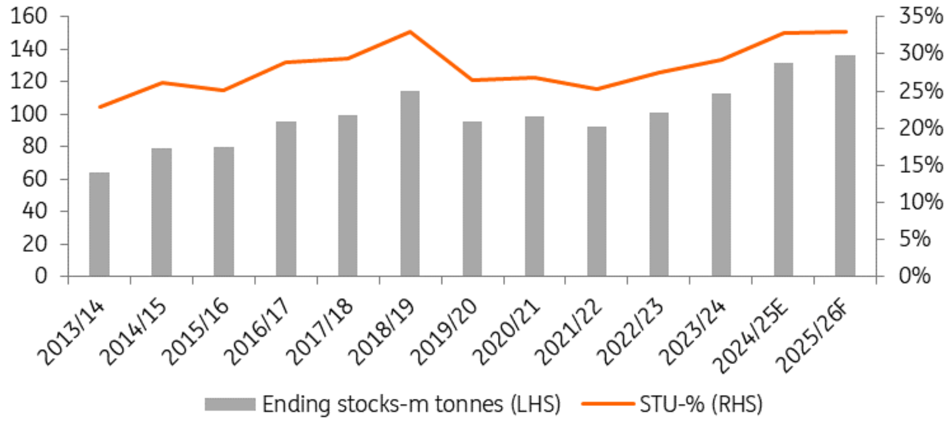
It is a bit early to have a strong view on 2025/26 South American soybean crops, with harvesting yet to take place for the 2024/25 crop. Retaliatory trade tariffs on US agricultural products would, however, benefit Brazil and it could see stronger plantings for the 2025/26 season in turn. The weakness in the Brazilian real this year also means that in local currency terms, farmer returns have held up better than one may think. Assuming yields align with the five-year average, this would mean that Brazil sees a crop largely unchanged from 2024/25.

For Argentina, we expect little change to area, but assuming yields revert to average levels would see the crop in 2025/26 fall by around 4% YoY.

Despite early forecasts pointing towards smaller US and Argentine production in 2025/26, our preliminary numbers suggest that global ending stocks will still edge higher next season, which should keep a cap on prices. Meanwhile, the domestic US balance is set to tighten on the back of lower output. However, this is assuming no significant drop in exports due to an escalation in trade tensions.

We forecast that CBOT soybeans will average around $9.70/bu through 2025. Essentially, prices need to stay low in order to ensure a reduction in soybean area.

Global soybean stocks to continue edging higher in 2025/26



Source: USDA, ING Research

Strong Chinese imports, sluggish consumption

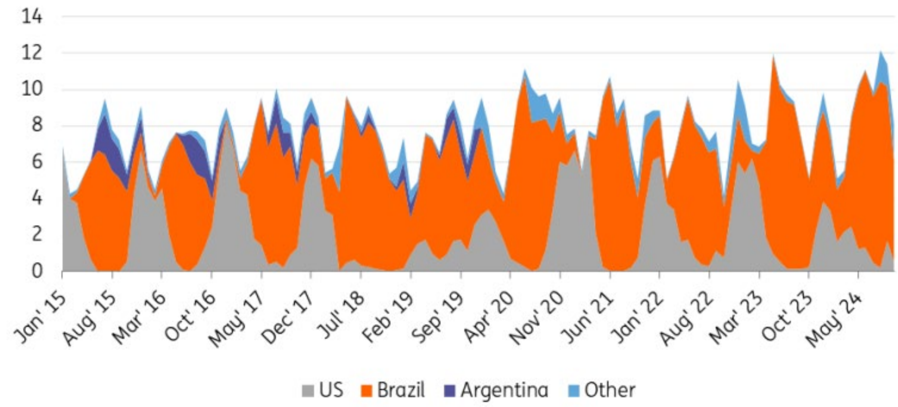
China's imports of soybeans have been strong this year. Cumulative imports are up more than 11% YoY and are set to hit record levels in 2024. However, while import demand is strong, domestic consumption indicators for soybean products is weaker. This is reflected in domestic soybean crush margins, which have been negative for large parts of the year. In addition, soymeal stocks in China have been fairly bloated.

Domestic meat consumption has slowed in China this year, which has weighed on pork output. The pig herd size has also fallen, which is part of the government's plan to deal with overcapacity. This will weigh on demand for soymeal.

High stock levels of soybean product suggests that we could see weaker imports moving forward – although in the short term, imports (particularly from the US) may be supported by front loading of buying given the risk of tariffs.

Since 2018, China has continued to increase its share of soybean imports from Brazil, which has helped to reduce the impact of a trade war with the US. China is in a better position than it was prior to the 2018 trade war, but around 26% of its soybean imports still came from the US in 2023.

Chinese soybean imports from Brazil continue to grow (m tonnes)



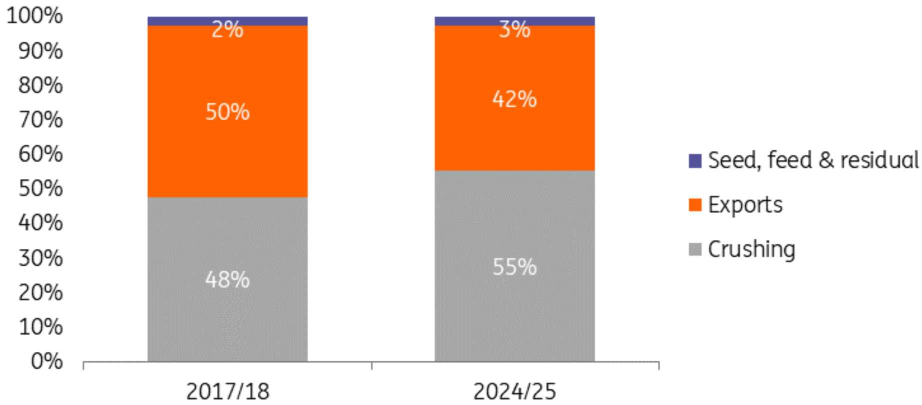
Source: China Customs, ING Research

US domestic crush continues to grow

What has changed in the US soybean industry since 2018 is that the domestic crush has increased quite significantly in recent years as stronger crush margins have stimulated investment in capacity. The domestic crush in 2024/25 is estimated at 2.4bn bushels (65mt), up around 17% since 2017/18. And this capacity is set to continue to edge higher through 2025 as new capacity starts up.

Stronger crush margins have come about largely due to growth in renewable diesel production. Soybean oil is an important feedstock for renewable diesel and biodiesel in the US. This helps to reduce US dependence on soybean exports, which over the same time period has fallen by around 14% to around 1.8bn bushels (49mt). This is still a sizeable volume at risk from trade tensions, particularly considering that more than 50% of this ends up in China.

US soybean demand shifts more to the domestic market



Source: USDA, ING Research

ING forecasts

	1Q25	2Q25	3Q25	4Q25	FY25
CBOT Soybeans (USc/bu)	950	1,000	970	960	**970**

Source: ING Research

Global sugar surplus depends on India

Sugar prices have held up this year on the back of concerns over CS Brazil supply. However, we see the market in surplus in 2024/25, which should see prices edging lower. This assumes that the Indian and CS Brazil crops do not disappoint

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Sugar market in surplus

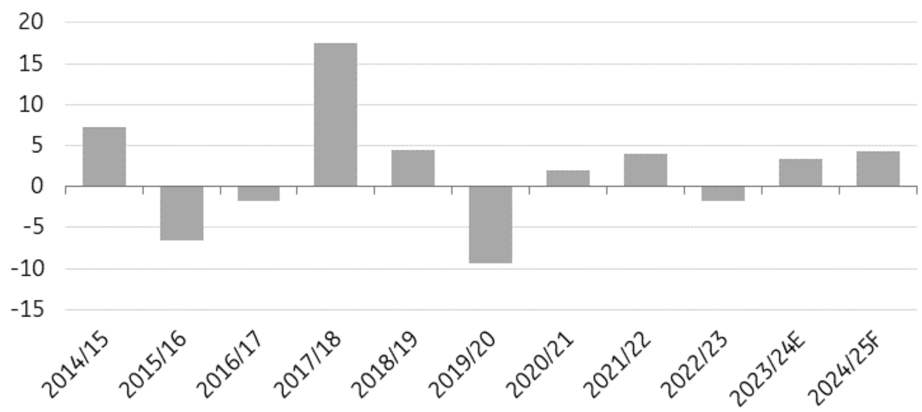
Despite expectations for a global surplus in the sugar market in the 2024/25 season, sugar prices have held up relatively well. This has been largely due to concerns over the CS Brazil crop where drought conditions and fires in cane fields raised risks not only for the 2024/25 crop but also the 2025/26 crop. Rainfall more recently has eased some concerns for the next crop.

However, the expected size of the surplus has fallen as we have moved through the year, with the global market now expected to see a surplus of a little over 4mt in 2024/25.

While there are clear supply risks which leaves uncertainty over the expected surplus, we believe stronger Thai, EU and potentially Indian production should cap upside in prices. We would expect the market to come under renewed pressure once the CS Brazil 2025/26 harvest gets underway. Furthermore, if India allows exports over the course of 2025 (which could happen in the first quarter), it will provide further downside to prices.

As a result, we expect No.11 raw sugar to average USc20.30/lb over the course of 2025.

Global sugar balance (m tonnes)



Source: Czarnikow, USDA, ING Research

CS Brazil crop worries possibly overdone

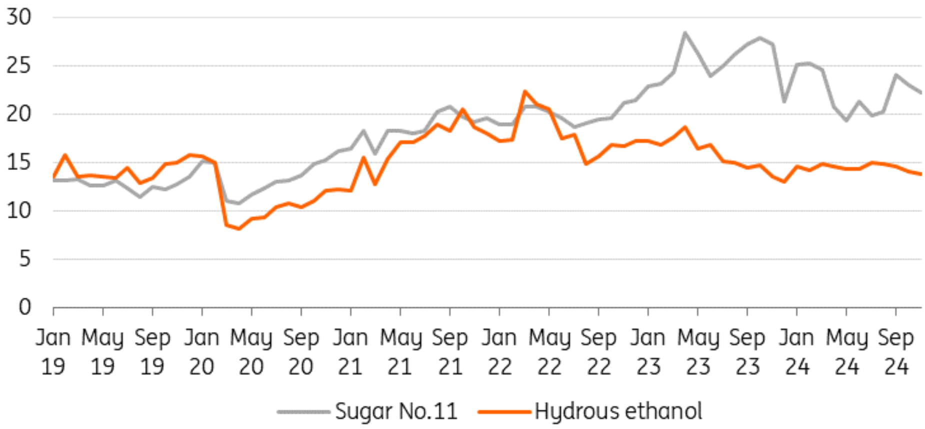
The CS Brazil crop is winding down as the region moves closer to the off crop. The region is expected to crush around 595mt of cane, yielding a little over 39mt of sugar production. The sugar mix has been strong this season at more than 48%, with sugar prices remaining at a healthy premium to domestic hydrous ethanol prices. This is down on last year, where almost 655mt of cane was crushed and more than 42.4mt of sugar produced. A smaller crop was expected, however estimates have edged lower as we have moved through the season. But at more than 39mt, it is still the second largest amount of sugar produced in a season in CS Brazil.

However, with the 2024/25 CS Brazil crop largely complete, attention will be turning to the 2025/26 crop, which officially starts in April. There is a fair amount of uncertainty over how this crop will develop due to the fires seen in cane fields this year. Large parts of CS Brazil have suffered from drought, although the region has had rain more recently as we head into the rainy season. If normal weather conditions continue, this should allow agricultural yields to recover and see the industry crushing more cane than in the 2024/25 harvest.

Furthermore, sugar continues to trade at a healthy premium to hydrous ethanol in Brazil, so mills should continue to push for a maximum sugar mix. The more recent weakness in the Brazilian real (BRL) should only help this dynamic. As a result, 2025/26 sugar output could total somewhere in the region of 42-43mt.

The weakness in the BRL means that sugar prices in local terms are attractive for Brazilian producers. However, the more recent weakness in the BRL does not appear to have brought in that much producer pricing. In fact, both the producer short and the swap dealer short are below average for this time of year in No.11 raw sugar.

Sugar continues to trade at a healthy premium to Brazilian hydrous ethanol (USc/lb)



Source: Czarnikow, USDA, ING Research

Indian crop and export uncertainty

The 2024/25 Indian harvest is now well underway, although the harvest did get off to a slow start – particularly in Maharashtra, owing to local elections. Sugar output over the first two months of the 2024/25 marketing year stood at 2.79mt, down more than 35% year-on-year.

The Indian Sugar and Bio-Energy Manufacturers Association (ISMA) forecasts that the 2024/25 crop will total 29.3mt, down from 31.96mt in the previous season. This is after taking into account the diversion to ethanol. These lower estimates are partly on the back of lower acreage estimates following a poorer monsoon season in 2023 ahead of the previous crop. However, some are forecasting that acreage will be largely unchanged YoY, while yields are also expected to improve following a better 2024 monsoon season, potentially leading to a crop of somewhere in the region of 32-33mt after taking into consideration diversion to ethanol.

Clearly, the large difference in forecasts suggest plenty of uncertainty in the crop. It also means if production comes in towards some of the lower estimates out there, it would be enough to almost wipe out the global surplus we expect this year.

The size of the Indian crop will also be important in determining whether the government will allow sugar exports this season. A crop towards the lower end of the range would reduce the probability or at least push back the potential for exports until much later in the season, once there is full clarity on domestic supply. The government also wants to ensure that there is enough supply to hit its 20% ethanol blending mandate by 2025. While theoretical (given the government has not issued export quotas), the export parity for Indian sugar is wide open.

Strong recovery in Thai crop

In Thailand, the 2024/25 crush should be getting underway now and the crop this season is expected to see a fairly strong recovery. Higher cane prices would have led to higher plantings, while better weather over the rainy season this year should prove beneficial to agricultural yields.

With these elements combined, we should see the cane crush exceed 100mt, up from around 85mt in 2023/24. This is estimated to see sugar production exceed 11mt compared to a little more than 8.5mt last season. Stronger Thai output should translate to strong Thai exports in the first quarter of 2025, offering some relief to a period we usually see seasonal tightness in the global sugar market due to it being the CS Brazil off crop.

EU production continues to tick higher

The EU sugar market continues to look increasingly comfortable, reflected in the weakness in regional prices. This has been largely driven by a recovery in EU output in 2023/24 and the expectation that output will continue to increase in the 2024/25 season, which is expected to see EU ending stocks edging higher. Production in the EU over 2024/25 is forecast to increase by around 1mt YoY to 16.6mt, which is driven by a combination of higher area and also an improvement in yields. French beet yields are expected to come under pressure – but this should be offset by larger area.

Weakness in the whites premium

While the sugar market has seen a fair amount of strength in the flat price this year, there is a part of the market which is signalling weakness. The white sugar premium – the spread between refined white sugar and raw sugar – has weakened towards $80/t, having traded above $150/t earlier in the year. This is the weakest the premium has been since late 2021.

Part of this weakness will be due to expectations of stronger Thai and EU output. A weaker premium should also see standalone refineries reducing operating rates, which would mean reduced demand for raw sugar. The key downside risk to the whites premium is if the Indian government allows exports at some stage through 2025.

ING forecasts

	1Q25	2Q25	3Q25	4Q25	FY25
ICE No.11 Sugar (USc/lb)	21.00	20.40	19.80	20.00	**20.30**

Source: ING Research

Tightness lingers in the cocoa and coffee market

Cocoa and coffee prices have seen extreme volatility over 2024. We think that tightness in these markets coupled with weather uncertainty means that prices are likely to remain volatile through 2025

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Cocoa to shift from deficit to surplus

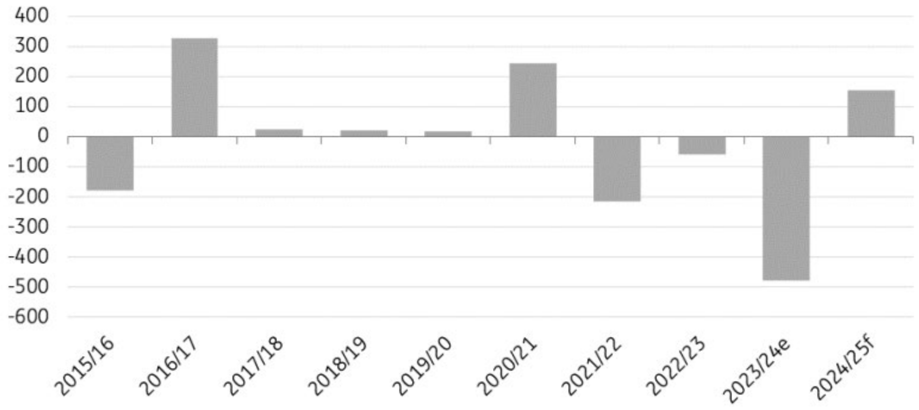
Cocoa prices have remained volatile with concerns over supply tightness in the market through the 2023/24 season. Low stock levels have also left the market extremely sensitive to developments with 2024/25 crops which are currently being harvested. As a result, we saw London cocoa prices peaking to a record high of GBP10,625/t in April, which was followed by a sell-off to below GBP5,000/t in September, only to rally back above GBP8,000/t more recently with renewed concerns over West African output.

The 2023/24 marketing year saw the global cocoa market register a deficit of 478kt, the largest in over 60 years and also the third consecutive year of deficit. This shortfall was driven by crop failures in West Africa, particularly Ivory Coast and Ghana. The deficit drove global cocoa stocks to the lowest level in more than a decade, while the stocks-to-grinding ratio fell from 35.3% to 27.9%, the lowest level since at least 2008/09.

While prospects for the 2024/25 marketing year are looking better, there are still concerns over weather developments in West Africa and what it could mean for output this season. Forecasts currently show that West African output – which accounts for more than 70% of global output – will edge higher. However, there are risks to this due to recent poor weather.

Stronger output and expectations that demand will remain below 2022/23 levels mean that the global market could see a surplus of a little over 150kt in 2024/25. Despite the return to surplus, the market is likely to remain highly sensitive to weather developments. Firstly, there is the risk that poor weather (which we have been seeing recently) could quickly erode this surplus. Secondly, historically tight stocks are likely to keep the market very sensitive to any supply and demand developments. Even if our estimated surplus is realised, the stock-to-grinding ratio will only increase to 30%, which is still the second lowest since at least 2008/09.

Global cocoa market to return to surplus but there are risks (k tonnes)

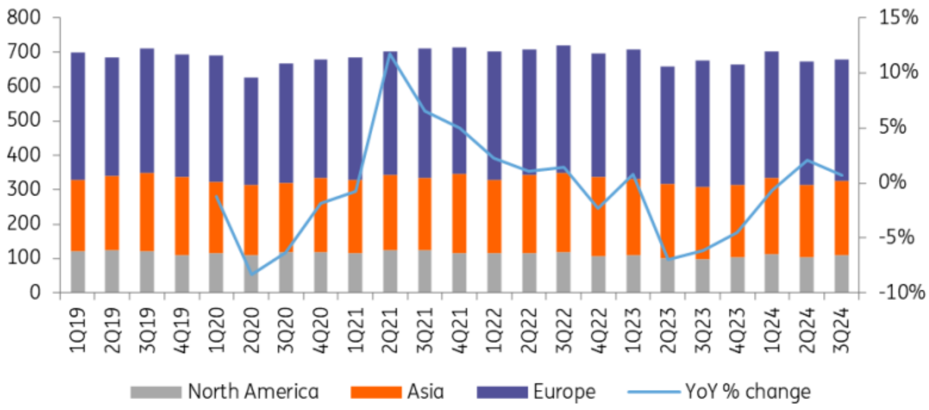


Source: ICCO, ING Research

High cocoa prices still needed to keep demand in check

Not only are prices likely to remain historically elevated due to uncertainty over the West African crop outlook and tight stocks, but prices need to stay high to keep a lid on demand. Grinding data in Europe, North America and Asia shows that total grindings over the first three quarters of this year were up just 0.7% year-on-year, and that is after falling 4.2% YoY in 2023. For 2025, we are assuming modest growth in demand, which still leaves the market in surplus over 2024/25.

High prices keep cocoa grinding in check (k tonnes)



Source: ECA, CAA, NCA, ING Research

Another deficit year for the coffee market

Coffee prices surged to almost a 50-year high in November. Arabica hit a high of USc335/lb at one stage and prices are up almost 70% this year. Drought conditions in Brazil for much of the year have raised concerns over supply for next season. As the top Robusta producer, Vietnam has also faced its own issues. This was reflected in the narrowing in the Arabica-Robusta spreads through until September.

The scale of the move in the market has been exaggerated by positioning with shorts having to run in and cover positions as the market has moved higher. The scale of the move would have also made any seller hesitant to enter the market, given the risk of large margin calls they would face.

The European Union Deforestation Regulation (EUDR) was another layer of uncertainty facing the market. The regulation was set to come into force in December 2024, but the Commission recently decided to postpone this by a year. The regulation will be important for the production and trade of coffee, given that the EU is a key importer in the global coffee market.

For Brazil, 2024/25 coffee output has suffered due to the unfavourable weather in the growing regions. The USDA lowered its Brazilian coffee output estimate by 5% to 66.4m bags, which leaves the crop only marginally higher YoY. Arabica coffee production, which makes up 68% of total Brazilian output, is expected to grow only 1.1% YoY, while the Robusta crop is expected to fall 1.9% YoY.

Drought conditions through much of 2024 are raising concerns for the Brazilian 2025/26 crop, which starts in April. The region has seen rainfall since October, which may help ease some of these concerns – although early estimates are still pointing towards a decline in Brazilian coffee output next season.

The global coffee market is set to face its fourth consecutive season of deficit and depending on how the 2025/26 Brazilian crop plays out, it could be facing a fifth year of deficit.

While certified stocks held by ICE have increased since late last year/early this year at less than 1m bags, stocks are still well below historic levels, highlighting the tightness the coffee market is facing. In 2021, these stocks exceeded 2m bags.

Tight coffee stocks and the persistent deficit environment are likely to keep the forward curve in backwardation. Prices are likely to remain volatile and elevated, at least until we get some further clarity on the 2025/26 Brazilian harvest.

ING forecast

	1Q25	2Q25	3Q25	4Q25	FY25
London Cocoa (GBP/t)	6,000	5,400	5,000	4,400	**5,200**
ICE Arabica (USc/lb)	280	260	250	280	**268**

Source: ING research

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