Commodities outlook 2024

Resilient prices amid global headwinds

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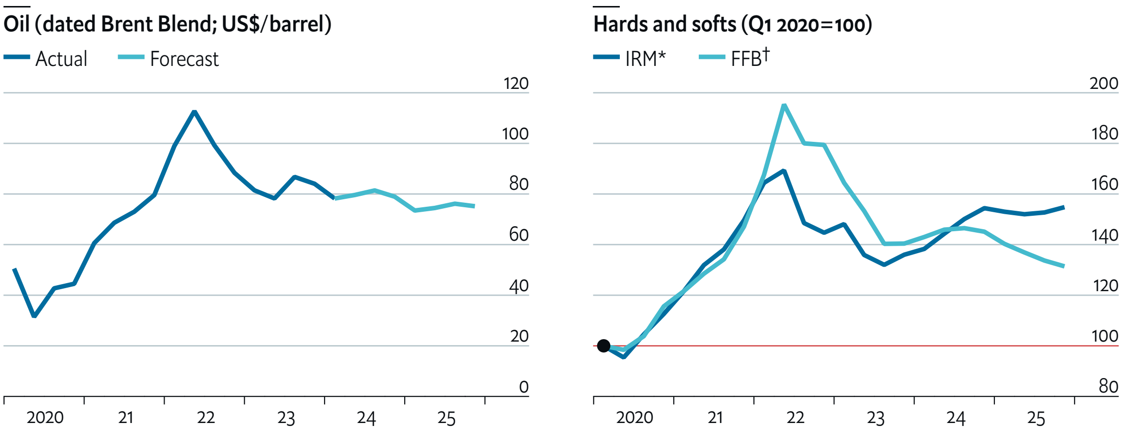
After three years of extreme volatility, commodities prices are set to broadly stabilise in 2024. This apparent stasis may come as a surprise given the many geopolitical headwinds buffeting the global economy at the moment. These range from adverse weather conditions to escalating conflict in the Middle East and rocketing freight rates owing to disrupted shipping routes through the Suez and Panama canals. However, this holding pattern for commodities prices in 2024 belies what will be an eventful year as markets remain volatile in the short term before secular trends, especially those linked to the green transition, come to the fore.

Commodities prices stabilise in 2024 before price trends diverge in 2025



Sources: World Bank; EIU.

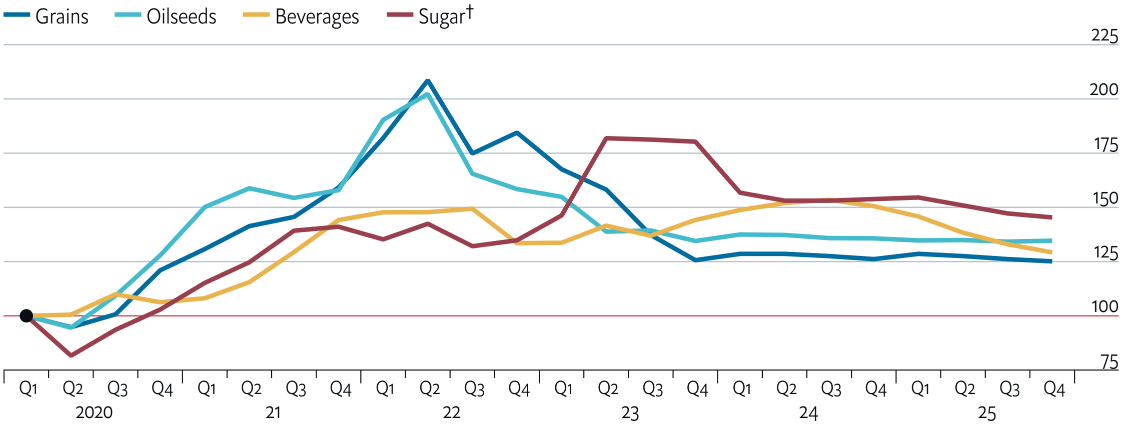
*Industrial raw materials †Food, feedstuffs and beverages

El Niño and Russia-Ukraine war still loom large for soft commodities

Prices for food, feedstuffs and beverages (FFB) will rise over the course of 2024, driven primarily by beverages, as El Niño will hit production and therefore prices for coffee and cocoa will increase. Some relief is in sight, with the US National Oceanic and Atmospheric Administration (NOAA) giving a 72% chance that El Niño will come to an end by mid-year. But the damage to this season's harvests will already be done by then, with coffee and cocoa production forecast to fall by 9% and 13% respectively in the 2023/24 crop season. At least the threat of a "historically strong" El Niño similar to that of 2015-16 or 1997-98 (greater than a 2°C rise in sea surface temperatures) is waning significantly, according to the NOAA.

Russia's permanent withdrawal from the Black Sea Grain Initiative poses another upside risk to global food prices, particularly wheat, maize and oilseeds. However, the impact on prices so far has been muted, as Ukraine has managed to export grains and oilseeds via alternative road and rail routes across the country's western borders. Ukraine's grain exports initially plummeted following the collapse of the grain deal last summer, but they have recently picked up after Ukraine successfully established a temporary shipping corridor through the western Black Sea with the help of Romania and Bulgaria.

El Niño will lift beverages prices in 2024
(weighted price indexes; Q1 2020=100*)



*Data for 2024-25 are EIU forecasts.
†Index based on International Sugar Agreement (ISA) price.
Sources: International Grains Council; US Department of Agriculture; World Bank; EIU.

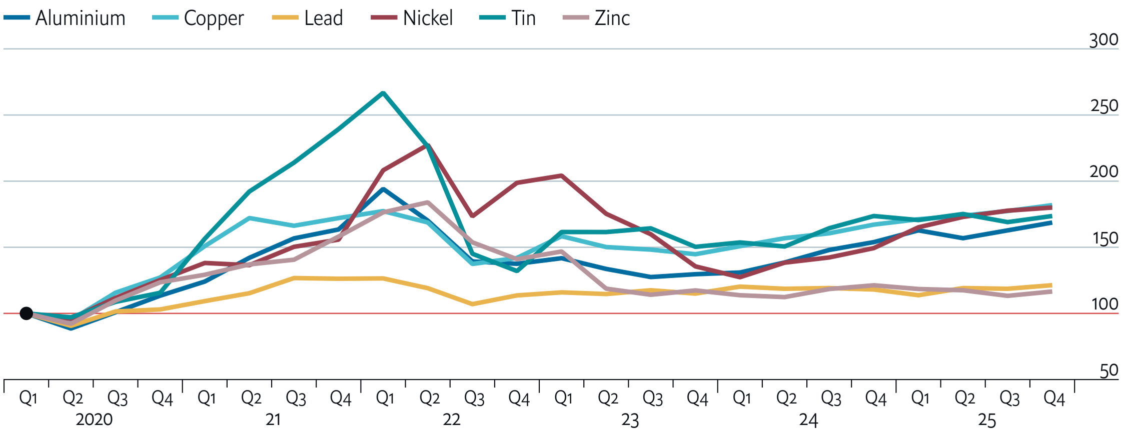
Even so, exports will still not match pre-war levels, which will keep a floor under wheat and maize prices in the short run. At the same time, rice prices will rise in 2024, underpinned by white rice export restrictions in India — by far the largest supplier to the global market.

We forecast that oilseeds prices will broadly stabilise in 2024. International soybean stockpiles remain relatively tight, and prices will remain susceptible to perceived threats to world supplies, either from climate events or further supply-chain disruption. However, we expect a strong rise in soybean production (owing to a bumper crop in Argentina, which actually benefits from El Niño), which will drive soybean prices downwards over the course of the year. Despite a probable market deficit in the 2023/24 season (October-September), palm oil prices will remain low due to falling prices for rapeseed and sunflowerseed oils, which are also benefiting from Ukraine's temporary export route.

Green transition will be a driver of base metals prices by end-2024

We forecast that our base metals price index will increase by an average of 3% in 2024, after falling by more than 11% in 2023, as the green transition supports rising demand for critical minerals. Even for metals such as nickel that will register significant year-on-year declines in 2024, prices are poised to rise from their end-2023 levels. Despite a strong supply response from producers, which will lead to a market in oversupply in 2024, low reserves will make nickel susceptible to supply-chain disruption. London Metal Exchange (LME) warehouse stockpiles remain low by historical standards and the availability of class 1 nickel will be limited by end-users deciding to avoid using Russian supply.

Aluminium and copper will lead base metals upward price trend in 2024
(av benchmark spot prices; Q1 2020=100*)



Sources: World Bank; EIU. *Data for 2024-25 are EIU forecasts.

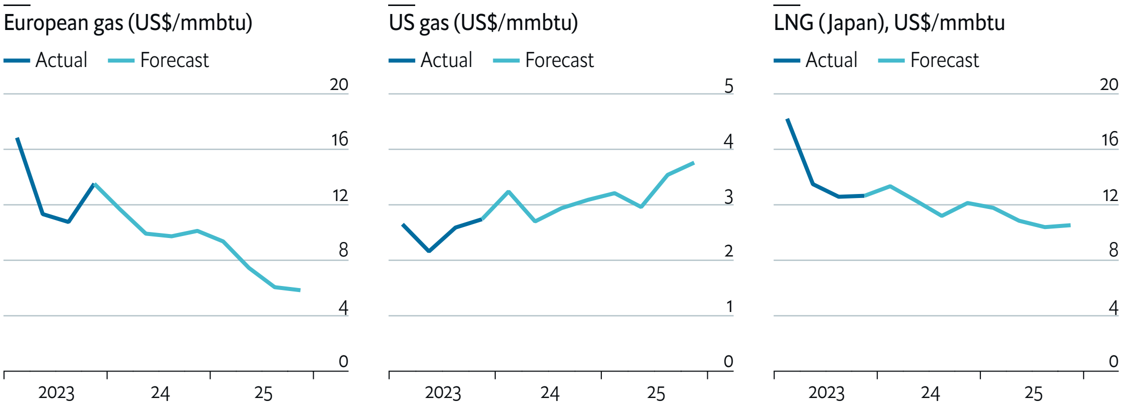
Russia will also loom large in terms of the aluminium price, which we forecast to increase by nearly one-fifth over the course of the year. Here too LME stockpiles remain low and overstate the availability of metal to consumers, as many end-users are avoiding aluminium produced in Russia, which now accounts for about four-fifths of LME warehouse supply. The forecast market deficit (demand exceeding production) in 2024 will be considerably smaller than in 2021 and 2022, but stockpiles will diminish, with excess stocks being diverted to Asia owing to the slow European economic recovery.

Although investment to support decarbonisation plans will continue to underpin prices for nickel and copper—major components in the green transition—tight monetary policy in the developed world will drag on consumer spending and housing demand in 2024, especially in the first half of the year. Weak construction activity in China will limit a significant rebound in copper prices in particular. Risks to copper price forecasts are skewed to the upside, however, owing to potential disruptions to mine supply, notably in South America. Copper and nickel prices are poised to increase sharply from 2025, but fears of looming shortages due to rising demand for electric-vehicle batteries could send prices higher more quickly than we currently expect.

Energy prices, excluding crude oil, will trend downwards in 2024

In 2024 prices of hydrocarbons will largely trend in the opposite direction than those of most industrial raw materials and soft commodities. We expect average European natural gas prices to fall by one-fifth in 2024, after plummeting by more than two-thirds in 2023, largely due to demand destruction, particularly in industry. However, there will be periodic spikes owing to market anxiety about the security of global supply chains, amid rising geopolitical tensions stoked by the Israel-Hamas war. Nevertheless, prices will remain historically high, limiting any significant recovery in industrial demand. Strong European demand for liquefied natural gas (LNG) will push up US prices from their current low base and limit the fall in LNG prices. Coal prices will continue to trend downwards as long as gas storage levels in Europe remain seasonally high and LNG continues flowing to the continent, limiting the squeeze on gas supplies in Europe.

European and US natural gas prices move in different directions in 2024



Sources: World Bank; EIU.

Bucking this trend, at least in 2024, will be crude oil prices. The US has ramped up production and exports, and the global market has moved back into surplus (production exceeding demand). However, as Saudi Arabia is unlikely to increase output markedly this year, and with other OPEC members also implementing voluntary cuts, the market will periodically return to deficit, which will limit the downside to oil price forecasts. Global oil demand will also put a floor under prices and is set to reach record highs in 2024 and in subsequent years as consumption in the developing world continues to increase. Heightened geopolitical risks tied to the Israel-Hamas war still threaten to cause prices to soar again. Although we expect crude oil prices to remain volatile, they should mostly trade at about US$80/barrel, essentially where they began the year.

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