In this special edition of our Commodity Outlook, we present our views on key commodity markets for 2025. We first discuss the impact of broad macro trends, and then cover market-specific dynamics for crude oil, copper, iron ore and gold.

January 21, 2025

Will commodities regain their shine?

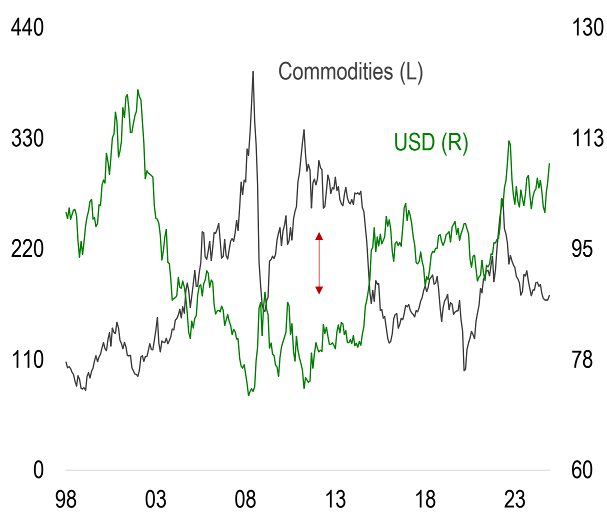
A disappointing year – Commodities had a volatile 2024, with the benchmark S&P GSCI index (ETF: GSG) growing close to 10% in H1, but sliding later in the year. **This resulted in flat real price returns, far behind other risky assets**. The weak H2 performance reflected a combination of soft fundamentals in some markets, and bearish trader sentiment.

At the aggregate level, the two main headwinds were 'higher-for-longer' Fed policy and disappointing activity in China. Expectations of limited Fed support mainly affect commodities through a strong dollar (F1). The dollar often falls after a Fed pivot, but **perceptions of a shallow easing cycle caused US yields to rise**, lifting the USD by nearly double digits.

Weak domestic spending in China has also proved a major drag. For example, oil demand grew well below trend, largely due to a decline in China as sluggish consumption held back road traffic. Weak activity proved even more disruptive for industrial metals, **amid sharp and persistent declines in property construction** (F2). Interestingly, gold benefited from this effect, since falling CN property prices fueled private sector demand in China as an alternative investment vehicle.

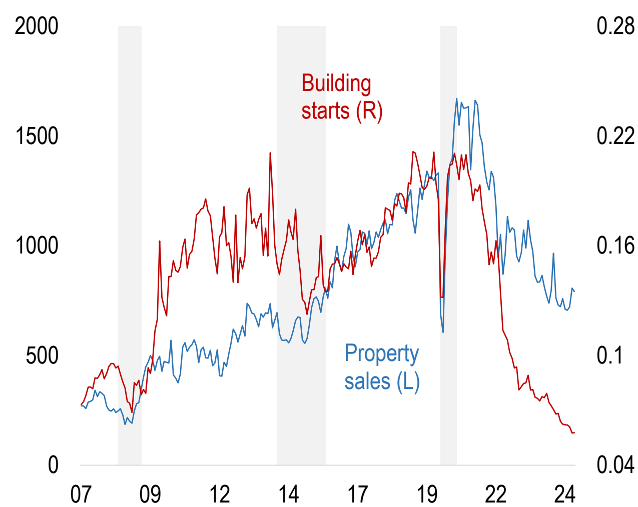
Geopolitics also contributed to price volatility. Interestingly, however, **war in the Middle East did not drive up speculative oil purchases**, as traders paired back their exposure in anticipation of higher OPEC+ supply. Geopolitical risk did benefit gold prices (up 26% last year), traditionally a very responsive asset class to heightened global uncertainty.

F1: A strong US dollar hurts commodities
GSCI commodity index vs US dollar



Note: Chart compares the GSCI commodity index to the US dollar index (USDX). Source: Standard & Poor's, ICE.

F2: CN construction continues in free-fall
China building starts and real estate sales

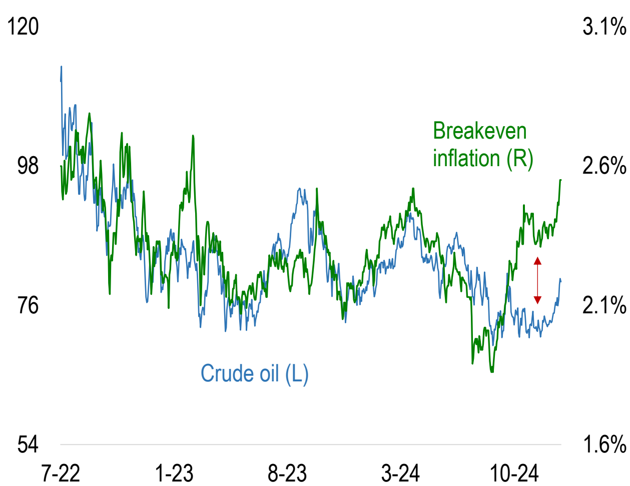


Note: Building starts are in billions of square meters and real propoerty sales in BN of (2015) CNY. Shaded areas are OECD recession dates. Numera Analytics.

A useful hedge – Will commodities pick up in 2025? The year has started on a promising note, with the GSCI index rising close to 6% in a few weeks. One important source of support are higher perceived inflation risks, a dynamic that we anticipated in recent reports. In particular, Trump's protectionist agenda and continued overheating have sparked concerns over a resurgence in US inflation, boosting investor demand for energy as a macro hedge (F3).

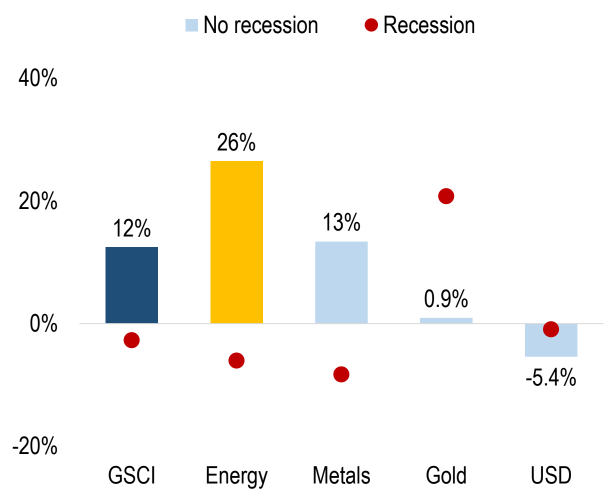
The recent jump has pushed energy prices closer to 'fair' value, eroding the overall commodity upside versus recent months (since crude oil and refined products make up 55% of the GSCI index). Even then, we still find that commodity prices are a useful diversifier in a multi-asset setting, especially given moderate global recession risks (F4).

F3: Inflation worries finally lifting energy
Crude oil prices vs. US breakeven inflation



Note: Chart compares Brent crude oil prices against 5-year investor inflation expectations (breakeven inflation). Source: ICE, Department of Treasury.

F4: Absent recession, rate cuts will help
12M average returns after a Fed pivot (%)



Note: Average returns by asset class in the 12M following a Fed pivot since 1986. Bars and dots split performance when the pivot coincides with a US recession (indicated by the Sahm rule breaking above 0.5%). Source: Numera Analytics.

With oil no longer trading at a hefty discount, **whether commodities climb further depends strongly on the macro outlook**. In terms of growth, upside risk hinges on whether pledged stimulus by Beijing can reignite domestic demand. Since the measures do not directly address the housing overhang, lower rates and higher credit supply should only provide a moderate boost to consumption, which will likely remain constrained by rock-bottom confidence.

Even so, **policy support should result in stronger demand growth than this year**, tightening the market balance of industrial commodities. What about DM activity? We find a high probability that total spending in the US will slow, which would normally hurt commodities. However, manufacturing should pick up in response to higher capacity, while further Fed cuts should lift property construction – compensating for weaker overall growth (F4).

Weaker US growth should also drive down yields, containing risks to the dollar. To be sure, elevated trade policy uncertainty should keep the greenback at high levels, but the likelihood of USD appreciation is much lower than last year. For example, the probability of a 5%+ USD gain this year is 27%, 5-points lower than the post-GFC average. Historically, if USD gains are limited to less than 5%, spot commodity prices rise around 7% on average.

Crude oil: Back to 'fair' value

A lasting deficit – As we predicted in recent reports, oil has bounced back amid rising inflation worries, delays in the OPEC production phase out, and further sanctions to Russian crude (F5). Since improved sentiment is the key source of support, this has **pushed spot prices closer to 'fair' value** (F6), reducing upside since late 2024.

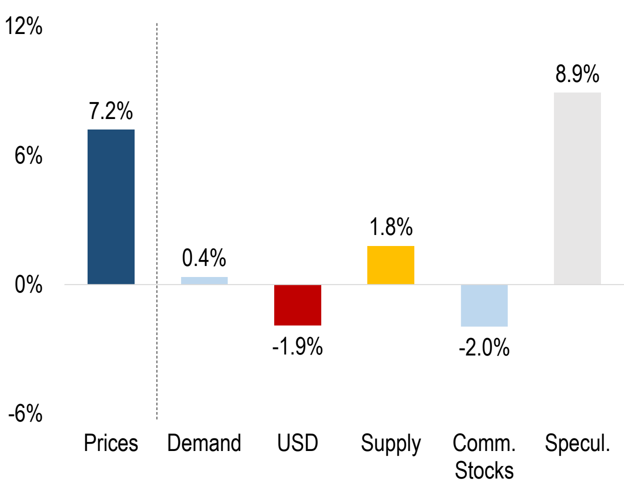
Even so, we continue to find a high probability that prices hold up and exceed oil futures. The market expects prices to fall below $73 / bbl by this time next year, mainly owing to higher Saudi output and greater shale drilling. While far from impossible, we find **a 69% chance that spot prices will trade above the 12M Brent futures contract**.

The more favourable outlook reflects both economy-wide and market-specific factors. In the near-term, oil should benefit from a growing interest in inflation protection, and a tight physical balance. **Demand growth should firm up over the course of the year**, primarily in response to stronger road traffic in China and a rebound in US trucking as end-use demand recovers. In addition, the dollar is unlikely to rally much further, containing downside risks.

Global supply should also rise as OPEC phases out its voluntary cuts. One aspect to consider is that member countries have 4.5 Mbbl of unused capacity, mainly in Saudi Arabia. This is 0.5 Mbbl above its normal range, and 4-5X higher than the existing market deficit. Should Saudi exhaust this surplus, this would exert significant downward pressure on prices, as was the case during 2014-15 (when production in the Middle East rose by 3 Mbbl).

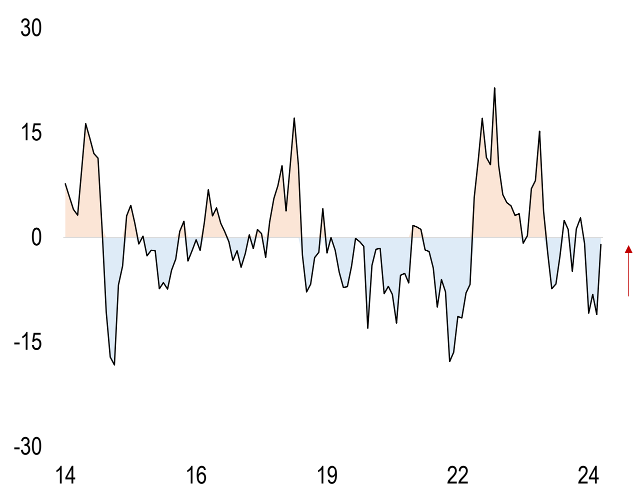
Unlike 2014, however, **the Kingdom has little incentive to create a surplus**, since Saudi's ambitious development goals call for a $100 fiscal breakeven. Lower oil prices would also fail at displacing shale producers, since productivity gains have greatly lowered drilling costs. This is especially the case since US oil majors are reluctant to ramp up supply to prevent a decline in profits. In this context, we expect the deficit to persist this year, supporting oil prices.

F5: Trader sentiment behind recent gains
Drivers decomposition - Brent (10/24 - 01/25)



Note: Chart shows the estimated contribution of various drivers to the change in real crude oil prices since October 2024. Speculation proxied by net long positions by asset managers in the NYMEX. Source: Numera Analytics.

F6: Pushing prices close to fundamentals
Crude oil risk premium (spot – 'fair' value)



Note: The oil risk premium is the difference between the Brent spot price and its modelled 'fair' (equilibrium) value. A positive gap indicates that oil is trading at a premium, e.g. due to geopolitical risk. Source: Numera Analytics

Copper: No super-cycle for now

Stimulus enthusiasm – Copper prices fell in H2 after a stellar start to 2024, as the global balance weakened (F7). On the demand side, plunging construction in China offset resilient demand by industrial end-uses. The **supply picture also worsened amid a recovery in mine supply** from the ramp-up of *Quebrada Blanca* in Chile. This made up for around half of the production loss from the closure of *Cobre Panama* in late 2023, lifting inventories.

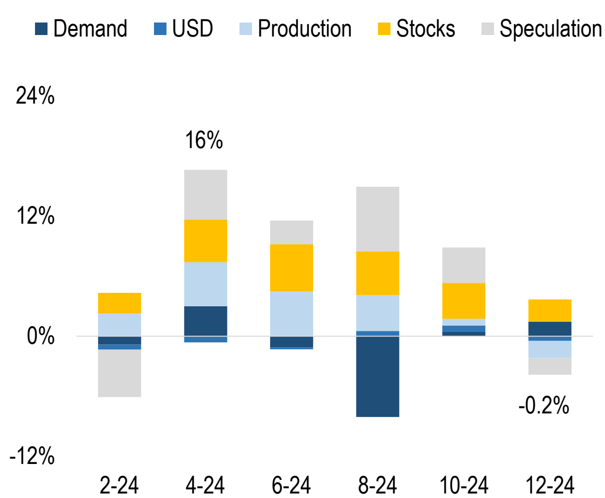
Despite a weak balance, prices fell only modestly, aided by **stronger speculative demand in expectation of CN stimulus**. This trend has continued in early 2025, even if the actual credit impulse remains extremely weak. Since credit growth leads demand by half a year, demand should remain under pressure in H1, (F8) curbing upside risks.

Even so, we expect Cu consumption to grow this year, **aided by China's green energy transition**. Key in this respect is EV manufacturing, which uses 2-4X more copper than ICU vehicles. Last year, car production in China grew 3.5%, with very strong EV exports compensating for subdued domestic demand. If consumption picks up, this should result in stronger EV output, mitigating the drag on demand from exceptionally weak property construction.

In terms of supply, stronger mine capacity has boosted ore availability for Chinese smelters, pointing to stronger refined output this year. Despite a single greenfield project this year (Malmyzh in Russia), concentrate capacity should continue to grow at a healthy clip amid ongoing mine expansions in the DRC, Peru and Uzbekistan (F8).

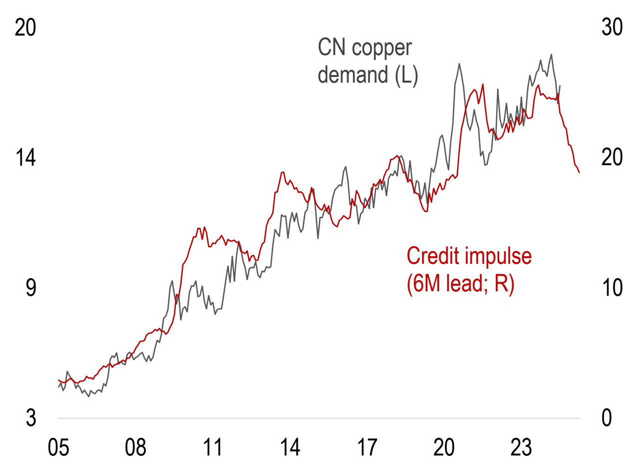
What does this mean for copper prices? Our models now point to flat prices in 2025, with the **likelihood of positive returns dropping 6-points versus last month**. This reflects higher downside risks to the balance frome falling CN credit, as well as heightened global macro risks amid uncertainty over US economic policy. Unlike crude oil, the probability that Cu prices exceeds 12M futures is lower than 50%, suggesting an UW stance.

F7: Copper entirely gave up its H1 gains
Drivers decomp. - Copper prices (2024 YTD)



Note: Chart shows estimated contribution of market drivers to the cumulative change in real copper prices throughout 2024. Source: Numera Analytics.

F8: Falling credit hurts near-term outlook
China copper demand vs credit impulse



Note: Chart plots CN copper demand to the 6M prior credit impulse in China (as measured by total social financing). Source: ICSG, PBoC, Numera calculations.

Iron ore: Too much availability

The supply factor – Iron ore prices collapsed last year, weighed by very weak steel demand in China and an expansion of supply in Brazil and Australia, pushing inventories well above their normal range. In addition, disappointing activity in China and persistent declines in construction weighed on sentiment, amplifying fundamental losses (F9).

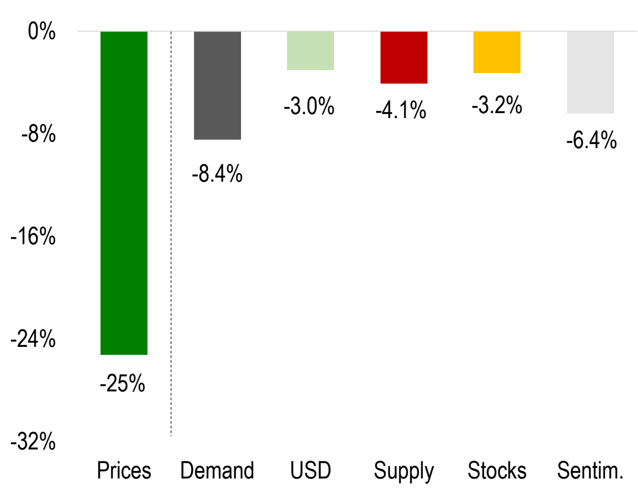
Although Fe prices have stabilized near $100 / MT, high availability remains a major headwind. The supply drag will likely continue this year, even as output growth by established companies slows. For example, Brazilian giant Vale expects production growth of 2% this year, about half the speed as in recent quarters. Nevertheless, this will be offset by the ramp-up of a new mine in Australia, **and the start of the colossal Simandou project in Guinea**.

Mineral Resource's 35M MT Onslow mine came on stream last June, and should reach full capacity by mid-2025. The Simandou phase out will take much longer, but the expectation of very high supply (technical capacity is 120M MT, making it the world's largest mine at 5% of supply) will likely discourage speculative purchases (F10). Simandou's low cash costs, in addition, threaten to drive down the global cost curve, kept elevated by smaller CN and IN players.

On the demand side, CN steel mill margins improved in Q4 following a sharp drop in coal prices. **This should encourage higher steel output in early 2025**, fueling Fe purchases In this vein, the Ministry of Industry's Q3 decision to pause new steel mill projects could benefit iron if less overcapacity boosts steel margins. A sustained pick-up in demand, however, calls for a recovery in China's property market, which remains a highly uncertain outcome.

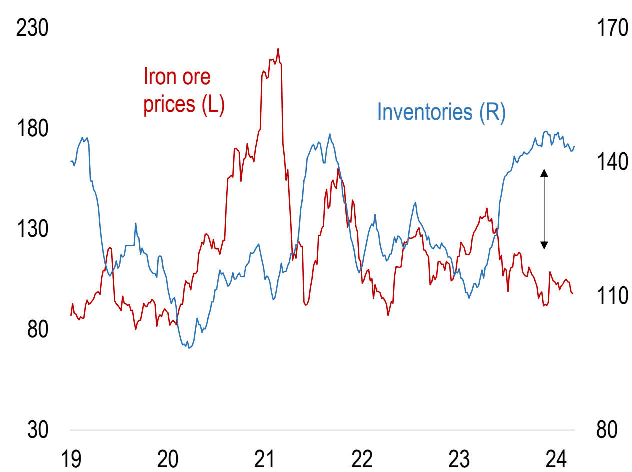
In this context, it is unlikely that prices will go back to the levels experienced since COVID, with an 86% chance they will fall short of their 2021-24 average ($130). Since futures are in slight backwardation, we still suggest a neutral stance. However, the **challenging supply backdrop erodes Fe's appeal as a pure 'China recovery' play**.

F9: An adverse demand-supply backdrop
Drivers decomposition - Iron ore prices (2024)



Note: Chart shows estimated contribution of market drivers to the change in real iron ore prices in 2024. Source: Numera Analytics.

F10: High availability still a key headwind
Iron ore prices vs. CN port inventories



Note: Chart plots iron ore prices against iron inventories at Chinese ports (in million tonnes). Source: SGX, Lange Steel Information Center.

Gold: Will the bull run last?

Hedge while you can – Gold had an exceptional 2024, rising 26% to $2600 / oz. In real terms, this is **even higher than gold prices during 1970s stagflation**. Another feature of the 'bull run' is that it was only the second time in a century it coincided with 20%+ US equity returns, suggesting the rally had little to do with safe haven demand.

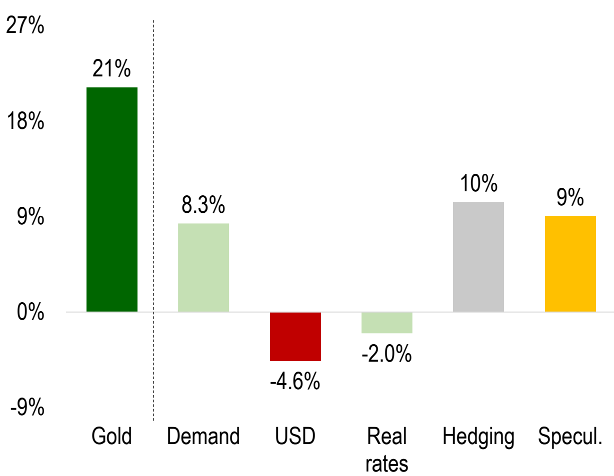
The same applies for traditional macro drivers, amid elevated rates and a strong USD. We find these factors lowered prices by 6.6% (F11). So what is behind the gold rush? Bullion largely benefited from two factors: **geopolitical risk and soaring demand in China**, as falling property prices encouraged a search for alternative stores of value.

Will gold reach new highs this year? The DM macro backdrop should prove more favourable than last year. Negative US growth surprises should translate into **higher equity volatility, driving demand for safe havens**. We also expect the Fed to cut more than markets anticipate, lowering real yields and limiting further USD gains. Stimulus in China, however, may prove detrimental if it props up housing and equity prices, discouraging demand for bullion.

Demand for gold as a macro hedge will also depend on policy uncertainty and inflation risk. Uncertainty over upcoming US policies and higher inflation worries still make bullion an attractive near-term diversifier. Yet the fact that **gold trades at a premium makes it an expensive alternative** (F12). Since we find that inflation risks remain moderate in 2025, we suggest gradually replacing gold positions in multi-asset portfolios for (very cheap) high quality debt.

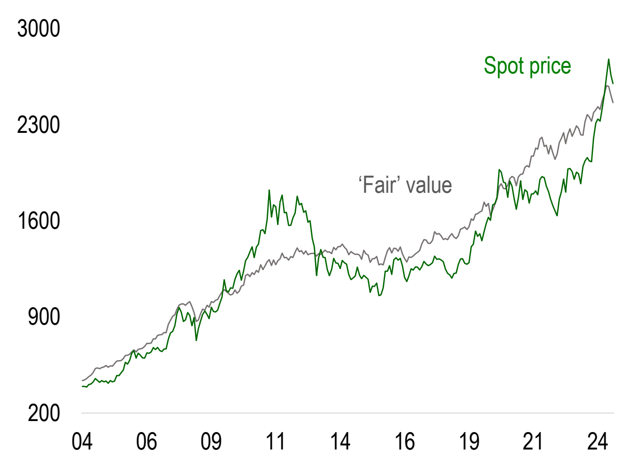
We currently identify a 64% chance that gold prices rise this year, with expected gains just above 10%. The likelihood of positive returns is in line with its long-term average, **but expected gains are much lower than average**, as gold is trading above 'fair' value. We also find that markets are properly pricing bullion's expected path. Specifically, we identify a high probability that gold trades close to the current futures curve this year, suggesting a neutral stance.

F11: A huge year despite tight Fed policy
Drivers decomposition - Gold prices (2024)



Note: Chart breaks down the estimated contribution of various market drivers to changes in real gold prices in 2024. Hedging proxied by equity volatility, geopolitical risk and breakeven inflation . Source: Numera Analytics.

F12: Gold now trading at a slight premium
Gold spot price vs modelled 'fair' value



Note: Chart compares spot prices for gold (in USD / tonne) to its 'fair' value, ie the value consistent with fundamentals. Source: Numera Analytics.

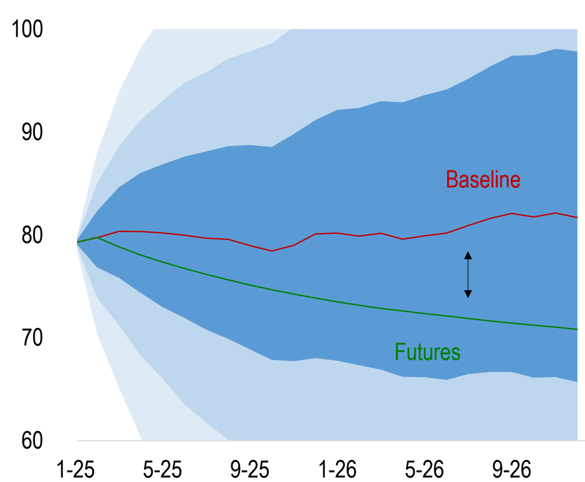
Commodity price forecasts

T1: Commodity outlook Price forecasts (USD)	Baseline scenario 1/25	12M	24M	12M probability forecasts (%) Positive returns	> Futures	Left-tail risk
S&P GSCI	**107**	**108**	**111**	**54%**	**-**	**-32%**
Brent crude oil	79	83	88	57%	69%	-52%
Henry Hub	3.94	4.35	4.67	53%	37%	-82%
LME copper	8 995	9 025	9 225	51%	43%	-41%
Iron ore (62%)	98	100	105	51%	56%	-81%
Gold	2 690	2 815	2 930	64%	39%	-17%

Units: S&P GSCI: Index (2010 = 100); crude oil: USD / bbl; Henry Hub: USD / MMbtu; copper: USD / MT; iron USD / MT; gold: USD / ounce.

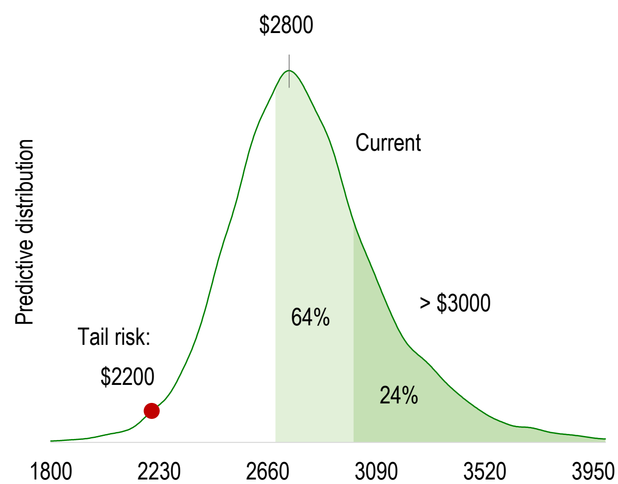
Source: History: S&P, LME, ICE, China Iron Ore & Steel Association; Forecasts: Numera Analytics. Models ran on 01/14/25.

F13: Crude oil outlook vs. futures
Probability forecast, USD / bbl (2025-26)



Note: Chart plots Numera's crude oil price forecast versus the ICE futures curve. Fan chart denotes 50 / 80 / 95% prediction intervals. Source: Numera Analytics, ICE.

F14: Gold price outlook - 2025
Probability forecast, USD / oz



Note: There is a 64% probability that gold prices exceed their current level by this time next year, and a 23% chance that gold trades above $3000 / oz. The worst potential outcome would be a decline to $2200. Source: Numera Analytics.

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