1H25 Commodities Outlook

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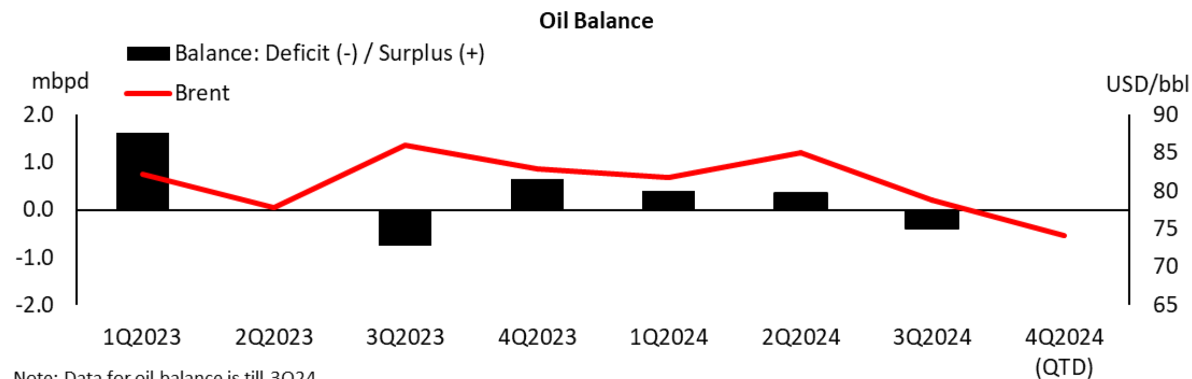
Crude Oil

Crude Oil: Easing oil prices driven by…

- Year-to-date, as of 9 December, Brent and WTI prices averaged USD80.2/bbl and USD76.1/bbl, respectively. Since mid-October, crude oil prices have traded within a narrow range. Specifically, Brent traded between ~USD71-76/bbl. Upside potential, driven by concerns that escalating geopolitical tensions in the Middle East and Europe could disrupt global oil supply, has been offset by lingering demand concerns and the prospect of a supply glut in 2025.
- In 2025, we expect global oil prices to continue moderating, with Brent and WTI averaging USD77/bbl and USD73/bbl, respectively, down from our 2024 forecast of USD80/bbl and USD76/bbl, as the anticipated buildup in global oil inventories is expected to curtail any upward pressure on oil prices.



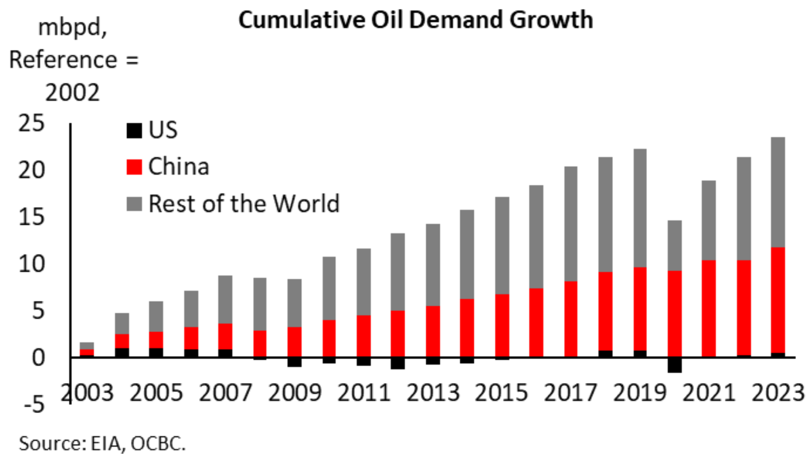
USD/bbl	9 December Close	FC 4Q24	FC 1Q25	FC 2Q25	FC 3Q25	2023	FC 2024	FC 2025
Brent	72.1	75.0 ↑	74.2 ↓	78.4 ↑	76.5 ↓	82.2	80 ↓	77 ↓
WTI	68.4	71.3 ↑	70.7 ↓	74.8 ↑	73.2 ↓	77.6	76 ↓	73 ↓

Note: Last updated on 10 December 2024. Forecasts (FC) are based on OCBC estimates. Price arrows are compared to previous period, i.e., 1Q25 average of USD74.2/bbl where ↑, ↓, and →, suggest higher, lower, and flat price from previous period, respectively. 2023 price is the average of daily closing prices. Source: EIA, IEA, OPEC, Bloomberg, Reuters, OCBC.

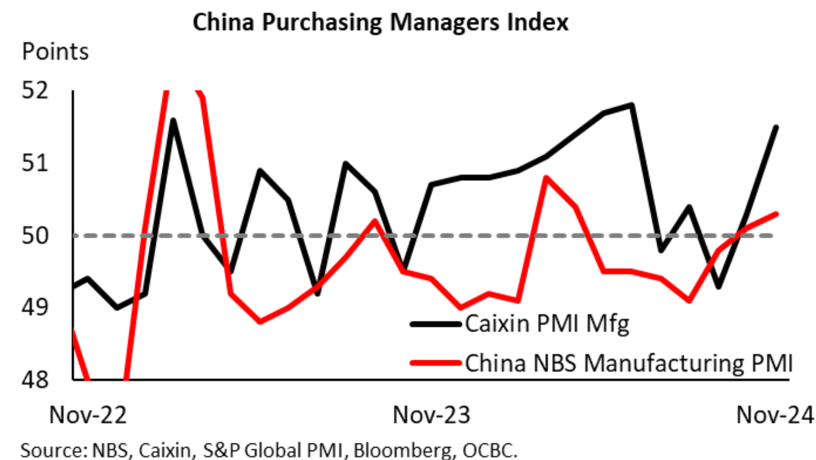
Source: EIA, IEA, OPEC, Bloomberg, Reuters, OCBC.

Crude Oil: Sluggish demand growth and…

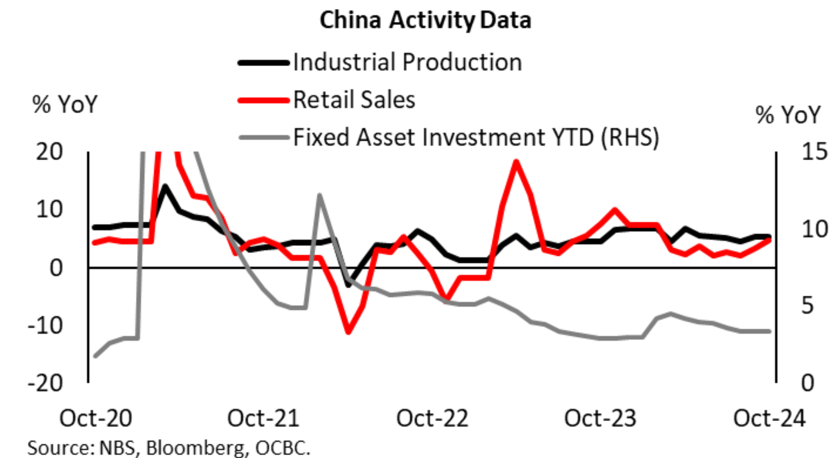
- US economic growth has been remarkably resilient in 2024, aided by the pivot to a global monetary policy easing cycle in 2H24. We expect the economy to grow by 2.8% YoY in 2024. Looking ahead, we anticipate that economic growth to remain stable at around 2.0% in 2025. To that end, we expect US oil demand to hold steady next year.
- However, the concerns lies with China's oil demand. China has accounted for ~40% of global oil demand growth over the last two decades and has established itself as a key engine of this growth. An uneven economic recovery in 2024 has weighed on the country's oil demand.
- Looking ahead, China's economic recovery will inevitably be impacted by growing headwinds. We expect economic growth to ease further to 4.8% in 2025, down from our forecast of 4.9% in 2024. Meanwhile, the domestic automobile landscape has been characterized by relatively high electric vehicle (EV) penetration. Taken together, these factors suggest that China's oil demand may disappoint and could likely weigh on the outlook for global oil demand growth outlook in 2025.



Source: EIA, OCBC.



Source: NBS, Caixin, S&P Global PMI, Bloomberg, OCBC.

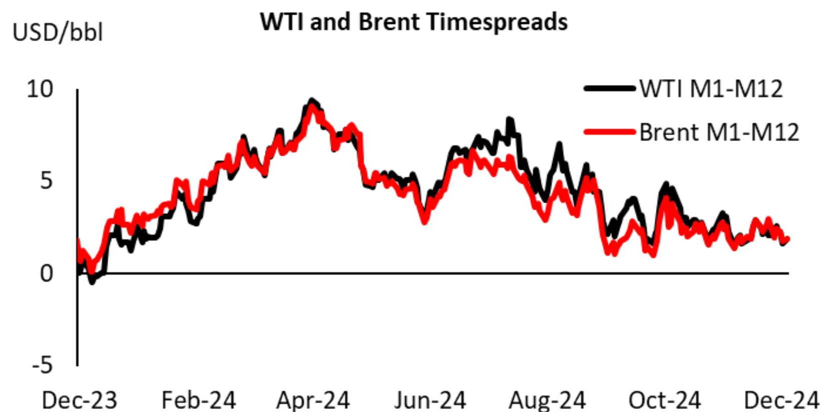


Source: NBS, Bloomberg, OCBC.

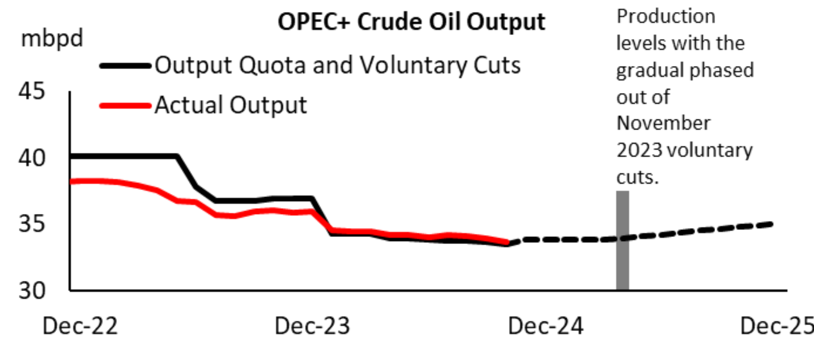
Source: EIA, NBS, Bloomberg, Caixin, S&P Global PMI, OCBC.

Crude Oil: An ample supply

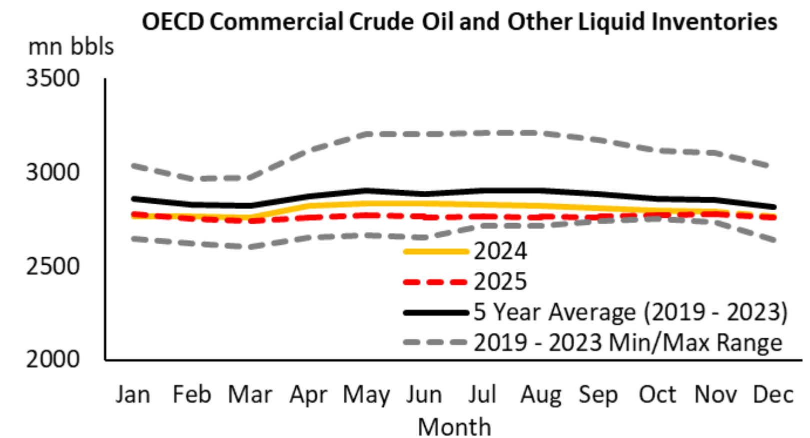
- We believe that supply will likely remain ample to meet demand in 2025, driven by non-OPEC+ production growth. Year-to-date, as of 9 December, technical indicators, such as time spreads (M1-M12), remain in a backwardation (i.e., current level higher than future level). However, this situation has significantly narrowed. Specifically, Brent time spreads have narrowed to USD1.9/bbl, down from a peak of USD9.1/bbl in April 2024. This underscores a relatively less tight physical oil market.
- With global oil demand growth expected to remain sluggish and the prospect of a supply glut in 2025, we believe that an extension of OPEC+'s existing production cuts is needed to support the oil market. To that end, the group has announced an extension to its second tranche of the additional voluntary cuts of 2.2mbpd for another quarter. Additionally, the group announced an extension of its existing cuts of 2.0 mbpd (group-wide) and the 1.7mbpd (first tranche of the additional voluntary cuts) to end-2026 (previous: end-2025).
- Recent moves by OPEC+ seem to suggest some willingness to support the oil market. However, the challenge for the group is to establish a delicate balance between supporting the oil market and managing the risk of potentially losing some market share to non-OPEC+ production growth.



Source: Bloomberg, OCBC.



Note: Angola left OPEC effective 1 Jan 2024; OPEC shared that the gradual phasing out of its November 2023 voluntary cuts is data dependent (i.e., the increase can be paused or reversed subject to market conditions).
Source: Platts OPEC+ survey by S&P Global Commodity Insights, OPEC, OCBC.

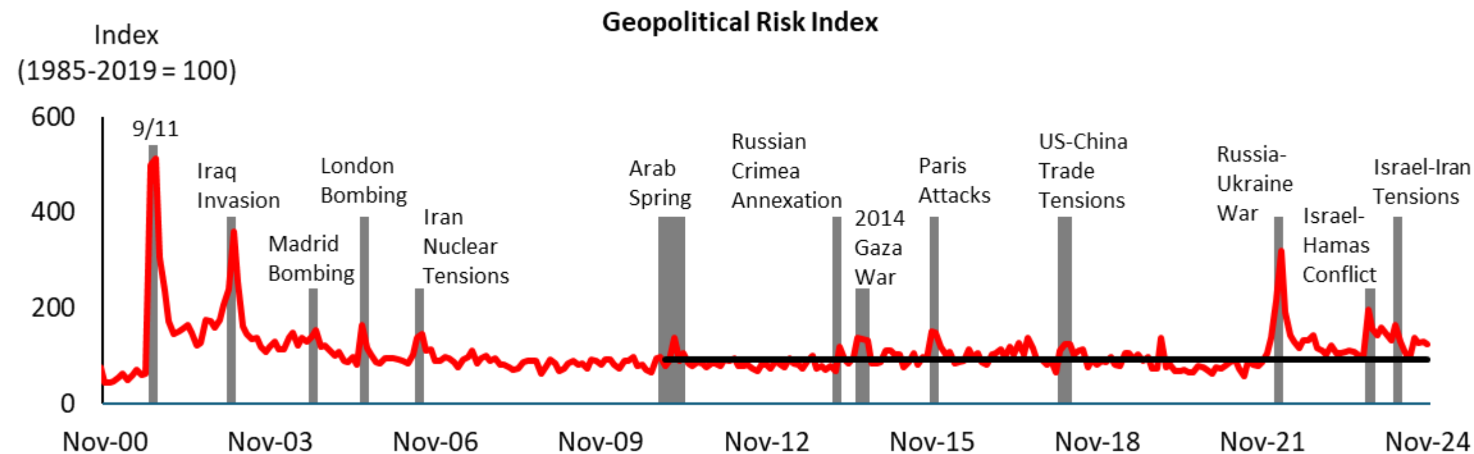


Source: EIA, OCBC.

Source: EIA, OPEC, Bloomberg, Platts, OCBC.

Crude Oil: Volatility to remain subdued

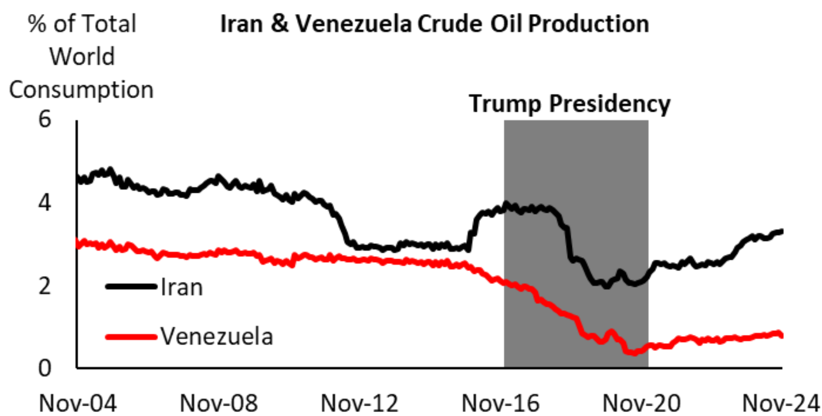
- Geopolitical risks have largely diminished since the onset of the Israel-Hamas conflict in late 2023. In 2024, there were several instances of escalating in geopolitical tensions in the Middle East and Europe, which exerted upward pressure on oil prices. However, the rallies were generally short-lived due to concerns about a weak demand outlook.
- In 2025, we anticipate that volatility to remain subdued due to the available spare crude oil capacity from OPEC. According to EIA, OPEC's surplus crude oil production stood at 4.8mbpd (15.4% of OPEC's crude oil production) in November. In the event of supply disruption, there is a considerable amount of capacity available to cushion the impact. There is, however, a concentration risk as most of this capacity lies in the Persian Gulf, which must be accessed through the Strait of Hormuz.



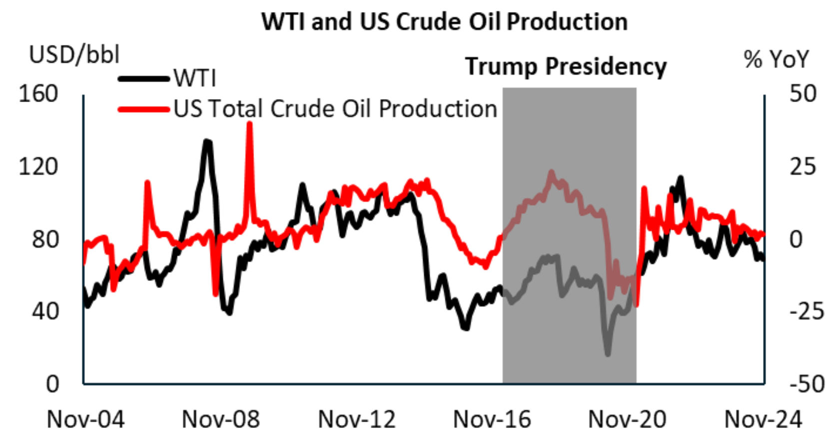
Source: EIA, Economic Policy Uncertainty, OCBC.

Crude Oil: Implications of potential Trump policies

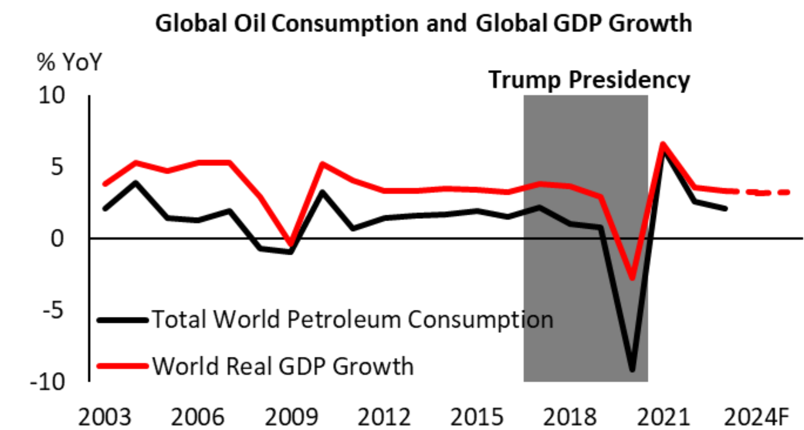
- The implications of a second term for Trump as President remain mixed at this point. On one hand, we might see a return to tougher enforcement of US oil-related sanctions which should support oil prices. During his first presidency, crude oil production in both Iran and Venezuela dropped to a low of 2.2mbpd. Under Trump 2.0, a renewed focus on stricter enforcement of oil-related sanctions against both countries could lead to a potential reduction of up to 2mbpd in their oil production.
- On the other hand, President-elect Donald Trump has a strong track record of supporting US oil production, which could serve as a countervailing factor. An increase in domestic oil production would likely depress oil prices. However, the risk is that producers might not respond as anticipated unless higher output translates into greater profitability and shareholder returns.
- Additionally, the uncertainty surrounding tariffs under a Trump 2.0 administration cannot be overlooked. The threat of a flat 10-20% tariff on all US imports and a 60% tariff on Chinese imports poses potential headwinds for 2025. The impact of these tariffs would likely weigh on global growth and commodity demand, which would negatively affect oil prices.



Source: EIA, OCBC.



Source: Bloomberg, EIA, OCBC.



Source: EIA, IMF, October 2024 World Economic Outlook, OCBC.

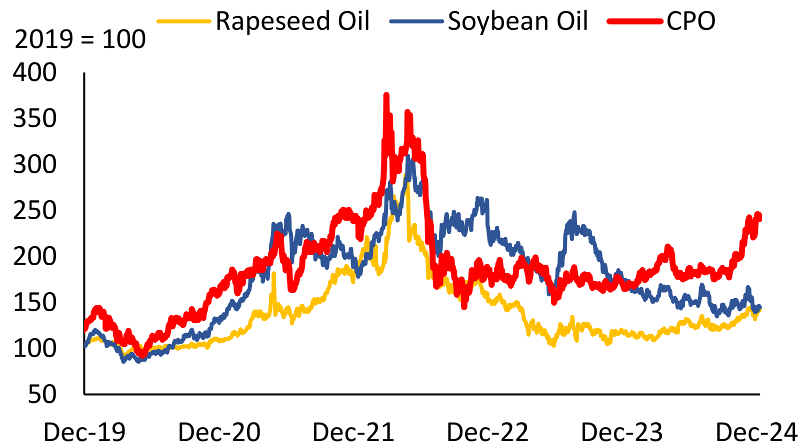
Source: EIA, IMF, Bloomberg, OCBC.

Crude Palm Oil (CPO)

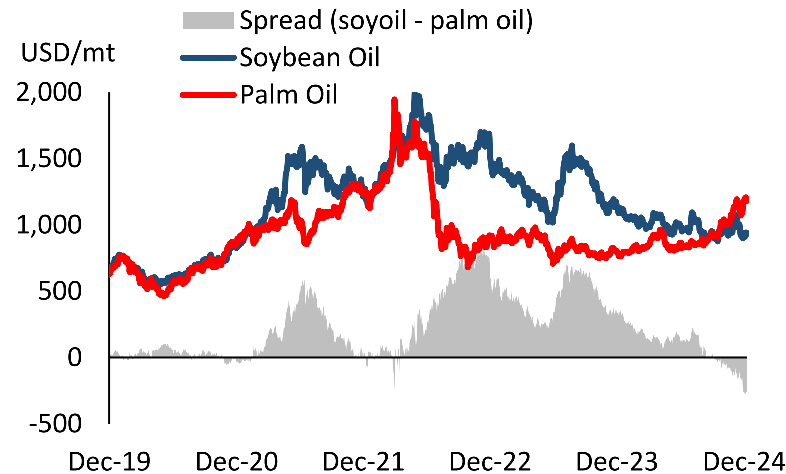
OCBC

CPO: Elevated, but expected to weaken from 2Q25 onward

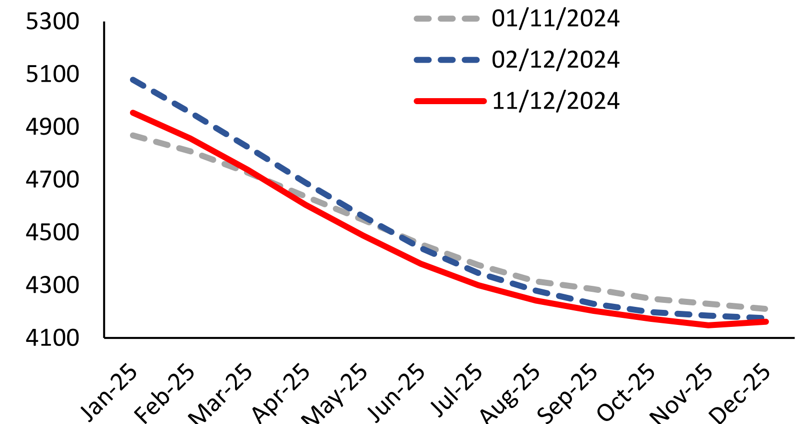
- Palm oil, which accounts for ~40% of global vegetable oil output, has seen prices rise by around 40% year-to-date (ytd), making it no longer among the cheapest vegetable oil. Supply concerns, coupled with the anticipated implementation of the B40 mandate (a blend of 40% palm oil and 60% regular diesel) in Indonesia, continue to support elevated price levels, even as demand softens in key consuming markets such as China and India compared to the previous year.
- Meanwhile, soybean oil, palm oil's closest substitute, has seen prices drop by over 10% ytd, reflecting a robust harvest in key regions, including Argentina and Brazil. Consequently, crude palm oil (CPO) is currently trading at a rare premium of ~USD220/mt, compared to an average discount of around USD434/mt in 2023.
- Into 2025, we anticipate prices to hover around current elevated levels in 1Q25 before normalizing from the second quarter onward, with the MYR4,000 level serving as strong support. We revised our forecast for CPO price to average MYR4,200/mt in 2025, up from MYR4,000/mt previously.



Source: Bloomberg, OCBC.



Source: Bloomberg, OCBC.



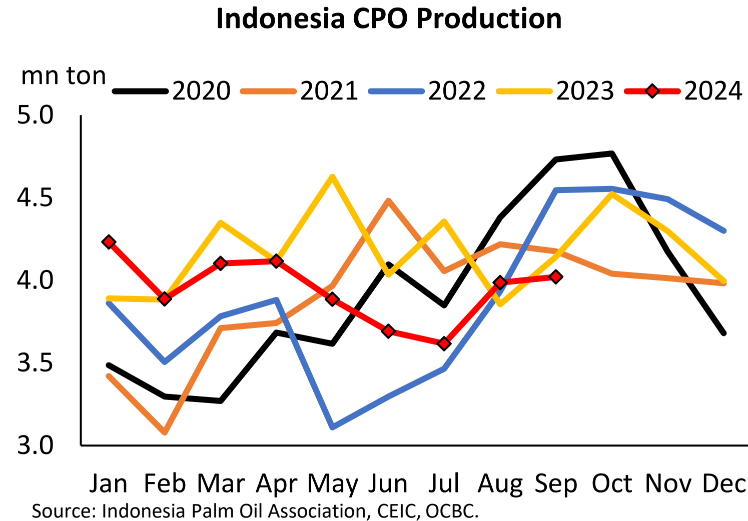
Source: Bloomberg, OCBC.

Source: Bloomberg, OCBC.

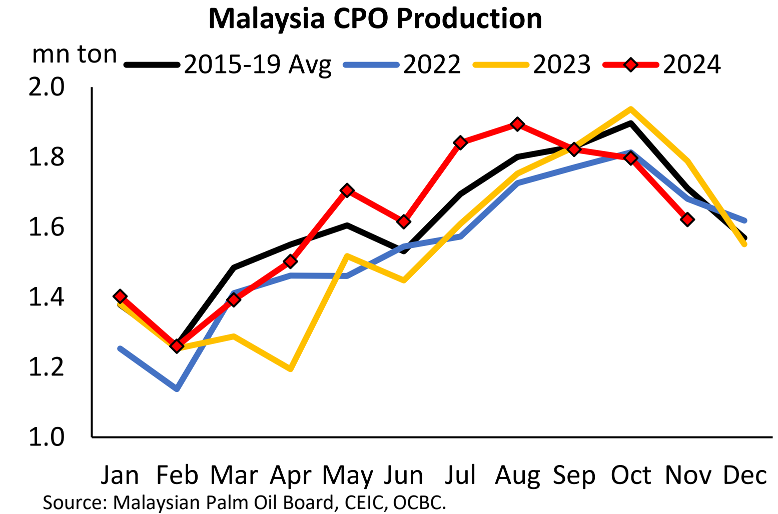
CPO: Production have peaked in Malaysia, still weak in Indonesia

- CPO production in Indonesia and Malaysia, which together account for about 84% of global palm oil output, has been mixed. Malaysia's 2024 production is expected to exceed 18.5mn tonnes, but recent data indicates it may be entering an off-peak season. Indonesia's production remains flat, likely falling below 50mn tonnes due to stagnant productivity, particularly among smallholders, who have seen minimal improvements from 2.5 tonnes per hectare in 2010 to 2.6 tonnes in 2024. With smallholders managing 40% of planted areas, enhancing productivity is increasingly crucial as area expansion becomes less viable.

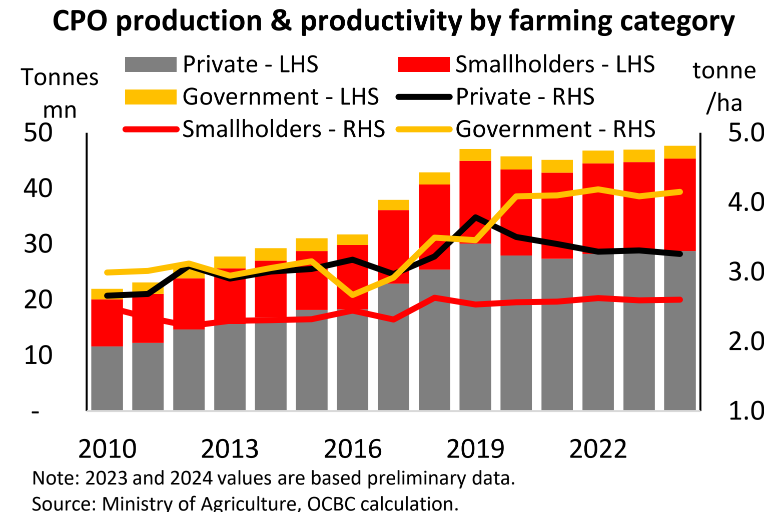
- Ongoing elevated CPO prices may delay replanting activities, which in turn could impede productivity improvements.



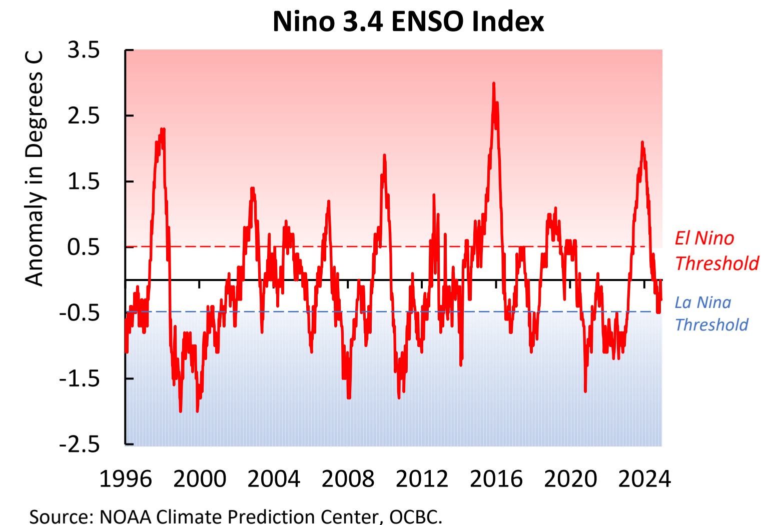
Source: Indonesia Palm Oil Association, CEIC, OCBC.



Source: Malaysian Palm Oil Board, CEIC, OCBC.



Note: 2023 and 2024 values are based preliminary data.
Source: Ministry of Agriculture, OCBC calculation.



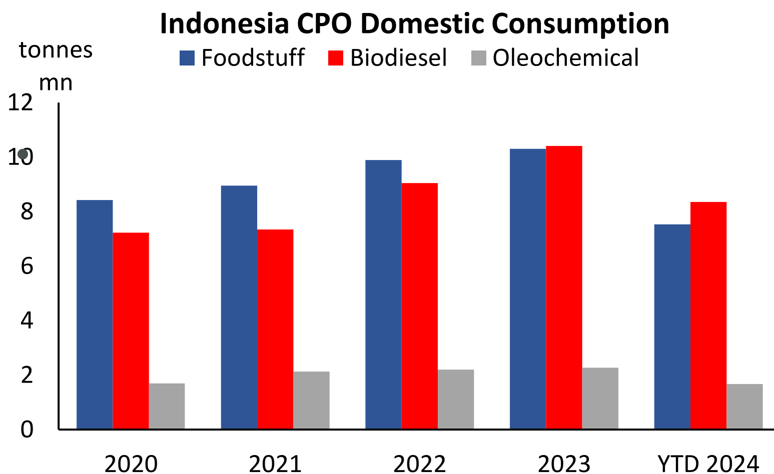
Source: NOAA Climate Prediction Center, OCBC.

OCBC

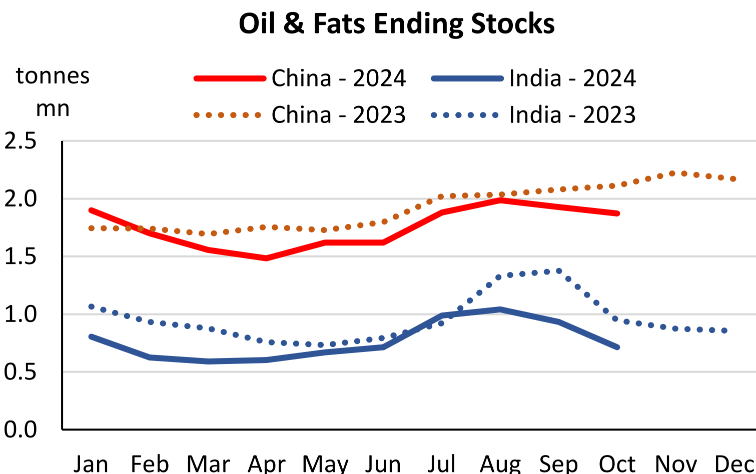
Source: IPOA, MPOB, CEIC, NOAA, Bloomberg, OCBC.

CPO: Policy changes as a key risk

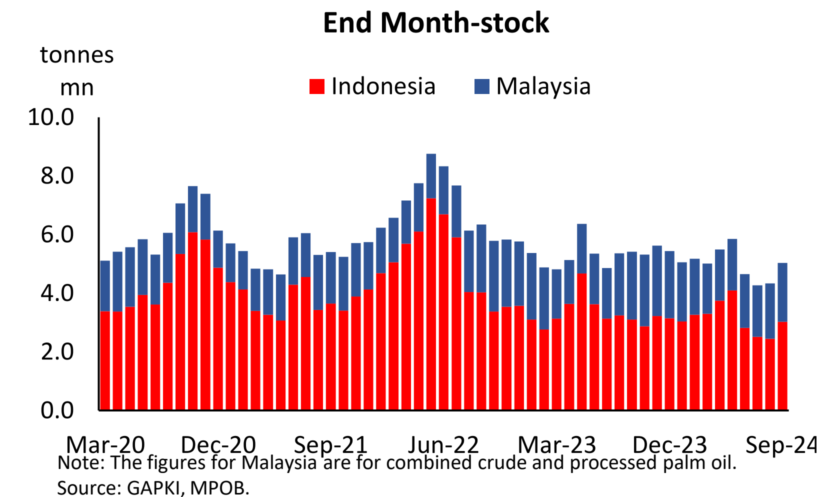
- Indonesia's B40 biofuel mandate is set to take effect on 1 January 2024, increasing from the current B35. This change could raise Indonesia's palm oil consumption for biofuel to 13.9mn tons in 2025, up from an expected 11mn tons in 2024, according to APROBI. Without significant productivity improvements, the B40 mandate may reduce Indonesia's exportable palm oil by an estimated 2mn tons in 2025 (Indonesia exported 32.2mn tons of palm oil 2023), adding pressure to the global CPO balance.
- Demand from key markets, China and India, the has been weaker this year. However, depleting stocks may prompt restocking ahead of the upcoming festive season (Lunar New Year, Ramadan). Similarly, the 12-month delay in the EUDR may continue to support demand from Europe. Meanwhile, end-month stocks in Indonesia and Malaysia have been relatively low compared to previous years.
- Near-term tightness in the CPO balance is likely to maintain an upward bias in prices. However, we expect improving production levels in 2Q25 onwards to pull prices lower. Additionally, bearish sentiment in soybean oil prices, driven by a robust global balance, will also exert a downward pressure on CPO prices.



Note: Indonesia has consistently increased its biofuel blending mandate from B15 in 2015 to B35 in 2023. Latest data as of September 2024. Source: GAPKI, CEIC, OCBC.



Source: MPOC, OCBC.



Note: The figures for Malaysia are for combined crude and processed palm oil.
Source: GAPKI, MPOB.

Source: IPOA, MPOC, MPOB, CEIC, OCBC.

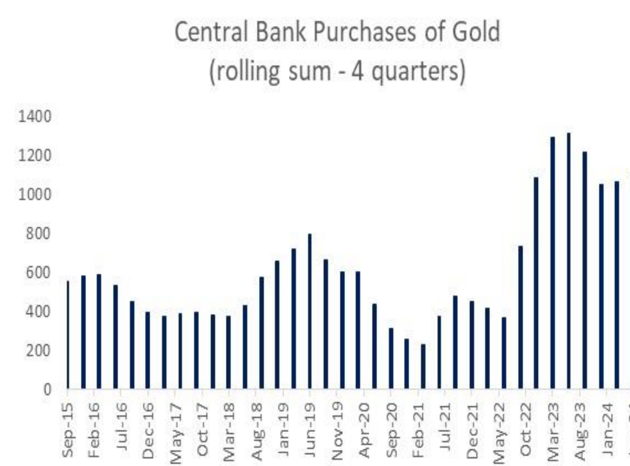
Precious Metals

Gold: Near Term Challenging but Still an Attractive Hedge

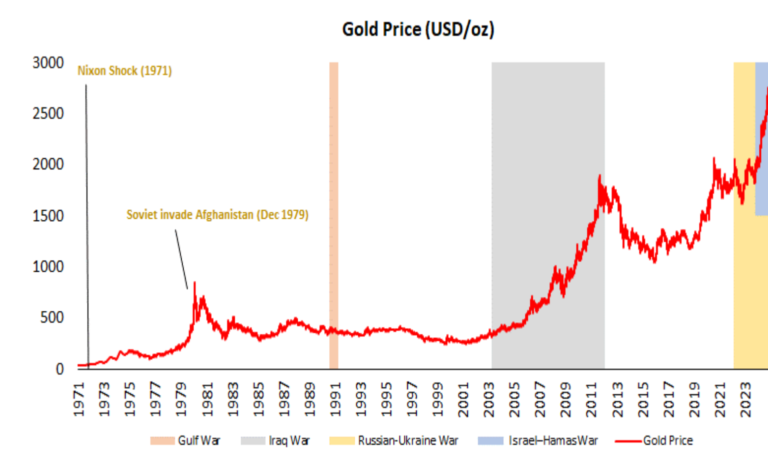
- Markets coming to terms with a more gradual pace of Fed cut cycle in 2025, ceasefire in Israel-Hezbollah, orderly US presidential transition and central banks buying less (due to higher prices) and position adjustments are some of the drivers that may limit the upside room for gold prices.
- However, other medium-term issues remain. Potential ballooning in US debt may bring back de-dollarisation narrative, adding to demand for gold
- Geopolitical environment still faces frequent confrontation, including Russia-Ukraine and Israel-Hamas. Protectionism measures may worsen US-China relations. The geoeconomic landscape is also seeing some structural changes amid shifting global supply chains while national security concerns are shaping economic policies and re-defining rules. This big shifts or transition to a new world order will see heightened uncertainties. Gold may still offer a safe harbour in times of uncertainty.
- Last but not least, most central banks are still easing monetary policy, albeit at a slower pace. This remains supportive of gold prices overall.

Adjustment of Long Gold from Stretched Positions

Central Bank Purchases of Gold Has Started to Slow in 2024



Historically, Gold Can Be In Demand In Times of War and Conflict



Source: Bloomberg, OCBC Research.

Gold: An Interim Top In the Making

XAU Curncy (Gold Spot $/Oz) Candle Chart Weekly 12DEC2019-10DEC2024

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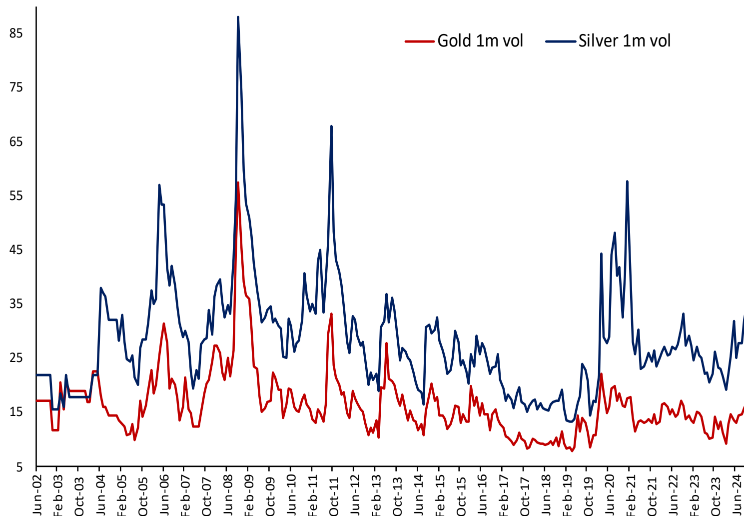
Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index

Source: Bloomberg (weekly chart), OCBC Research

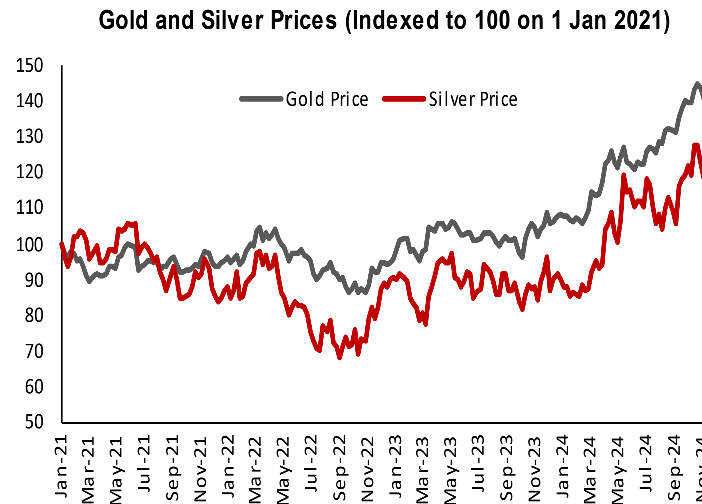
Silver: Riskier Hedge amidst Challenging Outlook

- Near-term outlook is largely driven by market and macro dynamics, including interest rate cycles, global growth outlook and geopolitics. Risk of Fed slowing rate cut cycle may temporarily weigh on prices of silver. With silver volatility higher than gold volatility, we do caution any negative spillover of sentiments may see silver correct further to the downside. In addition, silver net longs are correcting from highs, alongside softer silver prices. This may leave better levels for re-entry at some point.
- Medium term outlook remains promising due to industrial demand prospects, green transition and ongoing supply deficits.
- As silver exhibits the characteristics of a precious metal and is also an industrial metal, the combination of pick-up in global industrial demand rates normalising lower should further be supportive of silver outlook.

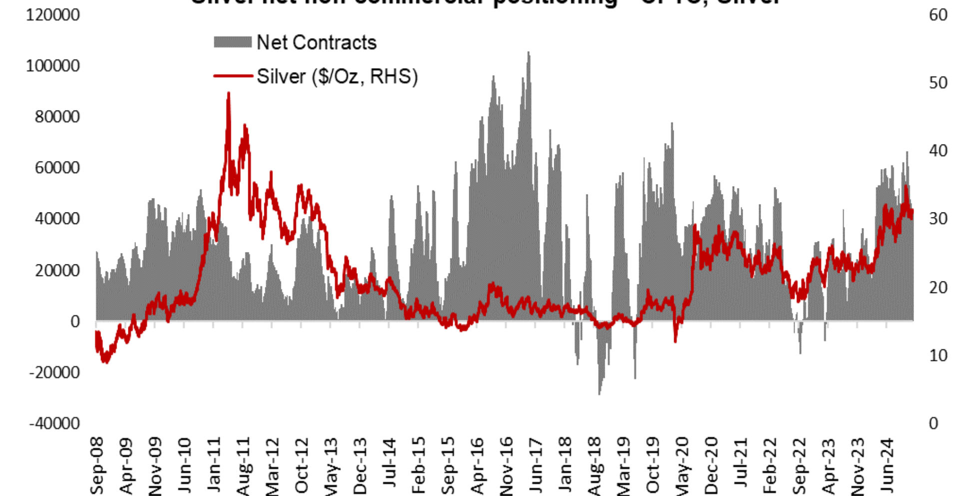
Silver Volatility Higher Than Gold Volatility



Gold Has Ran Ahead of Silver; Room for Catch Up?



Unwinding of Silver Net Long Position Alongside the Pullback in Silver Prices



Source: Bloomberg, OCBC Research.

Silver: Corrective Pullback Not Ruled Out

XAG Curncy (Silver Spot $/Oz) Candle Chart Daily 11DEC2021-10DEC2024

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Notes: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA; MACD refers to Moving Average Convergence Divergence; RSI refers to Relative Strength Index
Source: Bloomberg (daily chart), OCBC Research

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