WEEKLY ANALYSIS

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FURTHER RISE IN COMMODITY PRICES IN 2024

Crude oil prices could rise by +10% to +15% in 2024. Potential rebound in natural gas prices from $1.5 to $2.5 MMBtu. Target of $32 to $35 per ounce for silver not unrealistic. Promising trend reversal for industrial metals.

Key points

- Further rise in commodity prices in 2024
- Crude oil prices could rise by +10% to +15% in 2024
- Potential rebound in natural gas prices from $1.5 to $2.5 MMBtu
- Investment demand has yet to boost gold prices
- Silver's target of $32 to $35 an ounce is not unrealistic
- Platinum and palladium closely linked to a recovery in the automotive sector
- Promising trend reversal for industrial metals
- Energy transition to support copper prices
- Towards the disappearance of surplus aluminium production

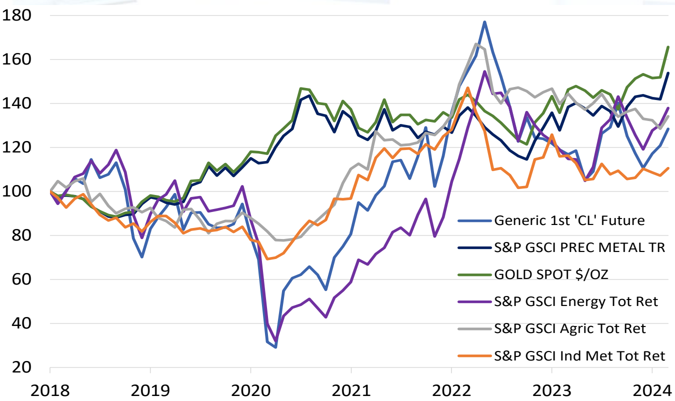
Further rise in commodity prices in 2024

When it comes to recent fluctuations in commodities, one quarter follows another, and they're not at all alike. Indeed, after a last quarter of 2023 marked by profit-taking and a -10.73% drop in the S&P Goldman Sachs Commodities Index, the 1st quarter saw the complete opposite take shape, with an increase of +10.36%. As in Q3 2023 (+15.98%), commodities once again benefited from the rise in oil prices (+16.08%) above all, but also from gold prices (+7.03%). The volatility of crude oil prices has been relatively high, judging by trends over the last three quarters (+28.52%, -21.08% and 16.08%), while the trend was much clearer for gold (-3.68%, +11.6% and +7.03%). Over the last three quarters, the overall rise in commodities has taken place in an ultimately positive context for the trade-weighted dollar, which edged up by +1.53% over nine months (+3.17%, -4.56% and +3.11%). While the first few months of 2024 have certainly been weak economically in the European Union, the United Kingdom and Japan in particular, our expectations for national GDP growth in the coming quarters are more positive and are based on a dynamic still close to +2% in the USA and on a moderate upturn in activity in Europe after a short phase of economic stagnation.

The outlook for global growth is therefore favorable, and in excess of +3% in 2024, although this estimate could be raised further depending on the reaction of developed and emerging economies to the next phase of coordinated key-rate cuts. Asia, and China in particular, will benefit from improved economic conditions in industrialized countries, which should enable their foreign demand to strengthen. After a long wait for economic recovery in China, it is now likely that the economy is gaining momentum and revitalizing itself.

Commodities will be favorably impacted by this acceleration of growth in China, which will necessarily have an impact on demand for commodities. China's recovery is likely to be one of the main factors behind renewed upward pressure on crude oil prices and industrial metals in particular. We believe that commodities will benefit in 2024 from a strengthening of demand and upward price trends in the three main segments (energy, precious metals and industrial metals).

Commodities



Sources: Bloomberg, BBGI Group SA

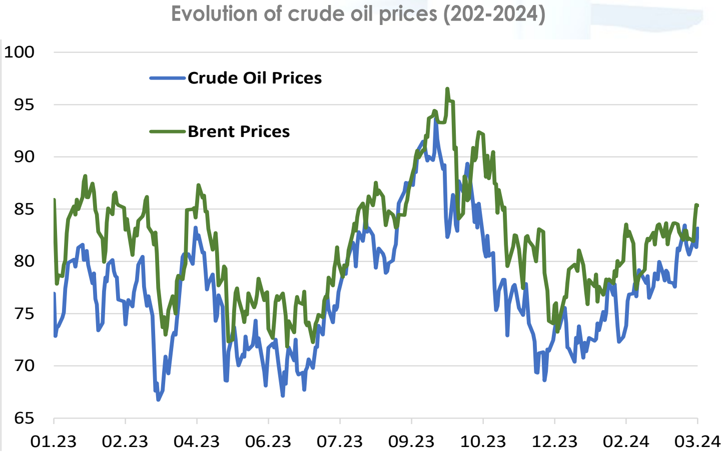
Crude oil prices could rise by +10% to +15% in 2024

Volatility has continued to be a major feature of the energy segment in recent months. In particular, crude oil prices have fluctuated wildly according to economic scenarios and the assessment of crude oil demand trends in these various scenarios. As far as supply was concerned, the scenario seemed less volatile, in particular due to OPEC's policy, which has remained relatively clear and stable in recent quarters. Oil production remains tightly bound and constrained by the main OPEC producing countries, which have decided to maintain their reduced production levels until further notice.

Geopolitical aspects also had a punctual influence on prices from October 7, 2023 onwards. Developments since then in tensions in the Persian Gulf and attacks on ships using the Suez Canal route have often added uncertainty to the delivery times of crude oil cargoes bound for Europe, and thus supported prices. The organization of a US-led international interposition force to protect commercial vessels has been enough to reassure markets in recent weeks, but it is not certain that this will be enough to eliminate uncertainty, at a time when transport costs have risen sharply. In terms of supply and demand, while production seems relatively stable, the same cannot be said of demand. Demand for crude is expected to rise by almost 2mbpd in 2024.

But it seems to us that, overall, growth expectations for the global economy in 2024 are certainly still cautious and do not sufficiently reflect the potential that could develop in the 2nd half of the year in an environment characterized by resolutely accommodating monetary policies and a downward adjustment of yield curves. We believe that growth in developed countries is currently underestimated, as is that of China, in our assessment of global crude oil demand over the next three quarters. Our outlook for WTI and Brent prices is therefore based on demand slightly outstripping supply, which will support a continuation of current price rises. WTI prices can therefore easily move towards $100 a barrel, while Brent prices will approach $105 a barrel over the next few months.

Evolution of crude oil prices (202-2024)

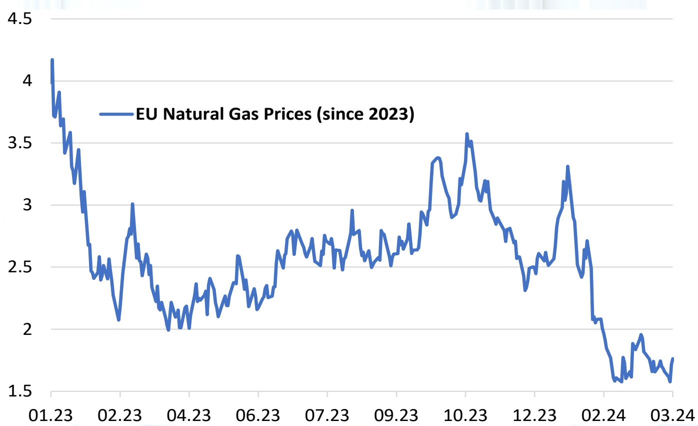


Sources: Bloomberg, BBGI Group SA

Potential rebound in natural gas prices from $1.5 to $2.5 MMBtu

Natural gas ended the quarter in last place among the twenty-four commodities in the S&P GSCI universe, with a price collapse of -29.87%. In 2023, the United States emerged as the world's leading LNG exporter, ahead of Australia (10.5 Bcf/d), Qatar (10.1 Bcf/d), Russia and Malaysia (around 4 Bcf/d), exporting no less than 11.9 Bcf/d and recording an increase in exports of almost +13%. Europe was once again the main consumer of liquefied natural gas, accounting for 66% of US exports. According to the US Energy Information Administration (EIA), US gas export capacity is set to more than double to 24.3 Bcfd by 2027. Export capacities are also expected to rise in Canada and Mexico. Demand for liquefied natural gas is also set to rise sharply, by an estimated +50% over the next fifteen years. In the short term, demand seems to be growing more strongly in Asia than in Europe, due to the still low level of industrial production in Europe and a relatively mild winter that has had little effect on stocks, which are now well above their historical average. LNG consumption is also expected to grow by +2.5% in 2024, which should support the current change in perception of immediate price trends. The price collapse seen between January and February was then followed by a consolidation phase above $1.5 MMBtu, which could now be followed by a very significant recovery with the expected economic recovery in Asia. US natural gas prices may benefit from this positive trend to regain the $2.5 MMBtu level over the coming months.

DOE oil inventories



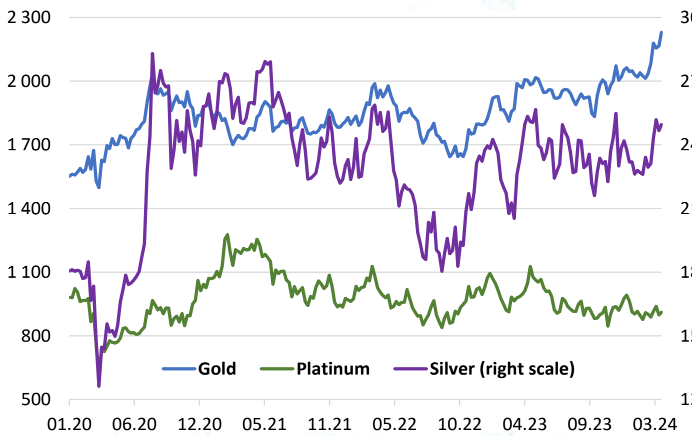
Sources: Bloomberg, BBGI Group SA

Investment demand has yet to support gold

The last quarter was a good one for precious metals, which recorded an overall increase of +7.05%, following on from an already impressive +10.99% rise in the 4th quarter. The price of the yellow metal has soared to new heights in recent days, after long stabilizing at levels close to its previous peaks of 2020, 2022 and 2023, just below $2,100 an ounce. In 2023, gold prices were unable to resist profit-taking on the approach to all-time highs, while the stock market environment was characterized by tightening monetary conditions and rising bond yields.

A few weeks ago, we were of the opinion that the approaching Fed rate cut date would be a favourable factor for a return of investor interest in the yellow metal, while the recent rebound in long rates was also, in our view, coming to an end. Further downward adjustments in rates will contribute to a further rise in gold prices. We believe that investors are still largely under-exposed to gold, and that a simple revival of interest would have significant consequences for gold in the present context. The flow of investment into physical gold is only just picking up, which leaves considerable potential for demand to increase over the coming months. Our outlook is still positive, although recent developments are already profitable enough to trigger some profit-taking. In this specific context, the current trend may yet advance towards the $2,400 to $2,500 an ounce level, but it may well then be subject to more significant profit-taking.

Precious metals price trend (2023-2024)



Sources: Bloomberg, BBGI Group SA

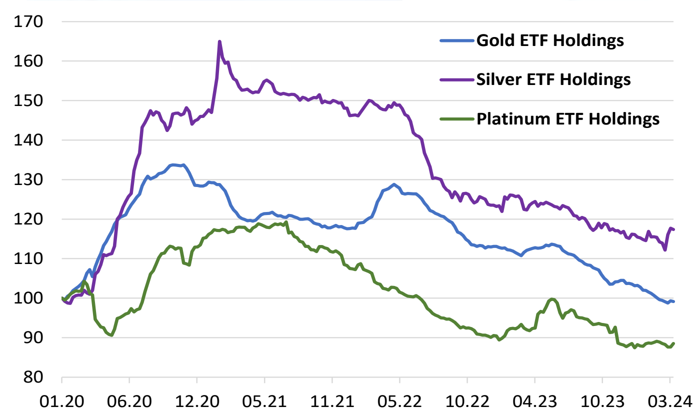
Silver's target of $32 to $35 an ounce is not unrealistic

Silver prices have finally followed those of gold in 2024. Over the 1st quarter, silver rose by +4.91%, slightly less than gold. The gold/silver ratio therefore deteriorated further, moving away from its historical average. We believe that, despite this good performance, silver prices remain too low and do not reflect the very positive fundamentals of the current market. Industrial and jewelry demand is expected to grow strongly over the next ten years, particularly in connection with the energy transition. Demand for the booming solar sector is extremely robust, as is that linked to the production of electric vehicles. These two sectors will strongly influence global demand for silver over the coming decades. In the long term, the industry's needs may well exceed current production and reserves. The physical market was already in disequilibrium in 2022, with demand exceeding production, which was also in slight decline, by more than 230 million ounces. The current trend is similar, highlighting the fact that recent imbalances have already largely offset the surpluses of the previous decade. Silver, like gold, is also an alternative to the dollar and to money in general. In a global environment still characterized by growing mistrust of the United States on the part of the world's major economies, such as China, India and Brazil, de-dollarization logically involves these countries and their central banks reducing the weight of their dollar reserves and increasing the weight of physical investments in gold and silver. This underlying trend will be long-lasting and potentially growing. It is also confirmed by statistics showing an increase in purchases of precious metals by emerging central banks. It has not yet materialized in 2023, as suggested by the decline in volumes invested in physical ETFs up to the end of October, but we believe it should strengthen again with the fall in the dollar and the correction in interest rates. The rise in gold prices that we predicted at the start of 2023 is continuing, and has reached new heights today. The current ratio between silver and gold prices has risen again, from 81 to 89, and is a long way from its historical average of around 40-1. When this ratio returns to its average, silver prices strongly outperform gold prices. Geologists also consider the silver/gold reserve ratio to be less than 20-1, which in the long term suggests a downward trend in this ratio over the next few years. In the medium term, we anticipate a limited rise in gold towards $2,600 per ounce, accompanied by an increase in silver to between $32 and $35 per ounce, which would mean a return of the gold/silver ratio to around 74.

Platinum and palladium strongly linked to a recovery in the automotive sector

Both metals are closely linked to the automotive sector and to global vehicle production. Almost 75% of palladium demand comes from the automotive industry, for industrial applications linked in particular to the manufacture of catalytic converters, as is also the case for platinum (40%). An improvement in manufacturing activity linked to vehicle production in China, Europe, Japan and the USA is now increasingly likely for the second half of 2024. Leading indicators in the manufacturing sector are improving significantly, and are now increasingly above growth thresholds everywhere. The supply deficit, job cuts and imminent mine closures in South Africa are likely to strengthen prices in normal times, which have slipped with the perception of weak conditions in China and the automotive sector in previous quarters.

Trends in physical holdings of ETFs (precious metals)



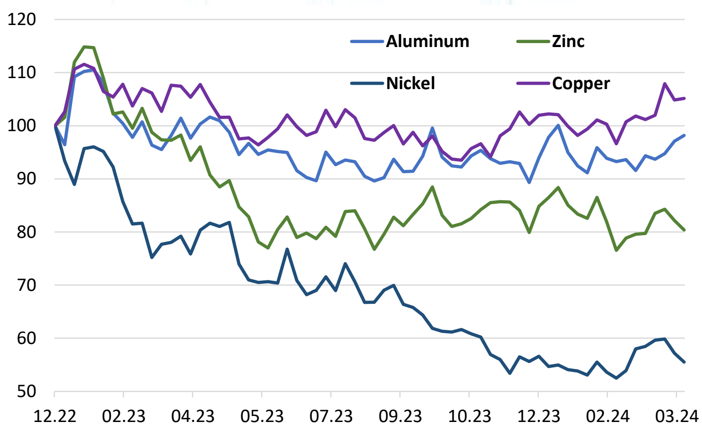
Sources: Bloomberg, BBGI Group SA

In addition, due to the decline in activity in these sectors over the last two years and the decline in the prices of these two metals, there is now a significant accumulation of speculative short positions. These high speculative bearish positions could be countered by a surprise rise in prices sufficient to trigger a short squeeze. A sharp rise would then be highly likely, triggered by short sellers' need to cover their shorts. A consolidation of palladium prices between $900 and $1,000 per ounce now seems to us to be conducive to the triggering of an uptrend that could take palladium prices to $1,300. The prospects for a recovery in platinum seem less attractive, but an increase from the current level of $900 per ounce to $1,150 per ounce seems possible.

Promising trend reversal for industrial metals industrial metals

Industrial metals lagged far behind the general trend in commodities in Q1 2024, and still don't seem to be in favor with investors. With an imperceptible rise of barely +0.25%, the segment clearly underperformed other commodities. This virtual stagnation masks a certain disparity in performance between the various metals, with copper up a modest +3.6% and zinc down -8.24%. Since the last crisis linked to Russia's invasion of Ukraine, which saw industrial metal prices soar by around +50% in just a few days, a steady decline has followed, with the Bloomberg Industrial Metals Index plunging by -50% to finally hit a low on February 12, 2024. At the end of the quarter, the industrial metals segment was still fairly heavily penalized by a mixed global growth outlook, affected by lower-than-expected Chinese growth and by the probably overestimated risk of recession in Europe.

Evolution of Industrial metal prices (2023-2024)



Sources: Bloomberg, BBGI Group SA

Inventory levels for most industrial metals are particularly low, however, and cannot easily be used as an adjustment variable if demand picks up. This is bound to have a further positive impact on prices. A reversal of the upward trend is expected for aluminum, copper, cobalt and nickel. The new need for industrial metals, essential for the implementation of the energy transition, is also an extremely important factor in the evolution of global demand. The fall in capex in recent years continues to weigh on supply levels, thereby limiting the risk of a sharp rise in inventories. Our outlook is positive for all industrial metals, which will benefit from increased demand for infrastructure, wind power projects, railways and the fast-growing electric car sector. The 2nd quarter of 2024 may well be the turning point for this very depressed and neglected raw materials segment.

Energy transition to support copper prices

The copper market is already in deficit, with supply unable to keep pace with global demand. The ongoing energy transition is one of the main driving forces behind the sharp rise in copper demand. This trend is sustainable and will continue to influence demand levels for some time to come. The latest developments in artificial intelligence and the strong growth in data center construction will further reinforce this high demand, to the point of representing additional demand estimated by Trafigura (one of the world's leading commodities traders) at one million metric tons of copper by 2030. Copper was one of the first industrial metals to react in 2024 to changes in the global growth outlook, now significantly less pessimistic than expected in 2023. The beginnings of an economic recovery in China and its industrial production, as well as better leading indicators for the manufacturing sector in a number of countries, finally altered investor expectations and had a positive impact on copper prices. Copper is now trading at its highest level for fifteen months, with fears over production capacity in the face of growing demand and mining problems underpinning the rise in recent weeks. Once again, we realize that copper is essential for everything from cables and electric turbines to solar panels, electric vehicles and more. The energy transition is one of the key factors underpinning demand, while supply can only potentially increase on the basis of more attractive price prospects. Our outlook for copper after this increase remains bullish, with a further rise of +15% forecast for 2024.

Towards the disappearance of surplus aluminium production

The aluminum market is estimated at around 230 billion USD in 2023, and is expected to grow by +6% per year over the next five years. The proportion of aluminum in vehicle production is steadily increasing, due to its ability to reduce vehicle weight. But the growth in demand also concerns the need for aluminum to produce aluminum-ion batteries, whose capacities are greater than those containing lithium. The market is segmented between construction, transport, packaging, electrical applications, machinery and sustainable development. Demand for aluminum has recently been stronger than expected in China, thanks in particular to the renewable energies sector. This trend should also materialize in industrialized countries. China is the world's largest aluminum producer, accounting for 60% of the market, but it appears to have reached a production peak in 2023, suggesting that its imports will soon rise as the economy recovers.

The market is potentially still in surplus in 2024, but this situation should be resolved as demand rises and supply contracts. We believe that aluminum prices will be more influenced by a rise in demand from industrial activities linked to the decarbonization of production. Aluminium prices were again volatile during the 1st quarter, first falling by almost -10% before rebounding by +8% in March. The recent positive trend is linked to the change in perception of the economic situation in China and to better industrial production statistics in particular. The adjustment of prices to this new perception of Chinese dynamics does not yet seem to us to reflect the potential evolution of prices in the global economic environment we project for 2024. Aluminium prices could well appreciate further over the coming quarters, reaching $2,600 per metric ton.

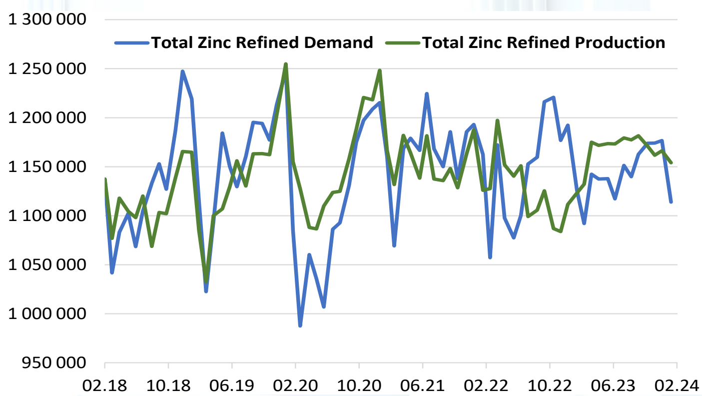
Nickel market to remain overproduced in 2024

Nickel is undoubtedly the industrial metal with the widest gap between supply and demand, and the most difficult to rebalance. The fall in demand is exacerbated by a Chinese real estate market in dire straits and by a drop in the need for nickel in the production of stainless steel for building materials and industrial equipment. Nickel production has been rising steadily for several years, approaching 3.6 million metric tons in 2023. With production estimated at 1.8M metric tons, Indonesia is the world's leading producer, accounting for more than half of global output. Indonesia's nickel overproduction and weaker demand from the electric vehicle sector have pushed prices below $16,000 per tonne to their lowest level since 2021. Nickel producers are aware of this, however, and are attempting to rebalance the market by reducing production. The risk of overproduction for the nickel market remains high. The downside potential for prices seems limited, however, given the declines already recorded, but potential surprises that could bring about a fundamental change in market equilibrium are equally unlikely. Nevertheless, after a price collapse of -50% and a long stabilization phase above $1,500 per tonne, an improvement in global sentiment towards industrial metals and an upturn in activity in both the battery and construction sectors in China could together provide a new, positive impetus for nickel prices. A rebound towards $2,000 per tonne is therefore not impossible, and would represent an increase of +10%.

Zinc outlook closely linked to Chinese recovery

Zinc is mainly used in the galvanizing process, which protects steel and iron from rust. The galvanizing market accounts for 60% of the overall market, with the use of zinc in alloys (13%), in the production of brass or castings (11%) and in the production of chemicals (9%) together making up the remainder of demand. China is the leading zinc producer (33%), ahead of Peru (11%) and Australia (10%). In recent quarters, weak demand for zinc has driven down prices and increased inventories. Clearly, the real estate situation in China and the economic slowdown elsewhere in the industrialized world have contributed to the drop in demand. The potential oversupply is estimated at around 80,000 tonnes in 2024, before returning to equilibrium in 2025. An improvement in fundamentals will require a global economic upturn and an increase in demand for batteries for electric vehicles, as well as a recovery in galvanized steel requirements in China. Zinc prices were slightly more volatile than nickel prices at the start of the year, undergoing the same fluctuations with slightly greater amplitudes. The -15% fall at the start of the year was followed by a +13% recovery in mid-March. Improving economic conditions in China also appear to be the determining factor in zinc's price recovery. An increase from $2,400 to $2,600 per metric ton seems likely within the fluctuation range observed over the last twelve months, before a possible breakout that would push prices higher towards a target of $1,800 to $3,000.

Difference between Zinc production and demand



Sources: Bloomberg, BBGI Group SA

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