Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

July 2019

Fed's rate call eyed for commodity direction

1 All commodities – Energy / Precious / Industrials / Agri

Fed's rate call eyed for commodity direction

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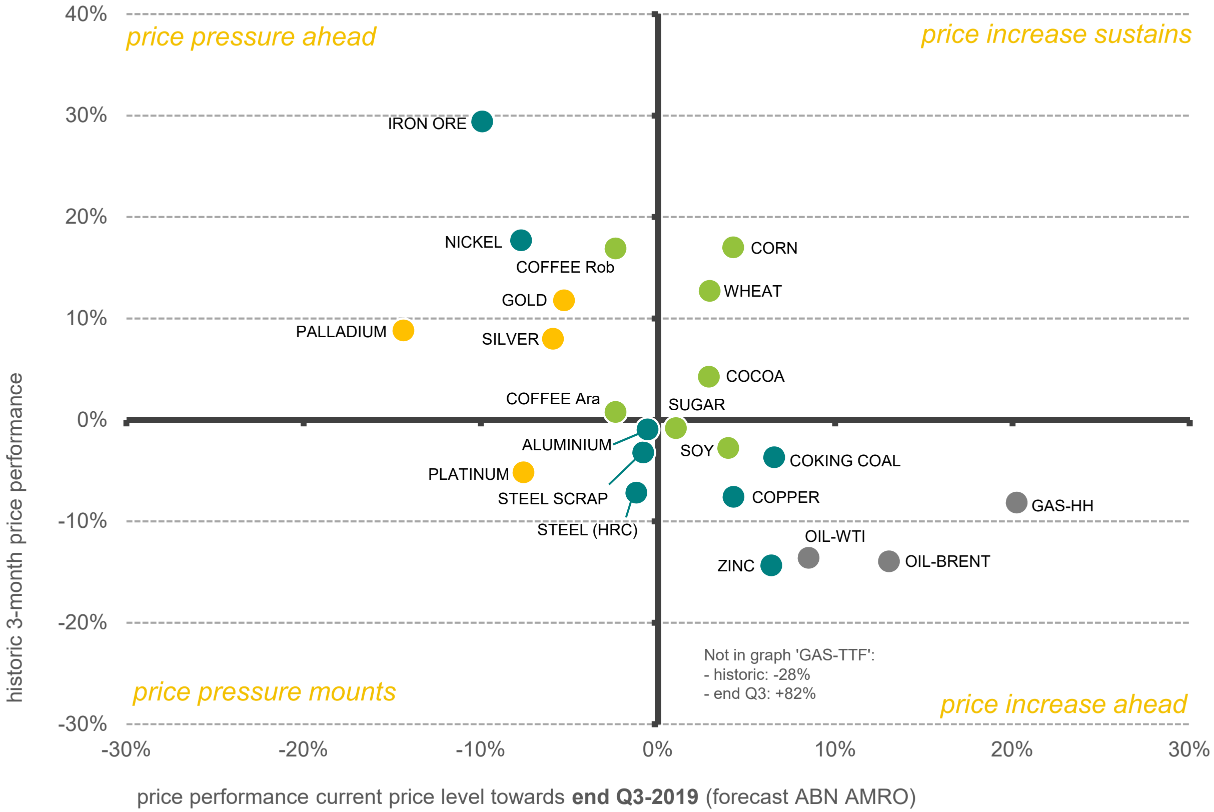
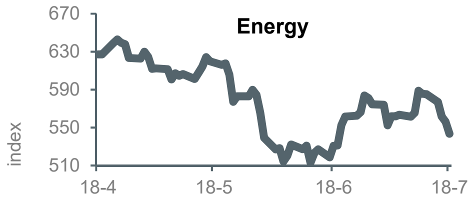
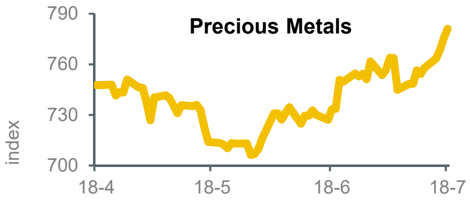
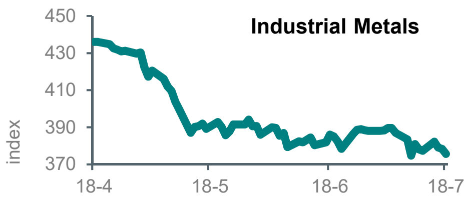
- Expectations about Fed rate cuts proved to be supportive for alternative investments like US dollar-denominated commodities. As we expect a lower probability for a larger than 25bp rate cut than the market is pricing in, there is a risk of disappointment. This may result in some profit taking on the longs and thus add some pressure later this month if the Fed cuts by 'only' 25bp.
- On top of that, the lingering trade dispute between US and China continues to cap upside potential. As a result, the CRB-Index continued to trade within the 180-195 range (currently at 187).
- For most commodities, we expect sideway trading to continue in the coming months. Oil prices are range bound (Brent $60-80/bbl, WTI $50-70/bbl) while base metals and tropical commodities also show a mixed picture.
- Downside risks emerge for gold as the rally may have run out of steam.
- All-in-all, we remain neutral on commodity prices this year but see upside potential in 2020.

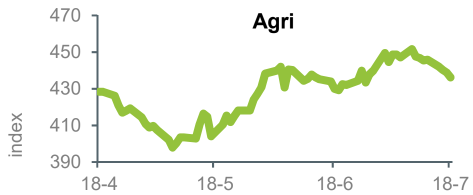


Price trend commodity classes over past three months (Thomson Reuters Index)









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

2 Energy – Oil / Gas

Oil prices range bound between trade- and geopolitical tensions

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Oil prices found some support in recent weeks on the back of:

- Higher geopolitical tensions in the Middle East. Especially the tense situation between the US and Iran – and the effects it could have on the transportation of crude through the Strait of Hormuz (20% of global supply) – has translated into a higher risk premium in oil prices.
- OPEC+ extended its production cut agreement (of 1.2 mb/d) by 9 months as expected. The next meeting will be early December.
- Fed's Powell's comments, suggesting lower US interest rates, as well as a surprise drop in US crude inventories have supported oil prices.

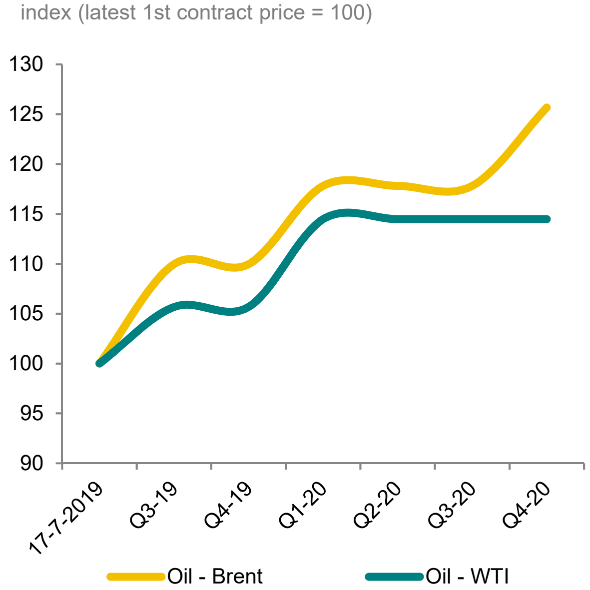
However, other drivers capped the upside of oil prices:

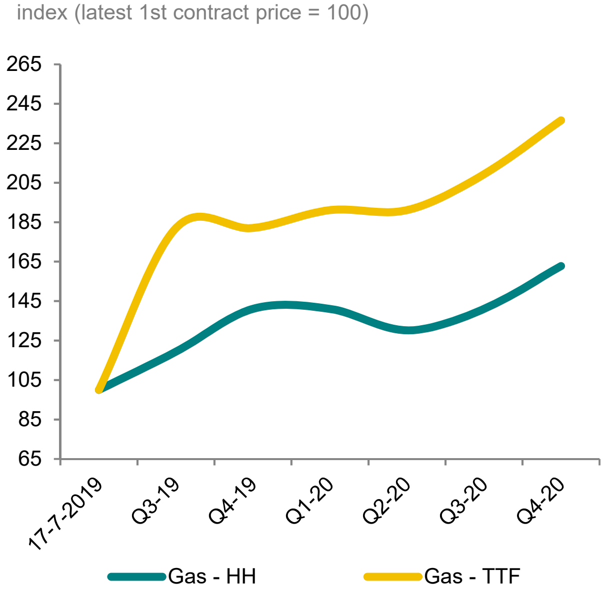
- the ongoing trade tension between US and China have weighed on oil prices because of the prospect of lower global oil demand. Chinese GDP disappointed (6.2%) and both OPEC and the IEA lowered their demand expectations for global growth of crude oil demand.
- Moreover, US crude production is still irising and this also weighs on prices. This is despite a slowdown in recent weeks (could be seasonality).

The current opposing factors will probably keep oil prices in a range. Therefore we don't see a reason to adjust our forecasts at this stage.

	1st contract	*- end of period prices -*								*- averages -*	
	18-07-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Oil - Brent *(USD/barrel)*	62	64	69	70	70	75	75	75	80	70	76
Oil - WTI *(USD/barrel)*	55	55	60	60	60	65	65	65	65	60	65
Gas - Henry Hub *(USD/mmBtu)*	2.29	2.88	2.51	2.75	3.25	3.25	3.00	3.25	3.75	2.75	3.25
Gas - TTF *(EUR/MWh)*	10.74	19	13	20	20	21	21	23	26	18	23

ABN AMRO forecast price trend until 2020 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

Near-term weakness in prices

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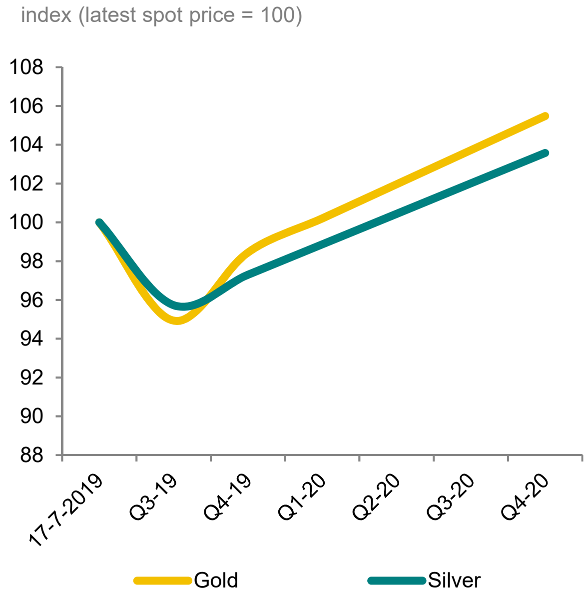
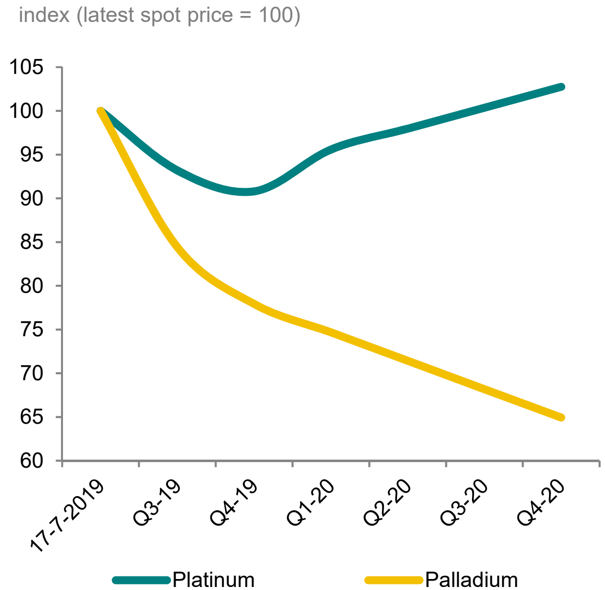
- For quite some time we have been positive on gold prices. But we now think they have risen too quickly. Since the start of June prices rallied from just above USD 1,305 to 1,440 per ounce or 10% higher.
- The prospect of rate cuts in the US and elsewhere has made gold as an investment asset more attractive.
- Currently speculators hold large net-long gold positions. We think these will limit the upside potential from here.
- We think that investors are too optimistic on the Fed rate cut for July. We expect a 25bp rate cut while the market sees a probability of 45% of a 50bp rate reduction. If the Fed only cuts by 25bp at the end of this month then this will probably trigger a profit taking wave in gold prices, pushing prices towards USD 1,350 per ounce.
- A sharp weakening of the dollar in the near term (not our base case) could dampen the impact of a smaller Fed rate cut and push gold prices much higher.
- Despite our slightly bearish view for gold prices for the near term we continue to hold a positive outlook for gold prices for 2020. This is because we expect a weakening of the US dollar and general easing of monetary policy.

	spot prices	*- end of period prices -*								*- averages -*	
	18-07-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Gold *(USD/ounce)*	1,426	1,303	1,308	1,350	1,400	1,425	1,450	1,475	1,500	1,342	1,450
Silver *(USD/ounce)*	16.21	15.58	14.91	15.25	15.50	15.75	16.00	16.25	16.50	15.30	16.00
Platinum *(USD/ounce)*	844	822	843	780	760	800	820	840	860	818	818
Palladium *(USD/ounce)*	1,518	1,431	1,386	1,300	1,200	1,150	1,100	1,050	1,000	1,345	1,100

ABN AMRO forecast price trend until 2020 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

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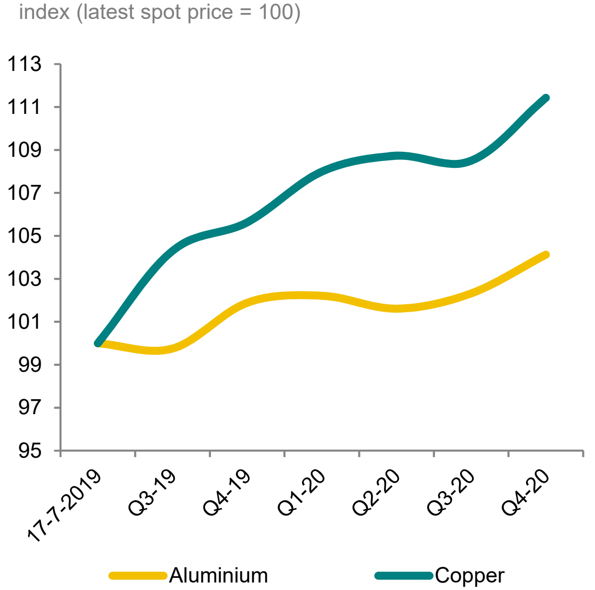
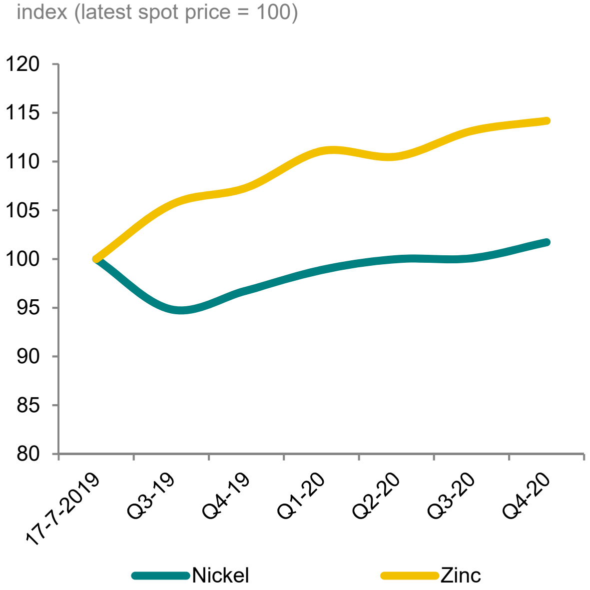
Base metals prices mixed on conflicting China and US economic data

- So far this year, nickel prices are up strongly (32%). The strong gain in nickel prices is mainly due to the strengthening alloy demand and supply risk of nickel ores. Indonesia announced a renewed export ban on ores and that translates into deficits in the longer term.
- The price of copper only gained marginally this year (1%). The prices of aluminium and zinc decreased by 1-2% since the start of 2019. Main macro catalysts for the price direction at this stage are the economic trends in China, US and EU, central bank policies and the trade conflict.
- US manufacturing data, retail sales and the output of motor vehicles rose recently, after months of decline or flat readings. In China, the manufacturing PMI pointed to a softer tone, with the index below the 50-neutral mark. Also, China's imports and exports have slowed over the past months. China's car production ytd until June is already down by 16% yoy.
- Global central banks are expected to embrace looser monetary policy. The net-effect of these policies is positive for base metals demand and will ultimately push prices somewhat higher. We hold, however, our short term neutral stance given the uncertainty over the trade conflict. In the long term we remain optimistic over base metals markets. Further electrification and the shift to a low-carbon economy on a global scale, will provide a solid base for most base metals.

	spot prices	*- end of period prices -*								*- averages -*	
	18-07-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Aluminium *(USD/t)*	1,836	1,863	1,795	1,825	1,864	1,870	1,859	1,872	1,905	1,830	1,867
Copper *(USD/t)*	5,971	6,216	6,121	6,225	6,304	6,445	6,489	6,475	6,650	6,173	6,464
Nickel *(USD/t)*	14,817	12,365	12,251	13,673	13,952	14,257	14,418	14,430	14,667	12,804	14,233
Zinc *(USD/t)*	2,456	2,704	2,763	2,613	2,656	2,749	2,735	2,800	2,826	2,651	2,772

ABN AMRO forecast price trend until 2020 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

5 Ferrous Metals – Steel (HRC) / Iron Ore / Coking Coal

Challenging conditions in the steel industry

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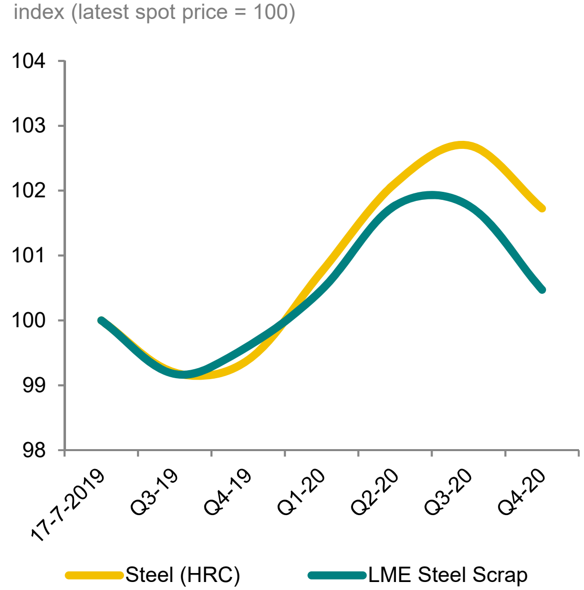
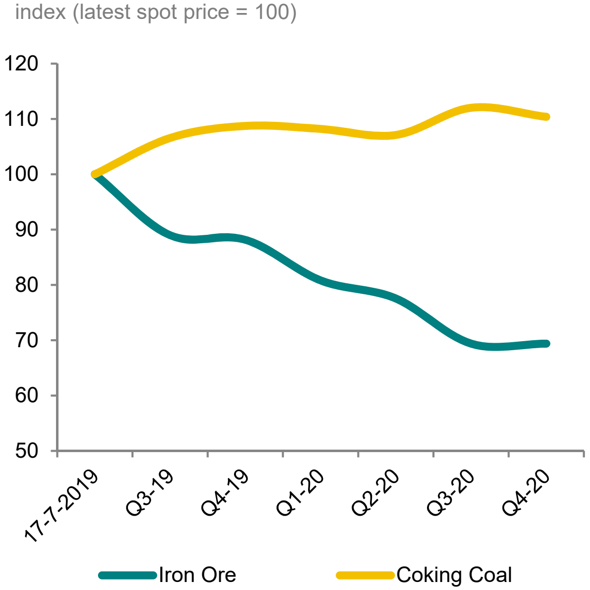
- Steel output has increased further. Global steel production rose by 5% yoy in the first five months of this year, with significant increases in China (+10%) and the US (+6%).
- Demand from the construction, automotive and mechanical engineering is weak and global business confidence indicators are soft. Car output has decreased strongly in China, the US and EU. This means that overcapacity persists.
- Weaker demand and higher output translates into lower steel prices. Since 1 January, the global steel price is down by 7%. Conditions become even more challenging when prices for raw materials (such as iron ore and coking coal) rise or stay elevated. This pressures margins.
- In the short term, market conditions will not change significantly due to the off-season lull in demand, the start-up of maintenance programs and sluggish steel trading in most regions. Downstream demand will remain relatively low. This means that prices for HRC steel will remain soft in the next quarter. Restocking activity could provide a cushion for prices.
- Prices for steelmaking raw materials (iron ore and coking coal) are still high due to supply side issues. Until the end of 2020, we think that iron ore prices will soften on recovery in supply. Coking coal price, however, are expected to stay elevated on robust demand.

	spot prices	*- end of period prices -*								*- averages -*	
	18-07-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Steel (HRC) *(USD/t)*	516	558	538	510	511	518	525	528	523	536	532
EU Steel Scrap *(EUR/t)*	231	330	289	229	230	232	235	235	232	274	238
Iron Ore *(USD/t)*	121	83	102	109	108	99	95	85	85	101	94
Coking Coal *(USD/t)*	183	189	192	195	199	198	196	205	202	191	199

ABN AMRO forecast price trend until 2020 (index)





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6 Agri – Wheat / Corn / Soybeans / Sugar / Cocoa / Coffee

Lower yield estimates in grains, high supply in tropicals

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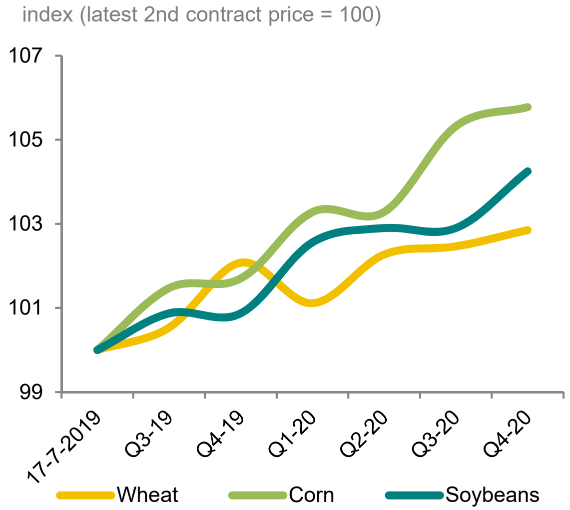
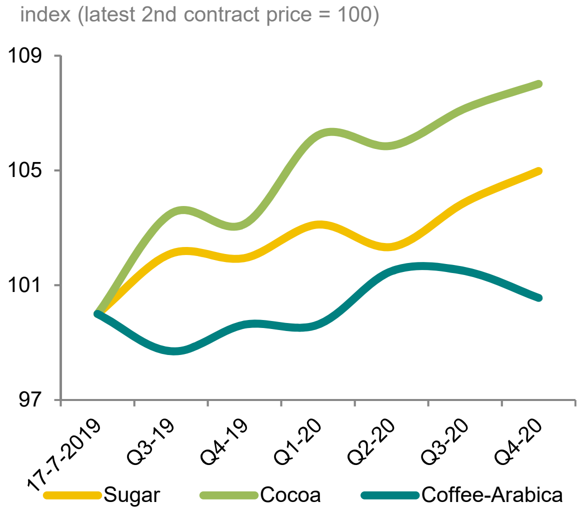
- **Wheat** prices rose on lowered USDA output forecasts. All-in-all, demand growth is not able to outpace supply growth in 2019/2020. Closing stocks will increase and prices will remain soft.
- **Corn** prices rose in the past 3 months on worries about yield prospects for the delayed crop. Lower supply in 2019/2020 and stable demand results in lower ending stocks. Prices will rise on this.
- **Soybean** prices were pressured over the past month on ample supplies and weakening global demand. Output is expected to remain stable in 2019/2020, while demand will increase by 2%. Inventories will decline.
- **Sugar** availability is still high. On balance, growth in total demand for sugar will fall short of growth in supply. This will mute a price recovery. ISO foresees a provisionally deficit next season.
- The level of **cocoa** oversupply remains relatively low in the next season. The outlook for cocoa demand remains solid for 2019 and 2020. We think there is room for prices to strengthen.
- Brazilian **coffee** supply will remain high, leading to a global surplus. Next season, another large harvest in Brazil is expected. This means that prices will remain relatively soft.

	2nd contract	*- end of period prices -*								*- averages -*	
	18-07-19	**Q1-19**	**Q2-19**	**Q3-19**	**Q4-19**	**Q1-20**	**Q2-20**	**Q3-20**	**Q4-20**	**2019**	**2020**
Wheat-CBOT *(USDc/bu)*	505	490	476	520	528	523	529	530	532	509	535
Corn-CBOT *(USDc/bu)*	430	373	390	448	449	456	456	465	467	415	453
Soybeans-CBOT *(USDc/bu)*	887	905	866	896	896	911	914	914	926	894	895
Sugar *(USDc/lb)*	12.62	12.69	12.26	13.12	13.10	13.25	13.15	13.35	13.49	13.01	13.37
Cocoa *(USD/Mt)*	2,473	2,256	2,409	2,544	2,535	2,611	2,602	2,634	2,655	2,433	2602
Coffee-Arabica *(USDc/lb)*	109	99	95	106	107	107	109	109	108	103	103

ABN AMRO forecast price trend until 2020 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

A Appendix – Contact details, disclaimer & extra information

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