Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

Virus challenges commodity markets

February 2020

1 All commodities – Energy / Precious / Industrials / Agri

Virus challenges commodity markets

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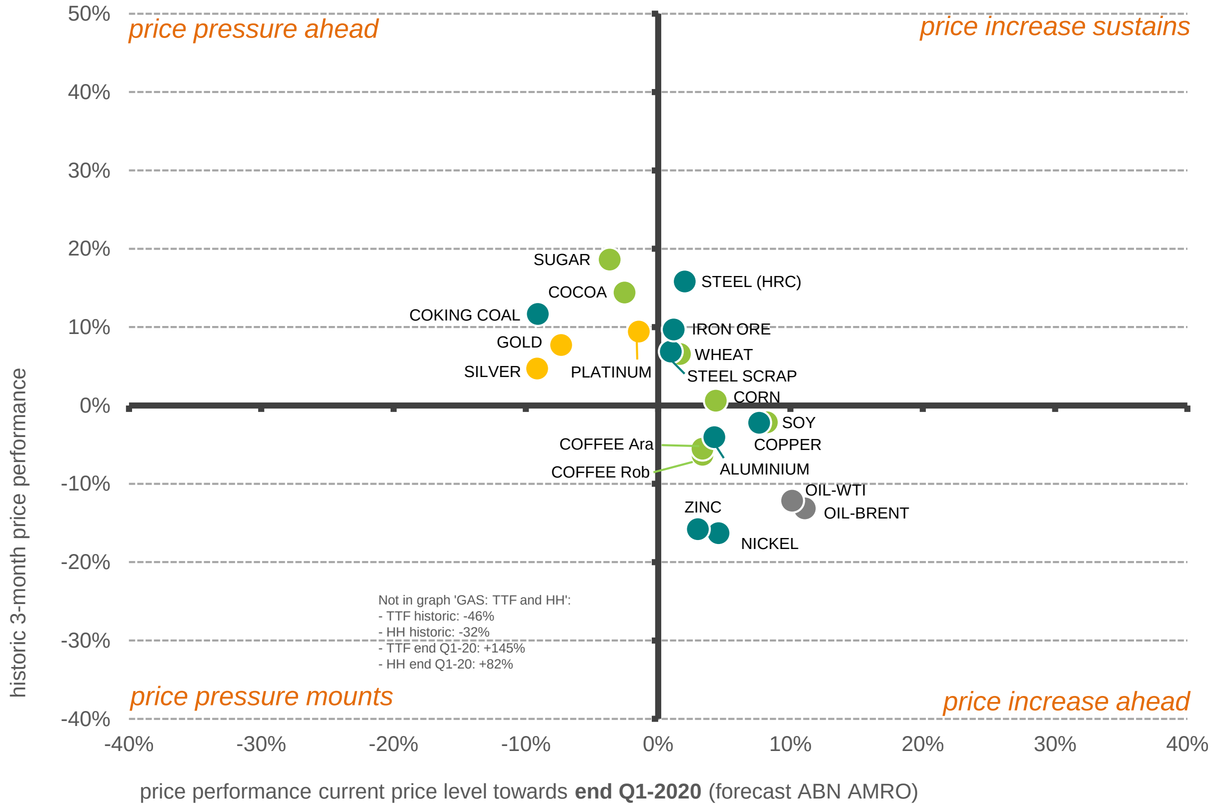
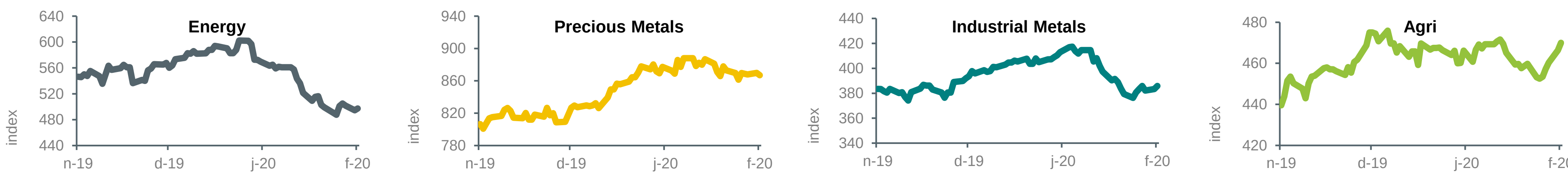
- The coronavirus had a downward effect on most commodity prices. Since 20 January – the date of confirmation of human-to-human transmission – prices of energy and industrial metals have fallen significantly.
- The outbreak has grown exponentially since, and is expected to impact the global economy dramatically during Q1. Data coming out over the next few weeks on the state of the Chinese economy will turn out to be decisive for commodity price trends.
- Most output 'lost' in Q1 will be made up later. In addition, likely stimulus measures will support a recovery in growth.
- The macro climate will eventually turn for the better again. A rebound in confidence and modest dollar weakness by the end of 2020 will be supportive for cyclical commodity prices.
- Nevertheless, downside risks will remain high, including from a further spreading of the coronavirus, re-escalation of the trade war and a weakening in corporate investments.



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



2 Energy – Oil / Gas

Lower demand and supply glut keeps oil prices suppressed

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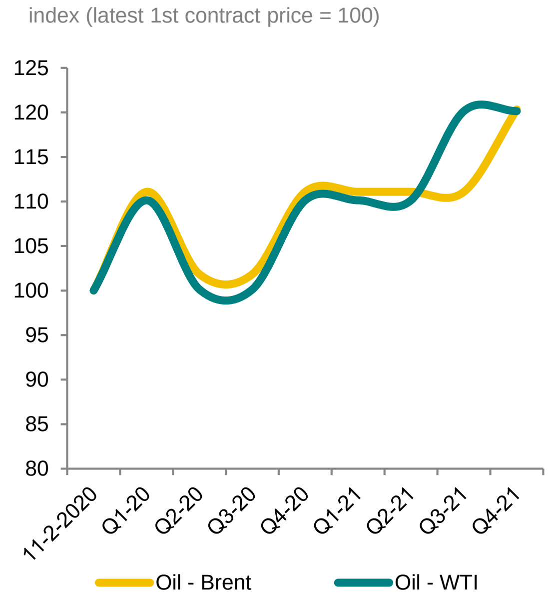
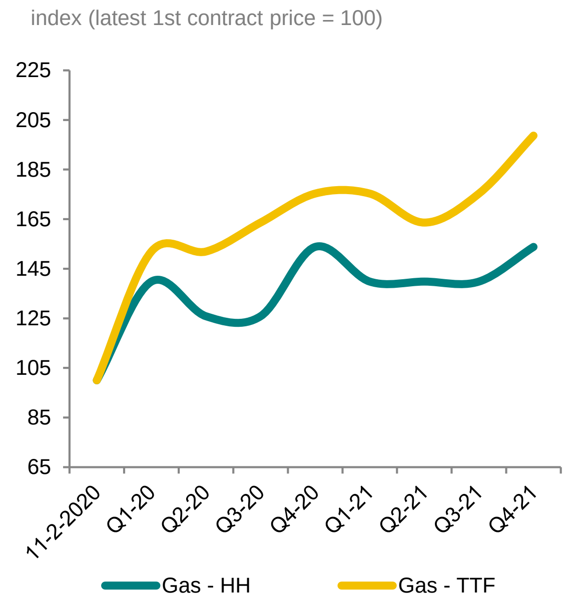
- Brent oil prices dropped as demand growth fears come on top of the already oversupplied market. The Brent oil price declined from USD 68/bbl on 6 January, to USD 53.50/bbl on 10 February. The Brent/WTI spread remained roughly USD 5/bbl.
- According to the International Energy Agency, global oil demand contracted during the first quarter of the year (-435kb/d). As a result, it adjusted its demand growth forecast to 825kb/d (-365kb/d vs earlier projections).
- Markets anticipate an emergency production cut by OPEC and its partners (led by Russia). However, despite the recommendation of the technical committee (-600kb/p), Russia still hasn't made a decision yet. The next official OPEC meeting is scheduled for 5-6 March. We wouldn't be surprised if Russia prefers to wait until then to make a better estimation about the real impact of the coronavirus on global demand and the outlook for the coming months.
- We have kept our oil price forecasts unchanged with prices expected to trade within small trading ranges (Brent USD 50-60/bbl).
- Natural gas prices have dropped significantly. High inventories and mild weather pushed prices to the lowest point since March 2016. Lower Asian LNG demand may keep prices suppressed even somewhat longer.

	1st contract	- end of period prices -								- averages -	
	11-02-20	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Oil - Brent *(USD/barrel)*	54	60	55	55	60	60	60	60	65	58	63
Oil - WTI *(USD/barrel)*	50	55	50	50	55	55	55	60	60	53	58
Gas - Henry Hub *(USD/mmBtu)*	1.79	2.50	2.25	2.25	2.75	2.50	2.50	2.50	2.75	2.40	2.60
Gas - TTF *(EUR/MWh)*	8.56	13	13	14	15	15	14	15	17	14	15

ABN AMRO forecast price trend until 2021 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

Coronavirus negative for precious metal prices

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- Dramatically weak economic growth in Q1 in China should be negative for precious metal prices because of lower demand.
- Weaker economic growth in China, the US, the eurozone and Japan in the near-term will also depress industrial demand for silver, platinum and palladium. We expect lower jewellery demand for gold, silver and platinum and this will weigh on prices.
- The Hubei region is important for Chinese car production. In Q1 Chinese car production will probably be significantly lower. This will ease some of the near-term supply shortages in the palladium market and should weigh on palladium prices.
- Investors could buy gold and to a lesser extent silver for safe haven and this will dampen the downside in gold and silver prices in the near-term.
- Long gold, silver and platinum remains a crowded trade and we continue expect a wash-out of net-long positions.
- We expect economic growth in Q2 and Q3 to be stronger, while news about Chinese fiscal stimulus and a possible vaccine will support precious metals later in the year as well as a moderately weaker US dollar.
- We have made some adjustments in forecasts

	spot prices	*- end of period prices -*								*- averages -*	
	11-02-20	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Gold *(USD/ounce)*	1,565	1,450	1,450	1,500	1,600	1,650	1,700	1,725	1,750	1,490	1,688
Silver *(USD/ounce)*	17.61	16.50	16.50	17.25	18.00	18.50	19.00	19.50	20.00	17.10	19.00
Platinum *(USD/ounce)*	964	900	900	1,000	1,100	1,150	1,200	1,250	1,250	959	1,194
Palladium *(USD/ounce)*	2,334	2,100	2,000	1,900	1,800	1,700	1,600	1,500	1,500	1,968	1,613

ABN AMRO forecast price trend until 2021 (index)

Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

Chinese economic data will dominate base metals markets

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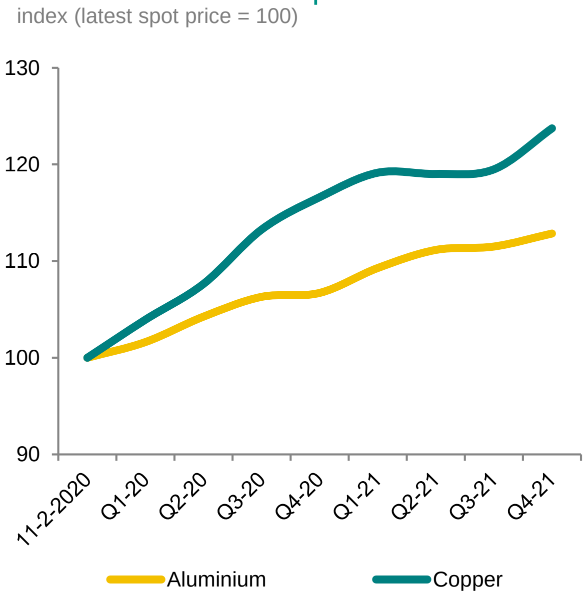
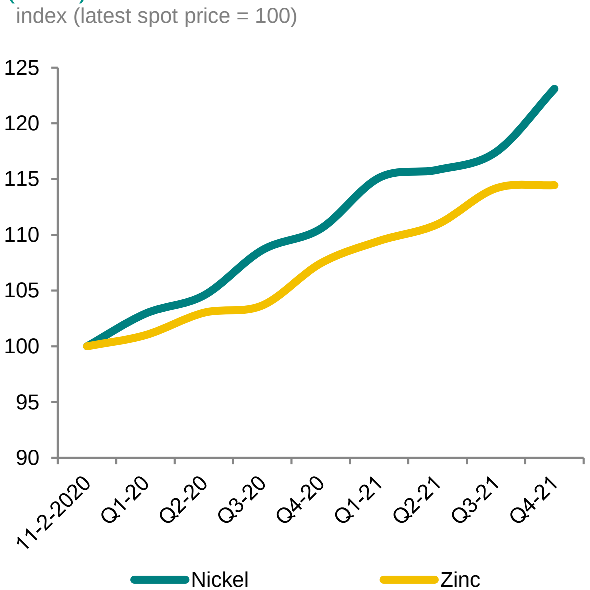
- Optimism was buoyant in base metals markets in the first two weeks of 2020. All base metals prices increased in that period. This was mainly due to the signing of the trade agreement between the US and China on 15 January. However, optimism in the base metals market evaporated quickly after 15 January. A more thorough analysis on the content of the signed agreement produced few direct impulses for the demand for metals. As a result, prices started to weaken again
- After 15 January, the coronavirus caused a shock in sentiment. Base metals prices tumbled. The copper price even fell fourteen days in a row. This has never happened since the start of the price series from the 1950s onward.
- In the short term, the direction of base metal prices will be dominated by the coronavirus, the positioning of investors and the direction of the dollar. A positive turn in macro sentiment will be triggered by a containment of the coronavirus epidemic.
- For 2020, global economic growth will be softer. The first quarter will be weak, but the second and third quarter will be stronger. We also expect the Chinese economy to soften, with especially softer economic growth data for the first quarter. This will weigh on base metals prices further.

	spot prices	*- end of period prices -*								*- averages -*	
	11-02-20	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Aluminium *(USD/t)*	1,709	1,737	1,782	1,817	1,824	1,868	1,900	1,906	1,929	1,768	1,880
Copper *(USD/t)*	5,729	5,955	6,167	6,489	6,681	6,826	6,819	6,846	7,089	6,252	6,831
Nickel *(USD/t)*	13,027	13,409	13,621	14,151	14,401	14,996	15,089	15,297	16,035	13,547	15,219
Zinc *(USD/t)*	2,141	2,162	2,205	2,219	2,300	2,343	2,375	2,444	2,450	2,366	2,498

ABN AMRO forecast price trend until 2021 (index)





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

Weak steel market sentiment

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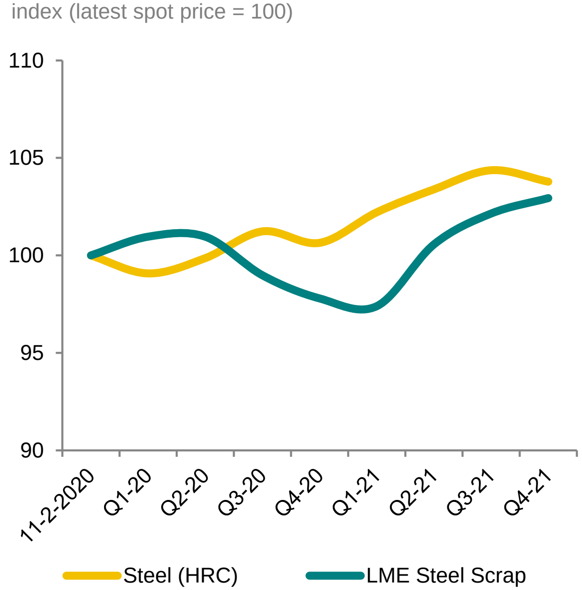
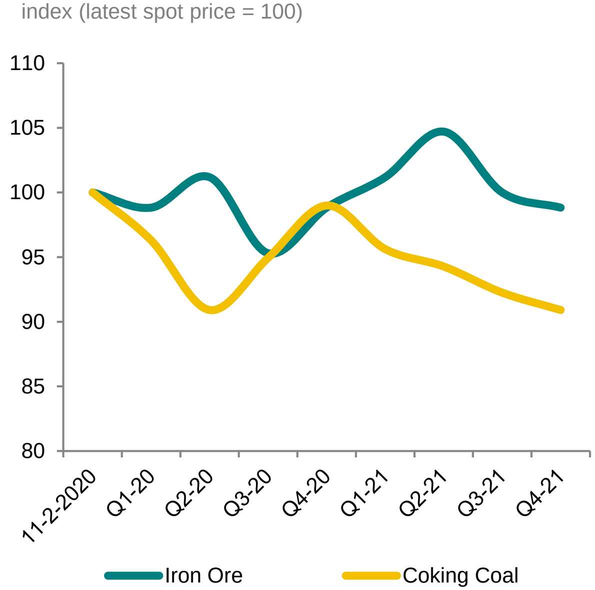
- The coronavirus has led to widespread unrest amongst steel mills and end users. Economic activity in China slowed and steel mills witnessed weaker end user demand. Steel mills still operate at high levels and inventories are pilling up.
- In other major steel producing countries, preliminary data are also suggesting short-term bearishness over steel market activity. Due to the increased connectivity of global supply chains in recent years, disruption in supply and transport of raw materials is beginning to have an impact on business activity in countries outside China. This means that steel prices in the US and Europe will remain weak.
- Buyers in the US are cautious due to expectations that HRC prices will soften further, which is cutting into the order books of US steel mills. In Europe, market conditions have improved somewhat with the new safeguard measures, which have decreased import competition. But still, steel prices are expected to remain weak during the first half of 2020 on weakening end user demand.
- Iron ore prices have taken a hit due to the coronavirus and worsening market sentiment. Coking coal prices also softened, but this was mainly due to ample coal supply. Steel mill margins improved and this could trigger renewed buying interest by steel mills, especially while prices are relatively low.

	spot prices	*- end of period prices -*								*- averages -*	
	11-02-20	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Steel (HRC) *(USD/t)*	511	506	510	517	514	522	528	533	530	514	527
EU Steel Scrap *(EUR/t)*	253	255	255	250	247	246	254	258	260	243	252
Iron Ore *(USD/t)*	85	84	86	81	84	86	89	85	84	84	85
Coking Coal *(USD/t)*	149	143	135	141	147	142	140	137	135	141	139

ABN AMRO forecast price trend until 2021 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

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

Coronavirus denting mostly soybean demand

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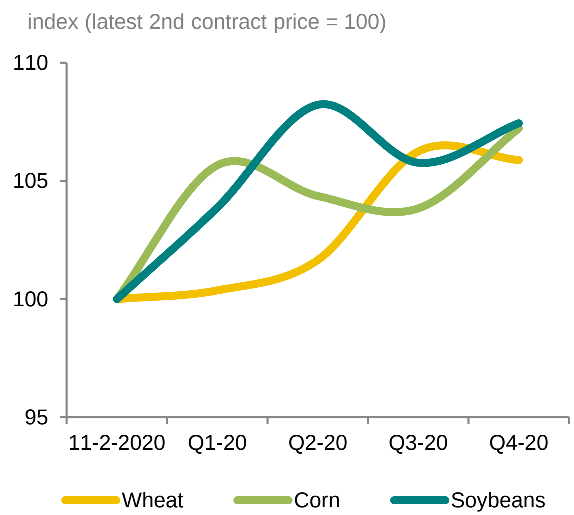
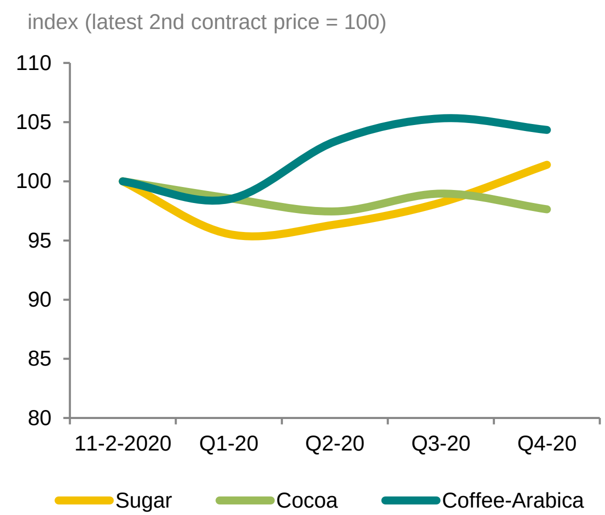
- Demand for **wheat** will increase by 2% this season, with the strongest growth in feed demand. Output will, however, grow by 4%. This keeps global markets sufficiently supplied and prices pressured.
- This season large **corn** harvests are expected in Brazil and Argentina. On the other hand, we think demand will show only modest gains. However, on balance a deficit is expected, which keeps prices buoyed.
- Demand for **soybeans** has been hit by worries over African Swine Fever, the coronavirus and delayed purchases by China of US beans. Overall a deficit is expected. This will keep prices elevated.
- Poor **sugar** crops in Thailand and India have slashed global output. As a result, deficit forecasts have widened and buoyed prices. Supply will decrease by 3% this season, while demand is set to grow by 1%.
- Availability of **cocoa** will come under pressure this season, with dry weather conditions in the Ivory Coast. Grinding numbers are sluggish in EU and North America, but strong in Asia. All-in-all, this will keep prices relatively high.
- Supply of **coffee** will remain sufficient on the prospect of large supplies from Brazil. This will cap prices. ICE stocks have fallen to their lowest since December, but are still relatively high.

	2nd contract	*- end of period prices -*								*- averages -*	
	11-02-20	**Q1-20**	**Q2-20**	**Q3-20**	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Wheat-CBOT *(USDc/bu)*	544	546	553	578	576					561	
Corn-CBOT *(USDc/bu)*	384	406	401	399	412					399	
Soybeans-CBOT *(USDc/bu)*	897	932	971	949	964					950	
Sugar *(USDc/lb)*	15.04	14.37	14.49	14.77	15.25					14.60	
Cocoa *(USD/Mt)*	2,876	2,835	2,803	2,846	2,808					2,395	
Coffee-Arabica *(USDc/lb)*	103	101	106	108	107					107	

ABN AMRO forecast price trend until 2020 (index)





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