ABN·AMRO

Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

Commodities wary for US elections

October 2020

1 All commodities – Energy / Precious / Industrials / Agri

What will a Biden presidency bring for commodities?

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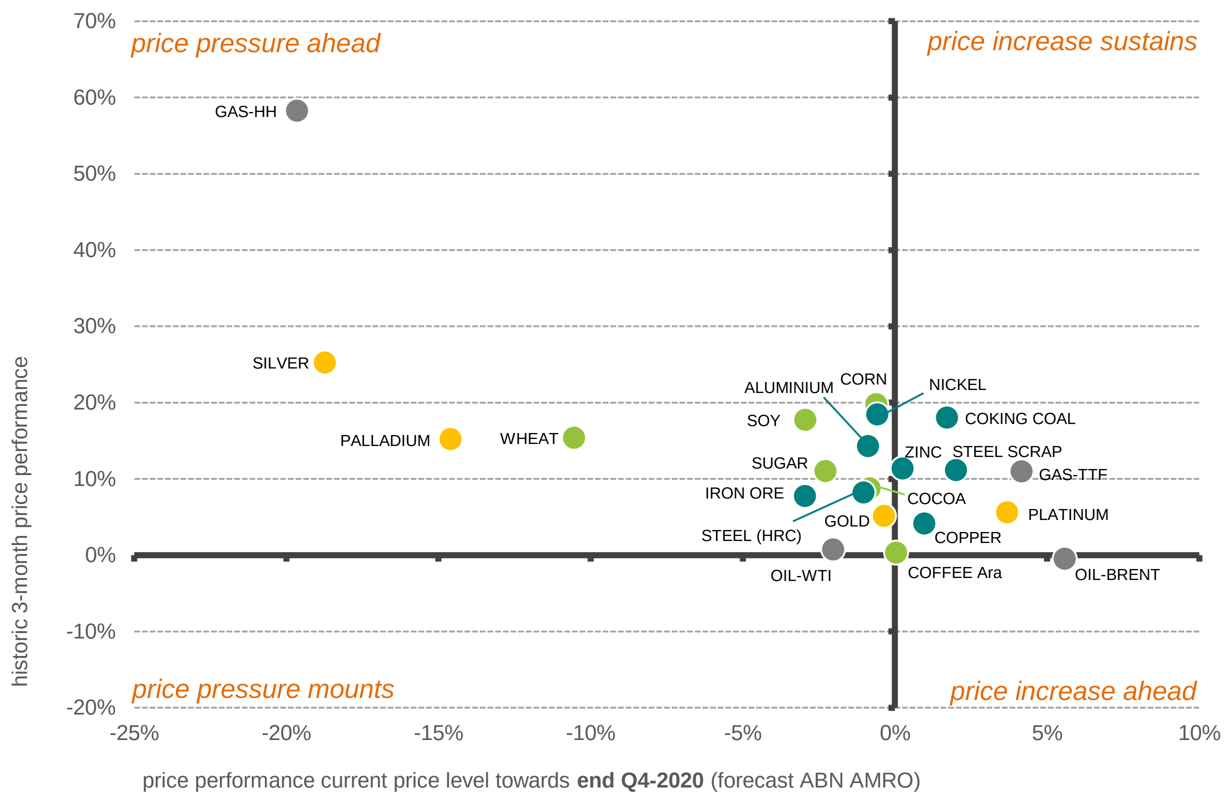
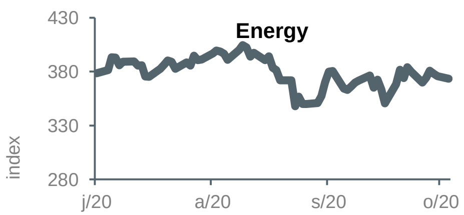
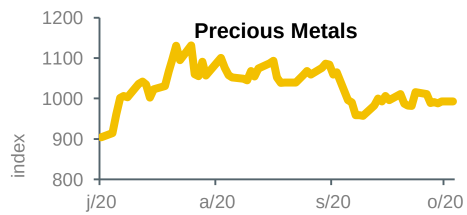
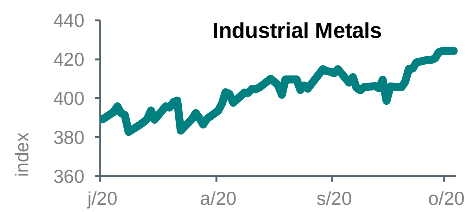
- The US Presidential elections are approaching. On 3 November (or before by mail) US citizens will choose a president.
- Our US economist has defined four possible outcomes of the US presidential elections. The most likely outcome is that Biden wins the presidency, see here. What will a Biden presidency bring for commodities?
- We expect that Democratic policies would probably result in a considerably stronger US economy in the coming years. This is positive for commodities in general overall, especially if Chinese growth is resilient.
- Moreover we also expect US real rates to remain negative or to decline further in 2021. This supports commodity prices due to the historical negative relationship between the two.
- The dollar will probably be supported in the near-term (= downside price risk dollar-denominated commodities) but we expect weakness in 2021. Some near-term weakness in commodity prices will likely result in higher prices afterwards.

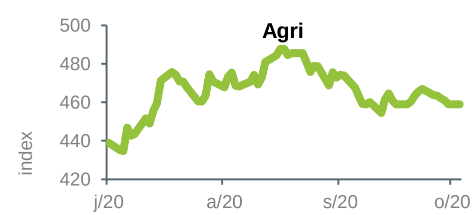


Price trend commodity classes over past three months (Thomson Reuters Index)









Sources: Refinitiv, ABN AMRO Group Economics,

2 Energy – Oil / Gas

Stable oil prices prepare for US elections and OPEC+ events

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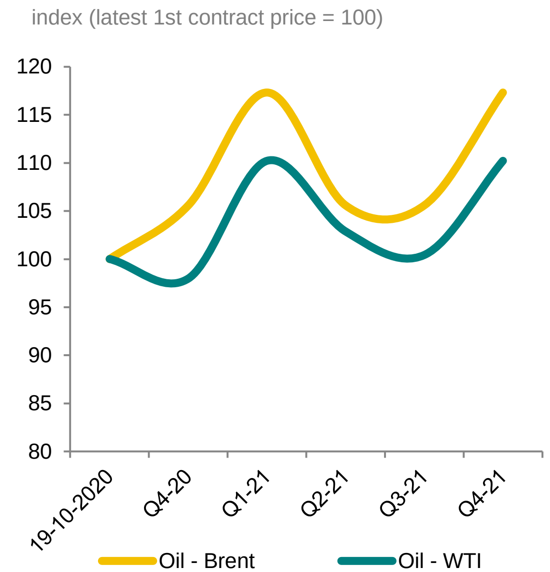
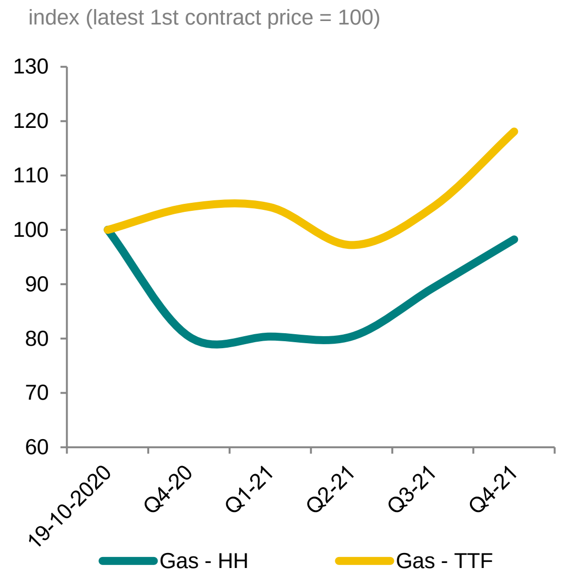
- Oil prices continued to trade within relatively small trading ranges. The upside was capped due to the lingering worries regarding the economic impact of the COVID-19 measures, while the downside was protected by the OPEC+ production agreement..
- The first big event to watch is the US elections. A Biden win would probably again change the energy landscape from both a supply and demand perspective for oil and gas. For example: Joe Biden would renegotiate a nuclear deal with Iran and lift – some of the – sanctions, he would restrict shale production in the US, and he would boost the economy with new stimulus packages.
- On 30 Nov and 1 Dec, the OPEC will renegotiate its production policy with non-OPEC members, led by Russia. In the existing agreement, OPEC+ would increase production from January 2021. However, with demand remaining depressed by COVID-19 measures and semi-lockdowns, a jump in OPEC+ crude production would add even more pressure to the already depressed oil prices.
- The volatile natural gas prices (Henry Hub and TTF) are mainly driven by high inventories and shifting weather patterns which affect demand expectations as is normal for the start of Q4.

	1st contract	*- end of period prices -*					*- averages -*	
	19-10-20	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Oil - Brent *(USD/barrel)*	43	45	50	45	45	50	36	48
Oil - WTI *(USD/barrel)*	41	40	45	42	41	45	34	43
Gas - Henry Hub *(USD/mmBtu)*	2,80	2,25	2,25	2,25	2,50	2,75	2,00	2,40
Gas - TTF *(EUR/MWh)*	14,40	15	15	14	15	17	14	15

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

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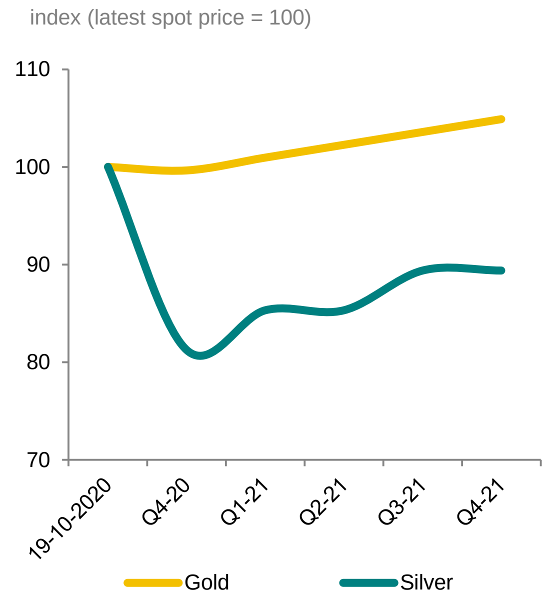
More gold prices weakness in the near-term

- Gold prices have struggled. A weaker dollar has supported gold prices somewhat but more investors have taken profit recently. Therefore, the rally quickly ran out of steam again. Investors are now less convinced of another rise above 2,000 USD per ounce.
- Despite the modest profit taking, net long positions in the futures markets and the total outstanding ETF positions remain very large. In short, position liquidation risk is still there.
- The US elections are approaching and we think that it is likely that more investors will take profit in gold for two reasons:
- First, more uncertainty could result in a more risk-off behaviour and thus liquidating long gold positions. Investors have bought gold because of a lower dollar, negative real yields, unlimited QE by the Fed and fiscal deficit. If hey become risk more averse they will likely take some profit.
- Second, expectations of higher economic growth if Biden wins could temporarily support the dollar. As a result gold prices will probably decline. But as the Fed will keep rates low for the coming years, US real yields will continue to be negative. This will support gold prices again in 2021.
- Next year we expect gold prices to move towards USD 2,000 per ounce again.

	spot prices 19-10-20	- end of period prices - Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	- averages - 2020	2021
Gold *(USD/ounce)*	1.907	1.900	1.925	1.950	1.975	2.000	1.775	1.950
Silver *(USD/ounce)*	24,61	20,00	21,00	21,00	22,00	22,00	20,00	21,00
Platinum *(USD/ounce)*	868	900	925	950	975	1.000	876	950
Palladium *(USD/ounce)*	2.342	2.000	2.000	2.000	2.000	2.000	2.152	2.000

ABN AMRO forecast price trend until 2021 (index)



Sources: Refinitiv, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

Investor sentiment remains warry

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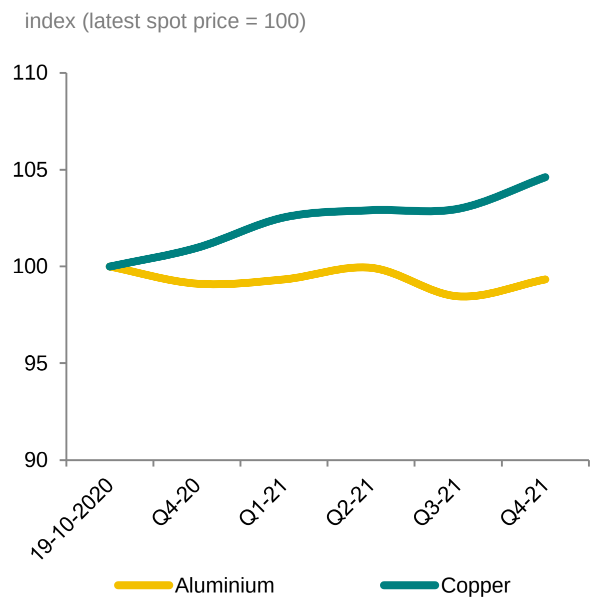
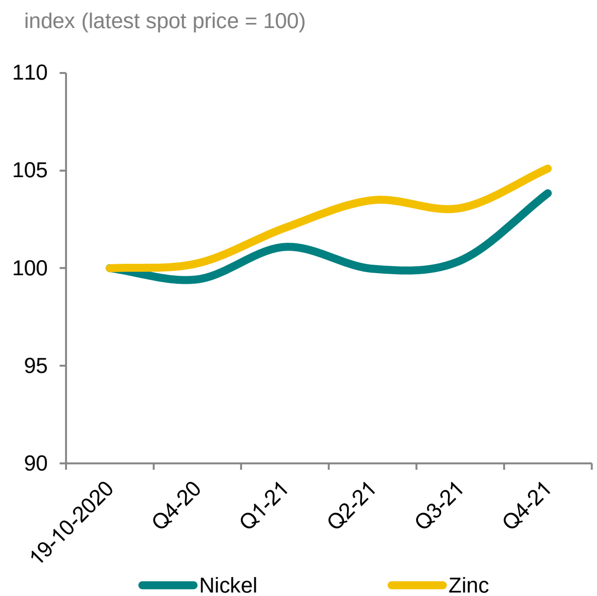
- Current trends in the base metals markets are complex and rely more on macro-economic developments rather than fundamental drivers.
- Recent positive macro-economic trends in China and its massive infrastructure stimulus package underpins market sentiment. Chinese imports of metals has remained relatively strong, implying a high need for raw materials for its manufacturing sector.
- Concerns about fresh coronavirus-driven lockdowns due to rising global cases, increased the risk-off sentiment in base metals markets. This means that investors in base metals markets remain cautious going forward.
- The uncertainty over the ultimate economic impact of the 2nd wave of coronavirus remains high. Next to that, there are no deficits in base metals markets anymore and inventories are relatively high. This also overhangs the base metals complex and increases price volatility.
- A further increase in this Chinese demand and solid macro-economic data going forward is likely to keep a floor under most base metals markets.
- For 2021, global economic growth will show a recovery from current lows and base metals prices will strengthen further on this. Prices will also find support the trend in the dollar. A weaker dollar during 2021 makes metals cheaper for non-dollar holders and supports prices.

	spot prices	*- end of period prices -*					*- averages -*	
	19-10-20	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Aluminium *(USD/t)*	1.837	1.821	1.825	1.836	1.809	1.825	1.671	1.821
Copper *(USD/t)*	6.759	6.824	6.930	6.955	6.960	7.070	6.073	6.954
Nickel *(USD/t)*	15.635	15.545	15.805	15.630	15.695	16.235	13.527	15.699
Zinc *(USD/t)*	2.474	2.480	2.525	2.560	2.550	2.600	2.211	2.555

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

Chinese steel demand still buoyant

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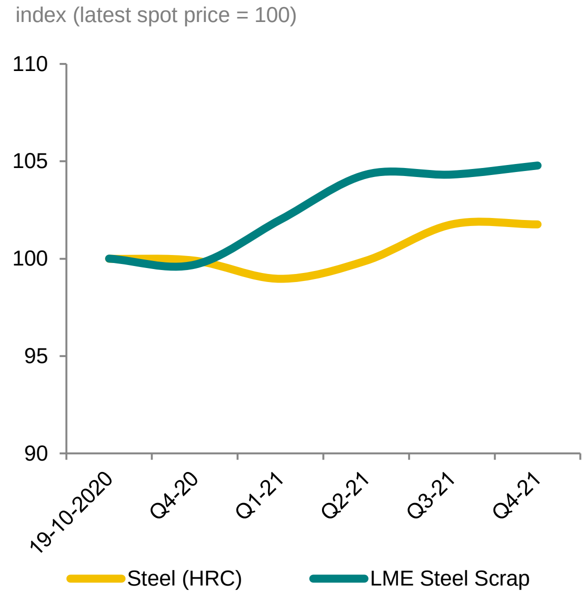
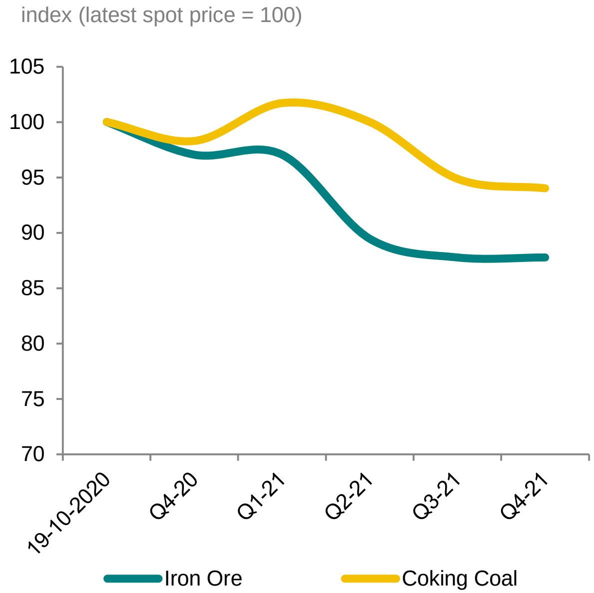
- Sentiment in the Chinese steel market is still buoyant. Production has recovered in a rapid pace and exceeds already pre-covid-19 levels. Demand from major end using sectors (construction, automotive) is robust. Also, the most recent outcome of the purchasing manager index (PMI) in the manufacturing sector confirm the swift and ongoing industrial recovery. We think that Chinese demand for steel will remain solid, which will keep prices elevated.
- Global steel prices are expected to rise in the near term, however, the pace will be uneven across the major regions (China, EU, US).
- Iron ore price strengthened over the past months on the combination of higher steel output, low iron ore inventories and port restrictions in China. Also, iron ore supply from especially Brazil was impacted by covid-19. Buying interest in coking coal has increased over the past months on softening of port restrictions in China and restocking activity in India.
- The robustness in Chinese steel demand is unlikely to soften in the near term. We expect steel prices to remain strong in China during the fourth quarter and prices for raw materials are expected to remain elevated. Given the second wave of covid-19 and the upcoming winter season, steel demand in Europe and the US will, however, weaken this quarter.

	spot prices	*- end of period prices -*					*- averages -*	
	19-10-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Steel (HRC) *(USD/t)*	536	535	530	535	545	545	510	540
EU Steel Scrap *(EUR/t)*	216	215	220	225	225	226	225	225
Iron Ore *(USD/t)*	119	115	115	106	104	104	104	108
Coking Coal *(USD/t)*	117	115	119	117	111	110	119	115

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

Weather issue and supply worries

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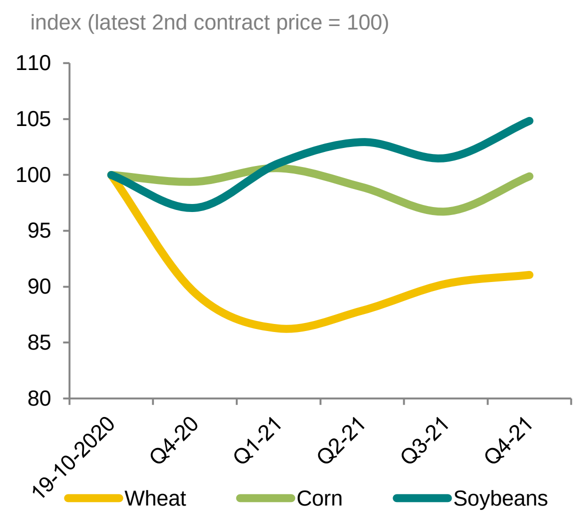
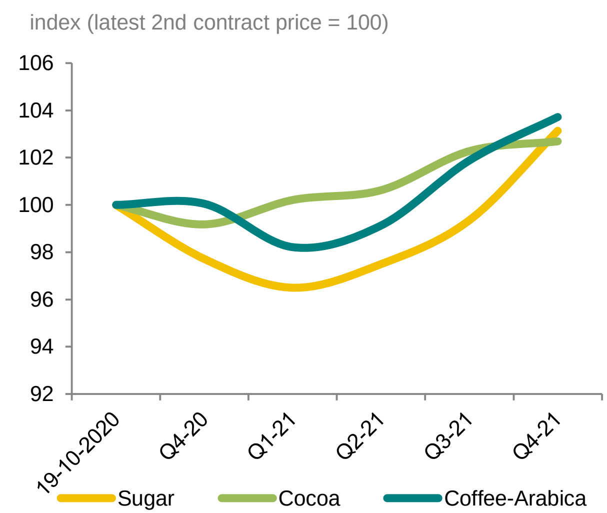
- Dry weather in major **wheat** areas may reduce supply going forward. However, global availability of wheat will remain good. Downward price risk will therefore remain elevated. Adverse weather or a strong uplift in demand would change this expectation.
- Conditions for **corn** are good and harvest is ahead of five year average. The outlook for corn inventories were lowered due to strong Chinese demand and US crop outlook is reduced. This translates into a small deficit, which will keep prices elevated.
- Strong demand from China and Mexico underpinned **soybean** prices. Also dryness in Brazil raised supply concerns going forward. US condition are positive and harvest is progressing rapidly. Next season, a small deficit is expected.
- Dry weather in Brazil is supportive for **sugar** price at this stage. Import demand from China and India has also been high. Next season, production will outstrip demand. The sugar market deficit will be supportive for prices on the longer term.
- Demand for **cocoa** is still relatively low. Sales of chocolate confectionery at major outlet points has been disrupted due to Covid-19. With new lockdowns globally, pre-Covid-19 demand levels are still far away. This means that supplies are sufficient globally and will put pressure on price.
- Dry weather in Brazil is a concern for the **coffee** market. Chances are high that the 2021 crop from Brazil will be lower. Out-of-home coffee consumption is lower on Covid-19 pandemic. This pressure will continue with new quarantine measures globally. Prices will remain relatively weak.

	2nd contract	*- end of period prices -*					*- averages -*	
	19-10-20	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Wheat-CBOT *(USDc/bu)*	626	560	540	550	565	570	544	561
Corn-CBOT *(USDc/bu)*	411	408	413	406	397	410	359	402
Soybeans-CBOT *(USDc/bu)*	1054	1023	1065	1085	1070	1105	927	1060
Sugar *(USDc/lb)*	14,01	13,69	13,52	13,66	13,92	14,45	12,75	13,79
Cocoa *(USD/Mt)*	2.420	2.400	2.425	2.435	2.475	2.485	2.463	2.450
Coffee-Arabica *(USDc/lb)*	109	109	107	108	111	113	112	109

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

Appendix – Contact details, disclaimer & extra information

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