

Monthly Commodity Insights

...price forecasts for commodity markets

ABN AMRO Group Economics

Trade tensions trouble commodity prices

May 2019

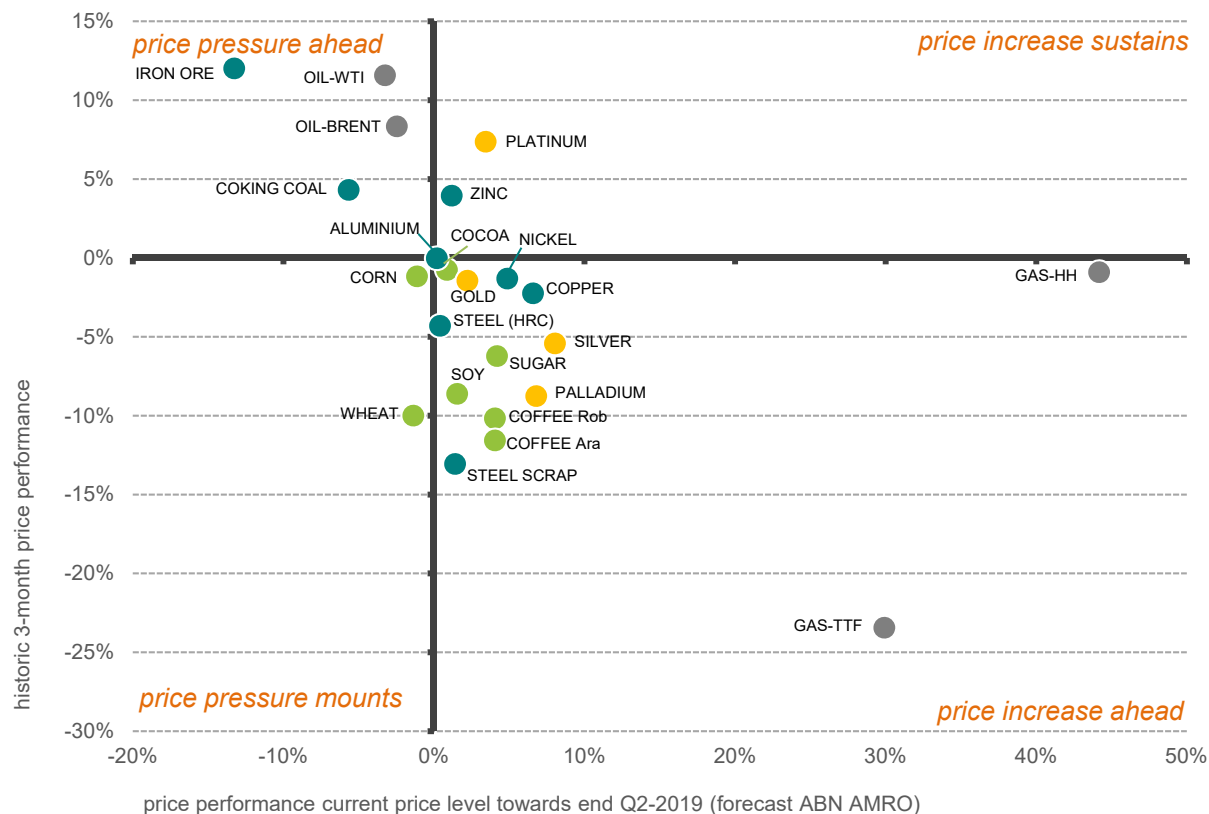


1 All commodities – Energy / Precious / Industrials / Agri

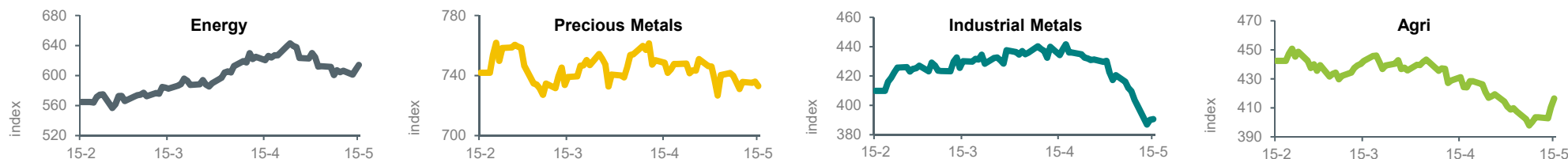
Trade tensions trouble commodity prices

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- ▶ On 10 April the CRB set a top and the index started a modest decline. Since 22 April the decline has accelerated and the index has lost around 5%.
- ▶ The decline of oil prices since 25 April has driven the CRB lower. Subsequently, renewed trade tensions between the US and China have sent global stock markets and commodity prices lower.
- ▶ Gold prices did relatively well because the USD failed to profit from the risk-off sentiment. This is probably because the US is seen as partly responsible for the rise in trade tensions.
- ▶ If US-China trade tensions intensify further commodity prices will suffer. Renewed safe-haven demand for the US dollar will probably also weigh on gold prices.
- ▶ The downside in the CRB index could be limited if higher tensions between the US – Iran and Saudi Arabia – Iran result in oil supply fears.



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



2 Energy – Oil / Gas

Oil rangebound – US Iran policy and OPEC meeting in focus

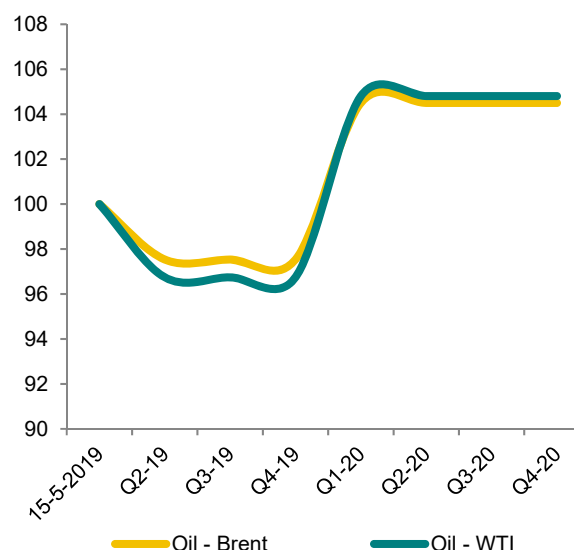
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- Oil prices declined after US president Trump 'called' OPEC to demand higher production and lower prices. The re-escalation of the US/China trade conflict also deteriorated overall investor sentiment and added downward pressure on oil prices. The Brent/WTI spread widened again to more than USD 9/bbl.
- The US waivers for Iran sanctions were ended. Nevertheless, markets have not priced in the risk of shortages as both Saudi Arabia and the UAE guaranteed enough supply to fill any gap.
- The US policy regarding Iran will remain in focus, especially after Iran indicated it will end its contribution to the nuclear deal with the remaining parties (US stepped already out one year ago) if US sanctions are not lifted within two months. Renewed tensions in the Middle East after sabotage and attacks on Saudi export facilities did not result in extra fears for supply worries.
- The next OPEC meeting is scheduled for 25 June. The main question is whether the production cut agreement with its allies will be extended or not. We believe that there is room for a smaller production cut.
- Oil prices are expected to trade sideways with an average of USD 70/bbl for Brent and USD 60/bbl for WTI.

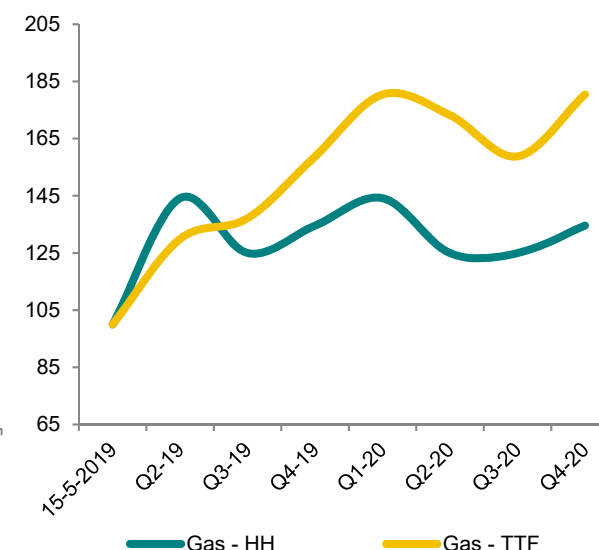
	1st contract 15-05-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Oil - Brent (USD/barrel)	72	70	70	70	70	75	75	75	80	70	76
Oil - WTI (USD/barrel)	62	60	60	60	60	65	65	65	65	60	65
Gas - Henry Hub (USD/mmBtu)	2.60	2.90	3.75	3.25	3.50	3.75	3.25	3.25	3.50	3.50	3.25
Gas - TTF (EUR/MWh)	13.86	20	18	19	22	25	24	22	25	20	24

ABN AMRO forecast price trend until 2020 (index)

index (latest 1st contract price = 100)



index (latest 1st contract price = 100)



3 Precious Metals – Gold / Silver / Platinum / Palladium

Gold prices unlikely to rally in case of more trade tensions

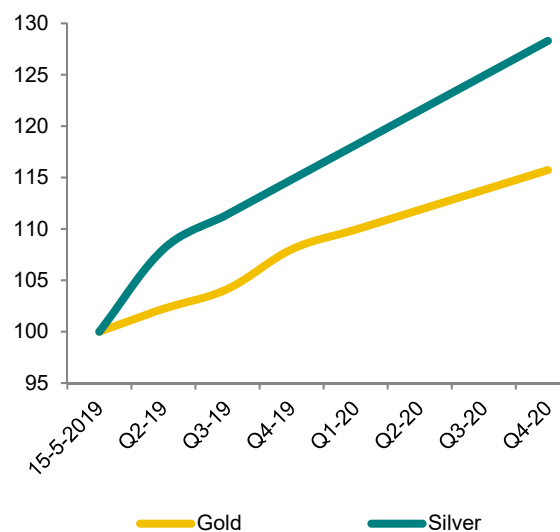
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- ▶ Gold prices set a low on 2 May 2019 that was only a touch below the one of 23 April. This could be a double bottom. We are cautious with this kind of pattern as they are not very reliable as a technical signal.
- ▶ Since 2 May gold prices have recovered mainly because the US dollar has struggled. The sell-off in equity markets (following the trade tensions between the US and China) has resulted in safe-haven flows into the Japanese yen but so far not into the US dollar.
- ▶ If investor sentiment were to deteriorate further, we also expect some safe-haven demand into the dollar. This will limit any upside potential for gold prices.
- ▶ We expect that any gold price weakness will stop above the 200-day moving average (which currently comes in at USD 1,255 per ounce). So we think that the 200-day moving average will hold and that prices will recover in the coming months.
- ▶ Palladium prices have weakened and we expect more price weakness ahead. We think that the 200-day moving average, just above USD 1,240 per ounce, will be tested. If prices drop below this level this could signal the end of the powerful uptrend.

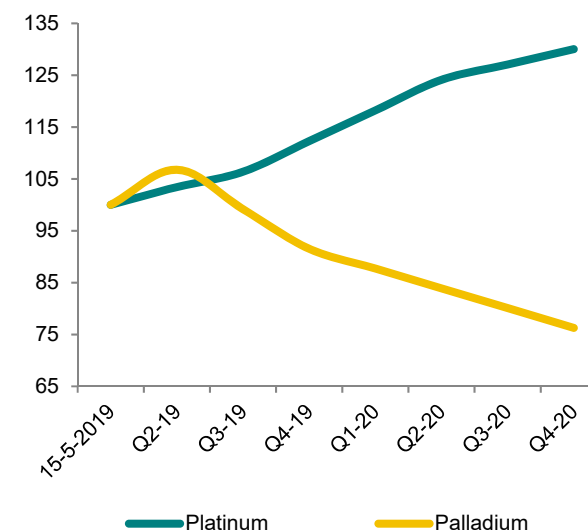
	spot prices 15-05-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	- averages - 2019	2020
Gold (USD/ounce)	1,296	1,300	1,325	1,350	1,400	1,425	1,450	1,475	1,500	1,329	1,450
Silver (USD/ounce)	14.81	15.50	16.00	16.50	17.00	17.50	18.00	18.50	19.00	16.10	18.00
Platinum (USD/ounce)	846	850	875	900	950	1,000	1,050	1,075	1,100	881	1,038
Palladium (USD/ounce)	1,311	1,500	1,400	1,300	1,200	1,150	1,100	1,050	1,000	1,356	1,100

ABN AMRO forecast price trend until 2020 (index)

index (latest spot price = 100)



index (latest spot price = 100)



4 Base Metals – Aluminium / Copper / Nickel / Zinc

US/China trade talk progress is cliff-hanger for prices

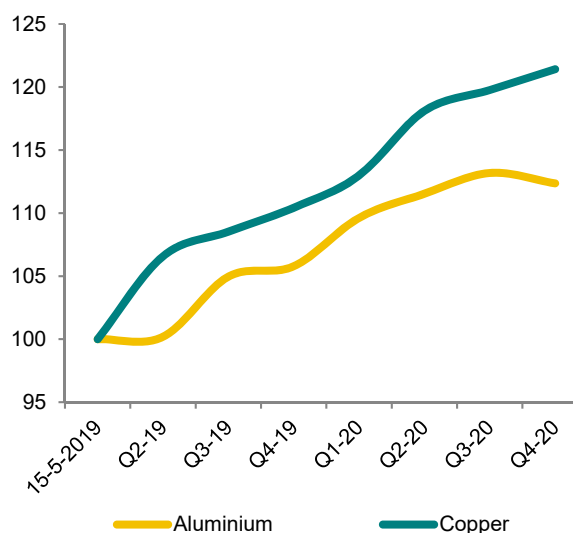
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- ▶ The volatility in prices has increased. Prices in the base metal complex dropped by 6% on average over the last month. More uncertainty over the trade talks, after a prolonged period of optimistic rumours, was the main reason. The nickel price lost 10% since our previous Monthly Commodity Insights, while the zinc price decreased by 7%. Copper and aluminium prices contracted by 5% and 3%, respectively.
- ▶ The direction of base metal prices is, at this stage, still heavily connected to trade talks. Higher uncertainty over the progress causes higher price volatility. We think that base metals markets will remain turbulent as long as the trade talks are ongoing. For the longer term, base metals markets remain fundamentally in good shape, with deficits until 2020.
- ▶ The copper market will continue to benefit from the further electrification and the shift to a low carbon economy globally. This is also a catalyst for nickel demand. The outlook for the EVs and battery demand remains positive.
- ▶ Zinc prospects are less buoyant, with major zinc ore project set to ramp up on the short term. The demand outlook for zinc is, however, still positive. Sentiment remains poor for aluminium. Availability is plentiful, but the outflow from the LME warehouses continues. This underpins prices to some extent.

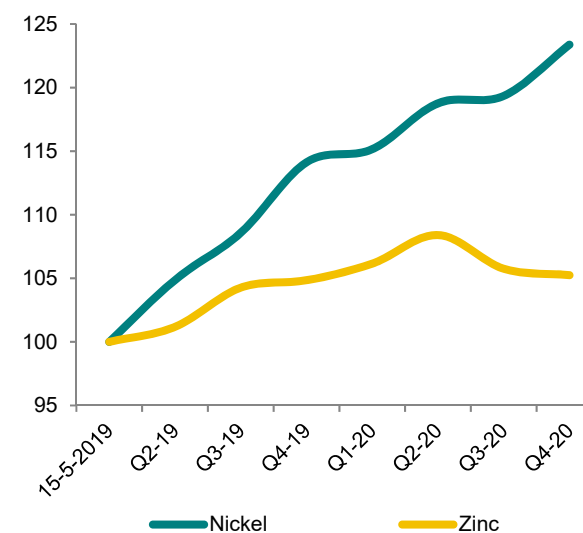
	spot prices 15-05-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Aluminium (USD/t)	1,825	1,893	1,828	1,915	1,930	2,000	2,035	2,065	2,050	1,907	2,050
Copper (USD/t)	6,054	6,487	6,452	6,570	6,685	6,840	7,150	7,250	7,350	6,534	6,940
Nickel (USD/t)	12,158	12,897	12,750	13,200	13,875	14,000	14,440	14,510	15,000	13,016	14,200
Zinc (USD/t)	2,756	3,000	2,788	2,873	2,889	2,925	2,987	2,914	2,900	2,843	2,700

ABN AMRO forecast price trend until 2020 (index)

index (latest spot price = 100)



index (latest spot price = 100)



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

Strong steel output growth in China and US

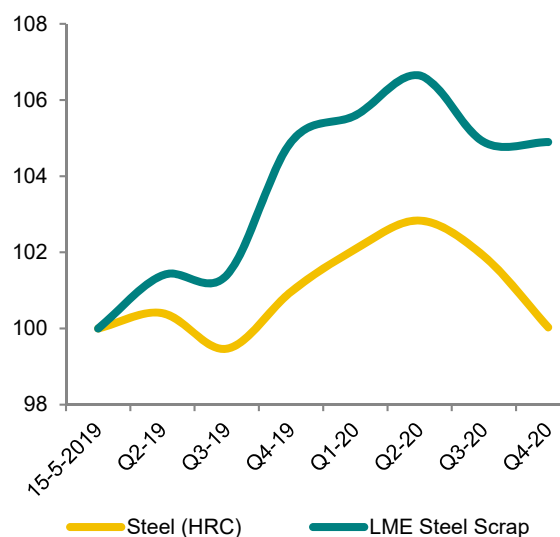
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- Global steel output increased by 4% yoy in Q1 2019. In China, liberal production policies by the government pushed output up by 9% yoy in Q1-2019. Output in the US increased by 7% in the same period, as a result of higher import tariffs and a ramp up of operations. In the EU, Russia and South America steel output was lower in Q1-2019 yoy.
- Steel utilisation rates in China are high on rising seasonal demand, especially from construction. Also, higher government spending on infrastructural projects have helped to keep steel utilisation rates elevated. Chinese passenger car output has contracted strongly during 2019, while sales of EVs more than doubled.
- We think that steel prices can gain some ground in the next few months on demand robustness. Overcapacity will, however, cap significant gains.
- Steel inventories at mills are still high and overcapacity continues to weigh on the market. Thereby, global steel prices have difficulty to recover. Next to that, prices for steelmaking raw materials (iron ore and coking coal) are still relatively high on supply side issues. As a result, steel mill margins are low. We think iron ore prices will soften during 2019 on abundant supply. Coking coal prices will stay elevated as demand remains robust.

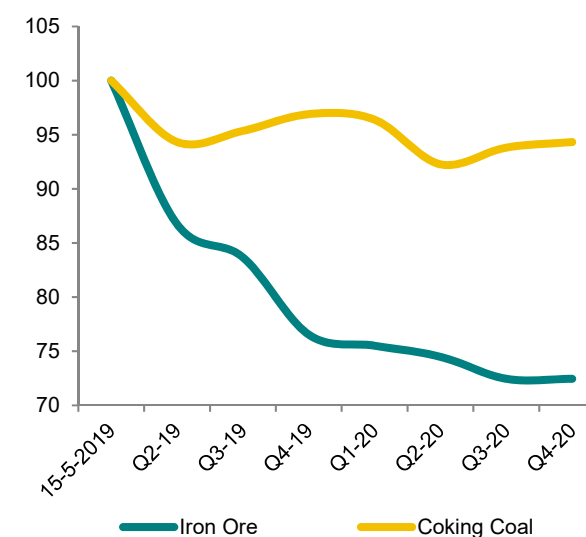
	spot prices 15-05-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Steel (HRC) (USD/t)	535	588	537	532	540	546	550	545	535	546	550
LME Steel Scrap (USD/t)	286	330	290	290	300	302	305	300	300	332	340
Iron Ore (USD/t)	98	87	85	82	75	74	73	71	71	82	69
Coking Coal (USD/t)	194	186	183	185	188	187	179	182	183	186	183

ABN AMRO forecast price trend until 2020 (index)

index (latest spot price = 100)



index (latest spot price = 100)



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

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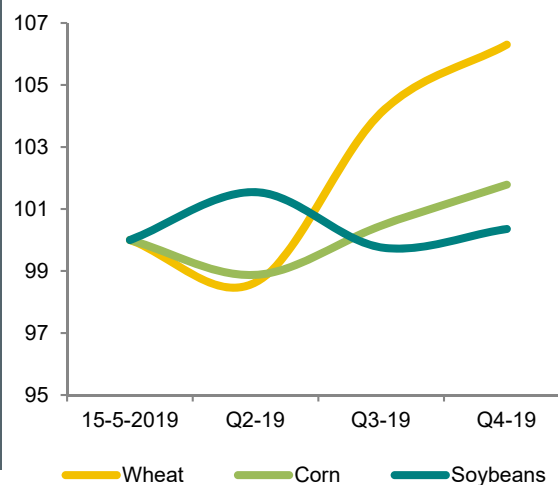
Concerns about high availability is weighing on agricultural prices

- ▶ Inventories of **wheat** are plentiful and that has depressed prices. In 2019/20, overproduction is expected of 10 Mt, which represents 1.3% of total demand. But a weaker dollar underpins prices.
- ▶ We think that the price of **corn** will strengthen during the 2019/20 season. Food, feed and ethanol demand will remain solid. Output will increase globally by a mere 1%. This translates into a deficit and prices will increase late 2019.
- ▶ Demand uncertainties for **soybean** and a good global harvest means that availability will remain high. This means weak prices. We are cautious on trade prospects due to lingering policy uncertainties. Prices will drift during 2019.
- ▶ There is a large overhang of **sugar** stocks, which keeps prices currently low. High deliverability of sugar from Thailand and India is a concern, but (industrial) demand is solid. All-in-all, we think a small deficit in 2019/20 will push prices higher.
- ▶ The availability of **cocoa** is high and this will keep a lid on prices. Demand is solid, especially in Asia. Still below average rainfall in Ivory Coast could reduce quantity and quality.
- ▶ The harvest of **coffee** remains elevated and is weighing on prices. Another large crop in Brazil is expected, which will keep prices relatively low. A stronger Brazilian real going forward will underpin prices for Arabica coffee.

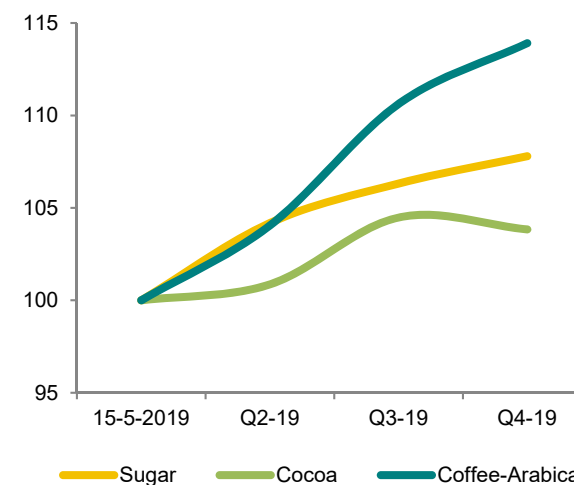
	2nd contract 15-05-19	Q1-19	Q2-19	Q3-19	Q4-19	- end of period prices -				- averages -	
						Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Wheat-CBOT (USDc/bu)	456	470	450	475	485	-	-	-	-	481	-
Corn-CBOT (USDc/bu)	378	380	374	380	385	-	-	-	-	367	-
Soybeans-CBOT (USDc/bu)	842	920	855	840	845	-	-	-	-	862	-
Sugar (USDc/lb)	12.19	12.65	12.70	12.96	13.14	-	-	-	-	12.93	-
Cocoa (USD/Mt)	2,321	2,240	2,341	2,425	2,410	-	-	-	-	2,359	-
Coffee-Arabica (USDc/lb)	91	99	95	101	104	-	-	-	-	102	-

ABN AMRO forecast price trend until 2019 (index)

index (latest 2nd contract price = 100)



index (latest 2nd contract price = 100)



A Appendix – Contact details, disclaimer & extra information

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