Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

Price recovery to continue

January 2019

1 All commodities – Energy / Precious / Industrials / Agri

Further upside in commodity prices

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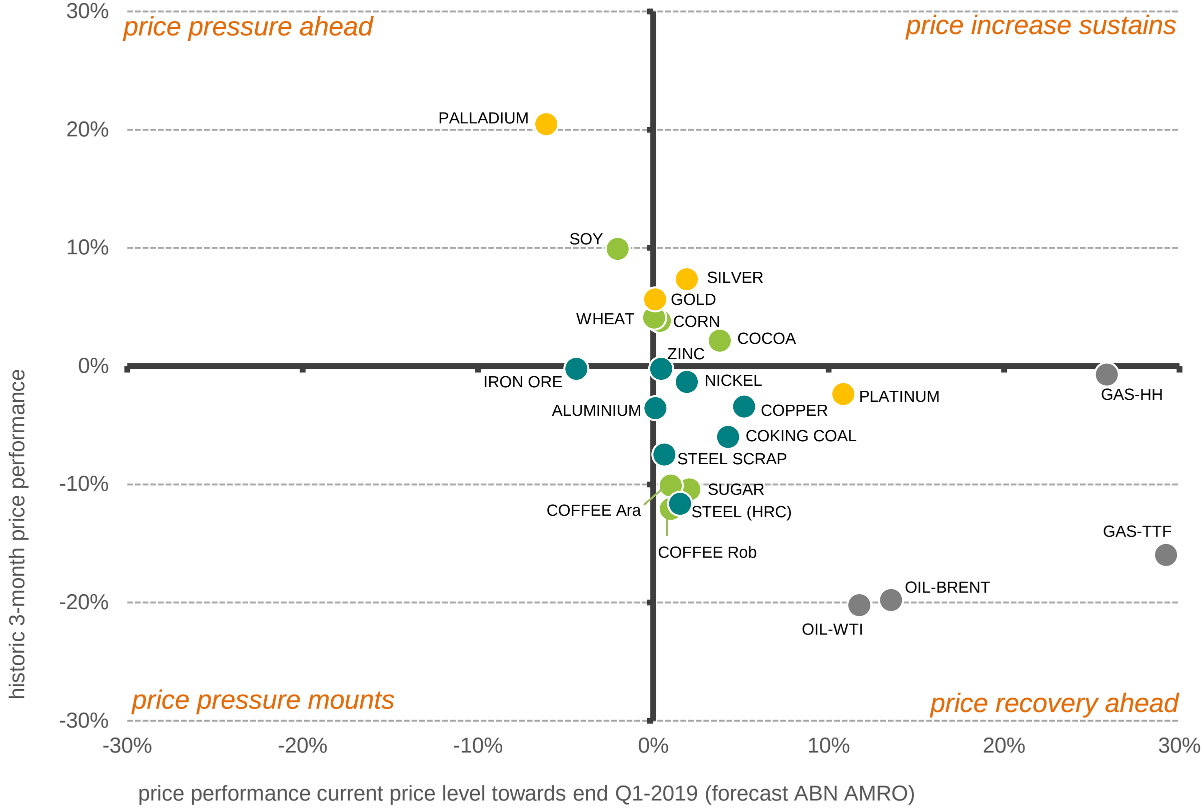
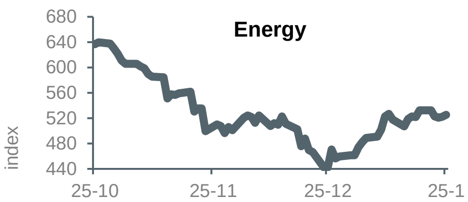
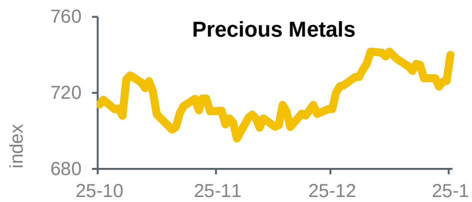
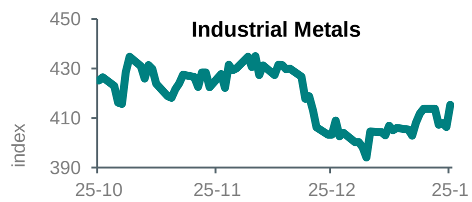
- Since the start of 2019, the CRB index has recovered by 7% in line with a recovery in oil and most base metal prices
- The recovery in equity markets and some improvement in overall investor sentiment also helped. Some of this was triggered by new hopes that China and the US may come to a deal on the trade front
- For 2019 we expect that most commodity prices will increase even further. We think that positive commodity market fundamentals, slower but continued global economic growth and a weakening of the dollar will provide a solid base for higher prices
- We expect the CRB index to gain another 5-7% for this year because of a further recovery in oil prices, higher precious metal prices and higher base metal prices.
- Agriculturals are expected to show a more divided performance and will therefore contribute less to a recovery of the CRB index

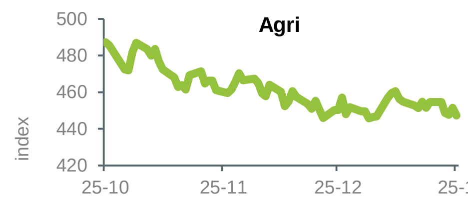


Price trend commodity classes over past three months (Thomson Reuters Index)









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics,

2 Energy – Oil / Gas

Oil prices recovered. Range trading expects from now on.

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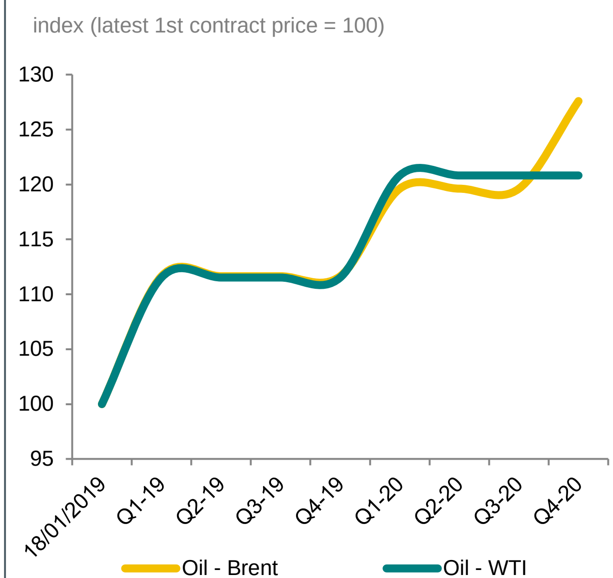
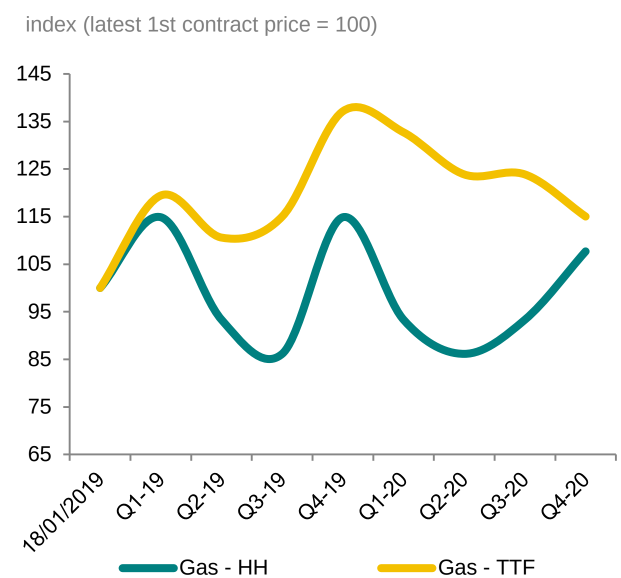
- Oil prices recovered strongly after the huge price decline which we saw in Q4 2018. Hopes regarding a positive outcome of the trade talks as well as signals that OPEC actually cut production helped to improve sentiment. As a result, Brent oil recovered from a low of almost USD 50/bbl at the end of the year to above USD 60/bbl mid January.
- Volatility will remain high as rising US production will continue to cap the upside while OPEC production cuts and supply issues in some other countries will remain supportive.
- Market speculation regarding the China/US trade talks, the Iran sanctions (decision on extension of US waivers to be taken in April) as well as OPEC policy (meeting at 17/18 April) will be crucial for direction for the second half of the year.
- US Henry Hub prices have shown large price swings. The main trigger for this is the impact harsh weather expectations can have on investor sentiment and expectations of higher temporary demand. For the coming weeks, prices may even move somewhat higher again as soon as winter weather kicks in again.

	1st contract	*- end of period prices -*								*- averages -*	
	25-01-19	**Q1-19**	**Q2-19**	**Q3-19**	**Q4-19**	**Q1-20**	**Q2-20**	**Q3-20**	**Q4-20**	**2019**	**2020**
Oil - Brent *(USD/barrel)*	62	70	70	70	70	75	75	75	80	70	76
Oil - WTI *(USD/barrel)*	54	60	60	60	60	65	65	65	65	60	65
Gas - Henry Hub *(USD/mmBtu)*	3,18	4,00	3,25	3,00	4,00	3,25	3,00	3,25	3,75	3,50	3,25
Gas - TTF *(EUR/MWh)*	20,89	27	25	26	31	30	28	28	26	27	32

ABN AMRO forecast price trend until 2020 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

Further upside in gold, silver and platinum prices

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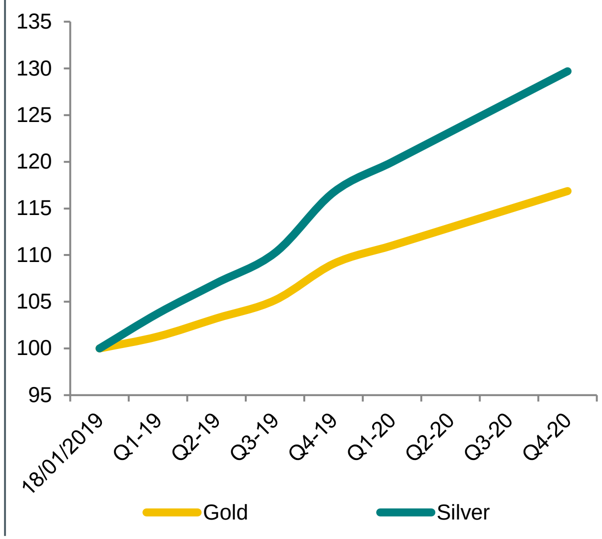
- Since the start of 2019 palladium prices have rallied by 8% while gold, silver and platinum prices are around 2% higher.
- At the end of last year, gold behaved as a safe-haven asset. Gold prices have a very unstable relationship with equity market volatility and risk-off indicators.
- Recently safe-haven demand has declined somewhat as US-China trade tensions have eased, equity markets have recovered and the probability of a no-deal Brexit has declined. This has acted as a headwind for gold prices.
- At the end of last week gold prices have risen above the resistance level of USD 1,300 per ounce. This is positive.
- We expect higher gold, silver and platinum prices for 2019.
- This is mainly because we expect a decline in the US dollar. A further recovery of the Chinese yuan should support precious metal prices as well as the measures taken by the Chinese authorities to support the economy.
- We expect an increase in jewellery demand going forward and this should support gold, silver and platinum prices.

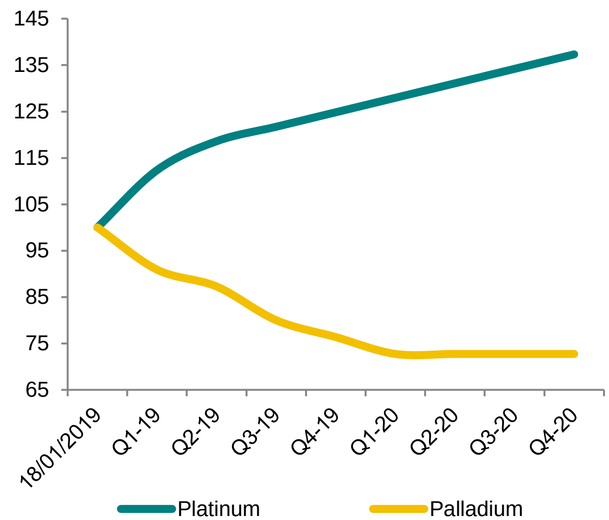
	spot prices	*- end of period prices -*								*- averages -*	
	25-01-19	**Q1-19**	**Q2-19**	**Q3-19**	**Q4-19**	**Q1-20**	**Q2-20**	**Q3-20**	**Q4-20**	**2019**	**2020**
Gold *(USD/ounce)*	1.299	1.300	1.325	1.350	1.400	1.425	1.450	1.475	1.500	1.329	1.450
Silver *(USD/ounce)*	15,70	16,00	16,50	17,00	18,00	18,50	19,00	19,50	20,00	16,60	19,00
Platinum *(USD/ounce)*	812	900	950	975	1.000	1.025	1.050	1.075	1.100	931	1.050
Palladium *(USD/ounce)*	1.331	1.250	1.200	1.100	1.050	1.000	1.000	1.000	1.000	1.177	1.006

ABN AMRO forecast price trend until 2020 (index)

index (latest spot price = 100)



index (latest spot price = 100)



Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

When trade tensions subside, prices will increase

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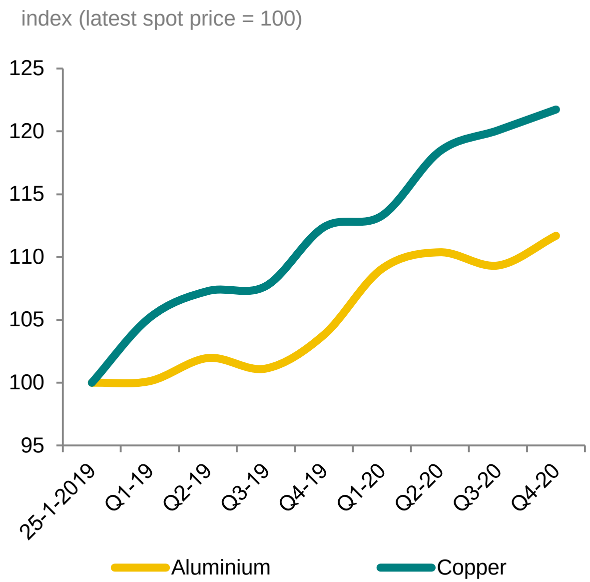
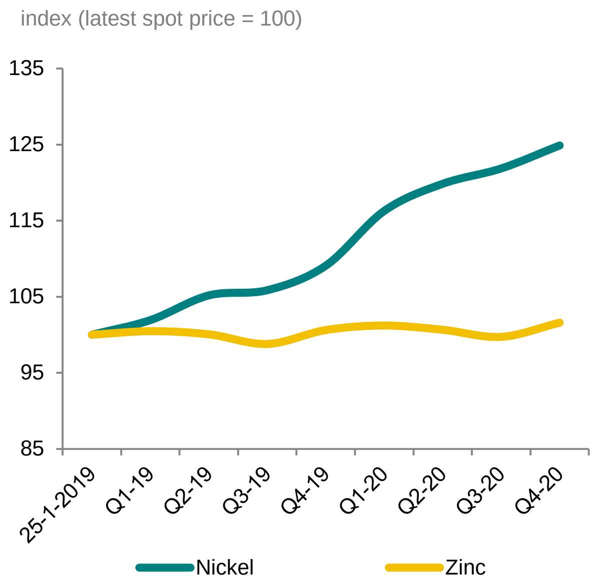
- Due to optimism over a possible US-China trade war resolution base metals prices rose over the past week. However, as long as trade negotiations continue, base metal prices remain muted. Risk appetite will only improve significantly – and thus prices – when a trade deal is reached.
- In the short term, the direction of base metal prices will be dominated by trade talks and the positioning of investors. A positive turn in the macro sentiment – based on a trade deal agreement – will lift base metals prices strongly. The solid fundamentals in all base metal markets will also provide support. The upside for aluminium in this perspective is less positive, mainly because high Chinese smelter output keeps availability high.
- In the longer term, we remain positive about trends in base metal markets. Global economic growth in 2019 will be somewhat lower than in 2018, but a recession is unlikely. We expect the Chinese economy to stabilise further. Next to that, the projected weakening trend in the US dollar by ABN AMRO (EUR/USD 1.25 eop 2019) is supportive for base metal prices. The supply and demand fundamentals remain positive and will therefore provide support. In all base metals markets deficits in 2019, and all-in-all we think base metals prices will increase further.

	spot prices	*- end of period prices -*								*- averages -*	
	25-01-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Aluminium *(USD/t)*	1.903	1.905	1.940	1.924	1.975	2.075	2.100	2.080	2.125	1.927	2.015
Copper *(USD/t)*	6.038	6.351	6.478	6.502	6.785	6.840	7.150	7.250	7.350	6.453	6.936
Nickel *(USD/t)*	11.907	12.136	12.523	12.604	12.988	13.845	14.270	14.510	14.870	12.447	14.215
Zinc *(USD/t)*	2.683	2.695	2.684	2.650	2.699	2.715	2.700	2.675	2.725	2.615	2.700

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

Weak demand, abundant supply and high input prices

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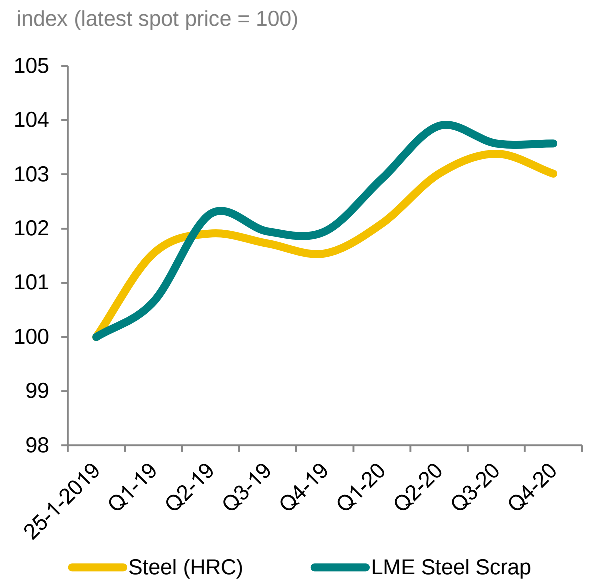
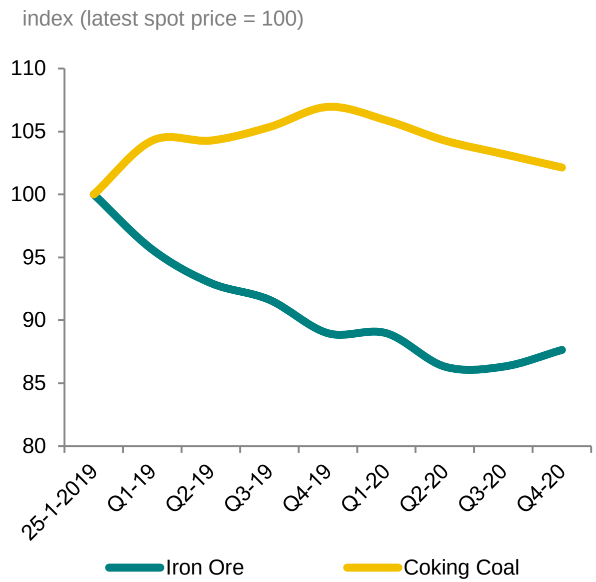
- Hot Rolled Coil (HRC) prices declined since the start of 2019. Global steel demand is still weak, while steel output continues to grow and stock levels are high. And still, there is little evidence of new end-user buying. The slowdown in the Chinese construction and automotive sector resulted in a further contraction in steel demand. The early 2019 announced Chinese economic stimulus – on infrastructure, consumer spending and extra credit flow into the real economy – have also not resulted in renewed buying activity. In Europe, market conditions have improved somewhat with the new safeguard measures, which decreases the import competition. Steel prices are expected to remain weak during 2019. In the coming months, however, seasonal stronger demand and restocking will lift prices.
- Iron ore price has risen sharply since the end of November, mainly on restocking in China and unforeseen weaker supply from Australia. As soon as supply catches up with demand, prices will drift lower again. Buying activity by steel mills will remain, however, steady ahead of the Lunar New Year in China. But on average, purchased volumes stay limited on relative low steel mill margins. Coking coal prices weakened on high stock levels. Going forward, coking coal prices will remain elevated on restocking, persistent supply disruptions and a reduction in coal mine capacity

	spot prices	*- end of period prices -*								*- averages -*	
	25-01-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Steel (HRC) *(USD/t)*	544	552	554	553	552	555	560	562	560	552	560
LME Steel Scrap *(USD/t)*	308	310	315	314	314	317	320	319	319	310	320
Iron Ore *(USD/t)*	75	72	70	69	67	67	65	65	66	70	66
Coking Coal *(USD/t)*	187	195	195	197	200	198	195	193	191	200	190

ABN AMRO forecast price trend until 2020 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

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

Stronger prices for most agriculturals

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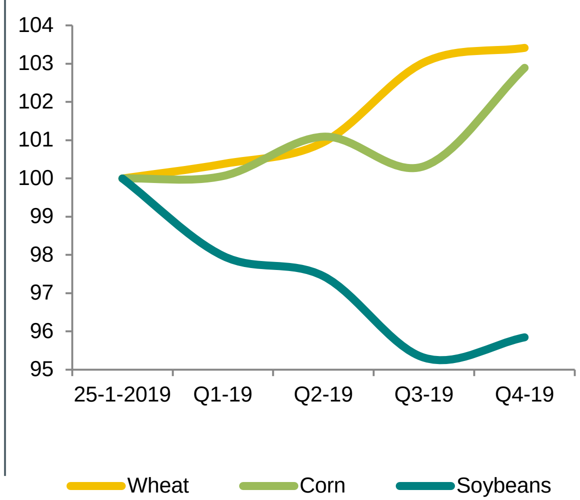
- Demand for **wheat** will remain strong, especially food demand. Feed demand will be lower. With steady stocks and lower output, deficits are expected. We think prices will increase further.
- Supply of **corn** will rise on sustained good productivity. Feed demand in China grows further, but struggles on outbreaks African swine fever. Demand growth in EU and Russia will remain strong. On balance, we expect deficits, which will send price higher.
- A new record harvest of **soybean** is expected in the US and Brazil. Demand will remain muted, mainly on lower Chinese feed demand. US availability will stay high and pressures prices.
- Demand for **sugar** continues to grow, especially in emerging economies. Indian output will grow strongly and global supply stays sufficient. The expected recovery of the Brazilian real will have an upward effect on sugar prices.
- Availability of **cocoa** will come under pressure this year. Weather conditions in Ivory Coast are less favourable. Demand will grow further. Recent cocoa grind numbers show strong increases in Asia.
- We expect higher **coffee** prices in 2019. The growth potential of demand is high at the relatively low prices. A stronger Brazilian real will also underpin prices. However, sufficient supply will cap this upward trend in prices.

	2nd contract	*- end of period prices -*								*- averages -*	
	25-01-19	**Q1-19**	**Q2-19**	**Q3-19**	**Q4-19**	**Q1-20**	**Q2-20**	**Q3-20**	**Q4-20**	**2019**	**2020**
Wheat-CBOT *(USDc/bu)*	527	529	532	543	545	-	-	-	-	532	-
Corn-CBOT *(USDc/bu)*	389	389	393	385	400	-	-	-	-	392	-
Soybeans-CBOT *(USDc/bu)*	939	920	915	895	900	-	-	-	-	909	-
Sugar *(USDc/lb)*	12,59	12,85	12,70	12,80	12,90	-	-	-	-	13,00	-
Cocoa *(USD/Mt)*	2.264	2.430	2.370	2.460	2.495	-	-	-	-	2.462	-
Coffee-Arabica *(USDc/lb)*	110	111	107	110	113	-	-	-	-	108	-

ABN AMRO forecast price trend until 2019 (index)

index (latest 2nd contract price = 100)



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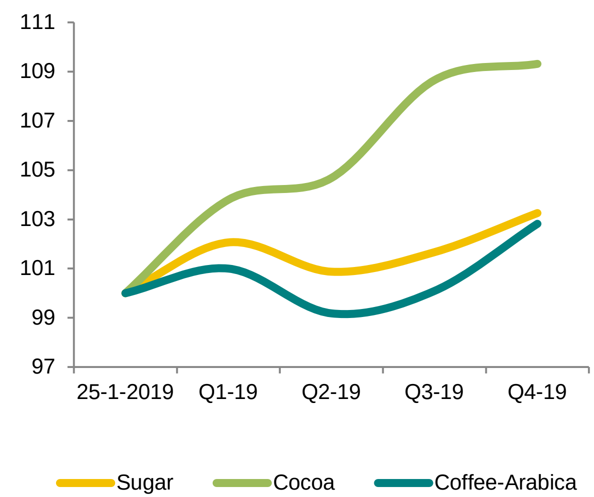

Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

A Appendix – Contact details, disclaimer & extra information

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