Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

Weaker economic drivers limit upside commodity prices

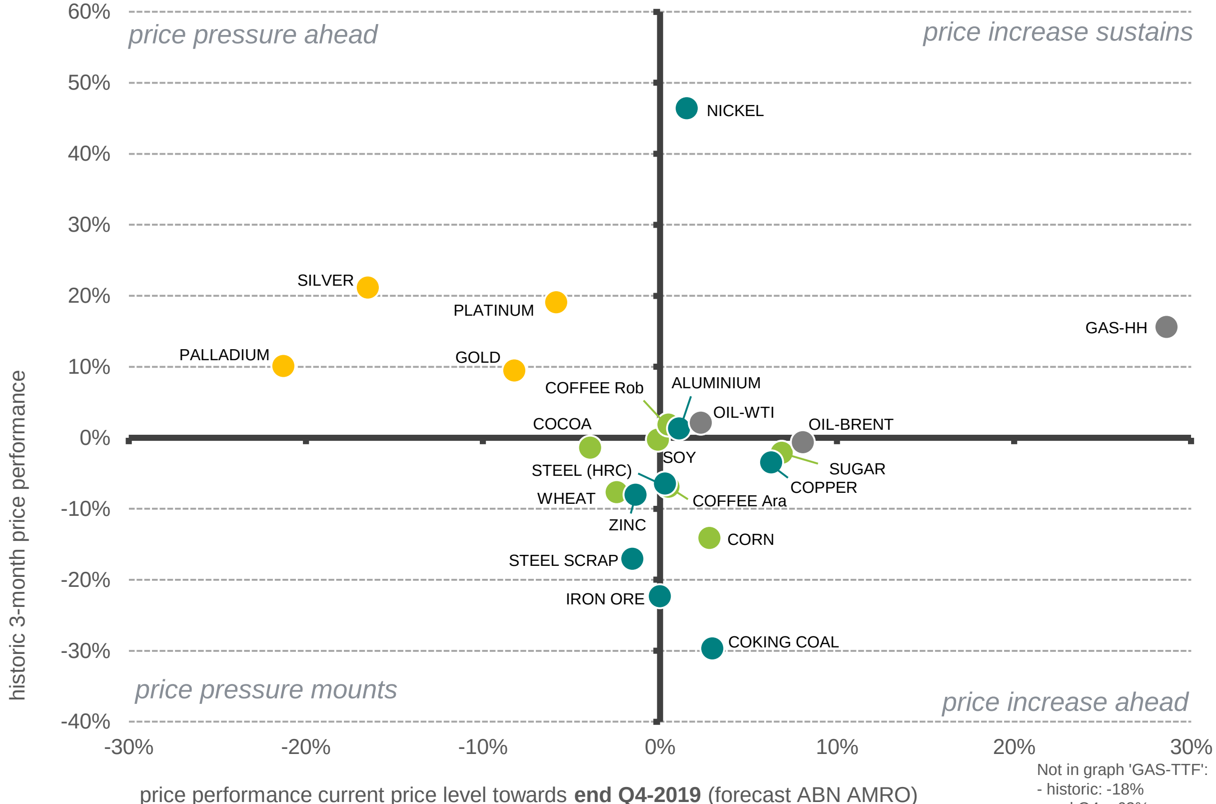
September 2019

1 All commodities – Energy / Precious / Industrials / Agri

Weaker economic drivers limit upside potential commodity prices

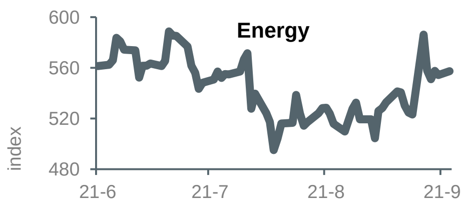
Hans van Cleef
Energy Economist
hans.van.cleef@nl.abnamro.com

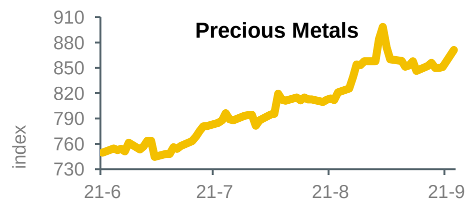
- After a drop below 170 in August, the CRB-index recovered to 180. The main driver was higher WTI crude prices, which account for 23% of the index. We expect more range trading in Q4.
- The attack on Saudi oil infrastructure facilities reminded the market of possible impacts of geopolitical risks. Although the existing downside price risks for oil did not vanish, geopolitical risks led to increased upside price risks. As a result, oil prices seem to be caught between extremes.
- We think gold prices may have found too much support. A profit taking wave could easily push prices back towards our expected 1,400/ounce at the end of the year.
- The trade conflict and high inventories cap the upside for base metals, especially for aluminium, copper and zinc. Loose monetary policy should be supportive, but mainly into 2020.
- Agri show a mixed picture. Although the high stock levels will decline somewhat, the upside potential of most prices seem to be limited.

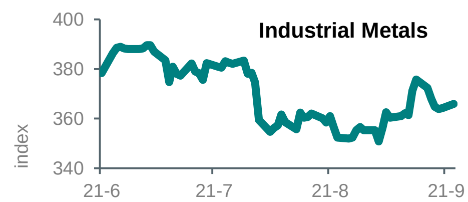


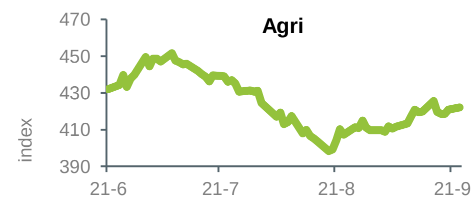
Not in graph 'GAS-TTF':
- historic: -18%
- end Q4: +63%

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









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

2 Energy – Oil / Gas

Attack on Saudi oil production reminded us of geopolitical risks

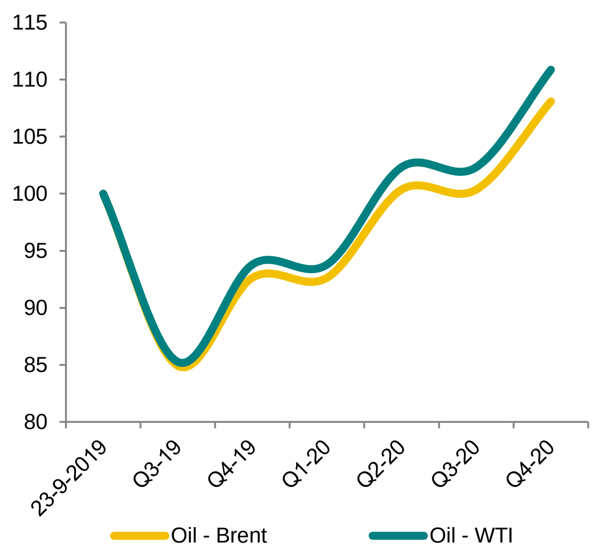
Hans van Cleef
Energy Economist
hans.van.cleef@nl.abnamro.com

- The attack on Saudi oil production facilities triggered production disruptions and a draw from Saudi strategic petroleum reserves in order to meet global demand. Although most of the oil price reaction was short lived, geopolitical tensions and its possible effect on global oil supply is back on the radar.
- Nevertheless, the reassurance of Saudi officials to bring back production at pre-attack levels before the end of the month refrained the market from pricing in a bigger risk premium.
- We think that the market may underestimate the possible consequences for oil supply in case the situation deteriorates or even escalates. Although the market has mainly focused on oversupply due to the US crude production / inventories, the increased geopolitical tensions now caught oil prices between extremes.
- As long as neither the trade war and geopolitical tensions escalate, oil prices will continue to trade within this delicate equilibrium up until what will be a crucial OPEC+ meeting
- US natural gas prices recovered from USD 2.07/mmBtu early August based on profit taking on recent price decline to USD 2.68/mmBtu mid-September before stabilizing again. Technical trading and increased cooling demand triggered the Henry Hub price rally ahead of expected increased seasonal demand.

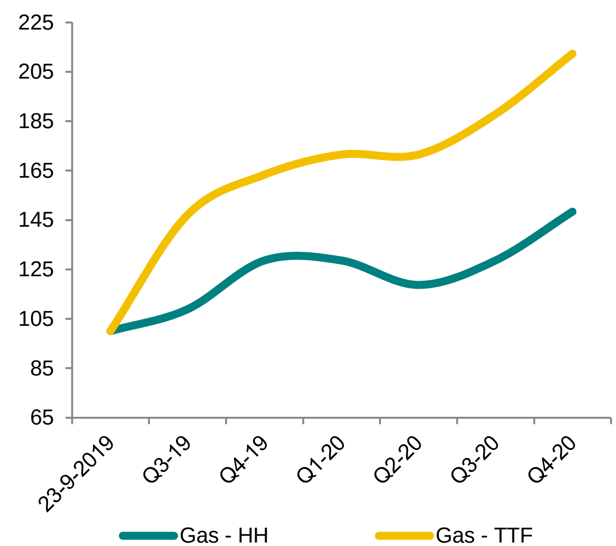
	1st contract	*- end of period prices -*								*- averages -*	
	23-09-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Oil - Brent *(USD/barrel)*	65	64	69	55	60	60	65	65	70	62	65
Oil - WTI *(USD/barrel)*	59	55	60	50	55	55	60	60	65	56	60
Gas - Henry Hub *(USD/mmBtu)*	2.53	2.88	2.51	2.75	3.25	3.25	3.00	3.25	3.75	2.50	2.50
Gas - TTF *(EUR/MWh)*	12.24	19	13	18	20	21	21	23	26	17	20

ABN AMRO forecast price trend until 2020 (index)

index (latest 1st contract price = 100)



index (latest 1st contract price = 100)



Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

Near-term weakness in prices

Georgette Boele
Precious Metals Strategist
georgette.boele@nl.abnamro.com

- On 4 September gold prices reached a high of USD 1,557 per ounce and since then prices have lost momentum. Prices have tested the support area USD 1,480 – 1,485 per ounce several times. But there seems to be enough buyers to pick gold up around these levels. Currently gold prices are stuck in the USD 1,480 – 1,560 per ounce range.
- Speculators hold large net-long gold positions. We think these will limit the upside potential from here.
- Moreover we expect profit taking on these large net-long gold positions if the rally in gold prices is not restarted.
- We keep our year-end forecast at USD 1,400 per ounce.
- 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.
- Other precious metal prices have also performed well. Silver and platinum prices have done a catch-up and palladium prices rallied to new all-time highs. A profit-taking wave in gold prices will probably spill over to silver and platinum prices.

	spot prices	- end of period prices -								- averages -	
	23-09-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Gold *(USD/ounce)*	1,525	1,303	1,308	1,450	1,400	1,450	1,500	1,550	1,600	1,371	1,500
Silver *(USD/ounce)*	18.56	15.58	14.91	16.50	15.50	16.00	16.60	17.20	18.00	15.70	16.60
Platinum *(USD/ounce)*	956	822	843	900	900	950	1,000	1,050	1,100	864	1,000
Palladium *(USD/ounce)*	1,651	1,431	1,386	1,400	1,300	1,250	1,200	1,150	1,100	1,392	1,200

ABN AMRO forecast price trend until 2020 (index)

Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

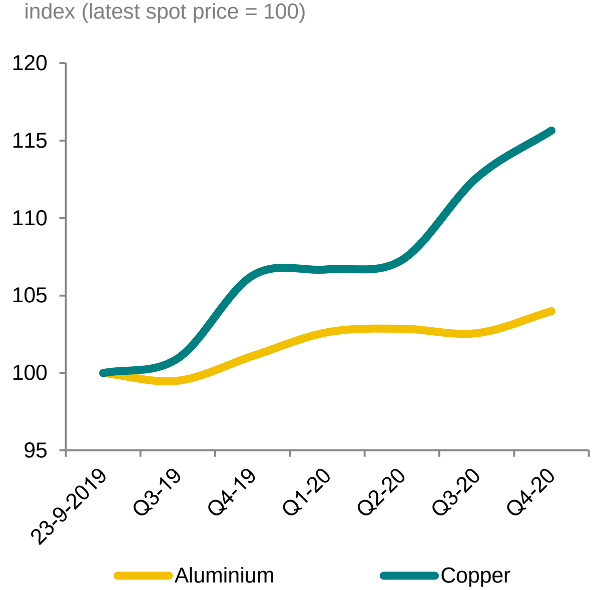
Short term neutral stance given the macro uncertainty

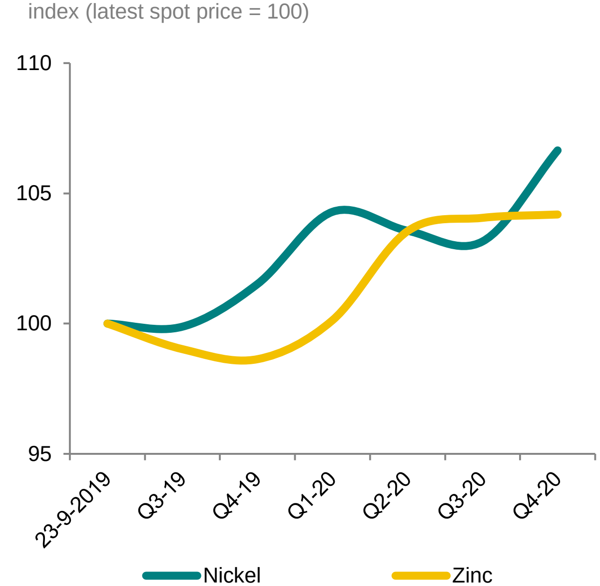
Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

- A diverse picture has emerged in base metals markets. Prices of aluminium, copper and zinc are relatively low, while the nickel price has risen to new heights. Clearly, the uncertain macroeconomic climate is having a depressing effect on the price trend of all base metals, mainly due to the imminent trade war conflict. Government policy is key in the nickel market.
- The price of copper decreased so far this year by 3%. Macroeconomic uncertainty is leaving its mark in the copper market. Activity is stagnating and that is having a negative effect on demand. LME stocks have doubled since 1 January. Over the next few months, trade woes and macroeconomic woes will continue to impact price trends.
- The prices of aluminium and zinc decreased by 5-7% since the start of 2019. The low prices are mainly due to the high availability globally and weaker downstream demand. We expect that prices will remain low during Q4 and Q1-20.
- So far this year, nickel price rose by 66%, mainly due to increased supply risks of nickel ores. The renewed Indonesian export ban on nickel ores translates into deficits from 2020 onward.
- The net-effect of looser monetary policies globally is positive for base metals demand and that will underpin prices. We hold, however, our short term neutral stance given the uncertainty over the trade war conflict.

	spot prices	*- end of period prices -*								*- averages -*	
	23-09-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Aluminium *(USD/t)*	1,765	1,863	1,795	1,756	1,784	1,811	1,815	1,810	1,835	1,802	1,820
Copper *(USD/t)*	5,750	6,216	6,121	5,805	6,112	6,135	6,170	6,475	6,650	6,054	6,317
Nickel *(USD/t)*	17,595	12,365	12,251	17,574	17,862	18,350	18,222	18,150	18,765	14,357	17,971
Zinc *(USD/t)*	2,342	2,704	2,763	2,319	2,310	2,345	2,425	2,437	2,440	2,536	2,413

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

Limited upside for prices on plentiful supply and weak demand

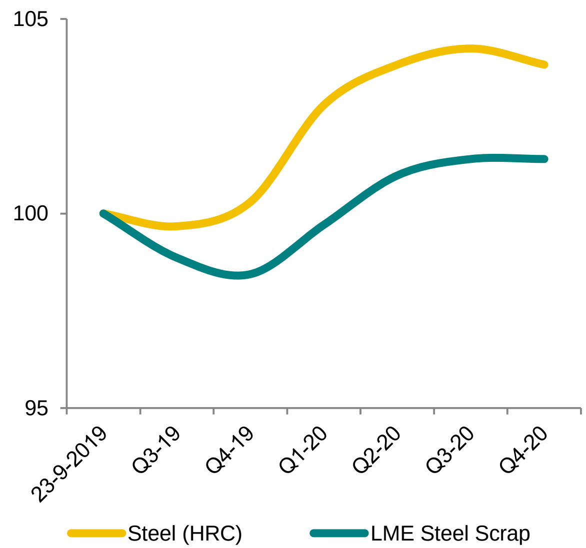
Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

- Since 1 January, the global steel price is down by 13%. Steel prices were pressured in all regions, but prices in the US and EU decreased strongest by 24% and 14% respectively. Plentiful supply chasing limited demand was the main cause.
- Global steel output increased by 5% until July yoy. Chinese output rose by 9% in the same period, while production in the US increased by 6%. Steel production in the EU dropped by 3%.
- Steel demand weakness continued in Q3. Activity in automotive and mechanical engineering remained weak, while demand growth from construction sectors softened globally.
- With weakening business confidence indicators, steel purchases will remain soft going forward.
- Pressures on steel mill margins remain high, despite lower prices for iron ore and coking coal over the past month. During Q4, prices for iron ore are expected to remain stable on restocking activity by steel mills. Coking coal prices will stabilise. Downstream demand will hold, while supplies will remain unchanged on average.
- In the short term, steel market conditions will not change significantly. We expect sluggish steel trading in the coming period. This means that prices for HRC steel will remain soft in Q4. Restocking activity and a seasonal uptick in demand can provide a cushion for prices.

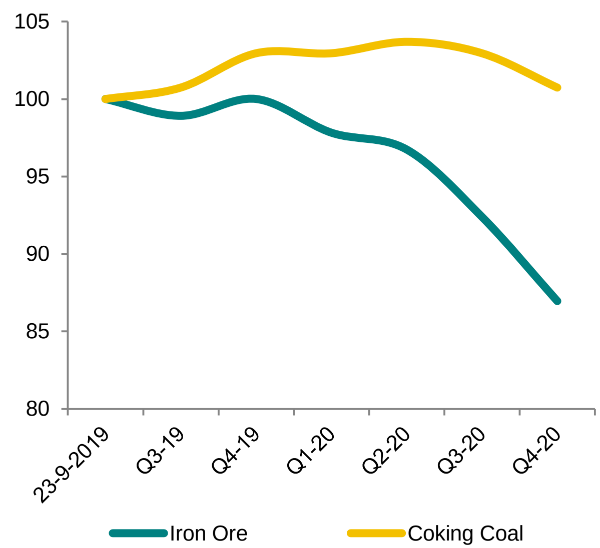
	spot prices	*- end of period prices -*								*- averages -*	
	23-09-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Steel (HRC) *(USD/t)*	482	558	538	480	483	495	500	502	500	519	504
EU Steel Scrap *(EUR/t)*	237	330	289	234	233	236	239	240	240	274	238
Iron Ore *(USD/t)*	92	83	102	91	92	90	89	85	80	93	89
Coking Coal *(USD/t)*	135	189	192	136	139	139	140	139	136	174	138

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

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

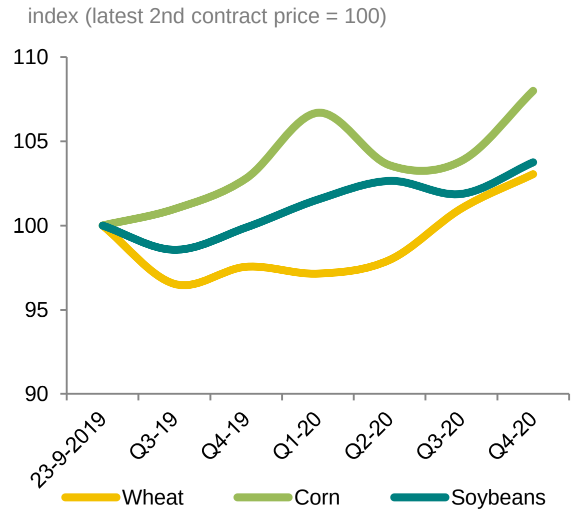
Lower ending stocks will underpin most agricultural markets

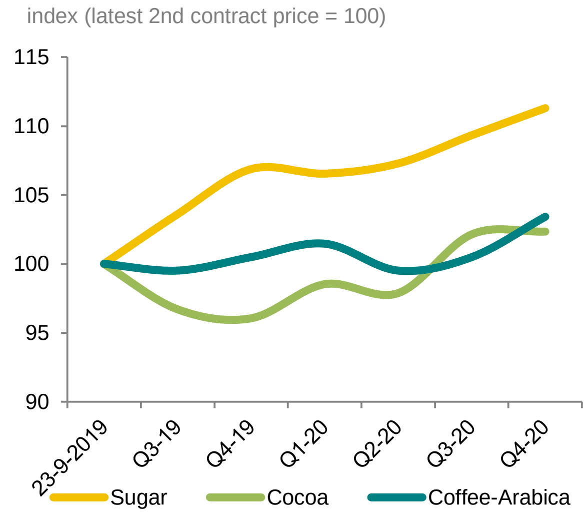
Casper Burgering
Agricultural Commodities Economist
casper.burgering@nl.abnamro.com

- **Wheat** prices found some support on dented production prospects. However, in 2019/2020 a record harvest is expected and closing stocks will increase. This means that prices will remain soft.
- **Corn** prices rose in the past 3 months on worrisome dryness in Americas. For 2019/2020, lower production is expected and demand will remain stable. This results in lower ending stocks. Prices will find some support on this.
- Prices of **soybean** were pressured over the past 3 months on global demand worries and good crop prospects. Going forward, crops will decrease, while demand will rise, mainly from the food sector. Price will rise in the next season.
- In 19/20, the **sugar** market will swing into deficit. This will underpin prices. However, worries in the market remain on relative high stock levels and a potential significant increase of Indian exports.
- **Cocoa** price increased on announcement of a higher guaranteed income for farmers and a possible production ceiling. The ICCO revised its production outlook downward for 2018/2019, but the market will remain in surplus. This means that upside for price is low on high availability.
- Brazilian **coffee** supply will remain high, but dryness impacts harvest. Tightening exchange stocks help to underpin conditions. Oversupply will remain, which will keep prices soft.

	2nd contract	*- end of period prices -*								*- averages -*	
	23-09-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Wheat-CBOT *(USDc/bu)*	490	490	476	473	478	476	480	495	505	484	491
Corn-CBOT *(USDc/bu)*	384	373	390	388	395	410	398	399	415	392	412
Soybeans-CBOT *(USDc/bu)*	906	905	866	893	905	920	930	923	940	890	922
Sugar *(USDc/lb)*	12.21	12.69	12.26	12.65	13.05	13.01	13.10	13.35	13.59	12.77	13.13
Cocoa *(USD/Mt)*	2,467	2,256	2,409	2,386	2,370	2,431	2,415	2,520	2,525	2,357	2,454
Coffee-Arabica *(USDc/lb)*	103	99	95	102	103	104	102	103	106	100	103

ABN AMRO forecast price trend until 2020 (index)





Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

A Appendix – Contact details, disclaimer & extra information

Contact information ABN AMRO | Group Economics:			
	Knowledge area:	Phone:	E-mail:
- Marijke Zewuster	Head Commodity Research	+31 20 383 05 18	marijke.zewuster@nl.abnamro.com
- Georgette Boele	Precious Metals	+31 20 629 77 89	georgette.boele@nl.abnamro.com
- Hans van Cleef	Energy	+31 20 343 46 79	hans.van.cleef@nl.abnamro.com
- Casper Burgering	Industrial Metals & Agriculturals	+31 20 383 26 93	casper.burgering@nl.abnamro.com

ABN AMRO on the internet:		
-	Insights:	insights.abnamro.nl/eng
-	Twitter Group Economics	@ABNAMROeconomen

Publication closed on 25 September 2019