

Monthly Commodity Insights

...price forecasts for commodity markets

ABN AMRO Group Economics

June 2019

A more negative base view but still neutral on commodity prices

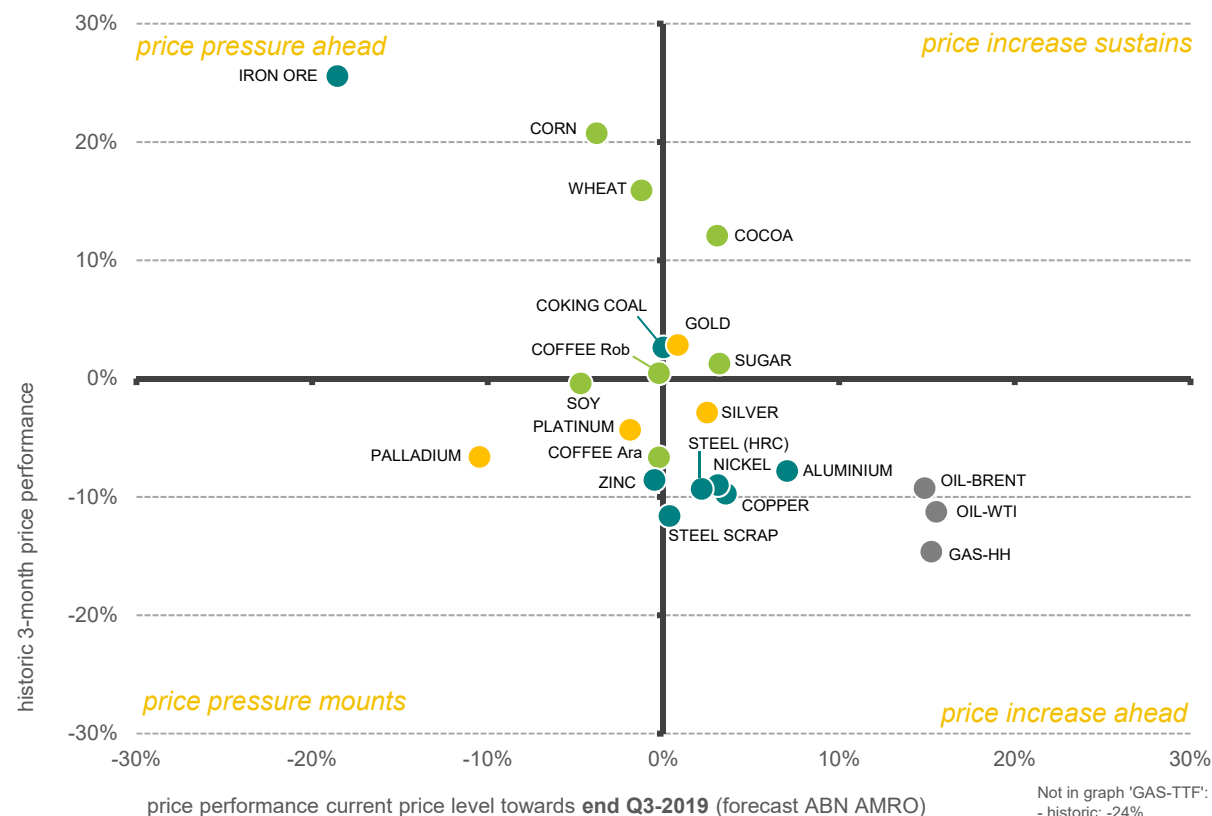


1 All commodities – Energy / Precious / Industrials / Agri

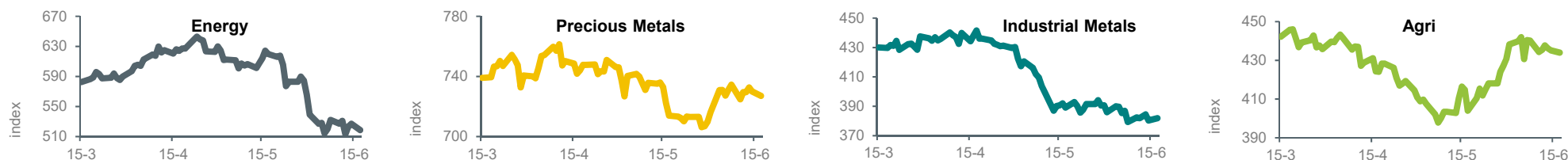
A more negative base view but still neutral on commodity prices

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- ▶ We have downgraded our forecasts for global economic growth and we now expect a global monetary easing cycle to take shape, starting in US before too long. The changes reflect that we take a more negative view on the way the trade conflict will evolve over the coming months. This should weigh on commodity prices.
- ▶ We also expect investor sentiment to deteriorate and the US dollar to receive safe-haven demand. A somewhat higher US dollar and weaker sentiment are in general negatives for commodity prices.
- ▶ On the other hand we expect considerably looser monetary policy, which is in general supportive for commodity prices.
- ▶ Moreover, tighter supplies (in base metals) and (geo)political tensions (oil) should give prices some support.
- ▶ All-in-all, we remain neutral on commodity prices this year.



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



2 Energy – Oil / Gas

Oil testing the lows – Middle East tensions increased; OPEC in focus

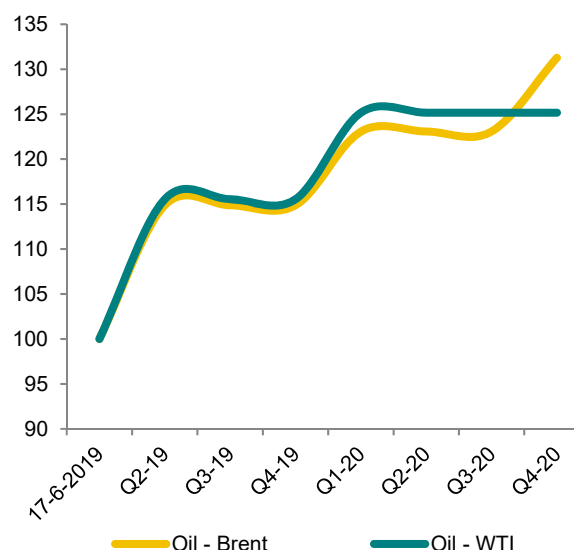
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- ▶ Market focus on the possible negative effects of an escalation in the trade dispute between US and China triggered a wave of profit taking. This pushed oil prices lower from levels above USD 75/bbl to the low of USD 60s.
- ▶ Hopes for a continuation of the OPEC production cut agreement as well as increased tensions in the Middle East kept oil prices supported above crucial technical levels.
- ▶ The OPEC meeting will probably be delayed to 3 July, from 25 June in order to provide some negotiation room between big oil producers like Russia and Saudi Arabia at the side events of the G20 meeting (28/29 June). After the steep drop in oil prices, the most likely outcome is a continuation of the current 1.2 mb/d production cut agreement.
- ▶ Oil prices are expected to trade sideways with an average of USD 70/bbl for Brent and USD 60/bbl for WTI in H2 2019.
- ▶ We have lowered our TTF forecasts for Q4 2019 and Q1 2020 based on higher than normal inventories – partly due to increased LNG imports – and mild demand expectations.
- ▶ US Henry Hub fell under some pressure and dropped below 2.50/mmBtu as above expectations US shale production continues to cap any significant upside potential for now.

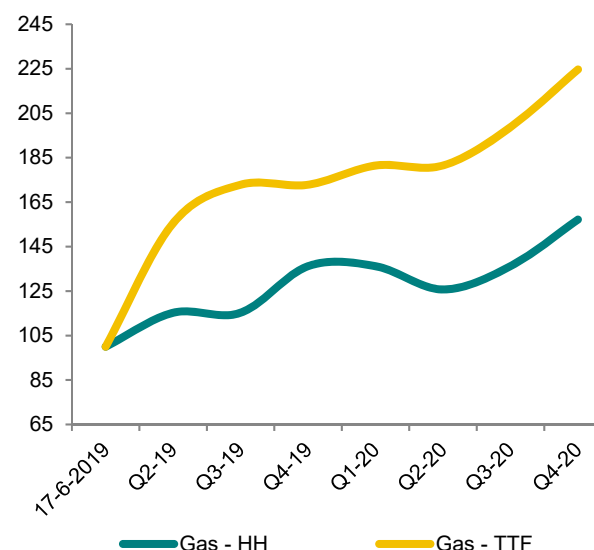
| | 1st contract 17-06-19 | Q1-19 | Q2-19 | Q3-19 | Q4-19 | Q1-20 | Q2-20 | Q3-20 | Q4-20 | - averages - 2019 | 2020 |
|---------------------------------------|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|----------------------|------|
| Oil - Brent (USD/barrel) | 61 | 70 | 70 | 70 | 70 | 75 | 75 | 75 | 80 | 70 | 76 |
| Oil - WTI (USD/barrel) | 52 | 60 | 60 | 60 | 60 | 65 | 65 | 65 | 65 | 60 | 65 |
| Gas - Henry Hub (USD/mmBtu) | 2.39 | 2.90 | 2.75 | 2.75 | 3.25 | 3.25 | 3.00 | 3.25 | 3.75 | 2.75 | 3.25 |
| Gas - TTF (EUR/MWh) | 11.57 | 20 | 18 | 20 | 20 | 21 | 21 | 23 | 26 | 18 | 23 |

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

We remain positive on gold

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- ▶ Since the end of May gold prices have rallied by more than 3%. At the end of last week this year's high was tested but prices did not end the week above this level.
- ▶ A higher US dollar was the reason why gold prices could not stay above USD 1,350 per ounce and profit taking was the result.
- ▶ The prospect of looser monetary policy should be supportive for gold prices and also the technical picture remains positive.
- ▶ But net-long positions in gold have risen and could start to dampen the upside potential in the near term.
- ▶ Overall we remain positive on gold prices and we keep our year-end forecast of USD 1,400 per ounce.
- ▶ We also expect higher silver prices, but the upside potential is lower due to lower expected cyclical demand. We have downgraded our silver forecasts.
- ▶ The outlook for platinum prices is less positive. We now expect modest downside this year due to lower auto catalyst demand. A higher gold price should dampen the downside somewhat.
- ▶ We remain negative on palladium because it is the most vulnerable to the global growth and trade cycle.

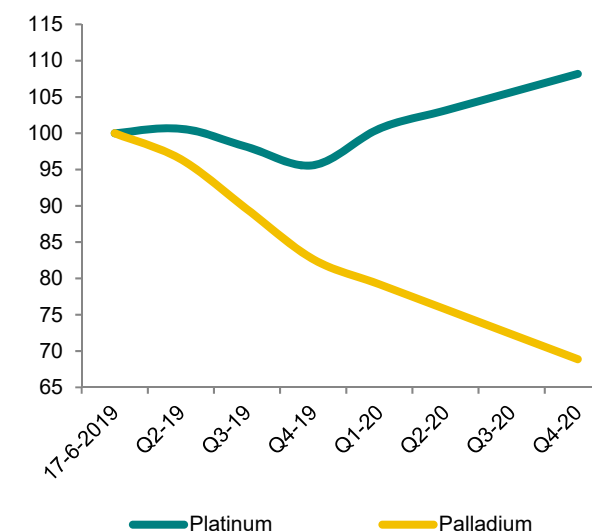
| | spot prices 17-06-19 | Q1-19 | Q2-19 | Q3-19 | Q4-19 | Q1-20 | Q2-20 | Q3-20 | Q4-20 | - averages - 2019 2020 | |
|---------------------------------|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|---------------------------|-------|
| Gold (USD/ounce) | 1,339 | 1,300 | 1,325 | 1,350 | 1,400 | 1,425 | 1,450 | 1,475 | 1,500 | 1,327 | 1,450 |
| Silver (USD/ounce) | 14.88 | 15.50 | 15.00 | 15.25 | 15.50 | 15.75 | 16.00 | 16.25 | 16.50 | 15.30 | 16.00 |
| Platinum (USD/ounce) | 795 | 850 | 800 | 780 | 760 | 800 | 820 | 840 | 860 | 810 | 818 |
| Palladium (USD/ounce) | 1,452 | 1,500 | 1,400 | 1,300 | 1,200 | 1,150 | 1,100 | 1,050 | 1,000 | 1,351 | 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

Economic downgrades translate into price downgrades

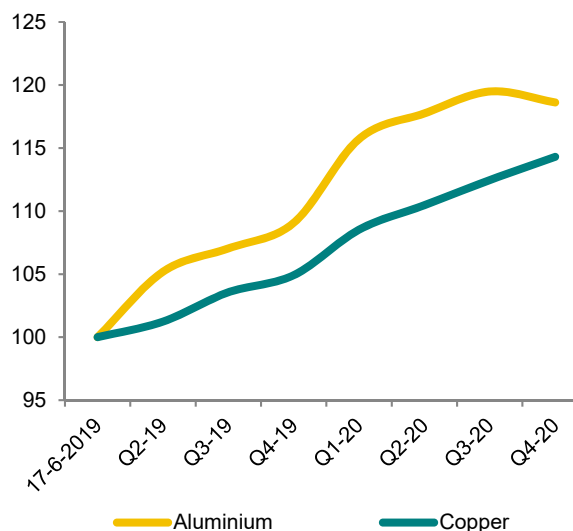
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- ▶ Base metals prices decreased by 4% over the past month. The main reasons for the softer prices were weak economic data from China, a stronger dollar and the ongoing trade conflict. This created a lot of uncertainty amongst investors. The trade talk progress is by far the main reason why base metals prices remained soft. Higher uncertainty over the progress causes higher price volatility. We think that prices will remain soft as long as the trade talks drag on.
- ▶ The global economic growth downgrades by ABN AMRO Group Economics imply a longer period of sub-trend economic growth, but we do not expect a recession. All-in-all, this translates into lower growth in demand for metals. We therefore also downgraded our base metals prices forecasts.
- ▶ In the longer term we remain, however, optimistic over base metals markets. This is especially the case for copper and nickel. For most base metals markets, deficits are expected going forward. The trend to further electrification and the shift to a low-carbon economy on a global scale, will provide a solid base for most base metals. The outlook for the electric vehicle (EV) and battery demand remains positive. In the aluminium market sentiment remains poor, especially on the demand side. Availability is plentiful, but the outflow from the LME warehouses continues. This underpins prices to some extent.

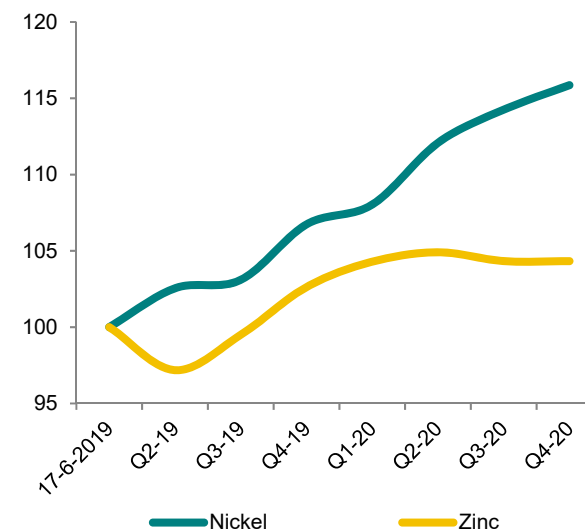
| | spot prices 17-06-19 | Q1-19 | Q2-19 | Q3-19 | Q4-19 | Q1-20 | Q2-20 | Q3-20 | Q4-20 | - averages - 2019 2020 | |
|-----------------------------|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------------------------|--------|
| Aluminium (USD/t) | 1,728 | 1,893 | 1,818 | 1,850 | 1,885 | 2,000 | 2,035 | 2,065 | 2,050 | 1,862 | 2,050 |
| Copper (USD/t) | 5,818 | 6,487 | 5,890 | 6,025 | 6,104 | 6,314 | 6,427 | 6,543 | 6,650 | 6,150 | 6,536 |
| Nickel (USD/t) | 11,688 | 12,897 | 11,986 | 12,050 | 12,475 | 12,627 | 13,100 | 13,354 | 13,542 | 12,182 | 13,215 |
| Zinc (USD/t) | 2,588 | 3,000 | 2,515 | 2,575 | 2,656 | 2,699 | 2,715 | 2,700 | 2,700 | 2,685 | 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

Plentiful steel supply and weak demand keeps prices capped

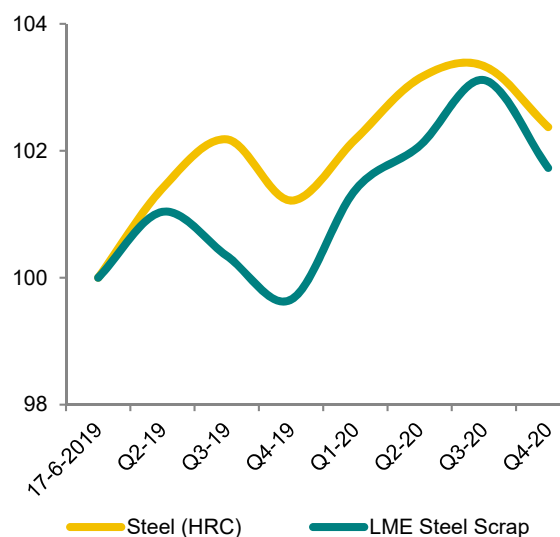
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- ▶ The global steel price remains soft. Since 1 January the price has lost 6% of which 3% alone in the past month. The US steel price decreased strongest this year, 24% since the start of 2019. Higher investments in US steel capacity since the tariff announcement of Trump early 2018 has increased domestic steel availability.
- ▶ Global steel output increased by 5% yoy in the first four months of this year, with significant increases in China (+10%) and the US (+7%). Especially the steel output growth in China is worrisome. The strong output growth in China is not helping to solve the problem of overcapacity.
- ▶ Global business confidence indicators continue to be soft. Car production has decreased this year in China, the US and the EU. Also global manufacturing activity is relatively weak, with soft growth in output and poor growth in factory orders. On the positive side, real estate investments in China, mainly focused on the residential sector, increased by 17% yoy until May. All-in-all, demand for steel is soft globally.
- ▶ We think that steel prices will remain soft this year. 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 price will stay elevated on robust demand.

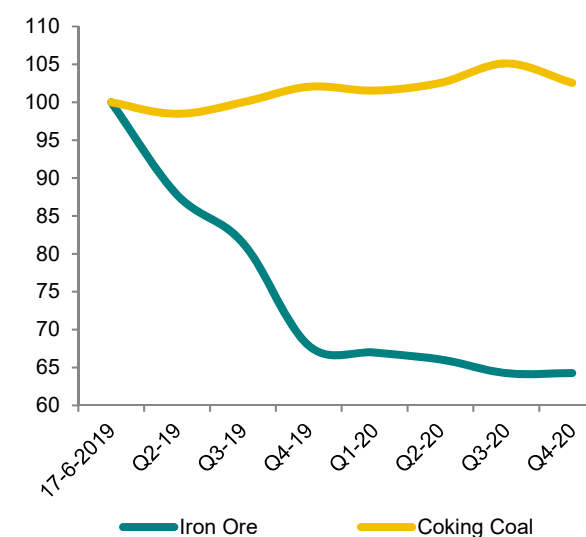
| | spot prices 17-06-19 | - end of period prices - | | | | | | | | - averages - | |
|-----------------------------------|-------------------------|--------------------------|-------|-------|-------|-------|-------|-------|-------|--------------|------|
| | | Q1-19 | Q2-19 | Q3-19 | Q4-19 | Q1-20 | Q2-20 | Q3-20 | Q4-20 | 2019 | 2020 |
| Steel (HRC) (USD/t) | 519 | 588 | 526 | 530 | 525 | 530 | 535 | 536 | 531 | 541 | 538 |
| LME Steel Scrap (USD/t) | 289 | 330 | 292 | 290 | 288 | 293 | 295 | 298 | 294 | 332 | 298 |
| Iron Ore (USD/t) | 111 | 87 | 97 | 90 | 75 | 74 | 73 | 71 | 71 | 82 | 71 |
| Coking Coal (USD/t) | 195 | 186 | 192 | 195 | 199 | 198 | 200 | 205 | 200 | 193 | 200 |

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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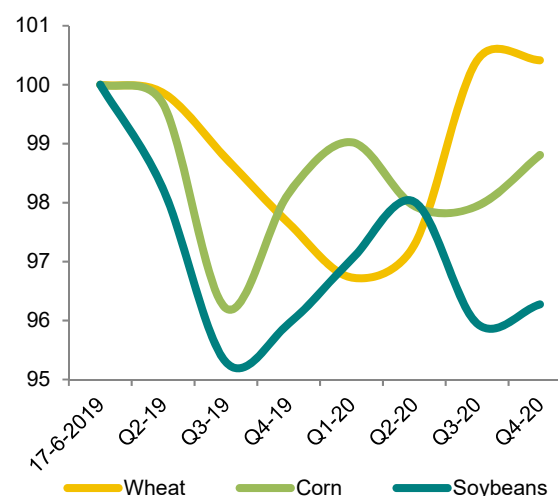
Planting delays and armyworms take a bite from supply

- ▶ **Wheat** prices increased strongly on heavy rain in the US. The favourable supply outlook in the EU and plentiful global supplies will contribute to a softer tone in the market.
- ▶ Heavy rain in the US prevent farmers from planting **corn**. While China has to deal with the spread of armyworms, the harvest in Brazil is the highest in history. China will encourage restocking of pigs herds and poultry production.
- ▶ US **soybean** planting stalls due to heavy rain, while Brazil harvested biggest crop ever. Hopes have faded for a near-term resolution to the US-China trade dispute. Swine fever in China has decreased demand for soybean.
- ▶ **Sugar** availability is still high, but armyworms in China damage sugarcane crops. Export of sugar from Thailand has reached record levels, while in India a bumper sugar production is expected. This will mute a strong price recovery.
- ▶ Below average rainfall in Ivory Coast reduces the **cocoa** crop. But grinding numbers are up globally, indicating solid demand. The instalment of the proposed floor price by Ivory Coast and Ghana could result in a supply boost.
- ▶ A large Brazilian **coffee** harvest pressured prices since 1 January. Chances are high for another large harvest in Brazil next season. Relative weak Brazilian real makes export more attractive. This means that prices will remain soft.

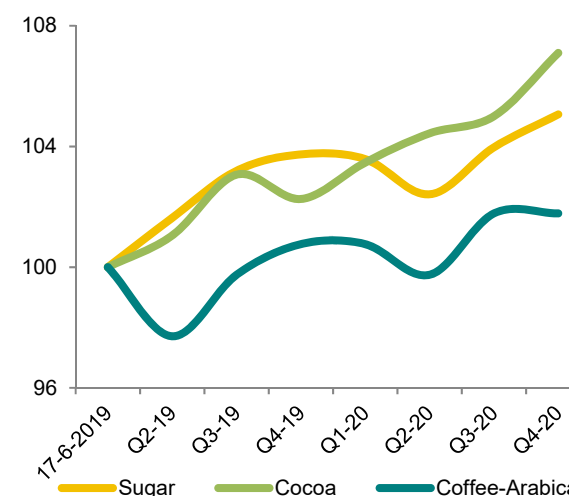
| | 2nd contract 17-06-19 | Q1-19 | Q2-19 | Q3-19 | Q4-19 | Q1-20 | Q2-20 | Q3-20 | Q4-20 | - averages - | |
|------------------------------------|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|-------|
| Wheat-CBOT (USDc/bu) | 543 | 470 | 542 | 536 | 530 | 525 | 528 | 545 | 545 | 511 | 539 |
| Corn-CBOT (USDc/bu) | 462 | 380 | 460 | 444 | 453 | 457 | 452 | 452 | 456 | 414 | 457 |
| Soybeans-CBOT (USDc/bu) | 919 | 920 | 903 | 876 | 882 | 892 | 901 | 882 | 885 | 883 | 886 |
| Sugar (USDc/lb) | 12.84 | 12.65 | 13.05 | 13.25 | 13.32 | 13.30 | 13.15 | 13.35 | 13.49 | 12.99 | 13.37 |
| Cocoa (USD/Mt) | 2,479 | 2,240 | 2,505 | 2,555 | 2,535 | 2,565 | 2,589 | 2,603 | 2,655 | 2,440 | 2614 |
| Coffee-Arabica (USDc/lb) | 98 | 99 | 96 | 98 | 99 | 99 | 98 | 100 | 100 | 99 | 100 |

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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