Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

June 2020

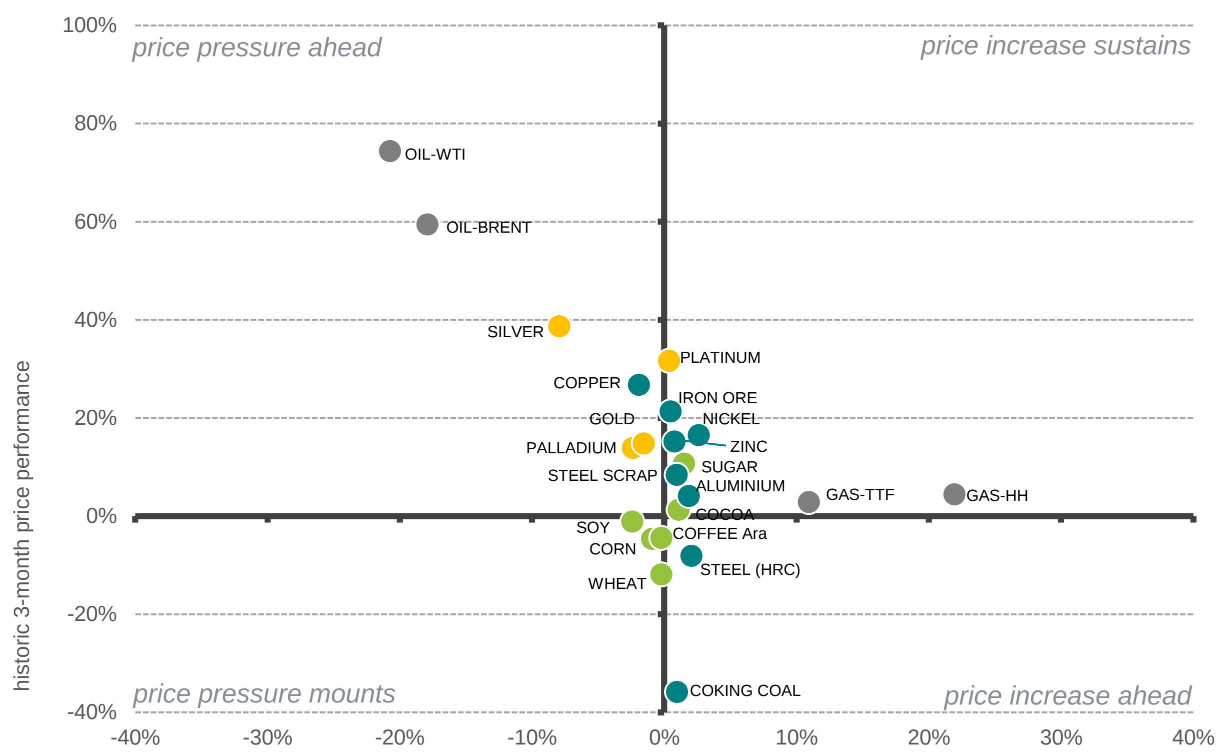
Chinese commodity buying supports sentiment

1 All commodities – Energy / Precious / Industrials / Agri

Chinese commodity buying supports sentiment

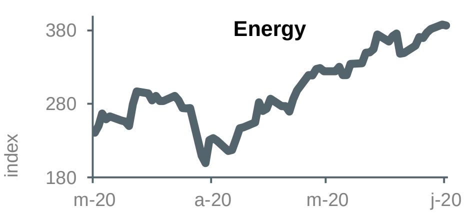
Casper Burgering
Industrial Metals & Agriculturals Economist
casper.burgering@nl.abnamro.com

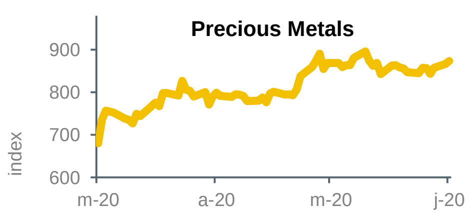
- The CRB-index has increased by almost 6% over the past month. The recovery was led by a robust uplift in oil prices.
- China is partly responsible for the recovery in prices, since the country has a strong foothold in the imports of many commodities.
- China's impressive rebound from Covid-19 is mainly due to stronger output from the production side. The V-shaped recovery in both passenger car production and sales has been particularly strong.
- Given the Chinese rebound, investors expect a similar recovery for other economies. This has spurred investor risk-on sentiment.
- As long as the Chinese economy posts positive macro-economic numbers, sentiment in many commodity markets will benefit. However, we still view the downside risks as high. The fragile relationship between the US and China, the high availability of most commodities and the possibility of new Covid-19 outbreaks globally are the main risks in our view.

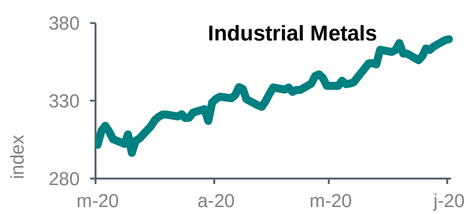


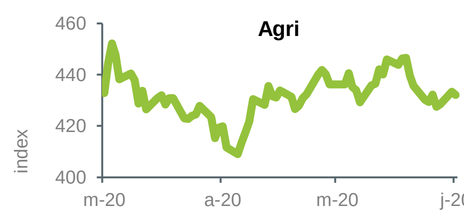
price performance current price level towards **end Q3-2020** (forecast ABN AMRO)

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









Sources: Refinitiv, ABN AMRO Group Economics,

2 Energy – Oil / Gas

Oil prices have recovered (too far) while Natgas is still heavily pressured

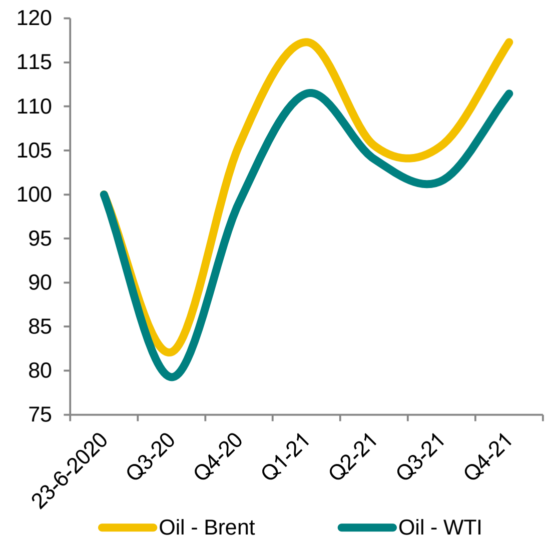
Hans van Cleef
Energy Economist
hans.van.cleef@nl.abnamro.com

- The recovery in oil prices has run out of steam. Both Brent and WTI are trading around USD 40/bbl within a relatively small trading range. Hopes regarding a further rise in oil demand alternate with fears of renewed COVID-19 related restrictive measures.
- US production dropped to 10.5 mb/d and the number of active drilling rigs is still declining. The IEA Oil Market Report indicated not only a decline in production for this year (-0.8 mb/d), but also in 2021 (-0.3 mb/d).
- Lower US production combined with production cuts by OPEC+ and other oil producers, has resulted in a better balance with current global demand. However, it will take much longer before the excessive inventories will be 'normalized'.
- We continue to flag the risk of a downward correction in the near term, and expect oil prices to be back around current prices before the end of the year.
- Weak demand and high inventories continue to keep the lid on natural gas prices. US Henry hub is trading below USD 1.7/mmBtu, while JKL LNG is trading at 2.2/mmBtu and TTF at 1.85/mmBtu (= EUR 5.6/MWh). With the low summer demand period ahead of us, a sustained recovery in prices seems unlikely in the near term.

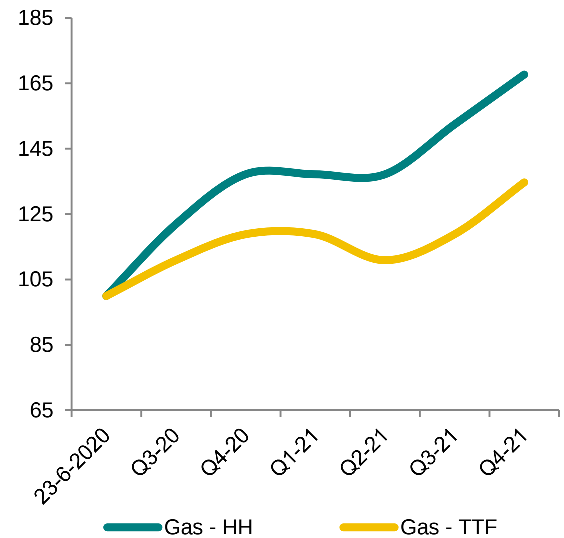
	1st contract	*- end of period prices -*						*- averages -*	
	23-06-20	**Q3-20**	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Oil - Brent *(USD/barrel)*	43	35	45	50	45	45	50	36	48
Oil - WTI *(USD/barrel)*	40	32	40	45	42	41	45	34	43
Gas - Henry Hub *(USD/mmBtu)*	1,64	2,00	2,25	2,25	2,25	2,50	2,75	2,00	2,40
Gas - TTF *(EUR/MWh)*	12,62	14	15	15	14	15	17	14	15

ABN AMRO forecast price trend until 2021 (index)

index (latest 1st contract price = 100)



index (latest 1st contract price = 100)



Sources: Refinitiv, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

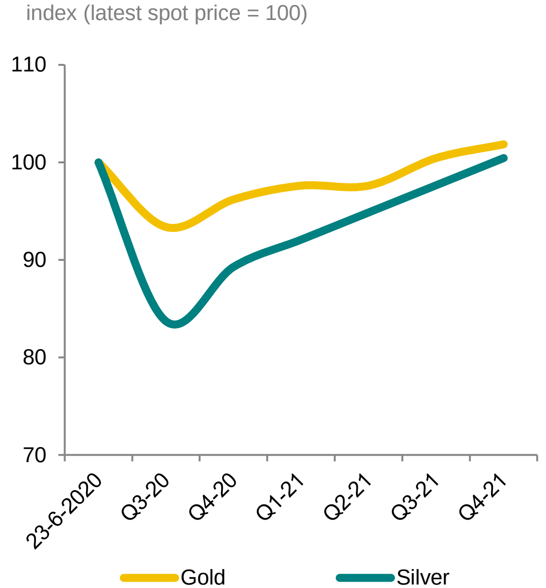
New 2020 high in gold prices

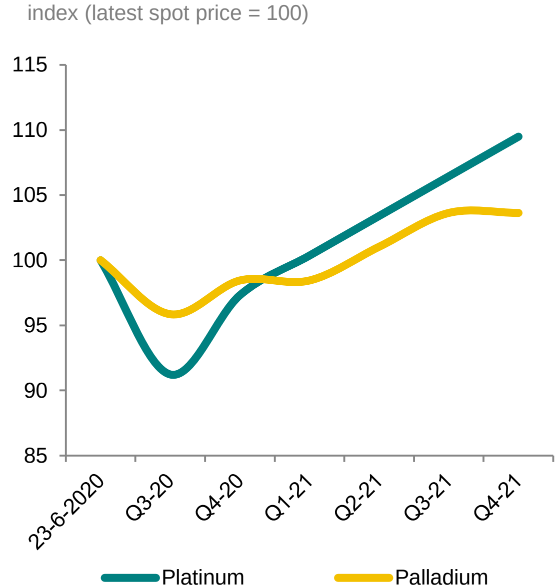
Georgette Boele
Precious Metals Analyst
georgette.boele@nl.abnamro.com

- Gold prices have been very resilient. Every time there is some price weakness it seems that investors buy gold on dips.
- Gold prices have taken out the high set in May and are now at the highest level since the end of 2012.
- The next important psychological level is USD 1,800 per ounce. If this level is taken out, the all-time high of USD 1,921 set on 6 September 2011 comes into focus
- Monetary policy easing, fiscal stimulus, ultra-low rates, declining US real yields and US dollar weakness are major supports for gold prices. However long gold remains a very crowded position.
- Gold ETF positions have made a new record and stand above 102 million ounces. After some liquidation of speculative positions on the futures market, speculators have also showed renewed interest in gold.
- Between now and three months we expect another risk-off wave in financial markets. It is likely that investors will then take profit on part of their gold longs. Therefore, we still expect lower prices in the near-term.

	spot prices	*- end of period prices -*						*- averages -*	
	23-06-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Gold *(USD/ounce)*	1.767	1.650	1.700	1.725	1.725	1.775	1.800	1.624	1.750
Silver *(USD/ounce)*	17,92	15,00	16,00	16,50	17,00	17,50	18,00	15,40	17,00
Platinum *(USD/ounce)*	822	750	800	825	850	875	900	782	850
Palladium *(USD/ounce)*	1.930	1.850	1.900	1.900	1.950	2.000	2.000	2.029	1.950

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

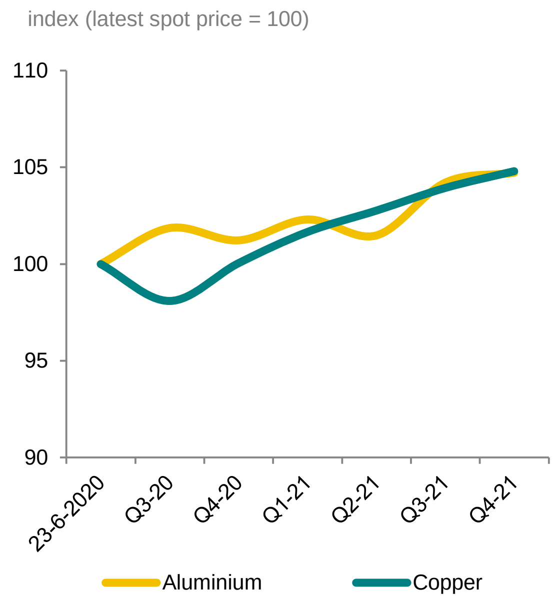
China rules the waves in base metals markets

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

- Investors in base metals markets will remain cautious. Concerns over a second wave of Covid-19 is weighing on sentiment in base metals markets. This will keep price volatility high. On the other hand, the supply-demand balance in copper, nickel and zinc markets has shifted rapidly from deficits in pre-corona era to excess supply during Covid-19. The aluminium market was already oversupplied, which will continue to undermine market sentiment.
- The abrupt drop in demand during Covid-19 has resulted in higher inventories. We think that the economic recovery and stimulus especially in China will keep prices afloat for the time being. China remains the biggest consumer of industrial metals and the swift recovery in leading metal consuming sectors is a strong boost for sentiment in base metals markets. However, since the downside risks are still significantly high, we maintain our cautious stance towards base metals markets.
- Long term positive trends for base metals demand are, in our view: further electrification of society and the increases in output of electric vehicles (light weight, battery techniques), the Belt & Road Initiative by China, expanding investments in power grid infrastructure in emerging markets, continued demand for housing and increase in metal demand for the energy transition.

	spot prices	*- end of period prices -*						*- averages -*	
	23-06-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Aluminium *(USD/t)*	1.576	1.605	1.595	1.612	1.599	1.642	1.650	1.591	1.640
Copper *(USD/t)*	5.892	5.780	5.895	5.990	6.055	6.124	6.175	5.565	6.045
Nickel *(USD/t)*	12.666	12.998	13.206	14.196	14.398	15.297	16.035	12.705	14.691
Zinc *(USD/t)*	2.034	2.050	2.119	2.230	2.275	2.265	2.325	2.071	2.240

ABN AMRO forecast price trend until 2021 (index)



Sources: Refinitiv, ABN AMRO Group Economics

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

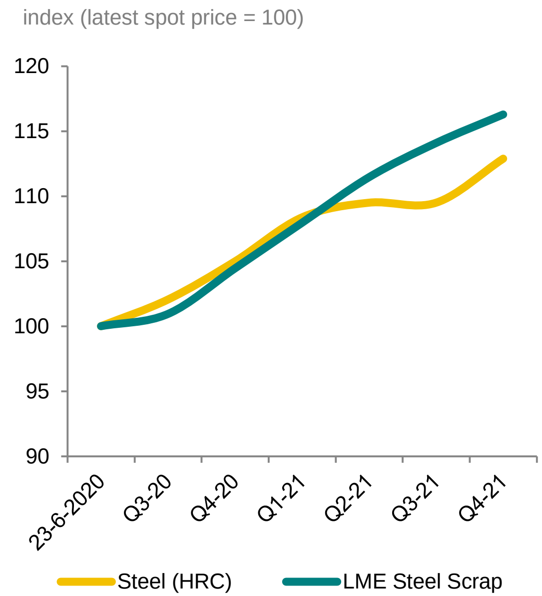
More stable conditions in global steel sector

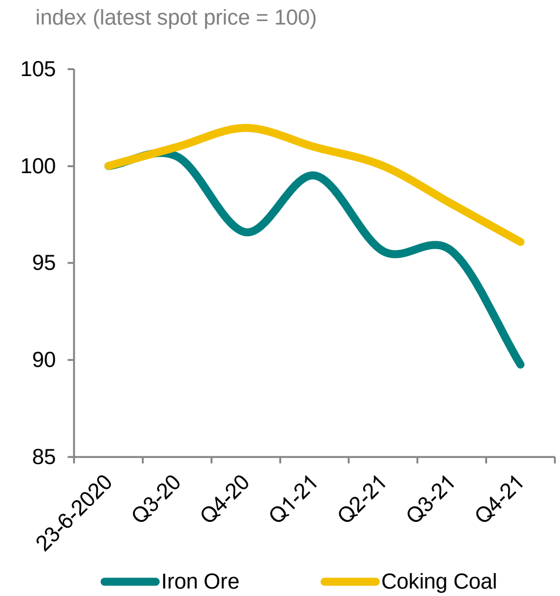
Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

- Global steel prices are still 12% below 1 January levels. Since early April, however, prices have stabilised or started to recover more strongly in major steel producing regions. Over the past month, steel prices in Russia, China and Latin America have recovered strongly, while steel prices in the US and Europe are still somewhat downbeat.
- In China, where more than 50% of all steel is produced and consumed, prices have risen due to stronger demand and speculation over steel mill supply reductions. Demand is especially strong from the automotive sector. Also, the announced economic stimulus packages globally and the early signs of a demand revival in some regions will contribute to more stable conditions for the steel sector in the coming months.
- Raw materials costs are relatively high, mainly due to higher iron ore prices. This is caused by higher Chinese steel production and disruptions in Brazilian supply. The latter could intensify when Covid-19 cases continue to increase. Chinese seaborne trade of iron ore is expected to remain stable, given the decrease in iron ore port stocks. This will keep iron ore prices relatively high. Prices for coking coal are expected to rise from current levels on higher demand from India and China, and supply disruptions from Australia and Russia.

	spot prices	*- end of period prices -*						*- averages -*	
	23-06-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Steel (HRC) *(USD/t)*	443	452	465	480	485	485	500	464	479
EU Steel Scrap *(EUR/t)*	228	230	238	246	254	260	265	237	252
Iron Ore *(USD/t)*	103	103	99	102	98	98	92	97	94
Coking Coal *(USD/t)*	102	103	104	103	102	100	98	115	100

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

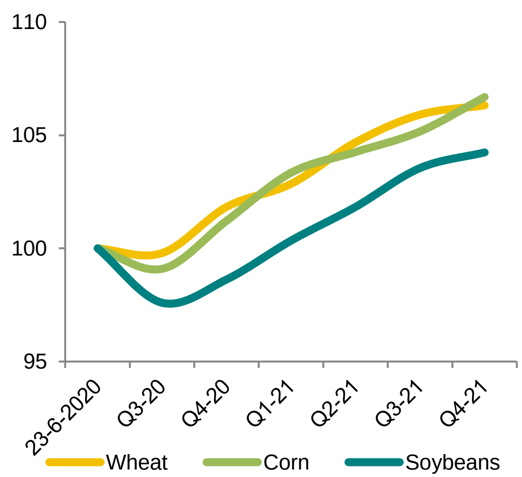
High inventories and supply in many agricultural commodity markets

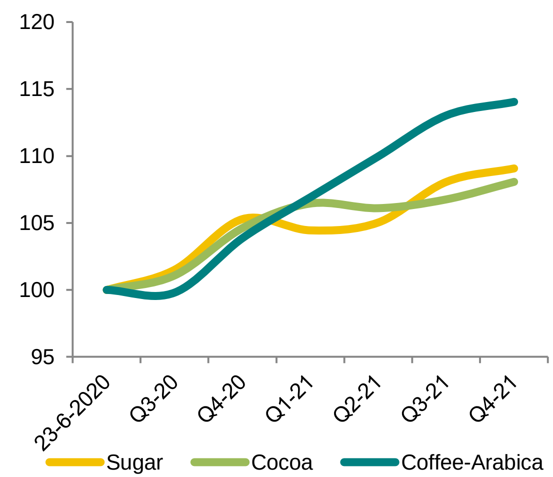
Casper Burgering
Agricultural Commodities Economist
casper.burgering@nl.abnamro.com

- Projections of world ending stocks for **wheat** have increased substantially. This means that global availability of wheat will remain good. This will weigh on prices. Only the risk of adverse weather can change this expectation.
- Inventories of **corn** are high and are expected to rise further. However, the outlook for crops in Brazil deteriorated on persistent drought. Also, a recovery in oil prices will lift demand for ethanol. On balance, we expect prices to remain stable.
- Recent Chinese purchases of US **soybeans** worked out positive for market sentiment. However, a potential high crop continues to weigh on sentiment. An escalation of the trade war remains a downside risk for prices.
- Due to lower energy prices, **sugar** cane mills in Brazil have ramped up sugar output at the expense of cane-based ethanol fuel. This means that a recovery in oil prices possess an upside risk for sugar prices.
- Worries over the loss in **cocoa** demand have increased. Lower growth in grindings is expected. Above average rainfall increases concerns over supply. Prices will remain stable.
- Plentiful supply of **coffee** now and in the foreseeable future will weigh on prices. Also the weakness in the Brazilian real creates a weak price environment for the time being.

	2nd contract	*- end of period prices -*						*- averages -*	
	23-06-20	**Q3-20**	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Wheat-CBOT *(USDc/bu)*	491	490	500	505	514	520	522	516	521
Corn-CBOT *(USDc/bu)*	329	326	333	340	343	346	351	341	342
Soybeans-CBOT *(USDc/bu)*	872	851	860	875	888	903	909	866	892
Sugar *(USDc/lb)*	11,92	12,10	12,55	12,45	12,52	12,88	13,00	12,31	12,66
Cocoa *(USD/Mt)*	2.290	2.315	2.396	2.438	2.430	2.445	2.475	2.438	2.430
Coffee-Arabica *(USDc/lb)*	98	98	102	105	108	111	112	106	109

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, 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 24 June 2020