

Monthly Commodity Insights

...price forecasts for commodity markets

ABN AMRO Group Economics

March 2019

Trade talk optimism lifts prices, but price gains become smaller



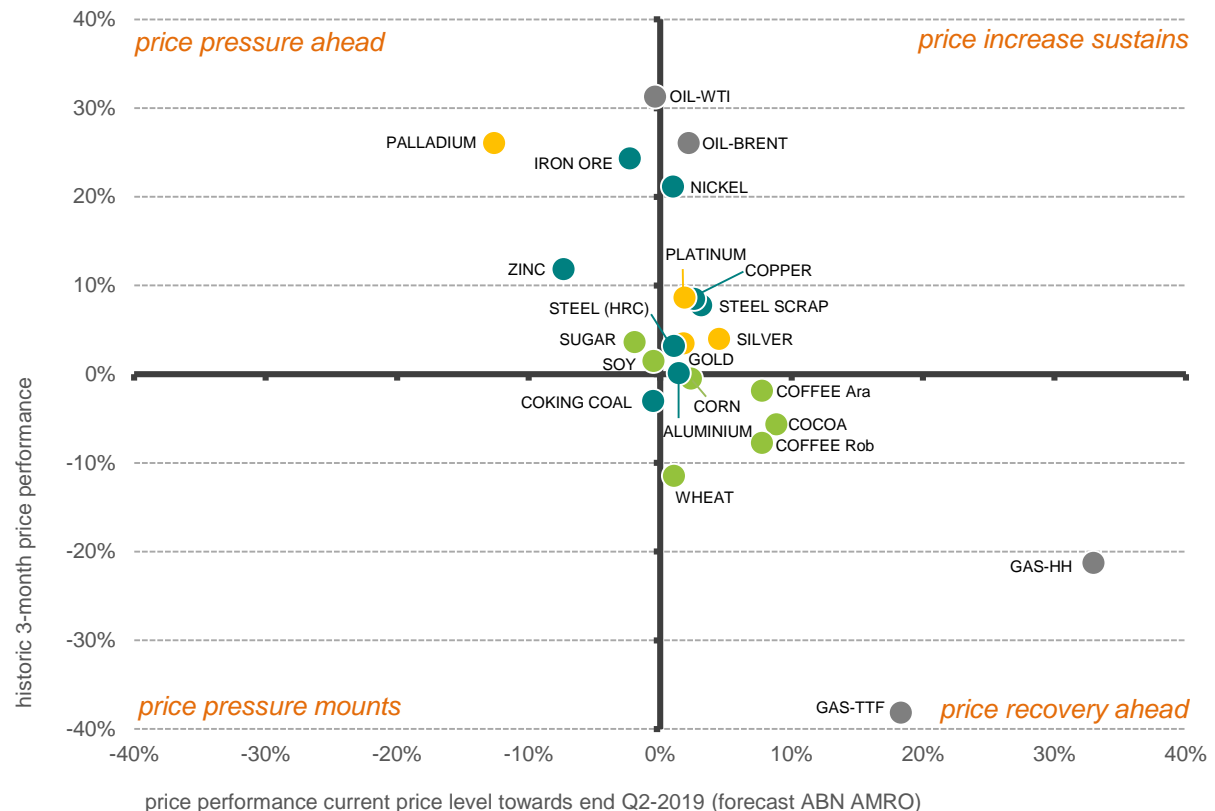
1 All commodities – Energy / Precious / Industrials / Agri

Commodity price gains become smaller

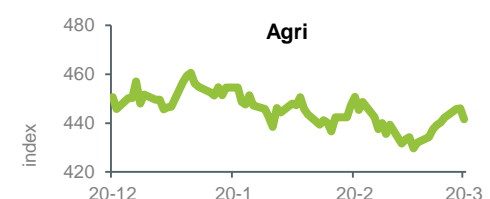
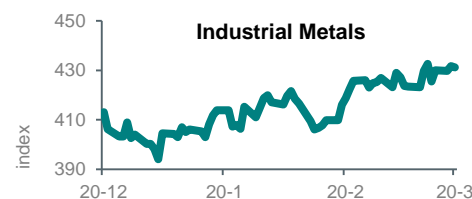
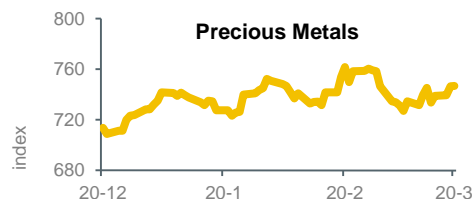
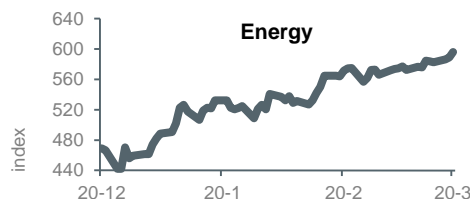
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- ▶ Optimism over a possible US-China trade deal have continued to be supportive for oil and base metal prices.
- ▶ Over the past three months, a handful of commodities bucked the upward price trend. Most of which are agriculturals, but also coking coal, aluminium and gas prices lost ground. The common denominator for price pressure in most of these markets was abundant supply.
- ▶ We think that in the months ahead, commodity prices will be influenced by the trade deal narrative. Positive news from the talks will lift commodity prices further (such as industrial metals, oil and grains). However, until an actual agreement is reached, we think the pace of commodity price increases will likely be limited. This is because already a significant part of a positive outcome is priced in.
- ▶ We expect an upside for commodity prices in the long run, based on sound fundamental drivers. However, since we lowered our economic growth expectations, the upside potential will be lower.



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



2 Energy – Oil / Gas

TTF gas price revised - downside risks for oil prices have increased

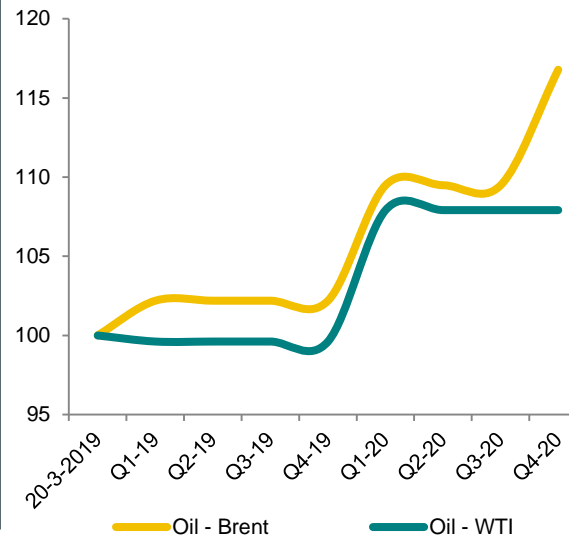
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- Due to a rise in LNG inflow in Europe, especially in the Netherlands, as well as lower demand due to mild winter weather conditions, gas inventories seem to remain higher than normal. This continues to add pressure on TTF gas prices.
- We lowered our TTF gas price forecast (see table). Still we see some upside potential – but not as much as before – based on higher gas demand due to the phasing out of coal and nuclear, higher oil prices, lower Groningen gas production and a higher ETS price.
- Oil prices trade roughly in the middle of our forecasted trading range. However, downside risks have increased, which may lead to a test of the lower band. The optimism of a positive outcome of the US/China trade deal is largely priced in, and therefore disappointment is possible.
- On top of that, the focus will shift towards the upcoming OPEC+ meeting in April. Although the decision regarding an extension of the production cut agreement is already postponed to the expiry date in June, some comments hinting on a possible extension could trigger price volatility. We think that there is room for a smaller production cut from a fundamental perspective. However, financial markets may see such an outcome as an increased risk for oversupply which would add pressure to oil prices.

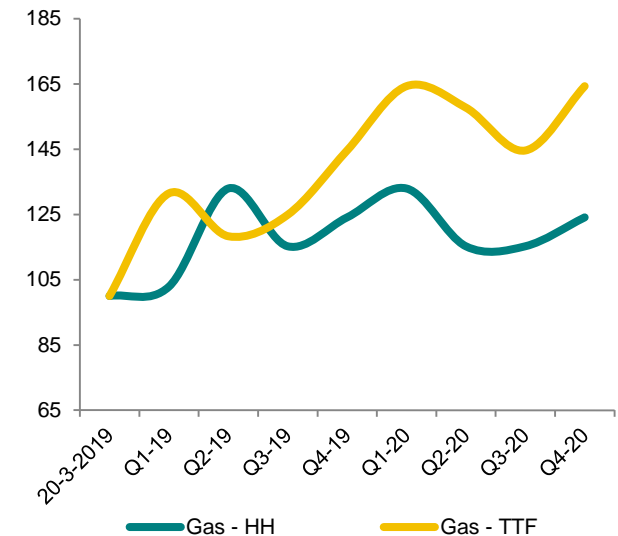
	1st contract 20-03-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Oil - Brent (USD/barrel)	69	70	70	70	70	75	75	75	80	70	76
Oil - WTI (USD/barrel)	60	60	60	60	60	65	65	65	65	60	65
Gas - Henry Hub (USD/mmBtu)	2.82	2.90	3.75	3.25	3.50	3.75	3.25	3.25	3.50	3.50	3.25
Gas - TTF (EUR/MWh)	15.21	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

Higher gold, silver and platinum prices

Georgette Boele

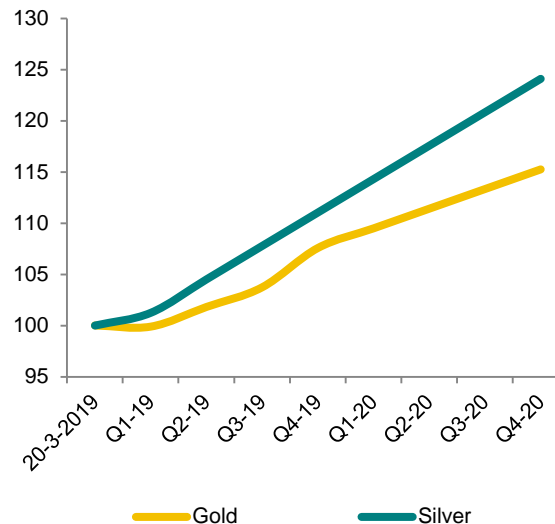
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- ▶ Most of the precious metals had a good start of the year. Palladium prices have surged by more than 20%, platinum prices have rallied by 5% and gold is around 1.5% higher.
- ▶ The technical resistance area of USD 1,365-1,375 per ounce in gold prices proved a tough nut to crack and investors took profits. The recovery of the US dollar and slightly higher 10y US Treasury yields resulted in more profit-taking, pushing gold prices towards USD 1,300 per ounce again.
- ▶ We remain positive on gold prices because of our expectations of a weaker US dollar, less hawkish central banks and more constructive outlook on the Chinese yuan and a positive technical picture.
- ▶ The outlook for silver mostly resembles that of gold prices, as both precious metals tend to move in tandem. We think that in the near-term there is less upside potential in silver prices given the less favourable cyclical outlook. However, we continue to expect higher silver prices later in the year.
- ▶ We think that platinum remains the cheap and attractive precious metal and palladium the high risk expensive one.

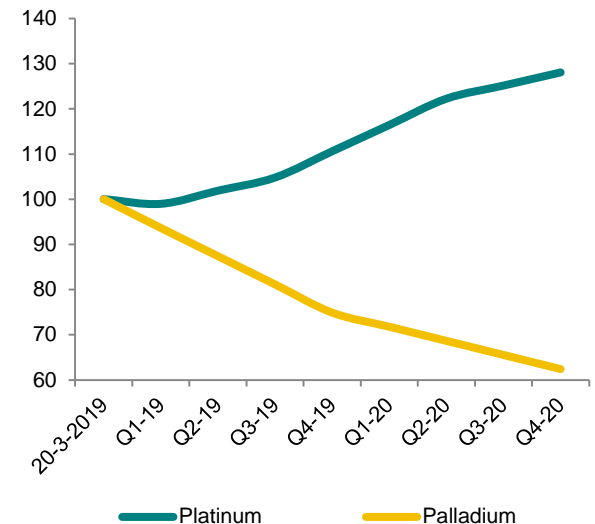
	spot prices 20-03-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	- averages - 2019 2020	
Gold (USD/ounce)	1,301	1,300	1,325	1,350	1,400	1,425	1,450	1,475	1,500	1,329	1,450
Silver (USD/ounce)	15.31	15.50	16.00	16.50	17.00	17.50	18.00	18.50	19.00	16.10	18.00
Platinum (USD/ounce)	859	850	875	900	950	1,000	1,050	1,075	1,100	881	1,038
Palladium (USD/ounce)	1,602	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

Price support from trade talks, but gains become smaller

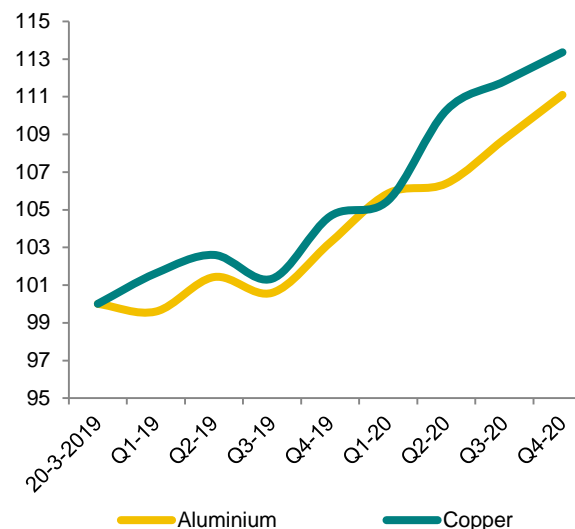
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- ▶ Since 1 January prices in the base metals complex increased by 11% on average. And over the past month, prices have risen by 4% on average. Nickel and zinc prices were the outperformers.
- ▶ One of the reasons for the price gain is optimism over a possible US-China trade war resolution. A positive outcome of the talks lifts prices further, but until that moment the pace of increase will slow gradually. This is because already a significant part of a positive result is priced in.
- ▶ As long as trade negotiations continue, base metal prices remain volatile. Our base case scenario is that the US-China trade talks will result in a deal. However, the chance that trade talks falter still exists and in this event base metals prices will be dragged significantly lower.
- ▶ From the moment that an agreement is reached, fundamental trends will become more important for base metal price direction. We think that deficits in all base metal markets in 2019 will lift base metal prices further. But due to increased uncertainty on global economic activity, the pace will remain low. The Chinese economy will cool down, which is accompanied by a lower pace of metal demand growth. However, the projected weakening trend in the US dollar by ABN AMRO (EUR/USD 1.16 eop 2019) will provide some support in base metal prices.

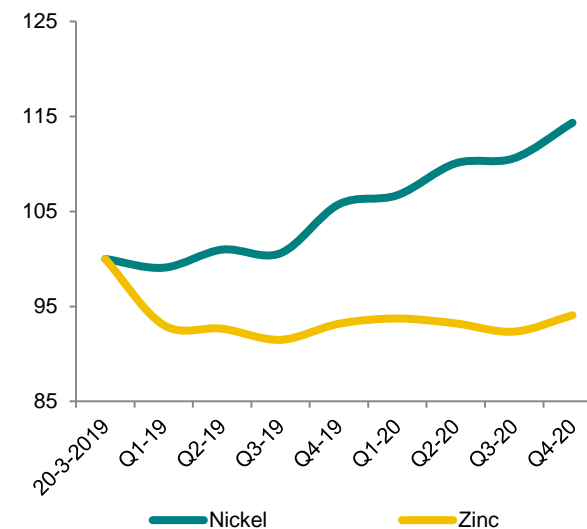
	spot prices 20-03-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Aluminium (USD/t)	1,913	1,905	1,940	1,924	1,975	2,025	2,035	2,080	2,125	1,927	2,050
Copper (USD/t)	6,484	6,589	6,652	6,570	6,785	6,840	7,150	7,250	7,350	6,453	6,940
Nickel (USD/t)	13,121	13,000	13,250	13,200	13,875	14,000	14,440	14,510	15,000	13,330	14,200
Zinc (USD/t)	2,897	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)

index (latest spot price = 100)



index (latest spot price = 100)



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

Elevated steel prices due to high steel raw material prices

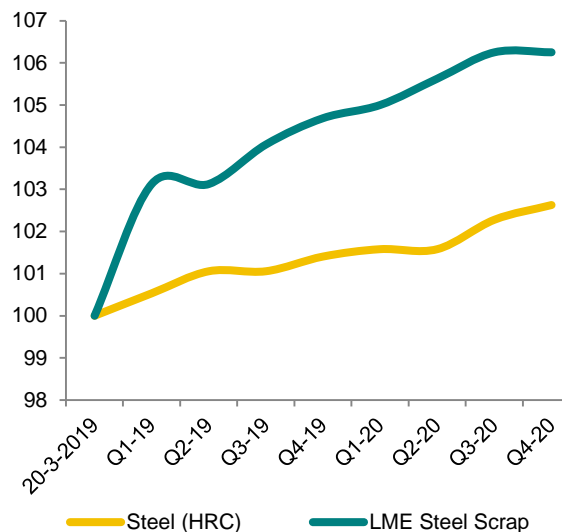
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- ▶ In January 2019, global steel output increased by 1%. In China and the US steel production increased by respectively 4% and 11% annually, while in the EU output dropped by 4%. The strong output increases in the US are mainly due to the swift capacity expansions caused by the US trade restrictions.
- ▶ Global prices have recovered by 4% since the start of 2019. Hefty price increases for iron ore and renewed steel demand were the main catalysts. Also growth targets set by the Chinese government were reasons for steel market optimism. HRC prices in China increased this year already by 11%.
- ▶ Iron ore prices remained at elevated levels in the past weeks, mainly because of supply disruptions in Brazil and Australia. We think iron ore price will soften in the weeks ahead. Shipments of iron ore increased again globally and steel mills are not eager to purchase high volumes with current price level. Availability remains plentiful during 2019 and this will pressure prices.
- ▶ Coking coal prices remained high over the last couple of weeks on supply disruptions and logistical issues. Demand is expected to stay robust. We hold our view that coking coal prices will remain elevated on restocking activity by mills, supply disruptions and a reduction in coal mine capacity in China.

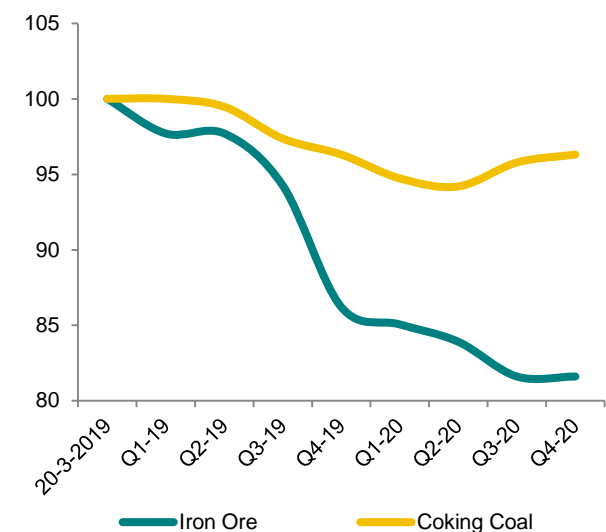
	spot prices 20-03-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Steel (HRC) (USD/t)	572	575	578	578	580	581	581	585	587	570	578
LME Steel Scrap (USD/t)	320	330	330	333	335	336	338	340	340	336	345
Iron Ore (USD/t)	87	85	85	82	75	74	73	71	71	70	66
Coking Coal (USD/t)	190	190	189	185	183	180	179	182	183	200	190

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

Ample agricultural supplies will keep prices capped

Casper Burgering

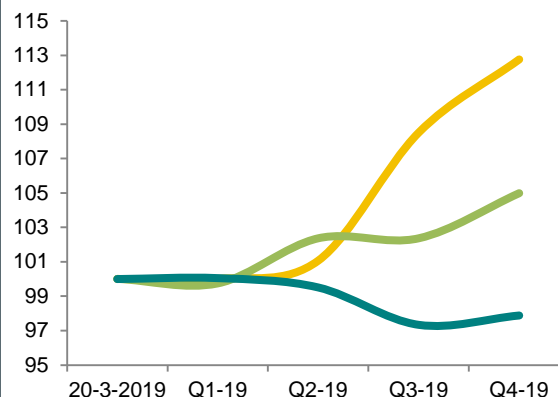
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- ▶ **Wheat** price dropped by almost 20% in February -March on ample world supplies. Price recovered after mid-March by 7% on short covering. On balance, we foresee global deficits this season. Prices will strengthen, but at a low pace.
- ▶ Higher ethanol demand will support demand for **corn**. Growth in demand for corn will outpace supply this season and deficits are expected. Demand growth in EU and China remain strong. All-in-all, we foresee higher prices.
- ▶ We think that **soybean** prices will rise as soon as a US-China trade deal is reached. But on balance, availability will remain high and this will pressure price again towards the end of 2019.
- ▶ **Sugar** prices have recovered since 8 March by 2% on fresh physical buying and stronger oil prices. Output will stay sufficient globally, while demand growth will remain low. Sugar price is expected to remain weak during 2019.
- ▶ Downside **cocoa** price risks emerge in case of a no-deal Brexit due to exchange rate effects. Given the high cocoa grind numbers globally, we think prices will drift higher. However, the pace will be low due to sufficient supplies.
- ▶ The growth potential of **coffee** demand remains high at current relatively low prices. A stronger Brazilian real going forward is expected to underpin prices. However, current excess supply will cap this upward trend in prices.

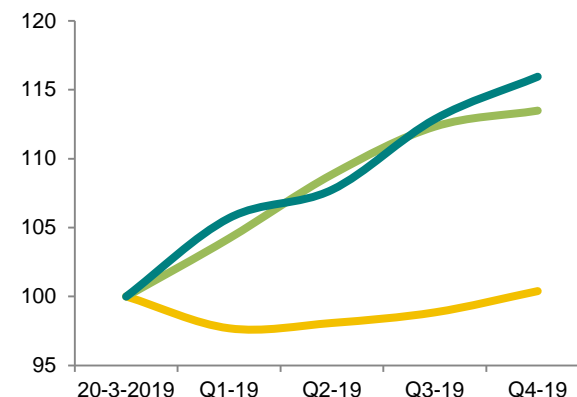
	2nd contract	- end of period prices -								- averages -	
	20-03-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Wheat-CBOT (USDc/bu)	470	470	475	510	530	-	-	-	-	518	-
Corn-CBOT (USDc/bu)	381	380	390	390	400	-	-	-	-	392	-
Soybeans-CBOT (USDc/bu)	920	920	915	895	900	-	-	-	-	909	-
Sugar (USDc/lb)	12.95	12.65	12.70	12.80	13.00	-	-	-	-	13.00	-
Cocoa (USD/Mt)	2,159	2,250	2,350	2,425	2,450	-	-	-	-	2,400	-
Coffee-Arabica (USDc/lb)	97	103	105	110	113	-	-	-	-	108	-

ABN AMRO forecast price trend until 2019 (index)

index (latest 2nd contract price = 100)



index (latest 2nd contract price = 100)



Wheat Corn Soybeans

Sugar Cocoa Coffee-Arabica

A Appendix – Contact details, disclaimer & extra information

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