

# Monthly Commodity Insights

*...price forecasts for commodity markets*

ABN AMRO Group Economics

## Resurrecting commodity prices?

April 2019



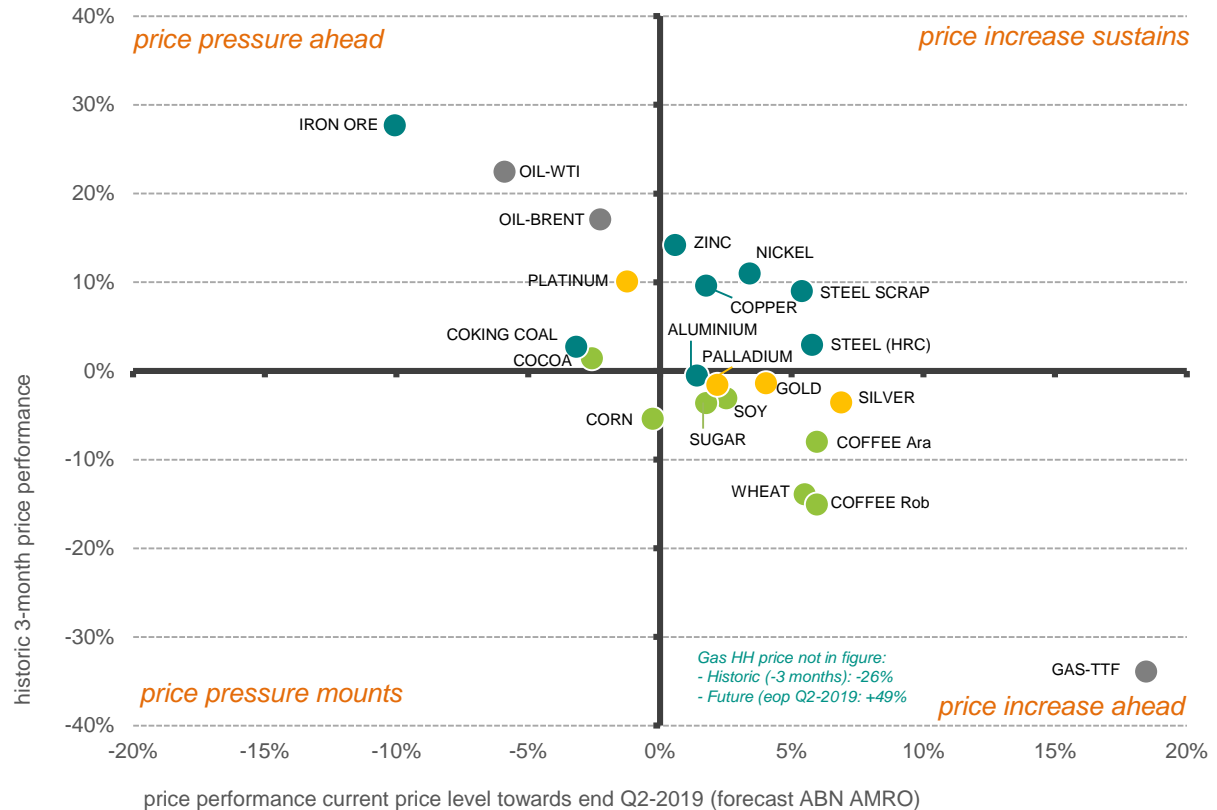
# 1 All commodities – Energy / Precious / Industrials / Agri

## Resurrecting commodity prices

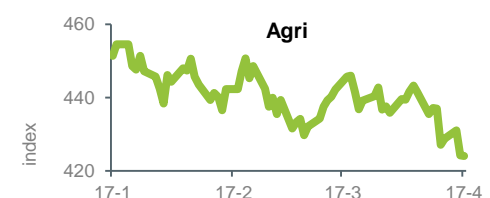
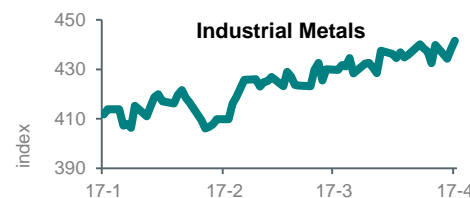
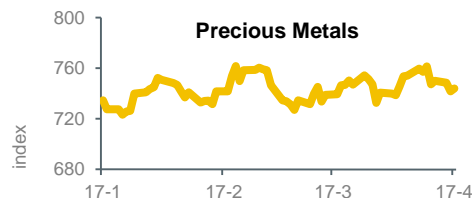
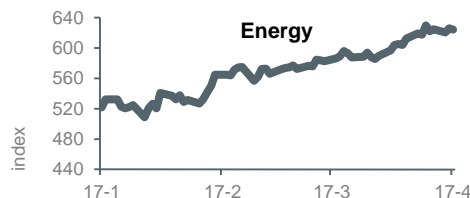
Casper Burgering

Sr. Economist Industrial Metals & Agriculturals  
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- ▶ This year the CRB-index has risen by 10%. But over the past month the pace in growth of the index deteriorated slowly. Since mid-March, the CRB-index increased by only 1.4% until now. As we discussed in our previous Monthly Commodity Insights, the trade talk narrative still has a positive impact on most commodity prices, but price gains become smaller.
- ▶ Commodity price performance differed strongly in the various classes over the past month. WTI oil price increased by 9%, while natural gas price decreased by 8%. Metal prices such as gold and aluminium were pressured by 2% and copper price remained stable. Prices in grains markets – such as wheat, corn and soybean – decreased on plentiful supplies.
- ▶ Positive China macro numbers have increased sentiment commodity markets, especially in industrial raw materials markets.
- ▶ Sound fundamentals will lift prices in most commodity markets. But given the high level of uncertainty, price gains will be capped.



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



## 2 Energy – Oil / Gas

### Oil rally continued – focus turns to Iran sanctions and OPEC 's reaction

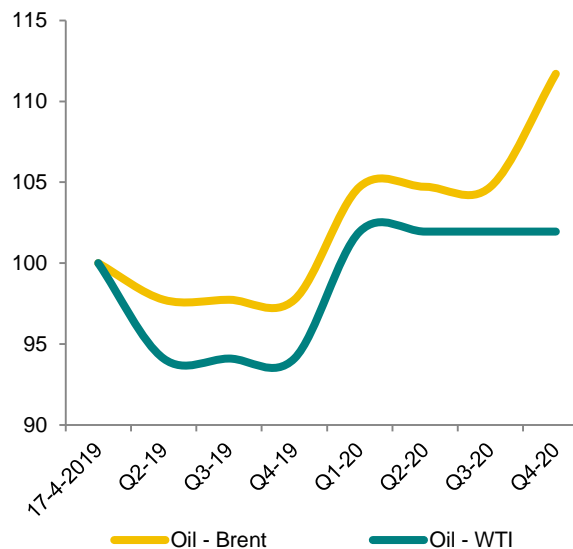
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- Oil prices continued the uptrend which resulted in Brent trading above USD 72/bbl and WTI above USD 64/bbl. The main reasons for this price rally were optimism about a positive outcome of the US/China trade deal talks and the impact of the supply cuts by OPEC and partners (e.g. Russia).
- OPEC decided to postpone its bi-annual meeting from April until the end of June. This means that president Trump first needs to announce his policy regarding the Iran sanctions and a possible extension of the waivers for some Iran oil consumers (decision expected end of April). This would give a better indication what will happen to Iranian oil supply and thus makes it easier for OPEC+ how to balance the market.
- We expect that 5 out of the current 8 waivers will be extended since 3 waivers were not used in the first place. (effectively the same waivers, but on paper more strict) The waivers for Greece, Italy and Taiwan may be lifted.
- We expect an average Brent oil price of USD 70/bbl in 2019. From current levels, both upside and downside risks are emerging. Downside risks contain Trump's comments towards OPEC to rise production and cap the oil price. Upside risks are due to a possible final trade agreement between US and China as well as the insufficient level of investments in future exploration of – mainly - heavy sour oil.

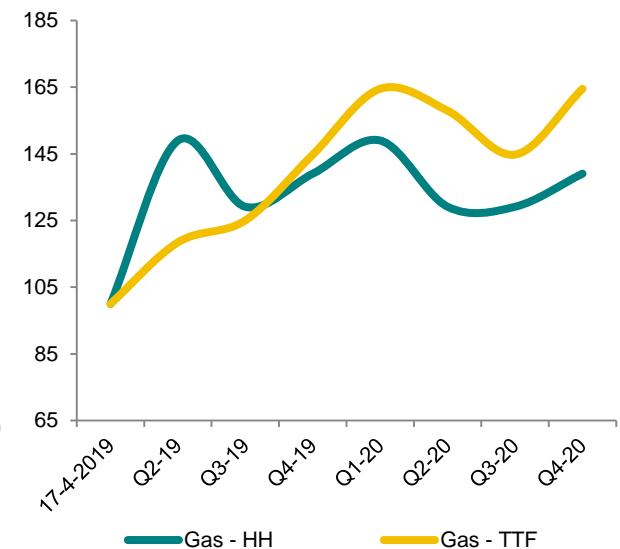
	1st contract 17-04-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
<b>Oil - Brent</b> (USD/barrel)	72	70	70	70	70	75	75	75	80	70	76
<b>Oil - WTI</b> (USD/barrel)	64	60	60	60	60	65	65	65	65	60	65
<b>Gas - Henry Hub</b> (USD/mmBtu)	2.52	2.90	3.75	3.25	3.50	3.75	3.25	3.25	3.50	3.50	3.25
<b>Gas - TTF</b> (EUR/MWh)	15.20	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

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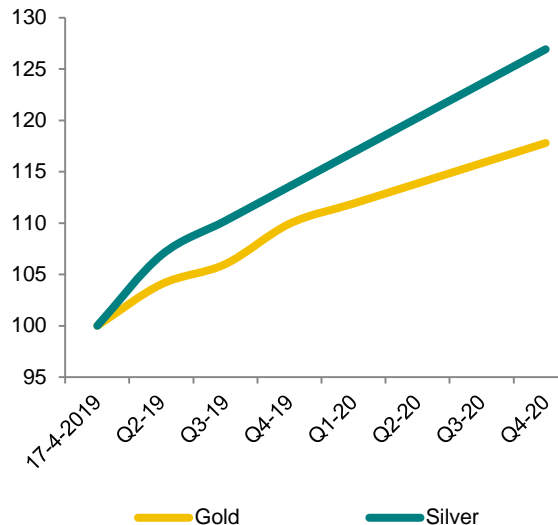
#### The 200-day moving average in gold prices to hold

- ▶ Since the end of March gold, silver and palladium prices have fallen considerably. Gold and silver prices lost 4% and palladium prices 13%. The recovery in US Treasury yields and the partial pricing out of rate cut expectations in the US were the main drivers of the weakness in gold and silver prices.
- ▶ In the near-term there is a risk that some of the net-gold longs will be squeezed, pushing prices towards the 200-day moving average (which comes in at USD 1,250 per ounce). We think that the 200-day moving average will hold and that prices will recover in the coming months.
- ▶ Silver's performance has been weak. The technical picture looks heavy. The risk of more price weakness in the near-term is quite high.
- ▶ Palladium prices are coming back down to earth. The exponential price rally was unsustainable and prices were due for a correction. The two day price correction at the end of March wiped out two months of price gains. We think the price bubble has burst and more price weakness is on the cards.
- ▶ Platinum prices have rallied quite strongly. We think investors finally realized that prices would not go much lower, and that platinum would be the attractive industrial precious metal in terms of risk reward dynamics.

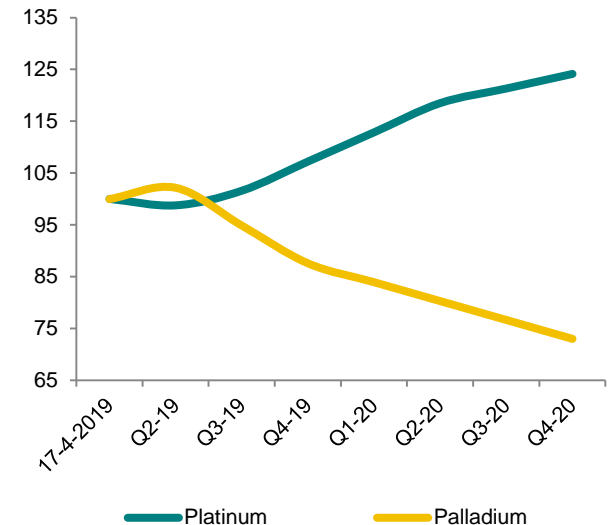
	spot prices 17-04-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
<b>Gold</b> (USD/ounce)	1,274	1,300	1,325	1,350	1,400	1,425	1,450	1,475	1,500	1,329	1,450
<b>Silver</b> (USD/ounce)	14.97	15.50	16.00	16.50	17.00	17.50	18.00	18.50	19.00	16.10	18.00
<b>Platinum</b> (USD/ounce)	886	850	875	900	950	1,000	1,050	1,075	1,100	881	1,038
<b>Palladium</b> (USD/ounce)	1,370	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

### Signs of positive US/China trade talks continue to be supportive

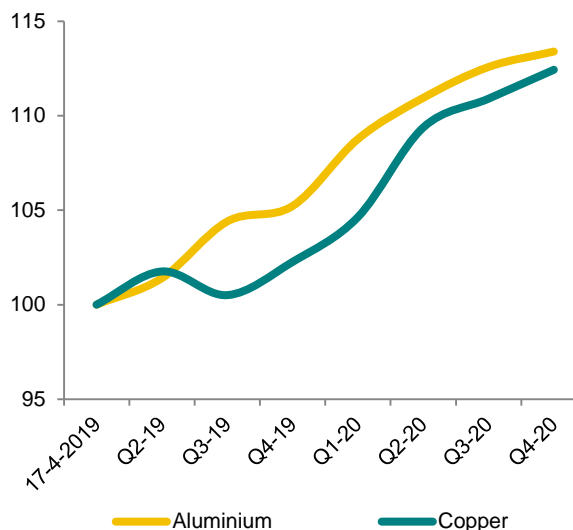
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- ▶ This year base metals prices increased by 13% on average. Copper price increased by 9% so far this year, while nickel and zinc prices rose by 22% and 20% respectively. The increase was mainly driven by optimism over the progress in the trade negotiations and positive Chinese macro numbers. The aluminium price bucked the trend and decreased by 1% year to date.
- ▶ High aluminium supply (mainly from China and Russia) and weak demand from the automotive sector will keep the aluminium price relatively low for the time being. The downturn in the global automotive sector has also resulted in lower demand for copper, keeping a lid on copper prices. On the other hand, the production of electric vehicles in China rose sharply during Q1-2019 and we think that this trend will continue. That feeds optimism over nickel demand going forward. In the zinc market, prices will remain relatively high on solid demand and low stocks.
- ▶ But all-in-all, investors still await the US-China trade war resolution. As soon as the talks result in a deal, prices will rise further. However, a positive outcome is already mostly priced in. We think that during 2019, base metals prices will remain strong. Fundamentally base metals markets are in good condition. In addition, our projected weakening of the US dollar (EUR/USD 1.16 eop 2019) will also provide support for base metal prices.

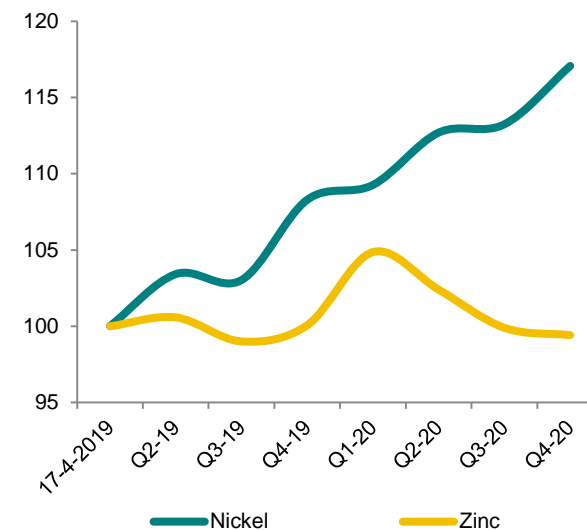
	spot prices 17-04-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
<b>Aluminium</b> (USD/t)	1,834	1,893	1,860	1,915	1,930	1,995	2,035	2,065	2,080	1,907	2,050
<b>Copper</b> (USD/t)	6,537	6,487	6,652	6,570	6,685	6,840	7,150	7,250	7,350	6,534	6,940
<b>Nickel</b> (USD/t)	12,813	12,897	13,250	13,200	13,875	14,000	14,440	14,510	15,000	13,016	14,200
<b>Zinc</b> (USD/t)	2,917	3,000	2,934	2,888	2,919	3,059	2,987	2,914	2,900	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

## Ferrous markets remain plagued by overcapacity

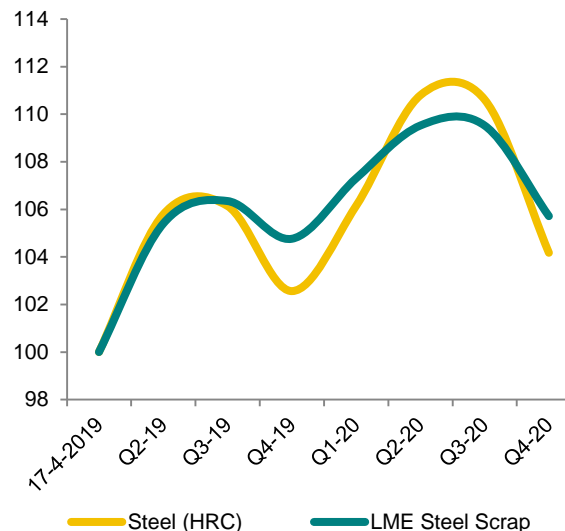
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- ▶ So far this year, global steel price increased by 2%. On a regional scale, however, steel price trends differed significantly. Since the start of 2019, steel prices in China, Latin America and Russia increased by respectively 11%, 10% and 9%. Steel prices in Europe and the US decreased almost 6%.
- ▶ Demand for steel is still growing globally, but the pace of growth is slowing because of a further cooling down of the Chinese economy and uncertainties in global trade. Overcapacity still remains a problem. Both China and Europe produce too much steel on an annual basis. China has ambitious plans to cut steel capacity by 150 million tonnes by the end of 2020. This helps to rebalance the global steel market and will eventually lift prices.
- ▶ Supply disruptions and fears over future supply deliveries caused a surge in iron ore prices. Uncertainty over iron ore deliveries will keep prices elevated in the coming weeks. We think, however, that iron ore price will soften this year. Availability remains plentiful during 2019 and this will pressure prices.
- ▶ Demand for coking coal is expected to stay robust. Prices are currently high on supply disruptions and logistical issues due to weather issues. We hold our view that coking coal prices will remain buoyant demand by mills and a reduction in coal mine capacity in China.

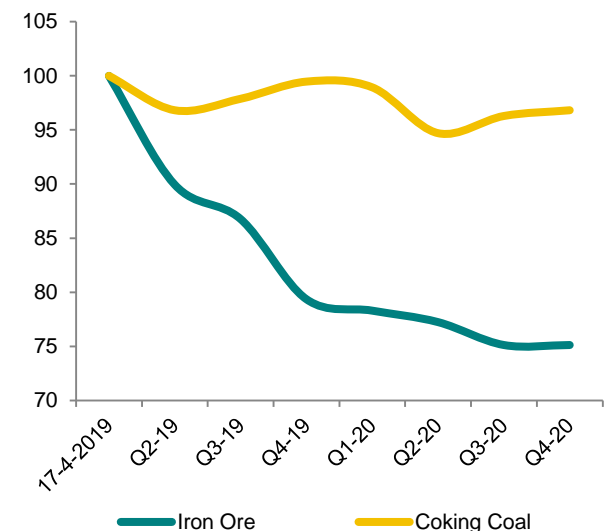
	spot prices 17-04-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
<b>Steel (HRC)</b> (USD/t)	559	588	591	593	573	593	619	618	582	578	603
<b>LME Steel Scrap</b> (USD/t)	315	330	332	335	330	338	345	345	333	332	340
<b>Iron Ore</b> (USD/t)	95	87	85	82	75	74	73	71	71	82	69
<b>Coking Coal</b> (USD/t)	189	186	183	185	188	187	179	182	183	186	183

### 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

## Sufficient supplies in many agricultural commodity markets

Casper Burgering

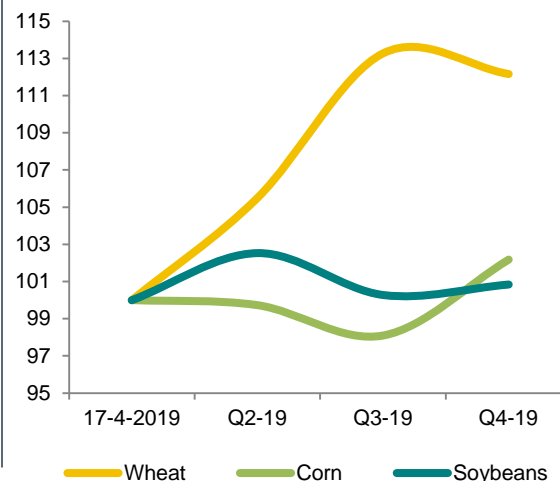
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- ▶ Ample world supplies have weakened **wheat** prices. Prices dropped already by 9% this year. From mid-March onward prices recovered on short-covering. Due to global deficits this season, prices will strengthen further, but at a slow pace.
- ▶ Prices of **corn** lost 3% this year. Prices recovered on short-covering and worries about planting delays. Ethanol demand will remain solid. That will ensure growth in demand for corn. All-in-all, we foresee higher prices this year.
- ▶ When a US-China trade deal is reached, **soybean** prices will increase further. But we hold the view that availability will remain high and this will pressure price again in 2019.
- ▶ This year, **sugar** prices have increased by 6% on stronger physical buying and higher oil prices. We think that output will remain sufficient globally and this will weigh on prices. Sugar prices are expected to remain weak during 2019.
- ▶ The high **cocoa** grind numbers globally, points to further growth in demand for cocoa. But despite the solid demand figures, supply of cocoa will remain sufficient. This will keep a lid on prices.
- ▶ Higher **coffee** output from top producer Brazil has resulted in low prices. Arabica coffee prices lost 11% this year already. A stronger Brazilian real going forward will underpin prices to some extent. But as long as excess supply is in the market, any price increases will be capped.

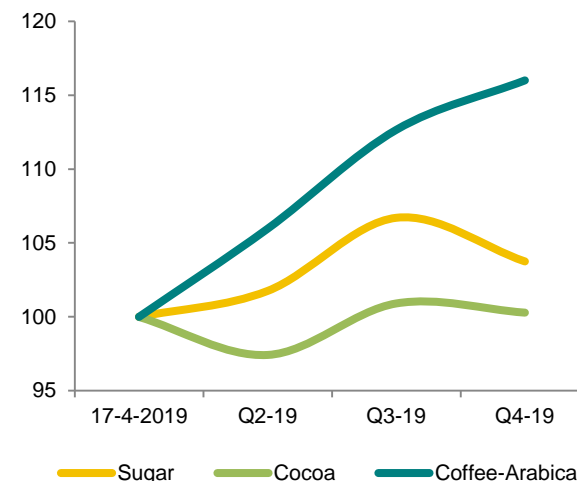
	2nd contract 17-04-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
<b>Wheat-CBOT</b> (USDC/bu)	450	470	475	510	505	-	-	-	-	491	-
<b>Corn-CBOT</b> (USDC/bu)	367	380	366	360	375	-	-	-	-	367	-
<b>Soybeans-CBOT</b> (USDC/bu)	893	920	915	895	900	-	-	-	-	907	-
<b>Sugar</b> (USDC/lb)	12.53	12.65	12.75	13.37	13.00	-	-	-	-	13.00	-
<b>Cocoa</b> (USD/Mt)	2,403	2,240	2,341	2,425	2,410	-	-	-	-	2,359	-
<b>Coffee-Arabica</b> (USDC/lb)	90	99	95	101	104	-	-	-	-	102	-

### 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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