

# Monthly Commodity Insights

*...price forecasts for commodity markets*

ABN AMRO Group Economics

April 2021

## Economic growth rebound but still a mixed commodity outlook



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

## Economic growth rebound but still a mixed commodity outlook

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- ▶ In March, the Commodity Index CRB weakened due to lower oil prices, higher US yields and a higher US dollar.
- ▶ However, since April the sentiment towards commodities has improved again. The outlook for the US and Chinese economy remains good and this supports commodity prices. In addition, US yields have stopped rising and they have even declined somewhat.
- ▶ Higher yields make the financing of new projects more expensive and they also make commodities less attractive as investment because they don't pay a coupon or dividend.
- ▶ We have a mixed outlook for commodity prices. On the one hand we expect lower prices in oil, gold and silver. On the other hand, the agricultural commodities market sentiment should improve when economies re-open on a larger scale.
- ▶ And finally, the outlook for industrial metal prices will remain constructive. This is mainly because of strengthening industrial activity in both the Chinese and the US economy. The EU economic recovery will set in later. Prices will remain relatively high coming months. We think, however, that prices will remain very sensitive because of the elevated downside price risks due to a higher US dollar. This means that higher price volatility will persist for the time being.



## 2 Energy – Oil / Gas

### Oil and gas demand recovery continues

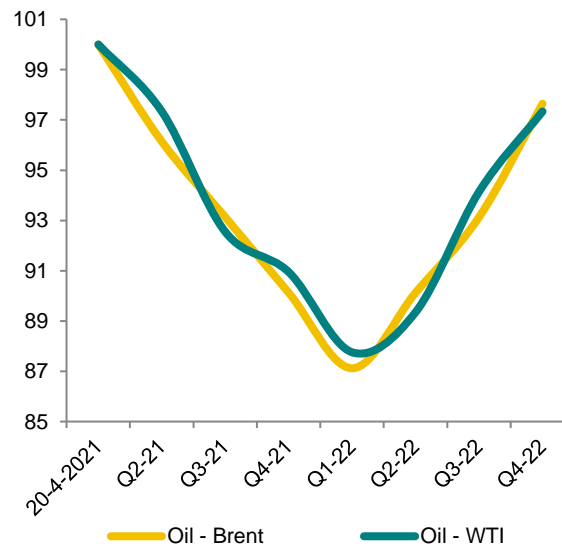
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- ▶ The improvement in the US macro narrative has impacted the oil markets. After a few weeks of sideways trading, oil prices rose based on lower US crude inventories and higher demand expectations.
- ▶ Both OPEC and the IEA raised their demand expectations for 2021, especially for the second half of the year.
- ▶ This comes after earlier this month OPEC+ decided to increase its oil production in the months May, June and July with a total of 1.150 kb/d. Also Saudi Arabia will unwind its voluntary production cut of 1 mb/d. As a result, a total of 2.15 mb/d will be added to the production by the end of July in order to balance the rise in demand
- ▶ We expect oil prices to trade around USD 60/bbl for the remainder of the year (2021 averages for Brent = USD 62/bbl, for WTI = USD 59/bbl) –
- ▶ For gas, the cold spell in early April triggered higher demand for natural gas, which has resulted in below average inventories. The later end to winter weather will mean it will take longer to restock gas inventories, which will keep demand higher than normal during the coming weeks.
- ▶ As a result, we have lifted our natural gas price forecasts (both TTF and HH) for 2021.

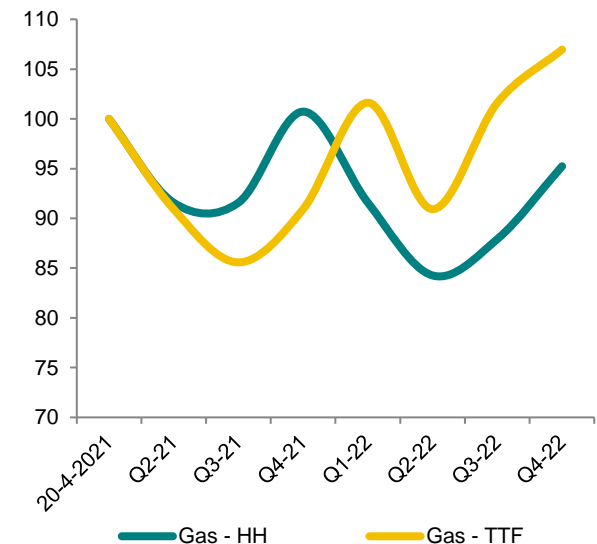
	1st contract 20-04-21	- end of period prices -								- averages -	
		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
<b>Oil - Brent</b> (USD/barrel)	67	65	64	62	60	58	60	62	65	62	61
<b>Oil - WTI</b> (USD/barrel)	63	61	61	58	57	55	56	59	61	59	58
<b>Gas - Henry Hub</b> (USD/mmBtu)	2,73	2,63	2,50	2,50	2,75	2,50	2,30	2,40	2,60	2,60	2,50
<b>Gas - TTF</b> (EUR/MWh)	18,70	18	17	16	17	19	17	19	20	17	19

#### ABN AMRO forecast price trend until 2022 (index)

index (latest 1st contract price = 100)



index (latest 1st contract price = 100)



### 3 Precious Metals – Gold / Silver / Platinum / Palladium

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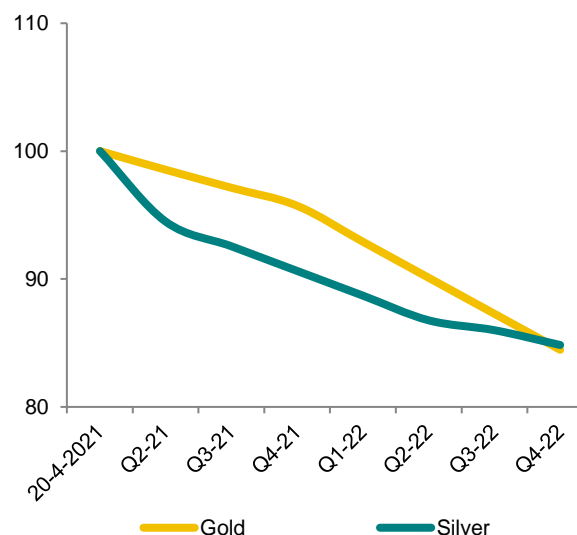
#### Lower US yields and a lower dollar support gold prices

- ▶ Gold prices declined as US yields (nominal and real) rose. Prices set a double bottom just above USD 1,675 per ounce
- ▶ As the rally in US yields came to an halt (and even moved lower) this then began to support gold prices.
- ▶ Meanwhile, the lower US dollar has resulted in higher gold prices.
- ▶ The outlook for gold prices remains negative as long as prices are below USD 1,850 per ounce.
- ▶ We expect the recovery in gold prices to run out of steam and prices to weaker again. This is in line with our view that we expect the US dollar to rally again and US real yields to show some increase.
- ▶ Even though investors have reduced their long gold positions, these positions are still substantial. So long gold is still a crowded trade.
- ▶ Silver prices have moved sideways. The positive outlook for industrial demand has given support to silver prices. We continue to hold the view that silver prices will weaken with gold prices again.
- ▶ We remain optimistic on the outlook for platinum prices. And we think that palladium prices have rallied to fast.

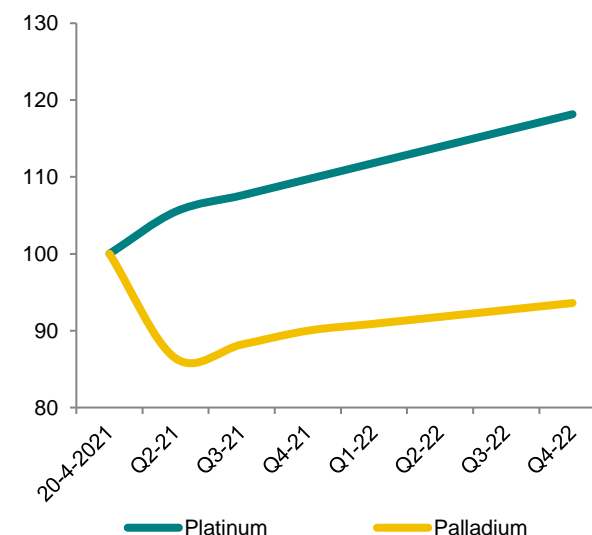
	spot prices 20-04-21	- end of period prices -								- averages -	
		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
<b>Gold</b> (USD/ounce)	1.776	1.730	1.750	1.725	1.700	1.650	1.600	1.550	1.500	1.771	1.600
<b>Silver</b> (USD/ounce)	25,93	24,79	24,50	24,00	23,50	23,00	22,50	22,30	22,00	24,60	22,60
<b>Platinum</b> (USD/ounce)	1.185	1.199	1.250	1.275	1.300	1.325	1.350	1.375	1.400	1.225	1.350
<b>Palladium</b> (USD/ounce)	2.778	2.640	2.400	2.450	2.500	2.525	2.550	2.575	2.600	2.412	2.550

#### ABN AMRO forecast price trend until 2022 (index)

index (latest spot price = 100)



index (latest spot price = 100)





## 4 Base Metals – Aluminium / Copper / Nickel / Zinc

### Higher price volatility persists

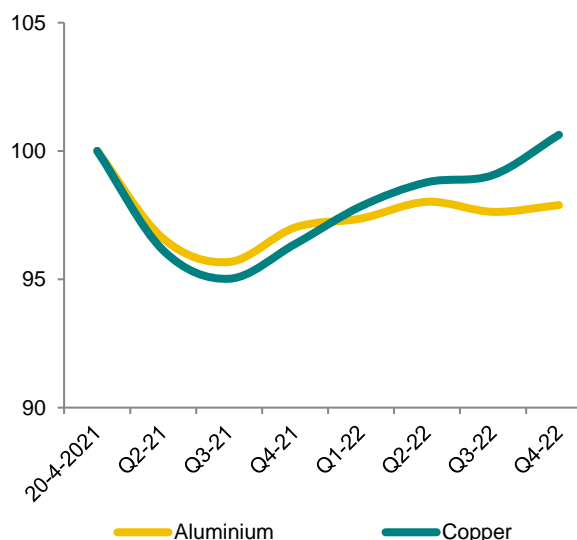
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- Over the past month, price trends in the base metals complex were mixed. While prices for aluminium gained 6% over the past month, prices for copper, nickel and zinc increased in a bandwidth of 1-3% during the same period. On average price volatility is high, especially in the copper price. The price of copper reacts swiftly on news over global economic activity.
- Base metals markets moral is still buoyant. The monetary and economic stimulus by central banks and governments is the main narrative on which sentiment in base metals markets drift. These accommodative packages result in stronger economic data.
- Also the trend in stock levels is a confirmation on increased economic activity, especially in Asia. Base metals stocks at Shanghai Futures Exchange (SHFE) decreased this year by 34%, while metal stocks at the London Metals Exchange (LME) increased by 34%. Combined stock volumes decreased by 13%.
- The economic trend in China will be a main driver for metals demand growth. Base metals demand outside China will strengthen more after Q2-2021. Prices will remain relatively high, but will be exposed to high volatility until economies are fully re-opened. Downside price risks arise from the continued strengthening of the dollar until the end of 2022. Next to that, uncertainty still lingers as long as vaccine programs run.

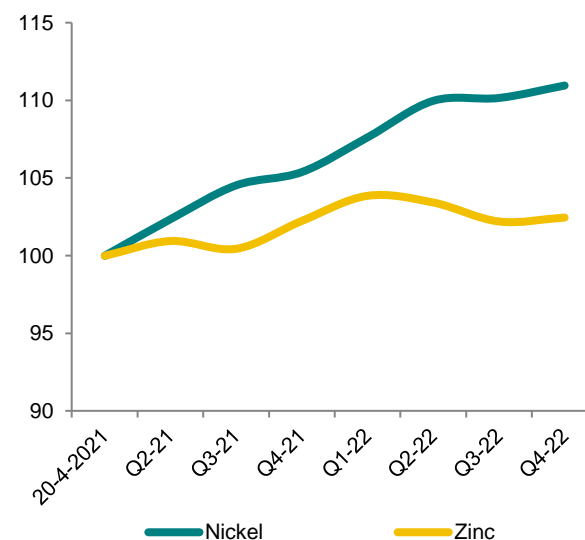
	spot prices 20-04-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	- averages -	
<b>Aluminium</b> (USD/t)	2.305	2.203	2.226	2.205	2.236	2.244	2.259	2.250	2.256	2.192	2.239
<b>Copper</b> (USD/t)	9.329	8.795	8.968	8.865	8.991	9.128	9.215	9.241	9.387	8.754	9.206
<b>Nickel</b> (USD/t)	15.989	16.168	16.366	16.714	16.851	17.208	17.584	17.613	17.741	16.900	17.453
<b>Zinc</b> (USD/t)	2.794	2.757	2.820	2.806	2.856	2.901	2.889	2.855	2.862	2.799	2.862

### ABN AMRO forecast price trend until 2022 (index)

index (latest spot price = 100)



index (latest spot price = 100)



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

Favourable outlook, but downside price risks remain elevated

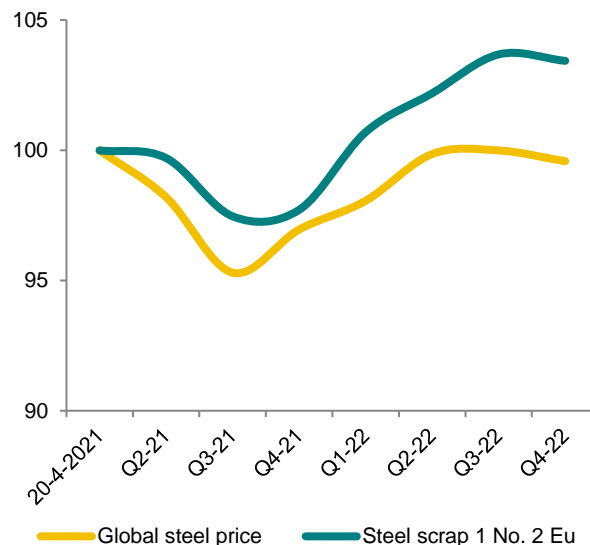
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- ▶ Steel prices strengthened globally over the past month, but the pace was lower since the start of this year. Global steel price gained 4% since early March, with strongest price gains in China. Chinese steel market sentiment remains resilient due to targeted expenditure of the Chinese government on major infrastructure projects.
- ▶ But also the swift recovery of sales in the automotive sector helped to boost demand. Car sales in China increased by 75% in the first two months of this year on a yearly basis. Car sales in the US and Europe are still far away from their pre-Covid-19 levels, but growth is strengthening. Also the scale up in construction and industrial activity globally underpins sentiment.
- ▶ In our view the outlook for ferrous metal markets remains favourable. End user demand recovers alongside the strengthening of the global economy. But downside price risks remain elevated as long as vaccine programs run and until economies are fully re-opened. Also, phasing out of economic targeted support is a potential market disruptor.
- ▶ Steel mills in China continue to operate at high utilisation rates. In the coming months this is foreseen to weaken, given the more stringent emission restrictions in China. Steel raw materials prices are expected to ease somewhat this month on production limitations in China, which softens iron ore and coking coal demand.

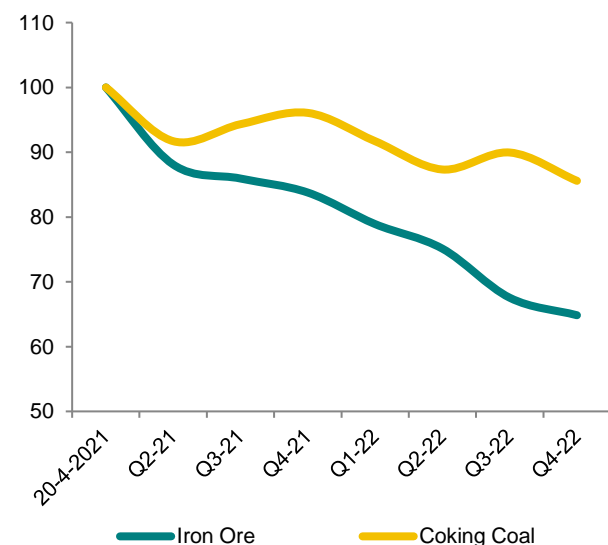
	spot prices 20-04-21	- end of period prices -								- averages -	
		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
<b>Global Steel</b> (USD/t)	723	737	710	689	701	709	722	723	720	689	711
<b>EU Steel Scrap</b> (EUR/t)	402	393	401	392	393	405	411	417	416	385	411
<b>Iron Ore</b> (USD/t)	185	167	163	159	155	146	139	125	120	162	128
<b>Coking Coal</b> (USD/t)	115	117	105	108	110	105	100	103	98	116	105

## ABN AMRO forecast price trend until 2022 (index)

index (latest spot price = 100)



index (latest spot price = 100)



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

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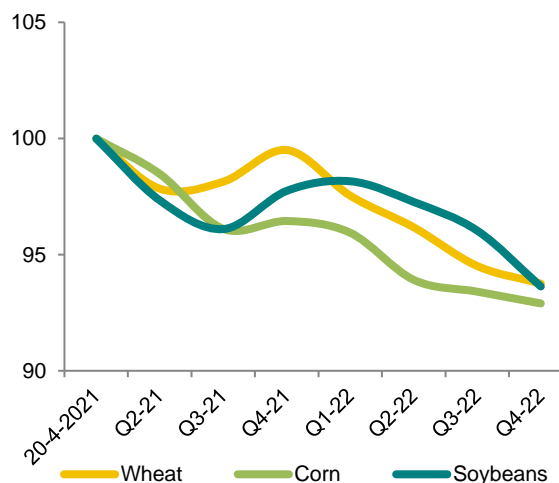
## Sentiment improves when economies re-open on a larger scale

- Good crop conditions in the US plus improved **wheat** harvest prospects in Russia and Ukraine leads to ample supply and high stock levels. This weighs on price and market sentiment. However, elevated Chinese demand for feed remains a supportive factor.
- The **corn** market balance remains tight, with limited growth in acres and relative low stocks. Demand for feed from China is likely to remain elevated, which means that farmers in the US and Latin America will ramp up field planting. Prices remain relatively high.
- High Chinese demand for **soybeans** keeps prices elevated. The rising pig herd in China is the driving force behind soybean demand. Tight global stocks keeps prices firm. Volatility remains high on worries over new African Swine Fever cases and the expansion of planting acres going forward.
- Strong **sugar** output from Thailand and India eases supply tightness. But uncertainty over Brazilian and EU sugar harvest persists. Higher ethanol prices brings ultimately lower sugar production. On balance, a deficit is foreseen. Sugar price will remain relatively high.
- Positive Q1 **cocoa** bean grind data in the US and Asia indicate a demand recovery, while grinds in the EU fell. A swifter recovery in EU demand can only be expected when economies are re-opened on a larger scale. This will start from Q3-2021 onward. Prices will drift higher during 2021.
- The smaller Brazilian **coffee** crop narrative underpins sentiment. A stronger pace in demand growth is expected during Q3-2021, when global economies re-open. Coffee exchange stocks are high. The current ample supply keeps prices low for the time being.

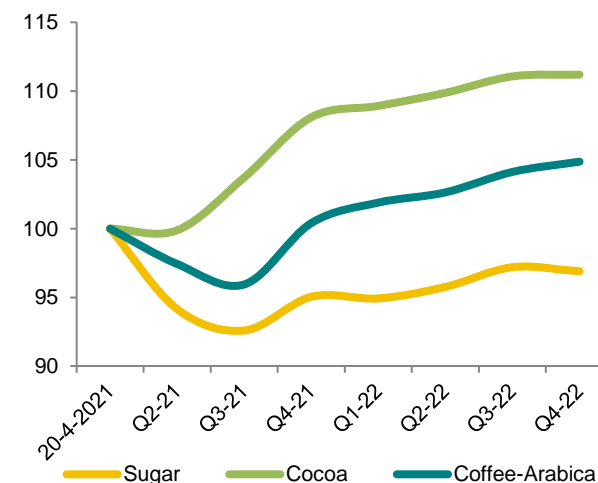
	2nd contract 20-04-21	- end of period prices -								- averages -	
		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
<b>Wheat-CBOT</b> (USDc/bu)	661	611	647	649	658	645	636	625	620	641	635
<b>Corn-CBOT</b> (USDc/bu)	592	545	583	569	571	568	556	553	550	559	553
<b>Soybeans-CBOT</b> (USDc/bu)	1458	1397	1419	1401	1425	1431	1418	1400	1365	1405	1.398
<b>Sugar</b> (USDc/lb)	16,72	14,72	15,74	15,48	15,89	15,87	16,01	16,25	16,20	15,45	16,05
<b>Cocoa</b> (USD/Mt)	2.419	2.416	2.416	2.509	2.615	2.635	2.658	2.687	2.690	2.499	2.668
<b>Coffee-Arabica</b> (USDc/lb)	134	124	131	129	135	137	138	140	141	130	138

### ABN AMRO forecast price trend until 2022 (index)

index (latest 2nd contract price = 100)



index (latest 2nd contract price = 100)



## A Appendix – Contact details, disclaimer & extra information

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