ABN·AMRO

Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

Market optimism for 2021 already priced in

November 2020

1 All commodities – Energy / Precious / Industrials / Agri

Market optimism for 2021 already priced in

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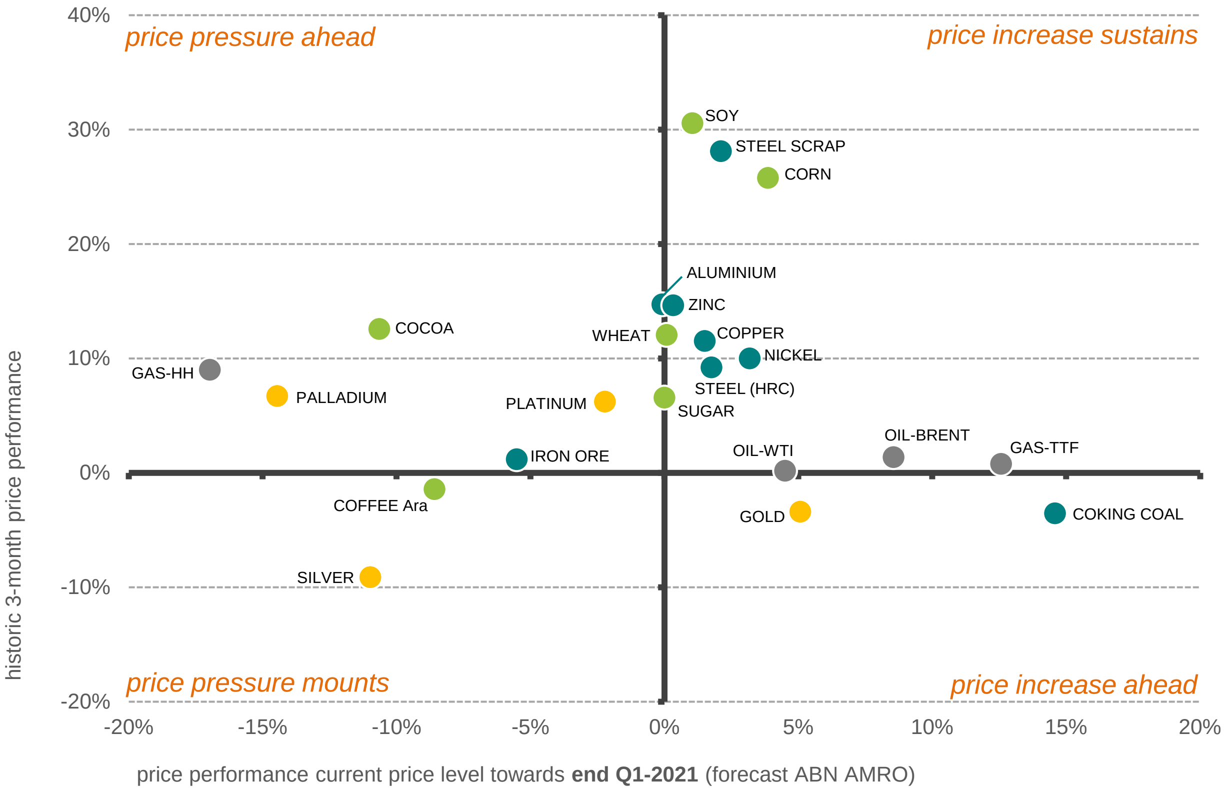
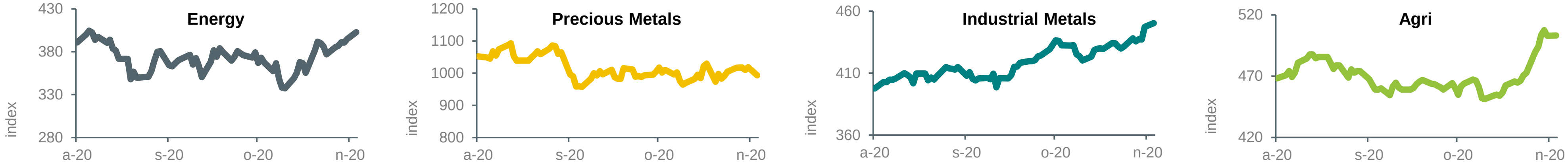
- The outcome of the US elections, China's economic recovery and the hopes around the new vaccine have sparked renewed optimism amongst investors. Most commodity prices have moved up over the past month. The CRB-index rose by 4%.
- ABN AMRO expects emergency-use vaccines to be rolled out to the vulnerable in the coming months, which should allow a significant lifting of restrictions during the course of next year. Subsequently the vaccines will be rolled out more broadly allowing a full return to normal in 2022.
- This will trigger rapid economic growth in the US and eurozone from Q2 of next year onwards. China's economic recovery will continue to strengthen and broaden. The positive economic trend in China will continue to underpin sentiment in many commodity markets.
- During 2021, prices will also find support from the trend in the US dollar. A weaker US dollar during 2021 makes commodities cheaper for non-dollar holders and supports prices.



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



Sources: Refinitiv, ABN AMRO Group Economics,

2 Energy – Oil / Gas

Caught between hope and fear

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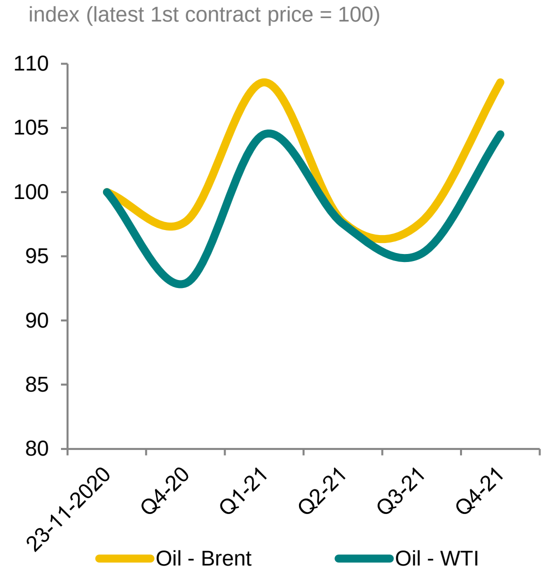
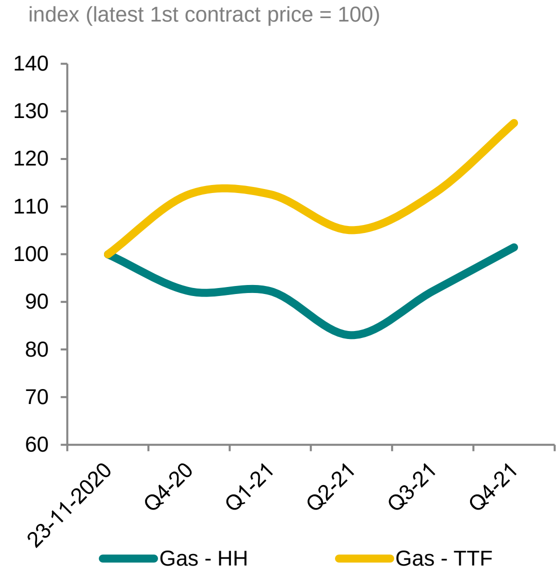
- Oil prices have recovered on the back of positive vaccine developments, the Biden election as well as hopes that OPEC+ will delay its intended adjustment to the production cut agreement. As a result, prices have recovered to the highest level since the steep drop of prices early March.
- A vaccine will ultimately lead to a recovery of the economy and will trigger higher oil demand. US president Joe Biden could limit shale oil production in the US. And the market is pricing in that OPEC will continue to keep 7.7 mb/d oil of the market during Q1 2021 instead of 5.8 mb/d, which will prevent a new oil glut. All drivers would be supportive for oil prices. The OPEC+ meeting will be held on 30 November and 1 December.
- The main drivers in the coming months will still be demand hopes/fears based on vaccine-related news as well as supply issues. Without a production cut, there would still be a huge oversupply. The threat of a rise in production – which is possible due to the availability of significant spare production capacity – will continue to linger over the market and could cap the upside potential.
- US Henry Hub prices have recovered due to increased LNG exports and inventory building ahead of the heating season. However, with production slowly but surely rising, the upside price potential may be limited.

	1st contract	*- end of period prices -*					*- averages -*	
	23-11-20	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Oil - Brent *(USD/barrel)*	46	45	50	45	45	50	36	48
Oil - WTI *(USD/barrel)*	43	40	45	42	41	45	34	43
Gas - Henry Hub *(USD/mmBtu)*	2,71	2,50	2,50	2,25	2,50	2,75	2,10	2,50
Gas - TTF *(EUR/MWh)*	13,33	15	15	14	15	17	14	15

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

Gold prices near crucial support

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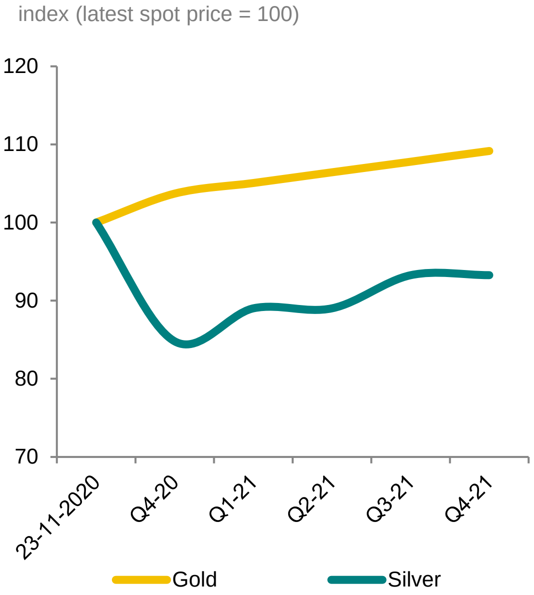
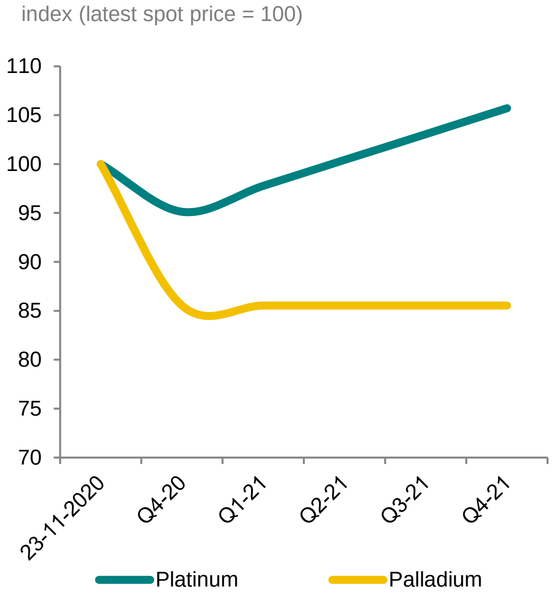
- Gold prices have struggled for weeks. Investors used any rally in prices to take profit on part of their positions.
- Gold prices fell significantly on the positive news about a COVID-19 vaccine because bond yields rose. What is interesting is that the dollar also weakened on the news because investors became more optimistic and were less interested in the safe haven currency.
- Since then dollar weakness has not supported gold prices. In fact in recent days both the dollar and gold prices have declined.
- Gold prices broke below the previous support level of USD 1,850 per ounce. This has resulted in a further deterioration of the technical outlook. The 200-day moving average comes in just above the psychological level of USD 1,800 per ounce. We expect a test of this 200-day moving average. If prices break below and also close below, we think that the long-term uptrend is over.
- So we are cautious as many investors have bought gold and they are getting more nervous. They start to fear that we may have seen the peak. If that is the case it could take a long time before we see the level of USD 2,000 again.
- As long as USD 1,800 per ounce is not taken out the trend remains positive.

	spot prices	*- end of period prices -*					*- averages -*	
	23-11-20	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Gold *(USD/ounce)*	1.832	1.900	1.925	1.950	1.975	2.000	1.775	1.950
Silver *(USD/ounce)*	23,59	20,00	21,00	21,00	22,00	22,00	20,00	21,00
Platinum *(USD/ounce)*	946	900	925	950	975	1.000	876	950
Palladium *(USD/ounce)*	2.338	2.000	2.000	2.000	2.000	2.000	2.152	2.000

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

Investor's sentiment optimism on US elections and vaccine

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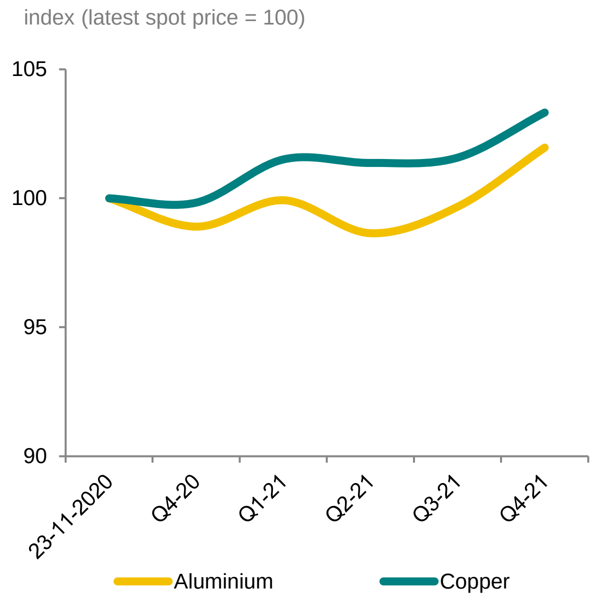
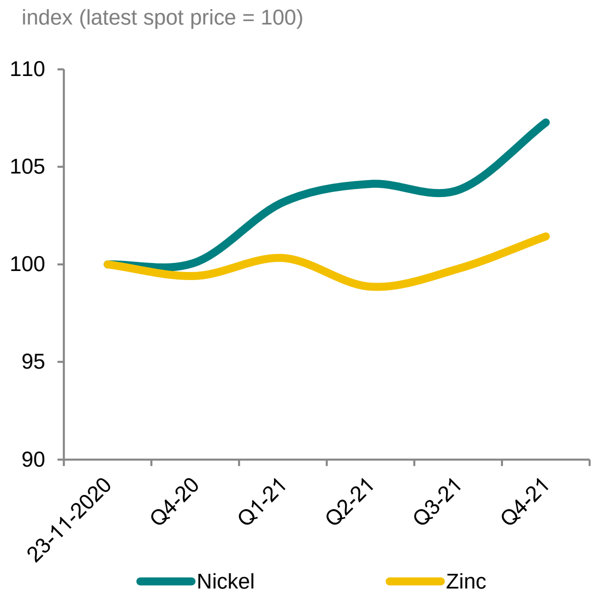
- The outcome of the US election and the hopes around the new vaccine sparked renewed optimism amongst most investors. Not only stock markets traded higher, but also most base metals prices strengthened further. Over the past month, base metals price rose by 5% on average.
- We think that macro-economic trends in China will remain a key driver in base metals markets sentiment. As long as Chinese economic trends and business activity remain positive, a risk-on attitude can be expected from investors.
- But still, the road ahead in prices will be bumpy. The rising numbers of coronavirus cases in the US and Europe remains worrisome and the increase in the number of lockdowns across the world will hit economies. Uncertainty over the ultimate economic impact remains therefore high. This will also have an impact on sentiment in base metals markets, which will be accompanied by increased price volatility.
- China's economic recovery will continue to strengthen and broaden. This means that metals demand from China will remain robust. Going forward, this will keep a solid floor under most base metals markets. Prices will also find support the trend in the dollar. A weaker dollar during 2021 makes metals cheaper for non-dollar holders and supports prices.

	spot prices	*- end of period prices -*					*- averages -*	
	23-11-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Aluminium *(USD/t)*	1.957	1.935	1.955	1.930	1.950	1.995	1.687	1.951
Copper *(USD/t)*	7.162	7.150	7.270	7.260	7.275	7.400	6.080	7.266
Nickel *(USD/t)*	15.894	15.910	16.400	16.550	16.500	17.050	13.643	16.441
Zinc *(USD/t)*	2.716	2.700	2.725	2.685	2.710	2.755	2.234	2.725

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

Steel demand recovery delays in Europe and US

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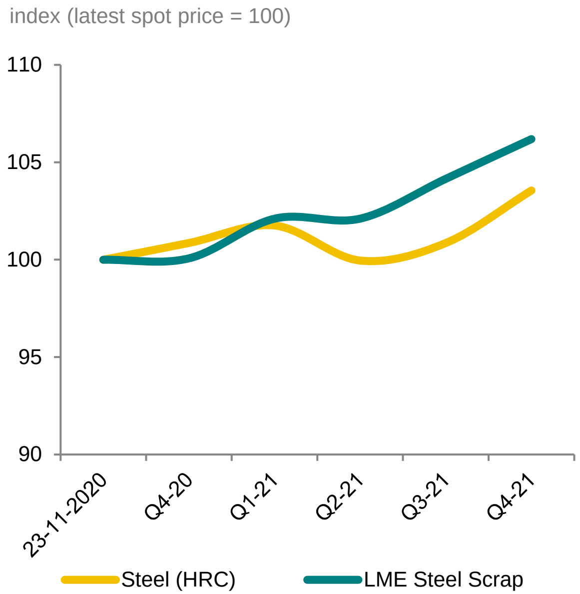
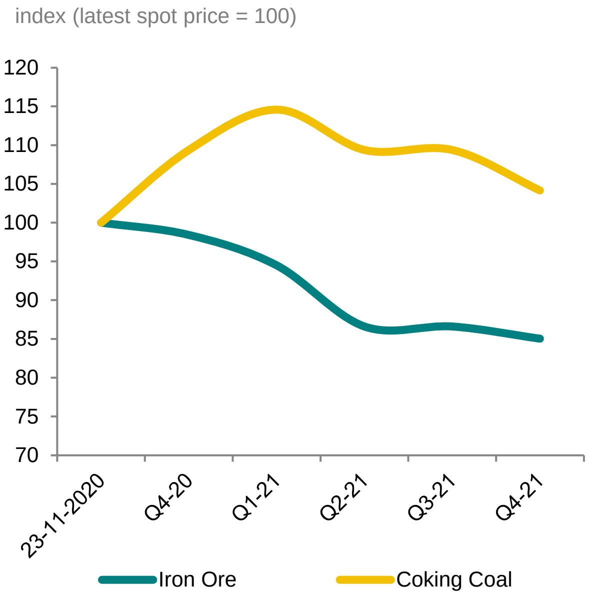
- Construction activity will slow in the upcoming winter season in China, the EU and the US. Demand from the manufacturing sectors will, however, stay elevated. But still, demand in the EU and the US remains largely subdued due to COVID-19. In addition, the second wave in COVID-19 in the EU and US will hinder a rapid recovery in steel demand. This means that demand levels remain low for the time being.
- The outlook for steel sector in China will remain relatively robust in the long term. We think that the strong recovery of the Chinese economy in 2021 will continue to provide a solid base for the steel sector. This is mainly due to a higher level of government spending in infrastructure and construction sectors. The recovery of the steel sector in the EU and the US will stay delayed and we do not expect a recovery in steel demand until Q1-2021.
- Over the past month, iron ore price rose further. Chinese demand for iron ore has remained strong, while inventories decreased. This will keep price elevated. Long term supply growth is expected to be elevated, which will increase pressure on prices. Coking coal prices dropped strongly on Chinese import restrictions. Prices are expected to recover on increases in demand from India and lower supply from Australia.

	spot prices	*- end of period prices -*					*- averages -*	
	23-11-20	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Steel (HRC) *(USD/t)*	555	560	565	555	560	575	514	553
EU Steel Scrap *(EUR/t)*	245	245	250	250	255	260	232	259
Iron Ore *(USD/t)*	127	125	120	110	110	108	105	108
Coking Coal *(USD/t)*	96	105	110	105	105	100	119	115

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

Stronger Chinese demand for grains lifts prices

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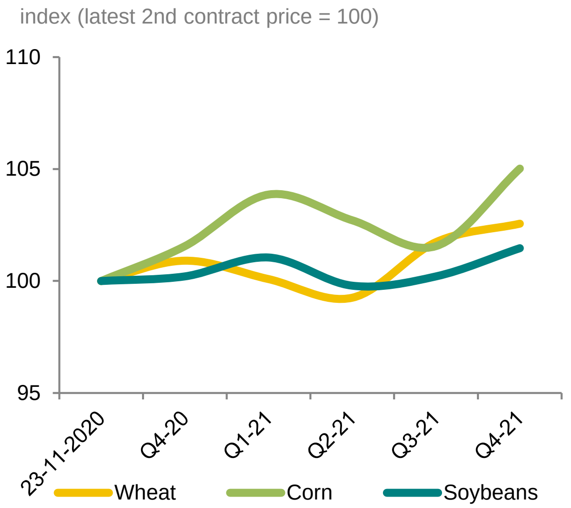
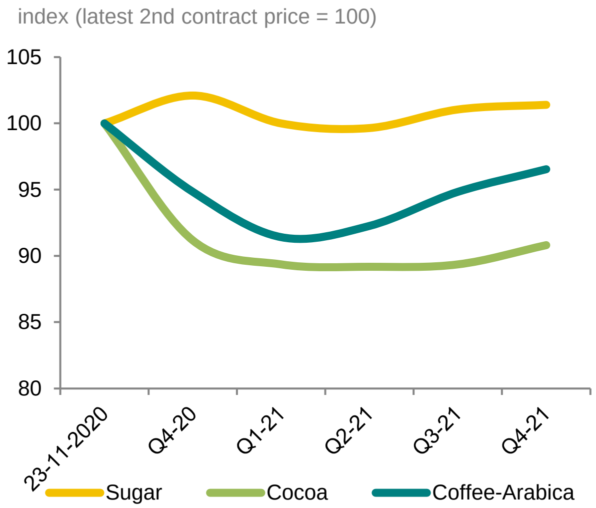
- Upside price risks for **wheat** come from worries over dry weather in US and Russia. Also, stronger Chinese demand and record low inventories inflate prices. We think prices will be supported as long as demand from China remains elevated.
- Chinese demand for **corn** currently remains strong due to the high demand for animal feed and reduced supplies in China after storms and drought. However, ethanol from corn sales in Brazil and the US remains a concern. Price is expected to remain relatively high.
- Strong demand from China underpinned **soybean** prices. Also dry conditions in Brazil raised supply concerns going forward. With continued demand from China, driven by the sustained growth of pig herds there, prices will increase further.
- Unfavourable weather conditions fed concerns about **sugar** supply globally. Import demand from China and India has also been high. Speculation about the level of the Indian government's export subsidy is also fuelling market concerns.
- Demand for **cocoa** is still relatively low and recovery will take a prolonged period of time. Supply is abundant and increases the downside price risks. However, political instability in Ivory Coast increases worries over supply, keeping price volatility elevated.
- Dry weather in Brazil is the main concern in the **coffee** market. Bad weather, strong fluctuations in stocks and exchange rate effects led to strong price fluctuations. The fundamental picture in the coffee market remains unfavourable. Prices will remain relatively weak.

	2nd contract	*- end of period prices -*					*- averages -*	
	23-11-20	**Q4-20**	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**2020**	**2021**
Wheat-CBOT *(USDc/bu)*	605	610	605	600	615	620	553	610
Corn-CBOT *(USDc/bu)*	433	440	450	445	440	455	367	440
Soybeans-CBOT *(USDc/bu)*	1193	1195	1205	1190	1195	1210	947	1.188
Sugar *(USDc/lb)*	14,25	14,55	14,25	14,20	14,40	14,45	12,83	14,38
Cocoa *(USD/Mt)*	2.753	2.510	2.460	2.455	2.460	2.500	2.452	2.464
Coffee-Arabica *(USDc/lb)*	117	111	107	108	111	113	112	109

ABN AMRO forecast price trend until 2021 (index)





Sources: Refinitiv, ABN AMRO Group Economics

A Appendix – Contact details, disclaimer & extra information

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