Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

Dynamics have changed

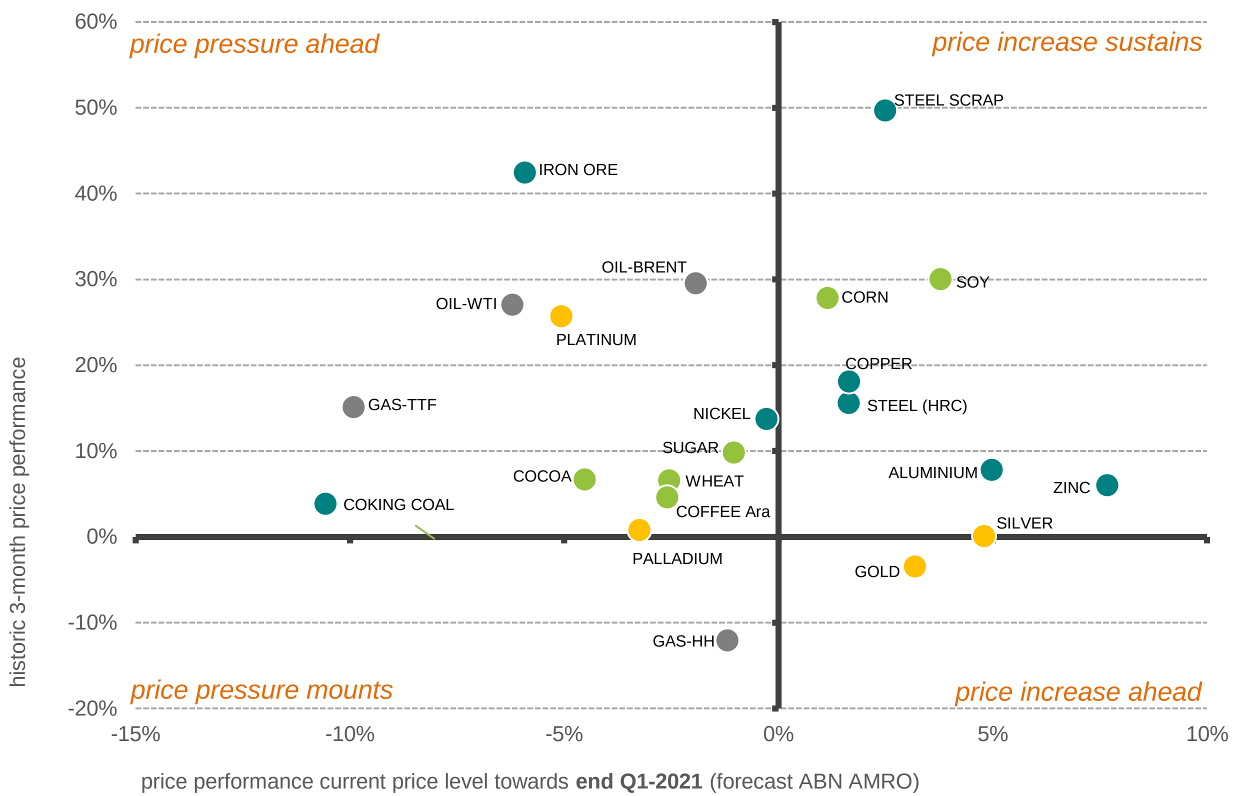
January 2021

1 All commodities – Energy / Precious / Industrials / Agri

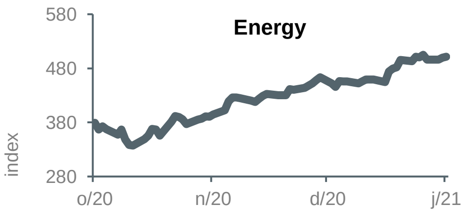
Dynamics have changed

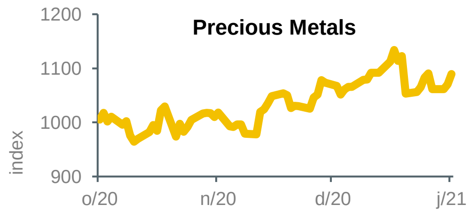
Georgette Boele
Senior Precious Metals Strategist
georgette.boele@nl.abnamro.com

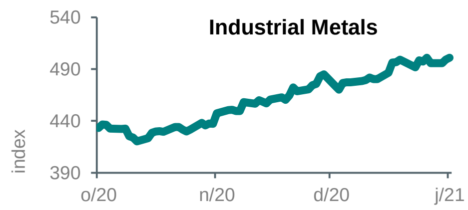
- Chinese economic growth beat expectations and we remain optimistic for the outlook of 2021
- Our US economist has substantially upgraded the growth outlook for the coming years. Less strict lockdowns and large government stimulus will result in the quicker closing of the output gap.
- These are positives for the outlook for commodities. But other dynamics are less supportive for the outlook for commodities
- First, we now expect slightly higher US nominal and real rates compared to lower rates a few months ago.
- Second, we no longer expect the Fed to be on hold for the next five to seven years. We think the Fed will start tapering in 2022. A less dovish Fed policy is also a headwind for commodity prices
- Last but not least we think that the dollar has bottomed for now. This will be a head wind.
- Cyclical commodities will still do well on strong growth prospects.

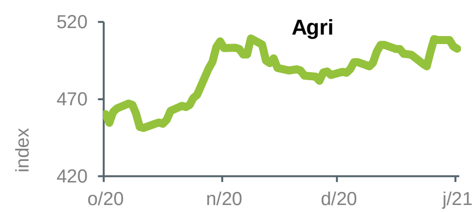


Price trend commodity classes over past three months (Thomson Reuters Index)









Sources: Refinitiv, ABN AMRO Group Economics,

2 Energy – Oil / Gas

Huge reserve production capacity will cap the upside potential for oil

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

- Oil prices have recently risen to the highest level in 11 months. A combination of lower supply and hopes that the covid-19 vaccination programs would boost global oil demand pushed WTI above USD 50/bbl and Brent above USD 55/bbl.
- Although OPEC+ decided to keep oil production flat for most producers except for Russia and Kazakhstan (together +75kb/d extra production), oil production will be lower in February and March. The net supply cut (-1 mb/d) was the result of a single action by Saudi Arabia.
- We think that oil prices have gained too far and too fast. There is more than enough spare production capacity available to meet any rise in demand. There are several OPEC+ producers which would like to increase production as soon as possible. This would cap the upside potential in case of more positive news.
- OPEC+ will evaluate their production levels on a monthly basis, although the next official Ministerial meeting is set for early March. After the obstruction by the UAE in December and their call for unity, we wonder what the long-term effects of the new recent exceptional position of Russia will mean for the OPEC+ unity.
- US Henry Hub prices have eased since reaching almost USD 3.40/mmBtu in October. Still, strong seasonal (heating) demand will keep prices from easing much further during the coming weeks.

	1st contract	*- end of period prices -*								*- averages -*	
	20-01-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
Oil - Brent *(USD/barrel)*	56	55	50	45	50	50	55	55	55	50	53
Oil - WTI *(USD/barrel)*	53	50	46	41	43	44	48	49	50	45	47
Gas - Henry Hub *(USD/mmBtu)*	2,53	2,50	2,25	2,50	2,75	2,50	2,20	2,30	2,50	2,40	2,40
Gas - TTF *(EUR/MWh)*	16,65	15	14	15	17	18	17	18	19	15	18

ABN AMRO forecast price trend until 2022 (index)

Sources: Refinitiv, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

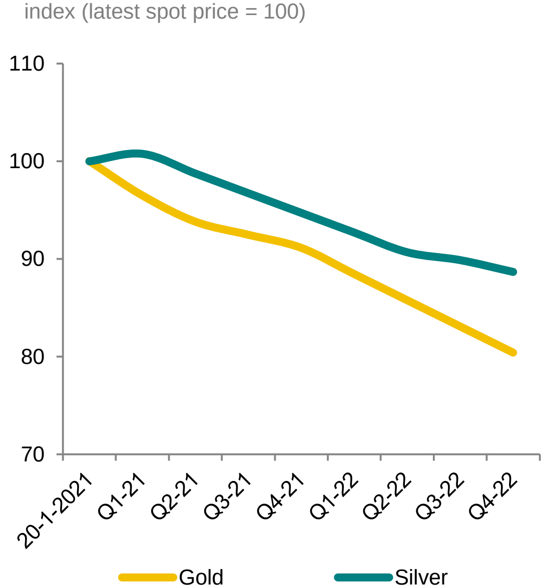
Georgette Boele
Senior Precious Metals Strategist
georgette.boele@nl.abnamro.com

New outlook for gold

- On 14 December we published our Gold Outlook with the title "Outlook is still positive but…"
- Since then a lot has changed. Weakness in the dollar pushed gold prices towards USD 1,960 per ounce. Then US yields started to rise and the dollar recovered, pushing gold prices towards the 200-day moving average again.
- The outlook has deteriorated sharply. We no longer expect higher gold prices. There are several reasons for this.
- First, we no longer expect lower nominal and real yields in the US. This is a clear negative for gold prices. Because they closely track developments in 10y US real yields.
- Second, we think that the Fed will be less dovish than before and we now forecast a modest rise in the dollar.
- Third, long gold is still a crowded trade and a substantial break below the 200-day moving average could result in substantial profit taking on long gold positions.
- 10y US real yields are still negative and there are concerns about the large US fiscal deficit. These factors should dampen the downside in gold prices.

	spot prices	*- end of period prices -*								*- averages -*	
	20-01-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
Gold *(USD/ounce)*	1.866	1.800	1.750	1.725	1.700	1.650	1.600	1.550	1.500	1.771	1.600
Silver *(USD/ounce)*	24,81	25,00	24,50	24,00	23,50	23,00	22,50	22,30	22,00	24,60	22,60
Platinum *(USD/ounce)*	1.106	1.050	1.100	1.150	1.200	1.225	1.250	1.275	1.300	1.111	1.250
Palladium *(USD/ounce)*	2.377	2.300	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)



4 Base Metals – Aluminium / Copper / Nickel / Zinc

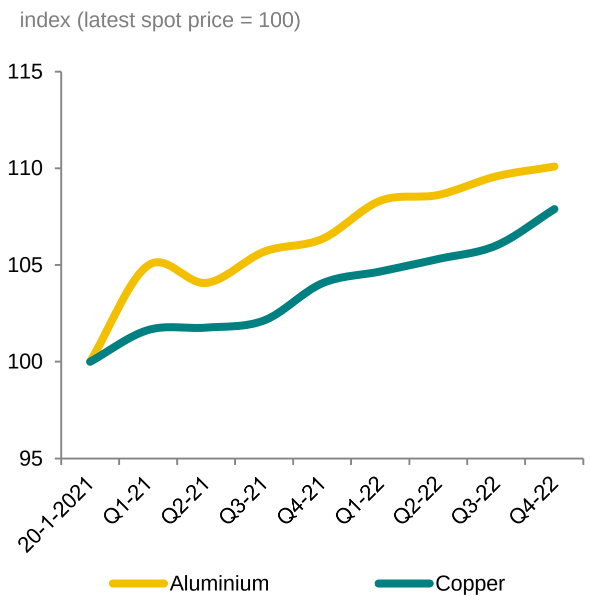
Positive economic cycle keeps investor's sentiment buoyant

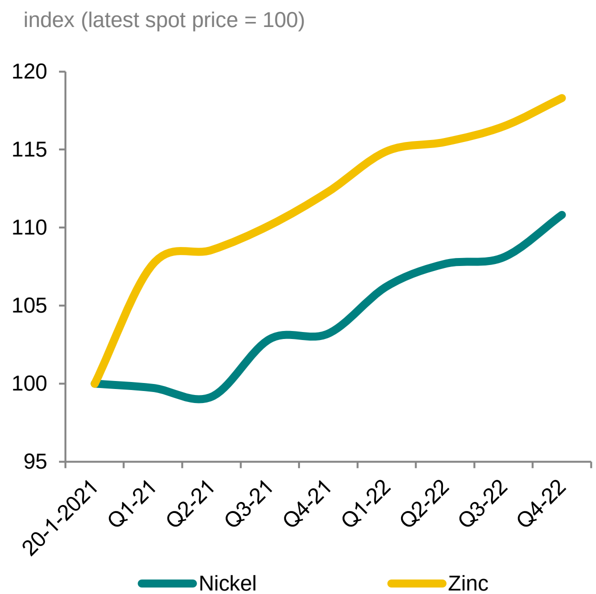
Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

- Since the start of 2021, the base metals price index rose by 3%. Nickel price increased by 6% already this year, while the prices of aluminium, copper and zinc posted gains of 1-3%. The buoyant mood amongst investors in the base metals complex is strongly related to the positive economic cycle and the prospect of further economic recovery this year.
- The economic trend in China remains the key driver for prices in base metals markets. Since the swift economic recovery of China, there has been a continues risk-on attitude from investors. The recent uplift in the total number of Covid-19 cases increased worries and translated immediately in weakening of prices.
- That said, we think that the road ahead remains bumpy. The population-wide roll-out of a working vaccine provides a solid base for sentiment, but the rising numbers of coronavirus cases in some parts of the world remains worrisome. An increase of uncertainty in this, will surely be accompanied by increased price volatility.
- All-in-all, we think that demand from China will remain robust this year. Metals demand recovery in the US and Europe will gather more pace from Q2 onward. Total long positions are high and increases the likelihood of profit-taking by investors. The further strengthening of the dollar will cap significant price gains going forward.

	spot prices	*- end of period prices -*								*- averages -*	
	20-01-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
Aluminium *(USD/t)*	1.979	2.078	2.060	2.092	2.105	2.144	2.150	2.169	2.179	2.073	2.154
Copper *(USD/t)*	8.040	8.172	8.182	8.212	8.366	8.415	8.467	8.523	8.674	8.138	8.376
Nickel *(USD/t)*	18.172	18.121	18.018	18.691	18.754	19.303	19.566	19.642	20.136	18.225	19.499
Zinc *(USD/t)*	2.704	2.911	2.935	2.978	3.036	3.106	3.122	3.149	3.198	2.921	3.198

ABN AMRO forecast price trend until 2022 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

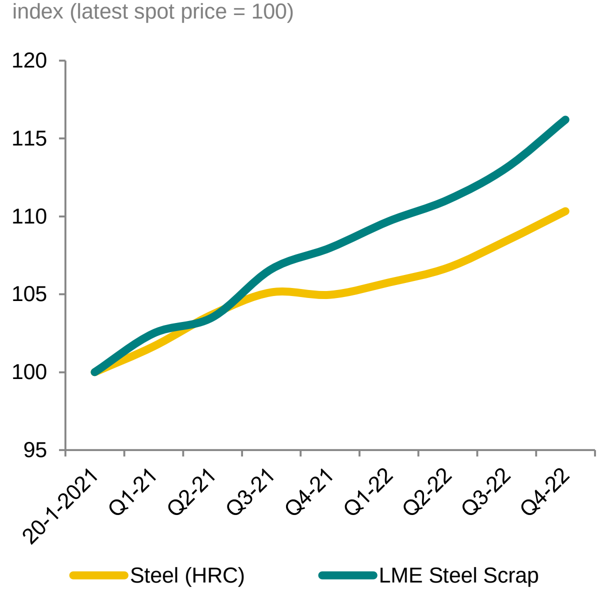
Steel demand robustness this year

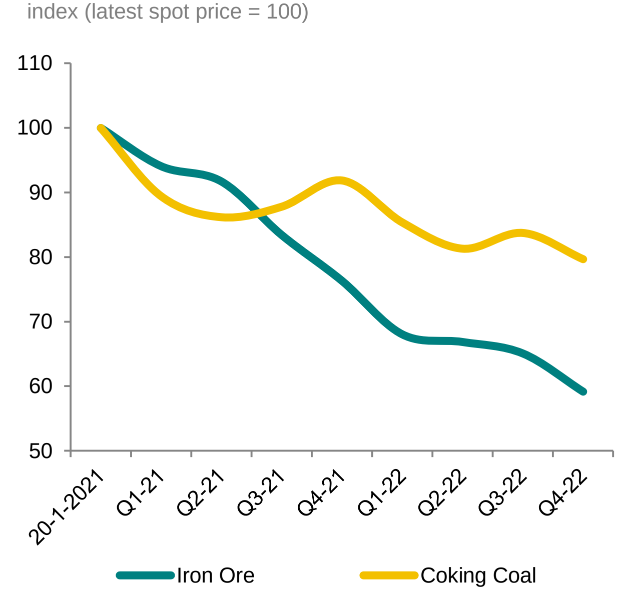
Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

- Market sentiment is positive and economic activity is improving at a better-than-expected rate. Recovery of the automotive sector in China has been strong and car sales in the US and Europe is recovering slowly but steadily. Construction activity is also on high levels, but will probably slow somewhat in the upcoming winter season in China, the EU and the US.
- The increased costs of making steel - mainly due to the higher prices of iron ore and scrap – are contributing to higher steel prices. This year, steel prices will remain relatively high.
- Over the past months, iron ore prices rose strongly. The main catalyst was buoyant Chinese demand, which faced relative low inventories. Demand remains elevated this month and will keep price on high levels. Long term supply growth is a downward price risk. Coking coal prices were under pressure from Chinese import restrictions. But a strong uplift in demand from both India and Japan underpins prices.
- The outlook for steel sector will remain robust in the long term. We think that the strong recovery of the Chinese economy this year 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 pick up pace later this year.

	spot prices	*- end of period prices -*								*- averages -*	
	20-01-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
Global Steel *(USD/t)*	634	644	657	666	665	670	676	687	699	625	644
EU Steel Scrap *(EUR/t)*	292	299	302	311	315	320	324	330	339	313	330
Iron Ore *(USD/t)*	169	159	155	141	129	115	113	110	100	140	111
Coking Coal *(USD/t)*	123	110	106	108	113	105	100	103	98	109	105

ABN AMRO forecast price trend until 2022 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

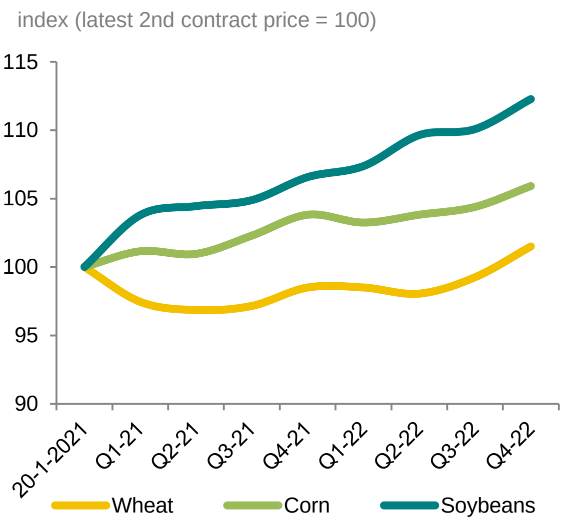
Grains markets in tighter domains

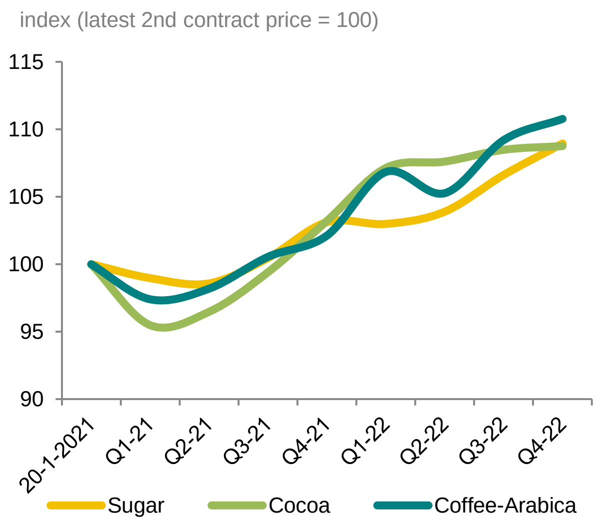
Casper Burgering
Agricultural Commodities Economist
casper.burgering@nl.abnamro.com

- Forecasts show that the **wheat** market is in oversupply this season, but this is less than one week of demand. Russia is considering an export tax, which translates in lower availability. Besides this, stronger Chinese demand and low inventories will keep prices firm.
- Lower production forecasts from major **corn** producers and strong Chinese demand for animal feed pushes the market into tighter domains. Worries over Argentine supplies and troublesome weather issues inflate prices. We think prices remain high in the coming month.
- Buoyant Chinese **soybean** demand and lower production from the US and Brazil underpins prices. The Chinese pig herd continues to grow, which keeps demand elevated. Shortages will intensify and soybean prices will increase further in the coming month.
- Thailand and EU **sugar** production disappoints and the next Brazilian harvest is due in April. This means that tight supply persists, which elevates prices. Downside risks come from weaker Chinese import demand due to high inventories and the Indian sugar export subsidy.
- Supply of **cocoa** is abundant and grinding numbers still disappoint in EU and Asia. Demand for cocoa is low. The vaccine programs provide a positive note for the sector. But a population-wide roll-out will take a prolonged period of time, as can be expected of a recovery in both demand and price.
- Rising **coffee** inventories and a weaker Brazilian real increases pressure on Arabica coffee prices. The fundamental picture in the coffee market is unfavourable. Lingering worries on Covid-19 lockdowns hurts demand. Recovery will be slow and prices remain relatively weak.

	2nd contract	*- end of period prices -*								*- averages -*	
	20-01-21	**Q1-21**	**Q2-21**	**Q3-21**	**Q4-21**	**Q1-22**	**Q2-22**	**Q3-22**	**Q4-22**	**2021**	**2022**
Wheat-CBOT *(USDc/bu)*	668	651	647	649	658	658	655	663	678	643	651
Corn-CBOT *(USDc/bu)*	524	530	529	536	544	541	544	547	555	523	528
Soybeans-CBOT *(USDc/bu)*	1367	1419	1428	1434	1457	1468	1499	1505	1535	1413	1.490
Sugar *(USDc/lb)*	15,41	15,25	15,19	15,48	15,89	15,87	16,01	16,43	16,79	15,28	16,14
Cocoa *(USD/Mt)*	2.524	2.410	2.435	2.509	2.605	2.704	2.716	2.738	2.745	2.509	2.725
Coffee-Arabica *(USDc/lb)*	127	124	125	128	130	136	134	139	141	124	138

ABN AMRO forecast price trend until 2022 (index)





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

DISCLAIMER
This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics and commodities. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer. No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof. Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2021 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO)

Publication closed on 21 January 2021