

Monthly Commodity Insights

...price forecasts for commodity markets

ABN AMRO Group Economics

March 2021

Widespread optimism dictates commodity price trends

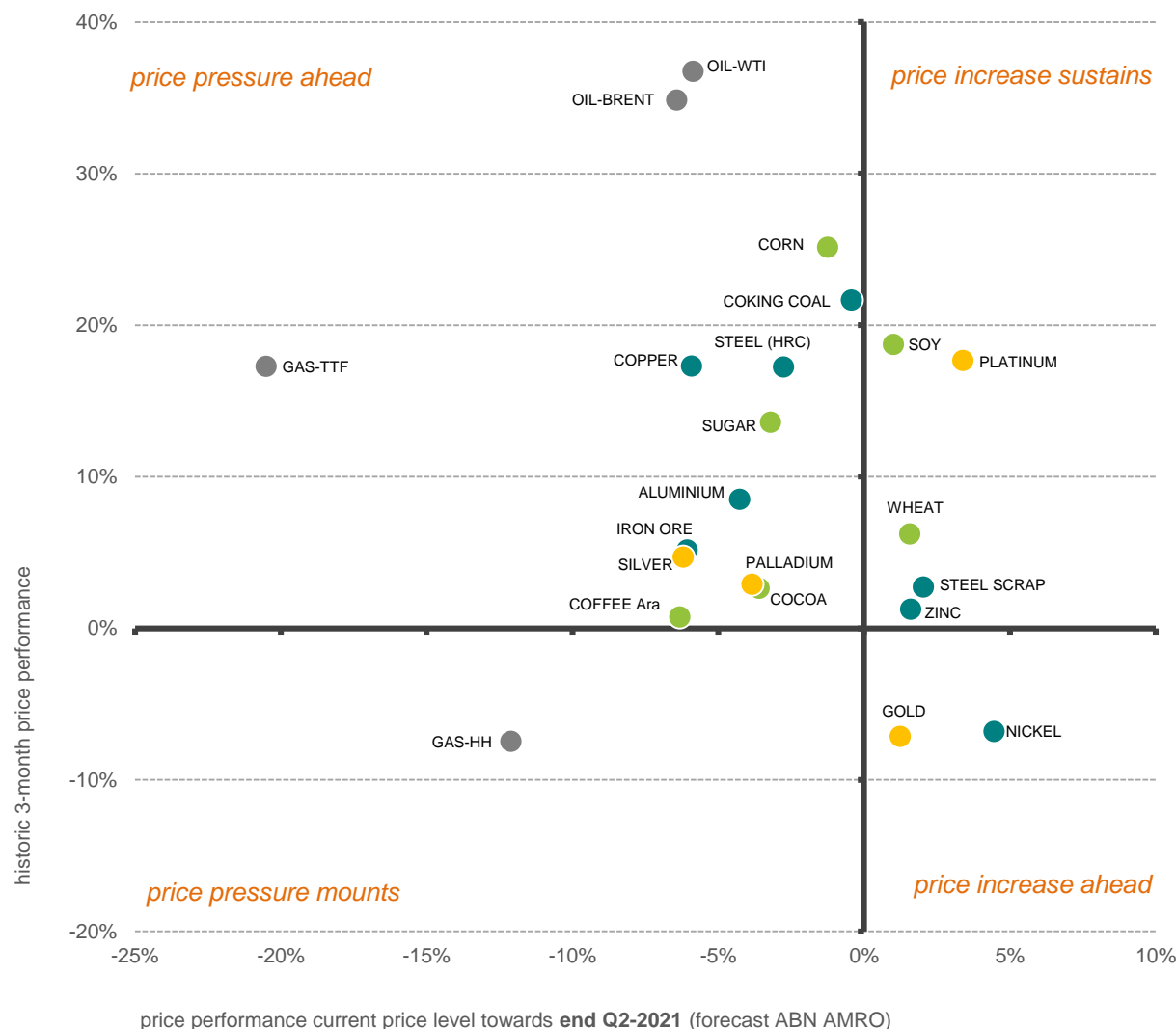


1 All commodities – Energy / Precious / Industrials / Agri

Widespread optimism dictates commodity price trends

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- ▶ De CRB-index rose on strong (Chinese) demand for some commodities. Widespread optimism over the mass roll-out of vaccine programs and the anticipated global economic recovery during 2021 also helped to further boost sentiment among investors. The index gained 15% this year already, mainly driven by rising oil, copper and food prices (soybean, corn and sugar).
- ▶ Chinese demand for copper, corn and soybean caused a tightening of physical markets. Prices in these markets rose significantly on this. Oil prices rose on demand expectations, and the fact that OPEC+ did not raise production yet (despite higher prices). Gold prices softened further on rising US real yields and improved US growth prospects.
- ▶ We think that buoyant sentiment has the upper hand in the recent run-up in commodity prices. Some commodity markets are indeed tight, but most markets still have abundant supplies. The fact that commodity market sentiment is currently this resilient, is mainly due to targeted economic support measures (in construction, infrastructure, renewables) and generally loose monetary policy with high liquidity. Downside commodity price risks arise as soon as the targeted support and/or accommodative monetary policy eases.



2 Energy – Oil / Gas

Oil forward curves suggest a tightness that does not exist

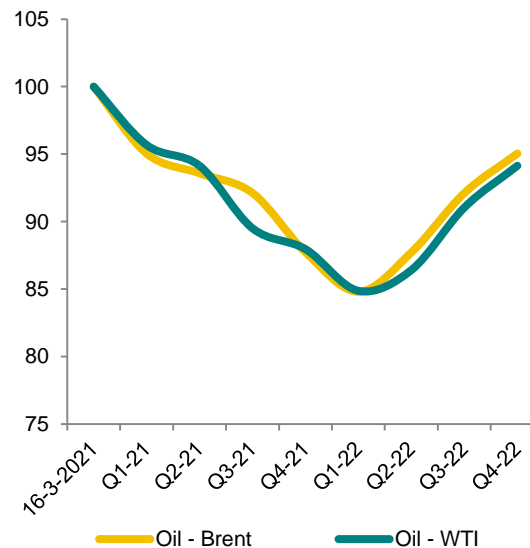
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- ▶ The oil rally continued as demand expectations remain and OPEC+ kept production on hold unexpectedly. Brent reached USD 71/bbl, WTI USD 68/bbl. The technical picture still looks positive, but from a fundamental perspective there is room for a downward price correction.
- ▶ Inventories remain relatively high. And demand expectations have been pushed too high.
- ▶ Furthermore, the forward curve is in steep backwardation. This suggests a supply tightness in the market at the front end of the curve that does not exist. In fact, there is much reserve production capacity available (>8mb/d) to balance any rise in demand.
- ▶ Although we expect the rally to run out of steam and a downward correction could be possible, we did raise our Brent and WTI forecasts. Our 2021 year-end forecast for Brent was raised to USD 60/bbl from USD 53/bbl, and for WTI it was raised to USD 57/bbl from USD 48/bbl.
- ▶ Natural gas prices have started to ease as extreme winter conditions faded and temperatures normalised. Still, European inventories are at relatively low levels, meaning that gas demand will remain high in the coming weeks for restocking. Only after that, lower seasonal demand could give some more relief to natural gas prices.

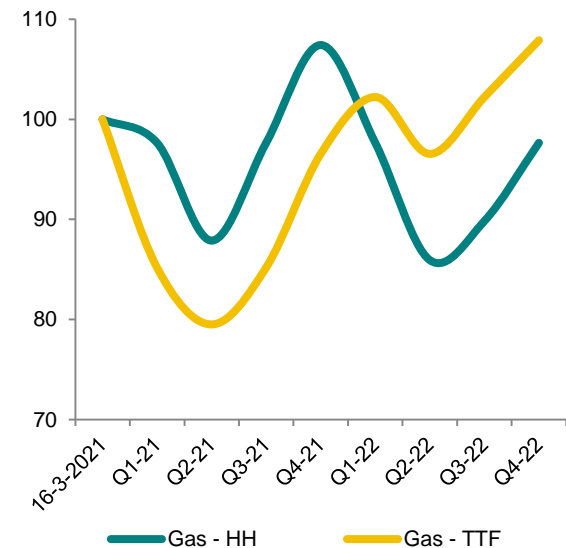
| | 1st contract 16-03-21 | - end of period prices - | | | | | | | | - averages - | |
|---------------------------------------|--------------------------|--------------------------|-------|-------|-------|-------|-------|-------|-------|--------------|------|
| | | Q1-21 | Q2-21 | Q3-21 | Q4-21 | Q1-22 | Q2-22 | Q3-22 | Q4-22 | 2021 | 2022 |
| Oil - Brent (USD/barrel) | 68 | 65 | 64 | 63 | 60 | 58 | 60 | 63 | 65 | 63 | 61 |
| Oil - WTI (USD/barrel) | 65 | 62 | 61 | 58 | 57 | 55 | 56 | 59 | 61 | 60 | 58 |
| Gas - Henry Hub (USD/mmBtu) | 2,56 | 2,50 | 2,25 | 2,50 | 2,75 | 2,50 | 2,20 | 2,30 | 2,50 | 2,40 | 2,40 |
| Gas - TTF (EUR/MWh) | 17,61 | 15 | 14 | 15 | 17 | 18 | 17 | 18 | 19 | 15 | 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

Higher longer-term yields trigger lower prices

Georgette Boele

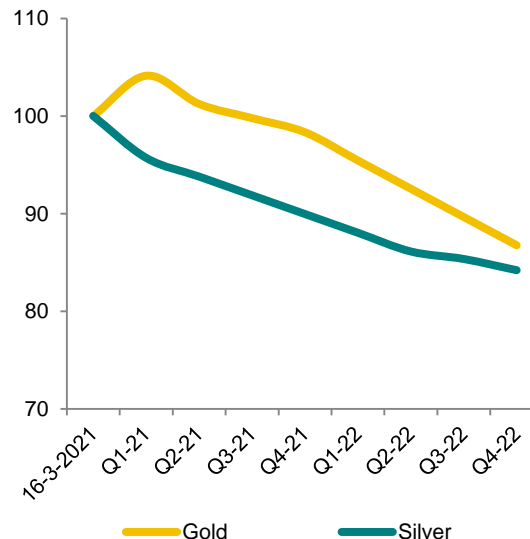
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- ▶ Long-term yields have risen and that is negative for gold, silver and to a lesser extent platinum prices. But the Fed seems relatively relaxed about the sharp runup in 10y US Treasury yields.
- ▶ Higher yields make precious metals unattractive as they don't pay a coupon or dividend.
- ▶ Higher US yields have also supported the US dollar. This is also negative for precious metal prices.
- ▶ Investors have partially closed their net-long positions. Speculative net-long positions on the futures markets have been reduced. Total gold ETF positions have dropped as well, but are still extremely large.
- ▶ Gold prices dropped below previous support at USD 1,764 per ounce and even cleared our year-end target of USD 1,700 per ounce before edging higher.
- ▶ Lower gold prices are in line with our view but the move has been larger than we had projected in our forecasts. We expect more weakness ahead but this will unlikely be in one straight line.
- ▶ The trend remains negative as long as gold prices are below the 200-day moving average, which now comes in around USD 1,860 per ounce. The crucial support area is USD 1,640-1,670 per ounce.

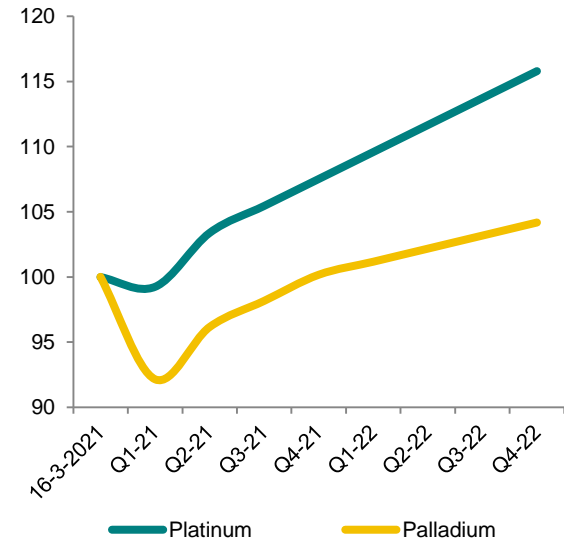
| | spot prices 16-03-21 | Q1-21 | Q2-21 | Q3-21 | Q4-21 | Q1-22 | Q2-22 | Q3-22 | Q4-22 | - averages - 2021 2022 | |
|---------------------------------|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|---------------------------|-------|
| Gold (USD/ounce) | 1.729 | 1.800 | 1.750 | 1.725 | 1.700 | 1.650 | 1.600 | 1.550 | 1.500 | 1.771 | 1.600 |
| Silver (USD/ounce) | 26,12 | 25,00 | 24,50 | 24,00 | 23,50 | 23,00 | 22,50 | 22,30 | 22,00 | 24,60 | 22,60 |
| Platinum (USD/ounce) | 1.209 | 1.200 | 1.250 | 1.275 | 1.300 | 1.325 | 1.350 | 1.375 | 1.400 | 1.225 | 1.350 |
| Palladium (USD/ounce) | 2.496 | 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)

index (latest spot price = 100)



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4 Base Metals – Aluminium / Copper / Nickel / Zinc

China sets the mood in base metals markets

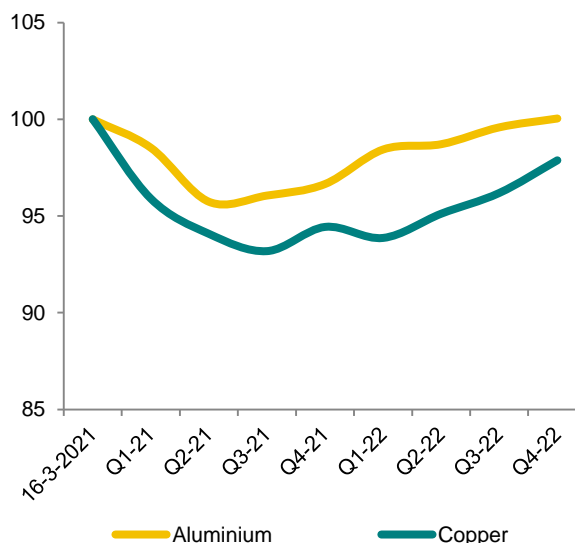
Casper Burgering
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- Price trends in the base metals complex were mixed over the past month. While prices for aluminium and copper increased since mid-February (by 3% and 9% respectively), nickel and zinc dropped in the same period (by 14% and 1%). The cheerful mood among investors has faded to some extent.
- Monetary and economic stimulus packages by central banks and governments boosted sentiment in base metals. However, uncertainty will linger until vaccine programs finish. Prices are subject to a relatively high level volatility until economies are fully re-opened.
- Metal stockpiles at the Shanghai Futures Exchange (SHFE) have decreased by 33% on average this year already, mainly due to large drawdowns of copper stocks. Inventories at the LME, however, rose by 34% this year, mostly due to higher aluminium and zinc volumes.
- The economic trend in China will continue to be the main driver for metals demand growth, and this will also set the mood in base metals markets in the future. Demand for base metals in the US and Europe will gain more traction after the second quarter of this year with the opening up of economies. We think that prices will remain relatively high. However, a continued strengthening of the dollar until the end of 2022 will limit stronger price gains along the way.

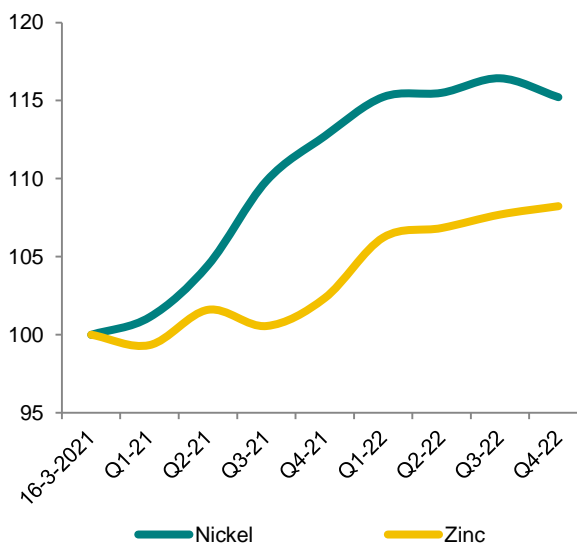
| | spot prices 16-03-21 | Q1-21 | Q2-21 | Q3-21 | Q4-21 | Q1-22 | Q2-22 | Q3-22 | Q4-22 | - averages - | |
|-----------------------------|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------------|--------|
| Aluminium (USD/t) | 2.178 | 2.146 | 2.085 | 2.092 | 2.105 | 2.144 | 2.150 | 2.169 | 2.179 | 2.078 | 2.154 |
| Copper (USD/t) | 8.965 | 8.597 | 8.434 | 8.354 | 8.466 | 8.415 | 8.527 | 8.623 | 8.774 | 8.298 | 8.543 |
| Nickel (USD/t) | 16.105 | 16.287 | 16.822 | 17.691 | 18.154 | 18.557 | 18.600 | 18.750 | 18.555 | 17.488 | 18.586 |
| Zinc (USD/t) | 2.791 | 2.772 | 2.835 | 2.806 | 2.856 | 2.964 | 2.981 | 3.005 | 3.020 | 2.801 | 3.020 |

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 outlooks on targeted government support

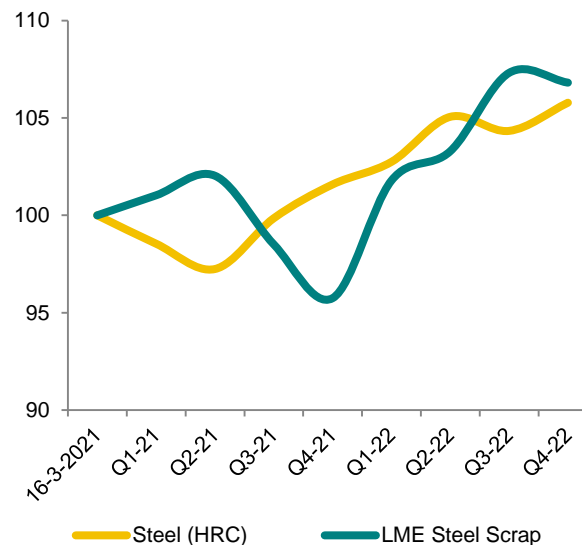
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- World steel production rose by 8% annually in January, mainly driven by a 13% increase in steel output in China. Steel mills in China continue to operate at relative high utilisation rates. In the coming months, this is likely to come down, given the more stringent emission restrictions in China. Steel production in Europe and the US fell by 1% and 10% y/y respectively in January.
- Chinese steel market sentiment has been resilient due to government expenditure on major infrastructure projects and other targeted support measures. The swift recovery of activity in the automotive sector also helped to boost demand. Car sales in the US and Europe are still far away from their pre-Covid-19 levels, but there are signs of a slow but steady recovery.
- The outlook for ferrous metal markets remains favourable. The global economic recovery during this year provides a solid basis for steel demand. Risks can emerge, however, from a phasing out of economic support (especially in China). This can potentially cause some serious cracks in the positive market sentiment.
- Steel raw materials prices are expected to ease somewhat on production limitations in China, which reduces iron ore and coking coal demand. Nevertheless, given longer term optimism, prices will remain relative high.

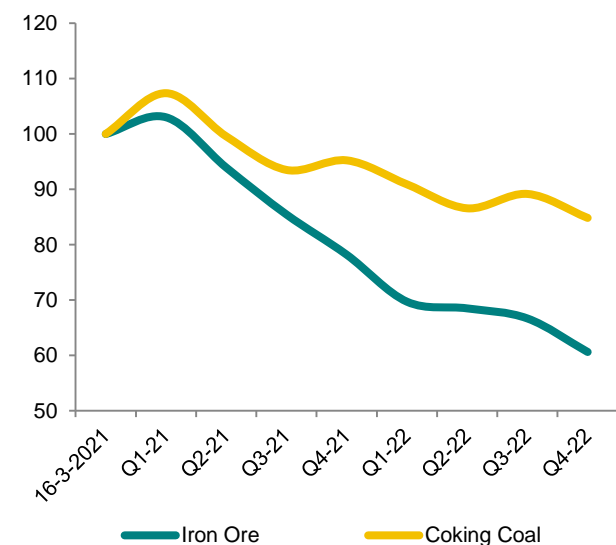
| | spot prices 16-03-21 | - end of period prices - | | | | | | | | - averages - | |
|----------------------------------|-------------------------|--------------------------|-------|-------|-------|-------|-------|-------|-------|--------------|------|
| | | Q1-21 | Q2-21 | Q3-21 | Q4-21 | Q1-22 | Q2-22 | Q3-22 | Q4-22 | 2021 | 2022 |
| Global Steel (USD/t) | 690 | 680 | 671 | 689 | 701 | 709 | 725 | 720 | 730 | 676 | 711 |
| EU Steel Scrap (EUR/t) | 398 | 402 | 406 | 392 | 381 | 405 | 411 | 427 | 425 | 381 | 406 |
| Iron Ore (USD/t) | 165 | 170 | 155 | 141 | 129 | 115 | 113 | 110 | 100 | 144 | 111 |
| Coking Coal (USD/t) | 116 | 124 | 115 | 108 | 110 | 105 | 100 | 103 | 98 | 119 | 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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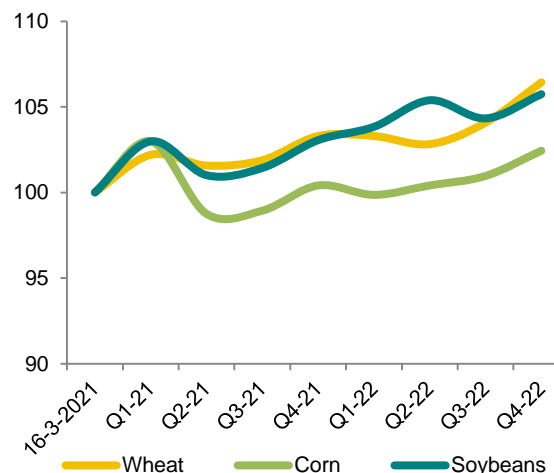
Demand recovery on re-opening economies on larger scale

- ▶ Oversupply of **wheat** is weighing on sentiment. Output is likely to rise further, with new highs in stocks. Russia remains the main exporter, but an export tax limits shipments. Total oversupply is limited. Prices will remain high, but a firmer dollar will cap stronger gains.
- ▶ China ramped up **corn** purchases, leading to lower US stocks. Harvest delays and bad weather in Latin America increases supply stress. Strong Chinese demand will continue, keeping corn prices high. But higher prices raise the risk of profit-taking by funds.
- ▶ **Soybean** prices soared on buoyant Chinese demand. Chinese soybean use is likely to expand to new highs. Stocks are expected to tighten and will keep prices firm. Relatively high prices increase the chance of profit taking by funds, keeping prices volatile.
- ▶ **Sugar** prices will remain high on worries over the Brazilian harvest, Indian export constraints, a recovery in the Brazilian real, higher oil prices and the global economic recovery. A deficit of 4.8 mln tonnes is likely, which represents 1.5 weeks of demand.
- ▶ A **cocoa** surplus of 102 mln tonnes is expected this season, and the stocks-to-grind-ratio increased to 39%. A swift recovery in demand can only be expected when economies are re-opened on a larger scale. This will start from Q3 2021 onward. This recovery hope is keeping prices volatile.
- ▶ An likely smaller Brazilian **coffee** crop underpins sentiment and prices for the time being. However, continued global lockdowns prevent a swift recovery in demand. Also, coffee exchange stocks are high and have risen non-stop (and by 67%) since October 2020.

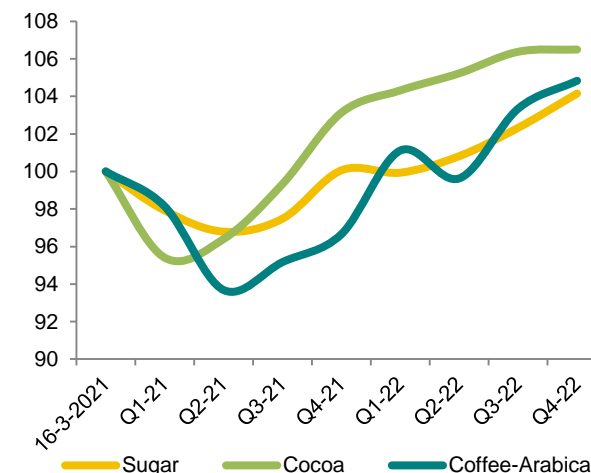
| | 2nd contract 16-03-21 | - end of period prices - | | | | | | | | - averages - | |
|------------------------------------|--------------------------|--------------------------|-------|-------|-------|-------|-------|-------|-------|--------------|-------|
| | | Q1-21 | Q2-21 | Q3-21 | Q4-21 | Q1-22 | Q2-22 | Q3-22 | Q4-22 | 2021 | 2022 |
| Wheat-CBOT (USDc/bu) | 637 | 651 | 647 | 649 | 658 | 658 | 655 | 663 | 678 | 643 | 651 |
| Corn-CBOT (USDc/bu) | 542 | 558 | 535 | 536 | 544 | 541 | 544 | 547 | 555 | 533 | 528 |
| Soybeans-CBOT (USDc/bu) | 1414 | 1456 | 1428 | 1434 | 1457 | 1468 | 1490 | 1475 | 1495 | 1424 | 1.488 |
| Sugar (USDc/lb) | 15,88 | 15,55 | 15,37 | 15,48 | 15,89 | 15,87 | 16,01 | 16,25 | 16,54 | 15,43 | 16,14 |
| Cocoa (USD/Mt) | 2.526 | 2.410 | 2.435 | 2.509 | 2.605 | 2.635 | 2.658 | 2.687 | 2.690 | 2.515 | 2.668 |
| Coffee-Arabica (USDc/lb) | 135 | 132 | 126 | 128 | 130 | 136 | 134 | 139 | 141 | 126 | 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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