

Monthly Commodity Insights

...price forecasts for commodity markets

ABN AMRO Group Economics

Limited upside in commodity prices

February 2019

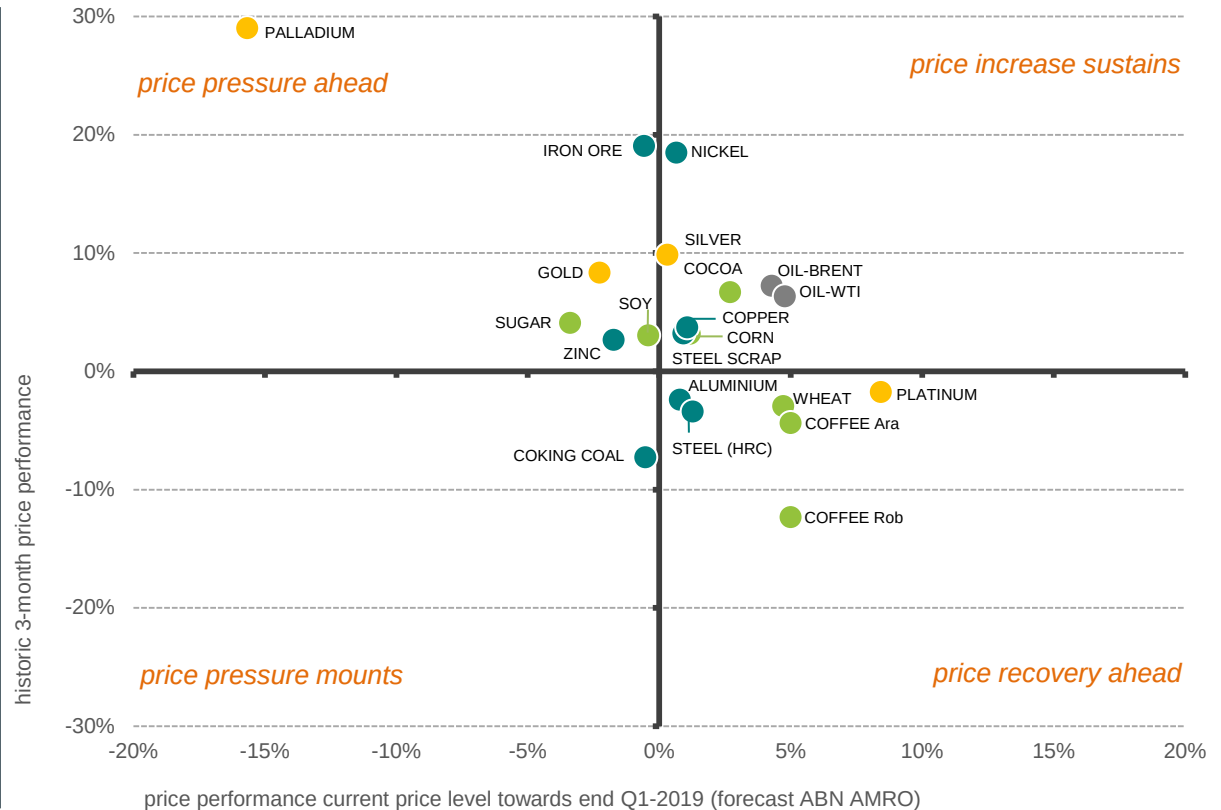


1 All commodities – Energy / Precious / Industrials / Agri

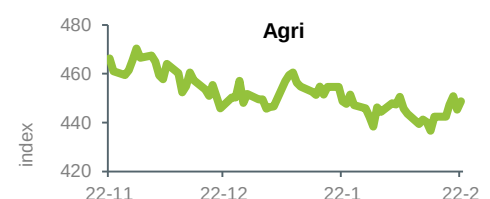
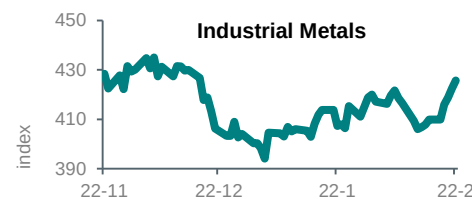
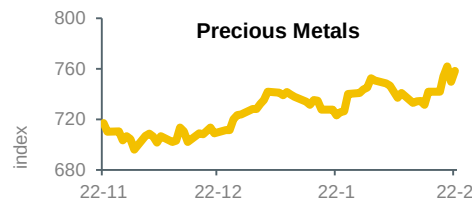
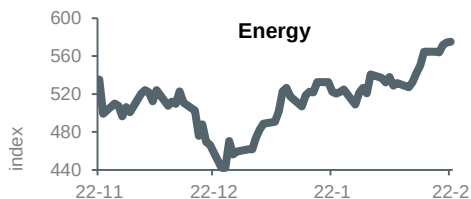
Limited upside in commodity prices

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- ▶ Since the start of 2019, the CRB index has rallied by 7% in line with a recovery in oil and most base metal prices.
- ▶ Hopes that China and the US may come to a deal on the trade front have continued to be supportive for commodity demand expectations (mainly base metals, steel and oil).
- ▶ For the coming months we expect some more upside for commodity prices (CRB Index forecast +4% in 3 months). However, since we recently lowered some of our growth expectations, the upside potential may be not as big as anticipated earlier.
- ▶ A large share of the expected performance of the CRB index should come from the energy sector. And although we expect prices to rise further in our base case scenario, the final result is uncertain. Gas prices are strongly affected by hard-to-predict weather patterns, while oil prices may be capped by lower economic growth (less demand) and abundant supply.



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



2 Energy – Oil / Gas

Oil prices found support

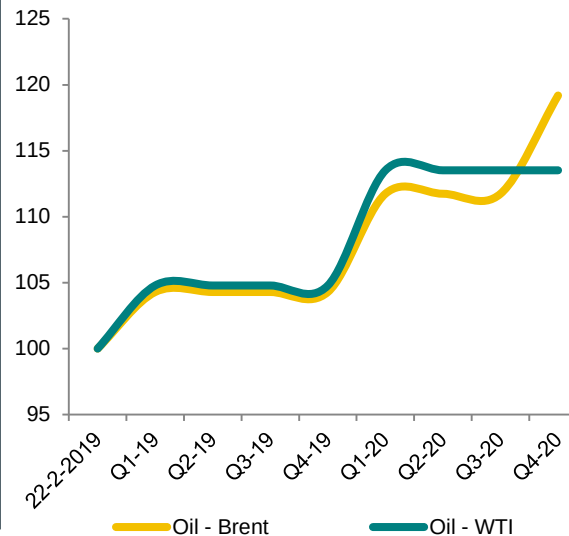
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- Trade optimism as well as the impact of the production cuts by the OPEC+ and the US sanctions against Venezuela and Iran provide support for oil prices. As a result, market participants started to sell their short positions, but are still hesitant to increase long positions. Brent and WTI reached the highest level of 2019, while keeping the USD 10/bbl spread intact.
- Although we have revised some of our economic growth projections (EU, US), we don't change our oil price forecasts yet. There is a risk though that due to lower economic growth – meaning less demand – there is less upside potential than originally anticipated. This forms a risk for the upper band of our USD 60-80/bbl trading range for Brent oil (USD 50-70/bbl for WTI).
- Next week, the International Petroleum Week in London could result in a flow of comments regarding the oil market in the media. Although we don't expect major game changers in market view, it may trigger some extra volatility.
- Although we are still in the middle of the winter season, US Henry Hub natural gas prices are trading at relatively low levels at the moment. Mild winter weather conditions, high inventories, as well as high production – both gas production and in the form of associated gas with oil production – have avoided higher natural gas prices.

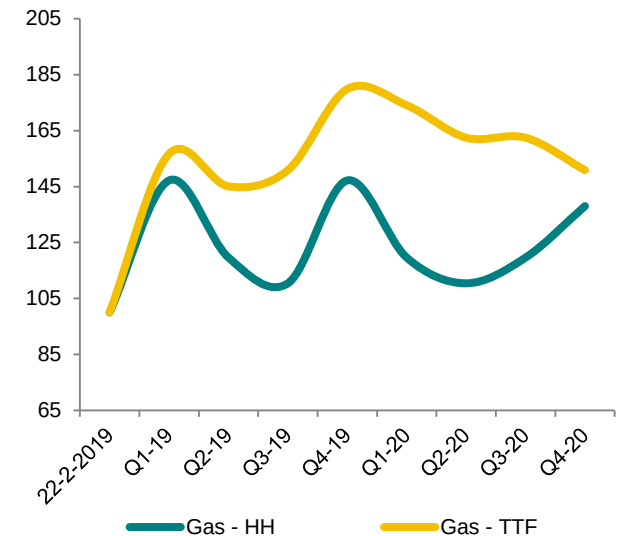
	1st contract 22-02-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Oil - Brent (USD/barrel)	67	70	70	70	70	75	75	75	80	70	76
Oil - WTI (USD/barrel)	57	60	60	60	60	65	65	65	65	60	65
Gas - Henry Hub (USD/mmBtu)	2.72	4.00	3.25	3.00	4.00	3.25	3.00	3.25	3.75	3.50	3.25
Gas - TTF (EUR/MWh)	17.23	27	25	26	31	30	28	28	26	27	32

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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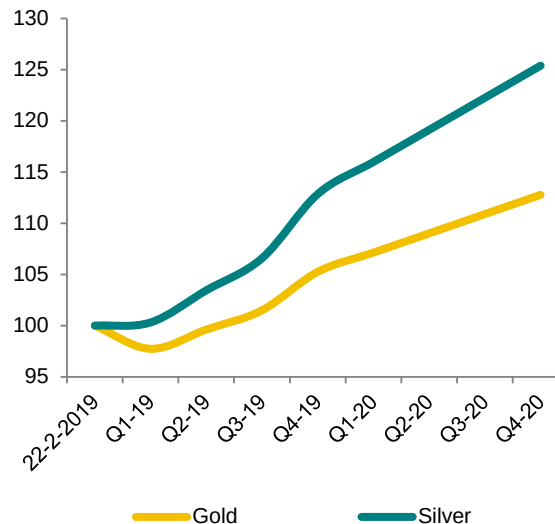
Palladium prices defy gravity

- ▶ Since the start of 2019 palladium prices have rallied by 20% while gold, silver and platinum prices are between 3 to 7% higher.
- ▶ It is difficult to call when this palladium price rally will end. However, palladium prices have the tendency to be extremely volatile.
- ▶ Macro-economic news including the latest data from the car sector paint a completely different picture than palladium prices.
- ▶ Moreover, most historical correlations have broken down. Palladium used to behave as a risk-on highly cyclical precious metal. In recent months it has behaved from time to time as a safe-haven asset.
- ▶ There has been a supply palladium shortage for quite some time but that would not justify the exponential price increase seen since August 2018 (price increase of 70%).
- ▶ We expect gold, silver and platinum prices to rise further this year.
- ▶ For gold prices former peaks layered between USD 1,365 and 1,375 per ounce could provide decent resistance. Above this area the psychological level of USD 1,400 per ounce comes within sight.

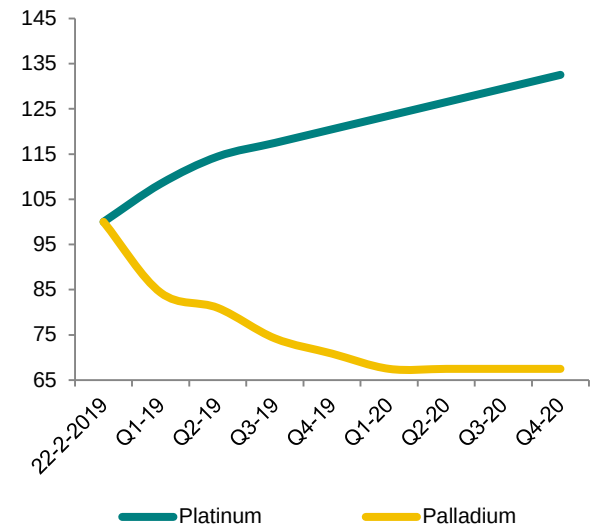
	spot prices 22-02-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Gold (USD/ounce)	1,330	1,300	1,325	1,350	1,400	1,425	1,450	1,475	1,500	1,329	1,450
Silver (USD/ounce)	15.95	16.00	16.50	17.00	18.00	18.50	19.00	19.50	20.00	16.60	19.00
Platinum (USD/ounce)	830	900	950	975	1,000	1,025	1,050	1,075	1,100	931	1,050
Palladium (USD/ounce)	1,482	1,250	1,200	1,100	1,050	1,000	1,000	1,000	1,000	1,177	1,006

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

Positive trade talk results lift prices

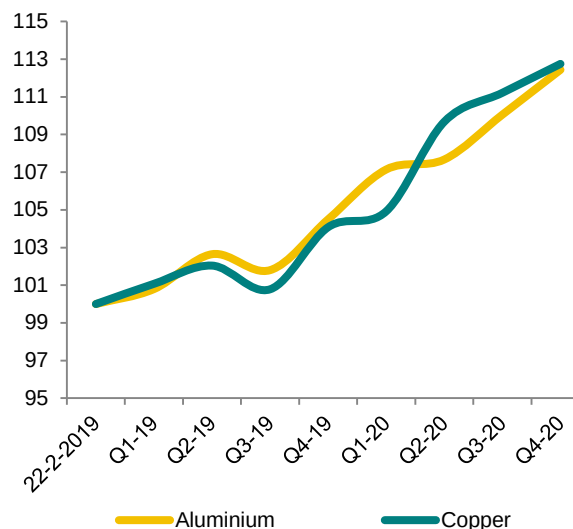
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- ▶ The recent rise in prices was mainly due to optimism over a possible US-China trade war resolution. Aluminium price increased marginally. The lifted US sanctions on Rusal keeps availability good and added pressure to price.
- ▶ In the short term, the direction of base metal prices will predominantly be dominated by trade war developments.
- ▶ As long as trade negotiations continue, base metal prices remain volatile. Prices will react swiftly on - positive or negative - trade deal news. Risk appetite will improve more significantly in base metal markets – and thus prices – when a trade deal is reached.
- ▶ In the longer term, however, we remain neutral with a positive stance about trends in base metals markets. Global economic growth in 2019 will be somewhat lower than in 2018, but a recession is unlikely. The Chinese economy will cool down, which is accompanied by a lower pace of metal demand growth.
- ▶ The projected weakening trend in the US dollar by ABN AMRO (EUR/USD 1.16 eop 2019) will provide some support in base metal prices. The fundamentals in base metals markets will push prices higher. Deficits in all base metals markets in 2019, will lift base metals prices. But due to increased uncertainty on global economic activity, the pace will remain low.

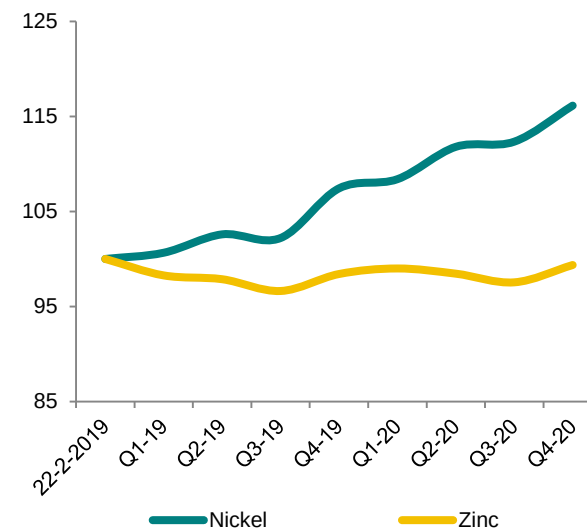
	spot prices 22-02-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Aluminium (USD/t)	1,890	1,905	1,940	1,924	1,975	2,025	2,035	2,080	2,125	1,927	2,050
Copper (USD/t)	6,519	6,589	6,652	6,570	6,785	6,840	7,150	7,250	7,350	6,453	6,940
Nickel (USD/t)	12,916	13,000	13,250	13,200	13,875	14,000	14,440	14,510	15,000	13,330	14,200
Zinc (USD/t)	2,743	2,695	2,684	2,650	2,699	2,715	2,700	2,675	2,725	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

Higher steel input costs and weak steel demand

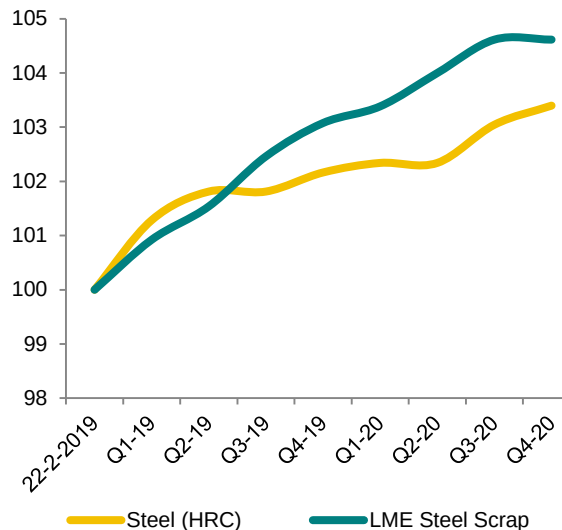
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- ▶ Global steel prices have recovered by 3% since the start of 2019. The increase was mainly due to higher prices for steel raw materials instead of increased demand. Costs of raw materials are passed on to the steel consumer. As long as steel end user demand remains weak, steel mills will reduce costs wherever possible.
- ▶ The European steel market is in better condition after the new safeguard measures by the European Commission. As a result, competitiveness of EU steel mills has improved.
- ▶ Steel prices are expected to remain weak during 2019. In the coming months, however, seasonal stronger demand (especially during the second quarter) and restocking will lift prices.
- ▶ Iron ore prices have risen sharply over the last couple of weeks, mainly on severe supply disruptions in Brazil. This means that prices will remain relatively high when Chinese post-holiday restocking picks up again. But all-in-all availability is plentiful on a global base and we expect prices to weaken again during Q2-2019.
- ▶ Coking coal prices have weakened by 2% so far this year. Currently stock levels are still sufficient and production is expected to increase again in China after the festive season. Demand will stay robust. Going forward, coking coal prices will remain elevated on restocking, supply disruptions and a reduction in coal mine capacity in China.

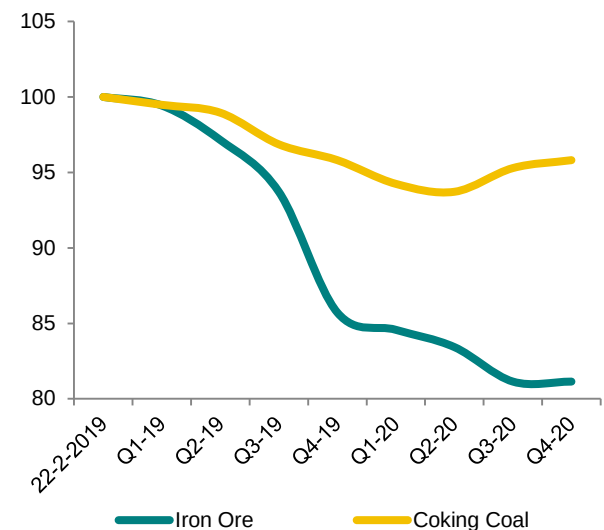
	spot prices 22-02-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Steel (HRC) (USD/t)	568	575	578	578	580	581	581	585	587	570	578
LME Steel Scrap (USD/t)	325	328	330	333	335	336	338	340	340	336	345
Iron Ore (USD/t)	88	87	85	82	75	74	73	71	71	70	66
Coking Coal (USD/t)	191	190	189	185	183	180	179	182	183	200	190

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

Agricultural prices lower on weaker export volumes

Casper Burgering

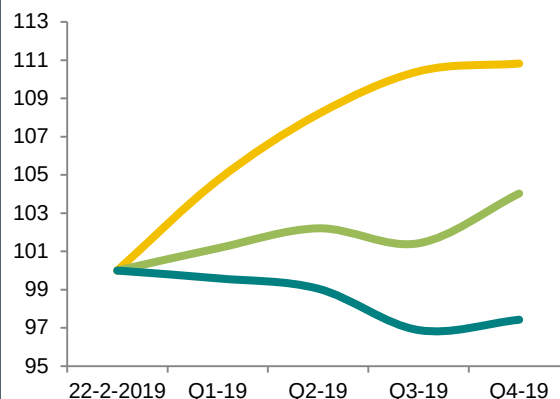
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- ▶ **Wheat** prices plummeted on low export volumes. Food demand will stay strong going forward, while feed demand will be lower. All-in-all, deficits are expected. We think prices will strengthen this year, but the pace will remain low.
- ▶ Supply of **corn** will increase further. Feed demand in China is still solid, but struggles on outbreaks African swine fever. Demand growth in EU and Russia will remain strong. On balance, we expect deficits, which will send price higher.
- ▶ **Soybean** prices will rise strongly as soon as a US-China trade deal is reached. This will, however, be short-lived. On balance, the availability in the US and Brazil will remain high and this will pressures prices again during 2019.
- ▶ Oversupply in **sugar** will keep price weak. Indian output will grow strongly and global supply stays sufficient. Increasing demand for sugar per capita in emerging economies will provide support, but demand in Western economies will weaken.
- ▶ Prices for **cocoa** will increase further, but the pace will be low on good availability. Cocoa grind numbers show strong increases in Asia and EU, which indicates that demand will stay sound.
- ▶ We expect higher **coffee** prices in 2019. The growth potential of demand is high at the relatively low prices. A stronger Brazilian real will also underpin prices. However, sufficient supply will cap this upward trend in prices.

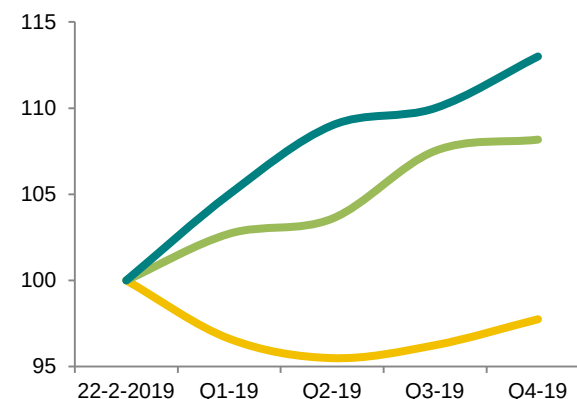
	2nd contract 22-02-19	- end of period prices -								- averages -	
		Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Wheat-CBOT (USDc/bu)	492	515	532	543	545	-	-	-	-	532	-
Corn-CBOT (USDc/bu)	385	389	393	390	400	-	-	-	-	392	-
Soybeans-CBOT (USDc/bu)	923.75	920	915	895	900	-	-	-	-	909	-
Sugar (USDc/lb)	13.3	12.85	12.70	12.80	13.00	-	-	-	-	13.00	-
Cocoa (USD/Mt)	2,288	2,350	2,370	2,460	2,475	-	-	-	-	2,462	-
Coffee-Arabica (USDc/lb)	100	105	109	110	113	-	-	-	-	108	-

ABN AMRO forecast price trend until 2019 (index)

index (latest 2nd contract price = 100)



index (latest 2nd contract price = 100)



Wheat Corn Soybeans

Sugar Cocoa Coffee-Arabica

A Appendix – Contact details, disclaimer & extra information

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