

# Commodity Outlook

Georgette Boele, Hans van Cleef & Casper Burgering

## Modest upside for commodity prices in 2020

- ▶ **2019 was a good year for the CRB because of higher energy and gold prices**
- ▶ **This is despite weaker global growth and global trade**
- ▶ **For 2020 we expect only modest upside in the CRB index because of: a stabilisation or slight improvement in the outlook for the global economy, no serious risk-off periods, a somewhat weaker dollar, and accommodative monetary policy by the Fed and ECB**
- ▶ **Still, supply concerns could cause temporary spikes in oil, palladium, nickel, grains and softs prices**

### Top down: Modest upside (max 5%) for commodity prices in 2020

(Georgette Boele +31 206297789)

Last year was a good year for the CRB commodity price index, with the index rising 9%. This rise was against the background of conflicting drivers such as: lower global trade, concerns about the global economy, trade tensions, weak car sales, more extreme weather conditions, a stronger dollar and monetary policy easing by the Fed and the ECB. The rise in the CRB was mainly the result of higher oil prices and higher gold prices, while most industrial metals prices were more affected by a weaker global economy and weaker trade. Gold prices rose because of monetary policy easing, more negative yielding debt and geopolitical tensions. Oil prices were supported by OPEC policy and the expected US-China trade agreement.

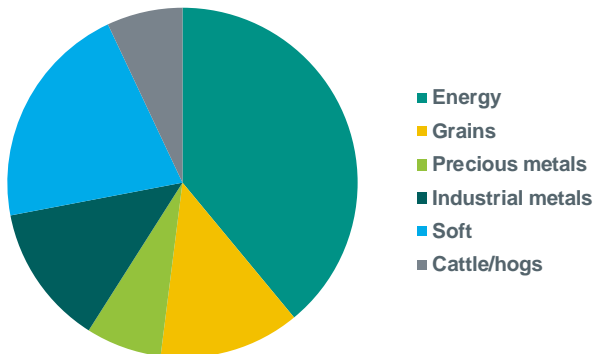
As with any other asset class, commodity prices have numerous drivers and it is the interplay between these drivers that determines the direction of prices. For a start, most commodities are driven by the state of the global economy. After a year of continuously lower expectations about the state of the global economy, 2020 will likely bring some stabilisation, and we expect global car sales to recover somewhat. We still expect a weak eurozone economy, but a stabilisation is likely. Furthermore, we expect some more constructive vibes coming from the Chinese economy (see [China Watch by Arjen van Dijkhuizen](#)). China is the major consumer of commodities, so a somewhat better Chinese economy is supporting the outlook for commodities. However, our US economist thinks that the US economy will slow further in the coming months, and our growth forecast is below consensus for the US. Taken together, though, the economic outlook and the demand side for commodities (especially industrial metals) looks somewhat better than in 2019.

Second, we are less pessimistic on the outlook for global trade following the Phase 1 trade deal between the US and China. From time to time there will be hawkish rhetoric, but we don't expect a near-term escalation of trade tensions. This should help investor sentiment somewhat and support the more cyclical commodities. Third, a weaker dollar in our forecast horizon and accommodative monetary policy by the Fed and the ECB will also support commodities. The CRB index tends to rise if the dollar falls. Moreover, lower financing costs will support the industry as well make commodities

from an investment more attractive. Commodities don't pay income in the form of dividend and coupon. More negative-yielding bonds make commodities as an investment more attractive. So, demand for commodities could be a bit higher this year. We don't expect major supply disruptions, but there is always a risk that these occur.

### CRB components

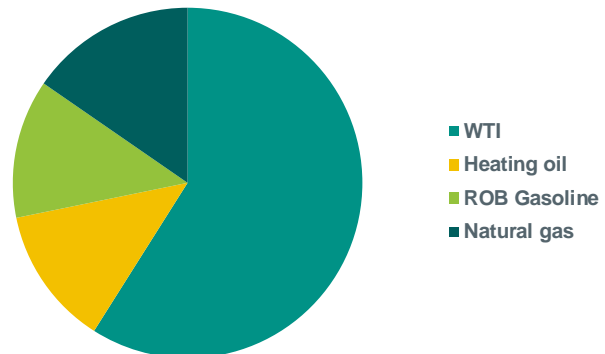
In % of the CRB



Source: www.refinitiv.com, ABN AMRO Group Economics

### Subcategory Energy

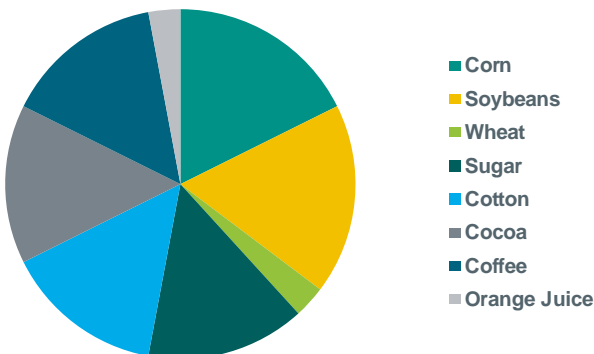
In % of the energy subcategory



Source: www.refinitiv.com, ABN AMRO Group Economics

### Grains and softs

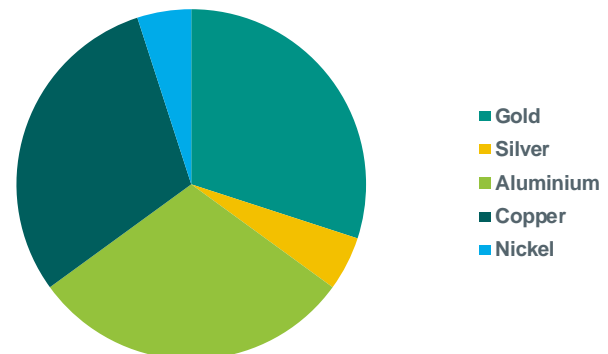
In % of the grains and softs subcategory



Source: www.refinitiv.com, ABN AMRO Group Economics

### Precious and industrial metals

In % of the precious and industrial metals subcategory



Source: www.refinitiv.com, ABN AMRO Group Economics

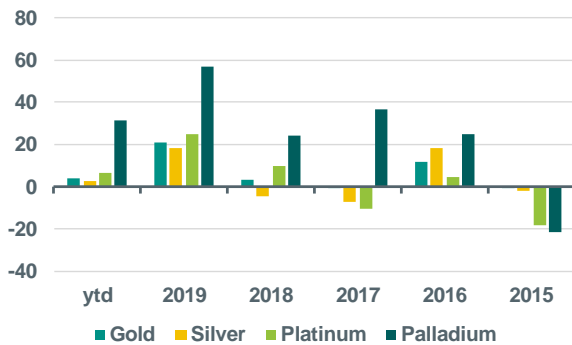
### Precious Markets: Strong start of the year but rising correction risk

(Georgette Boele +31 206297789)

Since the publication of our Precious Metals outlook on 4 December 2019, prices have continued to rally strongly. Palladium prices have risen at an almost exponential pace, by 35%. Electricity outages in main producer and exporter South Africa have resulted in a lower mining production. This combined with higher car catalyst demand to meet more stringent emission regulations, a more optimistic outlook for car sales and industrial demand, and extremely low inventory levels have sent prices on a vertical ascent, signalling extreme tightness in the already thin palladium market. Platinum prices have followed the ascent of palladium prices, albeit at a less dramatic pace. Investors seem to reason that the shortage in demand in palladium will sooner or later result in more demand for platinum as well, and a more optimistic outlook for global car sales and industrial demand. Meanwhile, silver and gold have risen by 6 to 7%. The driver behind the rise in gold and silver prices have been of a different nature than that of platinum and palladium. Initially (at the end of last year) investors reassessed the outlook for the US dollar, a dominant driver for both precious metals. They are now less optimistic about the dollar's fortunes. At the start of this year tensions between the US and Iran pushed prices higher in thin trade. Since the situation has calmed down somewhat, so have gold and silver prices.

## Precious metal price performance

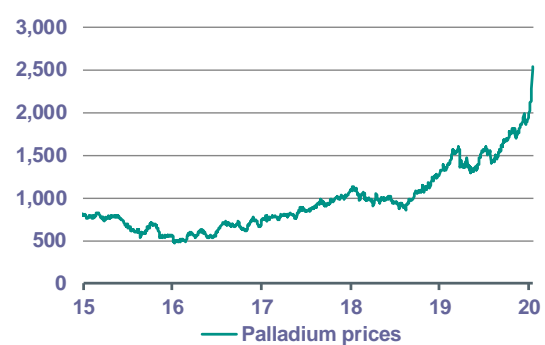
Price increase in %



Source: Bloomberg

## Vertical rise in palladium prices

USD per ounce



Source: Bloomberg

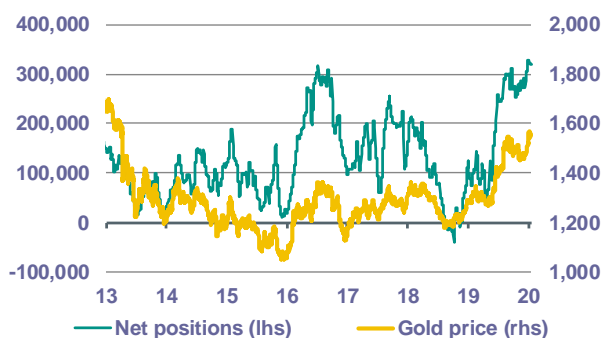
## Lower gold, silver and platinum prices in the near-term and positive towards end of 2020

We remain positive for the longer-term price outlook (end of this year and 2021) for gold, silver and platinum. First, we expect a lower US dollar over time, and this is one of the major drivers of gold and silver prices. Second, as long as the amount of negative-yielding government bonds is substantial, precious metals and commodities are attractive to invest in (not negative yielding). Third, major central banks will likely continue to support their economies, and higher official rates are nowhere on the horizon. This is also an important driver for precious metal prices. Fourth, we expect some pick up in jewellery demand from China (positive for gold, silver and platinum) and a stabilisation of the eurozone economy (positive for platinum).

But we continue to expect a price correction in the coming weeks and months, and prices have advanced already significantly, reflecting most of the above-mentioned dynamics. Gold prices are at our September target, silver at the December target and platinum at our June target. Second, January is usually a good month for gold prices because of hopes that it will be a good year. A good start to the year is not a guarantee of higher prices at the end of the year. So, we would wait and look for a correction to take place.

## Precious metal price performance

Price increase in %

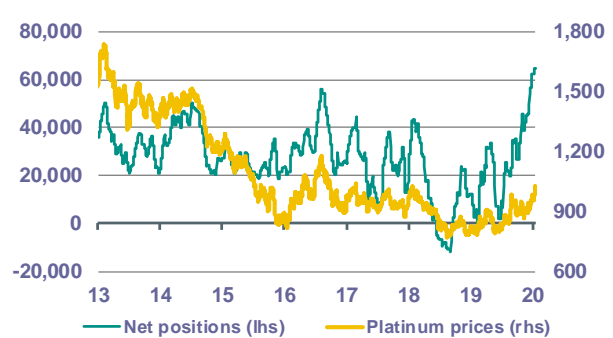


Source: Bloomberg

## Vertical rise in palladium prices

Number of contracts

Platinum prices



Source: Bloomberg

Third, net-long gold has been an overcrowded trade for quite some months now, and this continues to be the case. Net-long futures positions and ETF positions in gold are close to all-time highs. Investor positions in silver are also excessive, and net-long platinum positions are now at an all-time high. So being net-long gold, silver and palladium is a crowded

trade. Total outstanding positions in gold is close to 85% of annual supply (mining and recycling); for silver it is more than 90%, and for platinum close to 80% of annual supply. These are massive positions that can come to the market as soon as investors change their minds. So, we are positive in the longer-term but stay on the side lines as until a price correction has taken place, and investor positions have been reduced.

### Palladium prices vertically up and down?

Palladium prices have risen dramatically. The market is thin, inventories are low, supply is constrained, demand has increased, and investors are more positive about the outlook for car sales and industrial demand. This has resulted in exponential to vertical price increases. It is very difficult to determine how high prices can go, as the sky seems to be the limit and there is a sense of panic. The only thing we can say is that if prices rise exponentially or even vertically, they will at some point in time crash in a similar manner. In the long-run, the fortunes of palladium will depend crucially on the success and acceptance of electric vehicles. If this market takes off, but overall car sales remain moderate, then demand for palladium will be far lower. With this in the back of their minds, miners will likely be reluctant to invest in palladium mining capacity that would take a few years to build. They will likely try to profit from the current state in the market and cash in on these high prices. We have changed our palladium price forecast to reflect the price surge, but our view is that if the market calms down the price should be close to USD 1,500 per ounce based on fundamentals.

### Energy: Supply abundance offset by geopolitical tensions

(Hans van Cleef +31 203434679)

Our base case scenario includes only a modest rise in oil demand, while supply should remain ample. Despite this rise in demand, we think that oil prices may have been pushed too high and will decline somewhat in the first half of 2020, driven by the supply glut, before a modest recovery will be seen. Geopolitical tensions continue to dominate energy markets in 2020. Tensions increased in the Middle East region after the US killed the Iranian General Soleimani. Although the immediate risk of an escalation of the conflict may have eased, markets should remain aware of the fact that oil production disruptions could still occur, especially in Iraq. Although there is enough oil available for the moment, any substantial production and/or export disruption could lead to (market fear of) possible supply shortages in the longer run.

Gas markets face similar drivers, as a supply glut cannot be fully absorbed by the rise in demand. This will not only keep the pressure on Henry Hub natural gas prices (US), but also on Title Transfer Facility (TTF) and LNG Japan/Korea (JKM LNG). Geopolitical tensions rose after the US sanctioned companies involved in the building of the *Nordstream 2* pipeline (from Russia to Germany). Nevertheless, more gas supply will become available in Europe in the course of 2020 after the finishing of *Turkstream*, the contract renewal of gas transport from Russia to Eastern Europe via Ukraine, more LNG, as well as the finishing of *Nordstream 2* (could be early 2021).

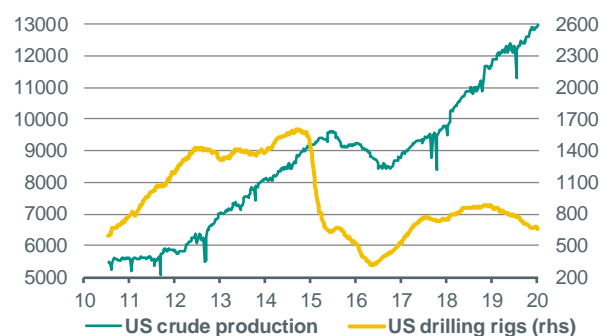
#### Brent and WTI oil prices

USD/BBL



Source: Bloomberg

#### US crude production and drilling rigs



Source: Bloomberg

The **Brent oil** price is expected to trade within a USD 55-65 trading range most of the year. Geopolitical tensions and risks of production disruption will be balanced out by the rise in production potential elsewhere. In March, OPEC will decide whether they will extend the current production cut or not. We expect an extension of the current agreement unless crude production in Iraq is hit by an escalation in regional tensions. Nevertheless, more and more crude oil producers are signalling that they prefer the production cut to be ended based on the argument of a rise in oil demand. This however would raise the risk of further production oversupply, putting downward pressure on oil prices.

US crude production continues to rise, as shown in the graph above. Still, the number of active drilling rigs is declining, and at some point, the so-called 'drilled-but-uncompleted-wells' will also be completed and in production. If **WTI** oil prices fall under renewed pressure, the rise in US crude production could stall in the course of 2020. We expect the Brent-WTI spread to remain around the current USD 5/bbl.

**TTF gas** prices have been pushed below EUR 11/MWh recently. Mild winter weather and abundant supply pushed spot prices to extreme low levels for this time of the year. Although we think that prices may have been pushed too low, the upside potential is also limited. We don't expect supply shortages in the North-western part of Europe, despite the rapid drop in Groningen gas production. Increased gas import capacity will become available in the course of 2020. Gas demand will also increase, but only at a moderate pace. We expect an average price of EUR 14/MWh in 2020.

The **Henry Hub** natural gas price dropped below USD 2/mmBtu in the third week of 2020. In the US as well, mild winter weather and high inventories have pushed prices lower. US gas production, both direct and in the form of associated gas from oil production, continues to surprise on the upside and has become a victim of its own success again. Prices below USD 2/mmBtu are not sustainable for most producers, and this will lead to negative effects on the business: capex cuts and write-downs. Low prices may prove to be temporary, especially if the winter turns out harsh after all. Nevertheless, it does not change the fact that abundant supply, despite the rise in LNG exports, will keep the upside potential of Henry Hub prices limited in the coming years.

#### TTF and Henry Hub gas prices

USD/mmBtu



Source: Bloomberg

#### Ferrous Metals: Signs of turnarounds

(Casper Burgering +31 610976034)

In 2019 **steel** market fundamentals were unfavourable, with weak demand and ample supply. This resulted in strong price pressure in the course of the year, with the average global steel price dropping by almost 20%. However, in early 2020 the steel price outlook improved on the back of a recovery in end user demand, and continued steel capacity reductions.

We think that real steel demand is improving and that the lowest point in the cycle is behind us. Real estate showed better numbers and overall construction activity is improving again. Auto sales and production in China are currently still relatively weak. This is also the case for the US and the EU. But there are some green shoots of optimism and we expect a stable trend in automotive activity during 2020. Ultimately, this will provide price support for steel flat products. Also in manufacturing we foresee a revival in activity during 2020, although the levels of growth will remain low.

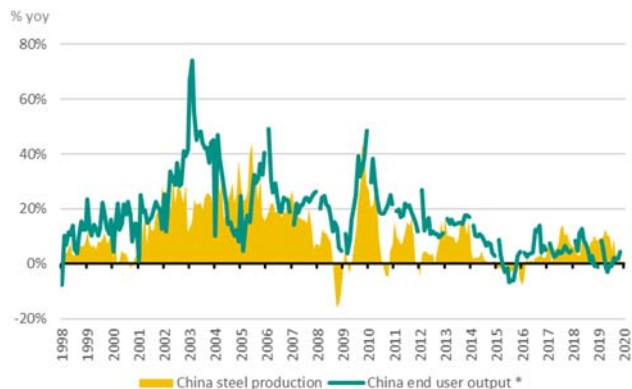
In the first quarter of 2020, restocking of steel products in China will recover, despite severe cold weather which could constrain construction activity during the winter season. Also, steel margins have improved lately, as a result of steel price upticks and the 2019 cost reduction. This will provide a buffer for steel mill operations during 2020 and should result in more raw materials demand this year.

### Global steel price trends



Source: Refinitiv

### China steel production vs. end user output



Source: Refinitiv, World Steel Association, ABN AMRO Group Economics  
\* = average % growth construction, automotive and industrial output

**Iron ore** supply is expected to recover during 2020. With an early Chinese New Year holiday (at the end of January 2020) and low inventory levels in China, restocking activity will also start earlier. This will boost market sentiment. Supply from Brazil is expected to recover again, after the Brumadinho dam burst in 2019. The dam burst, which flooded a Vale mine, impacted Brazil's iron ore output strongly. We expect slightly decreasing iron ore prices during 2020, on the back of higher supply.

We expect steady prices for **coking coal** during 2020. Chinese coking coal buyers will increase buying for restocking purposes, especially prior to Chinese New Year festivities at the end of January. Output from Australia will continue to remain low, mainly due to ongoing maintenance of infrastructure (ports and railways). This could tighten the market.

### Base Metals: Will the green shoots hold?

(Casper Burgering +31 610976034)

Due to the uncertain macroeconomic climate and worries about the trade deal in the course of 2019, end users of base metals delayed their purchases and relied heavily on their inventories. As these worries have diminished because of the Phase 1 trade deal between China and the US, sentiment in base metal markets has recovered. However, scepticism over the trade deal remains and uncertainty levels remain relatively high.

Nevertheless, we think that in 2020 a more positive tone in base metal markets will have the upper hand. Key in price trends will be monetary policy stimulus by the Fed, ECB and PBoC during 2020. Major positive long term trends for global base metals demand are electrification, urbanisation and the shift to a low carbon economy.

### Base metals prices



Source: Refinitiv

### LME-index versus China PMI Manufacturing



Source: Refinitiv

In the **aluminium** market sentiment will remain downbeat in 2020, mainly because of high supply and relatively high inventories. When capacity curbs in China pick up more speed, market conditions will improve. The winter heating season in China is on the agenda, with the intention to curb widespread pollution. This could potentially idle more aluminium capacity in China and support prices.

In **copper**, Q1 and Q2 in 2020 are all about confidence and the return of activity. We think that the trade conflict will continue to play a role in the direction of the copper price. The market seems to be sceptical about the current trade deal. An important positive driver for copper prices will be global monetary policy stimulus.

In **nickel**, the large backwardation (spot prices far above forward prices) in late 2019 has faded due to the loosening of the export ban by Indonesia. There is also a drop in operating rates at stainless steel mills globally, which is roughly two-thirds of nickel consumption. But all-in-all, we think that the bullish sentiment will prevail going forward, mainly because of the positive demand outlook for EVs (nickel-rich lithium-ion battery).

In **zinc**, the inventories at LME warehouses are falling, while inventories at SHFE (China) warehouses are rising. General sentiment on zinc market trends is still downbeat mainly due to the ramp up of zinc mining projects in the coming months.

### Agriculturals: Supply side developments dominate in agriculturals

(Casper Burgering +31 610976034)

The trade conflict had a significant influence on grain markets throughout 2019. Negative sentiment typically led to falling prices, because of worries about lower demand (and vice versa). Following the trade deal, the positive tone has returned, especially in soybeans and corn markets. The deal is of much less importance to tropical commodities (such as sugar, cocoa, coffee). To a large degree, the supply side will be the most dominant in agricultural price trends going forward. The trend in oil prices will also have a strong influence in food price trends going forward, mainly because oil is an important input to the production of many agricultural commodities. A volatile oil price leads to swings in energy costs for producing agricultural commodities and thus in volatile market prices for these commodities.



### Agri commodity price trends



Source: Refinitiv

### Food price index versus oil price



Source: Refinitiv

In **wheat**, the favourable supply outlook in the EU has tempered sentiment so far in 2020. In the US, however, heavy rain has hurt winter wheat quality and yield potential is thereby pressured. On average, we expect an oversupply in 2019/20. This will increase closing stocks and thus result in some pressure on prices.

The world **corn** harvest in 2019/20 is projected to decrease by 3% on an annual basis. On balance, we foresee that total corn use will outpace total production. This will translate into a deficit and lower corn ending stocks, and subsequently higher prices.

The **soybean** market will benefit most from the trade agreement between the US and China. Demand for US soybeans is likely to increase on the back of this, as is global soybean demand. Output is however expected to decrease by 5% and all-in-all, we expect a supply deficit and prices to rise. With that said, the African Swine Fever outbreak will continue to curb feed demand in Asia.

In **sugar**, a deficit is expected in the 2019-2020 season, which should translate into higher prices. However, given the high inventories in top producer India, an increase of Indian exports hangs over the market. The upward price trajectory will therefore remain muted.

In **cocoa**, heavy rains early 2020 have resulted in high humidity. These are perfect conditions for the black pod disease. The disease has hurt harvest to some degree in some regions of the Ivory Coast. On balance, a small deficit of cocoa is expected in 2019-2020. Market conditions will remain tight during 2020. Cocoa prices will be also buoyed by the Living Income Differential (LID) premium, which will be implemented for deliveries from the Ivory Coast and Ghana from the 2020-2021 season onward.

**Coffee** prices were supported in early 2020 by a strong decline in certified exchange stocks. The market will stay in defence this year on the prospect of another large harvest in Brazil this season. This will eventually weigh on prices.



	Q1-2020	Q2-2020	Q3-2020	Q4-2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	avg 2020	avg 2021
<b>Energy</b>										
- Brent (USD/bbl)	60	55	55	60	60	60	65	65	58	63
- WTI (USD/bbl)	55	50	50	55	55	55	60	60	53	58
- Gas HH (USD/mmBtu)	2.5	2.25	2.25	2.75	2.5	2.5	2.5	2.75	2.4	2.6
- Gas TTF (EUR/MWh)	13	13	14	15	15	14	15	17	14	15
<b>Precious metals</b>										
- Gold (USD/oz)	1,400	1,500	1,550	1,600	1,650	1,700	1,725	1,750	1,503	1,688
- Silver (USD/oz)	16.00	16.50	17.25	18.00	18.50	19.00	19.50	20.00	16.90	19.00
- Platinum (USD/oz)	950	1,000	1,050	1,100	1,150	1,200	1,250	1,250	1,009	1,194
- Palladium (USD/oz)	2,100	2,000	1,900	1,800	1,700	1,600	1,500	1,500	1,968	1,613
<b>Base metals</b>										
- Aluminium (USD/t)	1,829	1,815	1,817	1,835	1,868	1,900	1,906	1,929	1,817	1,880
- Copper (USD/t)	6,485	6,506	6,489	6,681	6,826	6,819	6,846	7,089	6,472	6,831
- Nickel (USD/t)	14,419	14,461	15,044	15,741	16,257	16,024	16,805	17,035	14,817	16,265
- Zinc (USD/t)	2,409	2,382	2,419	2,471	2,494	2,490	2,511	2,539	2,412	2,498
<b>Ferrous metals</b>										
- HRC Steel (USD/t)	525	521	517	515	528	532	533	530	514	528
- Iron Ore (USD/t)	96	93	91	89	89	85	84	86	92	85
- Coking Coal (USD/t)	139	131	131	135	131	126	128	125	132	127
<b>Agriculturals</b>										
- Wheat (USDc/bu)	546	553	578	576	-	-	-	-	561	-
- Corn (USDc/bu)	406	401	399	412	-	-	-	-	399	-
- Soybean (USDc/bu)	959	986	949	964	-	-	-	-	959	-
- Sugar (USDc/lb)	14.23	14.49	14.77	15.02	-	-	-	-	14.40	-
- Cocoa (USD/t)	2,606	2,586	2,668	2,694	-	-	-	-	2,615	-
- Coffee Ara (USDc/lb)	120	117	119	125	-	-	-	-	120	-

Note: quarterly prices in table are end-of-period prices

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