

# Monthly Commodity Insights

*...price forecasts for commodity markets*

ABN AMRO Group Economics

## Too early to become positive

May 2020



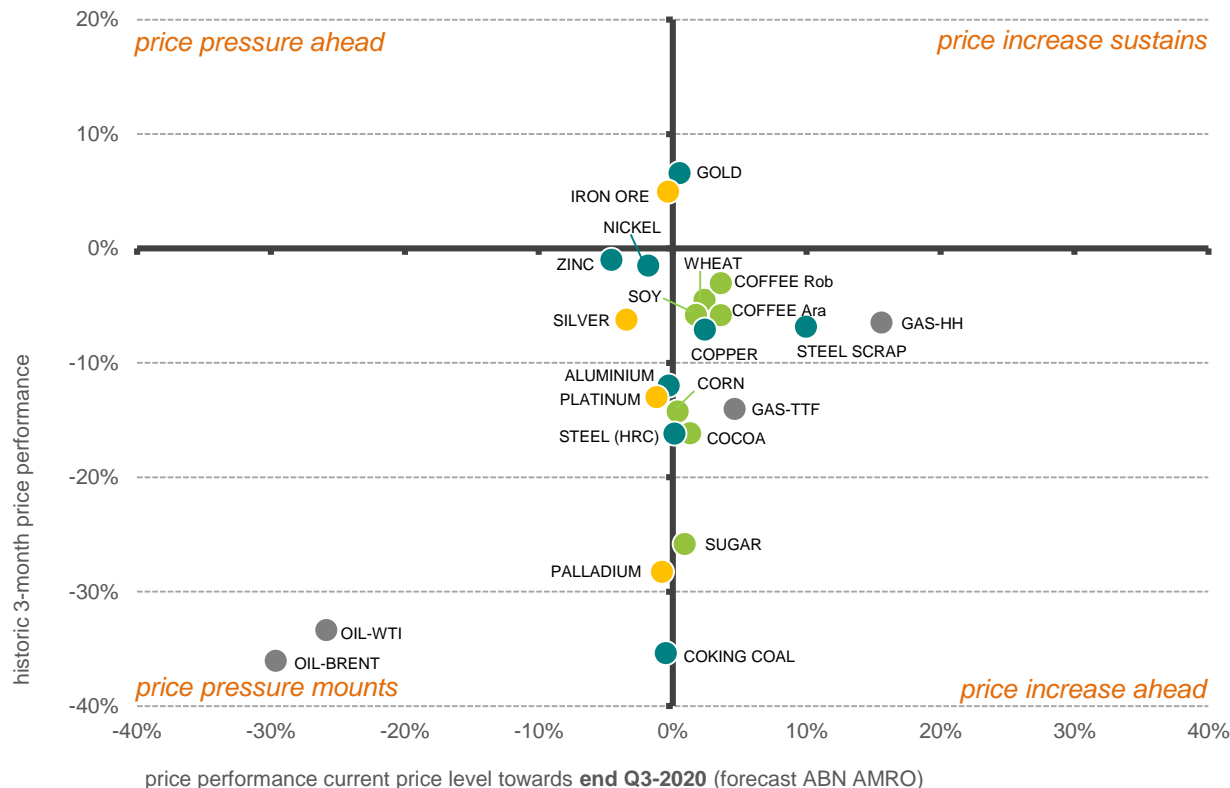


# 1 All commodities – Energy / Precious / Industrials / Agri

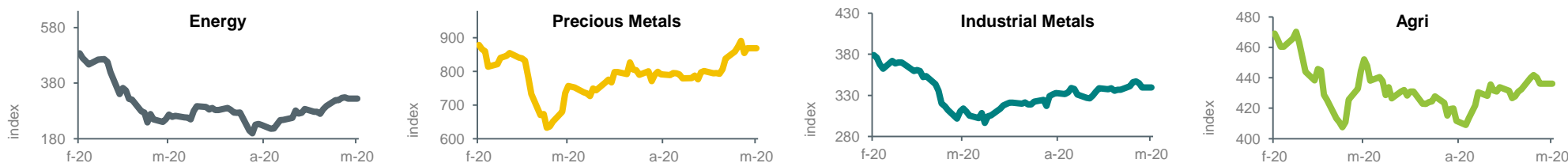
## One last wave of weakness in the CRB index

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- ▶ On 21 April the CRB index set a low at 101.48 when WTI oil prices dropped deep into negative territory. WTI accounts for a considerable share of the CRB index (23%). Since then oil prices and the CRB index have recovered. The CRB index has risen by around 27.5%.
- ▶ We expect the CRB index to weaken again in the coming three months on several reasons:
  - We think the market is underpricing macroeconomic risks, and expect renewed lower demand for oil and metals.
  - We expect another major risk-off wave. Investors will then probably sell commodities.
  - Resurfacing tensions between the US and China will dampen commodity demand.
  - Inventories in oil, industrial metals and some agricultural commodities are high, which will hang over markets for the time being.
  - The technical picture is deteriorating.
  - We think that the index will bottom before previous low.



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





## 2 Energy – Oil / Gas

### Oil prices have recovered (too far) while Natgas is still heavily pressured

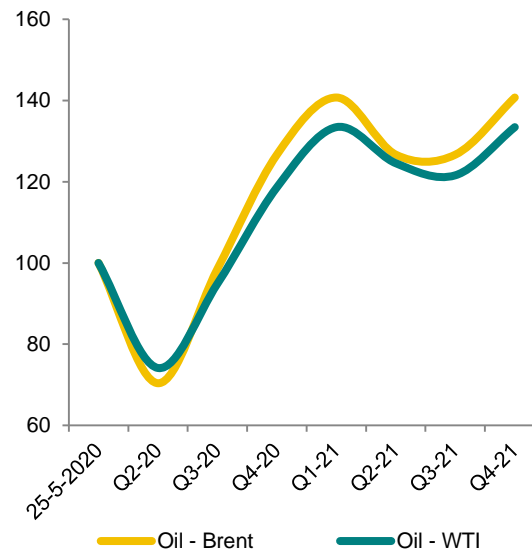
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- Oil prices have recovered from the lows of mid April. Some loosening of the (partial) lockdowns have triggered some recovery of oil demand. Furthermore, US production has dropped significantly and OPEC+ has started to cut production too. This combination of factors have brought supply and demand back into a better balance. This triggered a fresh build of long positions, especially in WTI.
- Inventories are still at high elevated levels. As a result, any disappointing development (like lower OPEC+ compliance production cuts, new production activity in the US, new lockdowns affecting global demand, or simply a risk-off move in financial markets) could trigger profit taking and push prices down again. Although the situation regarding supply and demand has improved, downside risks remain high. As a result, we haven't changed our forecasts for Q2.
- Natural gas prices have been under severe pressure as well. Low global demand in combination with high supply have resulted in above average storage building in Europe and even floating storage of LNG. The low prices have put pressure on LNG production, especially in the US. With TTF prices trading below JKL LNG and Henry Hub (!), transportation costs will be too high to attract many new LNG-flows towards Europe.

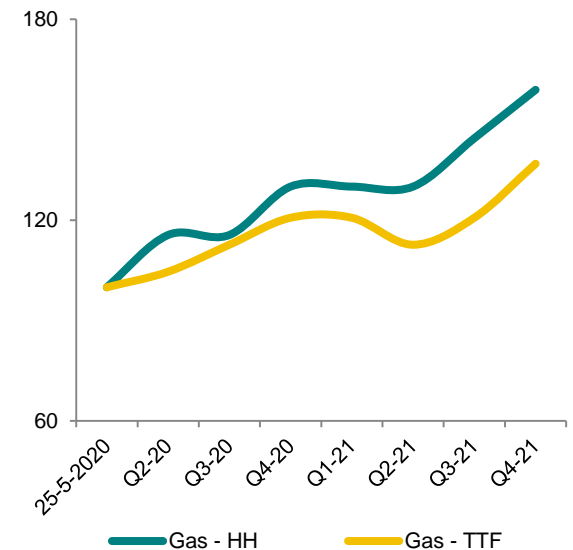
	1st contract 25-05-20	- end of period prices -							- averages -	
		Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
<b>Oil - Brent</b> (USD/barrel)	36	25	35	45	50	45	45	50	36	48
<b>Oil - WTI</b> (USD/barrel)	34	25	32	40	45	42	41	45	34	43
<b>Gas - Henry Hub</b> (USD/mmBtu)	1,73	2,00	2,00	2,25	2,25	2,25	2,50	2,75	2,00	2,40
<b>Gas - TTF</b> (EUR/MWh)	12,43	13	14	15	15	14	15	17	14	15

#### ABN AMRO forecast price trend until 2021 (index)

index (latest 1st contract price = 100)



index (latest 1st contract price = 100)





### 3 Precious Metals – Gold / Silver / Platinum / Palladium

#### The catch up of silver and platinum

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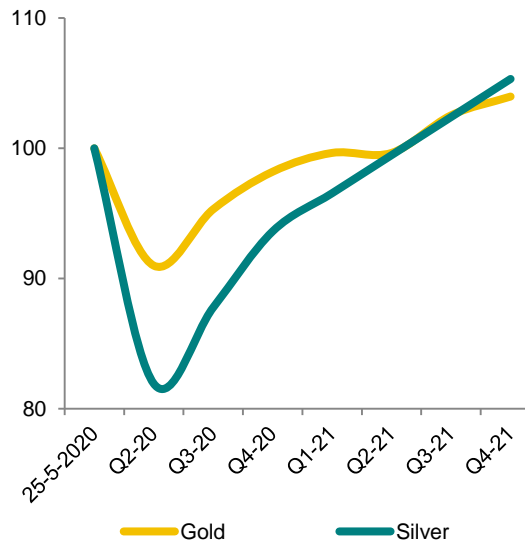
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- ▶ Gold prices have been very resilient. Each time there has been some price weakness it seems that investors are buying gold on dips. Gold ETF positions have made a new record and stand just under 100 million ounces. After some liquidation of speculative positions, speculators have also showed renewed interest in gold. We continue to think that positions are too crowded and that prices are too high to recommend re-entering longs.
- ▶ There has been renewed interest in silver and platinum. Silver and platinum were more aggressively sold off than gold during the panic wave in March. As a result, prices were at relatively attractive levels. Recently, both silver and platinum prices played catchup to gold, and have rallied more strongly. As a result the gold/silver ratio dropped from around 127 in March to just above 100. Gold/platinum ratio dropped from 2.67 to 2.08.
- ▶ Between now and 3 months we expect another risk off wave in financial markets. We think that investors will close part of their positions (ETF and/or speculative positions) in gold, silver and platinum. As liquidity in silver, platinum and palladium is lower than in gold, prices will probably drop more than gold prices. We also expect a considerable drop in gold prices.

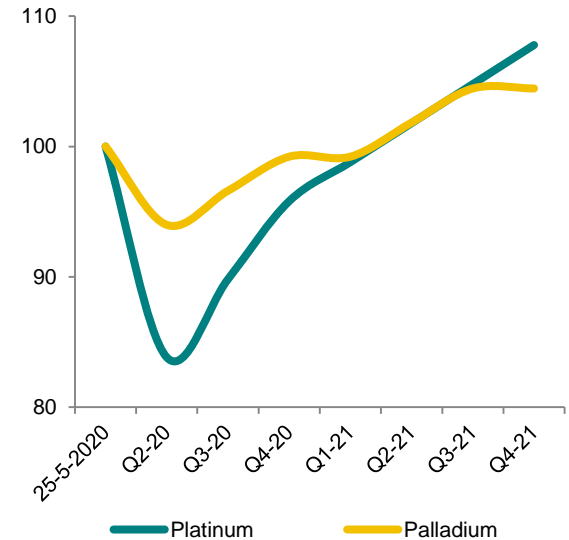
	spot prices	- end of period prices -							- averages -	
	25-05-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
<b>Gold</b> (USD/ounce)	1.731	1.575	1.650	1.700	1.725	1.725	1.775	1.800	1.624	1.750
<b>Silver</b> (USD/ounce)	17,09	14,00	15,00	16,00	16,50	17,00	17,50	18,00	15,40	17,00
<b>Platinum</b> (USD/ounce)	835	700	750	800	825	850	875	900	782	850
<b>Palladium</b> (USD/ounce)	1.915	1.800	1.850	1.900	1.900	1.950	2.000	2.000	2.029	1.950

#### ABN AMRO forecast price trend until 2021 (index)

index (latest spot price = 100)



index (latest spot price = 100)





## 4 Base Metals – Aluminium / Copper / Nickel / Zinc

### Investors in base metals markets will remain cautious

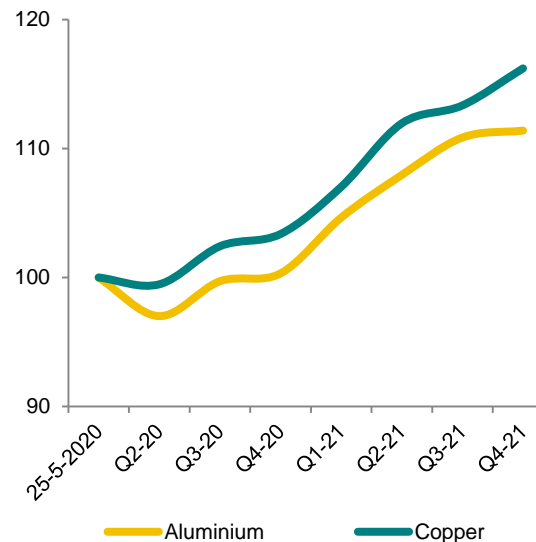
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- ▶ The strong macroeconomic downturn due to the coronavirus crisis has weighed heavily on aluminium, copper, nickel and zinc prices. Since the end of March, prices have started to recover somewhat.
- ▶ Concerns about the ultimate economic impact of the coronavirus are still high. Investors in base metals markets will therefore remain cautious.
- ▶ Since the end of March, prices for copper, nickel and zinc are on an upward trend, mainly due to significant economic stimulus measures from the Fed, ECB and the PBoC. With the current easing of the lockdowns, economic activity can recover and so too can copper prices. This will however be slow and bumpy.
- ▶ Energy costs are historically low. This translates to lower production costs for all base metals, but especially for primary aluminium. This also contributes to lower prices. As a result, even inefficient smelters are able to keep producing. Oversupply will thus continue to weigh on markets.
- ▶ Uncertainty is the common denominator in base metals markets and will continue to weigh on sentiment. This will raise price volatility. Moreover, there is no deficit in base metals markets anymore and inventories are higher compared to 1 January levels. This will hang over the market for some time and cap prices.

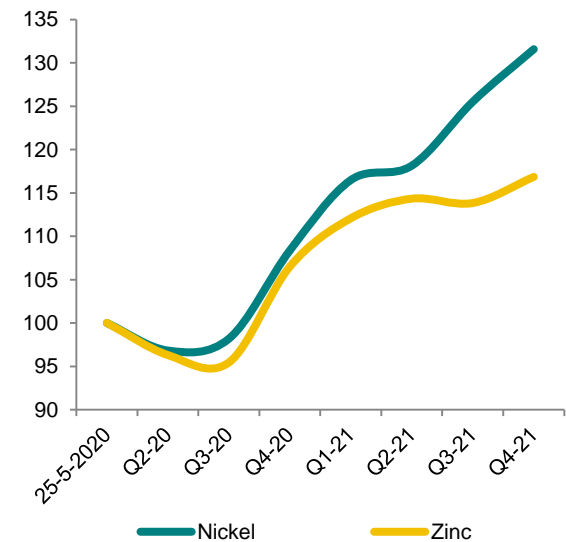
	spot prices 25-05-20	- end of period prices -							- averages -	
		Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
<b>Aluminium</b> (USD/t)	1.481	1.437	1.477	1.486	1.550	1.599	1.642	1.650	1.510	1.585
<b>Copper</b> (USD/t)	5.260	5.232	5.387	5.437	5.629	5.888	5.961	6.112	5.331	5.796
<b>Nickel</b> (USD/t)	12.186	11.799	11.965	13.206	14.196	14.398	15.297	16.035	12.309	14.691
<b>Zinc</b> (USD/t)	1.990	1.916	1.899	2.119	2.230	2.275	2.265	2.325	2.011	2.240

#### ABN AMRO forecast price trend until 2021 (index)

index (latest spot price = 100)



index (latest spot price = 100)





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

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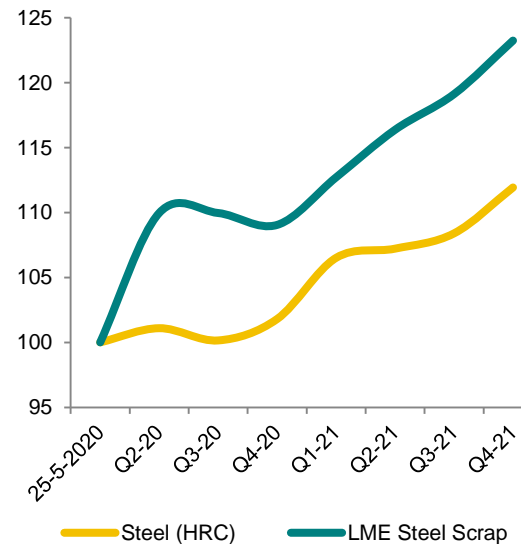
## High steel inventory levels prevent a swift recovery

- ▶ Covid-19 is causing a major global economic downturn. Demand for steel from the construction and automotive sectors has fallen significantly. Steel output has remained high and the availability of steel has accumulated. This has an impact throughout the value chain.
- ▶ The good news, however, is that economic activity and production in the Chinese steel sector is recovering modestly. Some steel mills in Europe closed capacity in earlier stages of the crisis in an effort to avoid this situation. Nevertheless, the pressure on steel prices in the US and Europe will continue in the coming months, consistent with the pattern in China.
- ▶ The decline in demand for steel also means less demand for iron ore, coking coal and scrap. This will have a major impact, as many mines continue to produce given that they are still financially viable due to the fall in energy costs.
- ▶ Seaborne trade of iron ore is expected to remain stable. China is by far the largest importer of iron ore and Chinese steel mills are slowly starting up again. Sentiment in iron ore is improving.
- ▶ Weaker demand and higher supply drove a spectacular drop in prices for coking coal of late. The lockdowns have weakened demand for steel. Due to the lockdowns and also limited mine curtailments or shutdowns, prices remain relatively low for the time being.

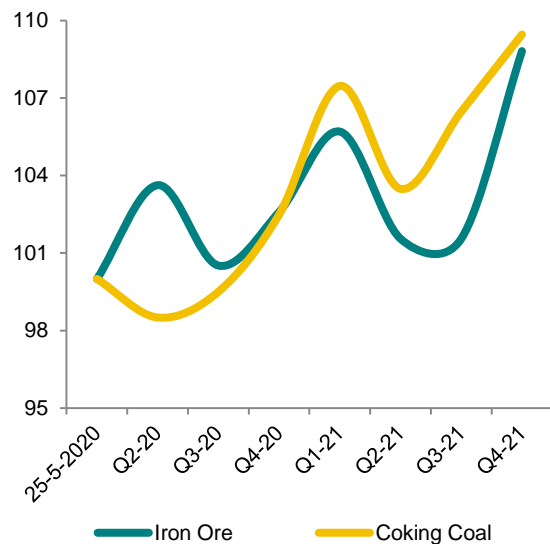
	spot prices		- end of period prices -						- averages -	
	25-05-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
<b>Steel (HRC)</b> (USD/t)	424	429	425	432	452	455	460	475	452	461
<b>EU Steel Scrap</b> (EUR/t)	218	240	240	238	246	254	260	269	240	252
<b>Iron Ore</b> (USD/t)	97	100	97	99	102	98	98	105	92	94
<b>Coking Coal</b> (USD/t)	101	99	100	103	108	104	107	110	122	130

### ABN AMRO forecast price trend until 2021 (index)

index (latest spot price = 100)



index (latest spot price = 100)





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

## Covid-19 hurts demand for agricultural commodities

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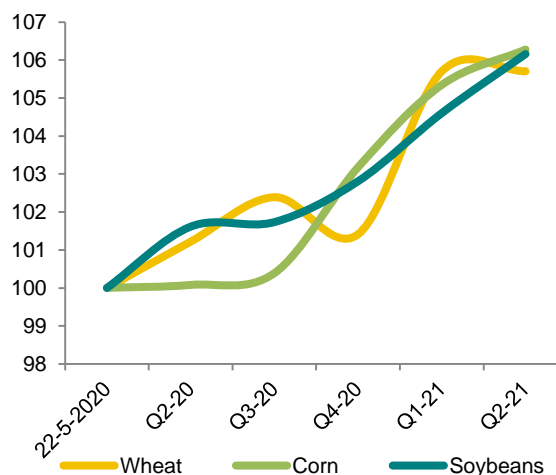
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- ▶ The US **wheat** harvest potential is higher than expected, which means that, going forward, a substantial harvest is imminent. Global availability remains good for the time being. Prices will remain relatively low.
- ▶ A good **corn** harvest in Latin America and increasing supplies from the US are expected. The drop in demand from the ethanol market, means prolonged high availability of corn. This implies relative low price levels of corn.
- ▶ African Swine Fever, the coronavirus and the very competitive Latin American **soybean** markets will keep prices relatively low. Supply chain problems could emerge however with the further spread of Covid-19 in the US and Brazil.
- ▶ The biggest shock for the **sugar** market has come from the collapse in global energy prices. With less ethanol production, supply of sugar on global markets will increase significantly. A surplus is expected, keeping prices relatively low.
- ▶ Demand growth is the main concern in the **cocoa** market. Many cocoa bean grinders in Europe and the US have sufficient supplies and are therefore not eager to purchase more beans. This will keep prices capped.
- ▶ Due to the coronavirus crisis, out-of-home **coffee** consumption has decreased sharply. The inventories of coffee remain high. In 2020/2021 a larger crop is expected.

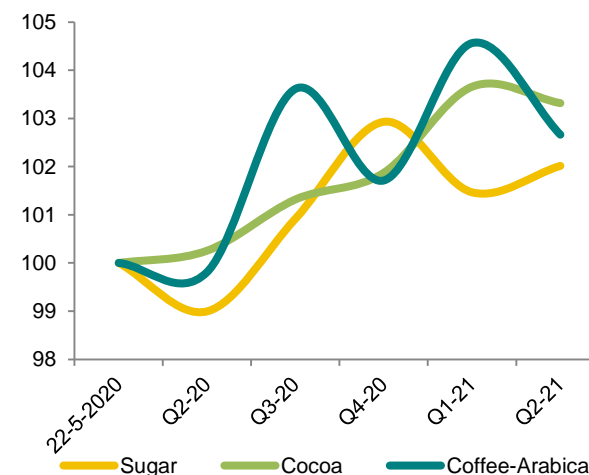
	2nd contract 22-05-20	- end of period prices -							- averages -	
	22-05-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
<b>Wheat-CBOT</b> (USDc/bu)	513	519	525	520	542	542	547	555	533	540
<b>Corn-CBOT</b> (USDc/bu)	323	323	324	333	340	343	346	351	340	342
<b>Soybeans-CBOT</b> (USDc/bu)	837	850	851	860	875	888	903	909	868	892
<b>Sugar</b> (USDc/lb)	10,93	10,82	11,03	11,25	11,09	11,15	11,56	12,14	11,29	11,39
<b>Cocoa</b> (USD/Mt)	2.352	2.358	2.383	2.396	2.438	2.430	2.445	2.475	2.390	2.415
<b>Coffee-Arabica</b> (USDc/lb)	105	105	109	107	110	108	111	115	112	121

### ABN AMRO forecast price trend until 2021 (index)

index (latest 2nd contract price = 100)



index (latest 2nd contract price = 100)





## A Appendix – Contact details, disclaimer & extra information

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