Monthly Commodity Insights

…price forecasts for commodity markets

ABN AMRO Group Economics

Commodity price trends remain mixed in the short term

November 2019

1 All commodities – Energy / Precious / Industrials / Agri

Commodity price trends remain mixed in the short term

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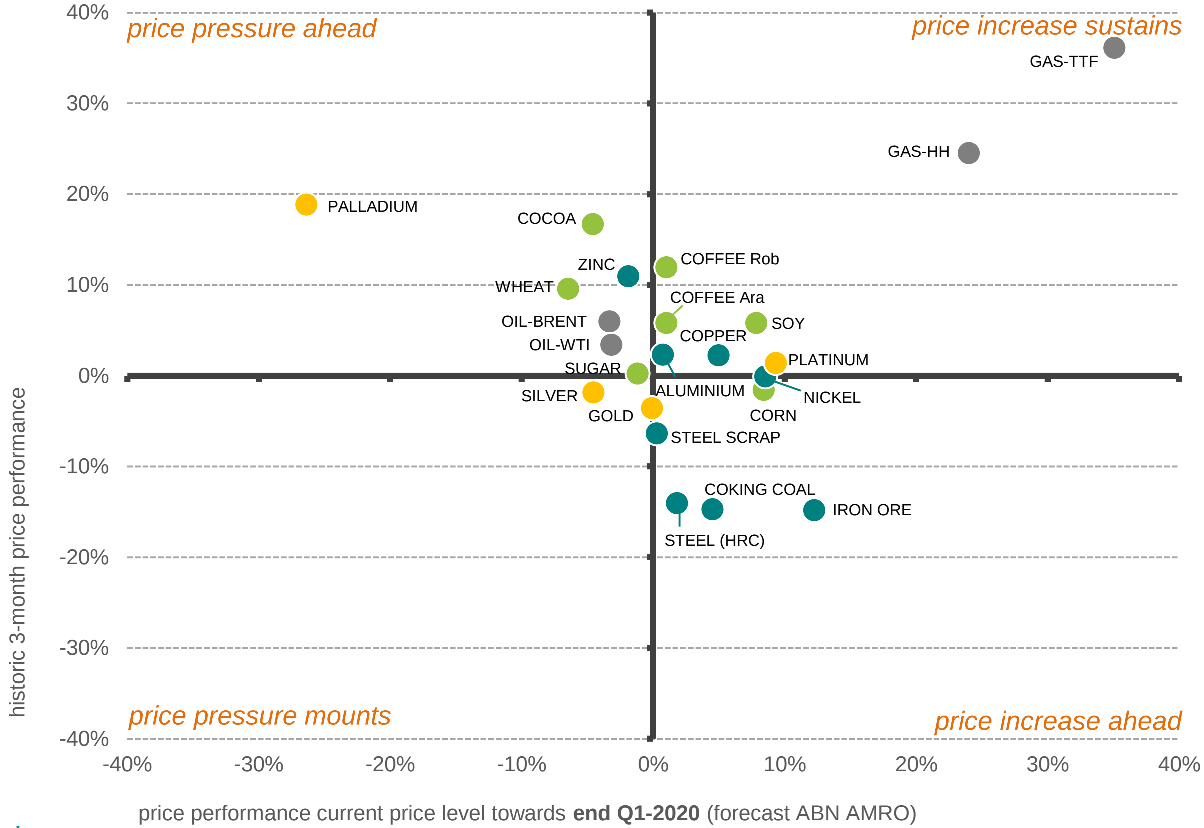
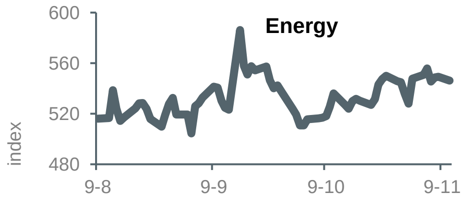
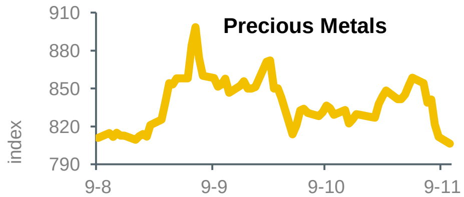
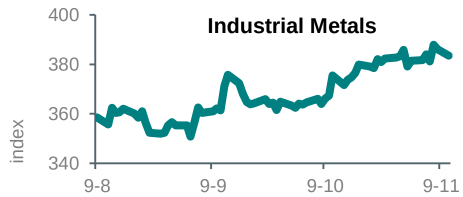
- Over the past month, the CRB index rose by almost 2%, which was mainly due to the price gains in oil and gas. Going forward, higher geopolitical tensions could push prices higher.
- Industrial metal prices remained soft, while precious metal prices lost ground.
- Agricultural prices were mixed. Grains markets reacted swiftly to trade war news, while softs managed to show some mild price gains on supply deficits and Brazilian real weakness.
- Risk appetite in commodities returned this month on hopes of a phase one trade truce. This supported investor sentiment only briefly, mainly because China and the US announced that an agreement still is 'in the making'. Uncertainty remains. The lack of progress in the trade war continues to leave its mark on the global economy. This negatively affects commodities demand in general.
- The focus of commodity markets is on trade war progress and central bank policy support.

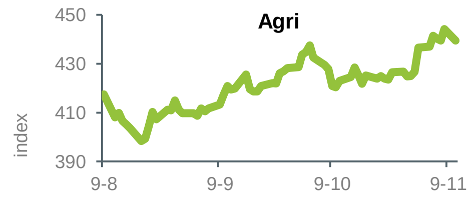


Price trend commodity classes over past three months (Thomson Reuters Index)









Sources: Refinitiv, ABN AMRO Group Economics

2 Energy – Oil / Gas

A lack of direction in oil prices

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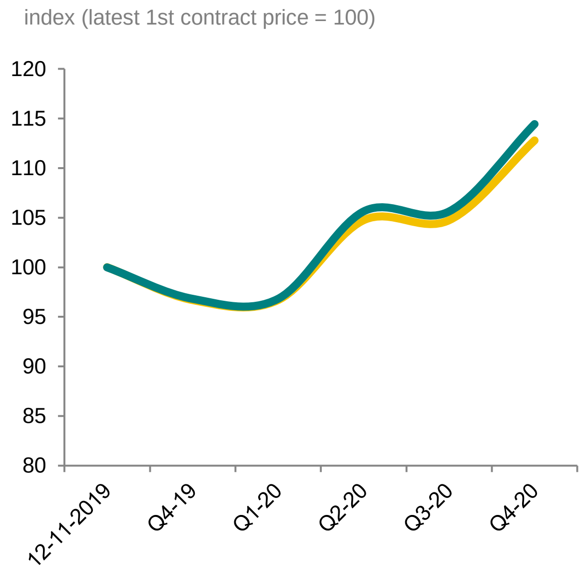
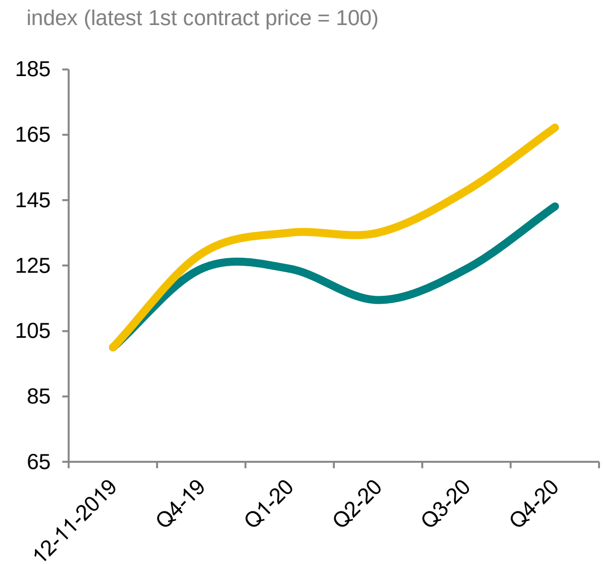
- There is a lack of direction in oil prices and the risk premium has not picked up significantly.
- This is despite the increased geopolitical tensions between for example Iran and Saudi Arabia. So, the market appears to be comfortable with the way Saudi Aramco has dealt with the recent production outages and the rapid restoration of its oil exports.
- Meanwhile, the negative effects of the trade war on the global economy continue to affect oil demand growth expectations. But recently hopes of a trade truce has supported investor sentiment and oil prices.
- The IEA lowered its demand growth forecasts to +1 mb/d in 2019 and +1.2 mb/d in 2020 based on lower economic growth. This should cap the upside potential of oil prices. Higher oil production in the US will also add to the well-supplied market. Meanwhile, higher geopolitical tensions could potentially push prices higher.
- An even deeper production cut than the current crude production agreement by OPEC should provide support for oil prices. On 5 December, OPEC will meet in Vienna, and on 6 December their production cut agreement allies – led by Russia – will join. According to Secretary-General Mohammad Barkindo, OPEC will do 'whatever it takes' to prevent another oil price slump.

	1st contract	- end of period prices -								- averages -	
	12-11-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Oil - Brent *(USD/barrel)*	62	68	68	61	60	60	65	65	70	62	65
Oil - WTI *(USD/barrel)*	57	60	58	54	55	55	60	60	65	56	60
Gas - Henry Hub *(USD/mmBtu)*	2.62	2.66	2.31	2.33	3.25	3.25	3.00	3.25	3.75	2.50	2.50
Gas - TTF *(EUR/MWh)*	15.55	14	10	16	20	21	21	23	26	17	20

ABN AMRO forecast price trend until 2020 (index)





Sources: Refinitiv, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

Positive on gold but wait for the correction to jump in

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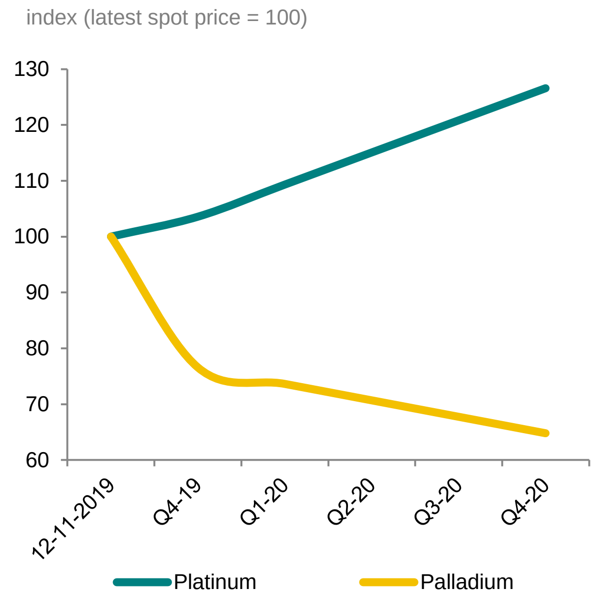
- On 4 September gold prices set a high at USD 1,557 per ounce and since then prices have declined by almost 7%.
- Even though the longer-term dynamics remain supportive for gold prices, such as central bank monetary policy easing, more negative yielding government bonds and some downward pressure on the dollar, in the near-term we expect more gold price weakness.
- The main reasons for this are that monetary policy easing by major central banks is already reflected in the price and that the long position is still a crowded trade (both futures market and ETF). In the absence of a renewed rally, investors will likely take profit on part of their positions. This will result in more near-term price weakness.
- For 2020 we are more optimistic for gold prices if a considerable amount of long positions has been closed. Our year-end 2020 gold price forecast remains at USD 1,600 per ounce.
- Palladium prices rallied above USD 1,800 per ounce level, but have declined since 11 November. The market is tight in the near term and palladium is a thin market. But fundamentals have deteriorated and we continue to be bearish.

	spot prices	*- end of period prices -*								*- averages -*	
	12-11-19	**Q1-19**	**Q2-19**	**Q3-19**	**Q4-19**	**Q1-20**	**Q2-20**	**Q3-20**	**Q4-20**	**2019**	**2020**
Gold *(USD/ounce)*	1,451	1,296	1,412	1,474	1,400	1,450	1,500	1,550	1,600	1,381	1,500
Silver *(USD/ounce)*	16.76	15.17	15.32	17.07	15.50	16.00	16.60	17.20	18.00	16.00	16.60
Platinum *(USD/ounce)*	869	850	818	900	900	950	1,000	1,050	1,100	867	1,000
Palladium *(USD/ounce)*	1,698	1,390	1,524	1,674	1,300	1,250	1,200	1,150	1,100	1,438	1,200

ABN AMRO forecast price trend until 2020 (index)



Sources: Refinitiv, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

Green shoots of risk appetite improvement

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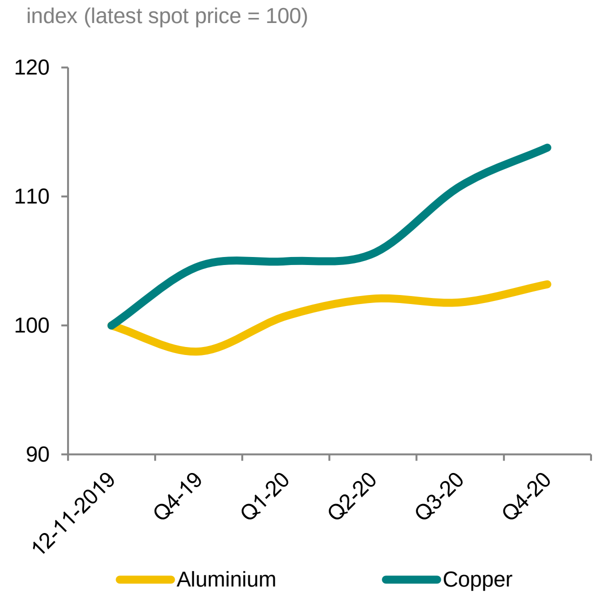
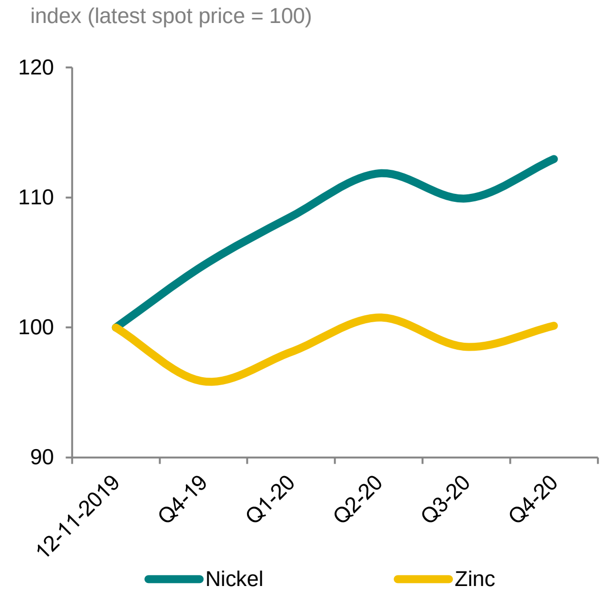
- The uncertain macroeconomic climate is still having a depressing effect on the prices of almost all base metals, mainly due to the ongoing trade conflict. Prices of aluminium, copper and zinc are soft. The nickel price, however, is still up by 47% since the start of the year.
- End-user activity is stagnating and that is having a negative effect on final metals demand. Due to the uncertainty, end users delay their purchases and rely on their inventories. We think that trade woes and macroeconomic worries will continue to impact prices, keeping market sentiment down.
- Over the last month, however, prices for aluminium, copper and zinc started to recover again from their 2019 lows. Risk appetite improved somewhat mainly due to progress in phase one of the trade deal. But since both China and the US stated that a phase one agreement is still not final, prices softened again.
- The nickel price lost 12% over the past month. The Indonesian government has resumed nickel ore exports in mid-November after two weeks of investigations. That means that the threat of supply disruption has faded. More importantly for the nickel price trend is the state of demand from the stainless steel sector. Lately, demand has weakened globally which depressed prices.
- We still hold on to our short-term neutral stance given the ongoing macroeconomic uncertainty.

	spot prices	*- end of period prices -*								*- averages -*	
	12-11-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Aluminium *(USD/t)*	1,778	1,893	1,780	1,702	1,742	1,791	1,815	1,810	1,835	1,794	1,814
Copper *(USD/t)*	5,844	6,487	5,982	5,695	6,112	6,135	6,170	6,475	6,650	6,054	6,317
Nickel *(USD/t)*	15,666	12,897	12,617	17,219	16,415	17,002	17,524	17,222	17,697	14,042	17,773
Zinc *(USD/t)*	2,518	3,000	2,565	2,429	2,413	2,470	2,537	2,480	2,521	2,556	2,493

ABN AMRO forecast price trend until 2020 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

Lower raw materials costs improves steel mill margins marginally

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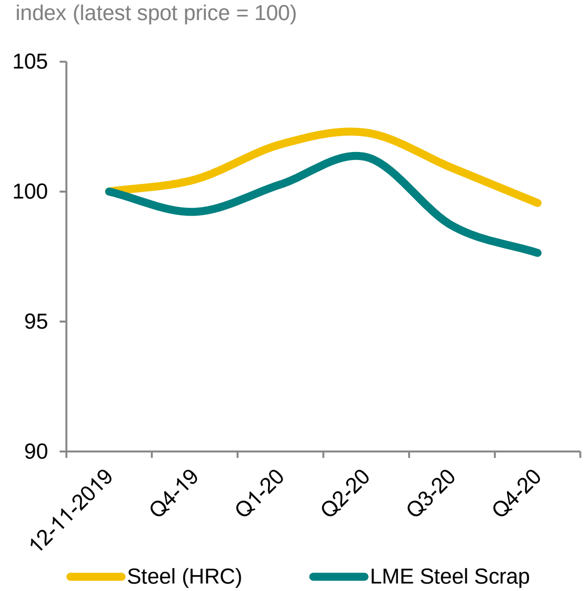
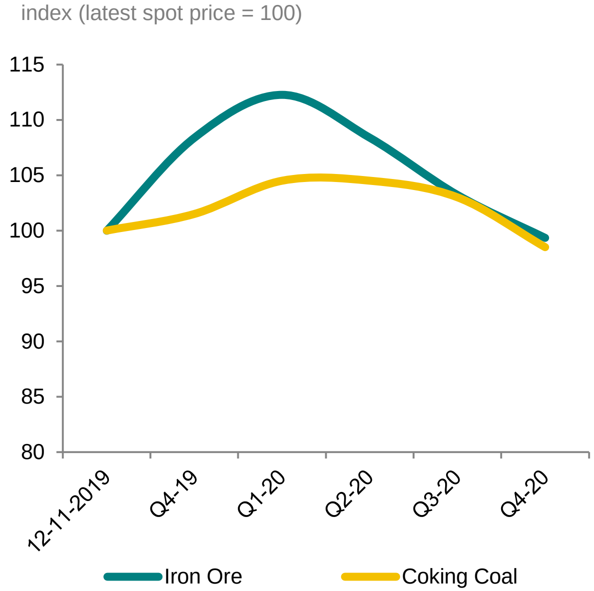
- Global steel prices have lost 21% this year already. In all major steel producing regions, prices have been under pressure with especially significant price losses in the US and the EU. The burden of plentiful supply is still disrupting the market, while demand for steel remains soft.
- Steel output is increasing further, despite structural overcapacity. Sentiment of steel end-users is mostly down, which limits steel purchases. Activity in automotive has remained weak, while demand growth from construction sectors has softened globally. With weakening business confidence indicators, we think that steel purchases will remain soft in the next months.
- Margins of steel mills are relatively low, but have improved modestly. This is due to lower prices for iron ore, coking coal and scrap. Given the recovery of supply of iron ore, we think prices for all grades will soften further. Downstream coking coal demand will hold and supplies will remain unchanged. This will stabilise prices.
- We still hold the view that steel-market conditions will not change significantly in the short term. This means that prices for HRC steel will remain soft for the time being. Restocking activity and a seasonal uptick in demand during Q1 2020 can provide a revival in prices, but we expect them to soften further during 2020.

	spot prices	*- end of period prices -*								*- averages -*	
	12-11-19	Q1-19	Q2-19	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	2019	2020
Steel (HRC) *(USD/t)*	442	564	517	470	444	450	452	446	440	515	492
EU Steel Scrap *(EUR/t)*	189	316	231	219	188	190	192	187	185	269	234
Iron Ore *(USD/t)*	78	87	117	93	82	87	84	80	77	93	89
Coking Coal *(USD/t)*	133	186	185	134	135	139	139	137	131	171	141

ABN AMRO forecast price trend until 2020 (index)





Sources: Refinitiv, ABN AMRO Group Economics

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

Supply dictates price direction in most agricultural markets

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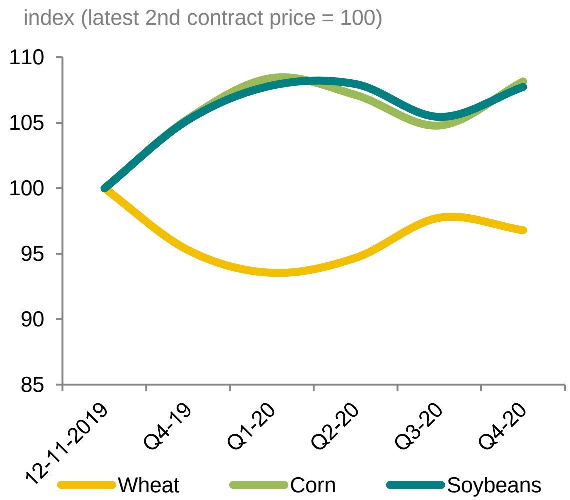
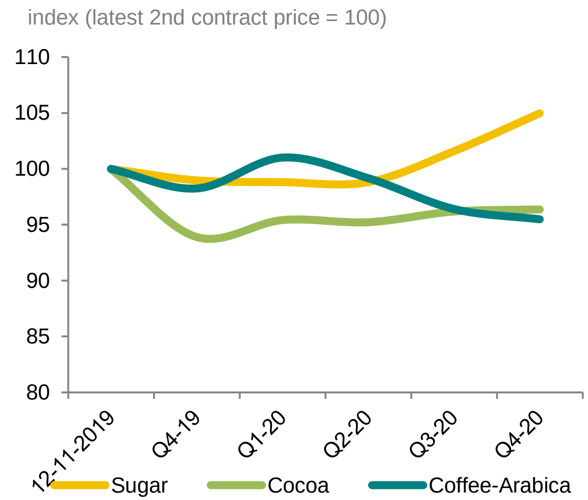
- **Wheat** prices gained 1% over the past month on the lower US supply outlook. However, in 2019/2020 global wheat supplies will remain high. This means that prices will remain soft.
- **Corn** prices lost almost 5% in the last month on weak US export demand and a mostly favourable harvest progress. For 2019/2020, production will contract by almost 3% and demand will slide by 1%. As a result, stocks will decline which will underpin prices.
- Prices of **soybean** lost slightly over the past month. Global output is expected to decrease, while demand will rise further. This means that prices will rise in the coming season.
- Bullish sentiment in **sugar** persists as the market will swing into deficit in 19/20. This will underpin prices. However, the risk of an increase in Indian exports hangs over the market. Accumulated stocks in India over the past months will keep price gains muted.
- **Cocoa** prices increased by 1% over the past month. The market will remain in surplus during 19/20, but relative to demand this is very low. Demand in Asia will increase. This means prices will edge slightly higher going forward.
- Price of Arabica **coffee** surged by almost 14% over the past month, mainly due to the weakness in the Brazilian real. Coffee supply will remain high going forward, which will keep prices soft.

	2nd contract	*- end of period prices -*								*- averages -*	
	12-11-19	**Q1-19**	**Q2-19**	**Q3-19**	**Q4-19**	**Q1-20**	**Q2-20**	**Q3-20**	**Q4-20**	**2019**	**2020**
Wheat-CBOT *(USDc/bu)*	522	458	528	496	497	488	494	510	505	492	495
Corn-CBOT *(USDc/bu)*	387	357	420	388	407	419	414	405	418	395	413
Soybeans-CBOT *(USDc/bu)*	917	884	900	906	965	989	990	967	988	905	982
Sugar *(USDc/lb)*	12.7	12.53	12.32	11.92	12.57	12.55	12.55	12.90	13.33	12.68	12.83
Cocoa *(USD/Mt)*	2,620	2,280	2,450	2,442	2,460	2,500	2,495	2,520	2,525	2,376	2,494
Coffee-Arabica *(USDc/lb)*	109	95	101	101	107	110	108	105	104	100	103

ABN AMRO forecast price trend until 2020 (index)





Sources: Refinitiv, ABN AMRO Group Economics

A Appendix – Contact details, disclaimer & extra information

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