Close to the bottom

ABN AMRO Group Economics
ABN AMRO Sector Advisory

July 2018

Monthly Commodity Update

…price outlook for commodity markets

1 All commodities – Energy / Precious / Industrials / Agri

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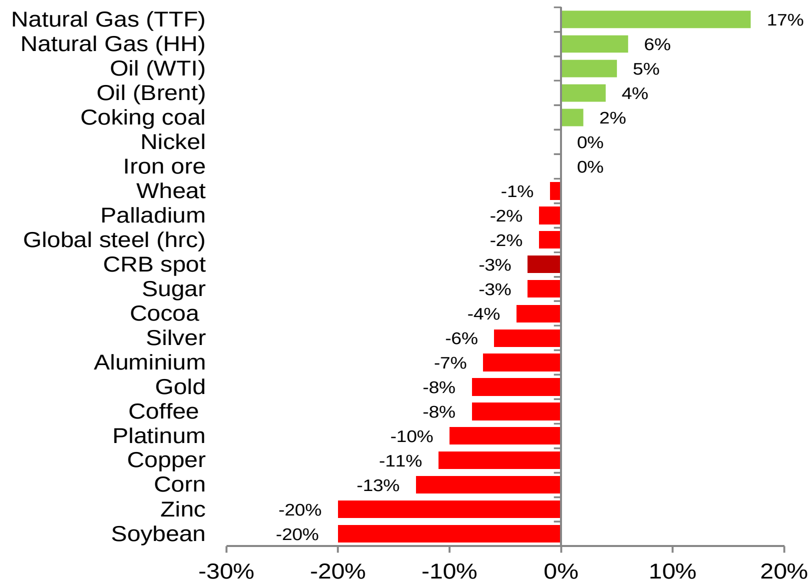
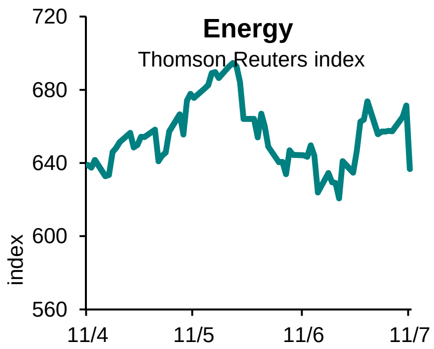
Close to the bottom

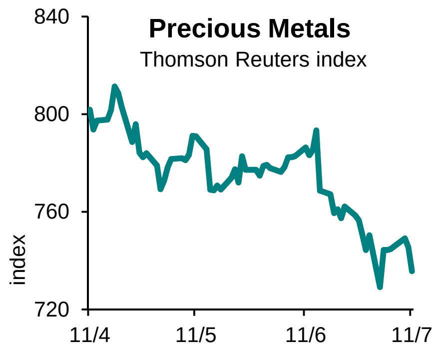
- Since the end of May the CRB index has declined by 6%. At first weakness in grain and soft commodity prices dragged down the CRB. Since mid-June substantial weakness in the Chinese yuan has spilled over to metal prices and this has weighed on the CRB index.
- More recently, Chinese authorities have calmed the yuan and indirectly metal prices as well.
- But a looming trade war between the US and China will continue to hang over commodity markets and the strong US dollar as well.
- There is also a risk of further profit taking in net-long oil positions in the near term.
- Therefore, we expect modest weakness for the CRB index in the coming months.

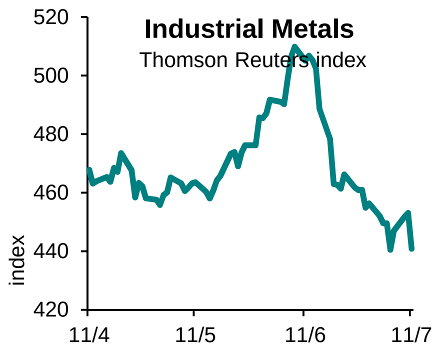
Price performance over last 3 months:

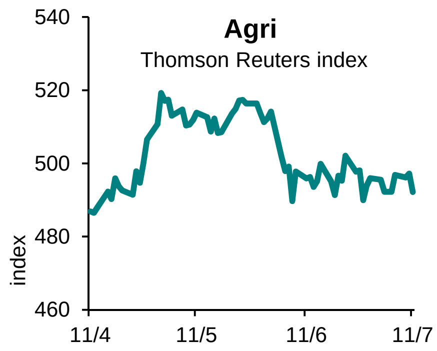


3-month price index trend (Thomson Reuters Index):









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics, ABN AMRO Sector Advisory

2 Energy – Oil / Gas

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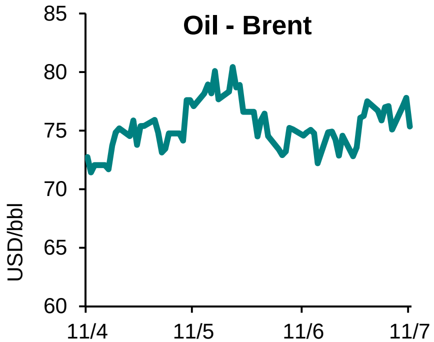
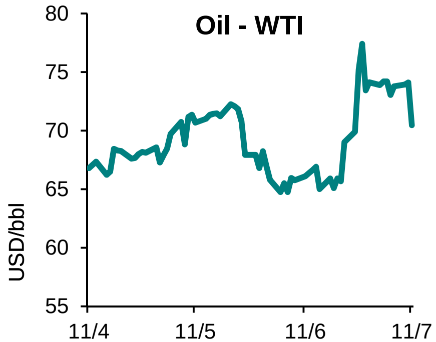
Oil prices: Challenging times

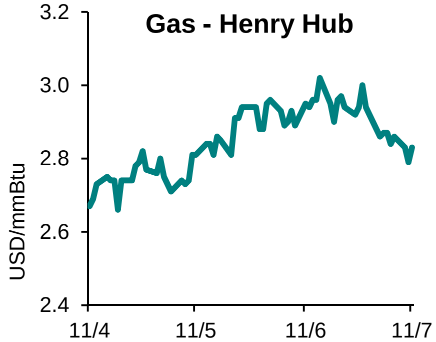
- OPEC will raise oil production by nominal 1mb/d. In practice, this means that net production will increase by roughly 600 kb/d to meet the rise in demand and prevent supply shortages
- Oil prices hardly reacted as the market focus shifted from possible supply shortages towards the decline in reserve capacity. This shift in focus can be partly explained by the still excessive levels of speculative long positions.
- For the near term, oil prices will be driven by opposing factors. The rise in production/exports by Saudi-Arabia and UAE is balanced by lower output in Venezuela, Iran and Libya. Worries regarding a possible trade war may trigger a correction lower towards USD 70/bbl for Brent in Q3.
- In the longer run, supply issues will become even more critical. Unless demand start to weaken, higher prices could be seen in the course of 2019.

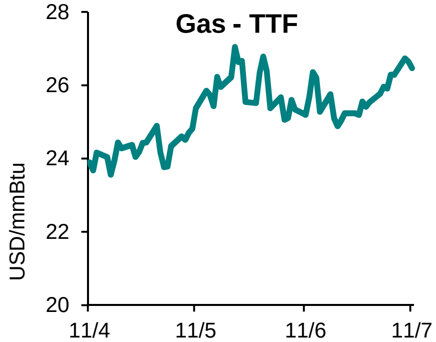
	12 July	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	1st contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Brent *USD/barrel*	75.3	70	75	80	75	71	75	78
WTI *USD/barrel*	70.5	66	70	73	70	66	70	72
Gas HH *USD/mmBtu*	2.83	2,50	2,75	3,00	2,75	2,70	3,00	2,90
Gas TTF *EUR/MWh*	22.58	17	20	20	20	19	24	21

3-month price trend:









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

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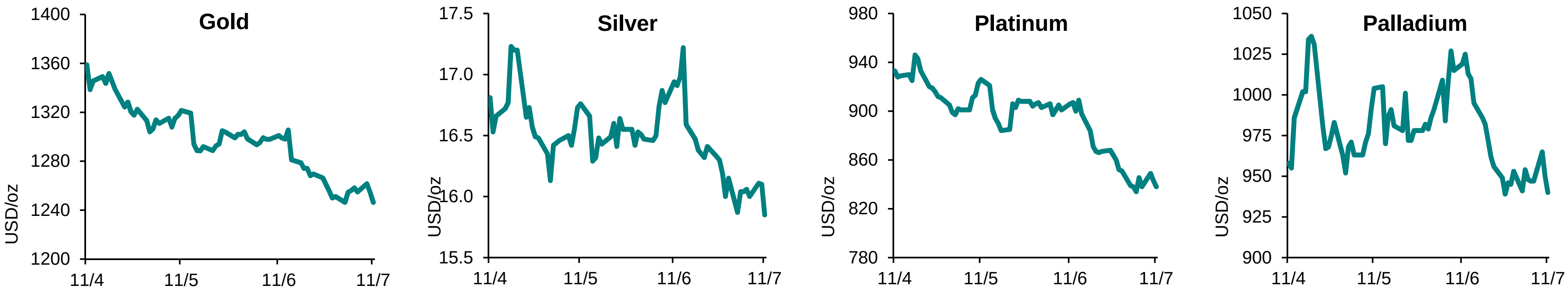
How low can it go?

- Precious metal prices peaked in January and have fallen substantially since then.
- Higher US dollar, looming trade war between the US and China, downward adjustment in eurozone outlook and the slide in the Chinese yuan have contributed to price weakness.
- Weakness in precious metal prices is not over yet, but prices are close to the bottom.
- In the near-term higher US dollar, Fed rate hikes and higher US Treasury yields are negatives as well as the technical outlook and a looming trade war.
- Later in the year we expect US dollar and 10y US Treasury yields to peak, the fall in the yuan to come to an end and a significant escalation of a trade conflict to be averted. Therefore precious metal prices will probably recover.

	12 July	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Gold *USD/ounce*	1,246	1,225	1,250	1,300	1,250	1,280	1,400	1,325
Silver *USD/ounce*	15.85	15.6	16.0	17.0	16.0	16.2	20.0	18.0
Platinum *USD/ounce*	838	800	850	900	850	883	1,100	981
Palladium *USD/ounce*	940	900	900	925	900	963	1,000	950

3-month price trend:



Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

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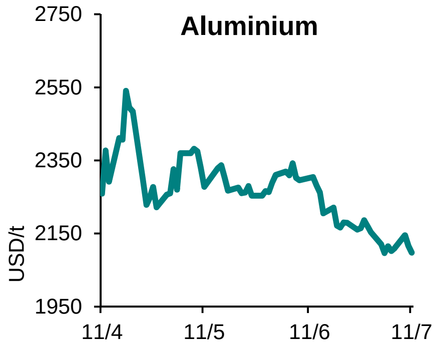
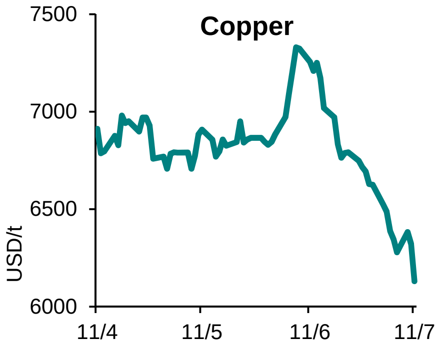
Unsure investors translates into jumpy prices

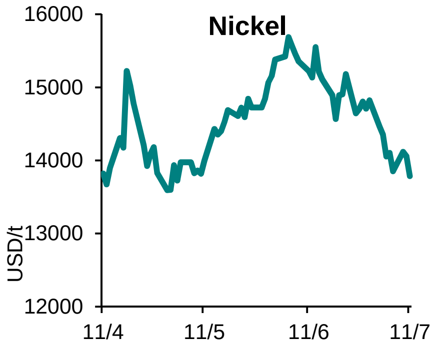
- Cautiousness amongst investors and the lower Chinese yuan caused base metal prices to decrease over the last couple of weeks. Because of the intensifying trade conflict between US with China and also EU, most investors took on a risk-off mode.
- The recent release of positive macro-economic indicators - such as manufacturing PMI's - could not settle the nerves of investors and volatility in prices remained high. Also, further weakness in new export orders in some major economies was enough evidence for investors to not change their view.
- The level of uncertainty is high and this will dominate the base metal complex during the upcoming summer months. Next to that, with the upcoming seasonal slump in metals demand, prices are expected to stay soft. Also, a hawkish Fed and the stronger dollar during Q3 will contributed to price weakness. All-in-all, we project a neutral price trend for Q3.

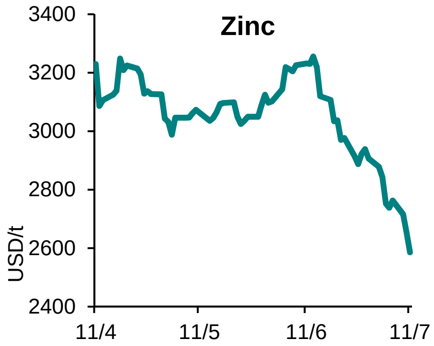
	12 July	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Aluminium *USD/t*	2,097	2,095	2,175	2,260	2,175	2,170	2,250	2,275
Copper *USD/t*	6,130	6,250	6,815	7,000	6,815	6,710	7,250	7,350
Nickel *USD/t*	13,785	14,300	14,500	15,500	14,500	14,270	14,400	15,325
Zinc *USD/t*	2,586	2,585	2,630	2,670	2,630	2,960	2,665	2,650

3-month price trend:









Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

5 Ferrous Metals – Steel / Iron Ore / Coking Coal

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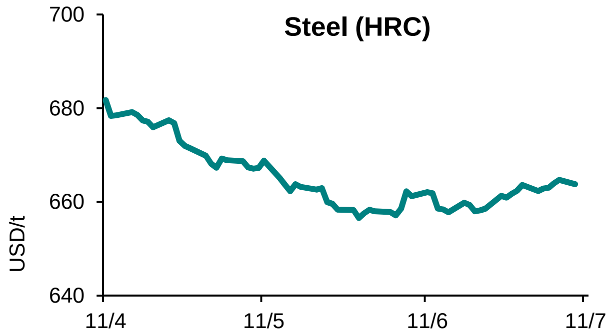
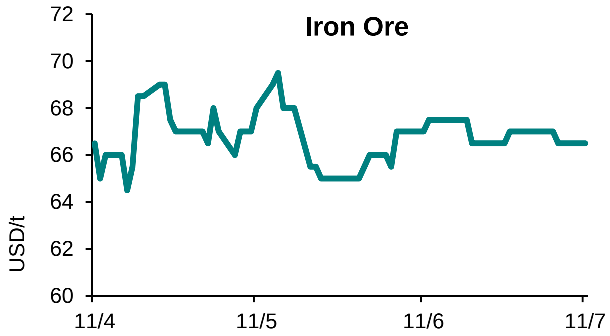
Environmental steel production curbs

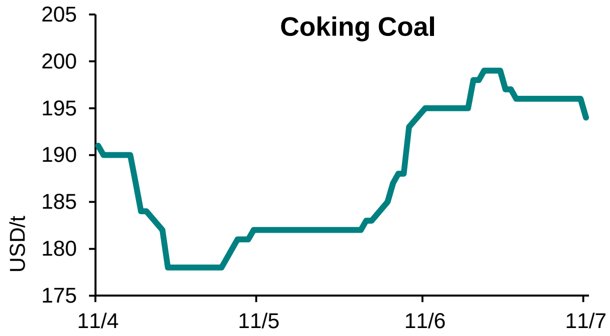
- Global steel price increased by 10% since the start of 2018, which was mainly due to the strong rising prices in the US and Latin America. In the US steel (HRC) prices boosted by 41% on trade war tensions. Steel prices in Latin America increased by 11%. In other major steel regions – China, Europe and Russia – prices gained only 2% on average since 1 January.
- Iron ore prices lost 14% in value since the start of 2018, while coking coal prices managed to increase. China demand for steelmaking raw materials is softening, mainly due to environmental policies imposed on steelmaking facilities. Prices soften also on the weakness in the Chinese yuan.
- Uncertainty will remain high. Going forward, we expect global steel prices to soften on seasonal weak demand. Iron ore prices will drift lower, mainly because of sufficient Australian supplies. Steel production cuts in China will result in weaker demand for steelmaking raw materials.

	12 July	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Steel (HRC) *USD/t*	665	665	650	648	650	662	610	630
Iron Ore *USD/t*	66.5	62	61	65	61	67	60	62
Coking coal *USD/t*	194	190	185	183	185	191	172	178

3-month price trend:







Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

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

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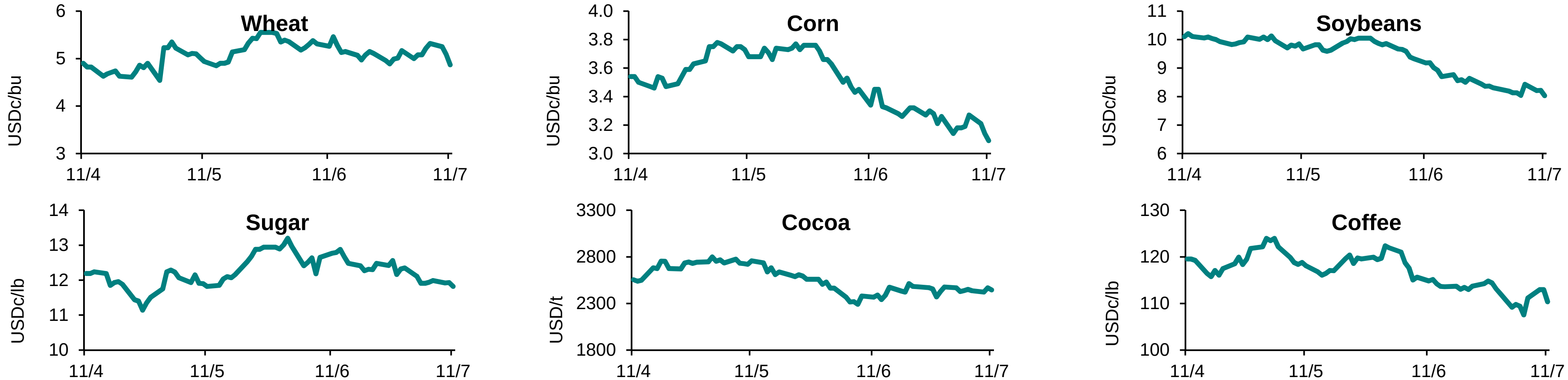
Local dynamics

- Prices of wheat were rising faster than expected due to the severe drought in Northern Europe, mainly in France and Germany: the biggest producers of wheat. The EU (28-countries) is the world biggest wheat producer and markets fear a lower output. The coming months have to point out whether these fears are justified.
- Prices of US soybeans are lower than expected due to rising tension between China and the US, while Brazilian prices are on the rise. This reflects the dependence of China on Brazilian soybeans if the US soybeans are off limits.
- Prices of cocoa are – as expected- decreasing since their highest point this year in May. Prices were on a rise due to fear of adverse weather conditions in Ivory Coast. Markets feared the diminishing oversupply could change into a shortage. However, ICO still expects an surplus of 105,000 tonnes in the current marketing year.

	12 July	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	2nd contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Wheat *USD/bu*	487	550	510	550	510	520	550	520
Corn *USD/bu*	309	400	410	410	410	380	420	420
Soybeans *USD/bu*	803	850	900	1000	900	900	1100	1050
Sugar *USDc/lb*	11.82	12	12	13	12	12	15	14
Coffee *USD/lb*	110.36	120	125	130	125	125	150	135
Cocoa *USD/t*	2,444	2,400	2,300	2,300	2,300	2,400	2,400	2,400



Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

A Appendix – Contact details, disclaimer & extra information

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