

Positive outlook for commodity prices

ABN AMRO Group Economics
ABN AMRO Sector Advisory

August 2018

Monthly Commodity Update
...price outlook for commodity markets



1 All commodities – Energy / Precious / Industrials / Agri

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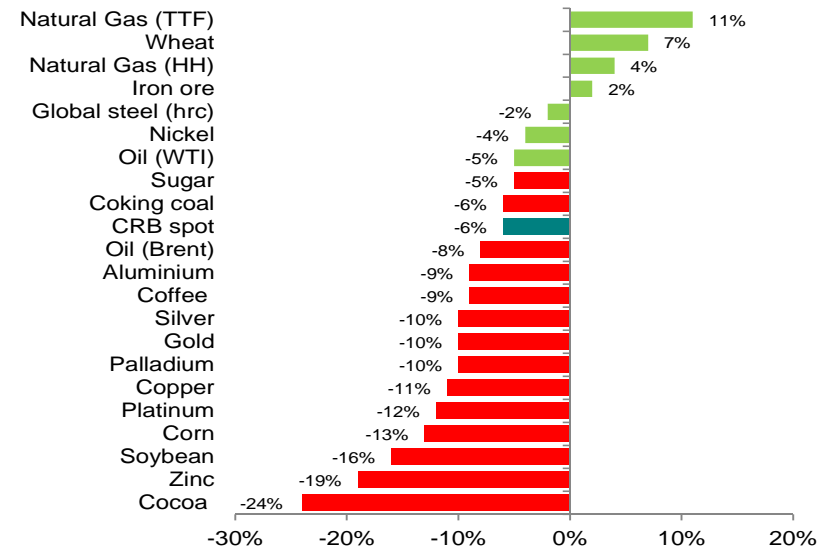
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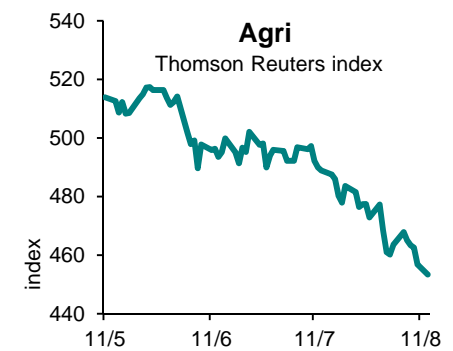
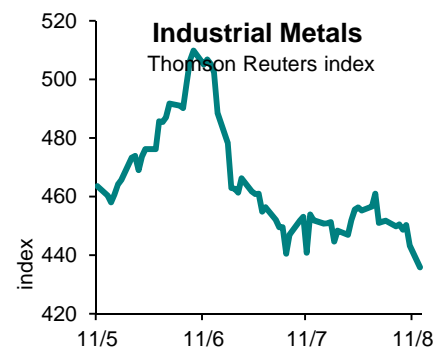
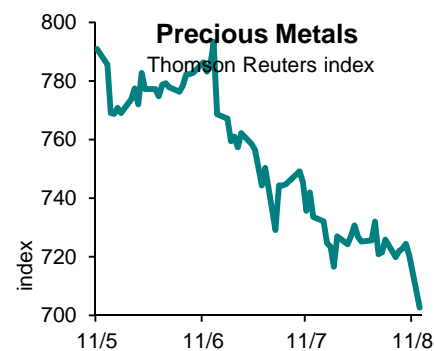
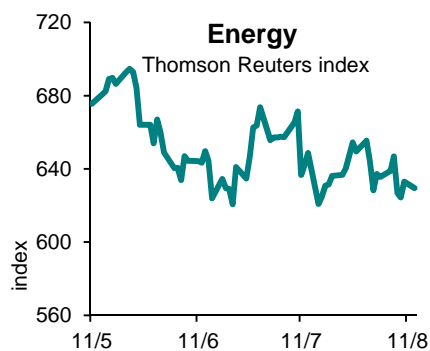
Position for rally in commodity prices

- ▶ Although we see some (modest) downside risks in the near term, we expect oil prices to trade higher in 2019 because of an expected supply shortage.
- ▶ Prices of many agricultural commodities have declined in recent months. We expect that a recovery will set in during the coming weeks. Especially cocoa, coffee and soybeans prices could contribute to the positive momentum for the CRB index.
- ▶ Tighter markets in most base metals markets in Q4 and continued global economic growth should support base metal prices.
- ▶ Gold, silver and platinum prices are expected to bottom out during the coming weeks. We expect higher prices in 2019.
- ▶ As a result, we expect the CRB index to trade higher in the coming months.

Price performance over last 3 months:



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



2 Energy – Oil / Gas

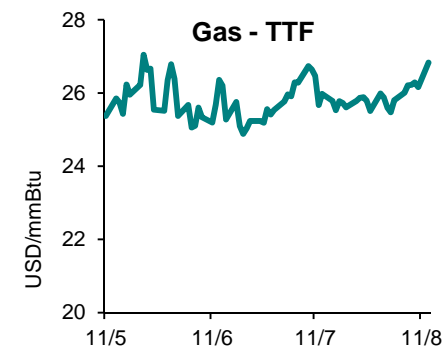
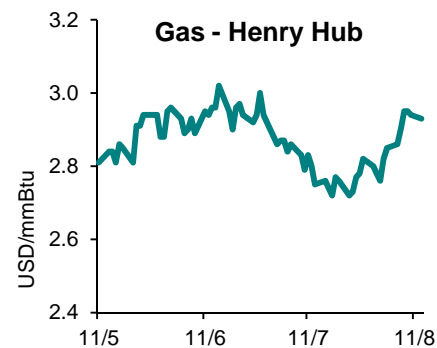
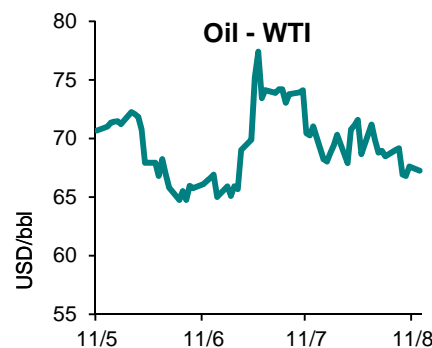
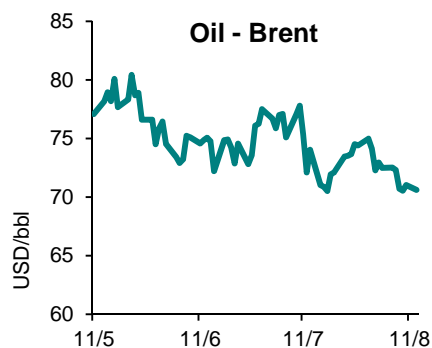
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Higher oil prices in 2019

- ▶ Downside risks for oil prices remain in the near term as a long squeeze and trade tensions outweigh supply fears.
- ▶ Nevertheless, as we expect the growth effects of the trade conflict to remain limited, we raised our oil price forecasts for 2019 and 2020. This is driven by expected supply shortages (lower production Venezuela, Libyan exports and lower exports from Iran due to US sanctions). We expect global demand to continue to grow at a moderate pace of 1.5 mb/d.
- ▶ Lower OPEC supply of some members can be met internally by other OPEC producers (especially Saudi Arabia). However, this comes at a price, namely lower OPEC reserve capacity.
- ▶ US oil infrastructure needs to be improved in order to facilitate higher exports. This will not be realised before 2020.
- ▶ US natural gas is expected to remain trading within relatively small ranges (USD 2,60-3,00/mmBtu).

| | 13 Aug | Q3 2018 | Q4 2018 | Q1 2019 | 2018 | 2018 | 2019 | 2019 |
|-----------------------------------|--------------|---------|---------|---------|-------|-----------|-------|-----------|
| | 1st contract | (eop) | (eop) | (eop) | (eop) | (average) | (eop) | (average) |
| Brent <i>USD/barrel</i> | 70.6 | 70 | 75 | 80 | 75 | 73 | 85 | 85 |
| WTI <i>USD/barrel</i> | 67.3 | 65 | 70 | 75 | 70 | 67 | 76 | 78 |
| Gas HH <i>USD/mmBtu</i> | 2.93 | 2,50 | 2,75 | 3,00 | 2,75 | 2,70 | 3,00 | 2,90 |
| Gas TTF <i>EUR/MWh</i> | 23.5 | 17 | 20 | 20 | 20 | 19 | 24 | 21 |

3-month price trend:



3 Precious Metals – Gold / Silver / Platinum / Palladium

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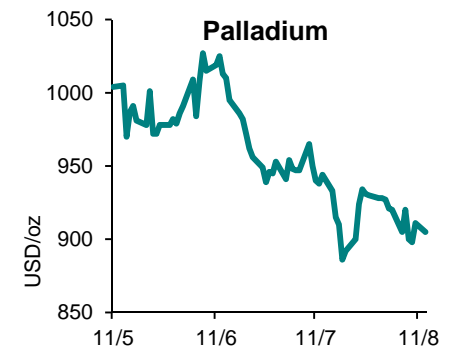
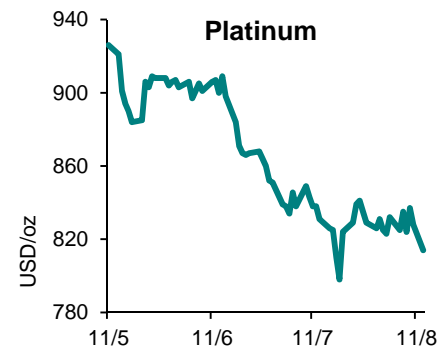
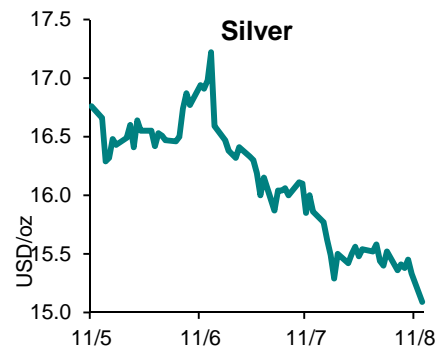
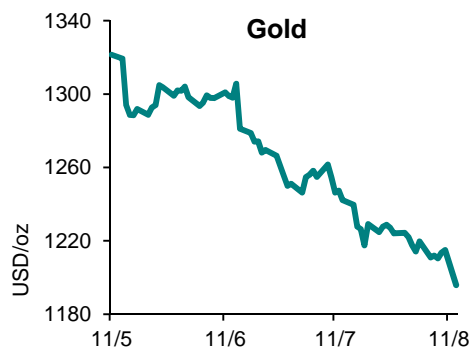
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Prices to bottom out

- ▶ Gold prices have dropped below USD 1,200 per ounce because a lower Chinese yuan has resulted in fears of lower demand.
- ▶ Moreover, a higher US dollar is also weighing on gold prices.
- ▶ The Chinese yuan is now the most important driver for gold prices followed by the US dollar. We expect that Chinese authorities will try to avoid a further sharp weakening of the yuan from current levels.
- ▶ Speculative positions in gold, silver and platinum are at all-time highs and net-positioning is close to zero (gold and silver) or negative (platinum)
- ▶ We think that investors who are negative on precious metals are already short and that there is not much room to increase shorts from here.
- ▶ We expect prices to start bottoming out at current levels.

| | 13 Aug | Q3 2018 | Q4 2018 | Q1 2019 | 2018 | 2018 | 2019 | 2019 |
|-------------------------------|--------|---------|---------|---------|-------|-----------|-------|-----------|
| | spot | (eop) | (eop) | (eop) | (eop) | (average) | (eop) | (average) |
| Gold USD/ounce | 1,195 | 1,225 | 1,250 | 1,300 | 1,250 | 1,280 | 1,400 | 1,325 |
| Silver USD/ounce | 15.09 | 15.6 | 16.0 | 17.0 | 16.0 | 16.2 | 20.0 | 18.0 |
| Platinum USD/ounce | 814 | 800 | 850 | 900 | 850 | 883 | 1,100 | 981 |
| Palladium USD/ounce | 905 | 900 | 900 | 925 | 900 | 963 | 1,000 | 950 |

3-month price trend:



4 Base Metals – Aluminium / Copper / Nickel / Zinc

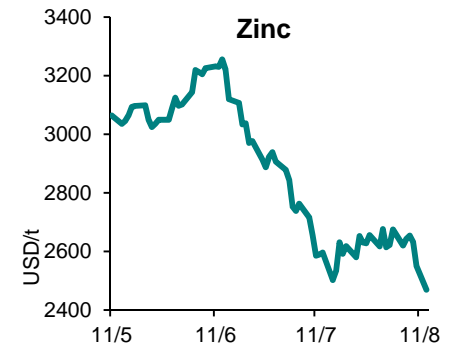
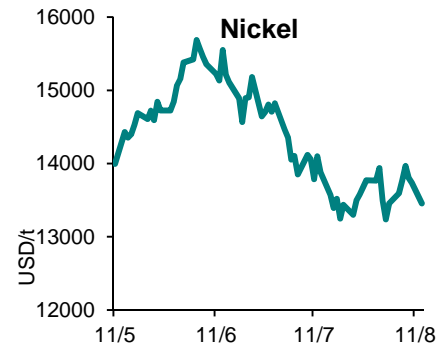
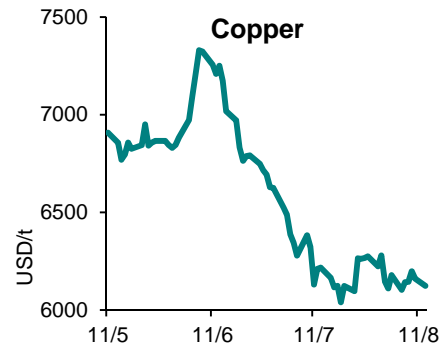
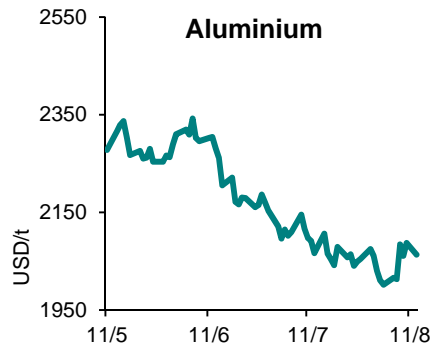
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A more positive outlook in Q4

- ▶ Base metal prices remain sensitive to higher trade tensions between the US and China because of fears of lower demand and because of a deterioration in investor sentiment.
- ▶ We expect a neutral price trend for Q3
- ▶ As soon as fundamental indicators take over again and trade tensions ease, a positive price trend will probably re-emerge.
- ▶ From a fundamental perspective - with tighter markets in most base metals in Q4 and continued global economic growth - base metal prices (especially aluminium, copper and nickel) are expected to appreciate during Q4 again.
- ▶ Zinc still remains the odd one out: towards the end of 2018, the zinc market will face a surplus due to the ramp-up of supply.

| | 13 Aug | Q3 2018 | Q4 2018 | Q1 2019 | 2018 | 2018 | 2019 | 2019 |
|---------------------------|--------|---------|---------|---------|--------|-----------|--------|-----------|
| | spot | (eop) | (eop) | (eop) | (eop) | (average) | (eop) | (average) |
| Aluminium USD/t | 2,064 | 2,095 | 2,175 | 2,260 | 2,175 | 2,170 | 2,250 | 2,275 |
| Copper USD/t | 6,124 | 6,250 | 6,815 | 7,000 | 6,815 | 6,710 | 7,250 | 7,350 |
| Nickel USD/t | 13,455 | 14,300 | 14,500 | 15,500 | 14,500 | 14,270 | 14,400 | 15,325 |
| Zinc USD/t | 2,470 | 2,585 | 2,630 | 2,670 | 2,630 | 2,960 | 2,665 | 2,650 |

3-month price trend:



5 Ferrous Metals – Steel / Iron Ore / Coking Coal

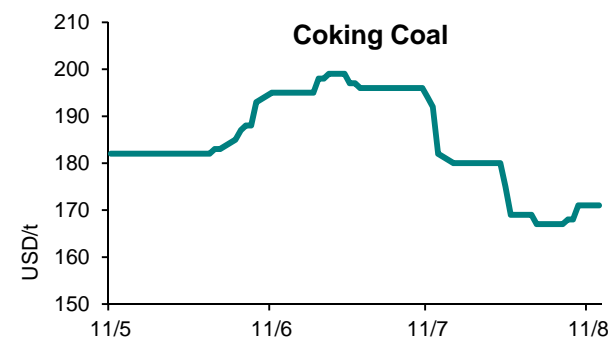
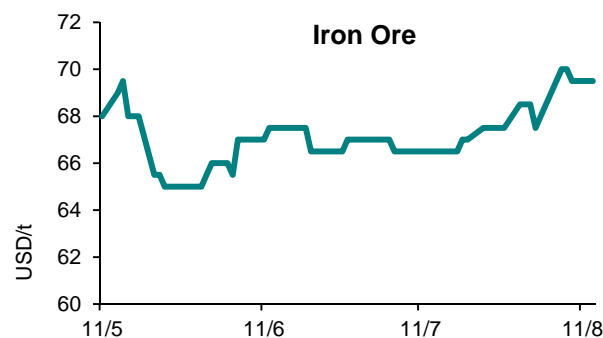
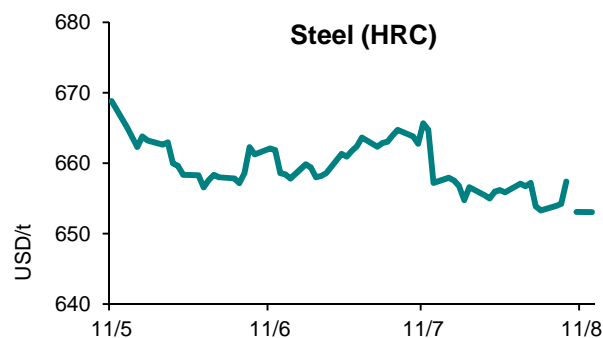
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Price weakness on the horizon

- ▶ Global steel prices have increased by 8% since the start of 2018, which was mainly due to the strongly rising prices in the US and Latin America. US steel (HRC) prices have risen by 36% on trade war tensions. Steel prices in Latin America increased by 3% and in Russia by 4% since 1 January.
- ▶ Iron ore prices lost 6% in value since the start of 2018 and coking coal prices lost 11%. Chinese demand for steelmaking raw materials is softening, mainly due to environmental policies imposed on steelmaking facilities. Prices have also softened 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. Chinese cuts in steel production will result in weaker demand for steelmaking raw materials.

| | 13 Aug | Q3 2018 | Q4 2018 | Q1 2019 | 2018 | 2018 | 2019 | 2019 |
|-----------------------------|--------|---------|---------|---------|-------|-----------|-------|-----------|
| | spot | (eop) | (eop) | (eop) | (eop) | (average) | (eop) | (average) |
| Steel (HRC) USD/t | 653 | 665 | 650 | 648 | 650 | 662 | 610 | 630 |
| Iron Ore USD/t | 69.5 | 62 | 61 | 65 | 61 | 67 | 60 | 62 |
| Coking coal USD/t | 171 | 190 | 185 | 183 | 185 | 191 | 172 | 178 |

3-month price trend:



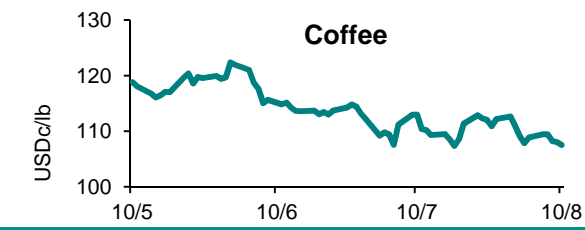
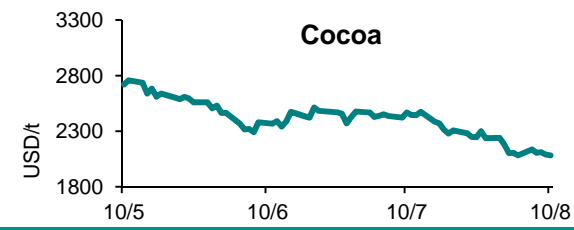
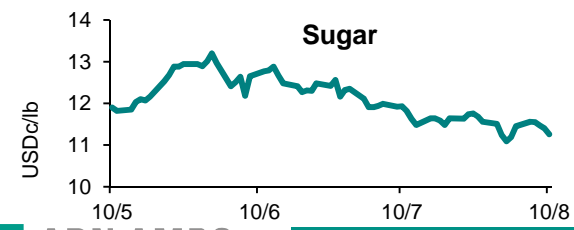
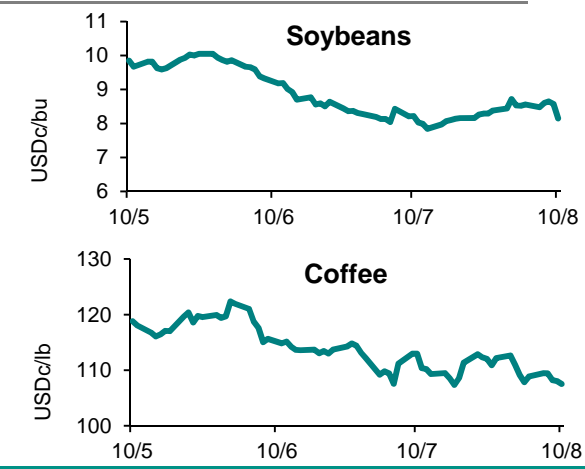
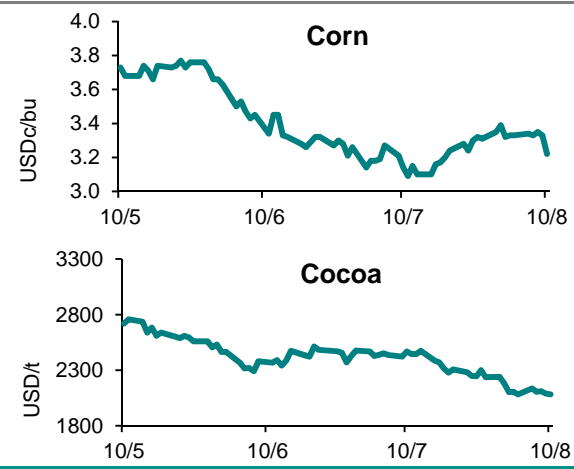
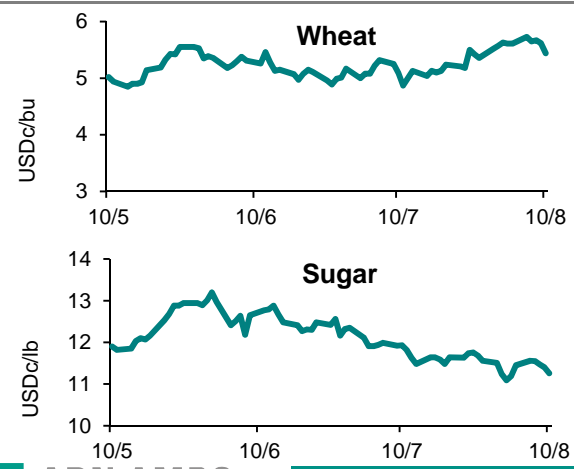
6 Agri – Wheat / Corn / Soybeans / Sugar / Coffee / Cocoa

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Drought affects soft commodity prices

- ▶ Prices of wheat are on the rise and are taking corn along for the ride. The severe drought in Northern Europe, mainly in France and Germany (the biggest producers of wheat in the EU) has caused lower crop quality. In addition, the quality of Russian wheat output has disappointed.
- ▶ Prices of US soybeans are lower than expected due to Chinese import tariffs, while Brazilian prices are on the rise. This reflects the increased dependence of China on Brazilian soybeans. But because demand is still strong, US prices will probably not fall much further.
- ▶ Prices of cocoa are – as expected - decreasing since their top in May. Fears of lower oversupply could change into a fears of a supply shortage. However, ICO still expects a surplus, but a lower one than last season. We expect prices to rise towards the end of this year, since they have sold off too much in our view.

| | 13 Aug | Q3 2018 | Q4 2018 | Q1 2019 | 2018 | 2018 | 2019 | 2019 |
|---------------------------|--------------|---------|---------|---------|-------|-----------|-------|-----------|
| | 2nd contract | (eop) | (eop) | (eop) | (eop) | (average) | (eop) | (average) |
| Wheat USD/bu | 531 | 550 | 550 | 600 | 550 | 520 | 600 | 600 |
| Corn USD/bu | 321 | 350 | 400 | 410 | 410 | 380 | 420 | 420 |
| Soybeans USD/bu | 816 | 850 | 900 | 1000 | 900 | 900 | 1100 | 1050 |
| Sugar USDc/lb | 11.26 | 12 | 13 | 14 | 13 | 12 | 15 | 14 |
| Coffee USD/lb | 107.51 | 115 | 125 | 130 | 125 | 125 | 150 | 135 |
| Cocoa USD/t | 2,082 | 2,200 | 2,300 | 2,300 | 2,300 | 2,400 | 2,400 | 2,400 |



A Appendix – Contact details, disclaimer & extra information

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