

# Monthly Commodity Insights

*...price forecasts for commodity markets*

ABN AMRO Group Economics

## Neutral but cautious outlook

August 2020

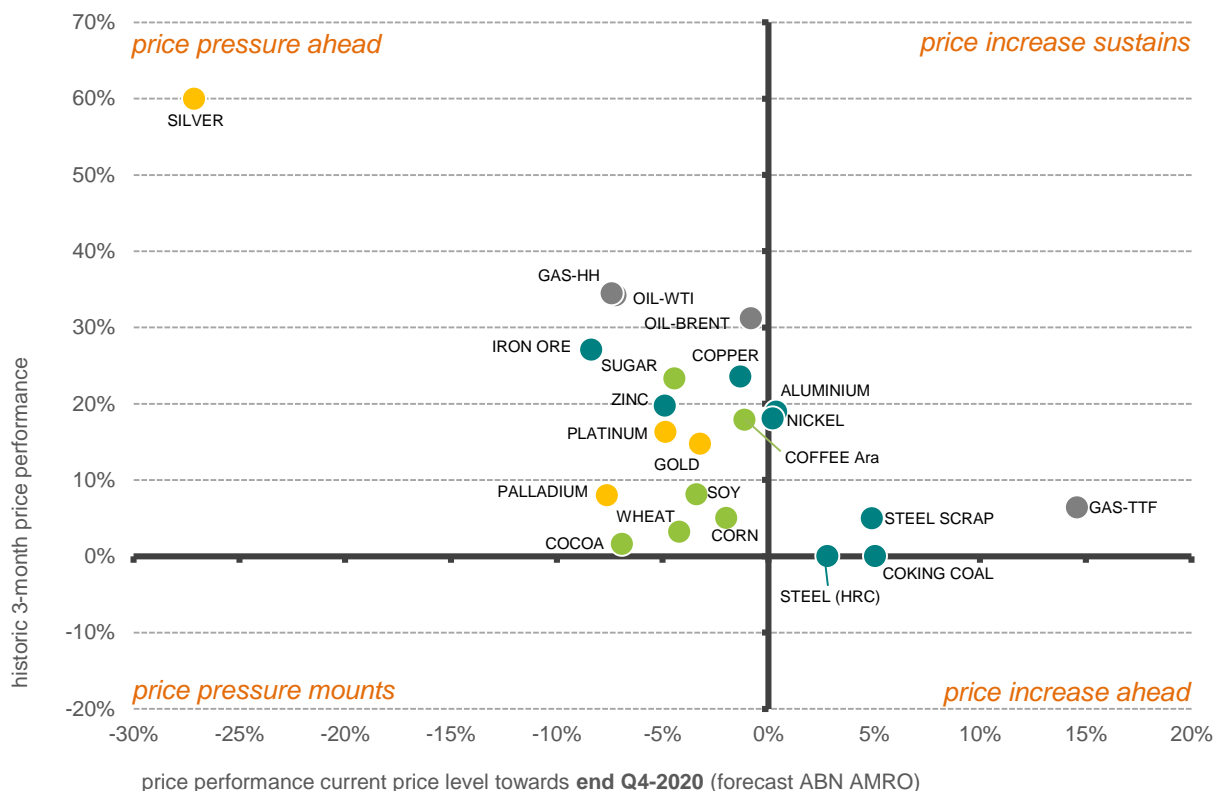


# 1 All commodities – Energy / Precious / Industrials / Agri

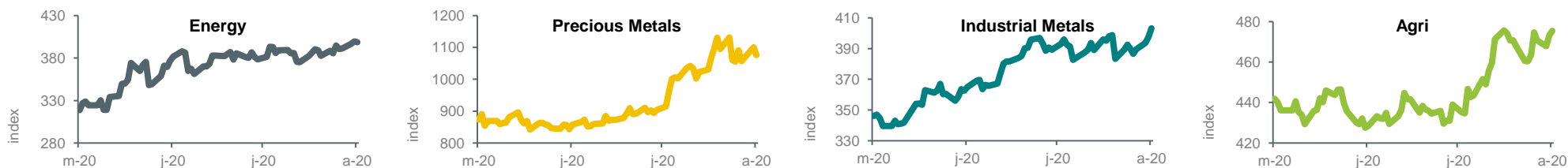
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## A more constructive outlook

- ▶ At the end of June the CRB broke above the resistance layered at 140. Since then the index has risen at a modest pace driven by higher oil and metal prices.
- ▶ Recently we have changed our base case scenario. We no longer expect a period of market panic/risk off in the near term. But there could still be waves of modest risk off.
- ▶ Therefore we are now more constructive on the outlook for commodity prices. This means we no longer expect sharp weakness in prices in the near-term. So we have moved from negative to a more neutral outlook.
- ▶ The outlook on China is more constructive so commodity demand from China could pick up at a modest pace but we think this is reflected in market expectations.
- ▶ However, we continue to hold the view that oil prices, gold and silver prices have risen too sharply so some weakness is still expected in the near-term.



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



## 2 Energy – Oil / Gas

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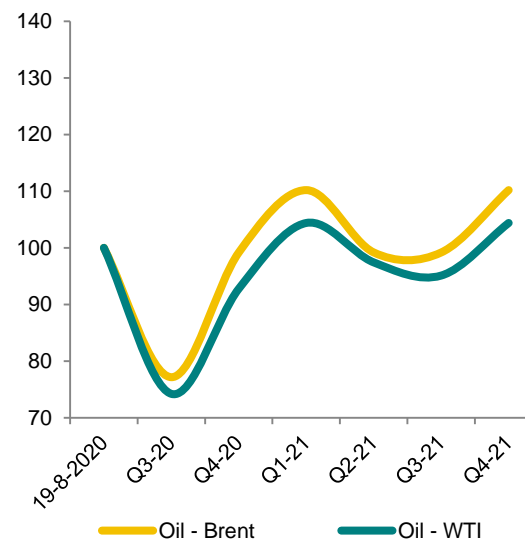
### Oil prices are creeping up while Natgas prices jumped higher

- ▶ Oil prices have reached the highest level in five months' time. Hopes that global demand will continue to pick up as well as the production cuts by OPEC+ triggered support for oil prices.
- ▶ Uncertainty regarding the continuation of the recovery of global oil demand is building now more and more local lockdowns are announced. At the same time, OPEC+ has started to produce more oil. The US shale producers are still waiting at the sidelines as most of the rig activity stopped
- ▶ With market investors being positioned for further price gains, some profit taking could be seen if the drivers to push prices higher runs out of steam even more. Signs of new lockdowns and higher crude production (either by OPEC+ or the US) could trigger such a profit taking wave, and would result in a downward price correction.
- ▶ Henry Hub (HH) natural gas prices found support on increased demand due to the heat wave, economic recovery and less floating LNG storage. Since the start of the month, HH gained more than 25%, bringing the natgas price to USD 2.42/mmBtu. The rally will not be long enough to trigger a fresh boost of investments in gas exploration although the prices for CAL21 and CAL22 have found some support as well. Seasonal demand may continue to be supportive, however speculative positioning provides room for more downside pressure.

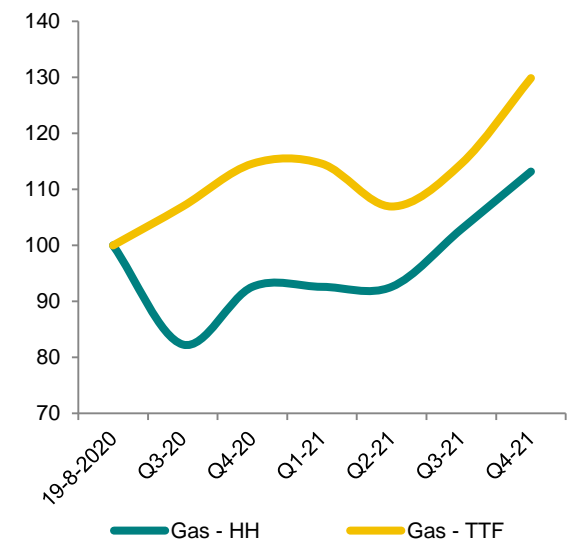
|                                       | 1st contract | - end of period prices - |       |       |       |       |       | - averages - |      |
|---------------------------------------|--------------|--------------------------|-------|-------|-------|-------|-------|--------------|------|
|                                       | 19-08-20     | Q3-20                    | Q4-20 | Q1-21 | Q2-21 | Q3-21 | Q4-21 | 2020         | 2021 |
| <b>Oil - Brent</b><br>(USD/barrel)    | 45           | 35                       | 45    | 50    | 45    | 45    | 50    | 36           | 48   |
| <b>Oil - WTI</b><br>(USD/barrel)      | 43           | 32                       | 40    | 45    | 42    | 41    | 45    | 34           | 43   |
| <b>Gas - Henry Hub</b><br>(USD/mmBtu) | 2,43         | 2,00                     | 2,25  | 2,25  | 2,25  | 2,50  | 2,75  | 2,00         | 2,40 |
| <b>Gas - TTF</b><br>(EUR/MWh)         | 13,09        | 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

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## Some investors in gold have started to take profit

- ▶ The stars were already aligned before the holiday period started in July.
- ▶ In July the dollar weakened considerably on the back of lower US real yields and this gave gold prices an extra push higher. Gold prices broke above the high set in 2011 and the psychological level of USD 2,000 per ounce. Prices set a new high at USD 2,075 of 7 August 2020.
- ▶ Since then prices have fallen back below USD 2,000 per ounce because of the rise in US nominal and real rates and some recovery of the US dollar.
- ▶ Recently renewed dollar weakness has failed to support gold prices. This could be a warning sign that there may be a lack of buyers at the current high level.
- ▶ The total ETF positions and the speculative net-longs have been reduced somewhat. We think there is risk for further position liquidation. When prices correct lower this would be an opportunity to position for renewed strength afterwards. Crucial support levels are USD 1,800 and 1,650 per ounce.
- ▶ Silver prices have caught up with gold prices but are even more vulnerable in case of profit taking. Total known ETF are extreme.

|                                 | spot prices | - end of period prices - |       |       |       |       |       | - averages - |       |
|---------------------------------|-------------|--------------------------|-------|-------|-------|-------|-------|--------------|-------|
|                                 | 19-08-20    | Q3-20                    | Q4-20 | Q1-21 | Q2-21 | Q3-21 | Q4-21 | 2020         | 2021  |
| <b>Gold</b><br>(USD/ounce)      | 1.963       | 1.850                    | 1.900 | 1.925 | 1.950 | 1.975 | 2.000 | 1.750        | 1.950 |
| <b>Silver</b><br>(USD/ounce)    | 27,45       | 20,00                    | 20,00 | 21,00 | 21,00 | 22,00 | 22,00 | 18,00        | 21,00 |
| <b>Platinum</b><br>(USD/ounce)  | 946         | 875                      | 900   | 925   | 950   | 975   | 1.000 | 862          | 950   |
| <b>Palladium</b><br>(USD/ounce) | 2.165       | 1.850                    | 2.000 | 2.000 | 2.000 | 2.000 | 2.000 | 2.051        | 2.000 |

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



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

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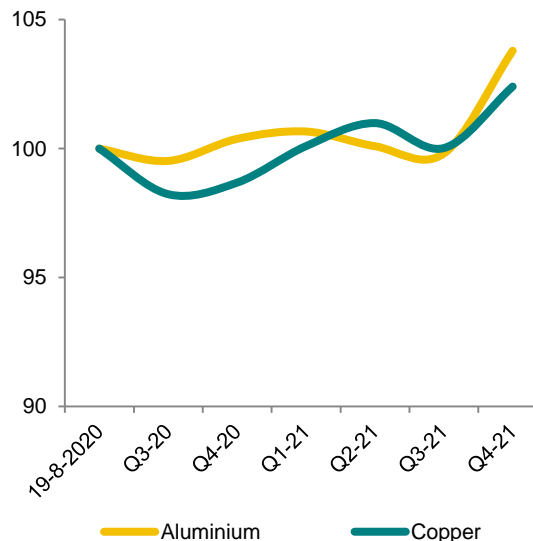
## Downside price risks keeps investor sentiment wary

- ▶ Sentiment in base metals markets improved after the US, EU and China introduced massive economic stimulus measures late March to support shuttered economies. Base metals prices increased on this. Prices also found support on dollar weakness and stock markets rallies. Since 23 March base metals prices have risen by 27%.
- ▶ Investors in base metals markets remain cautious going forward. The uncertainty over the 2nd wave of coronavirus and the ultimate economic impact remains high, which will continue to direct sentiment in base metals markets.
- ▶ During the second half of this year, base metal prices will continued to be dominated by base metals demand indicators from China, the coronavirus, government policies, dollar trend and the positioning of investors. A positive tone in Chinese macro-economic data will keep sentiment in base metals markets afloat.
- ▶ More optimism amongst investors will also be triggered by a containment of the coronavirus epidemic. Nevertheless, downside price risks are currently somewhat higher than upside price risks. This is mainly due to worsening China-US relationship. Together with the US elections in November, the tensions between China-US will prove to be decisive turning points in base metals prices this year. For 2021, global economic growth will show stronger recovery and base metals prices will strengthen further on this.

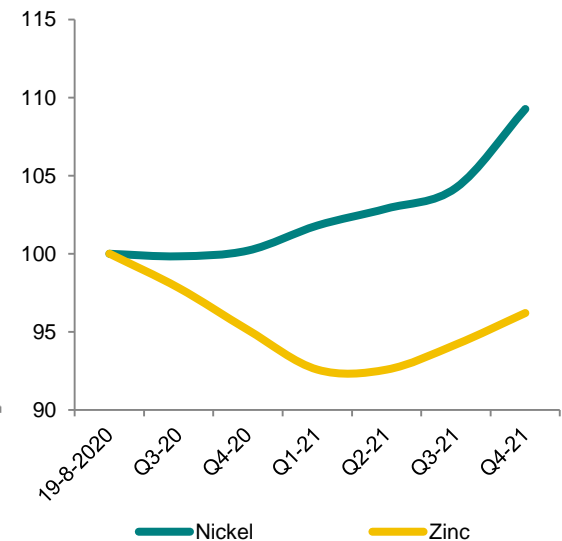
|                             | spot prices | - end of period prices - |        |        |        |        |        | - averages - |        |
|-----------------------------|-------------|--------------------------|--------|--------|--------|--------|--------|--------------|--------|
|                             | 19-08-20    | Q3-20                    | Q4-20  | Q1-21  | Q2-21  | Q3-21  | Q4-21  | 2020         | 2021   |
| <b>Aluminium</b><br>(USD/t) | 1.758       | 1.750                    | 1.765  | 1.770  | 1.760  | 1.755  | 1.825  | 1.645        | 1.766  |
| <b>Copper</b><br>(USD/t)    | 6.699       | 6.580                    | 6.610  | 6.705  | 6.765  | 6.700  | 6.860  | 5.963        | 6.638  |
| <b>Nickel</b><br>(USD/t)    | 14.675      | 14.651                   | 14.705 | 14.940 | 15.100 | 15.295 | 16.035 | 13.358       | 15.040 |
| <b>Zinc</b><br>(USD/t)      | 2.485       | 2.430                    | 2.363  | 2.300  | 2.300  | 2.340  | 2.390  | 2.162        | 2.313  |

### 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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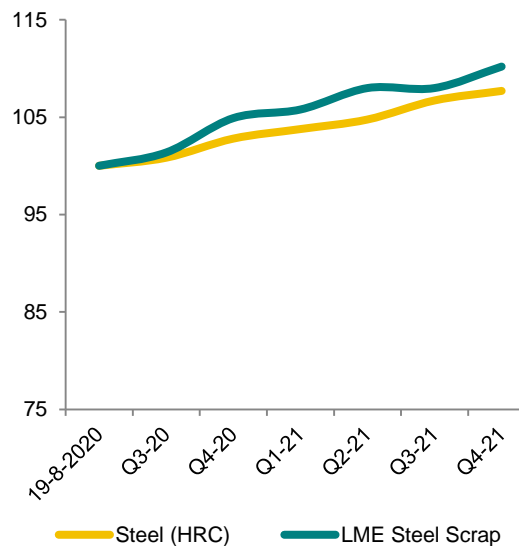
## Robustness in Chinese steel demand upholds

- ▶ Steel prices in all major regions recovered since mid-June on the easing of Covid-19 containment restrictions. In the US prices increased by 5% over the past two months, while in Europe and China prices rose by 3%. On balance, global steel price gained 3% and is now at the same level as 1 January. Steel price recovery is set to continue globally, as demand continues to return.
- ▶ Sentiment in steel markets has improved, especially in China. The most recent outcome of the purchasing manager index (PMI) above the 50 neutral stance, confirmed that the industrial recovery continues. Better yet, the Chinese economy as a whole is showing a solid recovery from the Covid-19 shock. This means that sooner rather than later macro-economic policy will become more targeted and gradually again. In this targeted support there will be room for some infrastructure spending, which should be beneficial for steel demand.
- ▶ The Chinese robustness in demand is unlikely to soften going forward. Steel mills are eager to keep output rates high so service this demand. In turn, this will lead to firm demand for steelmaking raw materials such as iron ore, coking coal and steel scrap. Prices for these raw materials will remain firm. However, both iron ore and coking coal import into China are constrained by either import restriction, port congestions or worsening trade relations with Australia.

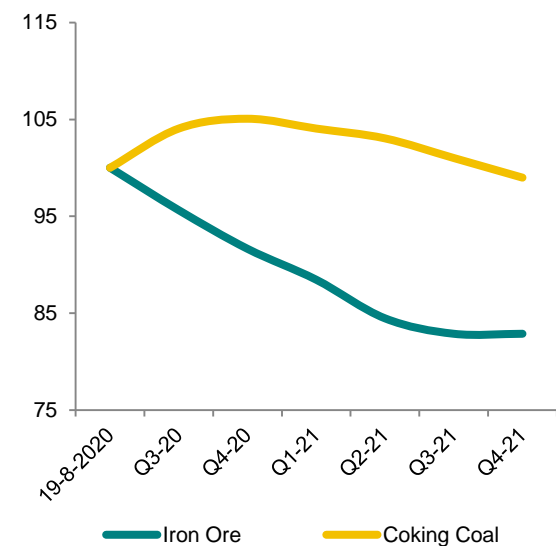
|                                  | spot prices |       | - end of period prices - |       |       |       |       | - averages - |      |
|----------------------------------|-------------|-------|--------------------------|-------|-------|-------|-------|--------------|------|
|                                  | 19-08-20    | Q3-20 | Q4-20                    | Q1-21 | Q2-21 | Q3-21 | Q4-21 | 2020         | 2021 |
| <b>Steel (HRC)</b><br>(USD/t)    | 511         | 515   | 525                      | 530   | 535   | 545   | 550   | 507          | 553  |
| <b>EU Steel Scrap</b><br>(EUR/t) | 227         | 230   | 238                      | 240   | 245   | 245   | 250   | 236          | 252  |
| <b>Iron Ore</b><br>(USD/t)       | 126         | 120   | 115                      | 111   | 106   | 104   | 104   | 103          | 108  |
| <b>Coking Coal</b><br>(USD/t)    | 99          | 103   | 104                      | 103   | 102   | 100   | 98    | 115          | 100  |

### 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

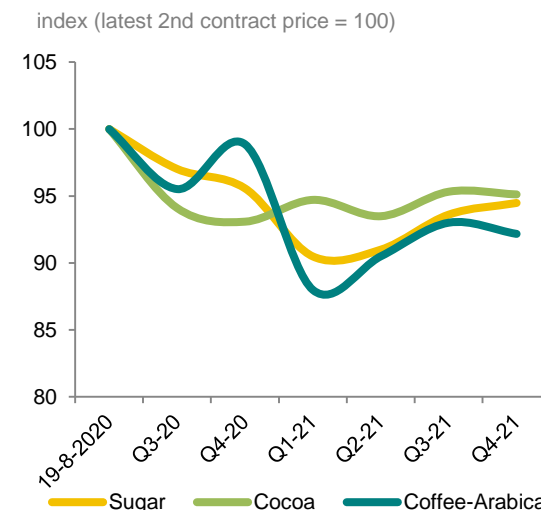
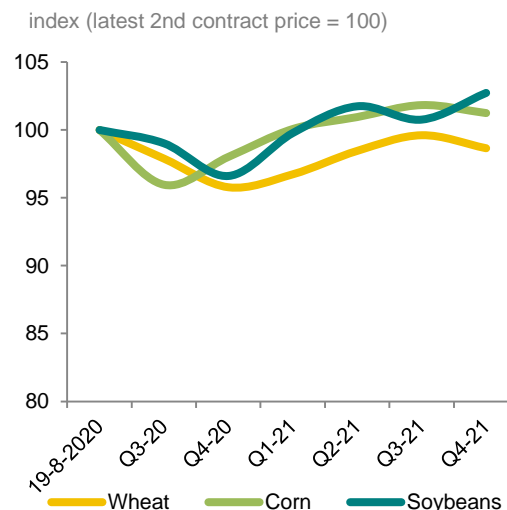
## Abundant supplies dominates agricultural commodity markets

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- ▶ The harvest outlook improved for major **wheat** producing regions and prices weakened. Global availability of wheat will remain good for the time being. Downward price risk will remain high. Adverse weather or a strong uplift in demand will change this expectation.
- ▶ Forecasts of record **corn** production are weighing on prices. Corn inventories are high and there are no signs of global shortages. A recovery in oil prices will increase demand for ethanol. On balance, we expect prices to remain relatively weak.
- ▶ Brazilian **soybean** production will hit a record next season. Fresh Chinese purchases worked out positive for market sentiment. Levels are, however, still low. On balance, supplies will continue to outstrip demand. An escalation of the trade war remains a downside risk for prices.
- ▶ Due to lower energy prices, **sugar** cane mills in Brazil ramp up sugar output instead of ethanol. However, chances of lower output from Thailand, Russia and EU have increased, offsetting higher output from Brazil. A stronger increase in demand will lift prices.
- ▶ The demand for **cocoa** is still far from its previous level and stocks are relatively high. Many cocoa bean grinders in Europe and the US have sufficient supplies and are therefore not eager to purchase more beans. This will keep the price capped.
- ▶ The **coffee** market is on track for a record harvest in Brazil. Despite the recent decline in exchange stocks, the availability of coffee remains good for the time being. In 2020/2021 a larger crop is expected. Prices will remain relatively weak.

|                                    | 2nd contract | - end of period prices - |       |       |       |       |       | - averages - |       |
|------------------------------------|--------------|--------------------------|-------|-------|-------|-------|-------|--------------|-------|
|                                    | 19-08-20     | Q3-20                    | Q4-20 | Q1-21 | Q2-21 | Q3-21 | Q4-21 | 2020         | 2021  |
| <b>Wheat-CBOT</b><br>(USDc/bu)     | 522          | 511                      | 500   | 505   | 514   | 520   | 515   | 523          | 519   |
| <b>Corn-CBOT</b><br>(USDc/bu)      | 340          | 326                      | 333   | 340   | 343   | 346   | 344   | 340          | 342   |
| <b>Soybeans-CBOT</b><br>(USDc/bu)  | 914          | 905                      | 883   | 912   | 930   | 921   | 939   | 885          | 912   |
| <b>Sugar</b><br>(USDc/lb)          | 13,76        | 13,35                    | 13,15 | 12,45 | 12,52 | 12,88 | 13,00 | 12,48        | 12,66 |
| <b>Cocoa</b><br>(USD/Mt)           | 2.460        | 2.315                    | 2.290 | 2.330 | 2.300 | 2.345 | 2.340 | 2.393        | 2.330 |
| <b>Coffee-Arabica</b><br>(USDc/lb) | 119          | 114                      | 118   | 105   | 108   | 111   | 110   | 111          | 109   |

ABN AMRO forecast price trend until 2021 (index)



# A Appendix – Contact details, disclaimer & extra information

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