

# Geo-politics and sanctions support commodities

ABN AMRO Group Economics  
ABN AMRO Sector Advisory

April 2018

Monthly Commodity Update  
*...price outlook for commodity markets*



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

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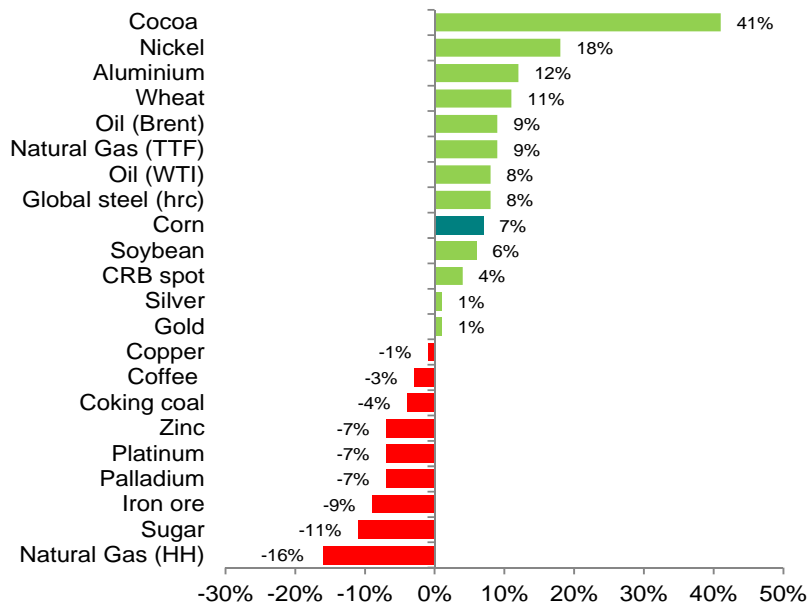
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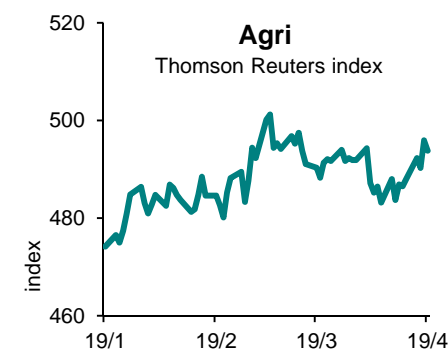
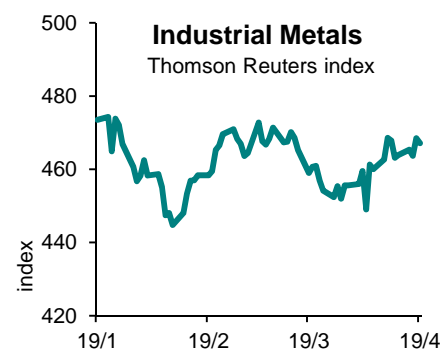
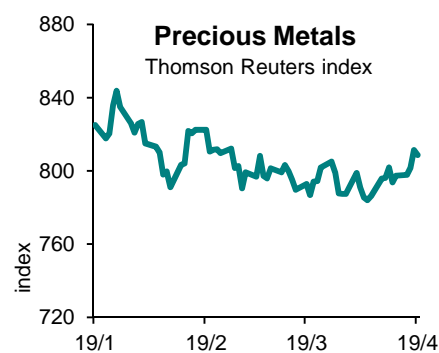
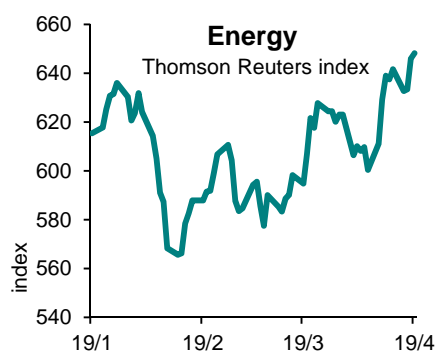
## Geo-politics and sanctions support commodities

- ▶ CRB Index has risen above the January 2018 high.
- ▶ The easing of trade tensions between the US and China has supported commodity prices.
- ▶ US sanctions on Russia have resulted in support for metal prices (aluminium, nickel and palladium) as worries over future supply mounted.
- ▶ Meanwhile, geopolitical tensions have supported oil prices, which are now close to our year-end forecast.
- ▶ Renewed trade tensions between the US and China, weaker economic data and waves of risk aversion could result in commodity price weakness in the months ahead.
- ▶ Overall, we remain positive on the macro-economic outlook and this should support the CRB index.

## Price performance over last 3 months:



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



## 2 Energy – Oil / Gas

Hans van Cleef

Senior Energy Economist

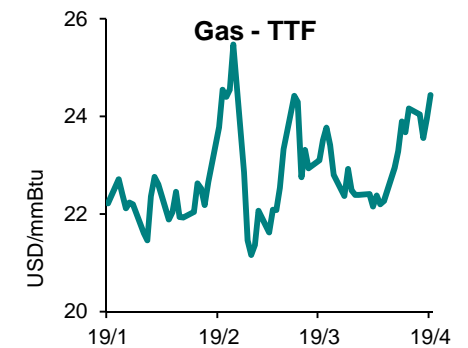
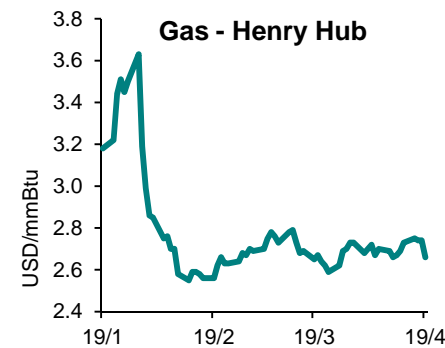
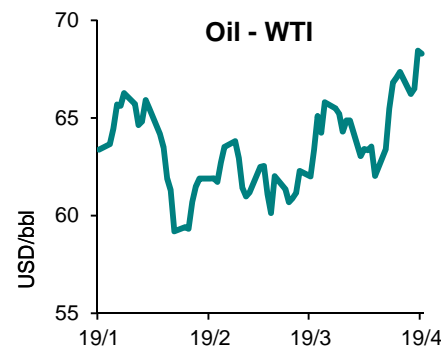
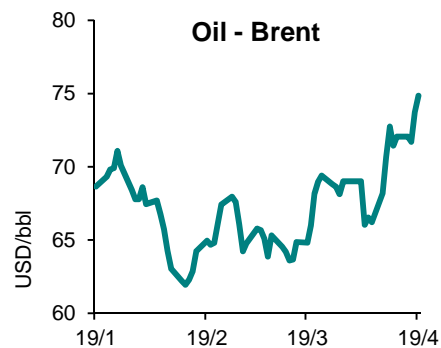
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### Geopolitical tensions have pushed oil prices to a three-year high

- ▶ Oil prices initially came under pressure after an attempt to break higher failed because the trade dispute between the US and China affected investor sentiment. More recently, increased geopolitical tensions have pushed oil prices towards the highest level in three years.
- ▶ The focus may slowly but surely shift towards the 22 June OPEC meeting. OPEC production declined on surprisingly lower Libya's crude oil exports and Venezuela crude production. This provides more room for production growth for the US shale producers.
- ▶ Oil fundamentals continue to point towards further support for oil prices in the second half of the year.
- ▶ We have revised our Henry Hub Natgas forecasts lower based on a continuous rise of supply while US demand seems to plateau.

	19 Apr	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	1st contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
<b>Brent</b> <i>USD/barrel</i>	74.85	70	70	75	75	71	75	78
<b>WTI</b> <i>USD/barrel</i>	68.30	65	66	70	70	66	70	72
<b>Gas HH</b> <i>USD/mmBtu</i>	2,66	2,75	2,50	2,75	2,75	2,70	3,00	2,90
<b>Gas TTF</b> <i>EUR/MWh</i>	19.76	18	17	20	20	19	24	21

### 3-month price trend:



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

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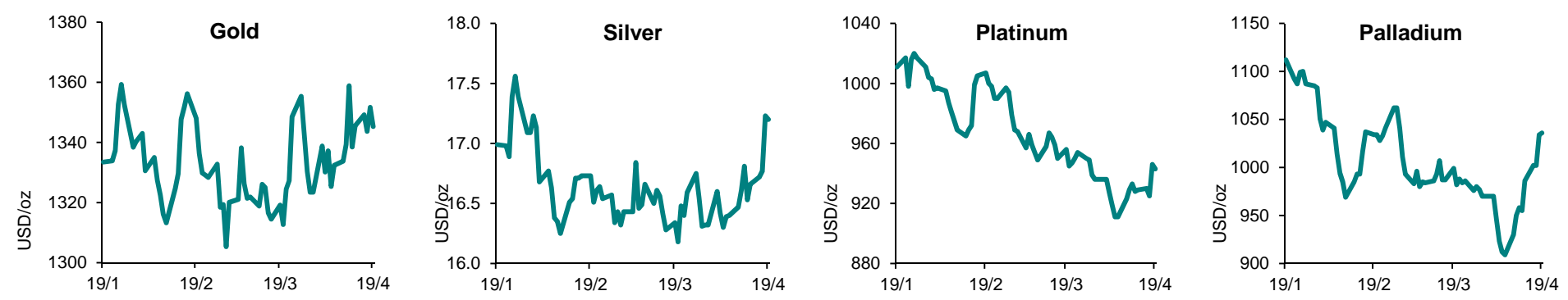
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## Lower precious metal prices ahead

- ▶ Year-to-date gold, silver and platinum prices have outperformed the US dollar, while palladium prices have dropped by 4%.
- ▶ This is because the US dollar has declined by close to 2% so far this year.
- ▶ US sanctions on Russia and changes in investor sentiment have more recently resulted in a price recovery in palladium.
- ▶ We expect that the US dollar will continue to be the dominant driver for precious metal prices with the exception of palladium.
- ▶ We expect a recovery of the US dollar for the remainder of this year.
- ▶ Therefore, we see lower precious metal prices in the period ahead.

	19 Apr	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
<b>Gold</b> USD/ounce	1,345	1,275	1,250	1,250	1,250	1,287	1,400	1,325
<b>Silver</b> USD/ounce	17.20	16.0	16.0	16.0	16.0	16.2	20.0	18.0
<b>Platinum</b> USD/ounce	943	885	900	900	900	916	1,100	1,000
<b>Palladium</b> USD/ounce	1,036	900	900	900	900	944	1,000	950

## 3-month price trend:



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

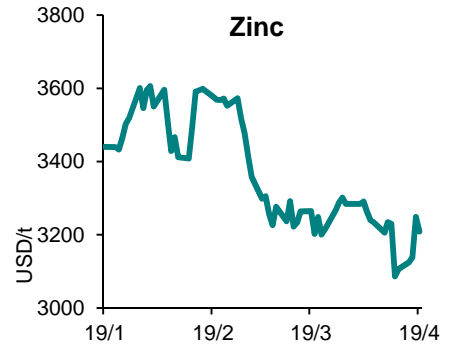
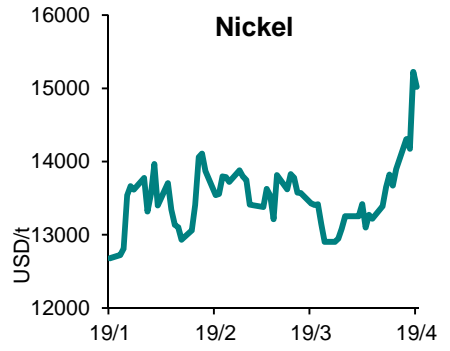
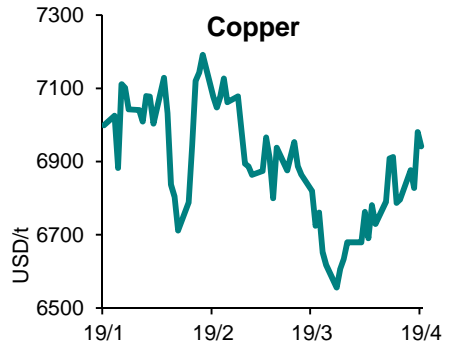
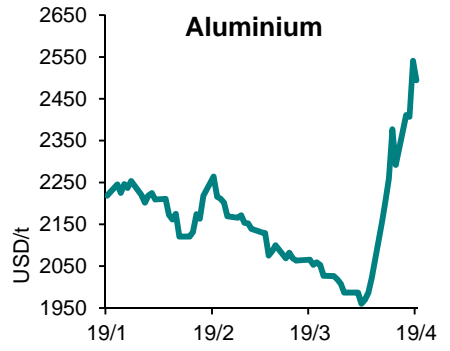
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## High peaks and deep troughs in basic metal prices

- ▶ US president Trump's trade tariff announcements have triggered a wave of uncertainty over the base metals complex. Shortly after the announcement base metal prices fell.
- ▶ ABN AMRO thinks that the trade tariff dispute outcome will be a negotiated settlement between the US and China. That will give base metals prices an impulse. On the other hand, a hawkish Fed will contribute to some price weakness.
- ▶ The US sanctions on Russian oligarchs resulted in strong price increases for aluminium and nickel. Investors worried mainly over future supply in both metals, especially over output from Rusal and Norilsk.
- ▶ Uncertainty will remain high going forward. The US sanctions have increased volatility significantly and we think the recent rally is overdone. At this stage, however, base metals markets react swiftly and erratically to new developments and news.

	19 Apr	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
<b>Aluminium</b> USD/t	2,494	2,350	2,175	2,200	2,200	2,210	2,250	2,275
<b>Copper</b> USD/t	6,941	6,980	6,815	7,200	7,200	7,020	7,250	7,350
<b>Nickel</b> USD/t	15,020	13,780	12,550	13,500	13,500	13,360	14,400	14,525
<b>Zinc</b> USD/t	3,209	3,225	3,125	3,150	3,150	3,260	3,000	2,935

### 3-month price trend:



# 5 Ferrous Metals – Steel / Iron Ore / Coking Coal

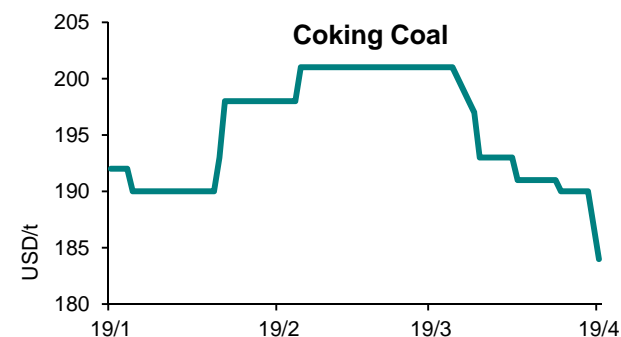
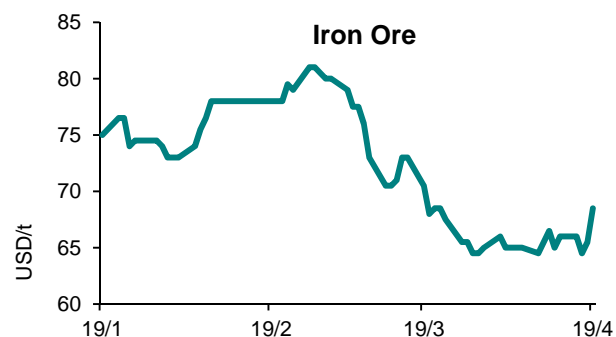
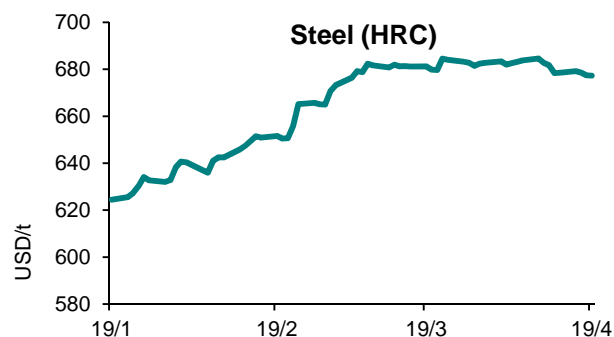
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## Steel prices outside US stall

- ▶ Global steel prices increased by 13% until early March and started to drift on the newly introduced trade tariffs in the US. Due to the tariff announcement, regional steel prices started to drift apart. Steel prices in the US increased strongly on the fear of tightness, while steel prices in Europe remained stable – due to possibility of higher inflow of steel into Europe – and steel prices in China decreased.
- ▶ From a fundamental base, conditions in the steel market are still sound, with solid steel demand – especially from the construction sectors globally – and lower costs for steel raw materials (iron ore and coking coal).
- ▶ We think that steel prices will remain stable in the short term and expect that prices will start to weaken again due to higher levels of production and upcoming seasonal slow demand. That said, we must bear in mind that uncertainty has increased significantly and that creates higher price risk and volatility.

	19 Apr	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
<b>Steel (HRC)</b> USD/t	677	675	650	650	650	660	595	610
<b>Iron Ore</b> USD/t	68.5	62	59	65	65	63	60	62
<b>Coking coal</b> USD/t	184	185	185	175	175	187	160	164

### 3-month price trend:



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

Nadia Menkveld

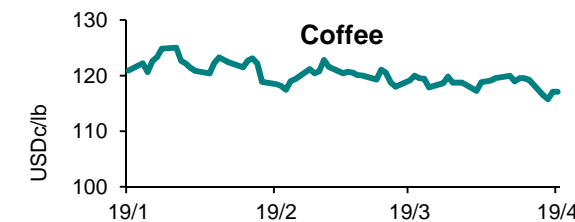
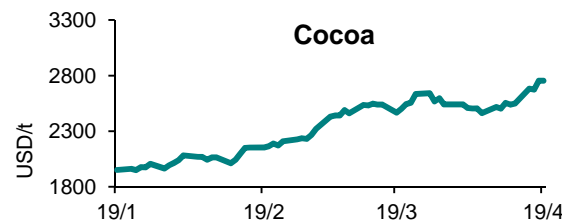
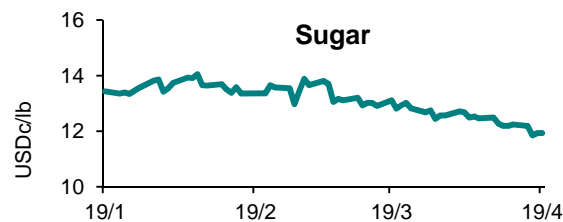
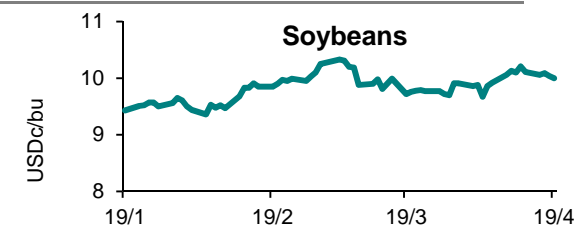
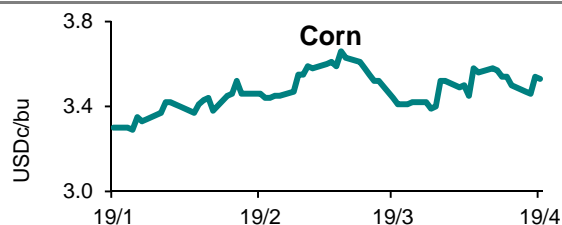
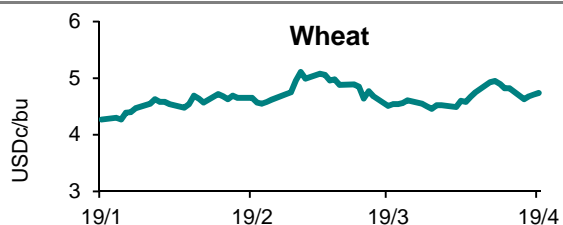
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## Cocoa price at highest level in 17 months

- ▶ Cocoa prices, already high due to a shrunk global surplus, have gained even more ground. The main reason is the European cocoa grind data, which showed a rise of 5.5% in the first quarter of this year. In addition grindings in Asia and Ivory Coast also rose. This resulted in a surge of the cocoa price, which hit 2016 levels. But different from 2016 there is still a global surplus. We expect prices to settle at a lower level at the end of the year.
- ▶ As a result of China's plan to impose import tariffs on soybeans, Brazil prices have surged. US prices have barely reacted to the news. The trade war could have a spill-over effect on corn and wheat, but the results will not yet materialise. All eyes are on the production. For now wheat is still heading for a surplus this year and a shortage next year. Corn will move mostly sideways as production is high, but demand is growing as well.

	19 Apr	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	2nd contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
<b>Wheat</b> USD/bu	474	480	490	500	520	470	550	520
<b>Corn</b> USD/bu	353	400	410	410	410	390	420	420
<b>Soybeans</b> USD/bu	1,000	950	980	1000	1000	980	1100	1040
<b>Sugar</b> USDc/lb	11.93	12	13	14	13	12	15	14
<b>Coffee</b> USD/lb	117.09	120	125	130	135	120	150	135
<b>Cocoa</b> USD/t	2,753	2,200	2,200	2,300	2,300	2,400	2,400	2,400



# A Appendix – Contact details, disclaimer & extra information

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Publication closed on 15 March 2018