

Monthly Commodity Insights

...price forecasts for commodity markets

ABN AMRO Group Economics

The corona shock in commodity prices

March 2020

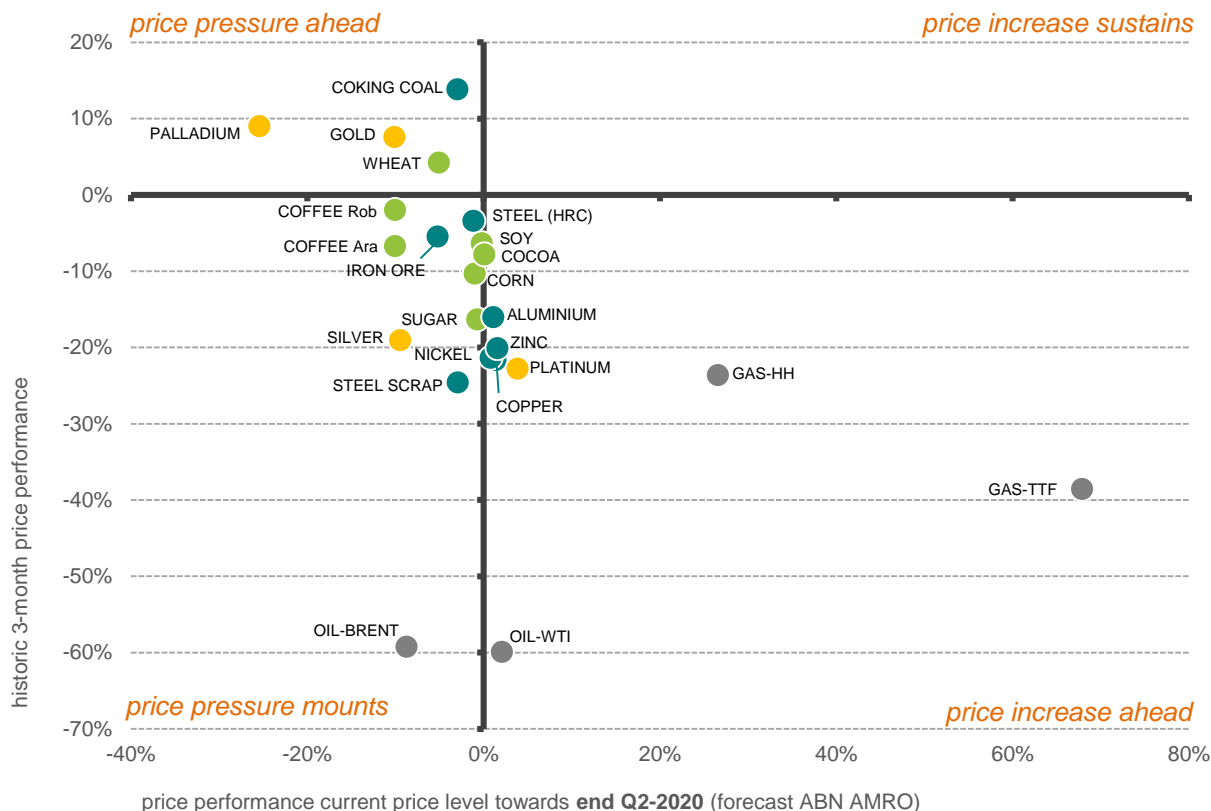


1 All commodities – Energy / Precious / Industrials / Agri

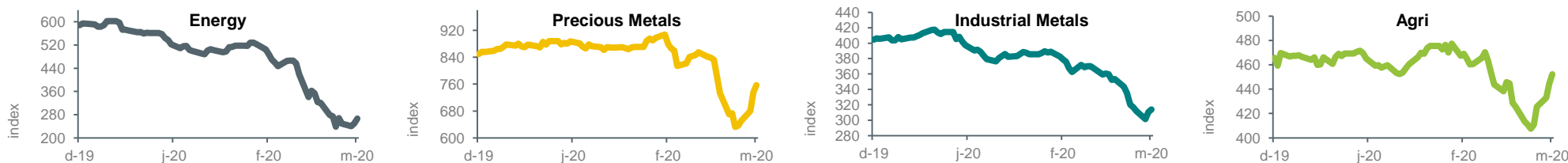
Georgette Boele
Senior Precious Metals Strategist
georgette.boele@nl.abnamro.com

Sharp sell-off in the CRB index and still more to come

- ▶ Since the start of 2020, the CRB Index has dropped by 30% since investors started to factor in the impact of the coronavirus economic shock.
- ▶ Expectations of a recession have resulted in an aggressive downward adjustment in demand expectations for commodities.
- ▶ In market panics, cyclical assets such as commodities are off-loaded.
- ▶ In addition, the surge of the US dollar is generally bad news for commodity prices.
- ▶ We expect the risk-off environment to continue in the coming weeks and months and the dollar to rally by around 5% against a basket of currencies. This will weigh on the CRB index.
- ▶ Weaker economic data will also continue to dent demand for commodities.
- ▶ We think that the current sell-off is not over yet, but that most of the weakness is behind us. Markets still need to factor in fully the weakness in demand.



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



2 Energy – Oil / Gas

Demand shock builds on existing supply glut

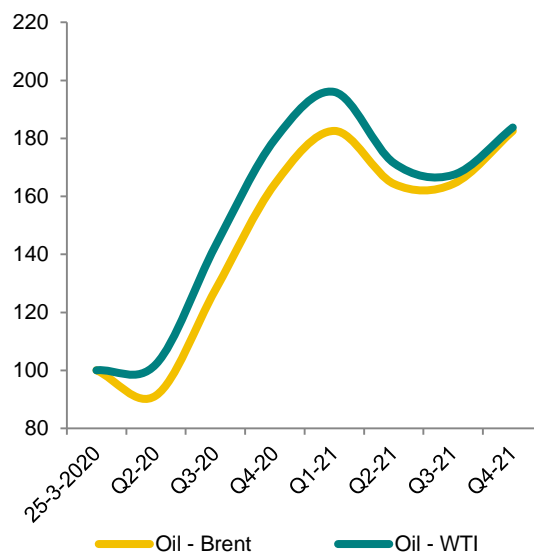
Hans van Cleef
Energy Economist
hans.van.cleef@nl.abnamro.com

- ▶ After the failure of the OPEC+ meeting to reach a new production cut agreement, all oil producers are free to produce whatever they want. As a result, the risk of an even bigger supply glut triggered profit taking on long positions and oil prices were pushed down.
- ▶ After that, the international measures to fight the spreading of the coronavirus were scaled up massively. As a result, global oil demand dropped and expectations are that in Q2 even between 10-15% of global demand will diminish. This pushed prices down to the lows of 2002/03. WTI almost touched USD 20/bbl and Brent dropped below USD 25/bbl.
- ▶ We have revised our oil price forecast lower. For the coming months, oil prices will remain volatile and could see even more downward pressure. Nevertheless, we think that this will be temporary and an oil price rebound towards USD 45/bbl could be seen as soon as the coronavirus measures are cut back and the economy starts to recover.
- ▶ Henry Hub Natgas prices were pushed to a 25-year low. The oversupply due to the mild winter grew further now that commercial and industrial demand have dropped. Also here, a recovery could be seen if activities were to be restarted. Still, the upside is capped due to very large inventories.

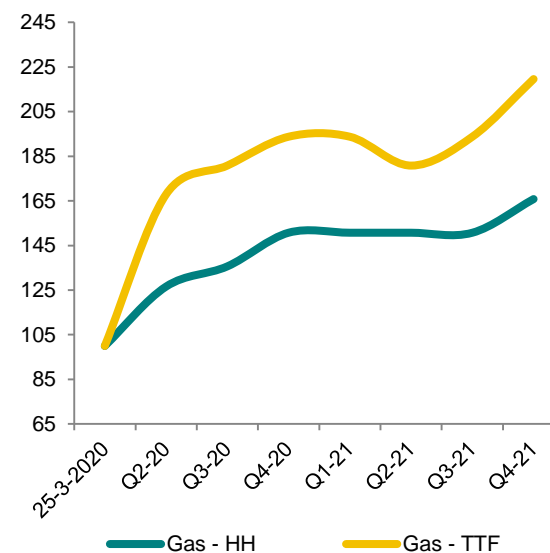
	1st contract	- end of period prices -							- averages -	
	25-03-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Oil - Brent (USD/barrel)	27	25	35	45	50	45	45	50	37	47
Oil - WTI (USD/barrel)	24	25	35	44	48	42	41	45	35	44
Gas - Henry Hub (USD/mmBtu)	1,66	2,10	2,25	2,50	2,50	2,50	2,50	2,75	2,10	2,50
Gas - TTF (EUR/MWh)	7,74	13	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

Georgette Boele

Precious Metals & Diamond Analyst
georgette.boele@nl.abnamro.com

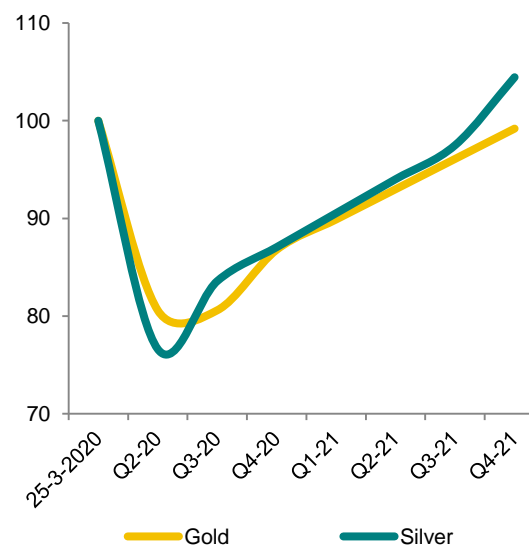
The desired gold position?

- ▶ Gold prices fell sharply at a time when there was panic on equity markets and frantic buying of the dollar. Last week, the dynamics in the gold market changed. The support level at USD 1,450 per ounce held, giving hope to investors that gold prices may have seen the low. In addition, the large government support programs announced triggered concerns among investors about fiscal imbalances. So gold prices were resilient.
- ▶ The Fed's announcement of the aggressive QE program calmed financial markets somewhat and supported gold prices.
- ▶ The closure of gold refineries in Switzerland, resulted in a sense of shortage in physical gold at a time that more investors wanted to buy. So gold prices moved back to USD 1,600 per ounce.
- ▶ We continue to expect weakness in gold prices as sentiment on financial markets deteriorates again and the US dollar strengthens.
- ▶ Long gold is still a crowded trade, especially investment gold. The sense of shortage in physical gold could continue as long as the refineries are closed. Investors may start to realise that they may not have the gold investment that they would have loved to have. (see also our column: [a world of two gold prices?](#))

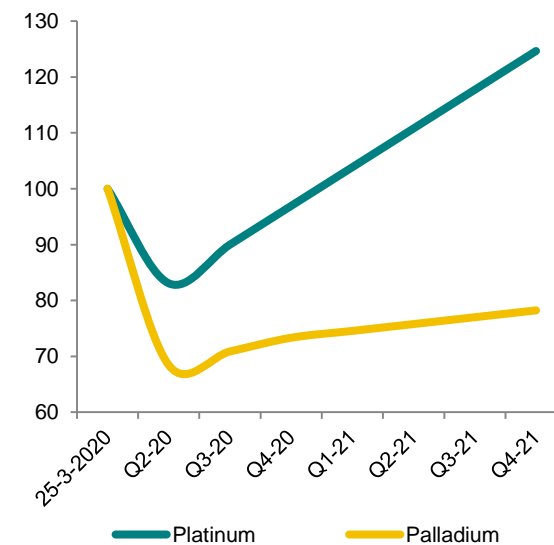
	spot prices	- end of period prices -							- averages -	
	25-03-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Gold (USD/ounce)	1.613	1.300	1.300	1.400	1.450	1.500	1.550	1.600	1.398	1.500
Silver (USD/ounce)	14,36	11,00	12,00	12,50	13,00	13,50	14,00	15,00	12,90	13,60
Platinum (USD/ounce)	722	600	650	700	750	800	850	900	704	800
Palladium (USD/ounce)	2.045	1.400	1.450	1.500	1.525	1.550	1.575	1.600	1.633	1.550

ABN AMRO forecast price trend until 2021 (index)

index (latest spot price = 100)



index (latest spot price = 100)



4 Base Metals – Aluminium / Copper / Nickel / Zinc

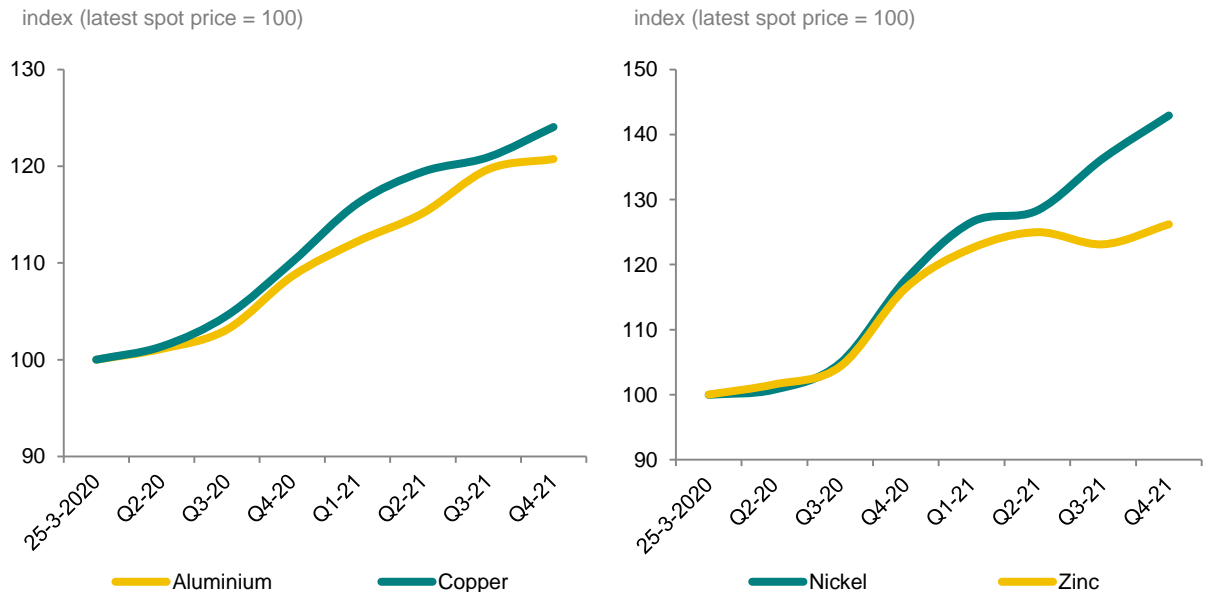
Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

Cyclical base metal prices decrease strongly on coronavirus crisis

- ▶ Sentiment in base metals markets remained subdued over the past month, even after attempts by central banks to cushion the coronavirus effects on global economies. The uncertainty over the coronavirus remained high, which continued to weigh on sentiment in base metals markets.
- ▶ The supply and demand fundamentals have deteriorated sharply. End users in construction, mechanical engineering and automotive sectors have shut down facilities. This dampened demand, while output remained elevated. This means high availability in the short term and will keep prices relatively low during the second quarter of this year.
- ▶ This year, the direction of base metal prices will continue to be dominated by the coronavirus, government policies and the positioning of investors. A positive turn in macro sentiment will be triggered by a containment of the coronavirus epidemic.
- ▶ For 2021, global economic growth will show some recovery. Economic stimulus across the globe will serve as a catalyst for this. Also, if the current low price environment will last for longer, this will result in capacity reductions across the globe. This will impact the supply-demand balance strongly, which will increase the chance of widening deficits on the longer term and will help a recovery in prices.

	spot prices		- end of period prices -						- averages -	
	25-03-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Aluminium (USD/t)	1.503	1.520	1.550	1.633	1.687	1.731	1.799	1.815	1.702	1.816
Copper (USD/t)	4.846	4.912	5.067	5.336	5.629	5.788	5.861	6.012	5.214	5.649
Nickel (USD/t)	11.218	11.308	11.765	13.206	14.196	14.398	15.297	16.035	12.343	14.691
Zinc (USD/t)	1.821	1.849	1.899	2.119	2.230	2.275	2.241	2.297	2.011	2.240

ABN AMRO forecast price trend until 2021 (index)



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

Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

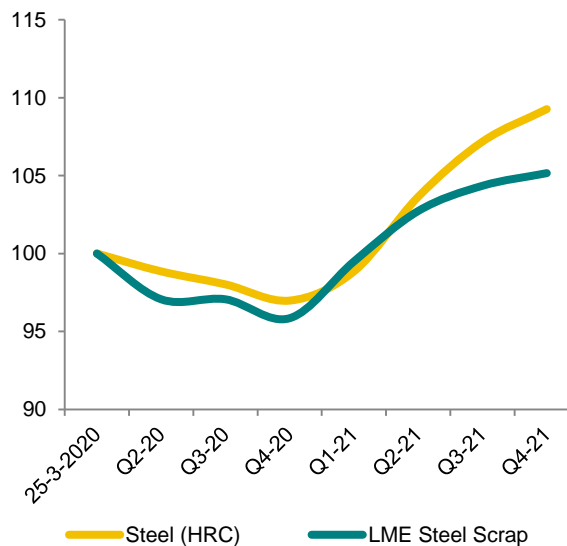
Steel supply high, while demand weakens

- ▶ Even during the coronavirus crisis, steel mills still operated globally with output at high levels. However, with demand weakening amongst end users, steel inventories are piling up.
- ▶ Steel mills in China were not eager to cut production during the crisis since it takes too much time to restart an idled mill. That is the reason why Chinese steel output continued over the past two months, albeit at lower capacity utilisation rates. As a result, the availability grew significantly in China and depressed prices.
- ▶ Due to the increased connectivity of global supply chains in the past years, disruption in supply and transport of raw materials is beginning to have an impact on business activity globally. At the moment the epic centre of the coronavirus outbreak is in Europe and is starting to spread further in the US. Mills in Europe already announced they will cut production, since large car producers shut down production facilities. Prices in both Europe and the US started to decrease from 9 March.
- ▶ Now that stricter coronavirus measures have been introduced in Europe and the US, prices for iron ore and steel scrap have started to soften. While prices of iron ore and steel scrap decreased by 4-6%, coking coal prices gained 4%. Since market conditions have deteriorated swiftly, bearishness over steel market activity will persist and this will depress prices this year.

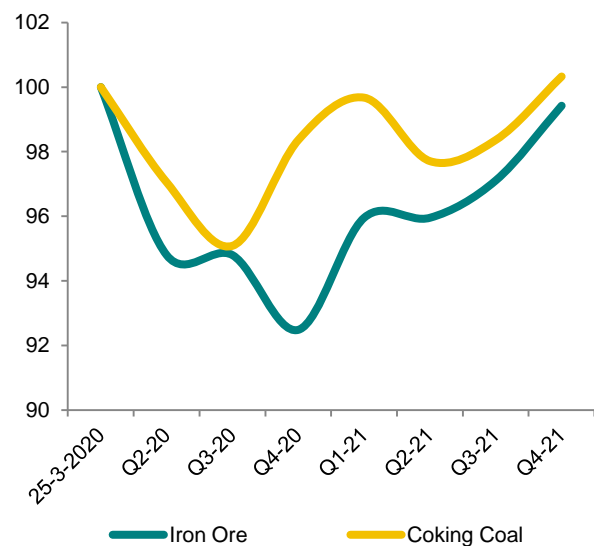
	spot prices		- end of period prices -						- averages -	
	25-03-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Steel (HRC) (USD/t)	481	475	471	466	475	498	515	525	482	504
EU Steel Scrap (EUR/t)	247	240	240	237	246	254	258	260	240	252
Iron Ore (USD/t)	87	82	82	80	83	83	84	86	85	84
Coking Coal (USD/t)	153	148	145	150	152	149	150	153	148	152

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

Casper Burgering

Agricultural Commodities Economist
casper.burgering@nl.abnamro.com

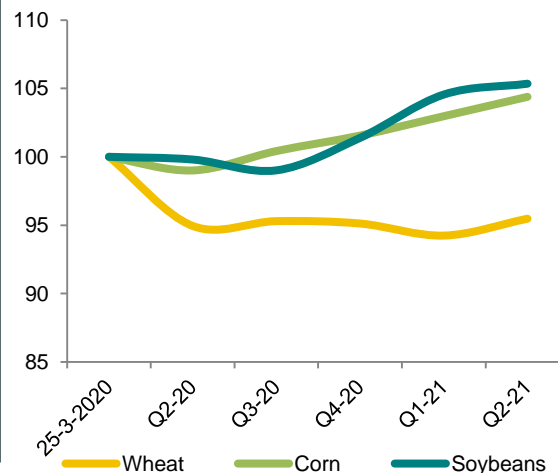
Low oil prices and coronavirus crisis increases price volatility

- ▶ Consumer demand for **wheat** is increasing strongly due to the coronavirus. Output will remain elevated and is able to service any demand increase. Sufficient global supplies will keep prices in check.
- ▶ Low oil prices cuts into ethanol production from **corn**. As a result, total corn demand will soften, leaving the market oversupplied. This will keep prices relatively weak.
- ▶ Demand for **soybeans** has been hit by worries over African Swine Fever, the coronavirus and delayed purchases by China of US beans. Soybean prices will remain volatile for the time being.
- ▶ Production of **sugar** is expected to increase strongly, since Brazil sugar mills avoid ethanol production due to lower oil prices. Supply will increase going forward, keeping prices soft.
- ▶ The coronavirus caused fears over future demand of **cocoa**. This dampened risk appetite amongst funds. Supply is sufficient on improved weather conditions in Ivory Coast. This will keep short term prices soft.
- ▶ Logistic problems in Brazil disrupted supply of **coffee**. This increased prices. Demand is holding up well during the coronavirus crisis. Supply chain uncertainty will keep price volatility elevated.

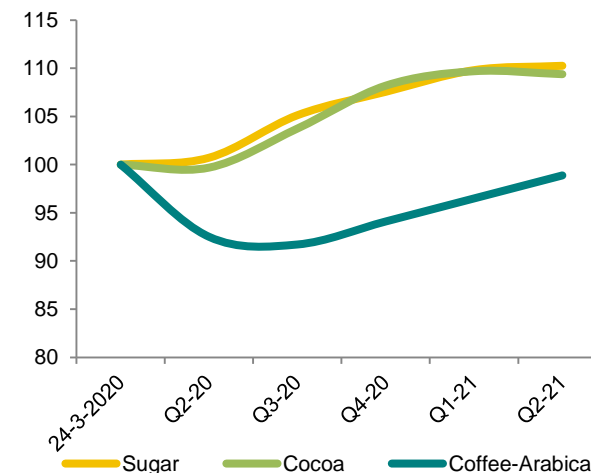
	2nd contract	- end of period prices -							- averages -	
	25-03-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Wheat-CBOT (USDc/bu)	568	539	541	540	535	542			538	
Corn-CBOT (USDc/bu)	354	350	355	359	364	369			365	
Soybeans-CBOT (USDc/bu)	885	883	876	897	925	932			870	
Sugar (USDc/lb)	11,27	11,19	11,68	11,95	12,20	12,25			12,01	
Cocoa (USD/Mt)	2.258	2.260	2.352	2.453	2.487	2.480			2.427	
Coffee-Arabica (USDc/lb)	129	116	115	118	121	124			113	

ABN AMRO forecast price trend until Q2-2021 (index)

index (latest 2nd contract price = 100)



index (latest 2nd contract price = 100)



A Appendix – Contact details, disclaimer & extra information

Contact information ABN AMRO | Group Economics:

	Knowledge area:	Phone:	E-mail:
- Marijke Zewuster	Head Commodity Research	+31 20 383 05 18	marijke.zewuster@nl.abnamro.com
- Georgette Boele	Precious Metals	+31 20 629 77 89	georgette.boele@nl.abnamro.com
- Hans van Cleef	Energy	+31 20 343 46 79	hans.van.cleef@nl.abnamro.com
- Casper Burgering	Industrial Metals & Agriculturals	+31 20 383 26 93	casper.burgering@nl.abnamro.com

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- Twitter Group Economics	@ABNAMROeconomen

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