

Monthly Commodity Insights

...price forecasts for commodity markets

ABN AMRO Group Economics

CRB index slides on slippery oil market

April 2020

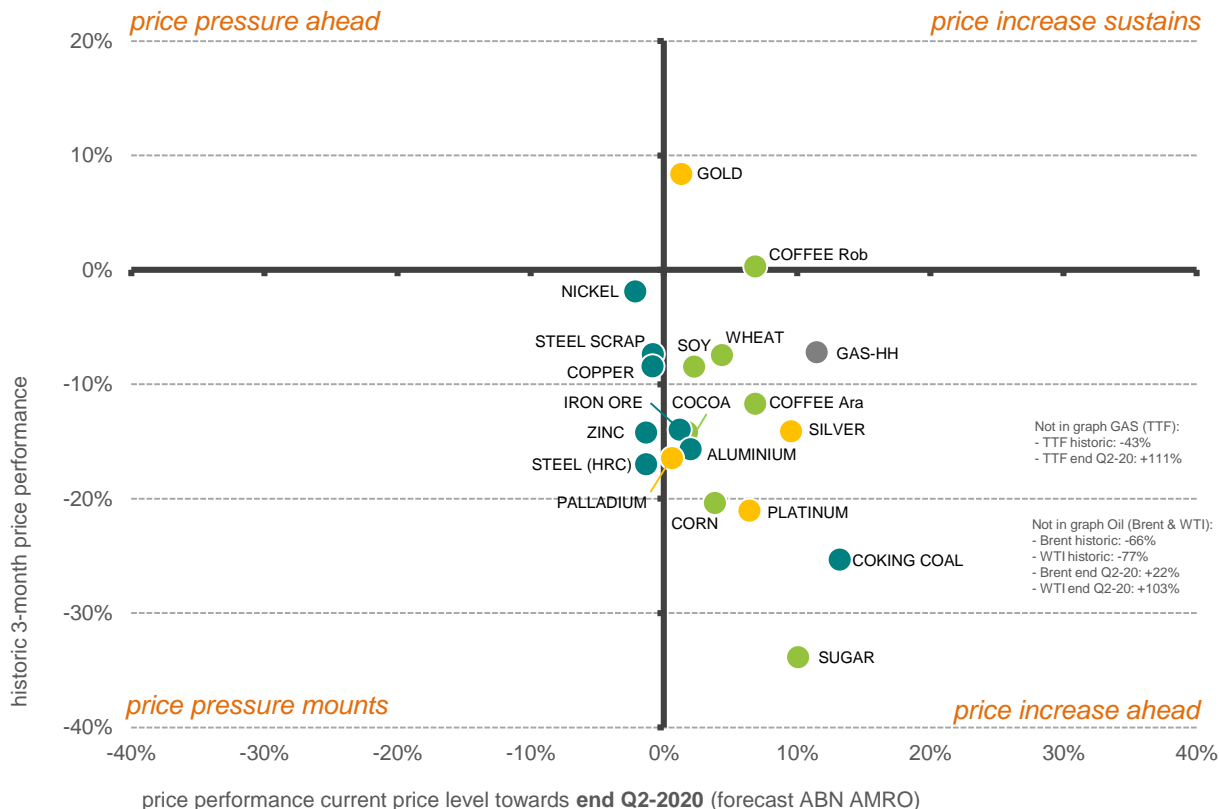


1 All commodities – Energy / Precious / Industrials / Agri

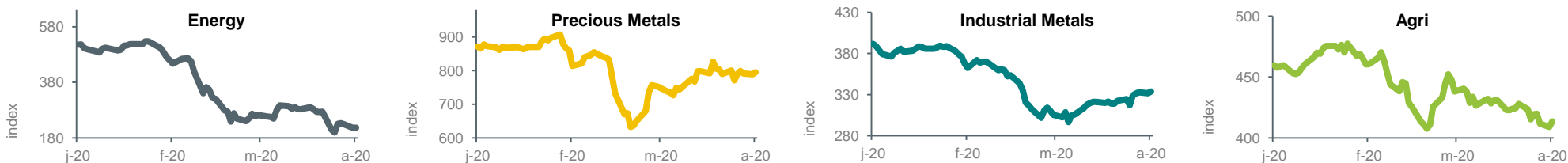
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CRB index slides on the slippery oil market

- ▶ The CRB index has dropped by more than 40% since the start of the year. This drop is largely driven by the slide in oil prices. Nevertheless, although the first WTI contract even traded at negative prices on 20 April, the effects on the CRB-index were not that dramatic. This is because the index' position in WTI is spread over several future contracts, dampening the risk of being exposed to the first contract only.
- ▶ The effects of the global lockdown also added pressure to almost all other commodities. Only gold prices found some support on the base of aggressive monetary policy easing, higher physical gold demand and an improvement in investor sentiment.
- ▶ Although we expect the CRB index to recover once global lockdowns are loosened, we remain very cautious in the near term. Disappointment could be seen if coronavirus measures need to be extended, and high volatility is likely to persist. Once the recovery sets in, it will still be capped by high inventories for many commodities.



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



2 Energy – Oil / Gas

Inventory build runs into the boundaries of storage capacity

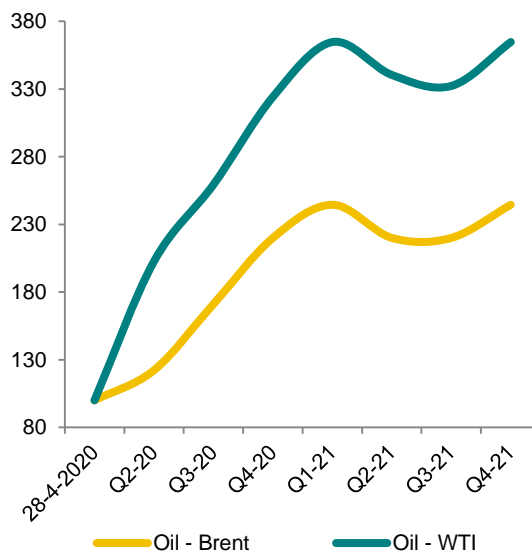
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- ▶ The supply glut in oil markets resulted in a new record low price. Just before the expiry of the May contract, WTI prices dropped to -\$40/bbl on 20 April. However, volumes were low as most traders and investors already switched their positions to contracts later in the curve.
- ▶ The June contracts for both Brent and WTI also came under pressure as fears for a similar situation during next months' expiry resulted in a closing of long positions.
- ▶ On 1 May, the OPEC+ production cut agreement (-9.7 mb/d) comes into force. At the same time, the effects of the low WTI price will result in a steep decline in US crude production.
- ▶ However, lower crude production alone is not enough to balance the demand shock. A recovery in oil demand is needed too for some relief on the inventory build and support for oil prices. Still, this huge level of global inventories will continue to cap the upside potential for oil prices for a long time.
- ▶ The warm spring in Europe continues to keep gas prices low. Here too, inventories are high and, due to the lockdown, demand is lower than normal.
- ▶ US Henry Hub prices found some support on the expectation that the production of associated gas will decline in line with lower US crude production

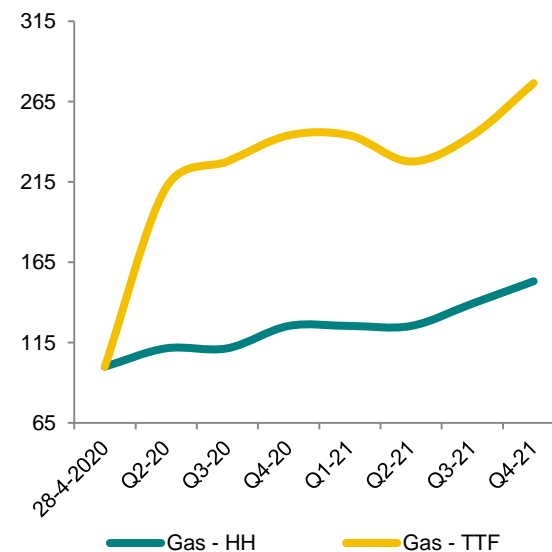
	1st contract	- end of period prices -								- averages -	
	28-04-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021	
Oil - Brent (USD/barrel)	20	25	35	45	50	45	45	50	36	55	
Oil - WTI (USD/barrel)	12	25	32	40	45	42	41	45	34	50	
Gas - Henry Hub (USD/mmBtu)	1,79	2,00	2,00	2,25	2,25	2,25	2,50	2,75	2,00	2,50	
Gas - TTF (EUR/MWh)	6,15	13	14	15	15	14	15	17	14	18	

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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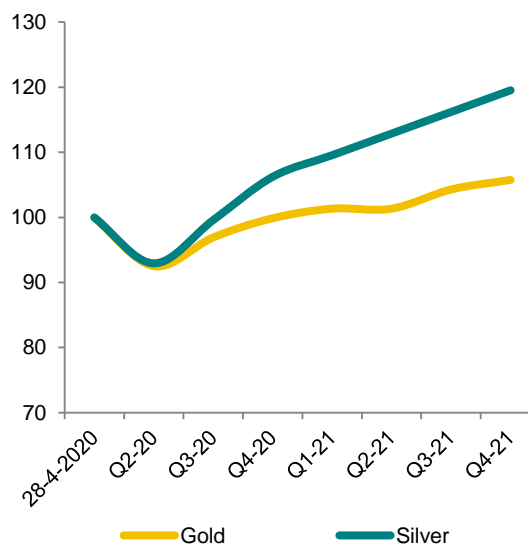
The stars seem to be aligned for gold prices

- ▶ Since 20 March gold prices have rallied in a spectacular manner. They have not only made up for the price weakness earlier in March, but even set a new high on 14 April at USD 1,747 per ounce (still far below the all-time of USD 1,921 on 6 September 2011).
- ▶ The stars seem to be aligned for gold prices. The improvement in investor sentiment, aggressive monetary policy easing, ultra-low interest rates and fiscal stimulus have all supported gold prices
- ▶ We however remain cautious and we expect another round of risk-off in financial markets to support the dollar and to trigger gold position liquidation
- ▶ But gold price weakness will probably be less severe than we had originally forecast. On 16 April we changed our forecasts.
- ▶ New gold price forecast for Q2 is USD 1,575 per ounce (was USD 1,300)
- ▶ We also think that a lot of investors will re-evaluate the gold positions they have or the positions they would like to have.
- ▶ We think investors will probably try to switch more into physical gold, meaning that the premium between physical gold (coins, bars but also futures with physical delivery) and the spot could remain high.

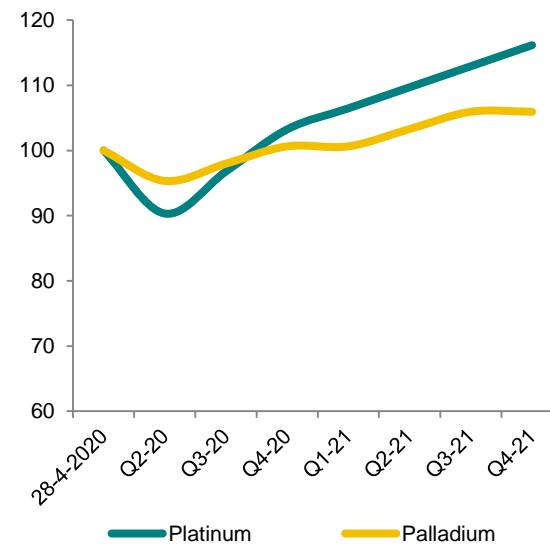
	spot prices		- end of period prices -						- averages -	
	28-04-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Gold (USD/ounce)	1.702	1.575	1.650	1.700	1.725	1.725	1.775	1.800	1.624	1.750
Silver (USD/ounce)	15,06	14,00	15,00	16,00	16,50	17,00	17,50	18,00	15,40	17,00
Platinum (USD/ounce)	775	700	750	800	825	850	875	900	782	850
Palladium (USD/ounce)	1.888	1.800	1.850	1.900	1.900	1.950	2.000	2.000	2.029	1.950

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

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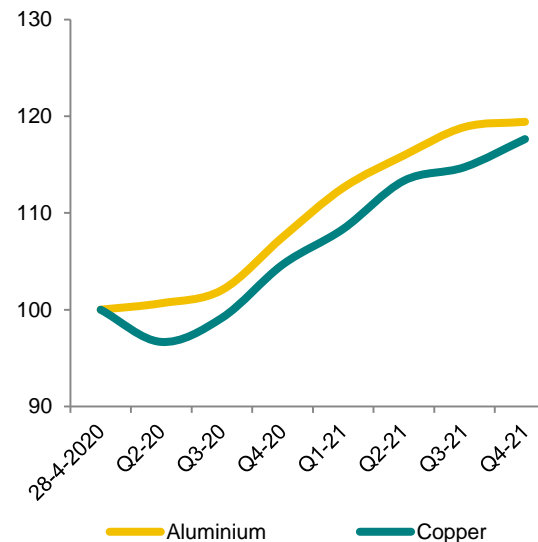
Sentiment in base metals markets will remain cautious this year

- ▶ Sentiment in base metals markets improved somewhat after the US introduced massive economic stimulus measures in late March to support the shuttered US economy. Base metals prices increased on this. Prices also found support on ECB and PBoC stimulus efforts, dollar weakness, stock markets rallies and the OPEC+ deal. Since 23 March base metals prices have risen by 7% on average.
- ▶ Nevertheless, investors in base metals markets will remain cautious going forward. The uncertainty over the coronavirus and the ultimate economic impact remains high, which will continue to weigh on sentiment in base metals markets. This elevated uncertainty will increase price volatility in base metals markets.
- ▶ Capacity cuts in base metals markets were scarce during Q1. Many production facilities continued to produce metals, albeit at lower utilisation rates. This means that availability of metals will remain high in the short and medium term, and will keep prices capped during Q2.
- ▶ During Q2 and Q3 of this year, the direction of base metal prices will continued 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 recovery more strongly and base metals prices will strengthen further on this.

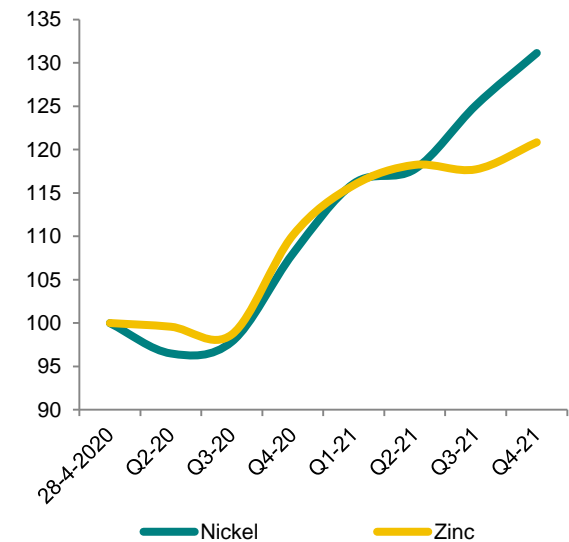
	spot prices		- end of period prices -						- averages -	
	28-04-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Aluminium (USD/t)	1.465	1.475	1.495	1.575	1.650	1.699	1.742	1.750	1.610	1.805
Copper (USD/t)	5.195	5.022	5.151	5.437	5.629	5.888	5.961	6.112	5.260	5.796
Nickel (USD/t)	12.227	11.799	11.965	13.206	14.196	14.398	15.297	16.035	12.309	14.691
Zinc (USD/t)	1.924	1.916	1.899	2.119	2.230	2.275	2.265	2.325	2.011	2.240

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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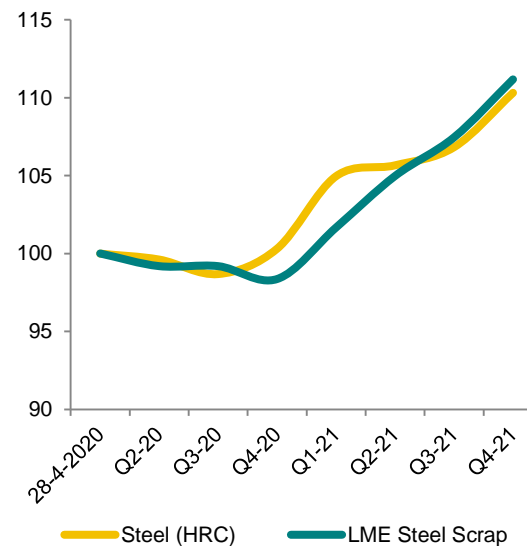
Covid-19 restrictions cut deeply into EU and US steel demand

- ▶ Throughout Europe and the US, numerous steel mill production facilities have been idled on the spread of the coronavirus and the steep drop in end users demand. The current Covid-19 restrictions in these regions are expected to reduce overall steel demand, despite the initiatives to cut steel supply. This means that steel inventories will increase further during Q2 and prices will remain soft.
- ▶ Steel market conditions have deteriorated swiftly over the past month. Bearishness over steel market activity will persist and this will depress prices globally. In China steel market conditions have improved. Chinese steel purchasing managers in large metals end users have become more optimistic over activity.
- ▶ China is a major iron ore market influencer. The country has vast reserves of iron ore domestically, but of inferior quality. This means dependency on external iron ore deliveries will remain. Given the early revival in the Chinese steel industry activity and the low iron ore inventories at ports and mills, demand in China for iron ore is rising. This increase in demand will limit the downside risk to prices.
- ▶ The coking coal price will remain weak. Demand has slowed significantly outside China and will remain weak during Q2 on idled steel capacity in Europe and the US. Also, supply will be abundant and is expected to exceed demand

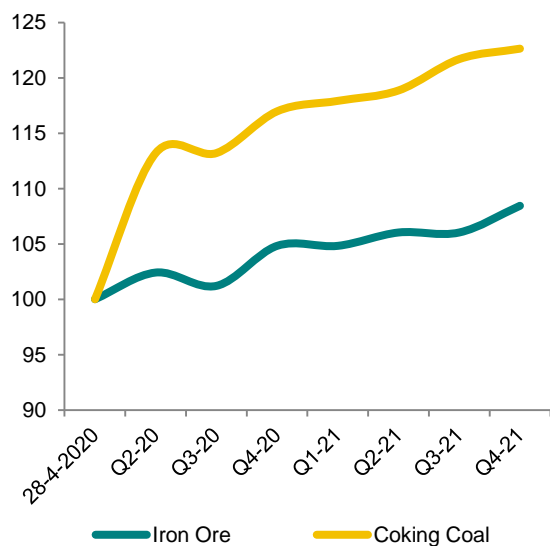
	spot prices		- end of period prices -						- averages -	
	28-04-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Steel (HRC) (USD/t)	431	429	425	432	452	455	460	475	452	461
EU Steel Scrap (EUR/t)	242	240	240	238	246	254	260	269	240	252
Iron Ore (USD/t)	83	85	84	87	87	88	88	90	86	87
Coking Coal (USD/t)	106	120	120	124	125	126	129	130	129	130

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

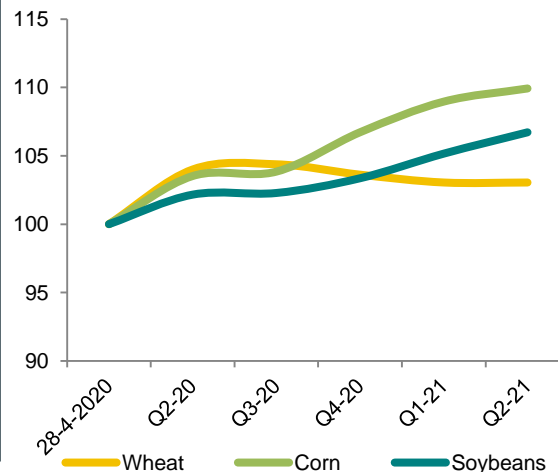
COVID-19, plummeting oil price hurts most agricultural commodities *Agricultural Commodities Economist*
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- ▶ Demand for **wheat** has increased strongly due to the coronavirus. There are concerns over global supplies since many large exporters introduced quotas in order to service domestic demand. However, output will remain elevated going forward. Sufficient global supplies will ultimately keep prices in check.
- ▶ Lower oil demand also slashed ethanol production from **corn**. This softens corn demand significantly and will leave the corn market oversupplied. This will keep prices weak.
- ▶ Demand for **soybeans** has been poor on lower Chinese purchases and less feed demand. Also, the supply prospects remains good due to a bumper crop in South America. This will cap the upward potential for prices.
- ▶ Brazilian cane mills still avoid **sugar** based ethanol production due to lower oil prices. This means that sugar supply will increase more during the second quarter, keeping prices soft.
- ▶ First-quarter demand for **cocoa** fell strongly in North America and remained stable in Asia & Europe. Worries over supply persist with irregular weather conditions in Ivory Coast. This will keep short term prices volatile.
- ▶ The fall in demand for **coffee** from the leisure sector has been sharp due to the coronavirus. Supply side risks are still high, though, and this will keep price elevated in the short term.

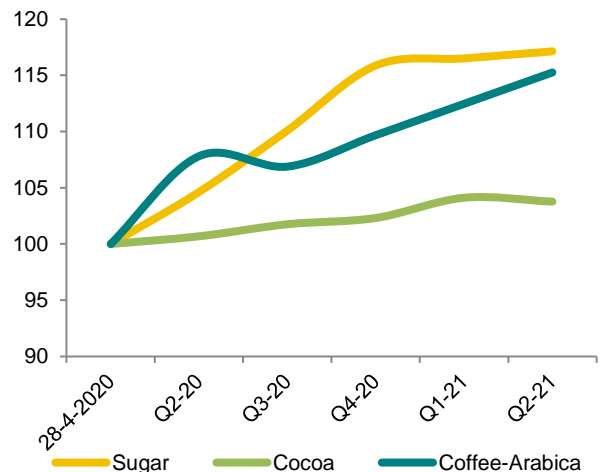
	2nd contract		- end of period prices -						- averages -	
	28-04-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21	2020	2021
Wheat-CBOT (USDC/bu)	526	547	549	545	542	542	547	555	546	540
Corn-CBOT (USDC/bu)	312	323	324	333	340	343	346	351	340	342
Soybeans-CBOT (USDC/bu)	832	850	851	860	875	888	903	909	868	892
Sugar (USDC/lb)	9,52	9,96	10,48	11,03	11,09	11,15	11,56	12,14	11,23	11,39
Cocoa (USD/Mt)	2.342	2.358	2.383	2.396	2.438	2.430	2.445	2.475	2.376	2.415
Coffee-Arabica (USDC/lb)	108	116	115	118	121	124	119	119	113	121

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

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