Monthly Commodity Update

ABN AMRO Group Economics
Commodity Research

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Chinese imports remains commodities' growth engine despite transition

China is a strong driver of global commodities markets. China's industrial activity and the strength of its economy has an impact on commodity price trends. The increasing share of China in commodities markets manifested itself since early 2000. China's commodities demand increased considerably since then and has made China the top consumer in many commodities it is today. China accounts for a large share in global imports of iron ore, copper, nickel, lead, tin, aluminium, crude oil, gold, soy, corn, and beef. On average, China has a share in total industrial metals supply and demand of respectively 40% and 48%. However, Chinese gold consumer demand (jewellery and investment demand) has declined since the peak in June 2013. This is also reflected in lower gold imports via Hong Kong to China and this had been a head-wind for gold prices. Although China's economy is going through a transition of being industry driven towards a more consumer driven economy, we don't believe that commodity demand will change too sharply. We therefore remain optimistic about Chinese demand for commodities and thus maintain our overweight position in commodities.

ABN AMRO price expectation

	3-month view	*long-term view*
CRB Index	↗	↑
Brent	↑	↑
WTI	↑	↑
Nat. gas (HH)	↔	↔
Nat. gas (TTF)	↙	↓
Gold	↙	↓
Silver	↓	↙
Platinum	↙	↔
Palladium	↓	↔
Aluminium	↔	↔
Copper	↔	↗
Nickel	↔	↗
Zinc	↔	↗
Steel (HRC)	↗	↑
Iron ore	↔	↗
Coking coal	↙	↓
Wheat	↗	↑
Corn	↔	↗
Soybeans	↔	↗
Sugar	↗	↔
Arabica Coffee	↔	↔
Cocoa	↗	↔

- Short term view: our three-month outlook versus spot rate.
- Long term view: 2017 eop forecast price versus spot price.

↓	decrease by 11% or more
↙	decrease between 5% and 10%
↔	price movement between -4% and +4%
↗	increase between 5% and 10%
↑	increase by 11% or more

Energy: **Will it cut production, or not?**

(**Click here** for the latest update on energy)

Recently, OPEC announced its intention to cut oil production to 32.5-33 mb/d at the upcoming official OPEC meeting on 30 November. This in order to create a better balance between supply and demand, and thus to support oil prices. Whether this deal will be a success remains very uncertain. However, financial markets seems to give it the benefit of the doubt. The ongoing rise in oil demand, mainly triggered by Asian demand, in combination with lower production, is pushing the market towards an equilibrium. This supports our view that oil prices will rise in the coming months to reach USD 65/bbl at the end of 2016.

Precious metals: **Downward revision precious metal price forecasts**

(**Click here** and **here** for the latest updates on precious metals)

On 12 and 13 October we revised downwards our precious metals price forecasts. We now see gold prices reaching USD 1,200 per ounce at the end of this year and USD 1,150 per ounce at the end of next year. A weaker investment case for precious metals will likely trigger a further closing of the enormous net-long positions resulting in substantial price declines. In the case of the cyclical precious metals, only a moderate industrial and car sales growth will likely weigh on platinum and palladium prices as well.

Base metals: **Chinese imports of copper and zinc increases sharply**

(**Click here** for the latest update on base metals)

The import of unwrought copper and zinc into China has increased by respectively 13% and 61% until September on a yearly basis. The Chinese imports of copper ores and copper anode have grown strongly over the same period by respectively 31% and 46%. While the imports of bauxite until September shows a small increase on a yearly basis, the imports of unwrought aluminium and scrap has firmly declined. Chinese oversupply of aluminium is still high and this is pressuring import demand. Nickel imports has dried up because top suppliers (Indonesia and Philippines) have sharply reduced the ore availability for export markets.

Ferrous metals: **Chinese imports of steel raw materials grows strongly**

(**Click here** for the latest update on ferrous metals)

The coking coal price will remain at its relatively high level as long as import demand from China remains solid. Growth of Chinese iron ore demand continues and imports of iron ore increased by 9% annually until September. In the steel sector we think that international pressure on the Chinese steel industry will eventually have a downward effect on supply. China's steel exports dropped during August and September by respectively 7% and 22% yoy. The relatively high coking coal prices margins for steel producers are under increasing pressure. For the rest of this year, we expect an increase in steel prices in all regions.

Agriculturals: **Mixed picture between grains and softs**

(**Click here** for the latest update on agriculturals)

The new grains' season has kicked off with prices again languishing at low levels. Since prices peaked last summer, the price trend has remained negative. Whereas renewed record production levels in the grains market is the dominant driver, a different picture prevails in the softs commodity prices. The price for sugar is currently hovering around its highest level in five years. The coffee price is staging its strongest advance in two years' time, whereas cocoa is consolidating its position at relatively high levels.

ABN AMRO forecasts

ABN AMRO Commodity Price Forecasts

	Spot rate 17 Oct.	3-months performance	Q1 (2017)	Q2 (2017)	Q3 (2017)	2016f (year-end)	2016f (year avg)	2017f (year-end)	2017f (year avg)
Commodity Index:									
- CRB index	187	0%	205	205	210	205	190	210	205
- Brent (USD/barrel)	50.89	7%	65	70	75	65	50	70	70
- WTI (USD/barrel)	48.81	9%	65	65	70	65	50	65	65
- Gas HH (USD/mmBtu)	2.92	18%	2.75	2.50	2.75	2.80	2.50	3.00	2.70
- Gas TTF (EUR/MWh)	15.60	15%	14.00	13.00	13.00	14.00	13.25	12.00	13.00
- Gold (USD/oz)	1,311	-5%	1,150	1,100	1,125	1,200	1,258	1,150	1,138
- Silver (USD/oz)	19	-13%	16.0	15.5	16.5	16.5	17.1	17.5	16.3
- Platinum (USD/oz)	1,003	-15%	875	850	900	900	998	1,000	894
- Palladium (USD/oz)	712	-1%	575	550	600	600	599	700	594
- Aluminium (USD/t)	1,669	0%	1,721	1,726	1,685	1,674	1,600	1,720	1,690
(USD/lb)			*0.78*	*0.78*	*0.76*	*0.76*	*0.73*	*0.78*	*0.77*
- Copper (USD/t)	4,805	-5%	4,975	5,060	5,100	4,842	4,750	5,125	5,100
(USD/lb)			*2.26*	*2.29*	*2.31*	*2.22*	*2.15*	*2.32*	*2.31*
- Nickel (USD/t)	10,306	0%	10,500	10,950	11,200	10,298	9,585	11,030	11,250
(USD/lb)			*4.76*	*4.97*	*5.08*	*4.67*	*4.35*	*5.00*	*5.10*
- Zinc (USD/t)	2,399	3%	2,470	2,500	2,425	2,375	2,050	2,525	2,450
(USD/lb)			*1.12*	*1.13*	*1.10*	*1.08*	*0.93*	*1.15*	*1.11*
- Steel (global) (HRC; USD/t)	437	-1%	495	530	505	465	420	515	511
- Iron ore (fines, USD/t)	58	-1%	60	60	58	58	55	64	60
- Coking coal (USD/t)	498	116%	165	150	120	185	140	110	135
- Wheat (USDc/bu)	417	-4%	410	425	475	440	440	485	448
- Corn (USDc/bu)	356	-1%	345	375	390	350	350	390	375
- Soybean (USDc/bu)	978	-11%	975	1,025	1,065	975	975	1,065	1,032
- Sugar (USDc/lb)	21.95	15%	24.00	23.00	23.00	23.00	18.75	22.50	23,12
- Arabica coffee (USDc/lb)	151	4%	150	150	145	155	140	145	147
- Cocoa (USD/t)	2,751	-13%	3,000	3,000	2,750	3,000	2,955	2,800	2,887

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