

Support from fundamentals ahead

ABN AMRO Group Economics
ABN AMRO Sector Advisory

October 2018

Monthly Commodity Update
...price outlook for commodity markets



1 All commodities – Energy / Precious / Industrials / Agri

Hans van Cleef

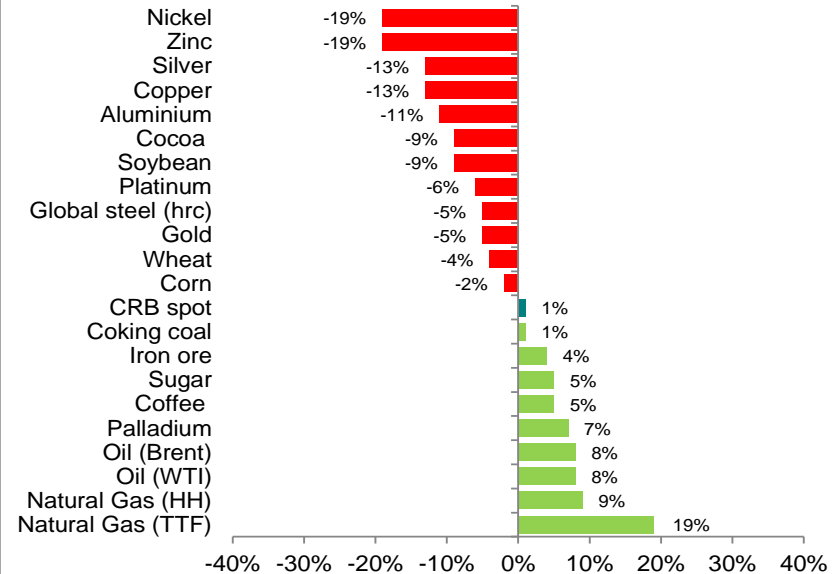
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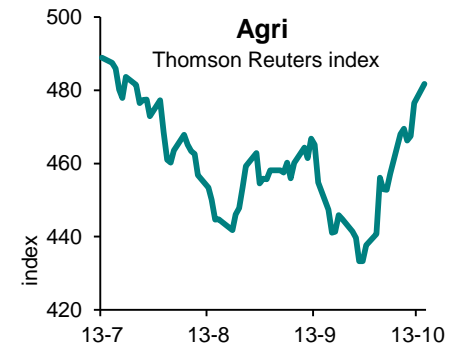
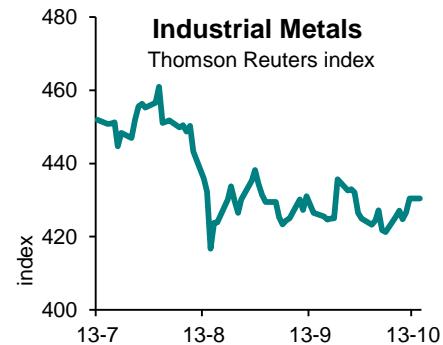
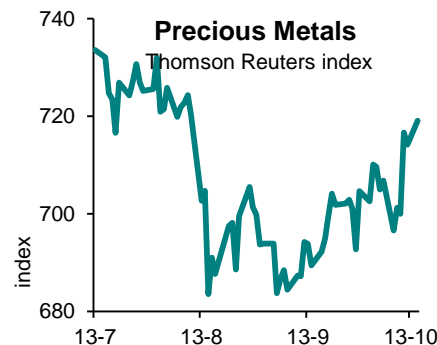
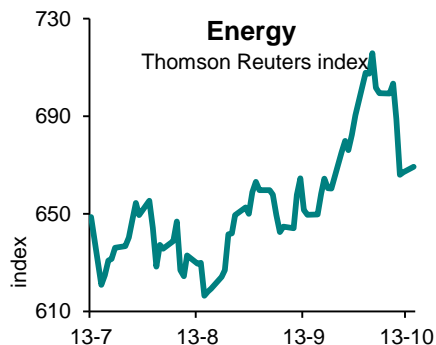
Positive outlook for the CRB Index reflected in underlying commodities' performance

- ▶ Energy prices have risen during the past three months. Energy accounts for roughly 40% of the CRB index. This positive sentiment in energy was mostly offset by the declines in most base and precious metals, even despite the recent uptick in precious metals and agri.
- ▶ We expect more support for the index as we revised our oil and gas price forecasts higher. Supply related issues and strong demand are likely to remain supportive for these commodities.
- ▶ We expect higher gold prices based on a deterioration in sentiment towards the US dollar, a recovery of the CNY and a peak in 10y US Treasury yields.
- ▶ We expect deficits in copper and nickel due to strong demand. With LME inventories under pressure, more support for copper and nickel prices can be expected.
- ▶ We expect price declines for most tropical commodities as abundant supply and strong harvests cap the upside.

Price performance over last 3 months:



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



2 Energy – Oil / Gas

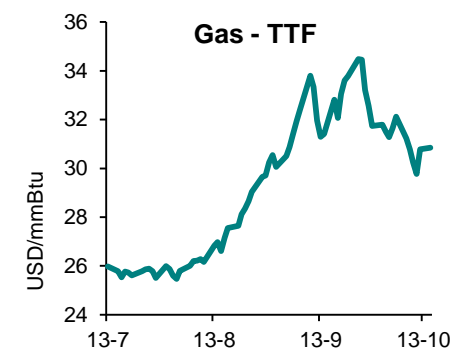
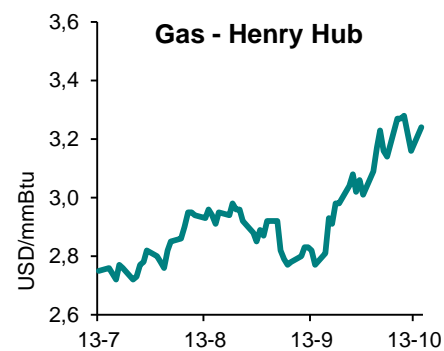
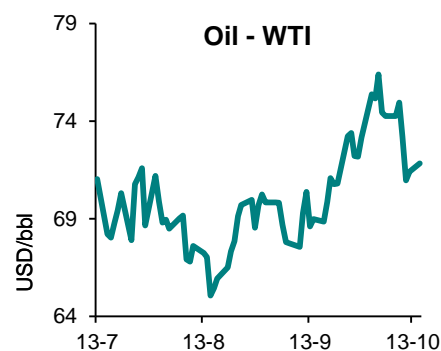
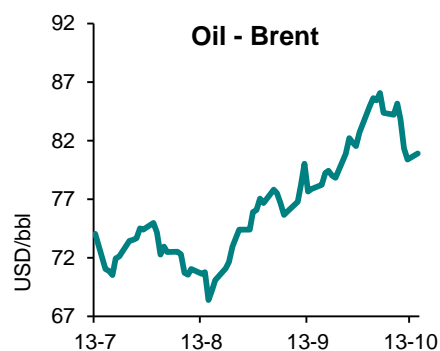
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More upside ahead for both oil and (European) gas prices

- ▶ We revised our Brent and WTI oil price forecasts somewhat higher after recent rallies. Oil prices gained in recent weeks. The price rally was partly driven by investors anticipating on the main drivers (supply related worries, ongoing demand growth, geopolitical tensions, etc.). We believe that most of these drives have not been priced in yet. As a result, more upward potential could be seen in the coming months as investors would increase their long positions on oil.
- ▶ We also revised our TTF gas price forecast higher. Due to strong expected demand (both seasonal and replacement for Belgium nuclear power generation capacity), a late rebuilding of winter storage and higher EU ETS prices, prices will remain elevated for a longer period of time.
- ▶ The US Henry Hub forecast is unchanged, as sufficient supply caps the upside potential, although a sudden increase in winter demand may trigger a short-lived price peak.

	15 Oct	Q4 2018	Q1 2019	Q2 2019	2018	2018	2019	2019
	1st contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Brent USD/barrel	80.72	85	90	95	85	78	85	90
WTI USD/barrel	71,78	75	80	85	75	70	76	80
Gas HH USD/mmBtu	3.23	3.25	3.00	3.00	3.25	3.00	3.00	2.90
Gas TTF EUR/MWh	26.40	29	27	25	29	24	30	27

3-month price trend:



3 Precious Metals – Gold / Silver / Platinum / Palladium

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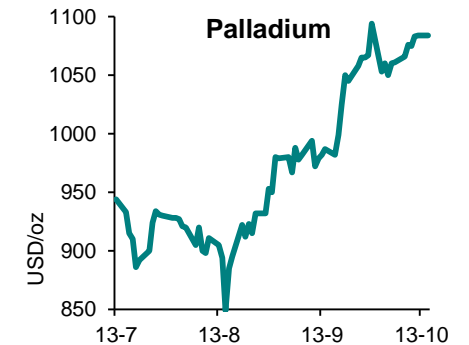
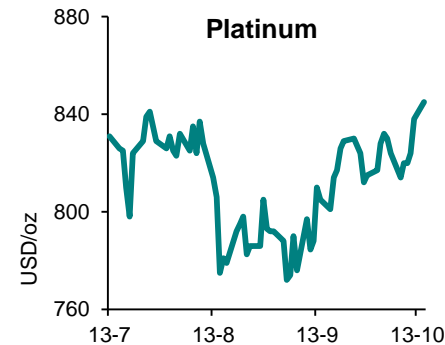
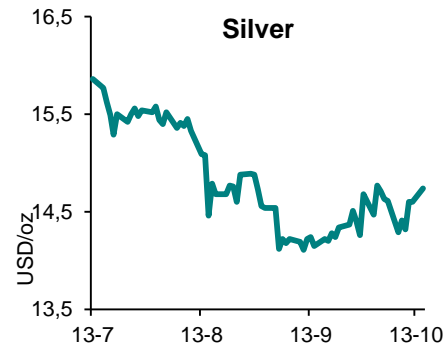
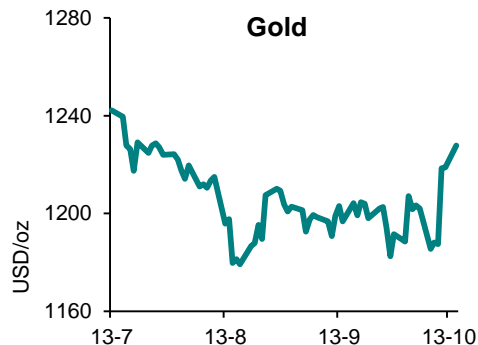
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Gold prices have seen the low

- ▶ Last week gold prices declined towards USD 1,180 per ounce but recovered quickly again. Afterwards, prices broke above the series of highs of USD 1,210-1,215 per ounce
- ▶ The reluctance for prices to move lower and breaking above previous peaks is a positive sign for the gold price outlook
- ▶ We think that gold prices have seen the low and we expect higher prices. Our year-end forecast is USD 1,250 per ounce and our end 2019 forecast is USD 1,400 per ounce.
- ▶ This is because we expect the US dollar to peak and the sentiment towards the US dollar to deteriorate
- ▶ More importantly we expect the Chinese yuan to recover somewhat and this should be positive for gold prices
- ▶ We also expect 10y US Treasury yields to peak. This is also a positive for gold prices.

	15 Oct	Q4 2018	Q1 2019	Q2 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Gold USD/ounce	1,229	1,250	1,300	1,325	1,250	1,264	1,400	1,325
Silver USD/ounce	14.81	15.5	16.0	16.5	15.5	15.8	18.0	16.6
Platinum USD/ounce	843	850	900	950	850	882	1,000	938
Palladium USD/ounce	1,082	1,000	1,000	1,000	1,000	999	1,000	1,000

3-month price trend:



4 Base Metals – Aluminium / Copper / Nickel / Zinc

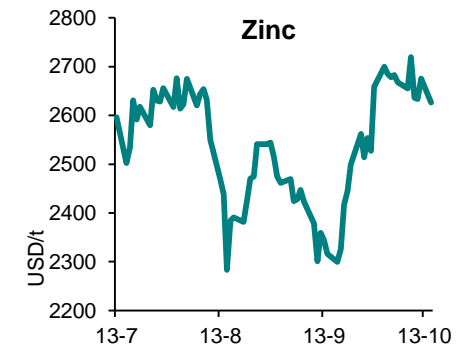
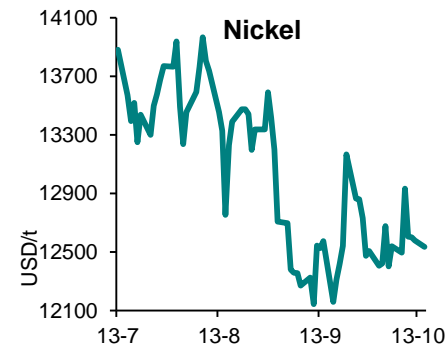
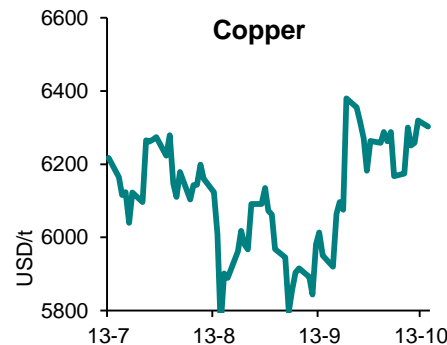
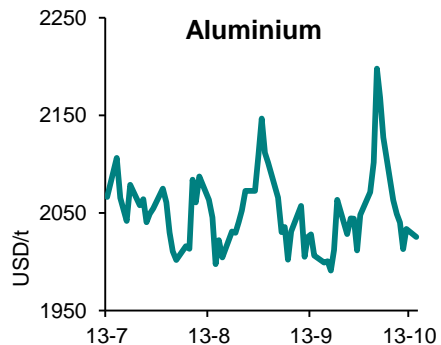
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Fundamentals will dictate price trend in Q4

- ▶ We foresee a positive price trend for base metal prices during Q4 of 2018, especially for copper and nickel. For aluminium and zinc the price trend is likely to be more neutral.
- ▶ Aluminium will be heavily influenced by the US sanction decision on Rusal on the 12 of November and the limited supply of alumina worldwide.
- ▶ For the time being, the tit-for-tat trade measures will continue to influence base metals in the short term, which will increase volatility. But because of the more positive fundamental trends in Q4, we expect stronger prices going forward.
- ▶ Conditions on the supply side are expected to worsen in most markets in the coming months. Less supply at the current level of demand will bring deficits in most base metal markets. Combined with further decreasing inventories in LME warehouses, prices will increase.

	15 Oct	Q4 2018	Q1 2019	Q2 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Aluminium USD/t	2,026	2,175	2,290	2,250	2,175	2,175	2,250	2,275
Copper USD/t	6,303	6,615	7,000	6,950	6,615	6,710	6,920	6,909
Nickel USD/t	12,535	13,500	14,500	14,750	13,500	13,570	14,400	15,440
Zinc USD/t	2,627	2,450	2,500	2,300	2,430	2,760	2,665	2,650

3-month price trend:



5 Ferrous Metals – Steel / Iron Ore / Coking Coal

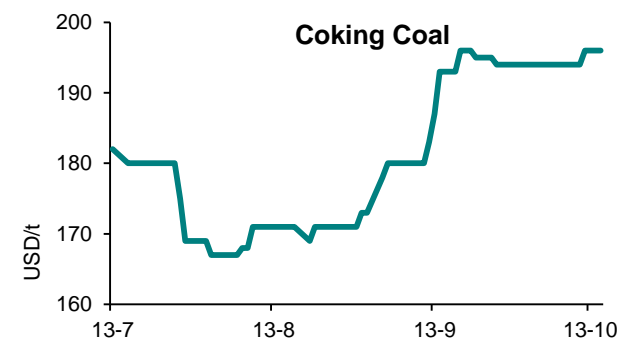
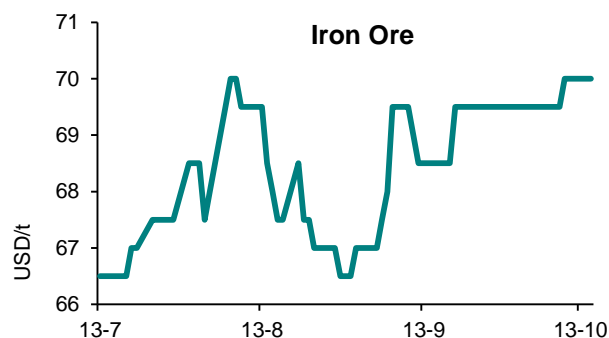
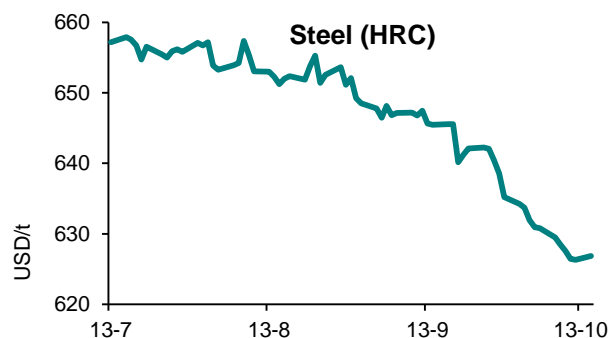
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Chinese policies continues to create uncertainty

- ▶ Supply side issues will shape the global steel market going forward, especially steel supply side reforms in China. The pace in steel production cuts in China will increase by on-going capacity output restrictions due to environmental regulations. However, the variation in governmental steel capacity cuts – due to frequent adjustments – has increased uncertainty.
- ▶ Margins of steel mills remain high and this is an incentive for many mills to maximise output. In order to comply also with governmental environmental regulations, steel mills prefer to source higher grades of iron ore, which is less energy intensive. As a result, prices of high quality iron ore have increased relatively strong compared to lower grade ores.
- ▶ Coking coal prices are expected to remain high. Demand will remain robust, while supply will decrease on environmental restrictions and mining capacity constraints globally.

	15 Oct	Q4 2018	Q1 2019	Q2 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Steel (HRC) USD/t	627	635	650	645	650	645	610	630
Iron Ore USD/t	70	66	65	63	66	67	60	62
Coking coal USD/t	196	190	185	178	185	191	172	178

3-month price trend:



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

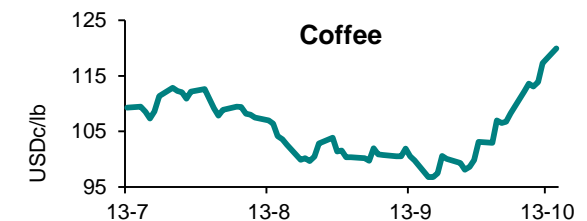
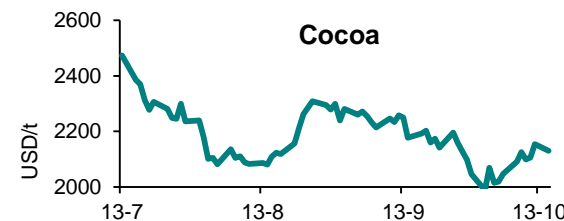
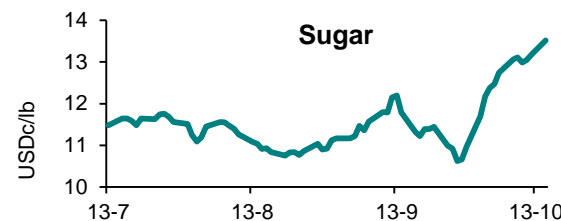
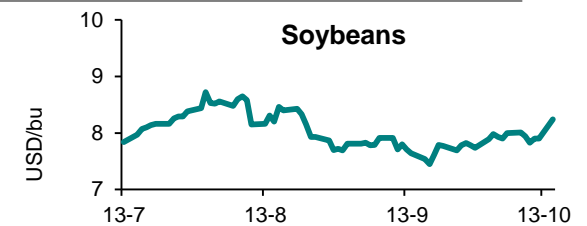
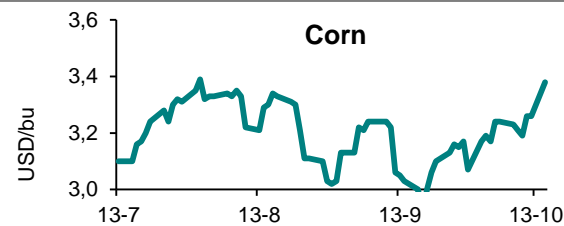
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Recovery in grains prices during Q4

- ▶ In wheat, prices will rise during Q4 on contraction in global output, provided global demand remains robust. In corn, the abundant supply will impact prices during the remainder of this year and keep them relatively low. The only way that the tide will turn in this scenario is if US rainfall is heavier than average. In soybean, a record US harvest will bring price pressure. Fresh demand from EU should provide relieve.
- ▶ In coffee, good harvest and the political situation in Brazil has caused coffee prices to fall. The recent recovery of the real has pushed up prices again. The forthcoming elections are increasing uncertainty about future government policy, which is making both investors and consumers more nervous. This is also the case for sugar. However, in sugar the increase in supply on the global markets will limit the extent of any price increase. In cocoa, there is currently a net surplus in the market. This will cause further price pressure.

	15 Oct	Q4 2018	Q1 2019	Q2 2019	2018	2018	2019	2019
	2nd contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Wheat USDc/bu	544	545	531	535	545	512	600	550
Corn USDc/bu	390	405	415	395	405	380	420	400
Soybeans USDc/bu	906	920	955	985	920	945	1100	975
Sugar USDc/lb	13.53	12.85	12.50	12.95	12.85	12.55	13.25	13.00
Coffee USDc/lb	144	139	140	132	139	134	140	135
Cocoa USD/t	2,159	2,125	2,250	2,230	2,125	2,295	2,400	2,310



A Appendix – Contact details, disclaimer & extra information

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