Weakness around the corner

ABN AMRO Group Economics
ABN AMRO Sector Advisory

May 2018

Monthly Commodity Update

…price outlook for commodity markets

1 All commodities – Energy / Precious / Industrials / Agri

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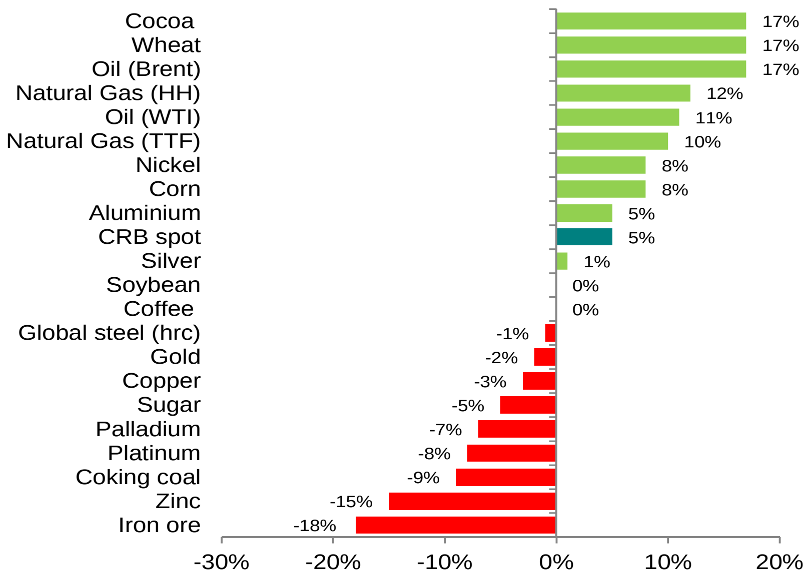
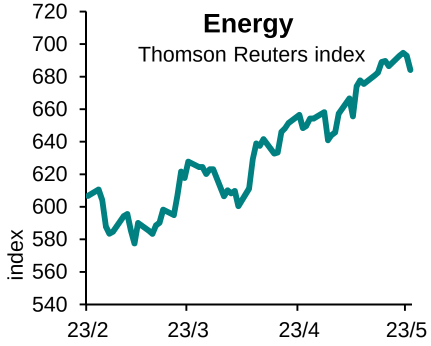
Weakness around the corner

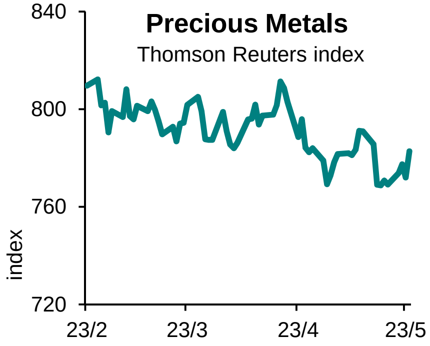
- The CRB Index has risen by 6.5% year-to-date. It has reached the highest level in 2.5 years. A surge in oil and grain and soft commodity prices have resulted in a higher CRB index.
- The US stepped out of the Iran nuclear deal and will impose new sanctions on the country. As a result oil prices have rallied to USD 80 p/b
- Higher demand and supply related news (drop in inventories and possible lower crops next year) caused price gains for wheat.
- Weakness in gold and silver prices because of a higher US dollar and higher US Treasury yields have moderated the rise in the CRB somewhat.
- We expect a lower CRB index in the near-term as oil prices have run ahead of themselves and weaker precious metal prices.

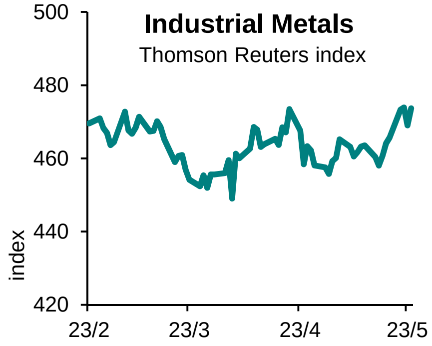
Price performance over last 3 months:

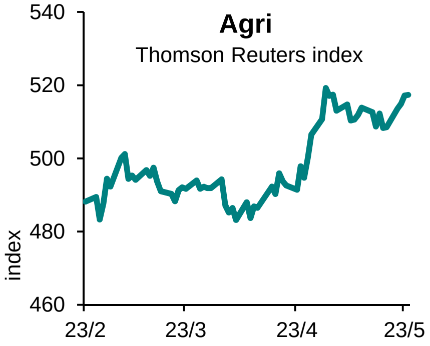


3-month price index trend (Thomson Reuters Index):









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics, ABN AMRO Sector Advisory

2 Energy – Oil / Gas

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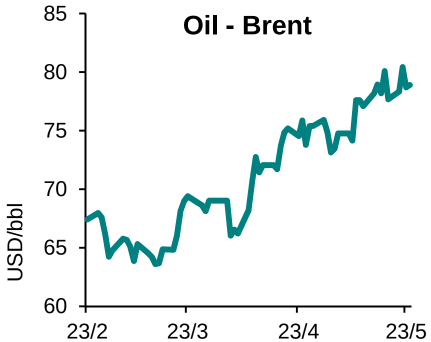
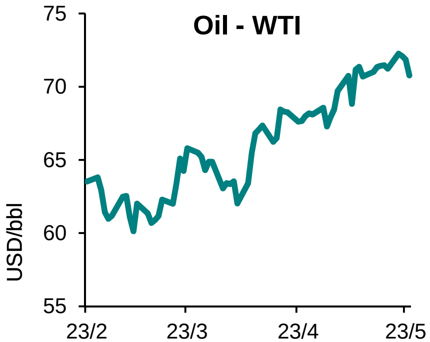
Oil prices: testing the highs

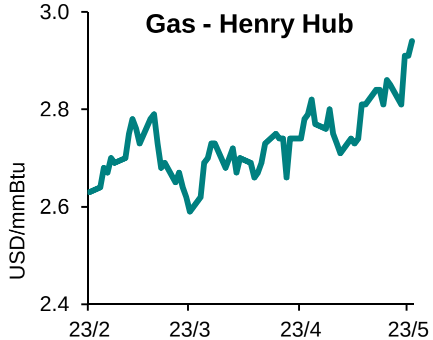
- The US stepped out of the Iran nuclear deal and will impose new sanctions on the country. These sanctions also apply to any entity that continues to trade with Iran. This in effect is threatening billions of euros of European business.
- The OPEC meeting on 22 June will be even more important to watch to see how OPEC will deal with lower supply. Besides lower Iranian exports, the production in Venezuela and Angola are also under pressure.
- However, in the near term, supply shortages seem unlikely. In the longer term, supply shortages were already a threat and the situation has now aggravated.
- In the near-term, we expect that oil prices will remain driven by supply related uncertainties. Nevertheless, since an immediate supply shortages is unlikely, further upside potential for oil prices appears to be limited.

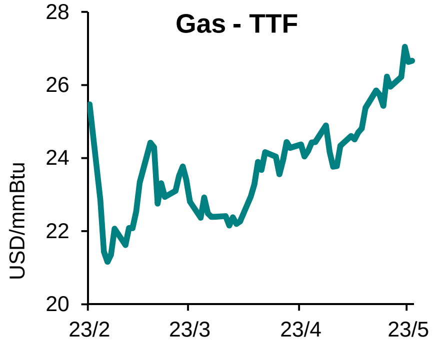
	24 May	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	1st contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Brent *USD/barrel*	78.9	70	70	75	75	71	75	78
WTI *USD/barrel*	70.8	65	66	70	70	66	70	72
Gas HH *USD/mmBtu*	2.94	2,75	2,50	2,75	2,75	2,70	3,00	2,90
Gas TTF *EUR/MWh*	22.74	18	17	20	20	19	24	21

3-month price trend:









ABN·AMRO Commodities

Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

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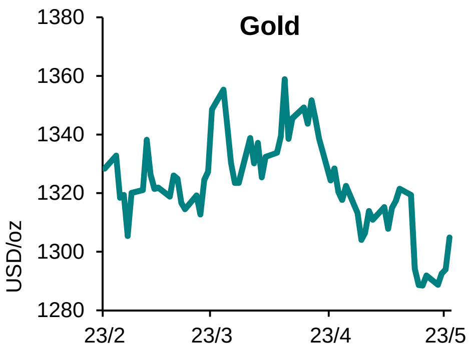
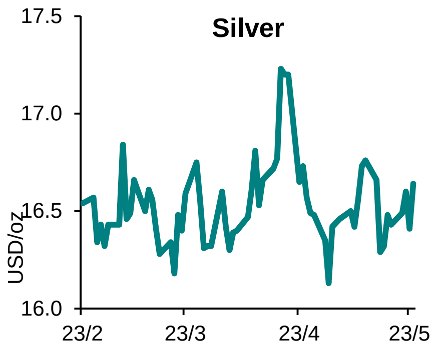
Gold price weakness not over yet

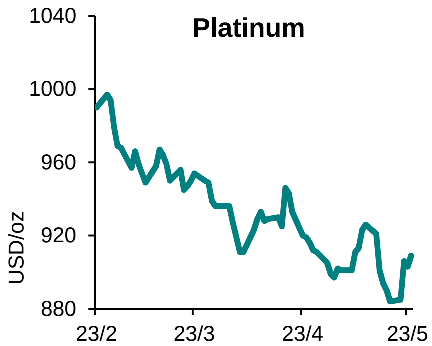
- Since 11 April 2018, gold prices have declined by 5% because of a recovery of the dollar and higher US Treasury yields.
- We expect gold price weakness to continue in the coming weeks and months. It is likely that gold prices will fall below USD 1,275 per ounce and test USD 1,250 per ounce this year followed by a stabilisation and a price rally next year.
- We think that 10y US Treasury yields will rise to 3.2% before the end of this year. Moreover, we expect the Fed to hike rates another 75bp in 2018 and 50bp in 2019 (this is almost priced in). In the near-term these factors will weigh on gold prices.
- In addition, we see some modest upside in the US dollar from current levels. As we don't expect that there is another dollar bull-run in the making, the upside in the US dollar and the downside in gold prices should be relatively modest.

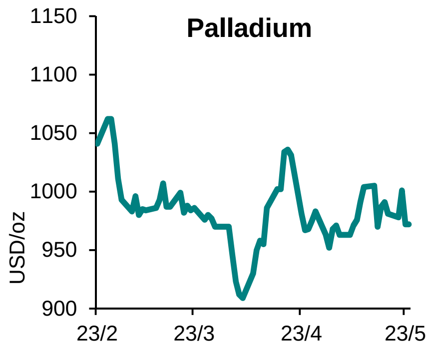
	24 May	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Gold *USD/ounce*	1,305	1,275	1,250	1,250	1,250	1,287	1,400	1,325
Silver *USD/ounce*	16.7	16.0	16.0	16.0	16.0	16.2	20.0	18.0
Platinum *USD/ounce*	909	885	900	900	900	916	1,100	1,000
Palladium *USD/ounce*	972	900	900	900	900	944	1,000	950

3-month price trend:









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

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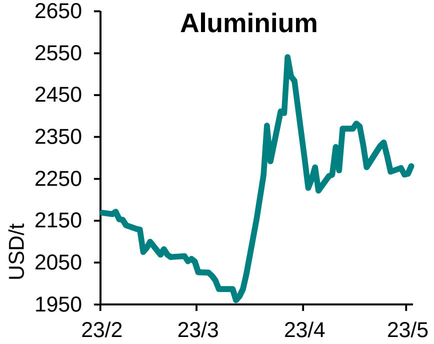
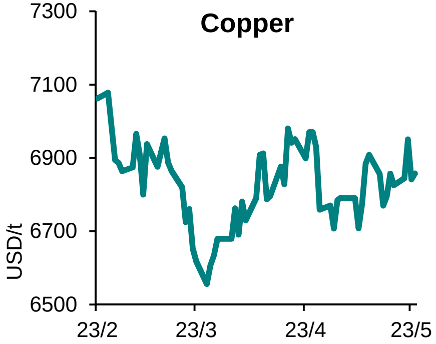
Fundamentals still in good shape

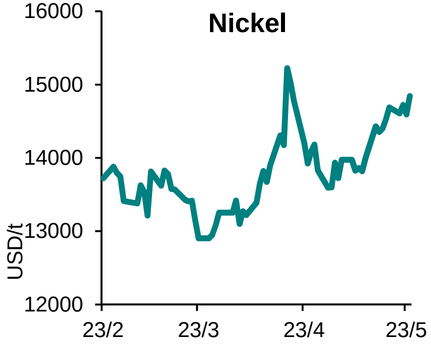
- Prices in base metal markets will remain volatile for the next few weeks. Uncertainty will persist in the base metal complex due to ambiguity over the exemptions in US trade tariffs and the US sanctions on Russian oligarchs. This will affect nickel and aluminium prices specifically. Also, as long as uncertainty remains over the US trade policies, base metals prices – especially copper – will remain soft and volatile.
- Sentiment on nickel demand is good. The nickel price has risen due to positive demand prospects related to the electric vehicle revolution. This will keep prices elevated.
- In zinc, rising supply will loosen the fundamentals in Q3/Q4 this year, with weakening prices as a result. In other base metal markets - aluminium, copper, nickel - tightness is expected on the back of a seasonal pick-up in demand and possible disruptions to supply. Going forward, this should provide a recovery in risk appetite amongst investors.

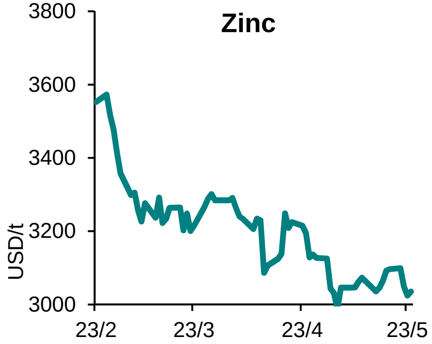
	24 May	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Aluminium *USD/t*	2,280	2,350	2,175	2,200	2,200	2,210	2,250	2,275
Copper *USD/t*	6,857	6,980	6,815	7,200	7,200	7,020	7,250	7,350
Nickel *USD/t*	14,843	14,780	13,950	14,500	14,500	13,953	14,400	14,525
Zinc *USD/t*	3,035	3,025	3,125	3,150	3,150	3,260	3,000	2,935

3-month price trend:









Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

5 Ferrous Metals – Steel / Iron Ore / Coking Coal

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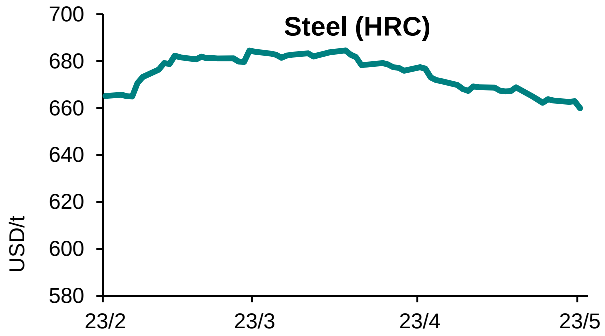
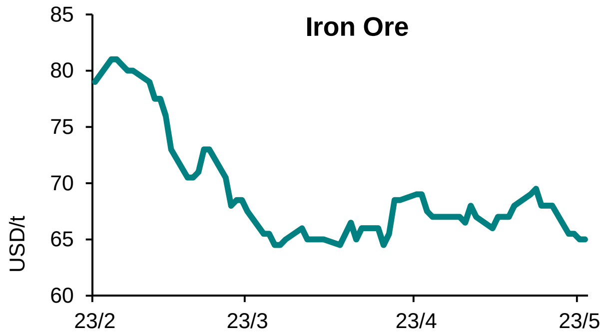
Relative low input costs lifts steel mill margins

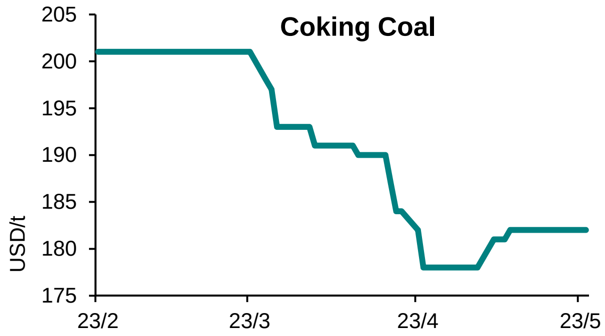
- US steel prices have surged over the last couple of weeks. The imposed US import tariffs have increased pressure on domestic steel capacity and prices increased rapidly as a result. Steel prices in China and Europe have drifted lower. In China steel production has increased strongly, which has led to lower prices. In Europe, steel prices decreased on sufficient supply.
- Fundamentally, conditions in the global steel market are still healthy. Demand from the construction and automotive sectors globally is still solid and lower costs for steel raw materials (iron ore and coking coal) have lifted margins for steel mills.
- However, uncertainty has increased significantly and that creates higher price risk and volatility. Going forward, we expect steel prices to remain stable. Iron ore prices have recovered slightly, but given the fact that Australian supply has increased strongly, we think prices will drift lower. Excess capacity but solid demand will keep coking coal prices stable.

	24 May	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Steel (HRC) *USD/t*	660	675	650	650	650	660	595	610
Iron Ore *USD/t*	65	62	59	65	65	63	60	62
Coking coal *USD/t*	182	185	185	175	175	187	160	164

3-month price trend:







Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

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

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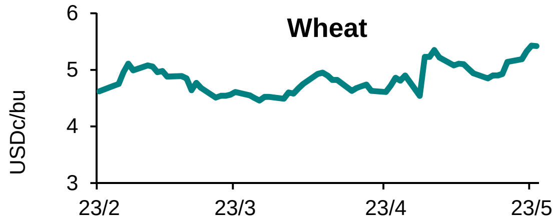
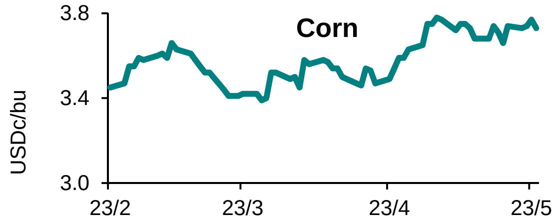
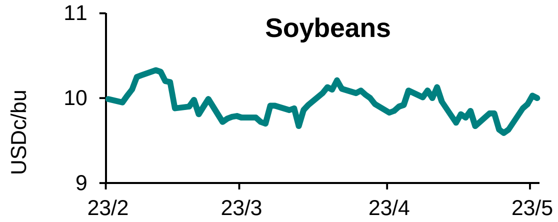
Higher wheat prices due to concerns dry weather in US and Canada

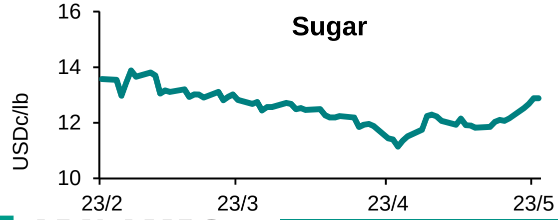
- Dry weather in Canada, US, Australia and Russia have fuelled concerns for lower global wheat output in the coming season. The current season saw the world largest wheat crop on record (758 mt according to IGC forecast). Especially a higher output from Russia contributed to the growth. A drop in wheat acres, lower yield and dry weather in major exporting countries are expected to lead to higher prices.
- Cocoa prices have dropped; farmers in the Ivory Coast are expecting that beneficial weather will improve harvest volumes. We expect that downward pressure on prices will remain, due to a potential oversupply.
- Sugar prices have gone up as expected. India, one of the world largest sugarcane producers, has announced to unveil measures to reduce sugarcane oversupply. And production in Brazil will be lower than expected, due to a lack of rain.

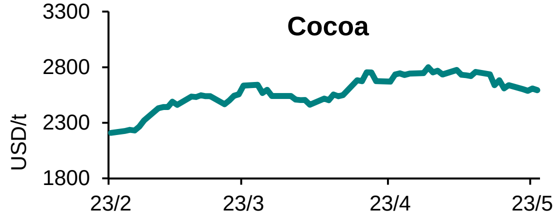
	24 May	Q2 2018	Q3 2018	Q4 2018	2018	2018	2019	2019
	2nd contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Wheat *USD/bu*	542	500	500	510	510	470	550	520
Corn *USD/bu*	373	400	410	410	410	390	420	420
Soybeans *USD/bu*	1,000	980	1000	1000	1000	980	1100	1040
Sugar *USDc/lb*	12.88	12	13	14	13	12	15	14
Coffee *USD/lb*	119.77	120	125	130	135	120	150	135
Cocoa *USD/t*	2,594	2,200	2,200	2,300	2,300	2,400	2,400	2,400

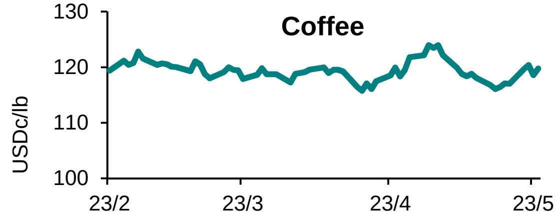












Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

A Appendix – Contact details, disclaimer & extra information

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