Support from fundamentals ahead

ABN AMRO Group Economics
ABN AMRO Sector Advisory

September 2018

Monthly Commodity Update

…price outlook for commodity markets

1 All commodities – Energy / Precious / Industrials / Agri

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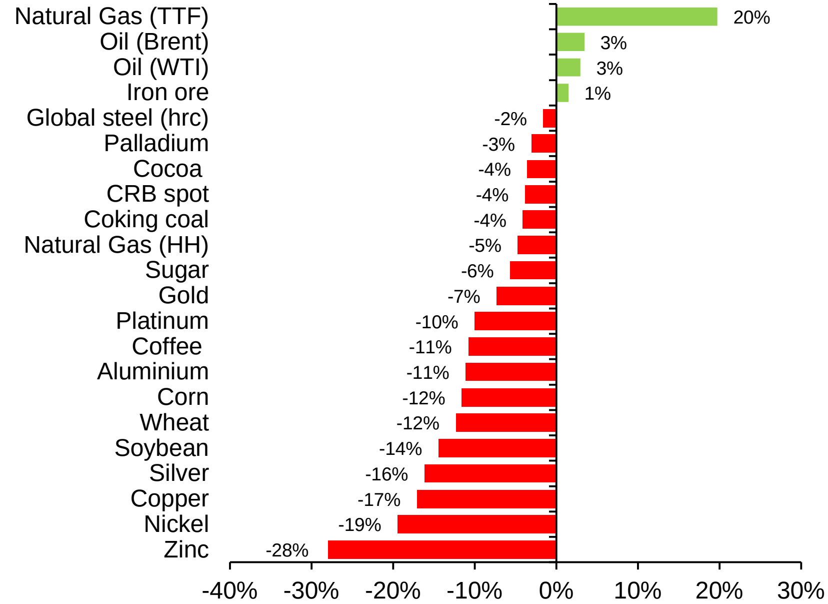
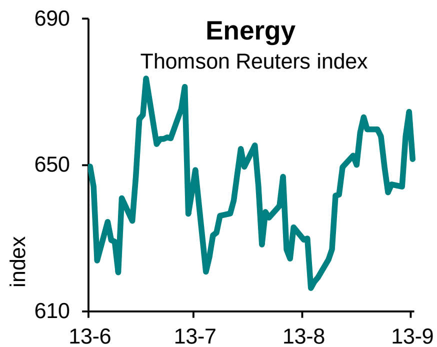
Support from fundamentals ahead

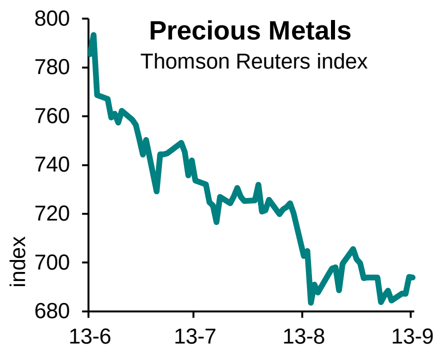
- Prices of most commodities were under pressure over the last three months, with strong declines in base metals markets.
- The main factors for base metals price pressure were non-fundamental factors such as the trade war fears, emerging markets stress, concerns over the Chinese economy and the strengthening of the US dollar. A further escalation of the trade conflict looks likely, which will keep prices low and volatile.
- Oil prices managed to gain some pace, due to supply disruptions. Oil prices are expected to increase further on stable demand and a shortfall in supply. Natural gas (TTF) increased significantly because of stronger electricity demand during the hot summer season in Europe (mainly from air conditioning).
- As soon as the trade war turmoil eases and policymakers come to their senses, positive fundamental drivers in most commodity markets will dominate price trends again during Q4.

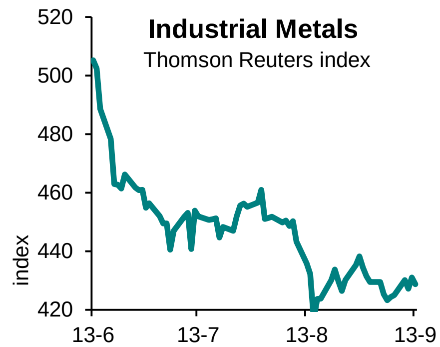
Price performance over last 3 months:

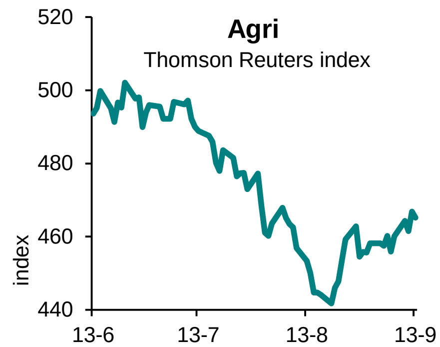


3-month price index trend (Thomson Reuters Index):









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

2 Energy – Oil / Gas

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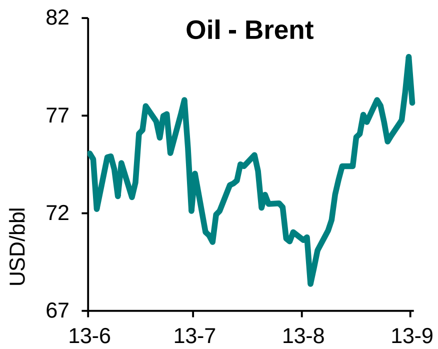
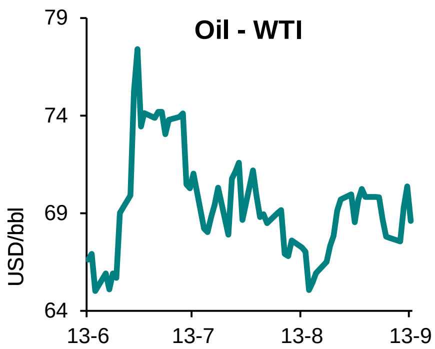
Supply related issues to outweigh the trade war fears

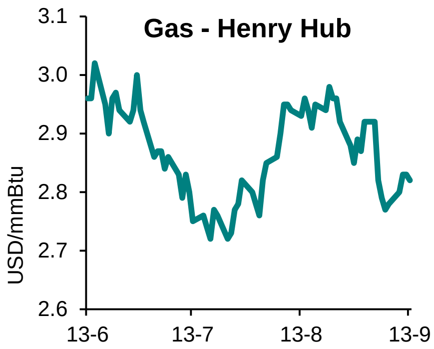
- Oil prices seem to be range bound between USD 70-80/bbl. A negative impact of a trade war between US and China is balanced out by uncertainties regarding the Iranian crude exports after US sanctions will be implemented in November.
- There are some initial signs that US shale oil production may not grow as fast and far as initially thought. This, combined with geopolitical tensions and limited potential supply growth could trigger more support for oil prices.
- US Henry Hub gas prices continue to trade around USD 2.80/mmBtu. Due to sufficient supply and only limited export capacity, prices are expected to remain trading within relatively small ranges during the coming quarters.
- Thw Dutch TTF gas price (CAL 19) is at record levels of EUR 60/MWh due to increased demand ahead of the winter season and higher ETS carbon prices.

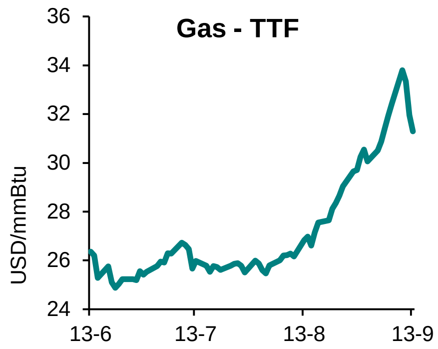
	13 Sep	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	1st contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Brent *USD/barrel*	77.66	70	75	80	75	73	85	85
WTI *USD/barrel*	68.60	65	70	75	70	67	76	78
Gas HH *USD/mmBtu*	2.82	2.50	2.75	3.00	2.75	2.70	3.00	2.90
Gas TTF *EUR/MWh*	26.81	17	20	20	20	19	24	21

3-month price trend:









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

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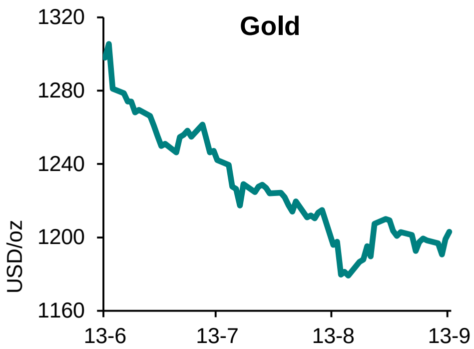
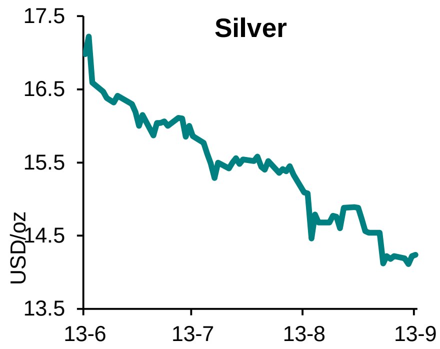
Prices to bottom out

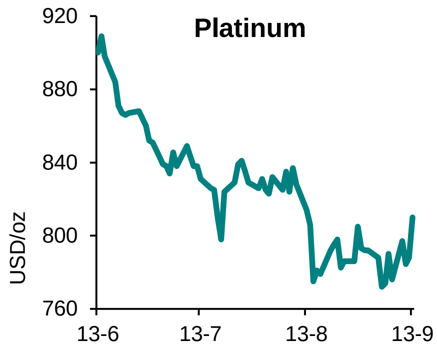
- Gold prices have recovered somewhat; prices have moved back to USD 1,200 per ounce level. This is mainly because of a stabilisation of the Chinese yuan and no renewed US dollar strength
- The Chinese yuan is now the most important driver for gold prices followed by the US dollar. We expect that Chinese authorities will continue to try to avoid a further sharp weakening of the yuan from current levels.
- Speculative short positions in gold, silver and platinum are at all-time highs and net-positioning is negative for these precious metals
- We think that investors who are negative on precious metals are already short and that there is not much room to increase shorts from here. We expect prices to start bottoming out at current levels.

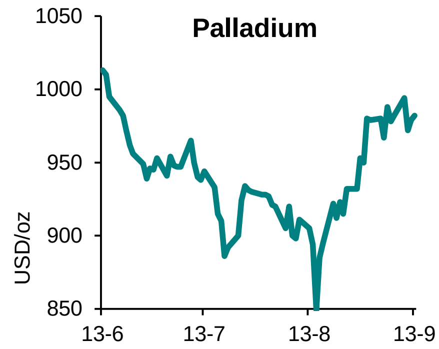
	13 Sep	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Gold *USD/ounce*	1,203	1,225	1,250	1,300	1,250	1,280	1,400	1,325
Silver *USD/ounce*	14.24	15.6	16.0	17.0	16.0	16.2	20.0	18.0
Platinum *USD/ounce*	810	800	850	900	850	883	1,100	981
Palladium *USD/ounce*	982	900	900	925	900	963	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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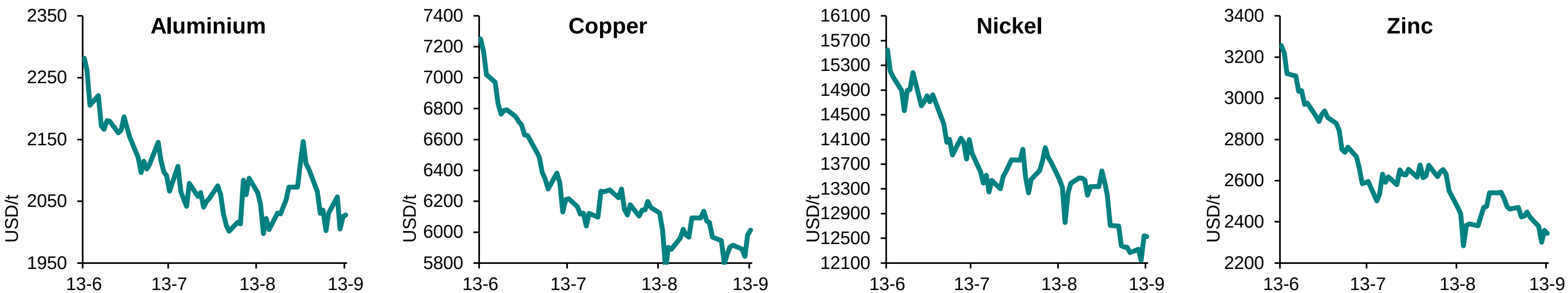
Trade war jitters sends prices lower

- Prices in the base metals complex have dropped over the last three months by 20% on average, with strongest losses in zinc (-29%) and nickel (-20%). Copper lost 19%, while aluminium declined by 13%.
- Caution amongst investors is still high at this stage, but we think market sentiment will turn for the better in Q4. Strategic metal buyers want to benefit from current relative low prices and we are of the opinion that a restocking cycle is under way.
- All-in-all, we project a positive price trend for Q4 with a reappearance of a more positive trend in fundamental indicators and easing trade tensions. The long term fundamentals (until 2019) will remain robust, with deficits in most base metals markets. Also, further growth in the EV-sector remains a bull story for almost all base metals.

	13 Sep	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Aluminium *USD/t*	2,028	2,095	2,275	2,290	2,275	2,170	2,250	2,275
Copper *USD/t*	6,013	5,820	6,615	7,000	6,615	6,710	7,250	7,350
Nickel *USD/t*	12,527	12,300	14,500	15,500	14,500	14,270	14,400	15,325
Zinc *USD/t*	2,345	2,285	2,430	2,670	2,430	2,960	2,665	2,650

3-month price trend:



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5 Ferrous Metals – Steel / Iron Ore / Coking Coal

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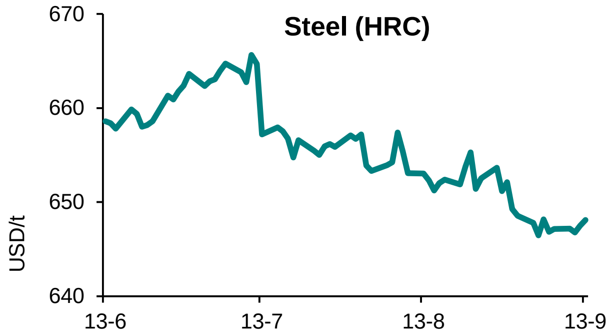
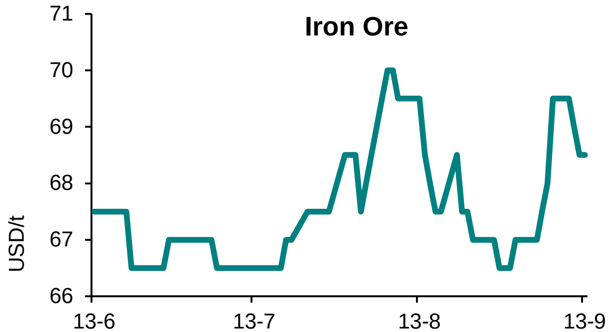
Uncertainty over Chinese steel production cut policies

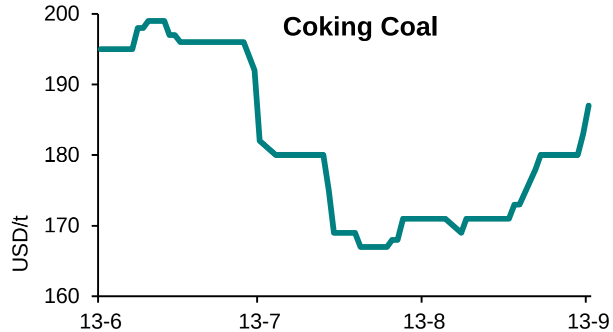
- Trade war jitters remain high. The imposed tariffs by the US on steel imports have increased HRC prices in the US significantly, while HRC prices in other regions (EU, China) remained stable. The spread between regional steel prices is therefor high and has made US import steel competitive again, even with the imposed import tariffs.
- Initially, Chinese efforts to battle structural overcapacity and the crackdown on pollution by heavy industries was received well by market participants. Sentiment in the steel sector increased. But lately, there are signs of more flexibility in the Chinese production-restriction policies. That has bolstered uncertainty again on future capacity cuts, sending HRC prices lower.
- Some production constraints and low spot availability in steelmaking raw materials markets have lifted prices recently. During Q4, raw materials supply will remain plentiful. But strong end user demand will provide some support for prices.

	13 Sep	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	spot	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Steel (HRC) *USD/t*	648	645	650	648	650	662	610	630
Iron Ore *USD/t*	69	66	61	65	61	67	60	62
Coking coal *USD/t*	187	185	185	183	185	191	172	178

3-month price trend:







Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

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

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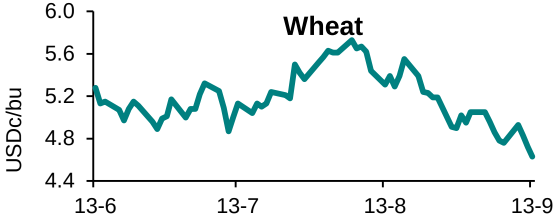
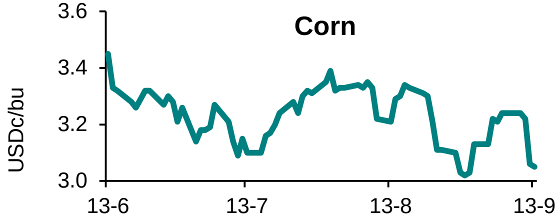
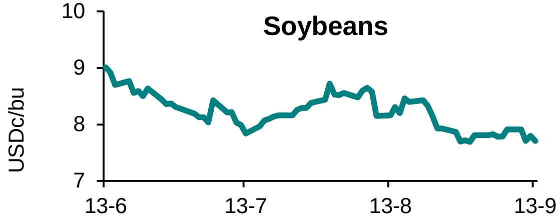
Short setback for agri-commodities

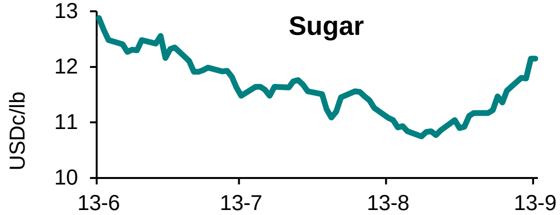
- Wheat prices have been high, because of the dry weather and markets feared wheat production would be too low. That fear has eased somewhat and prices have decreased. However, the wheat acres are still lower than last year, combined with the fact that quality issues have increased due to the dry weather, we expect wheat prices to rise.
- Soybeans are lower than expected. The continuing trade war between China and the US puts pressure on US soybeans. But demand of soybeans is still high and the Trump-Juncker meeting had positive results for the import of US soybeans to the EU. This will give a boost to soybean prices.
- Cocoa prices have been very volatile. But prices are now at the expected level: higher than last year, because of a lower oversupply, but not too high, because fears of a shortage have eased.

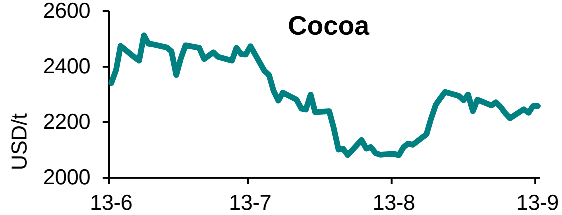
	13 Sep	Q3 2018	Q4 2018	Q1 2019	2018	2018	2019	2019
	2nd contract	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Wheat *USDc/bu*	463	550	550	600	550	520	600	600
Corn *USDc/bu*	305	350	400	410	410	380	420	420
Soybeans *USDc/bu*	771	850	900	1000	900	900	1100	1050
Sugar *USDc/lb*	12.15	12	13	14	13	12	15	14
Coffee *USDc/lb*	101.09	110	120	130	120	115	150	135
Cocoa *USD/t*	2,258	2,300	2,300	2,300	2,300	2,400	2,400	2,400

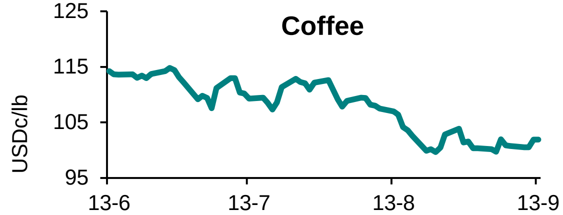












Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

Appendix – Contact details, disclaimer & extra information

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