

Monthly Commodity Insights

...price forecasts for commodity markets

ABN AMRO Group Economics

May 2021

Liquidity driven commodity price rally hits fundamental resistance



1 All commodities – Energy / Precious / Industrials / Agri

Liquidity driven price rally hits fundamentals resistance

Casper Burgering
Agricultural Commodities Economist
casper.burgering@nl.abnamro.com

- Commodities were broadly higher over the past month, with the representative commodity price index (CRB) in an upward trajectory and rising 7% since mid-April. The monthly rise in the index was mainly led by surges in oil, aluminium, copper, corn, soybean and natural gas prices.
- The CRB appreciation is for a large part the result of stronger commodities demand from China, optimistic views on broader global economic recovery in a post covid-19-era and worries over future supply trends in some commodity markets. The foundation for the higher hopes on further economic recovery originates from the very accommodative monetary and economic stimulus by central banks and governments globally.
- Low interest rates result in an abundance of liquidity. And this excess of liquidity is searching for the highest returns. In addition, policymakers are prepared to deploy additional economic emergency support towards relevant economic sectors. In these circumstances, commodity markets have become popular both physically and the virtual marketplace.
- The main downside commodity price risk stems from the strengthening of the dollar, commodity supply recoveries, the pull back of monetary easing measures by central banks and when governments wind down their economic stimulus packages.



2 Energy – Oil / Gas

Oil prices test resistance levels; Gas prices affected by low inventories

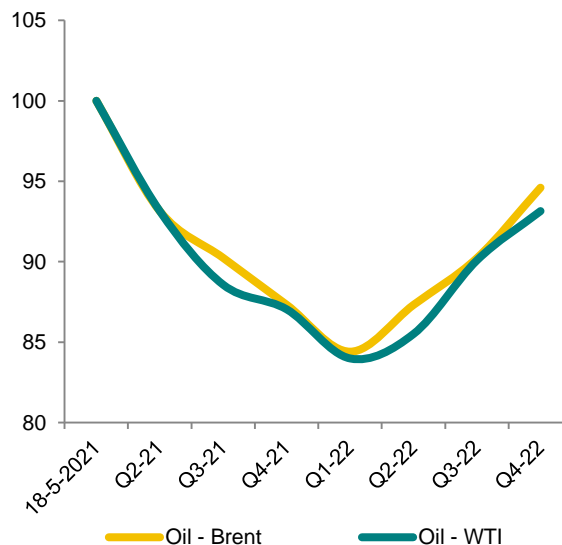
Hans van Cleef
Energy Economist
hans.van.cleef@nl.abnamro.com

- ▶ Henry Hub Natural gas prices are rising on forecasts of higher cooling demand. After a harsh winter, gas inventories were below averages. As the cold weather continued into April, there was hardly any time for inventories to recover.
- ▶ With cooling demand expected to increase and as inventory building continues, natural gas prices continue to meet upward pressure. Nevertheless, as soon as inventories are filled, the upward pressure will ease.
- ▶ Also, oil prices are rising again. Brent oil is testing the important USD 70-72/bbl resistance level. WTI is heading towards the USD 68/bbl resistance. The support is the result of the rise in demand with European lockdowns being loosened, and Indian covid-19 infections reaching a peak.
- ▶ A break higher would open the way towards USD 78-80/bbl. Nevertheless, the support is mainly driven by technical analysis, market sentiment and investors' search for yield.
- ▶ From a fundamental perspective, there is no reason for higher oil prices. After all, there is more than enough production capacity available to meet any rise in demand for the next 2-3 years.

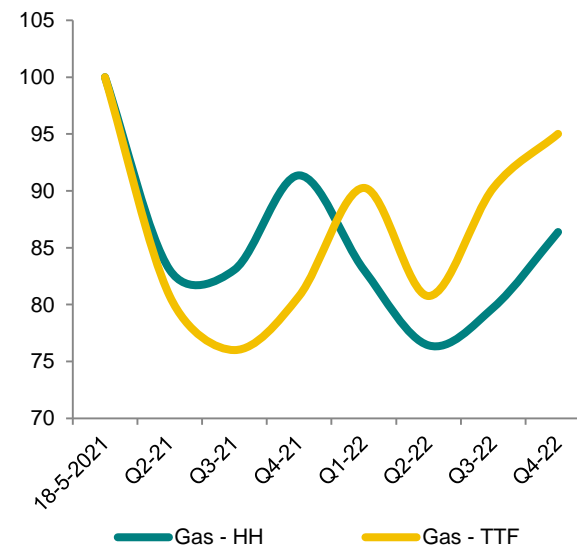
	1st contract	- end of period prices -								- averages -	
	18-05-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
Oil - Brent (USD/barrel)	69	65	64	62	60	58	60	62	65	62	61
Oil - WTI (USD/barrel)	65	61	61	58	57	55	56	59	61	59	58
Gas - Henry Hub (USD/mmBtu)	3,01	2,63	2,50	2,50	2,75	2,50	2,30	2,40	2,60	2,60	2,50
Gas - TTF (EUR/MWh)	21,05	18	17	16	17	19	17	19	20	17	19

ABN AMRO forecast price trend until 2022 (index)

index (latest 1st contract price = 100)



index (latest 1st contract price = 100)



3 Precious Metals – Gold / Silver / Platinum / Palladium

Georgette Boele
Senior Precious Metals Strategist
 georgette.boele@nl.abnamro.com

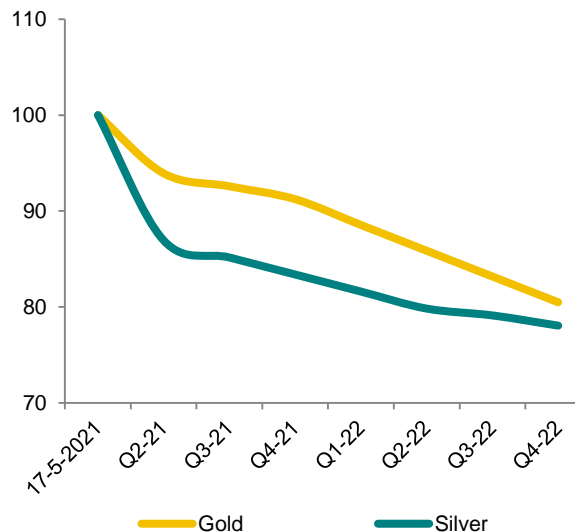
Gold prices testing downtrend

- ▶ Labour market report and retail sales data have come in below market consensus and this has weighted on the US dollar.
- ▶ Meanwhile, US inflation numbers have surprised on the upside.
- ▶ These dynamics have resulted in a lower US dollar and lower US real yields. As a result, gold prices have continued to rise.
- ▶ Investors have stopped liquidating their long gold positions. But long gold ETF positions are still very large.
- ▶ The rally in gold prices is now challenging the downtrend. Prices moved above the 200-day moving average and are testing crucial resistance (where a trendline comes in).
- ▶ We still hold the view that gold is not cheap and more position liquidation is needed. This is based on our views the US dollar will rise at a modest pace based on the strong US economy and the recovery in US real yields.
- ▶ We are not of the camp that fears structurally higher inflation. This camp foresees lower US real yields while we expect a modest increase in US real yields.

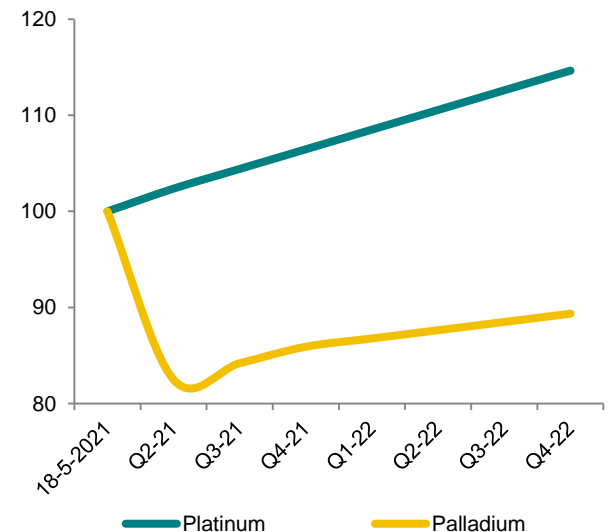
	spot prices	- end of period prices -								- averages -	
	18-05-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
Gold (USD/ounce)	1.868	1.730	1.750	1.725	1.700	1.650	1.600	1.550	1.500	1.771	1.600
Silver (USD/ounce)	28,10	24,79	24,50	24,00	23,50	23,00	22,50	22,30	22,00	24,60	22,60
Platinum (USD/ounce)	1.221	1.199	1.250	1.275	1.300	1.325	1.350	1.375	1.400	1.225	1.350
Palladium (USD/ounce)	2.910	2.640	2.400	2.450	2.500	2.525	2.550	2.575	2.600	2.412	2.550

ABN AMRO forecast price trend until 2022 (index)

index (latest spot price = 100)



index (latest spot price = 100)



4 Base Metals – Aluminium / Copper / Nickel / Zinc

Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

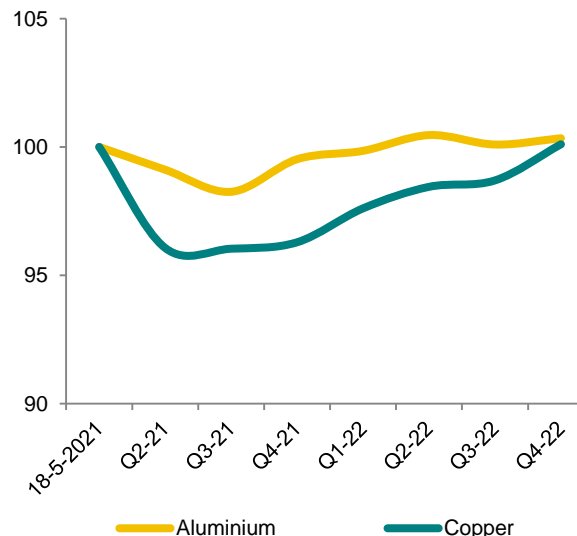
Still high base metals market moral

- ▶ Base metals prices firmed over the past month by 14% on average, with strong gains in aluminium and copper prices. Prices of aluminium, copper and zinc reached again new highs. This was triggered by optimism over global economic recovery, hopes of longer term robustness of metals demand in relation to the energy transition and worries over future supply trends.
- ▶ Copper prices react swiftly to global macro-economic news. And this news has been generally good over the past months. The basis for firmness in economic data stems from the accommodative monetary and economic stimulus by central banks and governments. This will remain the main narrative in metals markets and results in an optimistic stance for the time being.
- ▶ But downside risks are able to challenge this buoyant base metals markets moral in the coming months. The recent prices gains are mainly the result of optimism over future demand, while current supply and demand fundamentals are still relatively weak. Also, base metals stocks at Shanghai Futures Exchange (SHFE) and stocks at the London Metals Exchange (LME) remain on high levels. Finally, we think the US dollar will strengthen in the months ahead.
- ▶ We think that prices will soften somewhat from current levels until Q3-2021, but they will remain relatively high. Price volatility remains elevated until economies are fully re-opened.

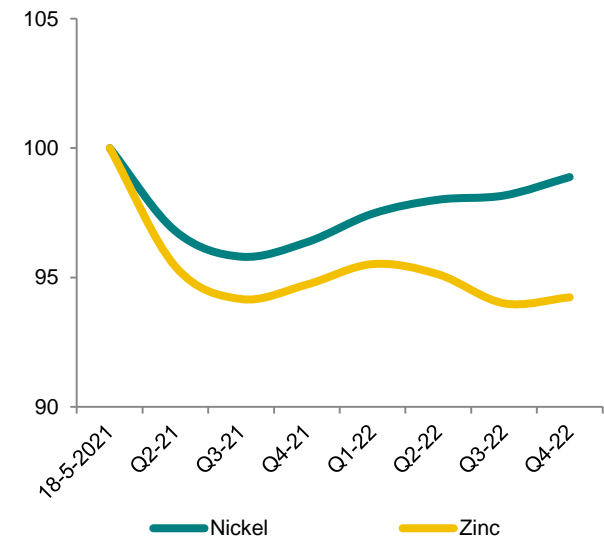
	spot prices	- end of period prices -								- averages -	
	18-05-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
Aluminium (USD/t)	2.448	2.203	2.426	2.405	2.436	2.444	2.459	2.450	2.456	2.319	2.446
Copper (USD/t)	10.376	8.795	9.968	9.965	9.991	10.128	10.215	10.241	10.387	9.453	10.114
Nickel (USD/t)	17.942	16.168	17.366	17.189	17.289	17.487	17.584	17.613	17.741	17.250	17.488
Zinc (USD/t)	3.037	2.757	2.898	2.860	2.877	2.901	2.889	2.855	2.862	2.835	2.862

ABN AMRO forecast price trend until 2022 (index)

index (latest spot price = 100)



index (latest spot price = 100)



5 Ferrous Metals – Steel (HRC) / Iron Ore / Coking Coal

Casper Burgering
Industrial Metals Economist
casper.burgering@nl.abnamro.com

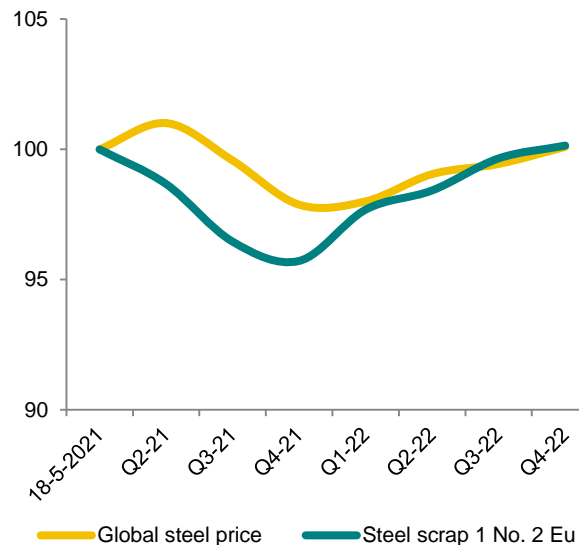
Off-taker demand growth will be solid

- ▶ The global steel price indicator increased by 18% since 14 April 2021. Prices for wire rod, rebar, cold and hot rolled coils rose this year by 33% on average. Hot rolled coil prices even managed to breach their 2008 record high. Global optimistic economic sentiment, resilience in the Chinese steel market and better momentum for steel business activity in US and EU steel markets made these impressive price gains possible.
- ▶ Steel end users are eager to purchase more steel. But these days difficulties arise in replenishing stocks. Offers in the market are scarce and prices have surged. Low steel inventory levels and market tightness will persist as long as economic sentiment remains buoyant.
- ▶ Healthy steel mill margins and increasing steel output triggers higher steel raw material purchases. When supply fears linger (e.g. iron ore), higher prices become unavoidable. Steel raw materials prices are expected to ease on steel output limitations in China and a recovery in raw materials supply. Nevertheless, due to longer term optimism, prices will remain relative high.
- ▶ Our ferrous metal markets outlook remains favourable this year. Off-taker demand growth will be solid alongside the strengthening of major economies. Downside price risks remain, however, elevated. Phasing out of economic targeted support (especially in China) is a potential steel market disruptor.

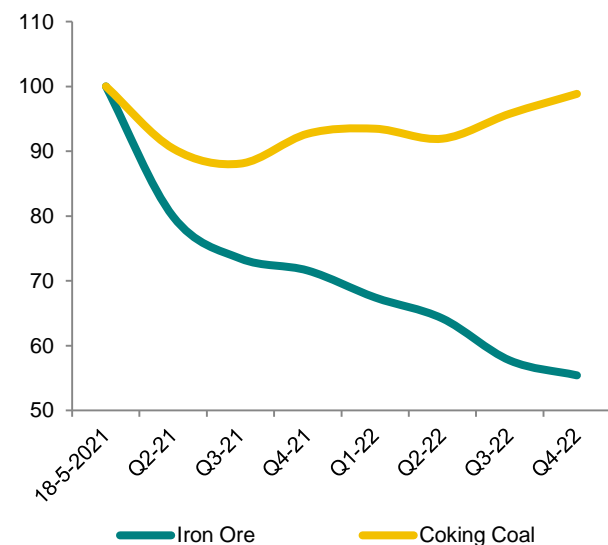
	spot prices		- end of period prices -								- averages -	
	18-05-21		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022
Global Steel (USD/t)	764		737	772	761	748	749	757	760	765	728	756
EU Steel Scrap (EUR/t)	406		393	401	392	389	397	400	405	407	385	404
Iron Ore (USD/t)	217		167	173	159	155	146	139	125	120	170	130
Coking Coal (USD/t)	131		117	118	115	121	122	120	125	129	119	124

ABN AMRO forecast price trend until 2022 (index)

index (latest spot price = 100)



index (latest spot price = 100)



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

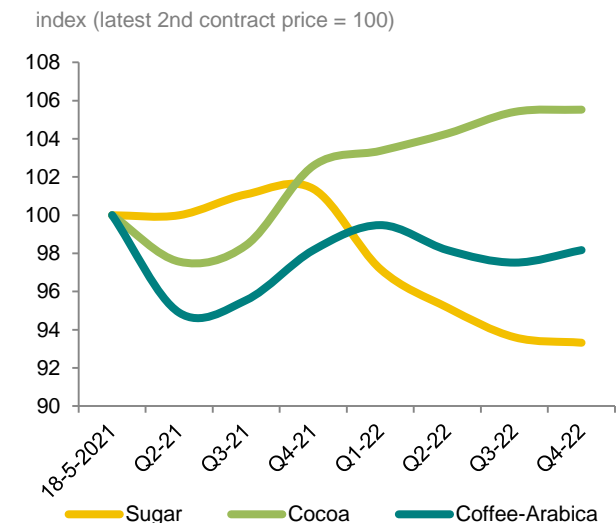
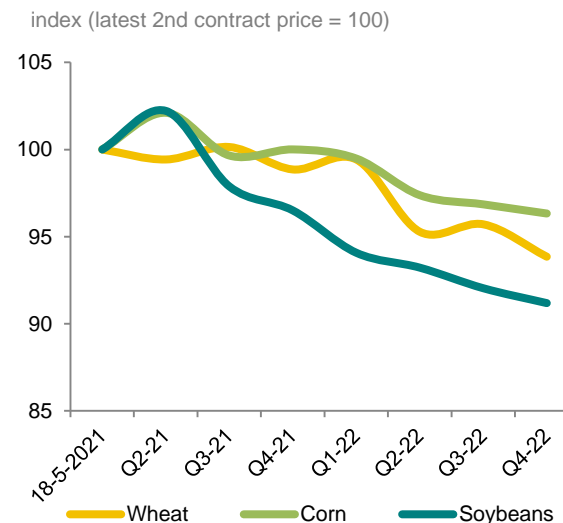
Casper Burgering
Agricultural Commodities Economist
casper.burgering@nl.abnamro.com

Stronger demand growth when economies re-open

- Ample **wheat** supply and high stock levels weigh on price trend and market sentiment. Beneficial US weather and larger-than-expected harvest area in Russia improve production prospects, which will bring lower prices. Elevated Chinese demand for feed keep prices afloat for now.
- Despite bigger-than-expected world stocks over 2021-22, the **corn** market remains tight for the time being. Short term prices will remain relatively high, mainly on elevated Chinese demand. However, beneficial weather condition will ramp US production, which is accompanied by price pressure.
- Low **soybean** 2021/22 ending stocks keep prices firm. The rising pig herd in China and increases biofuel demand are the driving force behind demand. Worries persist, however, over new African Swine Fever cases and higher Brazilian harvest volumes.
- Relative high ethanol prices and uncertainty over lower Brazilian crop, keeps **sugar** prices high. However, high sugar availability in EU, Thailand and India eases supply tightness. On balance, a deficit is foreseen this season. Sugar price will remain relatively high in 2021.
- Economic growth is an important driver for **cocoa** demand. With the prospect of economies are re-opening on a larger scale, prices are expected to strengthen again later this year. Current demand levels are, however, still low and availability remains high.
- Price of **coffee** is mainly supported by tight supply expectations this season. Coffee stocks are relatively high. Early signs of improving demand already emerge and a further pick-up in demand is expected during Q3-2021, when global economies fully re-open.

	2nd contract		- end of period prices -								- averages -	
	18-05-21	Q1-21	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	Q4-22	2021	2022	
Wheat-CBOT (USDc/bu)	699	611	695	700	691	695	666	669	656	683	666	
Corn-CBOT (USDc/bu)	571	545	583	569	571	568	556	553	550	574	556	
Soybeans-CBOT (USDc/bu)	1521	1397	1555	1489	1468	1431	1418	1400	1387	1425	1.398	
Sugar (USDc/lb)	17,36	14,72	17,36	17,55	17,60	16,87	16,52	16,25	16,20	16,83	16,49	
Cocoa (USD/Mt)	2.549	2.416	2.487	2.509	2.615	2.635	2.658	2.687	2.690	2.499	2.668	
Coffee-Arabica (USDc/lb)	153	124	145	146	150	152	150	149	150	139	153	

ABN AMRO forecast price trend until 2022 (index)



A Appendix – Contact details, disclaimer & extra information

Contact information ABN AMRO | Group Economics:

	Knowledge area:	Phone:	E-mail:
- Marijke Zewuster	Head Commodity Research	+31 20 383 05 18	marijke.zewuster@nl.abnamro.com
- Georgette Boele	Precious Metals	+31 20 629 77 89	georgette.boele@nl.abnamro.com
- Hans van Cleef	Energy	+31 20 343 46 79	hans.van.cleef@nl.abnamro.com
- Casper Burgering	Industrial Metals & Agriculturals	+31 20 383 26 93	casper.burgering@nl.abnamro.com

ABN AMRO on the internet:

- Insights:	insights.abnamro.nl/eng
- Twitter Group Economics	@ABNAMROeconomen

DISCLAIMER

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics and commodities. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer. No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof. Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2021 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO")