Politics dictates commodity prices

ABN AMRO Group Economics
ABN AMRO Sector Advisory

June 2017

Monthly Commodity Update

…price outlook commodity markets

Monthly Commodity Update

15 May 2017

Contents

- Price will increase (▲), price will stabilise within a bandwidth of -5% and +5% (◄►) or price will decrease (▼)

1 All commodities - Politics dictates commodity prices

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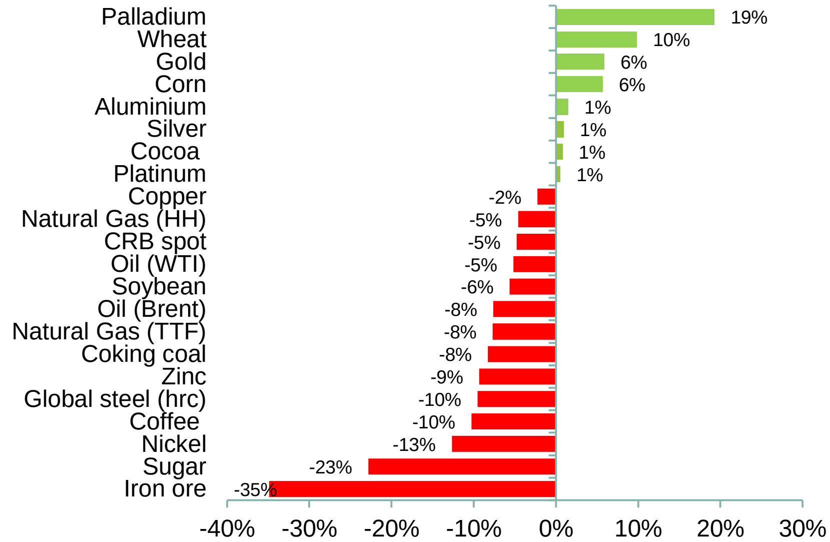
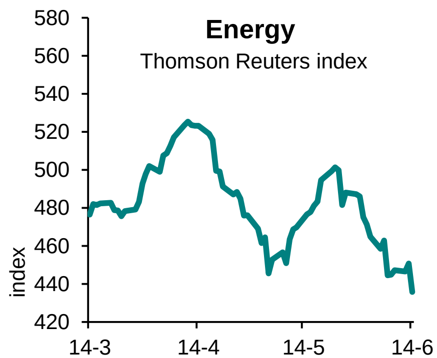
Politics dominate commodity prices

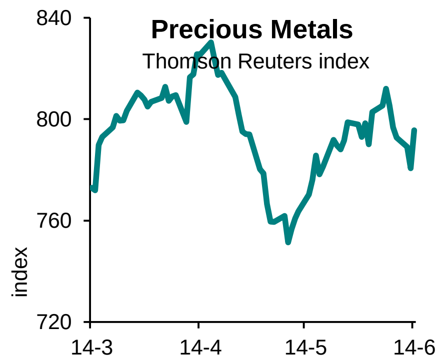
- Since mid May the CRB-index decresed by roughly 5%.
- Many commoditiy prices are dictated by politics, either geopolitical issues or imposed regulations by governments.
- Oilprices were shortly down due to increased tension between Qatar and other Gulfstates, but the fear that Qatar would not uphold its agreement was unnecessary.
- Fading hope over Trump policies and governmental decisions (in Indonesia, Philippines) were the main market drivers for base metals the past few months.
- Mutiny among soldiers in Ivory Coast, the corruption scandal surrounding president Tremer in Brazil and negotiations between Mexico and the United States are influencing the price of agri-commodities.

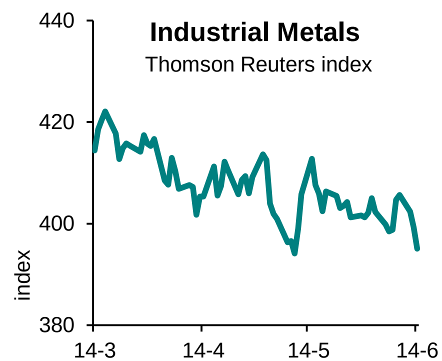
Price performance over last 3 months:

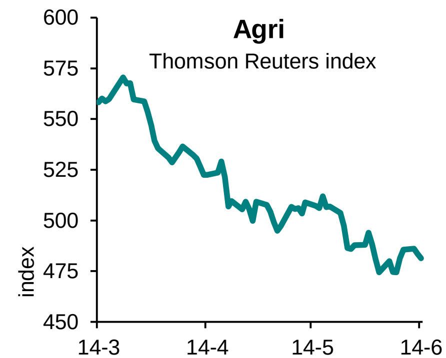


3-month price index trend:









Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

2 Energy – Oil / Gas

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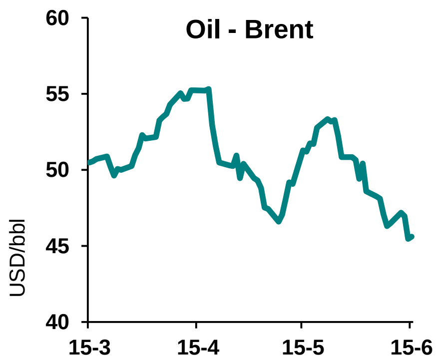
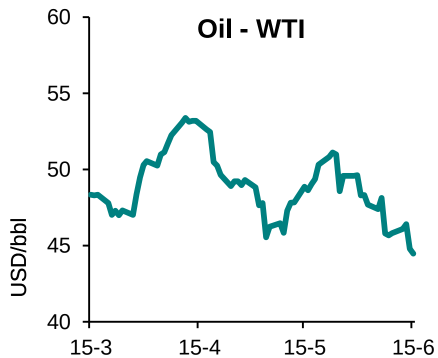
Oil prices: Increased tensions in the Middle East have limited impact on oil and gas prices

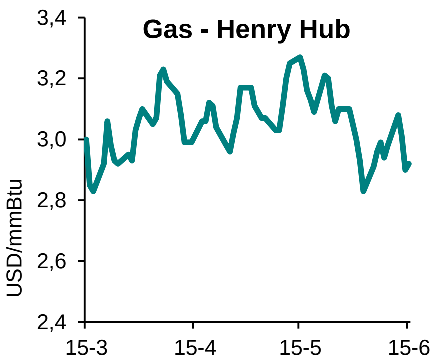
- Recent increased tensions between Qatar and some Gulf states have not resulted in a higher risk premium for either oil and/or gas prices. Initially oil prices declined on fears that Qatar would pave the way for other oil producers not to stick to their share of the OPEC/non-OPEC production cut agreement. However, Qatar confirmed its loyalty towards the OPEC production cut agreement, which eased market fears.
- Qatar is the worlds' biggest LNG exporter. We don't expect these LNG flows to be affected by the conflict. In worst case, Qatarian LNG is not allowed to pass through the Suez Channel which would result in higher transportation costs.
- US crude and gasoline inventories remain around record high levels. Although the first signs of a normalisation are seen, it is still a long way down towards the 5y-averages. Still, the weekly numbers are very volatile, and do trigger a lot of price-swings.

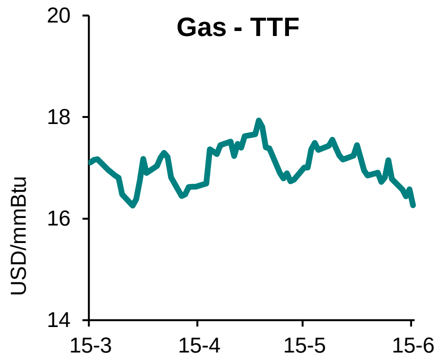
	Q2 2017	Q3 2017	Q4 2017	2017	2017	2018	2018
	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Brent *USD/barrel*	50	55	60	60	55	60	63
WTI *USD/barrel*	50	55	60	60	54	55	60
Gas HH *USD/mmBtu*	2,75	2,60	3,00	3,00	2,90	3,50	3,30
Gas TTF *USD/mmBtu*	16,00	15,00	17,00	17,00	16,50	15,00	17,50

3-month price trend:









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

3 Precious Metals – Gold / Silver / Platinum / Palladium

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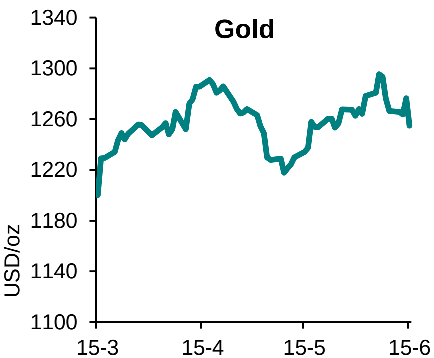
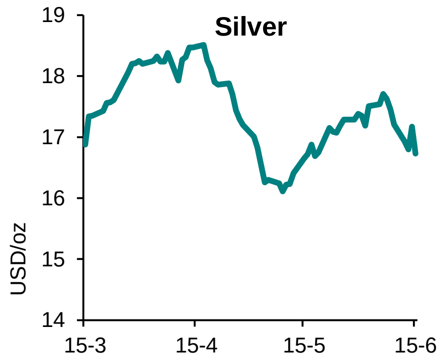
Upward momentum is building

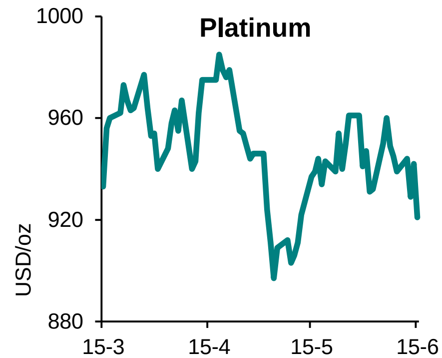
- Gold prices are currently above the 200-day moving average but they have failed to break above the USD 1,300 per ounce.
- The more hawkish than expected Fed resulted in some price weakness.
- We continue to expect higher gold prices this year and next.
- Our 2017 year-end target is USD 1,300 per ounce.
- For next year, we expect the US dollar to weaken across the board for a large part because of lower US real yields.
- This will have an upward effect on gold prices and therefore we expect gold prices to rise in 2018 to USD 1,400 per ounce.

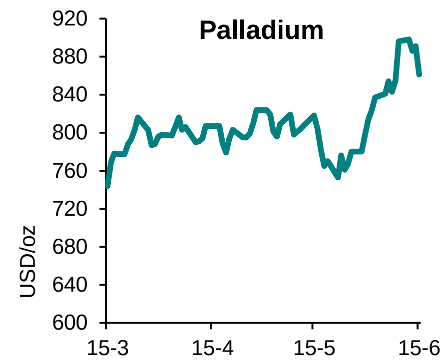
	Q2 2017	Q3 2017	Q4 2017	2017	2017	2018	2018
	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Gold *USD/ounce*	1,250	1,275	1,300	1,300	1,254	1,400	1,350
Silver *USD/ounce*	18.50	18.50	19.00	19.00	18.30	21.00	20.00
Platinum *USD/ounce*	950	950	975	975	961	1,100	1,041
Palladium *USD/ounce*	800	825	825	825	801	850	847

3-month price trend:









Sources: Thomson Reuters Datastream, ABN AMRO Group Economics

4 Base Metals – Aluminium / Copper / Nickel / Zinc

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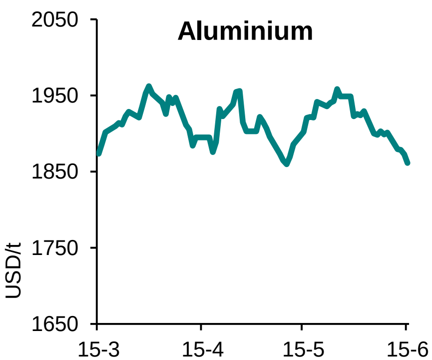
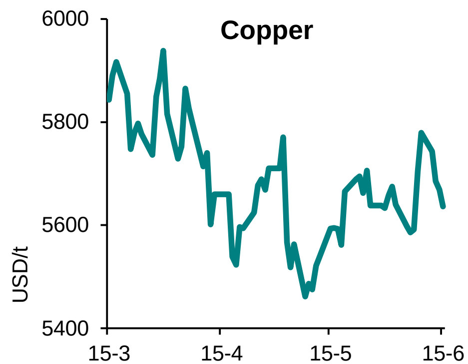
Strong China data fails to lift base metals prices

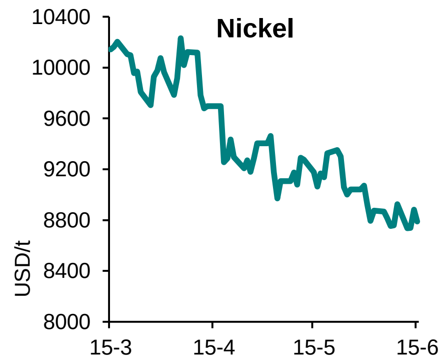
- Main market drivers during May/June were worries over the Chinese economy and metals demand, fading hope over Trump policies and governmental decisions (in Indonesia, Philippines).
- Early June, trade figures from China surprised to the upside, which boosted prices. However, the boost was short-lived and sentiment was down again on economic uncertainty.
- We remain neutral on the short term, mainly because of the upcoming summer lull. Overall, the market balance for all base metals markets will remain in deficit this year. Therefore, we expect that on the long term base metals prices will find fundamental support. We think end-user demand from major economies will remain broadly supportive for prices. Despite the fact that few details are known about the Belt & Road initiative, we believe that this is a positive trend for the demand for base metals in the long run.

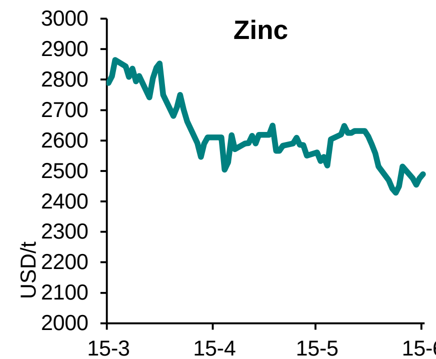
	Q2 2017 (eop)	Q3 2017 (eop)	Q4 2017 (eop)	2017 (eop)	2017 (average)	2018 (eop)	2018 (average)
Aluminium *USD/t*	1,945	1,925	1,985	1,985	1,925	1,980	1,995
Copper *USD/t*	5,700	5,890	5,975	5,975	5,880	6,175	6,100
Nickel *USD/t*	9,315	9,468	9,856	9,856	9,710	11,200	10,415
Zinc *USD/t*	2,670	2,850	2,900	2,900	2,785	2,985	2,900

3-month price trend:









Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

5 Ferrous Metals – Steel / Iron Ore / Coking Coal

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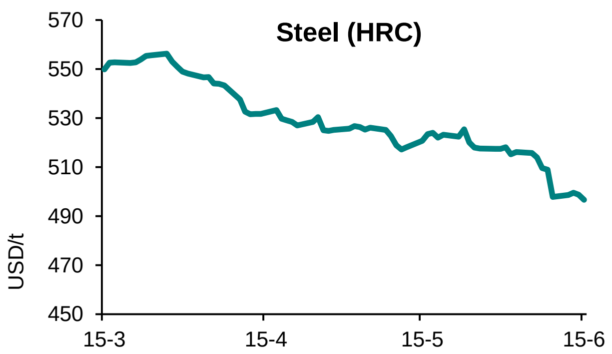
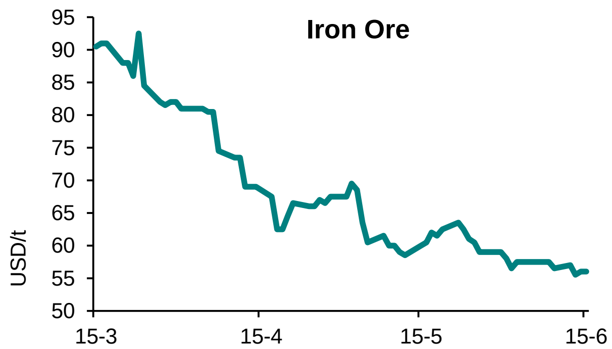
Weak demand in ferrous markets ahead of summer lull

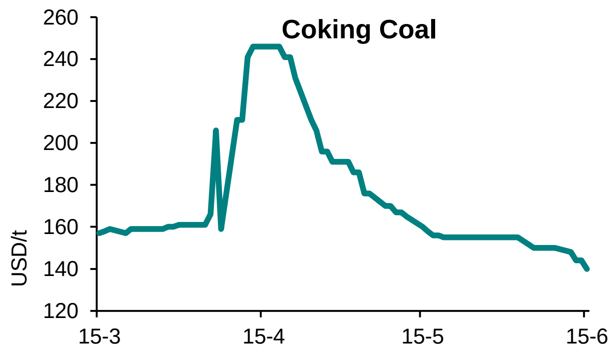
- Since our previous Monthly Commodity Update (16 May), coking coal prices lost 9%, while the iron ore price decreased by almost 11%. Steelmaking raw materials prices decreased on limited restocking activity from Chinese mills and relative high supply. In the same period, global steel prices softened by almost 5%. This means that margins for many steel mills have improved.
- With the upcoming summer lull, we think that demand for iron ore will soften. Currently, iron ore inventory volumes in China are very sufficient to source any additional steel mill demand. Buying activity and restocking will therefore remain weak. Lower activity and the lack of steel buying interest globally will result in a weakening of steel prices during the relative weak summer period. Coking coal prices are expected to decrease further from current high levels. Coal supply exceeds coal demand and that will push prices further down.

	Q2 2017	Q3 2017	Q4 2017	2017	2017	2018	2018
	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Steel (HRC) *USD/t*	550	555	550	558	550	569	560
Iron Ore *USD/t*	58	62	65	65	67	70	66
Coking coal *USD/t*	152	152	148	148	155	149	144

3-month price trend:







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

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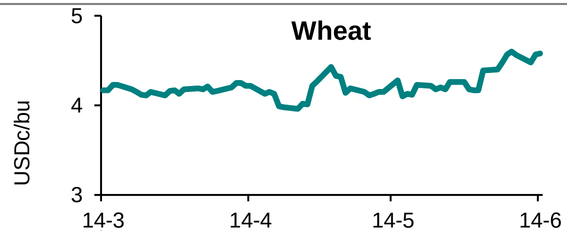
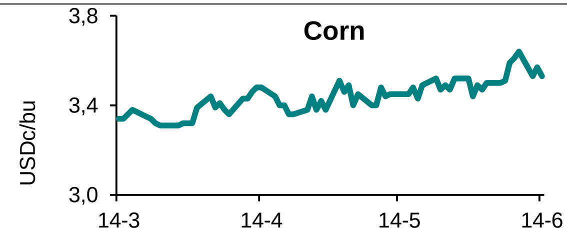
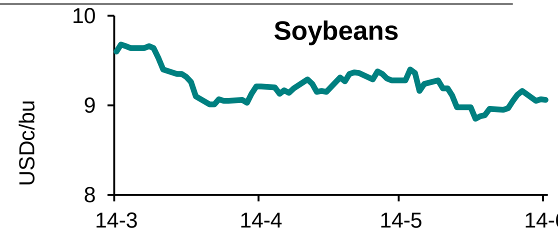
Brazilian real impacts prices sugar, coffee and soybeans

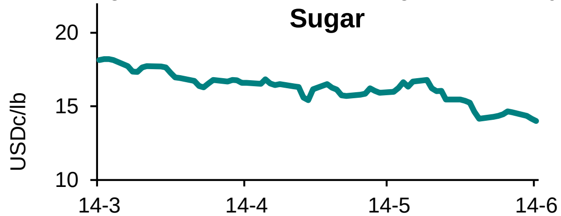
- Political issues of importers and exporters are influencing prices of the tropical commodities. Coffee and sugar are affected by the fall of the Brazilian real. In sugar, higher import tariffs in China and a lift of the sugar productionquota in the EU put downward pressure on prices. But above all benign weather conditions in India sets prices lower.
- For cocoa the mutiny of soldiers against the Ivorian Coast government is causing uncertainties for cocoaprices. All in all for the short term the pressure on prices of cocoa, sugar and coffee remains.
- For the grains the acreage reduction of wheat and weather concerns in Europe and US are driving prices upwards. Soybean harvest is still on track in Brazil and prices are heading for further decline. Corn depends on the weather in the cornbelt, which is now surrounded byuncertainties.

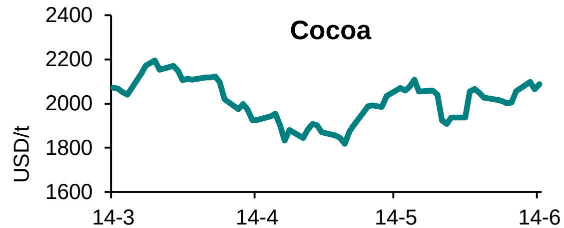
	Q2 2017	Q3 2017	Q4 2017	2017	2017	2018	2018
	(eop)	(eop)	(eop)	(eop)	(average)	(eop)	(average)
Wheat *USDc/bu*	460	480	480	480	460	-	-
Corn *USDc/bu*	360	370	370	370	360	-	-
Soybeans *USDc/bu*	920	900	920	920	930	-	-
Sugar *USDc/lb*	15	14	14	14	15	-	-
Coffee *USDc/lb*	130	130	145	145	135	-	-
Cocoa *USD/t*	2.000	1.800	1.800	1.800	2.000	-	-

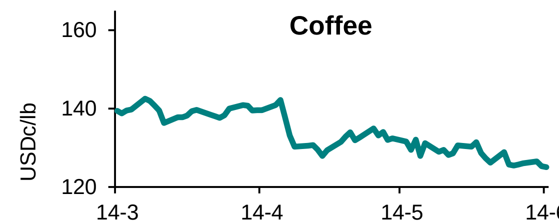












Sources: Thomson Reuters Datastream, ABN AMRO Sector Advisory

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