

2018 Commodities Outlook

For most commodities, 2017 was a good year with energy and metal markets rallying. Turning to 2018, we think base metals should remain well supported but expect the energy complex to weaken



Crude oil – Growing non-OPEC supply

OPEC has done a much better than expected job in complying with their production cut deal. This stronger compliance, along with growing geopolitical concerns has proved bullish for prices. Now with OPEC set to extend the deal through to the end of 2018, some would think that the recent supportive environment is set to remain. However, we don't think so.

Non-OPEC supply is set to exceed demand growth over 2018, which will see the global markets in surplus. This also assumes OPEC stick to their cuts. The risk is that the longer the deal continues, the more likely we see some producers falling short of their commitments, which would only push the oil market further into surplus.

Copper – Deficit environment to remain supportive for prices

The tighter copper market over 2017 was predominantly driven by mine disruptions at the two largest copper mines in the world over 1H17. But on the demand side, improving global manufacturing numbers has proved bullish for prices.

Expect the copper market to remain well supported, with the previous low price environment doing little to attract investment in the sector. We forecast a deficit market in the region of 150kt over 2018.

Iron ore – Under pressure

The iron ore market traded above US\$90/t in early 2017 but has weakened considerably since – trading below US\$55/t at one stage. We expect prices to remain under pressure in 2018.

2018 will be the year where Chinese steel capacity cuts should equate to weaker iron ore demand – and this comes at a time when inventories held in Chinese ports sit near record levels. Meanwhile, supply is set to pick up in 2018 as we continue to see the ramp-up of mines in both Australia and Brazil.

There is also growing speculation that the Indian government may lift the export tax on iron ore, which would boost supply.

Coal – Short term support, but downward pressure longer term

Thermal coal prices are likely to remain well supported in 1Q18 with Northern Asia reaching peak heating demand for the winter. But for coking coal, Chinese steel winter cuts should weigh on import demand. Looking at supply, there is the potential for disruptions, with it increasingly looking as though a *La Nina* event will occur over the Northern Hemisphere winter months. This event usually means wetter than usual weather, in parts of Australia.

However, Chinese domestic coal prices continue to trade above government target levels, and so as a result of this we expect them to take action to increase domestic supply. The stronger price environment may also increase global supply in the longer term, which should mean weaker prices further out.

Soybeans – Large inventories likely to cap prices

The global soybean market remains well supplied, with inventories set to end the 17/18 season at record levels. There is one upside risk that the market is watching closely, and that is the growing *La Nina* weather risk. For Brazil, it usually means drier weather over the Northern Hemisphere winter, and so there are some in the market who are worried that this could impact Brazilian soybean output.

But we are moving closer towards the period when US farmers will start to make planting decisions for the 18/19 season, and it looks as though farmers will increase soybean acreage at the expense of corn. Assuming average weather, the US could see another strong soybean harvest next season.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.