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