

2020 commodities preview

Trade talk optimism provided some support to commodity markets during the first half of 2019, while slowing global activity and reduced volatility were features of the second. This preview formed part of our [2020 FX Outlook](#). Our full Commodities Outlook is due later in December



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Crude oil – OPEC+ action needed

The oil market is set to return to surplus over the first half of 2020, and so expectations are that prices will weaken over 1H20. We are currently forecasting that ICE Brent will average US\$59/bbl over the first part of the year, whilst averaging US\$62/bbl for the year as a whole. However, this is assuming that we see OPEC+ not only extend the current output cut deal beyond March 2020, but that it also makes deeper cuts at least over 1Q20. The magnitude of additional cuts needed to keep the market in balance is up to 1MMbbls/d, we believe. The issue with deeper cuts though, is who is willing to cut even more than they currently are. The only real option is that Saudi Arabia takes on more, but it will clearly push other nations to fully comply with the current deal before doing so. OPEC+ will be meeting in Vienna on 6 December, where we will likely get more clarity on what the strategy is for 2020.

For 2019, a key price driver has been the demand story. Clearly oil demand growth over 2019 has

disappointed, with estimates revised down from 1.4MMbbls/d at the start of the year to just 900Mbbbls/d currently. Trade war uncertainty and slowing economic growth has certainly had an impact on oil demand, and whilst demand growth is expected to pick up in 2020, this will depend on how quickly China and the US come to a resolution in their ongoing trade war.

	4Q19	1Q20	2Q20	3Q20	4Q20
ICE Brent (US\$/bbl)	65	60	58	62	67

Copper – Trade concerns and macro still in focus

Copper prices have been weighed down heavily by concerns over the ongoing trade war and slowing global manufacturing activities. A constructive mine supply side has provided little support to the prices over the year. On the refined side, both refined capacities and output are still growing out of China while demand growth has struggled across major China and major European consumers.

Moving into 2020, copper mine supply growth is set to increase although the outlook still looked vulnerable to potential disruptions. The benchmark TC/RC for 2020 came in at US\$62 per tonne/US¢6.2/lb compared to US\$80.8/US¢8.08 in 2019, a level that is cutting into some marginal smelters' margins. Demand in China is hoping for some support from stimulus measures from the infrastructure sector, but it is still too premature to be sanguine on the global demand recovery until we see solid signs of stabilisation in global activity as well as solid developments from China-US trade talks. We are currently slightly bearish towards prices in 2020 and forecast LME 3M copper to average at US\$5,750/tonne as base case prices but the risks are largely dependent on macro uncertainties.

	4Q19	1Q20	2Q20	3Q20	4Q20
LME Cu (US\$/t)	5,610	5,600	5,700	5,800	5,900

Iron ore – More supply to return

2019 has been a volatile year for the iron ore market. The unfortunate Vale dam accident in Brazil raised concerns over supply tightness, with Vale forced to take around 90mtpa of capacity off the market. This pushed prices to as high as US\$124/t. Although this move was clearly exaggerated by speculative activity. However, as we have seen a return of some capacity, along with a recovery in Chinese iron port stocks, prices have come under pressure once again, with the market trading sub US\$80/t recently. To add to the bearish tone, steel mill margins have come under pressure, leading to some steel producers cutting operating rates.

For 2020, we continue to hold a fairly bearish outlook for iron ore prices. We expect that further Brazilian capacity will be brought back to the market over the course of the year, whilst there is still plenty of uncertainty around the global economy, and so this is likely to keep some pressure on steel mill margins. We currently forecast that iron ore prices will average US\$81/t over 2020. The risk to this view is that we do not see Vale capacity continuing to return as quickly as anticipated, which could keep the seaborne market tighter than expected.

	4Q19	1Q20	2Q20	3Q20	4Q20
Iron ore (US\$/t)	95	85	85	80	75

Coal - Weakness persist

Coal prices remain under pressure, with European prices down more than 35% since the start of the year, leaving them to trade just above US\$50/t. For Europe, the outlook for prices remains weak. This is due to two factors. Firstly, EU carbon prices have been fairly strong. Secondly, gas prices in Europe have been very weak, with a significant amount of LNG making its way into the region, as LNG export projects ramp up. These two factors have supported a coal to gas switch for power generation, which has weighed on coal demand.



Soybeans – Trade war dependent

Soybeans have been the poster child for the trade war between the US and China. However more recently, as we have seen progress with phase one of the trade deal, Chinese buyers have returned to the market for US soybeans, with the government providing tariff free quotas. This has clearly been supportive for CBOT soybeans. However, we will likely need to see tariffs fully removed rather than just quotas being provided, in order to turn significantly more bullish on the market. On the supply side, the US soybean crop is set to be significantly smaller this marketing year. Firstly, given the ongoing trade war, farmers reduced 2019 soybean plantings. This lower acreage combined with weaker yields means that US soybean production is expected to fall year on year, and this smaller crop should help to lower elevated stock levels.

For 2020 US plantings, a lot will depend on how trade talks evolve over 1Q20. However, right now, the soybean/corn price ratio suggests that farmers should plant more corn at the expense of soybeans. Overall, we expect the CBOT soybean price to trend higher moving into 2020, with prices averaging US\$9.10/bu over the year, driven by falling global ending stocks. A quick resolution to the trade war, however, could mean further upside. While a trade deal would provide upside to CBOT soybeans, it would in fact be bearish for Brazilian soybean cash values, with Chinese buyers likely to switch back to US soybeans.



Gold - Safe haven appeal

The gold market has had a strong year, with prices up as much as 21% at one stage, hitting a multi-year high of US\$1,554/oz. This strength shouldn't come as too much of a surprise, given the growing uncertainty in the global economy, with slowing growth and escalating trade tensions. These factors have increased the appeal for safe haven assets such as gold. Furthermore, more dovish policy from central banks has also provided support to gold.

Looking to 2020, we believe that prices will be dictated by the same themes as this year. As a result of trade uncertainty and concerns over global growth we do see upside to gold prices from current levels. While if the US Fed turns increasingly more dovish, this only provides further upside. We currently forecast that gold prices will average around US\$1,475/oz over the course of 2020.

This article is part of our [2020 FX outlook report](#).

	4Q19	1Q20	2Q20	3Q20	4Q20
Gold (US\$/oz)	1,500	1,500	1,470	1,470	1,480

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