

Commodities Outlook: A little less fundamental, a little more action

2019 has been a year where broader trade and macro concerns have dictated price direction for most of the commodities complex. Given that we are entering 2020 with still plenty of uncertainty around trade, it's likely to remain a key driver for markets. This is what we're watching in 2020



Overview

Commodities will continue to be at the whim of trade talk negotiations in 2020 unless we get some major breakthrough in the US-China talks. It's been difficult to take a view in 2019 without second-guessing what the next step might be, and prices are likely to continue to whipsaw until we get that clarity. No part of the complex has been left untouched.

Oil has come under pressure despite OPEC+ cuts taking excess crude off the market for much of the year. Instead, market participants have grown increasingly worried about the impact that slowing trade will have on global growth and ultimately what this means for oil demand growth. In 2019 we've already seen significant revisions lower in demand growth estimates. If we see no improvement in the macro environment over the course of next year, we are likely to see further revisions lower in 2020. Obviously, this scenario would be a headache for OPEC+, which continues to manage supply to keep the market in balance. While the group took action recently at their December meeting to deepen cuts over 1Q20, we expect they will need to take further action when it comes to 2Q20. There are a number of other factors which make the life of an oil analyst

more difficult going into the new year. Away from the ongoing trade saga, there is growing uncertainty around US oil production growth given the slowdown that we have seen in US rig activity. In shipping, we're finally going to see the highly anticipated implementation of IMO 2020 sulphur regulations which will change the demand picture for refined products. It will be interesting to see how both the refining and shipping sector tackle this regulation from the 1st January.

We must see a resolution in the ongoing trade dispute between China and the US

The industrial metals complex has also been largely under pressure, with slowing manufacturing activity in most regions weighing on metals' demand. These concerns have been reflected in copper prices, which struggled to trade higher for much of the year despite having fairly supportive fundamentals. Mine supply disruptions in South America has tightened the copper concentrate market while growing smelting capacity in China meant that demand for concentrate has remained strong. The tightening concentrate market is reflected in treatment charges which have weakened over the year.

For 2020, mine supply is set to return to growth, but above-normal disruptions would leave the supply outlook fragile. To be more constructive copper, along with the rest of the industrial metals complex, we believe we must see a resolution in the ongoing trade dispute between China and the US. One stand-out potentially is nickel; the metal saw a significant rally this year following the announcement of the Indonesian ban on nickel ore exports from next year, supplanted by a selloff as demand realities set in. Uncertainty around the effectiveness of the export ban is likely to mean that nickel remains volatile throughout next year.

Turning to precious metals, and we believe they will continue to perform strongly over 2020, gold will likely remain a safe haven asset in the absence of a convincing trade deal. However, stronger prices also mean that physical gold demand will remain under pressure. Palladium has been a star performer this year, edging ever closer towards US\$2,000/oz. The market will likely remain focused on the deficit environment and robust demand outlook in the short term. Demand destruction is a key risk for palladium. However, up until now, evidence of this has been lacking.

Agricultural markets have also struggled to shake off the impact of the trade war. Soybean prices have been dictated by US/China trade negotiations, and recent waivers have proved constructive for prices. A trade deal that includes the removal of tariffs on US soybeans would only offer further support to the market. Global soybean stocks are tightening, due to a smaller harvest from the US this season. The demand outlook is more positive, as the worst of African Swine Fever in China seems behind us.

Finally, the sugar market is set to return to deficit in the 2019/20 season, which has been supportive of prices recently. We still hold a constructive view on the sugar market going into 2020. However, any upside will be capped by large Indian sugar stocks which continue to threaten the world market.

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