

2019 commodities outlook

2018 has been quite the year for the commodities complex. Sanctions and growing trade tensions led to increased volatility in markets, and with still plenty of uncertainty around these, they are likely to remain key drivers for the commodities complex over 2019



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Crude oil: The surplus returns

There has been plenty of uncertainty around the oil market over 2018, particularly with the return of US sanctions against Iran, and what it would mean for Iranian oil exports. As a result, OPEC+ decided to relax compliance with its production cut deal, which has seen the group producing at levels last seen back in November 2016. Meanwhile, both Russia and the US are producing at record levels. This strong production growth, along with Iranian waivers has meant that the global oil market is set to be well supplied as we move into 2019. Demand growth is also a concern, largely driven by trade tensions. We expect the global oil market to see a sizeable surplus over the first half of 2019, and therefore expect that OPEC+ will agree to another round of production cuts at its December meeting. Confirmation of further cuts should be supportive for prices in the near term, but as we move through 2019, we expect ICE Brent to trend back towards the mid-US\$60/bbl, driven by non-OPEC supply growth.

- *FX focus* - NOK, RUB, CAD

Copper: Trade concerns weigh on the market

Copper prices have been weighed down heavily by concerns over the ongoing trade war. However, trade tensions appear to be having little impact on Chinese copper demand, with both strong imports and physical premiums in the spot market. Meanwhile, prompt spreads also suggest tightness in the spot market, and this is confirmed by low inventory levels. Moving into 2019, the copper market is set to continue to tighten. We currently forecast small deficits, and therefore the need to see higher prices to incentivise investment in mining projects. We believe that copper needs to trade up towards the US\$7,000/t level to attract this investment, and given that it takes several years to develop mines, prices need to trend higher sooner rather than later. The key downside risk is obviously a further deterioration in trade, combined with Chinese stimulus not being as effective as hoped for.

- *FX focus* - CLP, PEN

Iron ore: Stronger prices... for now

Having seen a significant sell-off earlier in the year, iron prices have recovered over the second half of the year, with the market trading back towards US\$75/t. Quality premiums have remained strong over much of the year, as healthy steel margins and China's anti-pollution drive pushes buyers towards higher quality iron ore. However, saying that, Chinese iron ore imports are marginally lower so far this year, with domestic inventories drawn down instead. Looking ahead, we expect prices to trend towards US\$60/t by the end of 2019. We continue to see growing seaborne supply, while Chinese iron ore demand appears to have peaked. Concerns over China's economy certainly doesn't help either.

- *FX focus* - AUD, BRL, ZAR, INR, CNY

Coal: Continues to defy expectations

The coal market has had yet another strong year, with Newcastle coal trading to as high as US\$120/t - levels last seen back in 2011. This strength has come largely from stronger Chinese import demand, while in Europe a hot summer has also been supportive. Meanwhile, coking coal prices have been supported by strong Chinese steel margins. Looking ahead, US weather forecaster, NOAA is expecting an 80% chance of a weak El Niño weather event over the northern hemisphere winter, which usually means a milder winter in North Asia. The realisation of this, along with the second winter where we see a move away from Chinese residential coal-fired heating to gas, should mean that we do not see a significant seasonal pickup in coal imports. Meanwhile, the broader trend of energy transition should weigh on coal demand growth and, as a result, on prices moving forward.

- *FX focus* - AUD, IDR, COP, ZAR, RUB

Soybeans: All about the trade war

The soybean market has been weighed down heavily this year by China's retaliatory trade tariffs on US soybeans. These tariffs come at a time when the US is set to see a record harvest and, with Chinese buyers turning increasingly to South American soybeans, US inventories will be fairly large moving into next season. While CBOT prices have come under pressure, physical cash values for South American beans have strengthened considerably over the year. Trade talks between China and the US will largely dictate soybean prices over 2019. If tariffs on US soybeans remain in place,

we struggle to see soybean prices trading above US\$9/bu throughout 2019. In fact, prices need to trade at levels that persuade farmers to switch to another crop, such as corn. If China and the US come to some sort of deal, this does increase the upside for soybean prices. However, a deal will need to be made fairly quickly, as farmers will be finalising planting intentions over 1Q19.

- *FX focus - BRL*

[This report is part of our 2019 FX outlook published November 2018](#)

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