



Global Investment Research

The Goldman Sachs Group, Inc.

# MVTTC 2020 Commodity Update

February 2020

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Easier financial conditions and an end to trade escalation should lead to modest Global GDP acceleration in 2020

- Developed market central banks likely to stay on hold; risk of easing in Europe/Japan
- Near-term rate cuts remain likely in Emerging markets
- Trade policy becoming friendlier

Real GDP Growth								
Percent Change yoy	2017	2018	2019 (f)		2020 (f)		2021 (f)	
			GS	Cons*	GS	Cons*	GS	Cons*
US	2.4	2.9	2.3	2.3	2.2	1.8	2.4	1.9
Japan	2.2	0.3	1.0	1.0	0.3	0.5	0.8	0.8
Euro Area	2.7	1.9	1.2	1.2	1.0	1.0	1.4	1.3
Germany	2.8	1.5	0.6	0.6	0.8	0.6	1.5	1.2
France	2.4	1.7	1.2	1.3	1.0	1.2	1.4	1.3
Italy	1.8	0.7	0.2	0.2	0.1	0.4	0.7	0.6
Spain	2.9	2.4	2.0	2.0	1.7	1.6	1.7	1.6
UK	1.9	1.4	1.3	1.3	1.0	1.1	2.2	1.5
China	6.8	6.6	6.1	6.1	5.5	5.8	5.9	5.8
India	6.9	7.4	5.2	5.1	6.4	5.9	6.9	--
Russia	1.6	2.3	1.3	1.2	2.2	1.7	3.1	1.8
Brazil	1.3	1.3	1.2	1.1	2.3	2.2	2.4	2.5
<b>Developed Markets</b>	<b>2.6</b>	<b>2.3</b>	<b>1.8</b>	<b>1.8</b>	<b>1.6</b>	<b>1.5</b>	<b>2.0</b>	<b>1.7</b>
<b>Emerging Markets</b>	<b>5.1</b>	<b>5.1</b>	<b>4.2</b>	<b>4.2</b>	<b>4.6</b>	<b>4.5</b>	<b>5.0</b>	<b>4.9</b>
<b>World</b>	<b>3.9</b>	<b>3.8</b>	<b>3.1</b>	<b>3.1</b>	<b>3.2</b>	<b>3.1</b>	<b>3.7</b>	<b>3.5</b>

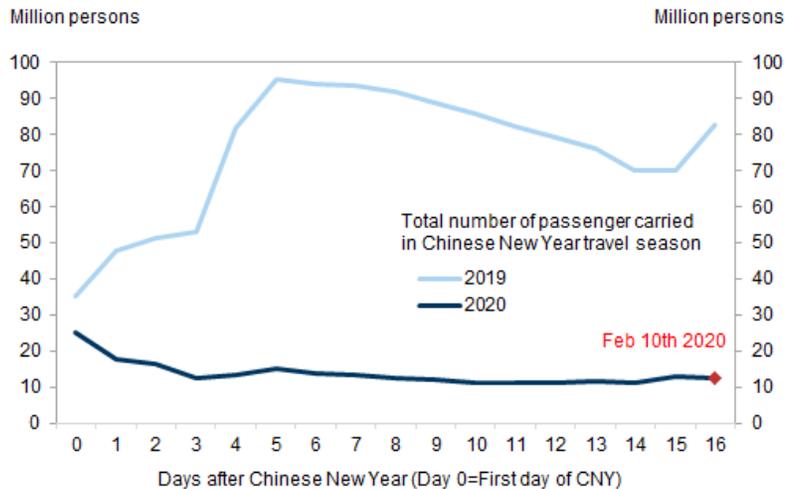
\* Bloomberg consensus forecasts as of February.

Note: All forecasts, including consensus, calculated on calendar year basis.

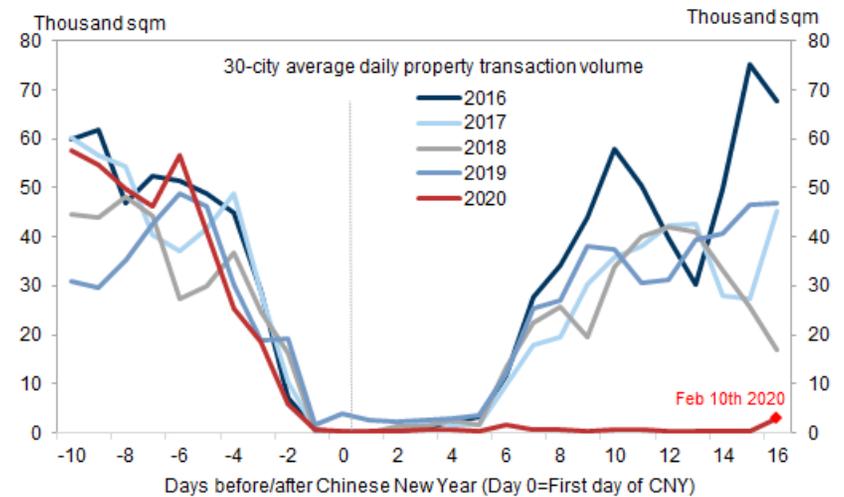
Source: Bloomberg. Goldman Sachs Global Investment Research.

## Activity has slumped in February owing to the coronavirus

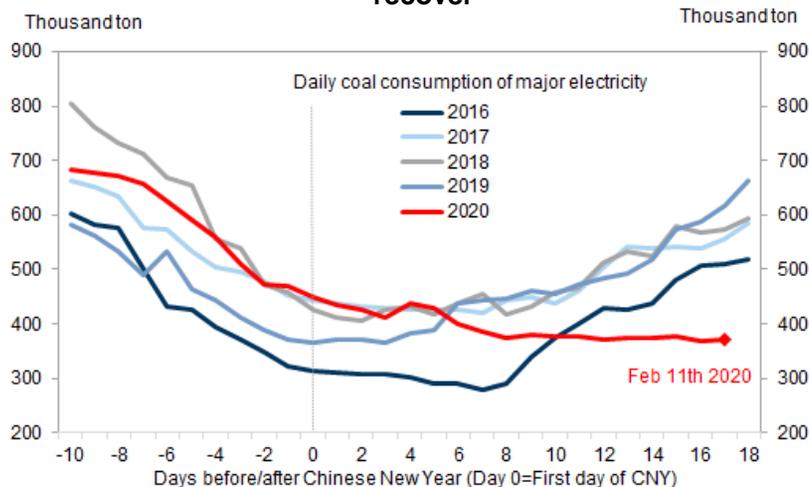
**Passenger travel remains at low levels**



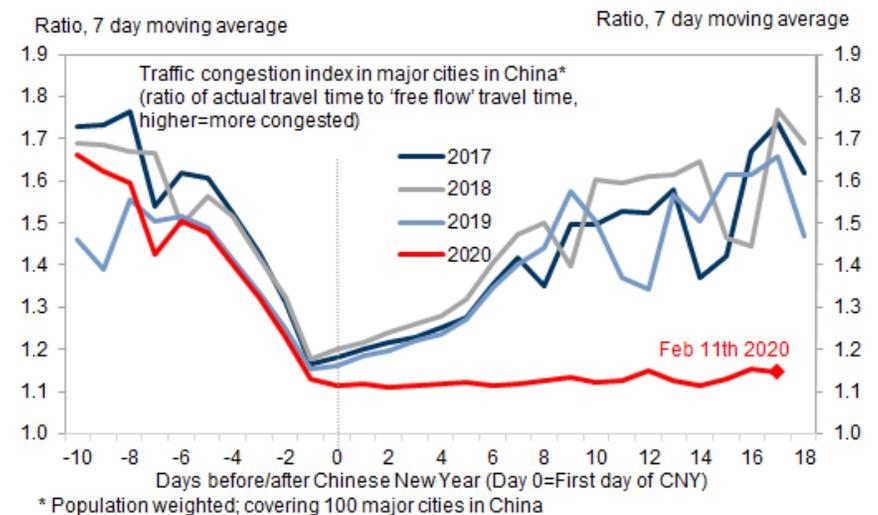
**Property transactions remains weak**



**Daily coal consumption of major electricity producers has yet to recover**

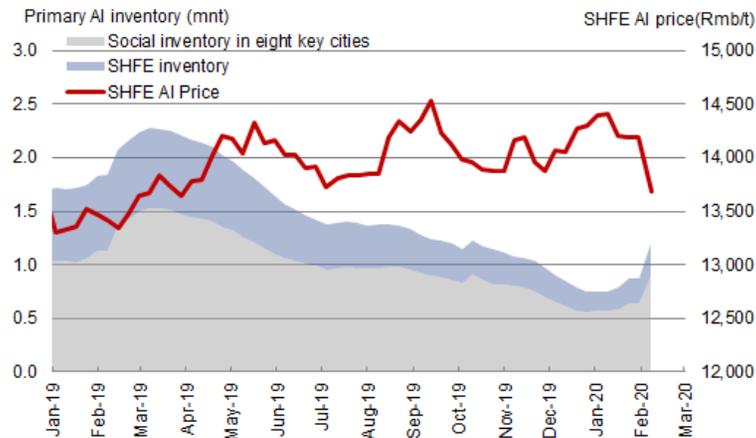


**Traffic congestion is lower than usual**

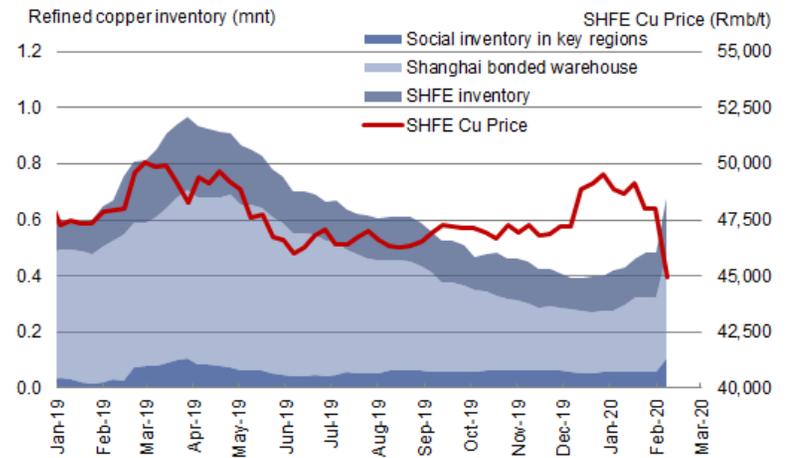


## Commodity inventories are building

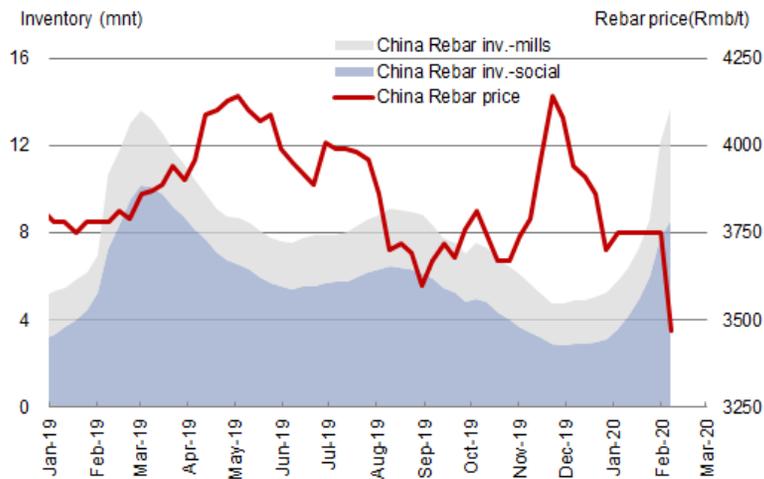
**SHFE aluminum price and inventory**



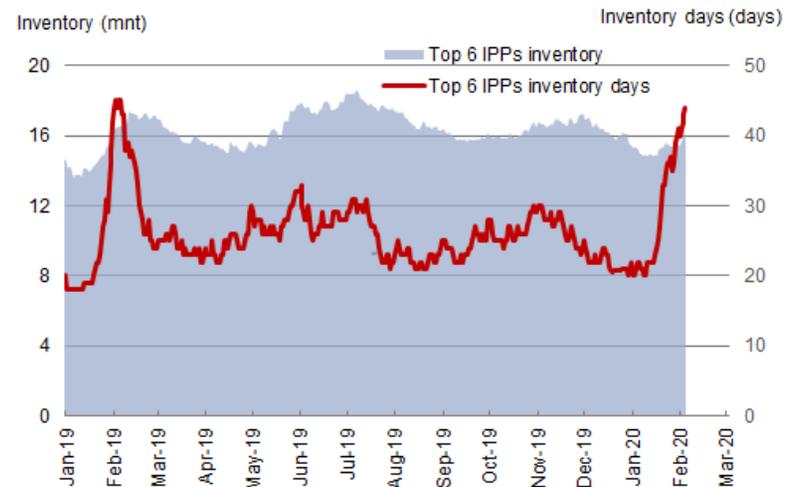
**SHFE copper price and inventory**



**China rebar price and inventory**



**Coal inventory and days at top 6 IPPs**



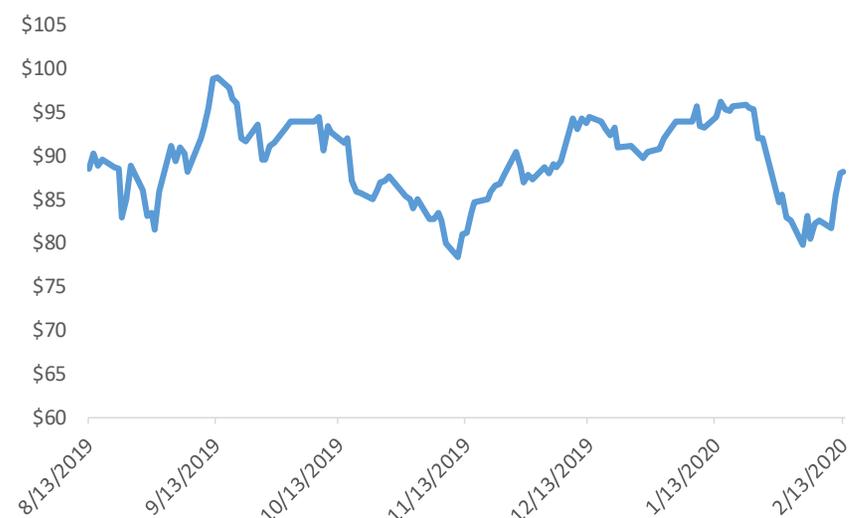
## Expectations for government stimulus are high

- Our economists now expect 5.5% GDP growth in 2020 (v. 5.9%)
- Avenues for stimulus include:
  - Infrastructure spending/Total Social Financing
  - RRR cut for banks
  - Tax relief
  - Interest forbearance
  - GS base case does not include meaningful easing in property

GS China GDP forecasts

		2019F	2020F (old)	2020F (new)
<b>GDP by expenditure</b>	<b>% yoy</b>	<b>6.1</b>	<b>5.9</b>	<b>5.5</b>
Domestic demand	% yoy	5.5	5.6	5.2
Consumption	% yoy	7.5	7.6	7.0
Household	% yoy	7.0	7.4	6.0
Government	% yoy	8.5	8.0	9.5
Gross capital formation	% yoy	3.0	3.0	3.0
Fixed investment	% yoy	3.3	2.7	3.1
Inventory	PPT	-0.1	0.2	0.0
Net exports	PPT	0.7	0.3	0.4
Exports	% yoy	1.0	2.5	2.0
Imports	% yoy	-3.0	1.0	0.0
<b>FAI forecasts</b>		<b>2019</b>	<b>2020F (old)</b>	<b>2020F (new)</b>
Headline FAI	% yoy	5.4	4.6	5.3
Manufacturing	% yoy	3.1	5.0	4.0
Infrastructure	% yoy	5.2	5.0	8.0
Real estate	% yoy	9.0	6.0	6.0
Other	% yoy	5.3	2.0	2.0

Iron ore prices (Platts IODEX) have bounced on expected stimulus



## Phase 1 deal – what could China buy?

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- Reaching \$200bn more than 2017 would require policy assistance (lower tariffs, more SOE buying, possible currency stabilization)
  - Soybeans
    - Largest agricultural import from the US
    - Lower US supply and weak Chinese demand could affect 2020
  - Wheat and corn should increase considerably (though dollar amounts are not huge)
  - Energy – crude oil and natural gas- are also an opportunity
    - Crude type matters for Chinese refineries (US crude is light and sweet, many Chinese refiners burn heavier crude)
    - LNG contracts play a role
  - Met coal is a possibility
    - Low-ash, low-cost coal ideal
    - Can coal be diverted from other customers?
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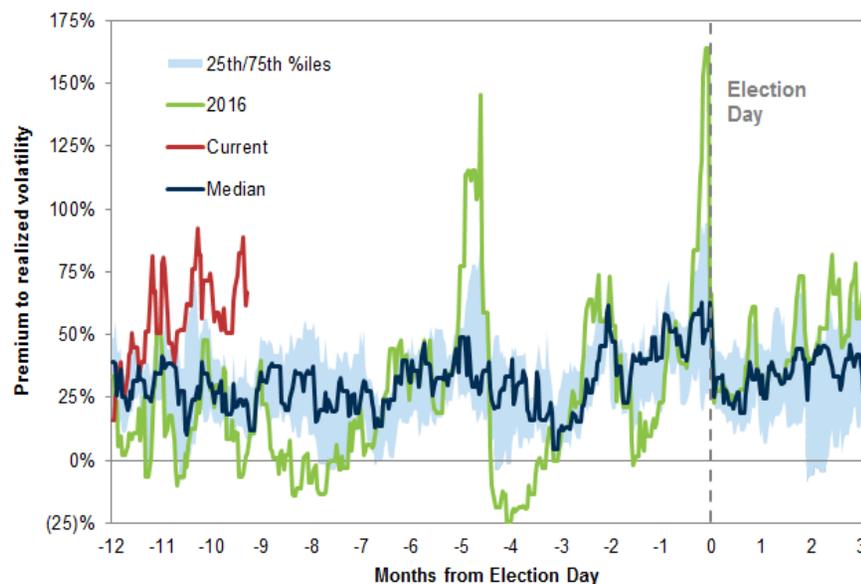
## Phase 1 deal – what could China buy?

## A scenario of the Phase 1 deal purchase agreement

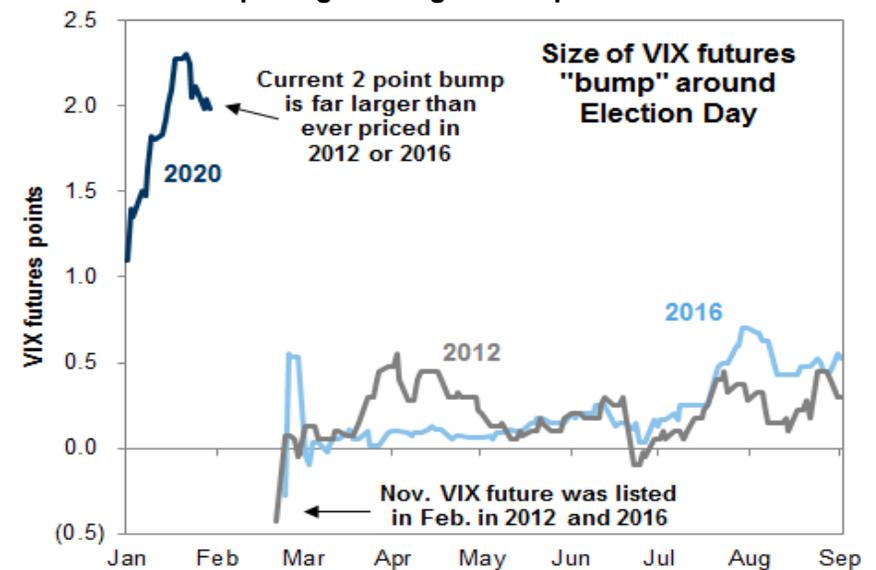
Products	2017		2020 Scenario		2021 Scenario		Change from 2017	
	Volume	Value (USD bn)	Volume	Value (USD bn)	Volume	Value (USD bn)	2020 (USD bn)	2021 (USD bn)
<b>Goods</b>								
Soybean (mnt)	31.7	12.2	45	17.4	55	21.2	5.1	9.0
Corn (mnt)	0.8	0.2	6	1.1	6	1.1	0.9	0.9
Wheat (mnt)	1.5	0.4	5	1.1	5	1.1	0.8	0.8
Pork (mnt)	0.1	0.2	2	3.8	2	3.8	3.5	3.5
Poultry, Beef, Fish, Other Meat or Edible Offal		1.8		7.0		7.0	5.2	5.2
Other		4.0		9.6		15.8	5.6	11.8
<b>Total Ag Products</b>		<b>19</b>		<b>40</b>		<b>50</b>	<b>21</b>	<b>31</b>
Crude Oil (kbd)	160	3.2	500	10.6	800	16.9	7.4	13.8
LNG (mnt)	1.5	0.6	10	4.3	15	6.4	3.6	5.8
Chemicals and Plastics		16.8		26.8		26.8	10.0	10.0
Semiconductors		5.9		10.9		10.9	5.0	5.0
Aircrafts		16.3		19.3		24.3	3.0	8.0
Other		68.3		83.2		84.7	14.9	16.4
<b>Total Non-Ag Products</b>		<b>111</b>		<b>155</b>		<b>170</b>	<b>44</b>	<b>59</b>
<b>Total Goods</b>		<b>130</b>		<b>195</b>		<b>220</b>	<b>65</b>	<b>90</b>
<b>Services</b>								
Travel and Cultural		34.0		40.8		46.9	6.8	12.9
IP, Financial and Insurance		10.6		15.9		22.3	5.3	11.7
Other		11.4		14.3		16.8	2.9	5.4
<b>Total Services</b>		<b>56</b>		<b>71</b>		<b>86</b>	<b>15</b>	<b>30</b>
<b>Total</b>		<b>186</b>		<b>266</b>		<b>306</b>	<b>80</b>	<b>120</b>

- 737 MAX/coronavirus affect 1Q GDP growth ( $-\frac{3}{4}$  ppt); when near-term drags end, friendlier trade policy/easier financial conditions should aid growth
- GS client surveys show the majority of investors expect President Trump to win reelection
- However, polls still show a tight race; volatility should remain elevated

Volatility risk premium peaks around Election Day



The market is pricing in a larger “bump” than in 2012 and 2016

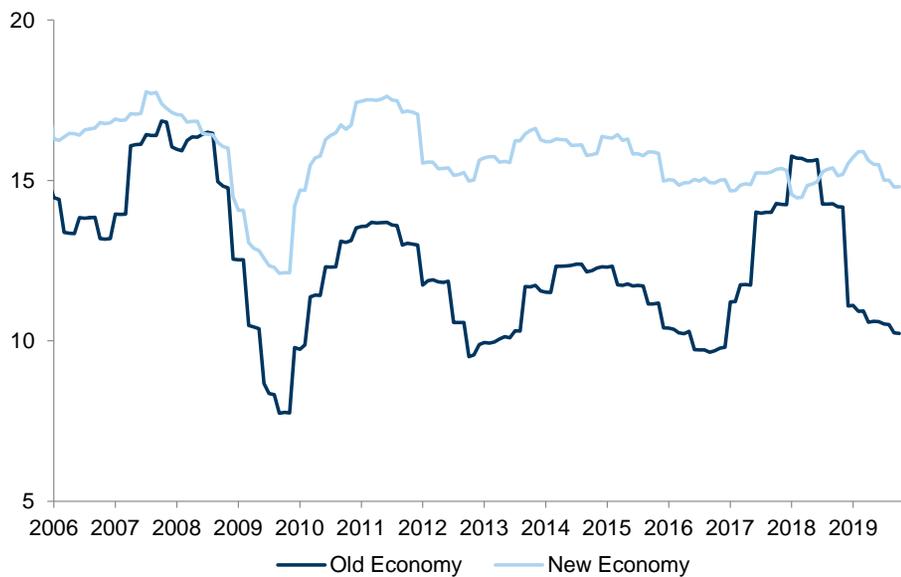


# Commodity markets

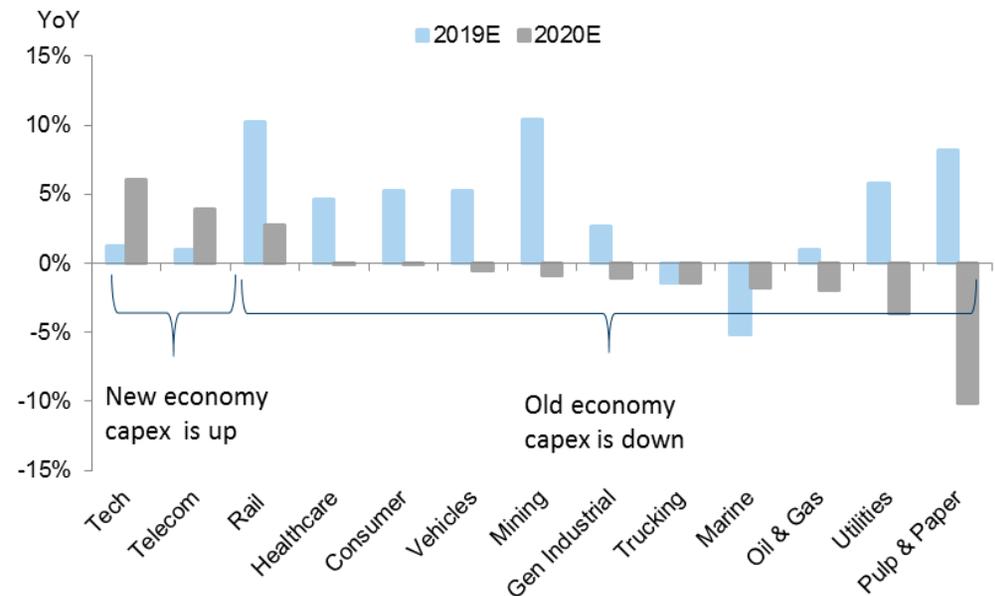
# Over-built, over-levered, over-polluted

Old economy generates weak returns

Old economy returns remain weak relative to healthy new economy sectors (% ROE)



Old economy capex is declining due to poor historical returns



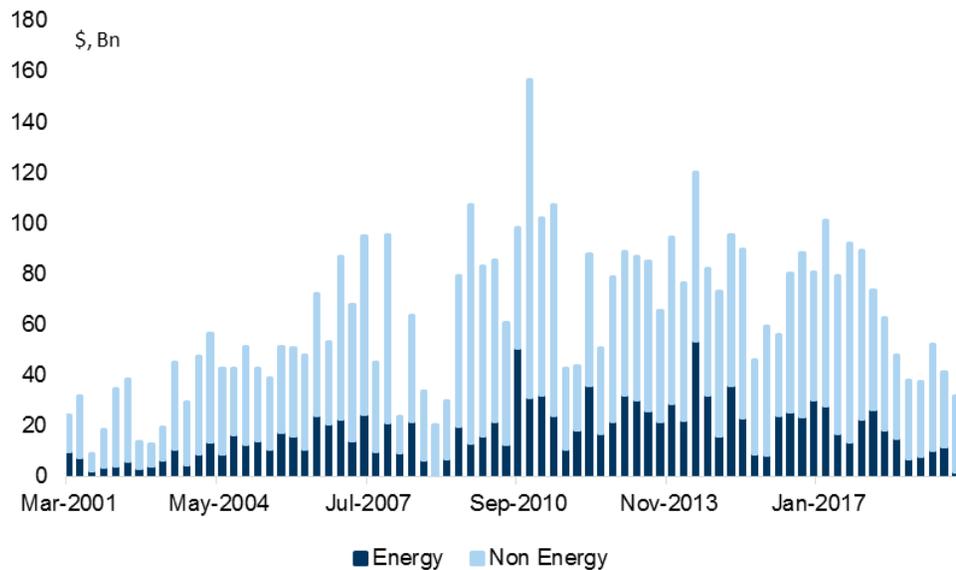
Source: Haver Analytics, Datastream, Company Data, Goldman Sachs Global Investment Research

Old Economy: Oil & Gas, Transportation, Metals & Mining, Industrials, Materials.

# Over-built, over-levered, over-polluted

Capital markets are thus restricted

Old economy equity and High Yield debt issuance is falling



ESG strategies to further restrict capital access



Source: GSIA, Goldman Sachs Global Investment Research

Old Economy: Oil & Gas, Transportation, Metals & Mining, Industrials, Materials.

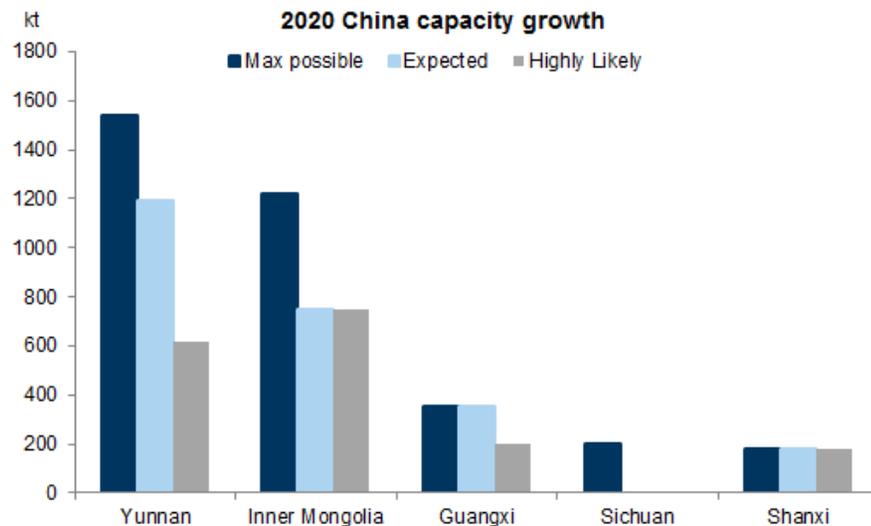
- US continues to move towards scrap-based production
- Scrap trade could migrate south as new EAFs are built there
- Increased DRI/HBI/pig iron supply could help ease the pull on scrap from new EAF capacity construction
- Percentage of DRI/HBI/pig iron in EAF charge has increased
- GS equity forecasts \$592/t HRC for 2020

# Aluminum

Global capacity still high

- Aerospace demand dependent on Boeing MAX production
- Can sheet demand improving
- Global market to remain in a surplus

We expect roughly a third of possible 2020 capacity to be delayed in China



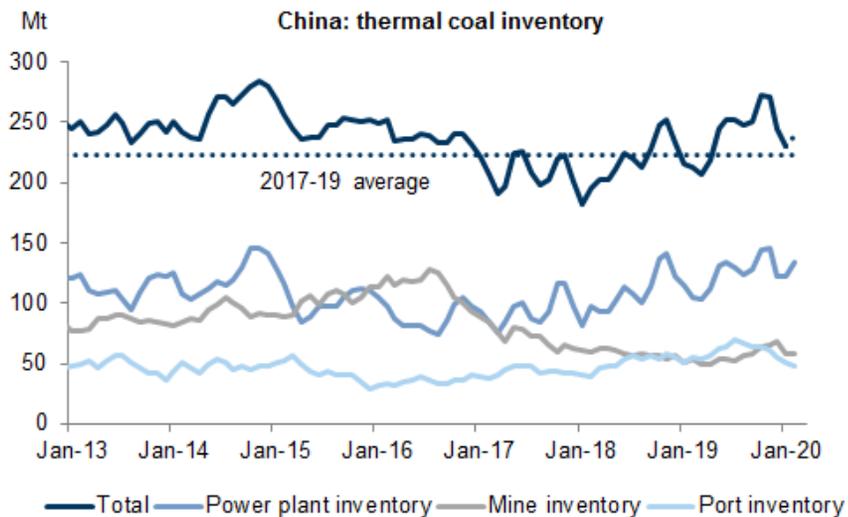
Ex-China supply growth is accelerating



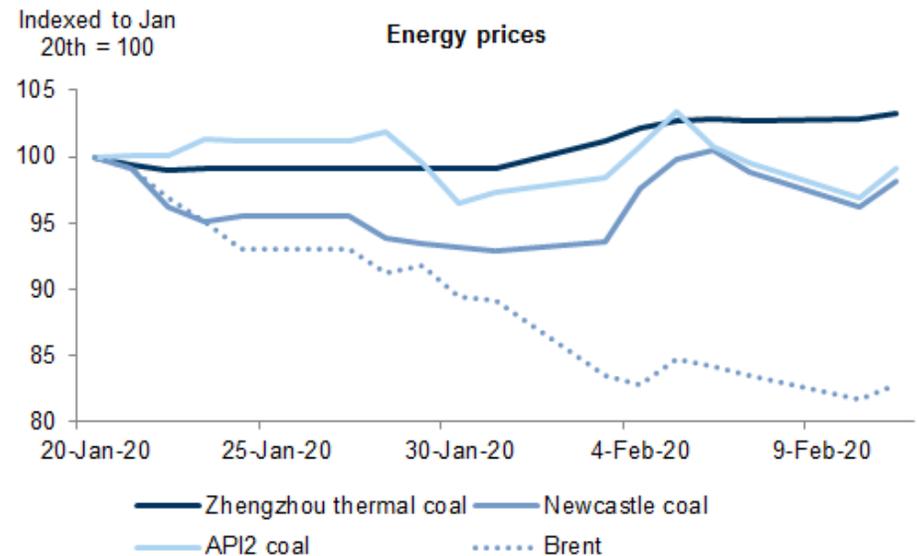
We expect Chinese domestic production and imports to normalize by the end of 1Q20

- GS Commodities estimates a 10% yoy drop in Chinese coal supply over the past 20 days
- Power generation down as well
- The market has little inventory buffer

**Total thermal coal inventories in china in line with levels of last three years**



**China domestic thermal coal rallied when the onshore market re-opened after the holiday**



# Disclosure Appendix

February 14, 2020

# Disclosure Appendix

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