Weekly Commodity Outlook

Monday, June 03, 2019

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**Last week we said that long liquidation is the order of the** day and that WTI and Brent are likely to find support at $55 and $65 respectively. Partially we got that right, with liquidation an ongoing theme, but the magnitude of losses was more severe than we expected. WTI closed $53.50 on Friday, with Brent at $62. CFTC data shows a decline in non-comm net longs on NYMEX to 439k as of 28 May from 478k the week before; this number should be much lesser now considering the near $6/bbl drop in Brent across last Thursday and Friday. We estimate net longs at 360-380k, and if this level is headed for the support of 300k **then Brent may likely find support at $55/bbl – the same low recorded in Q4**. The world continues to have supply tightness but that is taking a backseat now given everything that is happening with the US and China. It is hard to see beyond the pessimism and bloodbath that crude is in right now, but our guess is that OPEC+ is now more compelled to continue restricting supply, and may even consider tightening output further. This sea of red may therefore be transient and in Q4 we may see some kind of uptick in Brent, if not stabilisation, at around the $65/bbl level.	↓
Soybeans	An uptick in soymeal prices has lifted the pressure on crush margins somewhat, bu**t gross profitability on Brazilian crush is still negative at ~ -100 RMB/mt, by our estimates.** The gross breakeven prices for Brazilian crush is unchanged at 3,200 RMB/mt ceteris paribus, from current levels of 3,050 RMB/mt. Soybean futures have, however, been climbing last week as weather plays havoc on the growing season in the US. Some farmers have described the storms as “biblical” and “unprecedented”. **A quick look at the USDA crop progress shows soybean planting now only at a shocking measly 29% completed** – last year this time it was already 74% done. Delays in crop output and possibly poor yields have lifted prices somewhat but we expect any rally to be capped below $1,000/bu on the Nov contract.	↑
Palm	China inventories declined last week slightly to 752k mt, down from 817kmt the week before. On an average monthly basis, Chinese palm stock remain at its highest since Apr 2016. Prices continue to hover around the 2000-2100 MYR/mt level as bearish demand engulfs agricultural markets generally. EU imports may start to decline in June, if not May, following the EU’s tighter restrictions on palm imports. The swine flu has also spread into Thailand and Vietnam. **Overall there appear little cause for price optimism in the short-term**, save for maybe an El Nino limiting palm output in the region – but that is likely to give way to the current macro overhang.	→

Cotton	Prices on the Dec contract have stabilised at 66-68 c/lb in the last week with planting in the US at 57% done vs 58% on average. **West Texas has gotten its fair share of the wet weather** and some delays in planting are expected, although it would not be as severe as that experienced by corn and soybeans in Iowa and Illinois. The Indian meteorological forecast places this year's monsoon at 94% of normal, suggesting some dryness for the Indian crop this year, with the important areas of Gujarat in the northeast more hit at only 91%. Some kind of uptick in prices may be observed once we get more confirmation that the US and Indian crop this year won't be stellar in quality, which should start to **add upward pressure on premiums of high quality stock.**	↑
Iron Ore	**It ended as quickly as it started** – prices on the SGX June contract stayed above $100/mt for just seven days, and at time of writing is trading at $96/mt. **Margins on steel production in China remains profitable at 340 RMB/mt**, but that is a long way off the 650 RMB/mt that would have been made just one month ago. On the week, spot prices of Chinese hot rolled steel have come off -50 RMB/mt to 3,930 RMB/mt, eroding production margins. Steelhome port inventory levels of iron ore continue to come off, dropping to 125mil mt from 128mil mt to mark the eighth consecutive week of stock declines and a total disappearance of 24mil mt in this period. **If this is the beginning of the end for iron ore prices, we expect that prices may unfold very quickly** given the huge rally (and speculation) that has defined the commodity YTD. Support levels expected at $90/mt and $80/mt.	↓
Gold	Gold got its shot up the arm from the Mexico tariffs, which previously had continued to strangely languish at the $1,280/mt level with a technical downward trend. **US Treasuries bore the demand for safe haven** – on hindsight, probably rightly so given the high yield levels of 2.5% (now 2.1%) compared to the <2% level in yesteryears. **The Mexican tariffs were probably the straw that broke the camel's back** (or rather, lifted gold from its downward slump) as UST yields were already running thin by then. Tariffs on Mexico also showed that no country is safe from the US weaponising trade to meet objectives of the Trump administration, stretching the possibility of the global economy losing growth steam. With prices trading above $1,300/oz now, we expect prices to trade $1,300-$1,350/oz in the short term.	↑

OCBC Commodities Research

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