Weekly Commodity Outlook

9 September 2019

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**The removal of Saudi Energy Minister Khaled Al-Falih**, while expected to hasten Aramco's IPO, may introduce market jittery in the short-term. New energy minister Prince Abdulaziz bin Salman is largely seen as more enthusiastic about the IPO of Aramco than his predecessor, and it was probably for this reason that Al-Falih was let go by King Salman. Saudi Arabia has an ambitious 2030 plan of diversifying away its economic growth from oil production; central to that strategy is the IPO of Aramco, which Prince Abdulaziz is expected to spearhead. With a new head in charge of energy, however, new policies may be expected and this uncertainty has lifted prices higher. Longer-term, however, as the diversification of Saudi's economy continues to unfold, there may appear lesser impetus for the country to continue supporting global crude oil prices like they did under the Al-Falih regime, instead possibly choosing to maintain constant output like the previous Al-Naimi era.	↑
Soybeans	**Gross crushing margins in China continue to remain profitable** at about 500 RMB/mt, aided in large part by rising domestic soymeal and soyoil prices. Customs data from China two weeks back showed the country still importing a larger-than-average quantity of US soybeans in July (11% vs 3% average), but the re-escalation of US-China tensions in August would mean that data print should see a marked deterioration starting last month. In Brazil, there are rising accusations that the recent burning of the Amazon rainforest are directly linked to farmers torching trees to create soybean acreage, guised under the cloaks of sovereignty and "feeding the world". Evidence has been inconclusive so far but don't rule out punitive actions on Brazil from the likes of WTO if further investigations find more evidence to support this claim. Lastly, there are talks that China is looking to Russia to provide soybeans for its animal feed.	→
Palm	**Prices of palm have come down from 2269 MYR/mt at end-August to about 2200 MYR/mt currently**. India imposing a 5% tax on refined palm oil from Malaysia was probably the single-largest catalyst that drove this downturn, although that is expected to consequently raise the exports of crude palm oil from Malaysia to India instead. Even at 2200 MYR/mt however, prices have rallied sharply (+13.5%) from the low of 1937 MYR/mt in early July. Separately, the demand for biodiesels and HVOs are expected to grow to 45.8mil mt in 2019 from 41.2mil mt last year, according to Oil World. The combined two-year growth of almost 10mil mt is unprecedented, amid a rising concern over climate change and sustainable energy.	→
Cotton	**All eyes will be on Thursday's USDA WASDE report** to determine the changes in US crop production. We are forecasting a US production of 22.72mil bales, up 200k bales from August, and for US exports to drop 200k bales to 17mil bales. Hurricane Dorian, which impacted the Carolina states, is expected to take off some cotton production quantity this year although it is unlikely to be reflected in this month's report. Prices on the Dec contract remain highly depressed, rising to 59.12c/lb at best last week, as the macro backdrop continues to provide a negative overhang.	↓

Iron Ore	**Steel margins in China are hovering around the 100RMB/mt,** a bump up from two weeks ago where profitability was ranging from 0 to 50 RMB/mt. The continuous decline in iron ore futures prices have finally caught up to the spot market, which aided the improvement in steel profitability. A decline in spot foundry coke prices as well as a slight increase in spot steel prices also aided the increase in margin production margins. Steelhome port inventories since mid-July have begun to turn higher, rising from a low of 115.35mil mt to 126.7mil mt in the space of two months. Fundamentally, the surprising robustness of China's property sector continues to negate the bearishness from China's automobile sector, although the recent RRR cuts in China should aid in boosting lending in both sectors.	→
Gold	**Gold prices have continued rising,** touching a high of $1,547.10/oz last week before closing at $1,506/80/oz on Friday. A return of risk-on behaviour across multiple asset classes took its toll on gold, with Fed Chair Jerome Powell saying he does not see a US recession on the horizon also taking the shine off the precious metal. Friday's US nonfarm payrolls number, however, underscore the economic fragility in the world's largest economy. With the ECB and Fed primed to further ease monetary conditions this month, it is unlikely gold will dip below $1,500/oz in the short-term.	↑

Howie Lee
Economist
+65 6530 1778
HowieLee@ocbc.com

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng
Senior FX Strategist
NgCYEmmanuel@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Alan Lau
Malaysia & Indonesia
AlanLau@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W