# Weekly Commodity Outlook

OCBC Bank

**Monday, June 17, 2019**

| Commodity | Market Roundup & Opinion | Likely Price Direction |
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| **Crude oil** | Brent briefly dipped below \$60/bbl last Wed but has since clawed back to \$62.24/bbl. There are four points of note:<br>a) Net specs now have a net long position of 352k, closing in on the 300k level that was the trough in last year's selloff. **By our estimates, it will just require about another \$4/bbl selloff** from current levels to reach the 300k net long level – meaning that we may be very close to the bottom, if not already there.<br>b) Top news last week was further tanker attacks along the Persian Gulf, around the infamously narrow Straits of Hormuz bottleneck, that sees 20% of global oil trade. The US and Saudi Arabia blames Iran, to which Iran denies – similar to the sabotage episode a month ago. **Further escalation of US-Iran tensions will likely push prices back higher,** and one might suspect that the two countries are just one more incident away from an armed response by the US.<br>c) **US inventories – crude oil, gasoline, petroleum – continue to swell** and are near the five-year seasonal highs, adding a lot of downward pressure on WTI and widening the WTI-Brent spread back to \$9/bbl.<br>d) Saudi Arabia continues to say that it is **confident the OPEC cuts will extend into 2H,** but the dates for the meeting in Vienna are still under discussion.<br>Overall we continue to expect a widening Brent spread against WTI and Dubai crude, and we expect both benchmarks to likely find a bottom in their declines within the next \$4-5/bbl from current prices (if not already there). | → |
| **Soybeans** | **Planting progress in the US continues to remain behind schedule**, with the late planting resulting in only 34% of the crop emerging vs 73% normally. The June WASDE report saw USDA refusing to adjust any of the production and export numbers despite the obvious challenges from trade barriers and the wet weather. It is likely USDA wants to wait for the June acreage report before adjusting all factors simultaneously in the July report. Clearly the market also believes USDA is behind the curve in its production estimates, evident in the bean price rally from 887c/bu to 923c/bu last week. Brazilian crush in China continues to remain marginally unprofitable at -138 RMB/mt, although at such levels the bigger crushers may have begun to realise some crushing profits. | → |
| **Palm** | Malaysian palm founds buyers from the EU in May, who may have been seeking to front-load their inventories before the restriction on biofuels from palm oil kick in on 10 June. India also increased their purchases of palm, buying a record 528.6k tonnes of CPO from Malaysia. **The record high Malaysian palm inventory in Dec has now dwindled from 3.22m mt in Dec to 2.45m mt in May**. There continue to be a series of biofuel projects in the pipeline, including the Indonesia government's potential recommendation for B30 biofuel in October to be implemented next year; B30 road tests is expected to have already begun last week. The recent bearishness in both soybeans and crude oil have pressured prices on the meal complex and gasoil – prices on the overall energy and protein complex may need to reflect a rebound before we see a recovery in palm. | → |

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| **Cotton** | No changes to the production and export estimates for cotton either on June's WASDE report, which clearly does not reflect the challenges from both China and the recent downpour. The USDA still expects 17mil bales of cotton exports in 2019/20 – our estimate is 15.5mil bales. Weather issues may prove to drive some volatility in the near term, with India's top cotton-planting state Gujarat expected to receive adverse rain and winds from Cyclone Vayu. **Quality is expected to be an issue this year,** especially given the wetness experienced on both US and India fronts during planting season. Expect higher premiums for high grade in the coming year. | ↑ |
| **Iron Ore** | **Iron ore has made a return above $100/mt on continued perceived tightness.** Chinese property data released last week also fuelled the rally – floor space under construction rose 8.8% YoY, the highest growth rate since Jan 2015 and the highest nominal value since Nov 2018. Steelhome China iron ore total ports inventory also continues to dwindle, now falling to 118.7mil mt – the lowest since Jan 2017. There continue to be, however, nagging suspicions on how much iron ore prices can continue to rally. Data last Friday showed China producing a record amount of steel at 89.1mil mt, up 10% YoY. Chinese steel prices have also remained largely constant through the week despite the increase in iron ore prices; steel production margins are now 190 RMB/mt, an 8-week declining run stretching back from 600 RMB/mt in April. Much will depend on Australia's iron ore exports in April (to be released 3 July) to ascertain if the worst of TC Veronica is behind the industry. | ↓ |
| **Gold** | Gold continues its rally and broke above $1,350/oz during intraday trading last Friday, but ultimately closed the week at $1,341.70/oz. **The FOMC meeting this week will prove pivotal for the precious meeting this week,** with expectations of a rate cut growing. Anything less than a clear indication that they plan to cut rates before the end of this year may result in an unwinding of longs on USTs, which may also cause gold prices to quickly fall out of favour. Heightened trade tensions as well as a growing US-Iran distrust are likely to keep gold prices supported above $1,300/oz in the near-term – as long as the Fed stays dovish. | → |

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