OCBC TREASURY RESEARCH

Weekly Commodity Outlook

19 August 2019

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**Not even the combined news of a drone attack on Saudi's O&G facilities** and semi-positive Friday tweets from US President Donald Trump was enough to lift Brent back above $60/bbl last Friday. This was despite a general risk-on sentiment across multiple markets on Friday, which saw the S&P 500 index rose 1.4% and US 10Y yields climbed 2.7bp. This signals technical bearishness in the immediate near term. The Brent-WTI spread has been squeezed to about $3.92/bbl on average last week, which we expect should start to pressure exports of US crude oil and may push WTI prices to correct downwards to restore demand equilibrium. Finally, also note that there has been a collapse in refinery margins on fuel oil to -$10/bbl from $5/bbl just two weeks ago. With four months left to IMO 2020's rollout, the demand on heavy distillates may start to wane, possibly resulting in the high volatility on prices of heavy oil.	→
Soybeans	**WASDE report last week showed a tighter carryout for US soybeans** on reduced production. The production loss, however, came from a reduced acreage – not from loss in yields. The harvested yield remained intact at 48.5 bu/acre, substantially higher than our forecast of 45.2 bu/acre. Our analysis shows that a yield of 48.5 bu/acre requires a crop condition that is average at least – current crop conditions, however, show that the state of the US soybeans are only second worst to the 2012 drought. September will present the last chance for USDA to reduce the US yields downwards – after which, the agency tends to leave the production forecast unchanged until January. We expect further production loss in US soybeans and that may keep prices supported, bearing in mind the escalating tensions between the US and China.	→
Palm	**Prices on the Nov contract rose as much as +12.2%** since its low of 1,997 MYR/mt less than a month ago. The surprise drop in Malaysia inventories to 2.39mil mt last month was largely in part due to the higher than expected exports of 1.49mil mt. Domestic consumption in July may also have appeared higher due to the start of the 7% biodiesel blending for industrial usage but overall usage still lags the 30k mt/month target. Palm prices are currently trading cheaper than average to gasoil and soyoil prices, which suggests that there may be further upside for palm from current levels. FFB and oil yields on Malaysian palm, however, have recovered from below-average to average in July – expect the prospects of higher production to gradually add bearish pressures on the market, especially if palm prices rally close to the triple-top of 2,250 RMB/mt.	↑
Cotton	**The WASDE report presented a set of conflicting trade numbers on US cotton.** While USDA expected exports of US cotton to go up 200k bales to 17.2mil bales, a scan across major cotton imports show import forecasts remaining the same – begetting the question of who is buying the extra 200k bales of US goods. US production is also tipped 500k bales higher, which should not come as a surprise given the crop condition in Texas is at a stellar 7-year seasonal high. We think the US exports numbers are too high and if revised lower, could push the US carryout to 7.5-8.0 mil bales – a level unprecedented in the past ten years. It appears the odds are for ICE prices on the Dec contract to test close to the 52 c/Ib US loan rate level.	↓

Iron Ore	**The bull run now looks done and dusted,** with prices on the Sep contract now largely trading between $85-$90/mt. Prices at this level are probably a reflection of the continued supply deficiency from Brazil and data robustness in China's property sector. Prices of iron ore in 2H last year – before the collapse of the Vale dam – traded between $60-$70/mt. With Brazil production and exports of iron ore not expected to return to 2018 levels for the foreseeable future, we see $70/mt as the floor in which prices may sink to in the near term. Cracks in the health of China's property sector will likely be the catalyst to push iron ore towards the first support level of $80/mt as demand factors appear to take a higher precedence in the current economic environment.	↓
Gold	**Gold has enjoyed a stellar two weeks, breaching $1,500/oz for the first time in six years** on 7 August and then continuing its ascent to $1,513.50/oz last Friday. The severely depressed yields on US Treasuries, with 10Y yields at 1.55%, are providing the impetus for gold to climb higher. A histogram of gold prices show that the precious metal tends to test levels of $1,600/oz or higher when 10Y yields fall below 2.00%. Given the multiple trade tensions around the world and fears of a growing recession, the odds are for gold prices to continue climbing towards $1,600/oz.	↑

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