

# Weekly Commodity Outlook



Monday, June 24, 2019

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	Specs have rebounded off 352k to 363k net long as of 18 June to halt a long liquidation run of 7 weeks. Coupled with the US-Iranian tensions, <b>the bloodbath that engulfed energy markets now looks highly likely to have drawn to a close</b> . There is space for longs to add to their positions at this level of non-commercial net specs and the alleged Iranian provocations are providing the catalyst for an upside rally. <b>Two key events</b> are likely to shape the oil markets in the short-term: the outcome of the Trump-Xi meeting at the G20 late this week, and the OPEC+ meeting on 1-2 July, where members will decide on production cuts. A favourable outcome from the Trump-Xi meeting (i.e no further tariffs on remaining Chinese goods plus amicable talks), plus OPEC+ deciding on further production cuts from existing levels, may send Brent back up to the \$70/bbl level. The market conditions from multiple angles – low spec position, geopolitical, economical and production – appear ripe for the bulls to return to the fore. We expect further upside from crude oil prices in the short-term as it wrestles back losses from June.	↑
Soybeans	<b>US beans are now 77% planted</b> vs 93% on average at this stage and the main question most US soybean farmers are now asking is if it is worth taking a chance on a late harvest crop. Private studies show that soybeans planted in early July will have a yield that is 33-50% of a normal May-planted crop. There is an increasing suspicion that most US farmers will opt for insurance, so the 77% planted may very well be close to the full acreage for the 2019/20 crop. In other words, the US may well thus be losing 20-30% of its intended crop – bearing in mind that a) this is already a reduced crop YoY due to the US-China trade war; b) expectations of yield are modest at best, given the flooding. The onus is now on Brazil and Argentina to make up the lost production but planting in LatAm will not begin until November. This is likely to keep the market's focus on the US in the interim. This Friday we have the final acreage report from USDA, which we will get to see how much acreage soybeans have lost to the flood and to corn substitution. If the acreage turns up at 85mil acres or below, there is a decent likelihood that the soybean Nov contract may rally to \$10/bu.	↑
Palm	<b>Indonesian ship operators are reportedly objecting to the mandatory use of B30</b> in its engines. The use of B20 biofuel has already resulted in poor ship engine performance, polluting engine rooms and an increase in engine maintenance of 9-10%. It remains to be seen if the B30 ruling will be made mandatory to Indonesian shippers next year. Palm oil continues to trade at a below-average discount to gasoil as prices of the former has largely remained stagnant despite the collapse in oil prices. Given the widespread poor rating of biofuel, even as both the Malaysian and Indonesian governments are taking active steps to promote biodiesel, questions remain if demand for the plant-based energy can take off substantially. Separately, private surveyors expect a -9.5% decline in Malaysian palm exports in the first 20 days of June. Despite the bearish pressures, the 2000 MYR/mt level remains stubbornly tough and may take a strong catalyst to push palm prices below that level.	→

<b>Cotton</b>	A massive cancellation from Turkey resulted in a net cancellation of -120k bales in the week ending 13 June. Turkey cancelled -88k bales; meanwhile China cancelled -73k bales to cap its fifth consecutive cancellations from the US as the trade war rumbles on. Interestingly, both countries resorted to buying massive new crop after cancelling on old crop orders, with Turkey putting on 102k bales while China bought 51.5k bales to make up 65% of last week's new crop orders combined. That was an interesting development because the <b>Jul-Dec spread was still trading 70 points inverted but after the report, the spread collapsed to 430 points carry</b> . The trade pattern last week may look like a one-off and is unlikely to happen again. CTZ9 has now fallen to ~62c/lb, near our model estimate. The market awaits this Friday's acreage report to reassess US production.	→
<b>Iron Ore</b>	<b>Iron ore continues its ascent, closing at \$111.50/mt last Friday.</b> Steelhome port iron ore inventories last week fell again to 116.8mil mt. Property investment in the Chinese construction space rose 8.9% YoY in May, a continuation of the strong +9.1% observed in April. Auto sales fell -17.4% in May YoY but that appear to have hardly dented iron ore's bullishness. Margins on steel production continue to fall as gains in spot steel prices have not been able to keep pace with spot iron ore prices. Based on our estimates, ceteris paribus, steel production margin will lose parity once spot iron ore hits the 1000 RMB/mt level, another 16% from current levels of 860 RMB/mt. It appears that this bullish run may still have legs.	↑
<b>Gold</b>	<b>Gold broke above \$1,400/mt on a perfect mix of ingredients</b> – low bond yields, a soft dollar, geopolitical and trade tensions, and slowing global growth. Technically, the next resistance level for gold is likely \$1,500/mt. The bullish sentiment surrounding gold appears strong, having broken the 6-year resistance level of \$1,400/oz and having largely consolidated between \$1,200 to \$1,400 for the better part of three years. All eyes will be on the G-20 meeting this week but assuming the base case of amicable Xi-Trump relations and a broad agreement to resume US-China trade talks, we do not believe that development is strong enough to sink the precious metal below \$1,400/oz.	↑

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