Weekly Commodity Outlook

27 August 2019

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**Crude oil prices continue to trade under pressure** but given the sharp escalation of tit-for-tat US-China tariffs over the weekend, prices will likely be under heavy selling pressure through the week. The week ending 20 Aug saw net long spec position on NYMEX increase 33k contracts to 415k. With the latest developments, we expect the net long spec position to retrace back to its low of 352k or even lower, which means that there is a decent chance that Brent will sink below the YTD low of $56.23/bbl in this expected wave of selloff.	↓
Soybeans	**Crushing margins continue to hover along the 400-500 RMB/mt level,** a trend that has been persistent since the start of August. Soymeal prices have risen back to 3000 RMB/mt, a level not seen since June; soyoil prices, meanwhile, are now remarkably close to 6000 RMB/mt, a level not attained since Nov 2017. With the increase in tariffs on US farm products into China, US soybean imports into China are even more priced out of the market and it will result in a widening spread between US and Brazilian bean prices.	→
Palm	**Prices touched a high of 2,300 MYR/mt on Monday** but has since retraced to 2,269 MYR/mt on close. News that India plans to add an additional 5% surcharge on vegetable oil imports send prices of palm oil lower. Tariffs on Malaysian refined palm oil were reduced from 50% to 45% by India at the start of this year, but the new additional 5% surcharge effectively brings the costs of import nearly back to original levels. This 5% surcharge will be used by the Indian government to create an oilseed fund that will be used to help Indian farmers improve oilseed production.	→
Cotton	**Our crop condition index of US cotton showed a sharp deterioration in cotton quality in Texas.** Since reaching a seasonal record high in crop condition score, the Texas quality has dipped drastically to average levels. Prices on the Dec contract attempted to break above 60c/Ib twice in August but each time was faced with long liquidation. A low of 56.59 c/Ib was reached on Monday in intraday trading as the market continued to sell off on negative Trump headlines and the downward momentum might persist in the near term. Medium term should see prices eventually stabilising at near 52 c/Ib ex-basis.	↓

Iron Ore	**Prices went close to $80/mt last week** but were otherwise very choppy last week. Expect this volatility to continue in the near-term, which should not come as a surprise given heightened tensions between China and the US. 405.75mil mt of iron ore has been exported in 1H 2019, which is -3.7% lesser yoy. This is largely a result of the production disruption in March and April, which saw Australia shipping -18.3% and -7.4% less yoy. These yoy growth have since returned to positive in May, meaning that only Brazilian iron ore (or the lack thereof) is the main reason for iron not having returned to the lows of $60/mt.	↓
Gold	**Gold has risen again,** this time reaching a new six-year high of $1,527/oz on the US-China spat. Prices will likely be swung by headlines in the near term. Interest in gold is unlikely to abate in the short-term. $1,600/oz remains a realistic target.	↑

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