Weekly Commodity Outlook

Monday, July 08, 2019

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	Specs have continued to rise and **we are seeing stabilisation in crude oil prices at the moment.** With OPEC+ agreeing to extend the output curbs by nine months to March 2020 and US-China tensions simmering for now, the market's attention will return to a) demand-supply fundamentals (notably on the demand front); b) US-Iran tensions. OPEC's June forecast of global oil demand stands at 99.87 mbpd, down from May's 99.94 mbpd but still runs a supply deficit. We expect this number to be continuously downgraded in the coming months on the trade war, resulting in a balanced supply market. That leaves the US-Iran tensions as the wildcard. Warmongering rhetoric is not yet observed but further escalation of traded barbs could send prices higher.	→
Soybeans	**The June acreage report showed a decline of US bean acreage by 10%,** but that has not been enough to halt the decline in prices. The June WASDE report shows a yield of 49.5 bu/acre, of which has yet to factor in the losses from the devastating May/June floods. Coupled with the acreage decline, US bean production in 2019/20 is expected at 3.74 bn bushels or lesser – bringing it to the lowest since 2013/14 (3.57bil bu). There are also expectations that Brazil would produce a bumper harvest this year, aided mostly by higher acreage. Disappointments of a large crop on the Brazilian front and further yield losses by the US is likely to drive prices higher, although current sentiment is mostly engulfed by trade war pessimism.	↓
Palm	**El Nino finally appears to have taken its toll** on the Malaysian palm oil crop, with FFB yields having stayed largely constant at 1.42 ton/ha since Mar despite seasonal increases in yields from Feb to Aug each year. Palm oil yields have also remained at average levels, which suggest production may remain tight in the short-term. Malaysian palm inventory has also declined to 2.45mil mt in May from the record high of 3.22mil mt in Dec, while China may continue to substitute soyoil with palm oil. Indonesia continues to push its biodiesel mandate. Despite the bullish pressures, the trade war pessimism continues to take centre stage at the moment but prices do not look over-valued at this stage even if it has sunk below 2000 MYR/mt. The market is searching for a bottom and it increasingly looks like a trough is near.	→
Cotton	Prices on the Dec contract continue to trade around the 65-68 c/lb as negative spill-overs from the trade war continue to affect cotton prices. **The US crop looks decent at the moment,** with a crop condition index of 34 vs 12 last year this stage, by our calculations. There are no imminent drought conditions in West Texas; at this pace, it looks like the US is set to produce an average yield at least, with low abandonment looking highly likely. In India, the MSP has been raised to 5,500 rupees/quintal but that still remains below the Shankar-6 spot of 5,961 rupees/quintal. Monsoon conditions in India have been favourable, with the key states of Gujarat, Maharashtra and Vidarbha all receiving decent rainfall.	→

Iron Ore	**Australia ultimately exported only 76.39 mmt of iron ore in May** – far lesser than Westpac's original estimate of 78.7 mmt, which would have been near the record high. Nevertheless, it does suggest that the worst of TC Veronica is behind the market and the only supply disruption now remains Brazil. The August contract rose to $118.02/mt on the somewhat disappointing Australian numbers but has since retraced back to the $110/mt level. Steel production margin in China currently sits at 227 RMB/mt, coming off a high of almost 600 RMB/mt in mid-May as steel prices have failed to keep pace with iron ore's meteoric rise. Prices appear toppish at the moment, in our opinion. Steelhome port inventories rose to 115.6mil mt last week to clock the first on-week increment in three months.	↓
Gold	**Gold continues to remain above $1,400/oz** except last Friday, when the surprisingly positive US nonfarm payroll numbers sparked some rethink about US rate cuts. It has now been 9 of 10 sessions that gold stayed above the critical $1,400/oz level, lending strength to the support of that level. Data this morning also showed China adding to its reserves for a sixth consecutive month (since they started disclosing again in December). While gold holdings as part of its foreign reserves may pale in comparison with the likes of the US, Germany or even Italy, China has been actively buffering up its gold reserves in the past decade. Only Russia has added more in the same time period. Expect the gold purchases by Russia and China to continue in the medium-term, with upside pressures on gold towards the $1,500/oz level to persist.	↑

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