Weekly Commodity Outlook

OCBC Bank

Monday, June 10, 2019

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**Crude oil finally managed to stem its losses** late last week after prices sank to multi-month lows. Despite the late-week recovery, prices now still hover a long way off the YTD high of $66.30/bbl (-18.6%) and $74.57/bbl (-15.1%) for WTI and Brent respectively. Over the weekend we had Saudi Arabia saying they are "sure" the production cuts will extend into 2H, giving oil prices a lift. Crude oil is living in a headline market at the moment and it is difficult to call a bull or bear market until the market stabilises. We do, however, observe a growing supply divergence between the US and the RoW, with shale production expanding while OPEC+ consistently looking to taper supply. **This could mean a widening WTI-Brent spread of $10-$11 and the US will look to capture an increasing share of the global export market with this price differential.** US crude exports in May alone totalled a record 15.21m barrels – to put that into perspective, in 2014 the US shipped a total of 11.65m barrels the entire year. Supply bottlenecks in the Middle East and growing demands from IMO 2020 will likely squeeze Brent prices and the Brent-Dubai spread. Aside, spec positions show a resulting net long of 40k as of last Tuesday, higher than our estimates of 36-38k – this suggests **liquidation may only be 60% done** and more downside may follow if pessimistic headlines rear its ugly head again.	→
Soybeans	**Crush margins in China on Brazilian beans have improved but continue to remain in the red** at about -160 RMB/mt, as meal prices continue to inch higher. The gross breakeven margin for Brazilian beans crushing is still about 3,200 RMB/mt on Dalian soymeal. A quick look at USDA export sales show zero purchases of new crop US beans in the past 12 weeks, suggesting that the new crop may struggle to find buyers. US beans continue to drift south to Mexican buyers on both old and new crop, but that will not be enough to offset the mammoth quantity that China is giving up. Bean planting in the US, especially in Illinois and Iowa, continue to remain behind schedule at 21% (84%) and 17% (80%) planted (5Y average planting pace in parentheses), lending slight support to beans which otherwise is facing bearish pressure from both the trade war and the swine flu.	→
Palm	Stockpiles in Malaysia are seen declining to 2.46mil mt in May from 2.74mil mt in April, according to a Bloomberg poll, which will be the lowest since July 2018. **Prices continue to be pressured downwards despite the decline in stockpiles on concerns over poor demand from the EU, China and the swine flu**. Gasoil also now presents a cheaper biodiesel alternative compared to palm, with the gasoil-palmoil spread sinking to a 4-month low of $49/mt last Friday. China apparently has begun a pilot biodiesel project on blending Malaysian palm oil in 5%, 10% and 20% blends. This will be tested on 180 sanitary vehicles that is expected to last two years. Elsewhere in Thailand, there has been a first public sale of the PTT UltraForce Diesel B10 as the country attempts to promote B10 over the current B7 as the choice of biofuel.	→

Cotton	Prices on the Dec contract have once again declined to 65-66 c/lb, as warm weather favourable for planting returns to West Texas. US export sales report last Thursday also showed disappointing numbers, with new crop only selling 54k bales as China stops buying. Old crop still managed a sale of 192k bales but there were net cancellations from China and Mexico – no coincidence that these two are on the tariffs list (Mexico has since averted tariffs). **This is the third consecutive week that China has cancelled orders on the current crop** – a run stretching back from 16 May, the period when US-China tensions re-escalated. WASDE report tomorrow should show updated S&Ds on US exports, which we are estimating 15.7mil bales from May's USDA value of 17mil bales.	↓
Iron Ore	Westpac is estimating Australian iron ore exports in May to total about 78.7mil mt – which would almost match the record high set in Dec 2017 of 78.76mil mt. **If that estimate proves accurate, it will suggest that the worst of TC Veronica is behind the country** and normal iron ore production to resume. Iron ore prices have so far stayed below $100/mt on SGX since 29 May, as Chinese steel prices fall to 3,850 RMB/mt from a high of 4,045 RMB/mt (-4.6%) in early May. Margins on Chinese steel production now stand at about 205 RMB/mt, less than half the 610 RMB/mt in early April. The bull run looks likely dusted for now as both high demand and short supply stories fade, with the market now more preoccupied with trade wars. It was always going to be unlikely that the rally on iron ore would have continued when every other commodity was in a bloodbath over the Sino-US tensions.	↓
Gold	Gold continues to trade above $1,300/oz, and has in fact closed at $1,341/oz last Friday, **as the precious metal closes in on the all-important $1,350 resistance level.** Prices tumbled this morning after news that the US won't impose tariffs on Mexico, causing appetite for safe haven assets to fade somewhat. ETF gold holdings have increased sharply since the turn of the month, rising from 70.54mil oz at 31 May to 71.52mil oz on 7 June – the first >1% in holdings increase since March 2019. We expect prices to hover sideways from $1,300-$1,350/oz in the short-term, with risks tilted to the upside.	→

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