Weekly Commodity Outlook

20 January 2020

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**Libya's oil supply outage took centre stage over the weekend** and concerns over oil supply are mounting again, one week after the US and Iran entered a period of temporary relative truce. Here is what we know so far: **1) the Libyan National Army (LNA) has shut down** the El Sharara and El Feel oilfields, two of the biggest oilfields in Libya, over the weekend; **2) this was followed up with blocking oil supply pipelines** and the closure of 5 major eastern ports; **3) Libyan state oil firm NOC said that production will be reduced to 78kbpd** once tank storage capacity is filled, which according to Reuters will be met in "days"; **4) loss of production** is estimated at 800kbpd to 1.2mbpd; **5) the moves by the LNA were all done across the weekend** as the Berlin Summit on Libya's political situation was ongoing. The Berlin Summit ended with both the GNA and the LNA agreeing to send a five-member military council to convene in Geneva "within days", according to UN secretary general Antonio Guterres. There is hope that if the two councils can negotiate some kind of deal within the next couple of days – before the storage capacity in Libya runs out – the LNA will resume operations on its ports, oil fields and pipelines. Brent rose higher this morning as widely expected, but compared to the Saudi outage last September, this morning's price reaction is relatively muted. The market is also probably hoping that a deal of sorts can be brokered in Geneva and is thus not fully pencilling in the impact of the full outage that the NOC has put out.	↑
Soybeans	**The US-China phase one trade deal signed last week saw China agreeing to buy $32bn and $40bn** of agricultural goods from the US in 2020 and 2021 respectively. There are many doubts that this amount can be met, including the supply constraints from the US (especially with regards to soybeans), the ability of China to process and absorb that amount of agri goods, a lack of specific purchase contracts from China, as well as China's caveat that plans to buy US farm goods depends on "market conditions". We estimated that China might have to buy $22.1bn of soybeans and $1.9bn of cotton to meet $40bn of agri goods; JCI estimated them at $18.9bn and $1.6bn respectively, with the shortfall soaked up by pork and biodiesel input purchases. Regardless of which estimate one uses, it will require 42.5bn bushels of soybeans or more – a return to supply levels seen during 2016-2018. It will take a meaningful increase in soybean prices to incentivise US farmers to switch crop growing back to soybeans to at least 83mn acres from 76mn acres in 2019. It also requires the absence of weather and other supply disruptions to ensure the production of 42.5bn bushels can be met. The numerous challenges mean the market is having a hard time believing the deal can be met, leaving soybeans to drop to a month-low of $9.58/bu after details (or the lack thereof) were announced.	↑

Palm	**Has the beginning of the end started?** We have consistently pointed out that the palm market has been overbought and that the market is expected to correct 400-600 MYR/mt towards the end of Q1. Palm prices slumped from 3134 MYR/mt on 10 Jan to 2816 MYR/mt on 17 Jan – a 10% decline across a week. The sudden drop came on the back of a prolonged trade spat between India and Malaysia, cumulating in India raising import tariffs on refined palm products last week. Indian palm buyers are reportedly sourcing most of their purchases from Indonesia despite the lack of an outright ban, even paying a premium for the Indonesian variety. In that regard, Indonesia and Malaysia are moving in opposite directions with regards to their crude palm oil policy, with Indonesia seeking a deal with India to lower import taxes of its CPO into the country while Malaysia raised export tariffs on CPO to 6% from 5%.	↓
Cotton	**Compared to soybeans,** the estimates for the quantity of cotton purchases by China looks more manageable. We estimate that a production of 16-18mn bales should be enough to meet China's increased demands – lower than the record production of 20.9mn bales set in 2017/18. It is unclear whether millers have the capacity to process that much cotton – many are designed to spin the Xinjiang variety and would require a bit of tweaking to blend in the US grades. Nonetheless, cotton has a decently long shelf life of 5 years and can be stored in state or private warehouses before being auctioned off or spun into yarn. Any weather disruption, however, will have the potential to derail these purchases, as limited supply pushes prices higher quickly.	→
Iron Ore	**Iron ore continues to hold its position at $95/mt** but there are early signs of Brazilian shipments returning to above average levels this month. The first seven working days of January saw Brazil shipped 12.6mmt of iron ore – an extrapolation of this figure suggests the country might eventually export 30mmt or even more by month-end. That would likely still represent a yoy decline in exports from the country, which has seen its shipments drastically reduced by almost 15% in 2019 since the Vale mine collapsed in late Jan last year. The apparent increase in shipments is probably due to a broader stockpiling effort from China ahead of the Lunar new Year festivities, and we do not think it will last beyond this month.	→
Gold	**After a week of relative calm in the markets,** the gold market is jolted higher again by news of the Libya National Army limiting production outflows of the country. Concerns of rising inflation due to higher oil prices have presumably pushed prices of gold – a hedge against inflation – higher. Judging from the muted response in the oil market, it appears unlikely that the situation in Libya might lead to a prolonged outage in shipments. US 10Y yields traded 1.82% on Friday's close and still represents a relatively more attractive proposition than gold's current levels. If US and Iran can maintain its status quo of truce (albeit uneasy) and Libya resumes pipeline flows on a broad ceasefire between the LNA and GNA, we expect gold prices to fall towards the $1500/oz level.	↓

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