OCBC TREASURY RESEARCH

Weekly Commodity Outlook

4 February 2020

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**What a month is has been for crude oil.** Brent rose to a high of $68.07/bbl at the start of the month on US-Iran tensions, but closed at $56.62/bbl at the end of the month on coronavirus fears (-17%). Brent would go on to close at $54.45/bbl on 3 Feb – a 20% decline. **Bearish momentum is strong but there are reasons for us to believe that a bottom is nearing.** Firstly, by our estimates, the CFTC position is now about 425k net long – meaning more than half of bullish bets from mid-Oct to early Jan have now exited. Secondly, crack spreads have resisted following Brent lower in the past week. Thirdly, Libya's production is closing on a standstill while OPEC+ is likely to extend the production cuts from Mar to Jun. The Brent-Dubai spread still looks relatively low in our opinion at about $1/bbl premium to Brent. A lack of demand from China should in theory impact the Dubai leg more than Brent and our somewhat less bearish conviction is best expressed via a long Brent-Dubai play.	→/↑
Soybeans	**Soybean export sales from the US are still not showing strong signs of Chinese purchase.** The US-China phase one trade deal was signed on 10 Jan, which means there should have been at least two weeks of USDA data showing strong buying interest from China. The numbers in the past two weeks, however, have been weak; in fact, numbers in November last year showed better buying interest than current figures. The poor sales could have been a result of the Lunar New Year festivities and the coronavirus occurring simultaneously in January. If this continues, however, the agricultural purchase targets for this year would be challenging to meet.	↓
Palm	**As we have repeatedly pointed out since last December,** the palm market looked heavily overbought. The correction brought about by the coronavirus is, hence, not a total surprise to us. In our 14 Jan report, we estimated that the market was due for a correction of 200-400 MYR/mt from its level of 3000 MYR/mt; now that prices are at about 2,675 MYR/mt, the decline in CPO prices may begin to show signs of slowing, with a further 200 MYR/mt correction possible to restore some normality back to the gasoil-palm oil spread.	↓
Cotton	**Losses in cotton prices are considerably muted compared to other commodities.** From peak to trough, cotton has lost 7% in January – in contrast, soybeans have lost 8.8%, copper has lost 12.3% and Brent lost 20%. The Jul-Dec spread on cotton still reflects an inversion of 63 points, suggesting that demand for cotton remains intact. It is still early days but there is a case to be made for a potential drought in Texas this year, which may explain why the Jul-Dec spread held steady through the selloff.	→
Iron Ore	**Iron ore has understandably bore the brunt of the coronavirus,** given its heavy usage in China. Prices fell to a 2 ½ month low yesterday, closing at $78.01/mt. Construction activity has likely slowed as China tries to clamp down on the virus. A V-shape bounce in prices may materialise once this episode blows over, but the dampened demand for iron ore in Q1 2020 is likely to result in a full-year decline in demand on a yoy basis.	↓

Gold	**Gold hit a new 6-year high of $1589.16/oz on the last day of January,** besting the high of $1574.37/oz in early January due to US-Iran tensions. The rise in gold prices is supported by declining Treasury yields. This factor is temporary and we expect prices to decline once the situation abates, but for now the bullish momentum with gold is expected to remain strong.	↑

Howie Lee
Economist
+65 6530 1778
HowieLee@ocbc.com

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carieli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W