OCBC TREASURY RESEARCH

Weekly Commodity Outlook

17 February 2020

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**Long liquidation looks to have completed.** Between 4 to 11 Feb, net long positions fell by less than a thousand to 396.7k from 397.4k. By our calculations, 80% of net longs who participated in the rally from October to January have now been flushed out, leaving reasonably ample space for oil prices to stage a rally. Hydrocracking margins have returned to positive at about $2.82/bbl and the Apr-May spread on Brent has returned to backwardation. While a V-shape bounce might be a bit of a stretch for now, we do think that oil prices may have bottomed out last week and the number of longs that have been liquidated suggest more upside potential than downside from here.	↑
Soybeans	**China is still not buying soybeans.** One month has passed since the US-China phase one trade deal was inked but soybean purchases from China has not picked up. In the week ending 6 Feb, China imported a paltry 2.5k bushels of soybeans from the US – about 12% of the 10-week average of 21.5k bushels. Net sales also slowed to 4.9k bushels last week (10-week average: 10k bushels). It takes about 30 days for US shipments to reach China. Assuming orders for prompt shipment were made immediately on 15 Jan following the US-China trade deal, it means the sales numbers from next week onwards should show a strong pickup in orders. A less than convincing sales figure is going to raise questions of whether China can fulfil its commitments to the trade deal.	↓
Palm	**Malaysia palm oil exports to India collapsed.** While hardly surprising (given the India-Malaysia trade spat), the depth of decline to 47k mt last year from 318k mt a year ago raises question on how quickly MPOB stocks may build. We initially estimate Malaysian inventories to only bottom out in Feb, but the COVID-19 and India's lack of purchases have seen palm stock turned the corner in January. We think price stabilisation is around the corner given the recovery in soyoil-palm oil spreads, but expect the spreads between Indonesian and Malaysian CPO to widen further if the latter's stock builds rapidly.	↓
Cotton	**Cancellations from China.** In the week ending 6 Feb, China cancelled 49k bales of orders from the US, in addition to the 2.8k bales cancelled the week before. Exports, unlike soybeans, remained steady at 52.5k bales – the second highest this season. Similar to the soybean story, however, the pace of purchases is currently too slow to possibly meet the agri-purchases target under the US-China trade deal.	→
Iron Ore	**Steel margins have collapsed, led lower by Chinese steel prices,** which has fallen 7% to 3562 RMB/mt this year. Upstream prices have shown a remarkable recovery, with iron ore prices climbing almost $10/mt from its low of $78.01/mt in early Feb, as supply issues due to Cyclone Damien and stimulus packages from China boosted investor sentiment. In all the commodities we cover, iron ore is one of the few that have managed to claw back more than 50% of its losses from COVID-19 thus far.	→
Gold	**Gold prices continue to hold steady** at around $1580/oz, but with both oil prices and US 10Y yields looking to have stabilised in the past week, there is little impetus for the precious metal to inch higher. Data is showing that the number of critically ill within and outside Hubei have started falling, which might boost risk sentiment and pressure gold prices down.	↓

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