

Weekly Commodity Outlook

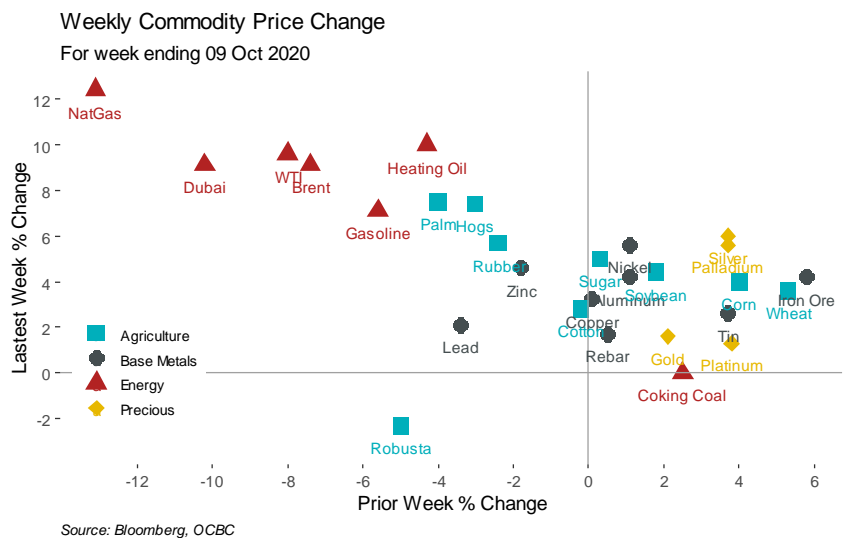
12 October 2020

Commodity View

**Week in review:** Commodities had a superb week, with nearly all assets clocking weekly gains. Precious metals have now recorded their second week of gains, together with softs heavyweight corn, wheat and soybeans. Nearly the entire energy complex added weekly gains, with both Brent and WTI adding almost 10%.

The week ahead:

- **Crude oil:** Like we said last week, Brent’s drop below \$40/bbl is likely to be temporary and so it has. We continue to expect Brent to trend from \$40-\$43/bbl, as we head ever closer to the US Presidential elections.
- **Base metals:** The current risk on rally is likely to lead prices of base metals higher, with iron ore potentially testing \$125/mt.
- **Agriculture:** No change to our bullish views on this complex, as has been the case for the past 4-6 weeks.
- **Precious metals:** Likely to continue rallying if the dollar continues to soften.



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Summary Views

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Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	<b>OPEC jawboning again.</b> Oil prices spiked last Thursday after OPEC remarked that "the worst is behind for the oil market." Recall three weeks ago, Saudi Arabia took its war against short-sellers public by pledging to make them "ouch like hell", only to have oil prices retraced within a couple of days. We expect the same scenario to play out here, which means that even though Brent broke above the \$43/bbl level last Thursday, we expect it to correct back into the \$40-\$43/bbl range. Crack margins for gasoline declined on the week while that of diesel rose, adding to further mixed signals. Separately, Saudi Arabia raised its OSP for its Arab Light crude oil by 10c/bbl to -40c/bbl off the Oman/Dubai average, which was largely consistent with market expectations. We continue to expect Brent to range trade until after the US Presidential elections.	→	→
Soybeans	<b>China's voracious appetite for American beans continues.</b> Another week, another outstanding export sales figure for American beans shipped to China. 50.9mn bushels of US beans were exported to China in the week ending 1 Oct, the highest in almost a year. 67.2% of total US soybean exports in the first five weeks of the 2020/21 season has been shipped to China, with total shipments of 166.8mn bushels easily besting the previous record of 120.8mn bushels set in 2017 at the same stage. Our target of \$10.50/bu for November's delivery of soybeans has been hit last week. Given that crush margins are still positive at this stage, we see further upside for soybeans.	↑	↑
Palm Oil	<b>Weather concerns and return of MCO.</b> Concerns that La Nina might temporarily restrict output due to flooding and Malaysia's extension of its enhanced movement control order (MCO) in Sabah sent palm higher last week. Sabah is the biggest contributor of Malaysia's crude palm oil output, accounting for almost 25% of Malaysia's total palm production this year. We see resistance at about 3000 MYR/mt.	→	↑
Cotton	<b>Starting to rally.</b> We now have relatively high conviction that cotton prices may start to embark on a similar rally to soybeans. Deteriorating crop conditions in the US, coupled with robust demand from China, ought to begin lifting prices. We see cotton for March delivery possibly testing 75 c/lb.	↑	↑
Iron Ore	<b>Prices jump higher after China's golden week.</b> China returned from Golden Week last Friday and a flurry of buying activity and news flows sent both steel and iron ore prices higher. Iron ore is currently trading above \$120/mt, which is matched by the rise in spot steel prices of about 1.1%. Vale's official production estimate this year remains constant at about 310mmt, while data showed iron ore exports from Australia's Port Hedland in September to have continued trending at its multi-year high. Breakeven steel parities are estimated at \$118-125/mt. In the coming week, we expect iron ore for November delivery to test \$125/mt.	↑	↓
Gold	<b>Benefiting from the return of risk.</b> Spot gold closed at \$1930.40/oz last week, capping the precious metal's highest close in three weeks. News that Trump is seeking a "huge" fiscal package sent the dollar tumbling, in turn lifting gold prices higher. If passed, the latest US fiscal package may prove to be the main catalyst that sends gold back to the \$2000 level. We remain bullish gold in the medium to long term.	↑	↑

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## Treasury Research & Strategy

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### Macro Research

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