

Weekly Commodity Outlook

1 September 2020

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	Hurricane Marco and Laura came and went, and oil prices went back into consolidation. The twin hurricanes largely avoided the key ports and refineries in Texas. Prices at the back end have rallied with the hurricanes but do not appear to have corrected as much as the front end of the curve. US crude oil inventories declined for the fifth consecutive week; implied gasoline demand is now within 2.5% of its pre-coronavirus levels; and China diesel demand in July rose its highest since Feb 2018, notwithstanding seasonal effects. Near term, consolidation looks like it might continue. Further out, we remain bullish on crude oil, with the view that Brent may hit \$50/bbl by end-2020.	↑
Soybeans	Rallying on China. Soybeans are definitely not the first commodity to have rallied on China's purchases, and most probably won't be the last. Prices for November delivery have risen to \$9.625/bu, the highest since January 2020. A sharp pickup in demand for American beans from China – which saw orders for new crop surge from 0 at the start of April to second highest on record as of August – are driving prices higher. USDA announced a flash sale of 400k ton (14.7mn bu) American soybeans to China last week, adding to the fervour of China's commodity binge. We expect soybean prices to continue rallying and break above the ytd high of \$9.80/bu before the end of the year.	↑
Palm Oil	Consolidating around MYR 2600-2800/mt. The setup for the agriculture complex, as a whole, remains bullish and palm oil may see further upside. Edible oil stocks in India remain low while palm oil stocks in China have continued to decline. Demand from India is expected to moderate but the average imports of Malaysia CPO, averaged across the last four months, have almost returned to pre-coronavirus levels. Palm oil also remains relatively cheap to soyoil. We expect higher soybean prices to lift palm oil, with a target of MYR 3000/mt before the end of the year.	↑
Cotton	All lots on offer at China's State Reserve sale continue to be sold out. Where it once hovered around the US loan rate of 52c/lb, cotton has staged a comeback and cargo for December delivery is now trading around 65c/lb. China's buying is likely to keep prices supported.	↑
Iron Ore	Back up above \$120/mt. We said last week that the minor correction in prices was likely a technical correction and the market was probably buying time for spot steel prices to increase. Iron ore prices have now returned above \$120/mt, with steel prices leading the market higher. Breakeven parity for iron ore seen between \$120 to \$130/mt.	→
Gold	Gold continues to trade around the \$1950/oz level, with prices jumping higher after the Jackson Hole symposium. The Fed's recent actions – selling a higher than normal amount of T-bills and shifting its policy to targeting average inflation – ought to be supportive of gold, even if they have the effect of pushing Treasury yields higher. We remain bullish gold for the rest of the year.	→

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).