OCBC TREASURY RESEARCH

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/Ib, cotton has staged a comeback and cargo for December delivery is now trading around 65c/Ib. 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.	→

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