OCBC TREASURY RESEARCH

Weekly Commodity Outlook

7 September 2020

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	**China slows crude oil imports in August.** China imported 47.48mmt of crude oil in August. While lower than that in June and July, it is still the third highest on record and signals that demand from China remains relatively healthy. Nonetheless, we are seeing crude oil under heavy selling pressure in the past week due to several reasons. It started with poor US implied gasoline demand during Wednesday's EIA report, which was estimated to have fallen from 9.78mbpd to 9.36mbpd. On Thursday, the selloff in US tech stocks dampened risk appetite across markets, resulting in another round of selloff in energy. Brent has lost about 10% since the start of September and it remains to be seen how much lower it can go. We see support for Brent at $40/bbl.	→
Soybeans	**Steady deterioration in US crop condition.** Aggregate crop condition in the US has steadily deteriorated, declining from a score of 85 points four weeks ago (a season record high) to the current 66, just marginally higher than the 5-year average at this stage. We estimate that US soybean production might see a loss of 400mn bushels in the upcoming September WASDE from the 4.4bn bushels in last month's edition. We retain our bullish view on soybeans with the target of $9.80/bu on the November contract.	↑
Palm Oil	**Consolidating around MYR 2600-2800/mt.** Palm oil is still relatively cheap when compared to soyoil prices. Palm stocks in China remain near levels seen in 2016-17, when prices rallied above 3000 MYR/mt. The Indonesian Palm Oil Association (Gapki) downgraded its estimate of 2020 production to 46mn tons this year from 47.1mn tons in 2019, offsetting the estimated 500k mt drop in exports. 3000 MYR/mt remains our short-term target.	↑
Cotton	**China continues to buy big from the US.** China bought 141.4k bales from the US last week, continuing its trend of buying >100k bales a week at this stage when it normally buys <50k bales. All lots on offer at the State Reserve were sold out once again last week, as has been the case since the auction sales started in July. Most of West Texas is now classified as "Extreme Drought", with some portions now in "Exceptional Drought" – the highest intensity on the drought monitor. We retain our bullish view.	↑
Iron Ore	**Rally continues.** Iron ore closed in on the $130/mt level during intraday trading last Thursday, and has closed above $120/mt in the past three sessions. China imported 100.36mmt of iron ore in August. Like crude oil, this import figure may have been lower than June and July, but is still the third highest on record and is the third consecutive month that it has exceeded 100mt of imports. We expect price consolidation for now and the market to continue buying on dips.	→
Gold	**Under consolidation.** Gold continues to consolidate in a broad range from $1900/oz to $2000/oz. Last Friday's US nonfarm payrolls sent prices slightly south, but at $1935/oz, the downward momentum appears contained. We expect the consolidation to continue in the near term, and remain bullish in the longer term.	→

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