

## Weekly Commodity Outlook

14 September 2020

Commodity	Market Roundup & Opinion	Likely Price Direction
Crude oil	<b>A week to forget.</b> Brent closed below the \$40/bbl twice last week and the selling pressure on the energy complex is building. Any bearish factor that can be contrived - from fundamental weakness due to the coronavirus to weak refining margins - are now being used to explain the recent selloff in oil, even though the same reasons failed to buckle oil's upward momentum in the past two months. Reportedly, carry trade is now back in fashion as the contango in Brent widens enough to overcome storage costs, with chartering of VLCCs as floating storages picked up in the past week. Brent has lost 14% since its high less than three weeks ago and we think prices may see further downside as the contango widens further to entice more carry play.	↓
Soybeans	<b>Record high new crop orders from China sends CBOT Soybean Nov'20 above \$10/bu.</b> From placing almost zero orders for US new soybean crop as late as 26 March, China have now marked a new record high in purchases of 2020/21 American soybeans on the last week of August, which is also the last week of the old crop season. The data on Thursday has since sent CBOT Nov'20 soybean prices above \$10/bu, leading us to close our long soybean Nov'20 trade idea. We have initiated an extension of the same trade idea with a new target of \$10.50/bu.	↑
Palm Oil	<b>First drop in Malaysian palm exports since Feb'20.</b> Malaysian exports of palm oil declined 200k tons m/m to 1.58mil, with India's purchases dropping the most sharply from 455k tons in July to 330k tons in August. Palm stocks were little changed at around 1.7mil tons. We expect a widening of the soyoil-palm oil spread as demand for soy feed in China drives soyoil prices higher.	→
Cotton	<b>New crop production in US downgraded by 1mil bales.</b> The September WASDE from USDA downgraded 2020/21 US cotton production to 17.06mn bales, with the harvested yield reduced from 938 lb/acre to 910 lb/acre. The abandonment rate was raised to 25.7%, mostly due to the ongoing drought in Texas. At 908 lb/acre, we think the harvested yield is still on the higher end of the spectrum and we expect further yield losses, which will likely only be reflected in January's WASDE.	↑
Iron Ore	<b>Fundamentals looking toppish.</b> Iron ore inventories in China rose again and at the current stock level of 118.95mmt, has now recovered almost half of the drawdown that took place from February to June this year. Steel stockpiles have continued to stay elevated. The continued bullishness in base metals provide challenges for iron ore to see strong selling pressure, but we think the hurdle for further upside in iron ore from here is increasingly difficult and may start to look toppish if the risk-off sentiment prevails.	→
Gold	<b>Consolidation phase.</b> Gold prices continue to consolidate, largely trading from \$1915/oz to \$1975/oz in the past three weeks. The consolidation may continue for now until we see a fresh breakthrough in the dollar's direction, with this week's FOMC meeting a possible catalyst. Longer term, we stay bullish on gold.	→

Howie Lee

Economist

+65 6530 1778

[HowieLee@ocbc.com](mailto:HowieLee@ocbc.com)

## Treasury Research & Strategy

### Macro Research

**Selena Ling***Head of Research & Strategy*[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)**Tommy Xie Dongming***Head of Greater China Research*[XieD@ocbc.com](mailto:XieD@ocbc.com)**Wellian Wiranto***Malaysia & Indonesia*[WellianWiranto@ocbc.com](mailto:WellianWiranto@ocbc.com)**Terence Wu***FX Strategist*[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)**Howie Lee***Thailand & Commodities*[HowieLee@ocbc.com](mailto:HowieLee@ocbc.com)**Carie Li***Hong Kong & Macau*[carieli@ocbcwh.com](mailto:carieli@ocbcwh.com)**Dick Yu***Hong Kong & Macau*[dicksnyu@ocbcwh.com](mailto:dicksnyu@ocbcwh.com)

### Credit Research

**Andrew Wong***Credit Research Analyst*[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)**Ezien Hoo***Credit Research Analyst*[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)**Wong Hong Wei***Credit Research Analyst*[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)**Seow Zhi Qi***Credit Research Analyst*[ZhiQiSeow@ocbc.com](mailto:ZhiQiSeow@ocbc.com)

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