OCBC TREASURY RESEARCH

Weekly Commodity Outlook

21 September 2020

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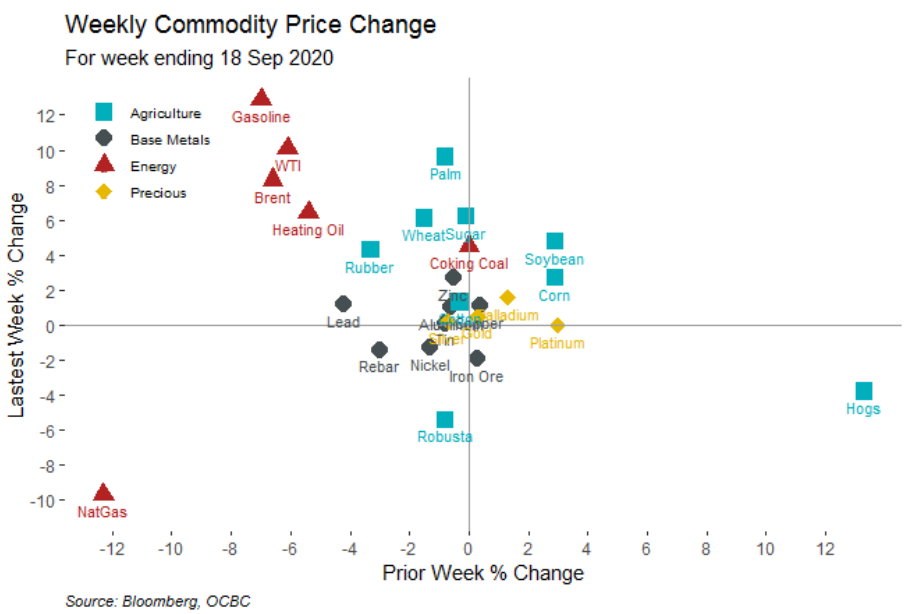
Commodity View

Week in review: Commodities had a good week, with energy and agriculture posting weekly gains. Energy staged a remarkable comeback after Saudi Arabia reiterated its commitment to stabilise the market. The bull run in soybeans continue, with prices now near our second target of 1050 c/bu. Iron ore sagged on rising stockpiles in China, as we had cautioned last week.

The week ahead:

- **Crude oil** is expected to return to its consolidation phase that was prevalent before the two-week slide in early September, with the sharp recovery last week unlikely to repeat in the near future.
- **Base metals** may be led lower by iron ore's correction, especially copper. Steel rebar has already posted at least two consecutive weekly losses and may be a prelude for other base metals.
- **Agriculture** may see some profit taking, especially in soybeans, given the heady run-up in the past two weeks. We recommend buying on dips as fundamentals remain bullish.
- **Gold** is starting to eke out gains once again. If it can start to decouple its inverse correlation with the broad dollar, inflationary fears may start to drive gold higher, especially after last week's FOMC meeting.



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Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**"Ouching like hell."** That was all it took to lift the oil market out of its slump. After a bearish two weeks which saw Brent fall below $40/bbl, Saudi Energy Minister Prince Abdulaziz bin Salman came out on Thursday to firstly rebuke over-producing members. Then, he had this to say to the short-sellers: *"We will never leave this market unattended. I want the guys in the trading floors to be as jumpy as possible. I'm going to make sure whoever gambles on this market will be ouching like hell."* Brent for November delivery closed at $39.61/bbl on Monday but rallied through the week to close at $43.15/bbl at Friday close - an 8.9% increase across four sessions. We close our short spread recommendation on Brent and turn neutral on the energy complex.	→	↑
Soybeans	**Prices at 1043.5 c/bu.** We initiated a long soybean call when prices were at 975 c/bu, and after it hit our first target of 1000 c/bu, we extended that target to 1050 c/bu. The fundamentals continue to support the price rally, with China's buying and deteriorating US crop condition setting up a potentially tight market next year. But prices appear to have run up too quickly and in the short term we recommend putting on some put spreads as hedges. Longer term we recommend buying on dips.	↓	↑
Palm Oil	**3000 MYR/mt.** Palm oil is being lifted by the rally in soybean prices at the moment, and as of this morning is trading above the key level of 3000 MYR/mt. We see prices remaining elevated for as long as the soybean rally continues. China's palm oil stock remains low, while the recovery in edible oilseeds stock in India seems to be slowing.	↑	→
Cotton	**Stable prices.** Prices stayed largely constant around 65c/lb, with fluctuations mainly brought forth by flooding threats from the hurricanes. The high ending stock levels in the US remains the biggest impediment to any price rally, despite the worst crop abandonment expected since 2017. We stay neutral on cotton.	→	→
Iron Ore	**Correction likely not finished.** Like we pointed out last week, the increase in China's iron ore inventories is proving to be an increasing headwind for the iron ore market. Prices corrected sharply despite positive industrial production data from China, falling to as low as $116.65/mt on Thursday after closing above the $125/mt handle on Monday. Brazil is ramping up exports of iron ore, with 2.17mmt of iron ore shipped a day on average month to-date. That means Brazil is potentially on course to export 43-45mmt of iron ore this month – a record high. Coupled with rising iron ore inventories in China, that is likely to spell further bearishness for the market.	↓	↓
Gold	**Grinding higher.** The consolidation in gold continues, although the mean level in which the previous metal trades appear to have moved higher from around $1935/oz at the start of the month to $1950/oz in the past week. The FOMC meeting proved to be pretty vague overall in terms of clarity over the Fed's average inflation targeting, but the Fed's forecast of zero rate hikes until potentially early 2024 should be supportive for gold and other risk assets. We stay neutral in the near term but bullish in the longer term.	↑	↑

Treasury Research & Strategy

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