OCBC TREASURY RESEARCH

Weekly Commodity Outlook

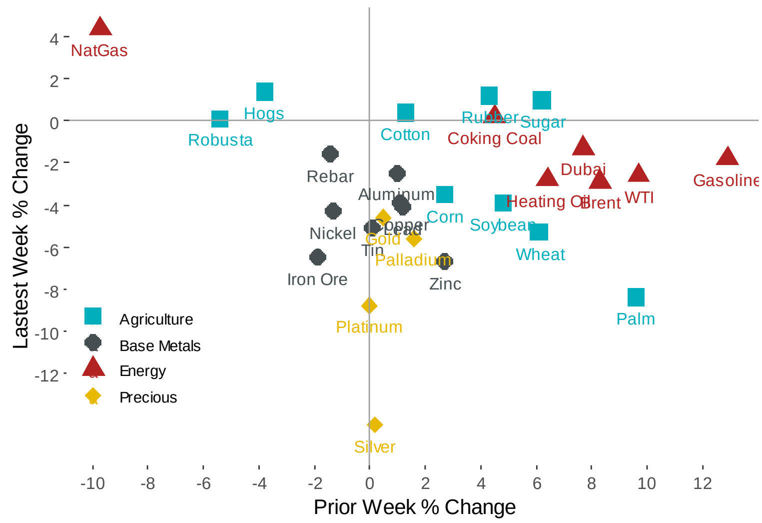
28 September 2020

Commodity View

Week in review: Commodities had a poor week, with only several agriculture commodities and natural gas eking out weekly gains. The biggest loss was found in silver, which declined 14.5% on the week. The energy complex was also largely down, as was base metals.

The week ahead:

- **Crude oil** is expected to return to its consolidation phase, with front-month Brent expected to stay range-bound between $40-$43/bbl.
- **Base metals** were led lower by the dip in iron ore prices. We see further downside, given the prior heady run-up in prices.
- **Agriculture** may see some stabilisation after tumbling heavily last week. We recommend buying on dips as fundamentals remain bullish.
- **Gold** and the other precious metals are likely to face further downside pressure, especially if the dollar continues to firm.



Source: Bloomberg, OCBC

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Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**Price outlook remains weak.** The 1-6m Brent spread has stayed relatively stable at about $2/bbl in the past week, while VLCC rates appear to have eased. It looks like the market is leaning towards creating near term demand via lower prices. The failure of Brent to stay above $43/bbl last week suggests that the market structure is still bearish at the moment. We expect Brent to hover between $40-$43/bbl for now.	↓	→
Soybeans	**Heavy selloff.** As we had expected, profit taking was the order of the day in a risk-off week, which saw prices fall from a high of almost 1050 c/bu to below 1000 c/bu during intraday trading on Thursday and Friday. A decline in soyoil prices added pressure on crush margins, which fell from an eye-popping 500 RMB/mt to a still relatively healthy level of 350 RMB/mt. The deterioration in US soybean crop quality looks like it may have stabilised but we still expect further US production losses of about 300mn bushels vis-à-vis the last USDA report. Last week's price decline is likely due to profit-taking and we expect the rally to continue in the medium term.	→	↑
Palm Oil	**China may continue buying as stocks fall.** We have noted for a while now that China's palm oil stocks remain low, averaging slightly less than 35mmt in the past two months. This is the lowest since 2016/17, when Chinese palm stocks averaged about 30mmt and prices traded above 3000 MYR/mt for three months. India's stocks of edible vegoils have yet to recover to pre-virus levels, while there are concerns of plantation labour shortage in Malaysia and Indonesia. We expect palm to stay range-bound from 2800-3000 MYR/mt in Q4.	→	↑
Cotton	**Stable prices, relatively.** US cotton prices were relatively stable compared to the decline seen in soybeans. Prices ended the week with slight gains and have still managed to cling onto the 65c/lb handle relatively firmly. Total cotton exports from the US remain strong and we think the WASDE export estimate for US may have been underestimated by 1 million bales.	→	→
Iron Ore	**Correction likely not finished, but losses may begin slowing.** Prices continue declining as risks of a supply glut grows. From a high of $125/mt two weeks ago, iron ore prices briefly fell below $110 last week. Iron ore inventories in China rose once again last week and that is proving to be a major headwind for prices. China's demand looks like it may be cooling but combined supplies from Australia and Brazil are still expected to exceed 100mmt this month by our estimates, which may add further to port inventories. We expect prices to head further south in Q4 and find support at $100/mt.	↓	↓
Gold	**Bearish pressures mounting.** Gold broke below $1900/oz last week and gold bulls have not shown any inclination to buy on dips despite prices being at a two month low. With the dollar expected to continue strengthening in the current risk off environment, the inverse correlation between gold and the dollar may push gold further down in the immediate future. Longer term we remain bullish on gold.	↓	→

Treasury Research & Strategy

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