

## Weekly Commodity Outlook

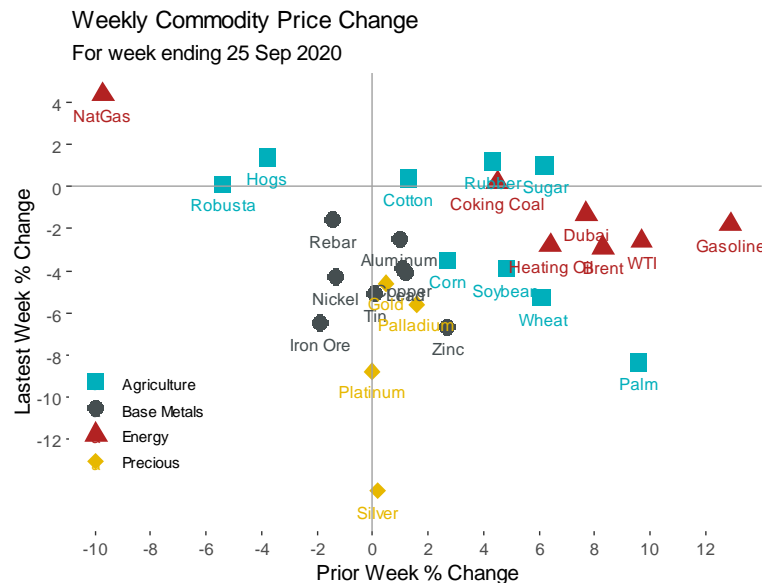
28 September 2020

### 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.



Howie Lee  
Economist  
+65 6530 1778  
[howielee@ocbc.com](mailto:howielee@ocbc.com)

## Weekly Commodity Outlook

28 September 2020

### Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	<b>Price outlook remains weak.</b> 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	<b>Heavy selloff.</b> 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	<b>China may continue buying as stocks fall.</b> 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	<b>Stable prices, relatively.</b> 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	<b>Correction likely not finished, but losses may begin slowing.</b> 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	<b>Bearish pressures mounting.</b> 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

### 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)

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).