Weekly Commodity Outlook

11 January 2021

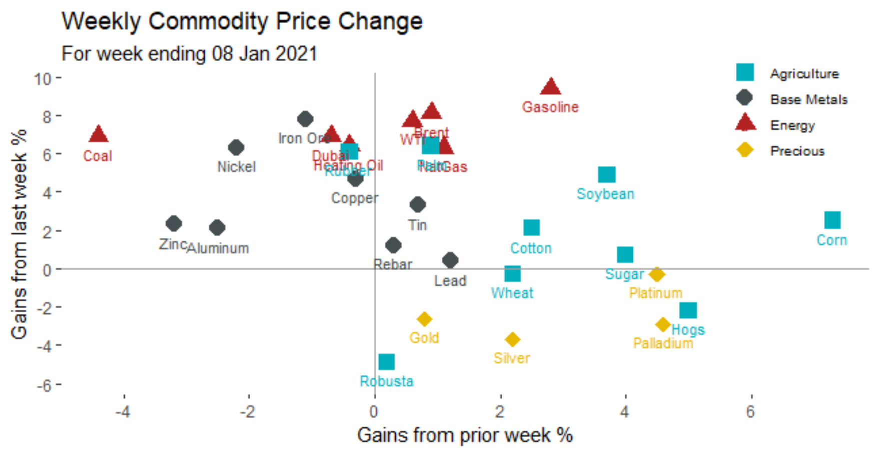
Howie Lee
Economist
+65 6530 1778
howielee@ocbc.com

Commodity View

Week in review: What a week it was for commodities. Crude oil saw gains of 8% on the week while agriculture continued their dizzying bull run from December. Copper broke above $8000/mt.

The week ahead:

- **Crude oil**: Monthly STEO report on Tuesday may reflect an uptick in energy demand for 2021, factoring in vaccine developments.
- **Base metals:** China's trade data on Thursday to indicate if demand for iron ore remains intact despite soaring prices.
- **Precious metals:** Rising Treasury yields could continue to pressure gold lower this week.



Source: Bloomberg, OCBC

Trade idea of the week:

- **Stay long Brent spread (long Mar'21, short Aug'21).** With gasoline prices rising to provide breathing room for crack margins and risk sentiment still strong, expect front-end prices to continue outpacing the rest of the curve. *Consider entry at $1.30; take profit at $2.00; stop loss at $0.80.*
- **Go long copper (long Mar'21).** Treatment charge in China for copper concentrate fell again today to $48.50/mt, underscoring the bullishness in the copper market. *Consider entry at 355 c/lb; take profit at 375 c/lb; stop loss at 340 c/lb.*
- **Go long gold (spot).** Gold is being hammered by the rising Treasury yields at the moment but we are not convinced yields should be trading at current levels in such a macro environment. *Consider entry at $1820; take profit at $1920; stop loss at $1780.*

Weekly Commodity Outlook

11 January 2021

Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**Saudi Arabia single-handedly propping up market.** Saudi Arabia unilaterally decided to cut its oil output by 1mbpd for Feb and Mar, and then also raised its Arab Light OSP for Feb loading from 30 c/Ib to 100 c/Ib premium. The message is clear – the kingdom is there to support oil prices and even if it cannot find buy-in from Russia or other OPEC members, can choose to act alone. 1mbpd is no small supply curb to scoff at and more importantly, it may have created a psychological put among oil traders on how low oil prices may go. 5-day average gasoline crack spreads are the highest in two months, even though fundamental demand is expected to suffer in the near term. Buying on dips looks to be the preferred strategy for now and we stay long calendar spreads, with both Brent and WTI having flipped into backwardation since at least last month.	↑	↑
Soybeans	**China hits 1bn bushel imports of US soybeans three weeks ahead of 2015/16 record.** China recorded 1bn bu of American soybean imports on the last week of 2020, just eighteen weeks into the season. By the end of Jan'21, the total imports of American beans into China for this season would likely have surpassed the full-year imports of American beans for all years except 2015/16 – and half the season would not even have past by then. Prices have been on a staggering rally since Dec'20 on China's buying and poor weather in Latin America. We see soybeans for Mar'21 testing $14/bu before contract expiry.	↑	↑
Palm Oil	**4000 MYR/mt in sight.** CPO traded a high of 3888 MYR/mt at the start of the year, rising to its highest since Mar'11 and looking to test the 4000 MYR/mt level. The record high for palm prices remain 45000 MYR/mt, set in Mar'08. With the Covid-19 situation in Malaysia looking increasingly untenable, the supply disruption – together with skyrocketing soybean prices – could pressure palm above 4000 MYR/mt before the end of Q1.	↑	↑
Cotton	**Prices are reflecting higher US cotton exports and USDA needs to reflect that in this week's WASDE.** Cotton for Mar'21 rose to 80c/Ib at the start of 2021 and is pricing in a market way tighter than what USDA is currently projecting. Our estimates for US cotton exports range anything from 16-17mn bales, which is 1-2mn bales more than USDA's 15mn bales. At 80c/Ib, the market appears to be pricing in the lower end of this range. If exports eventually hit 17mn bales, ending stocks for the US will drop to 4.7mn bales – effectively removing all the excess inventory from the Covid era and returning inventories to normal levels. We opt to stay long cotton and see prices rising to 85 c/Ib for now.	↑	↑
Iron Ore	**Trade data from China this week likely to show >100mn tons of iron ore imports once more.** After a disappointing Nov, when imports of iron ore into China fell below 100mn tons for the first time in 5 months, we estimate China to have imported 100.7mn mt last month. This was despite prices in November trending above $120/mt. The rally appears overstretched and iron ore may take a breather for now, but the still-low steel inventory will likely prompt more Chinese buying in the coming months. The rally looks intact beyond the near-term and will probably only end when there is a credit or stimulus withdrawal.	→	↑

Gold	**Hammered by rising yields.** Gold hit a high of $1950/oz at the start of last week, yet ended the week at $1850/oz. Among many reasons, gold was hammered by the rise in 10Y UST yields, which rose to 1.1% last Friday. We remain unconvinced that TYs should be trading at such elevated levels and expect monetary intervention from the Fed should this persist, possibly in the form of a WAM extension in its QE program. Thus, we see gold as undervalued at this stage and suggest a buy-on-dips strategy.	→	↑

OCBC TREASURY RESEARCH

Weekly Commodity Outlook

11 January 2021

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carieli@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W