OCBC TREASURY RESEARCH

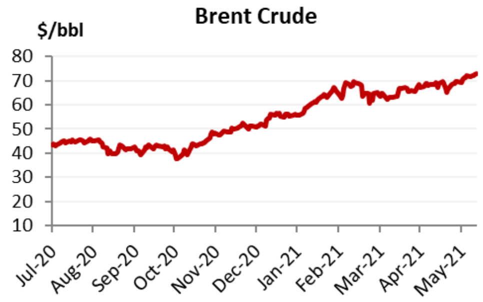
Commodity Outlook 2021

15 June 2021

Crude Oil

2021 H2 forecast: $80/bbl Brent

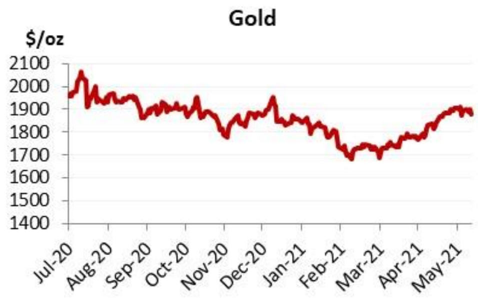
We see a low possibility of oil returning to $100; instead, we expect it to peak at $80, possibly by end 2021, as we see supply from OPEC+ to return in earnest beginning 2022. The global supply balance is expected to stay in deficit through 2021 but may return to a surplus by 2022. Contrary to IEA's latest 2050 net-zero roadmap, we expect investments in oil and gas exploration to continue in the near to medium term.



Gold

2021 H2 forecast: $1,800/oz

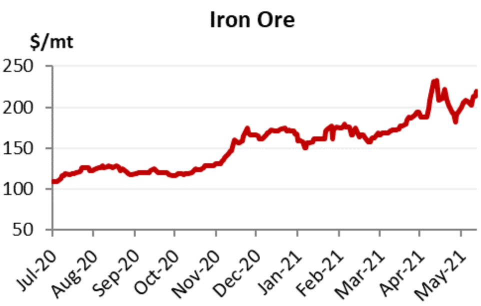
Slowly but surely, we are seeing a tilt to the hawkish camp within global central banks. None matters more to gold than what the Fed's stance on rate normalisation would be, but with economic data looking relatively robust, the upward pressure on US real interest rates could pressure further fund outflows from gold into risky assets.



Iron Ore

2021 H2 forecast: $250/mt

China's import of iron ore may slow in the next 6-9 months but that does not mean its appetite for steel has waned. Its shifting stance towards prioritising pollution control mean it wants to encourage a more efficient pickup and recycling of domestic steel production i.e encouraging less steel exports and importing more foreign scrap steel. Once inventories dwindle, however, we expect China to return to international markets to replenish its stock.



Copper

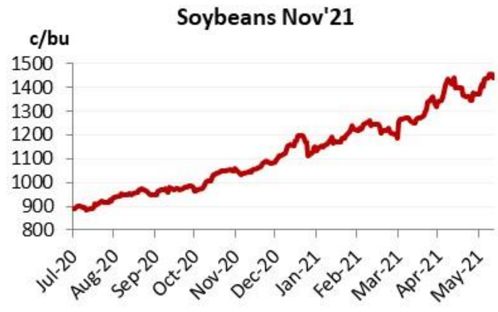
2021 H2 forecast: $11,000/mt

Copper remains our top pick for outperformance in 2021 and 2022 on the back of global electrification and supply disruption in Latin America. Unlike iron ore and crude oil, China's import of copper concentrate has continued to stay elevated year-to-date. We maintain our view that copper may peak at $12,500/mt, but we bring forward that forecast by a year to Q1 2023.

Soybeans

2021 forecast: $12/bu

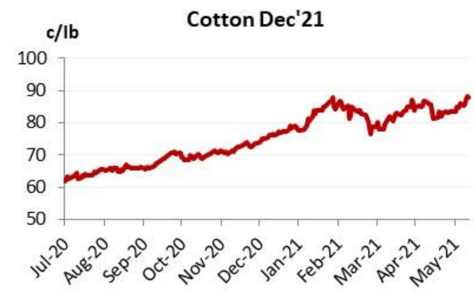
Weather concerns have ebbed in the US following recent rains and Brazil looks set to produce another bumper crop. While the US balance sheet remains tight, Brazil's supply crunch is expected to ease. Overall, the stock situation in 2021/22 is expected to be more expansive than the current crop year, meaning we may see more downside than upside for soybeans from here.



Cotton

2021 forecast: 80c/Ib

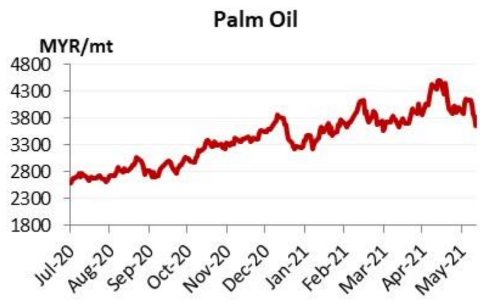
US cotton exports are expected to retain its steady pace through next season but that is offset by higher production. The planting pace, soil moisture and even crop conditions are all hovering around the 5Y average – meaning any drive higher in prices would have to come from increased demand, which we see as unlikely given the already robust pace. We see little change to prices in 2021/22.



Palm

2021 forecast: 3,800 MYR/mt

We continue to expect MPOB ending stock to trend below 2mil tons through 2021, fuelled by continued supply disruptions due to Malaysia's Covid situation as well as the increasing need to replenish vegoil stocks in China and India. The broad decline in the soybean complex, however, may cap further gains in palm.



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OCBC TREASURY RESEARCH

Commodity Outlook 2021

15 June 2021

OCBC Commodity Price Forecasts

OCBC COMMODITY FORECAST																	
Accurate as of 15 Jun 2021			2021					2022					2023				
	3Y AVG	Spot	Q1	Q2	Q3	Q4	Average	Q1	Q2	Q3	Q4	Average	Q1	Q2	Q3	Q4	Average
Energy																	
WTI ($/bbl)	54	71	59	70	72	78	70	72	72	68	68	70	62	62	62	62	62
Brent ($/bbl)	60	73	63	72	75	80	73	75	75	70	70	73	65	65	65	65	65
Gasoline ($/gallon)	1.61	2.20	1.95	2.25	2.50	2.50	2.30	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.63
Natural Gas ($/mmbtu)	2.58	3.30	2.60	3.25	3.30	3.40	3.14	3.50	3.50	3.50	3.50	3.50	4.00	4.00	4.00	4.00	4.00
Precious Metals																	
Gold ($/oz)	1478	1864	1685	1850	1850	1800	1796	1750	1700	1650	1600	1675	1550	1500	1500	1500	1513
Silver ($/oz)	17.5	28.0	24.4	27.2	26.4	25.7	25.9	25.0	24.3	23.6	22.9	23.9	20.7	20.0	20.0	20.0	20.2
Soft Commodities																	
Crude Palm Oil (MYR/MT)	2418	3375	3612	3500	3800	3800	3678	3500	3300	3250	3250	3325	3000	3000	2800	2800	2900
Soybean (c/bu) (1st Active)	925	1478	1436	1600	1300	1200	1384	1200	1200	1000	1000	1100	1000	1000	9500	9000	5125
Cotton (c/Ib) (1st Active)	71	85	81	85	82	80	82	77	75	70	70	73	70	70	70	70	70
Industrials & Metals																	
Iron Ore ($/mt)	90	211	155	200	220	250	206.25	250	225	200	200	218.75	150	150	125	125	137.5
Copper ($/mt)	6254	10004	8786	10000	10500	11000	10071.5	11250	11500	11750	12000	11625	12500	12000	12000	12000	12125

Crude Oil ▲

Highlights

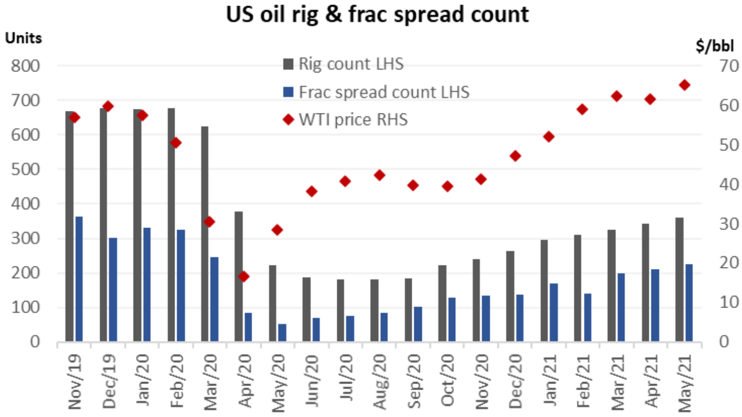
- **While we expect the global supply balance to remain in deficit through 2021, we see it flipping back into a mild surplus by 2022.**
- **Biden's push for clean energy has a negative impact on oil in the long-run; however, current environmental restrictions have capped US shale production and kept prices supported.**
- **Contrary to the US IEA's *2060 net-zero report,* while we expect investment in O&G explorations to begin shrinking, this is unlikely to decline to zero from 2022.**

Price Outlook: We expect Brent to peak at $80 by year-end, before normalising towards $65 across two years beginning 2022.

US production curtailed with Biden's appointment.

A lot has been said about the impending demise of fossil fuels. We have little doubt that the shift to a global green economy may mean peak oil demand is near, and the effects of this unmistaken shift has profound impacts on US oil production and investments in exploration projects. That is, however, the future. The present reality, especially with the gradual end of the pandemic, means oil is still very much at the forefront of energy markets.

Ironically, President Biden's campaign for clean energy is keeping oil prices supported at present. Despite WTI prices having already recovered above pre-pandemic levels, the rig count and frac spread count in the US have only recovered 37% and 64% of last year's shut-ins. As the world's marginal producer of oil, oil prices are the single biggest determinant in influencing oil production in the US. The fact that prices have already recovered to 2018 levels but US production has remained stagnant at 11mbpd suggests an external force is at play. We allude this development to the growing uncertainty and environmental regulations that have prevented US shale frackers from returning to the market en masse.

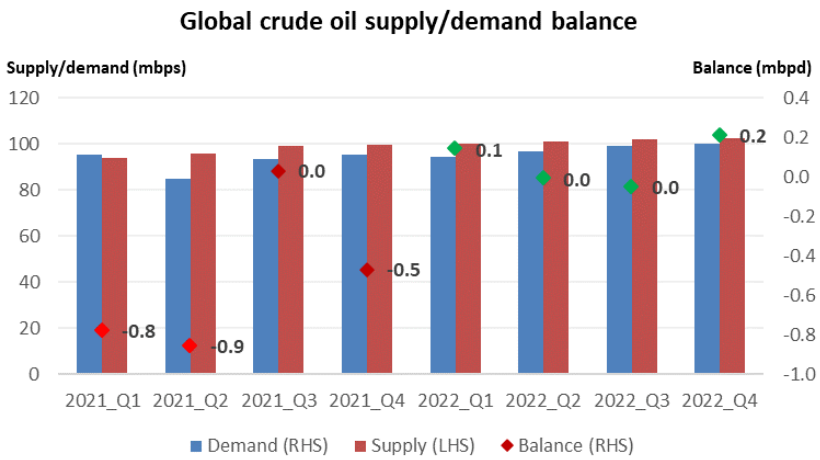


Source: Baker Hughes, Bloomberg, OCBC

OPEC+ unlikely to reopen all its taps for now.

July 2021 will see the last of OPEC+'s plans to ease its pandemic supply curbs, with production to increase a total of 850kbpd. Despite that increase, the total output level of OPEC+ is still 6mbpd below its Oct'18 baseline. This is almost thrice that of the 2.1mbpd the bloc enacted in response to the US-China trade war – in place until the brief oil price war in Mar'20. Our base case is for global supply to increase by 2mbpd by end 2022, of which largely from OPEC+ and Iran. Should Iran's oil embargo be lifted in the next 18 months, we expect 2mbpd of Iranian crude to return to international waters, in which case we expect OPEC+ to keep constant its 6mbpd output cut through 2022.

In that scenario, we estimate that global supply balance of crude oil will return to surplus beginning Q1 2022 and likely to remain so through the rest of next year. We see Brent peaking at $80 by end 2021, but the flip in the global supply balance from deficit to surplus next year means Brent may begin its retracement next year towards its long-term average price of $65.



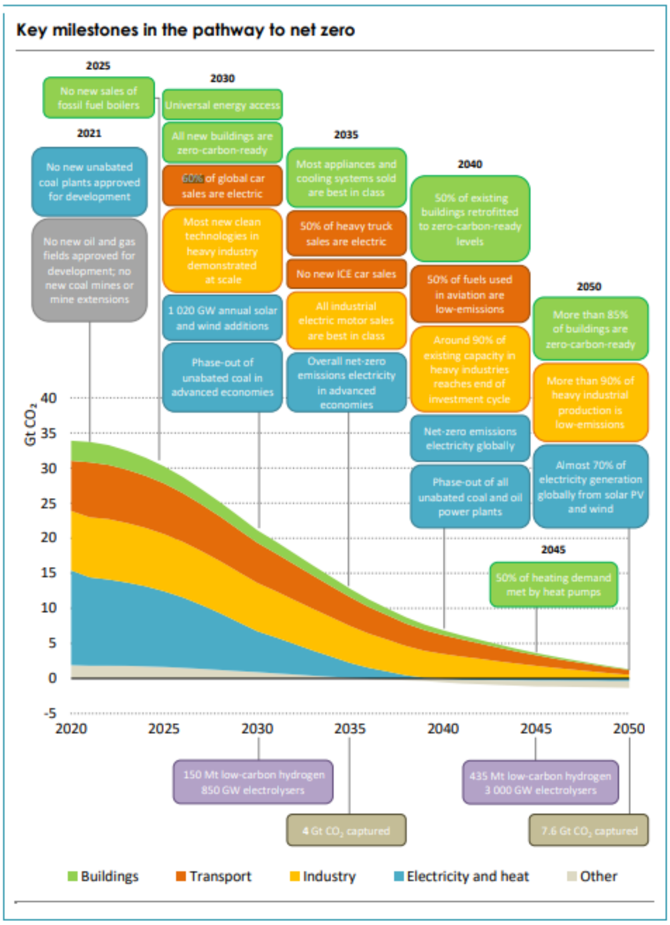
Source: EIA, OCBC Estimates

End of oil and gas investment does not happen overnight.

The US IEA raised many eyebrows in its *Net Zero 2050* report, stating "beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway". Saudi Arabia has called that roadmap "a sequel of the La La Land movie" while Russia termed that projection "simplistic" and "unrealistic".

What the IEA was really trying to drive at was not a call for zero oil and gas exploration projects beginning next year, but one of the many factors needed if the US is to achieve its net zero pathway by 2050. We see this development as being possible, but highly challenging – a notion that the IEA also recognises. Firstly, an "unparalleled clean energy investment boom", estimated to be around $5 trillion by 2030 – would be needed. This is thrice the total investment into this space between 2016-2020. Beyond the question on how this investment would be funded, such a huge flow of investment funds would also create unnecessary diminishing returns on investment, consumer inflationary pressures and a crowding out of private investments in other parts of the economy.

Secondly, the IEA predicts the total market size of critical materials like copper, cobalt and manganese to increase 7-fold in the next ten years – a CAGR of 95.1%. It also expects 60% of global car sales to be electric by 2030 from the current 4.2% - an average of a 5pct point increase each year. For perspective, it took the world almost five years to see that same increase. The scenarios laid out look highly challenging and while we expect investment in oil and gas explorations to slowly dwindle as the push for a green world gathers pace, we do not expect 2021 to be the year in which we see the last of such investments.



Source: US IEA 'Net Zero 2050' report

Iron Ore ▲

Highlights

- **China is shifting towards a green economy and in doing so, is encouraging more domestic steel consumption over steel exports.**
- **Focus from steel producers in the near-term will likely be to draw down on existing iron ore stock and sell steel to domestic buyers.**
- **China's infrastructure plan will continue to require construction materials; demand for iron ore and steel will likely stay robust beyond 2021.**
- **Chinese buyers will look to replenish iron ore inventories once again in 2022 as current stockpiles deplete.**

Price Outlook: Subdued prices in the next six months may be expected as a result of active government intervention, but may test $250/mt when Chinese buyers look to replenish depleted stockpiles.

China's shift in import strategy to complement green economy.

China's pace of iron ore imports year to-date has been generally slower than what was observed in H2 2020. This is not due to weakening consumption patterns for raw materials, but rather a shift in government policy as it attempts to reduce carbon emissions as outlined in its 14th five-year plan in Nov'20.

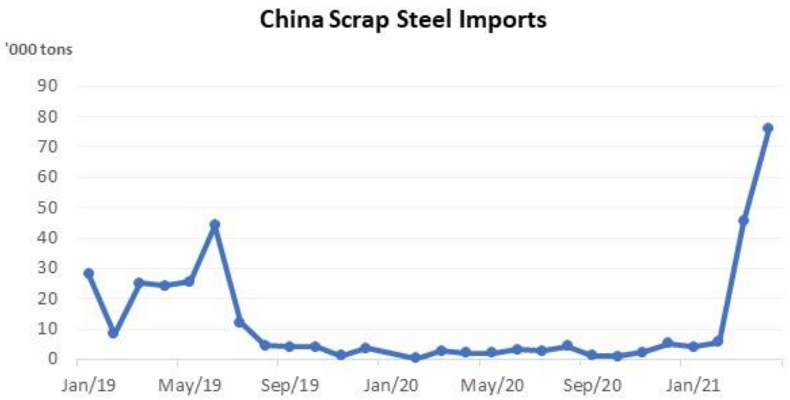
With the exception of Mar'21, iron ore imports into China each month have not exceeded 100 million tons since Oct'20. The crux of this decline lies with China's push for net carbon neutrality by 2060 and reducing carbon emissions per unit of GDP by 18% from now till 2025. Aluminium and steel are the two highest energy consumption markets among the commodity space and have hence attracted the most attention from policy makers.

Source: Bloomberg, China Customs General Administration, OCBC

China may continue to restrict output from steel mills while encouraging less steel exports vis-à-vis domestic consumption.

The key changes that we continue to expect are the encouragement of a) more scrap steel imports; b) higher domestic consumption of steel vis-à-vis export market sales. There has been a noticeable increase in scrap steel imports lately, with April's imports totalling 76.25k tons – more than twice the total scrap steel imports China managed in the entire of 2020. Removal of the 15% VAT rebate on steel exports in May have also resulted in a sharp decline of steel exports to 5.27million tons in May, which is about 5.5% of total crude steel production by our estimates – a sharp reversal of the upward trend in steel exports pertinent since Aug'20.

Source: Bloomberg, China Customs General Administration, OCBC Estimates

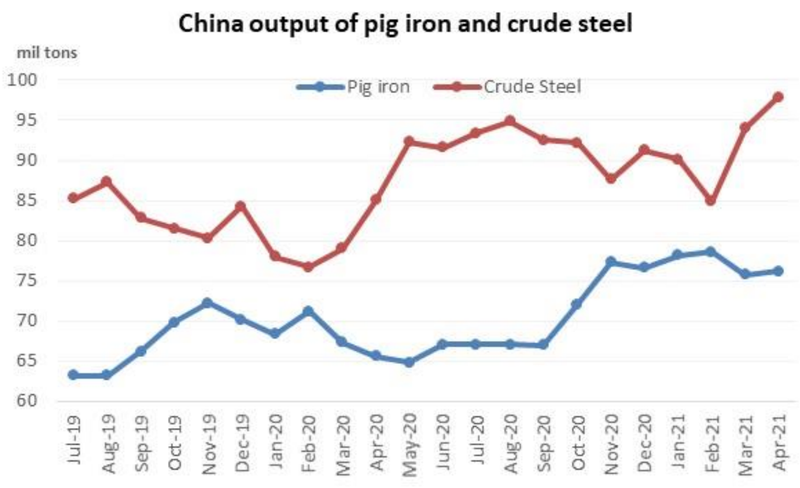


Source: Bloomberg, China Customs General Administration, OCBC

In short, **we expect China to import less iron ore while encouraging a higher recycling rate of steel domestically**, via reduced steel exports and higher foreign scrap steel purchases.

Low iron ore imports do not equate low steel demand.

The low iron ore imports into China, in our opinion, is not an indication of declining steel demand. We see steel demand remaining supported, evident by the record high crude steel output and elevated pig iron production in recent months. China's 'new infrastructure' plan – developing technology parks, electric vehicle (EV) charging points, data centres, ultra high voltage (UHV) power transmission lines, and the development of high speed rail – all require higher steel output on a sustained basis. Iron ore imports may remain low in the next 6-9 months as steel mills draw down on existing inventories and sell an increasing share of its steel production to local end-users. As iron ore inventories continue to dwindle, however, we expect China to return for iron ore to replenish stockpiles and feed its domestic appetite for steel.



Source: Bloomberg, China Customs General Administration, OCBC Estimates

Price outlook: Iron ore to continue inching towards $250 by year-end.

We expect iron ore prices to remain supported in the near-term, and eventually test a high of $250 before the end of the year.

Soybeans ▼

Highlights

- **China's purchases of US new crop have been slow; we estimate outstanding sales to begin new crop year 2021/22 at only 775mn bu.**
- **US production is not expected to see much upside, given the current crop condition of 70 is close to the 5-year high of 85.**
- **With Brazil expected to produce yet another record crop in 2021/22 (144mn tons), the combined US + Brazil ending stock should see an easing of tightness.**

Price Outlook: We think soybean prices may have peaked and may begin retracing back towards $12/bu. The stock-to-use of US and Brazil, however, remains tight and we do not expect prices to decline below $10/bu.

US production not expected to see much further upside.

USDA released its first soybean crop condition for new crop 2021/22 in early June. At time of writing, the new crop has a current Crop Condition Index (CCI) score of 70 , according to our calculations. This index has a historical range of 55 to 85 in the past ten years. With the persistently poor soil moisture year to date, we do not expect the crop condition to continue persisting at the higher end of its historical range in the coming weeks and to possibly decline towards the long-term average of 65.

We estimate that with the current CCI score of 70, the US should see a planted yield of 50.00 – not far from USDA's current estimate of 50.29. Further upside in yields, however, may prove to be challenging. As mentioned, the maximum CCI the US has ever recorded in the past ten years is 85 – assuming planted acreage remains at the current 87.6 million hectares, even with the improved crop condition to 85, the incremental production from the US would only be 120 million bushels more against the current USDA estimate of 4.4bn bu.

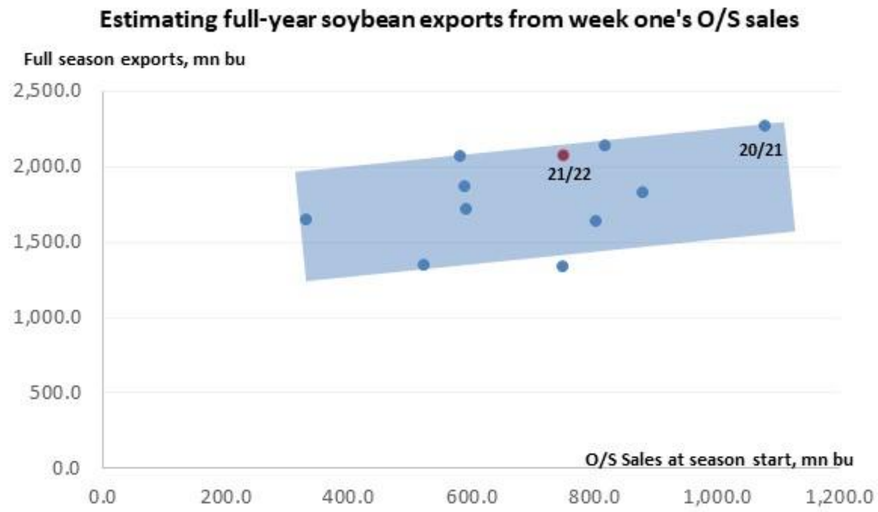
2021/22 US Soybean Est.	
Crop Cond.	70
Est Yield	49.99
USDA Yield	50.29
Acreage	87.6
Est Prod	4379
USDA Prod	4405

Source: USDA, OCBC Estimates

US soybean exports look suspect and likely to disappoint.

USDA expects 2.08bn bushels of US exports in the upcoming 2021/22 season, which is on the higher end of our estimate range. New soybean sales have so far looked a pale shadow of what was seen last year. We estimate new crop orders to end this season at 750mn bushels, while rollover of existing crop sales to be minimal at about 25mn bushels – which means 2021/22 outstanding sales will likely begin the new season at 775mn bushels. This is considerably lower than the 1.1bn bushels that 2020/21 started with.

We estimate that full-year 2021/22 US soybean exports will be in a broad range of 1.5bn bushels to 2.1bn bushels. USDA's current estimate of 2.08bn bu, however, is right at the top end of this range and we see scope for further downward revision, possibly to 1.9bn bu. Given adequate stock levels of soymeal and soybeans in China at present, the slowing pace of bean purchases is a growing possibility.



Source: USDA, OCBC Estimates

Our US Supply & Demand estimates.

We forecast US production at 4.28bn bu and US exports at 1.90bn bu, which will yield an ending stock of 205mil bu. This will be a slight improvement from last year's stock tightness of 135mn bu but remains very tight – especially with a stock-to-use ratio of 4.8%. We hence expect 2021/22 prices to remain above $10/bu, but a new record high is unlikely in our opinion. The higher ending stock situation puts us on a bearish slant towards new crop soybeans, and we see delivery on the Mar'22 contract to end the year at $12/bu.

	2016	2017	2018	2019	2020	OCBC
United States	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/22**
Beginning Stocks	197	302	438	909	525	135
Production	4296	4412	4428	3552	4135	4280
Imports	22	22	14	15	35	20
Total Supply	*4515*	*4735*	*4880*	*4476*	*4695*	*4435*
Exports	2167	2134	1752	1682	2280	1900
Crush	1901	2055	2092	2165	2175	2225
Food Use Dom. Cons.	0	0	0	0	0	0
Feed Waste Dom. Cons.	146	108	128	105	106	105
Total Demand	*4214*	*4297*	*3971*	*3952*	*4561*	4230
Ending Stocks	302	438	909	523	135	205
Stock to Use %	7.2%	10.2%	22.9%	13.2%	3.0%	4.8%

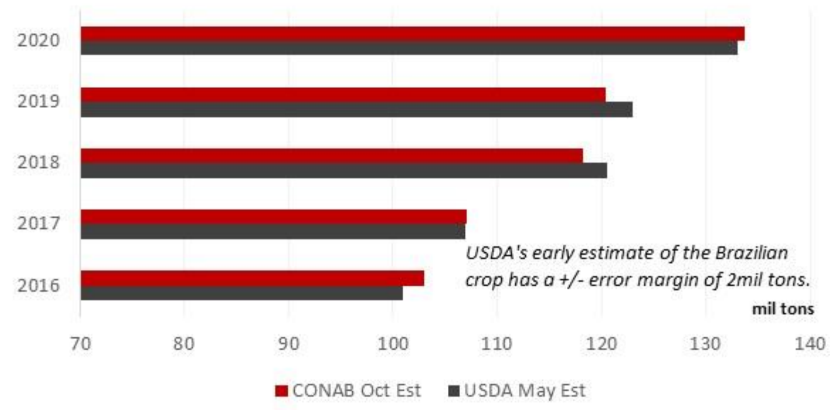
Source: USDA, OCBC Estimates

Brazil stock tightness unlikely to drop further next year.

USDA's June World Agriculture Supply and Demand Estimate (WASDE) estimates the new Brazilian 2021/22 crop production at 144mn tons (5.3bn bu). Although the first CONAB (*Companhia Nacional de Abastecimento* – Brazil's government food supply statistics agency) estimate isn't out until October, the early estimate from USDA normally serves as a reliable estimator of the October CONAB soybean production figure. In the last five years, the maximum deviation of the October CONAB production estimate from USDA's June WASDE is +/- 2.5mn tons (~+/- 90mn bu), which means the CONAB estimate for 2021/22 is likely to come in within a range of 5.2-5.4bn bu. Of course, thereafter the production estimates will be heavily weather dependent.

Even at the lower range of 5.2bn bu, Brazil's ending stock is estimated at about 800mn bu – just slightly lower than this year's 850mn bu. The upside production surprise, on the other hand, would drive the ending stock close to the psychological 1bn bu level, which may trigger further selling if CONAB estimates eventually edge towards said level.

Brazil Soybean Production Estimate



Source: Bloomberg, CONAB, USDA, OCBC

Conclusion:

On a US and Brazil combined basis, the base case is for total ending stocks to exceed 1bn bu, although it will still be materially lower than the 5Y average of 1.5bn bu primarily due to US stock tightness. With rising prospects of an easing stock to use ratio on a US + Brazil combined basis, we do not expect 2021/22 crop prices to reach the heights of the previous season. Hence, we see limited upside gains for the soy complex and expect prices to end 2021 at $12/bu.

							OCBC Est
US + Brazil	**2015/2016**	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/22**
Beginning Stocks	1088	1048	1482	1639	2102	1287	982
Production	7473	8518	8946	8826	8273	9169	9645
Imports	39	32	28	19	36	61	44
Total Supply	*8599*	*9597*	*10456*	*10485*	*10411*	*10517*	*10670*
Exports	3941	4486	4931	4503	5068	5440	5317
Crush	3347	3386	3679	3655	3855	3893	3978
Food Use Dom. Cons.	0	0	0	0	0	0	0
Feed Waste Dom. Cons.	213	244	206	225	203	203	202
Total Demand	*7500*	*8116*	*8816*	*8383*	*9125*	*9536*	*9497*
Ending Stocks	1099	1522	1639	2102	1285	982	1173
Stock to Use %	14.7%	18.8%	18.6%	25.1%	14.1%	10.3%	12.3%

Source: USDA, OCBC Estimates

Gold ▼

Highlights

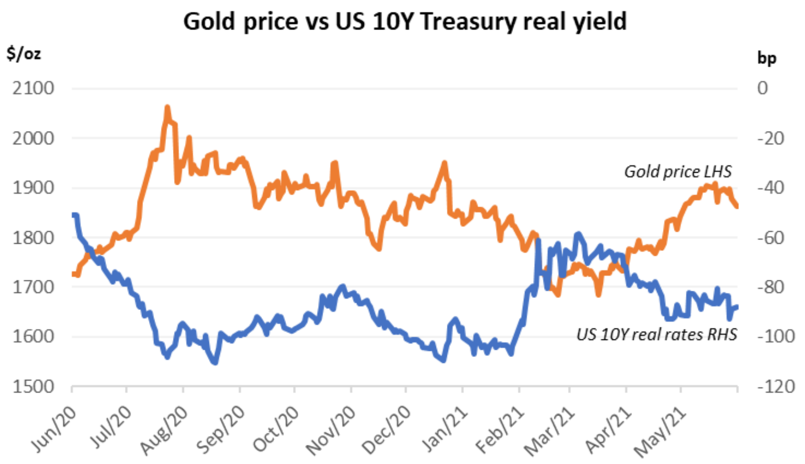
- **Gold is in a state of flux, having declined in Q1 to $1700, only to recover all its losses in April and May.**
- **Gold ETFs recorded its first meaningful fund inflows in May, but this is not likely to persist beyond Q2.**
- **As real rates continue to rise, that is likely to pressure gold prices lower.**
- **We remain bearish on gold through this year and next.**

Price Outlook: We think gold has topped at $1900 and is likely to end the year around $1800. Gold may reach its terminal steady state price of $1500 by end 2022.

Gold in a state of flux.

Gold declined in the first three months of 2021, and then retraced all its losses in April and May. The initial decline was premised on a recovering economy, while its inflation-hedging appeal seemingly was overlooked in favour of raw commodity investing and (debatably) cryptocurrencies.

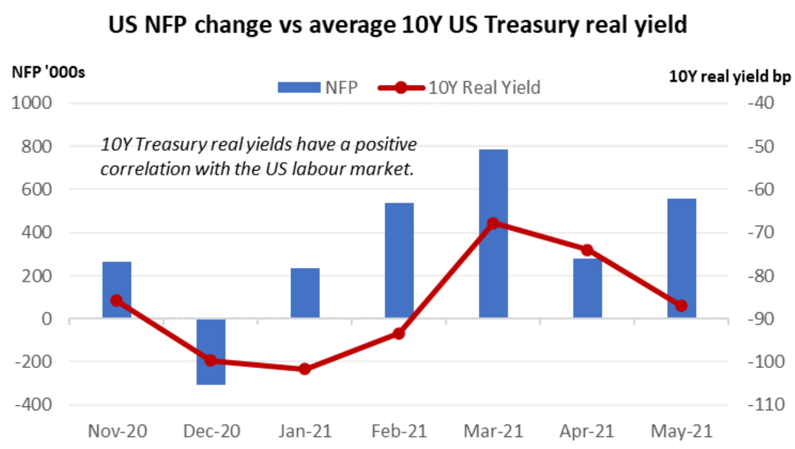
Gold's rise in Q2 came on the back of rising inflation expectations and an uncertain macro environment due to the Covid resurgence in Asia, alongside some big misses in US nonfarm payrolls. 10Y Treasury real yields fell from -0.63% in early April to a low of -0.93% in mid-May – correspondingly, gold rose about 8.8% in this period. Since mid-May, however, 10Y real yields have been stuck largely in a range of -0.80% to -0.90%, which has capped any further advance in gold.



Source: Bloomberg, OCBC

Gold may have topped at $1900.

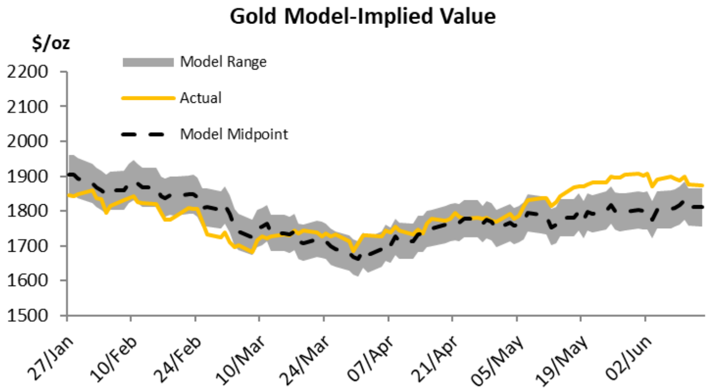
With the recent disappointment in US labour market data, inflation expectations have started to edge lower. The FOMC minutes in May also showed, for the first time, the willingness by officials to begin tapering discussions in the near future, which has further put a lid on the rise in US 10Y breakeven yields. The shift downward in both nominal yields (as a result of the soft US labour market) and breakeven yields (due to falling inflation expectations) mean real yields are likely to continue trading within range for now. Our rates strategist expects that US real yields may find a bottom at -1.0% in the near term and slowly rise towards -0.6% by end-2021. This suggests that gold, which typically moves in opposite correlation to real yields, may have found a top at its current level of $1900.



Source: Bloomberg, US Bureau of Labor Statistics, OCBC

Gold trading too rich by our valuation.

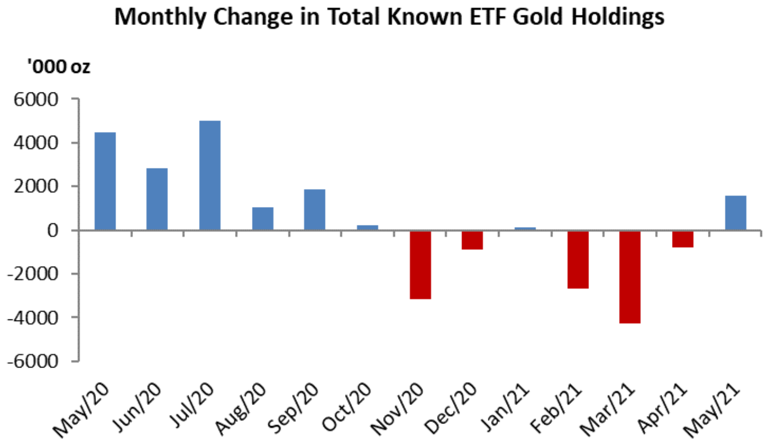
Our valuation of gold at present suggests a fair value range of $1750-$1850. We expect gold to end at $1800 by end 2021 as the global vaccination drive gathers pace while the Fed turns increasingly less dovish on its monetary stance, driving real rates higher and in turn pushing gold prices down. Our estimation of gold's terminal steady state remains at $1500, which we think the precious metal may retrace to by end 2022.



Source: OCBC estimates; data from Bloomberg

ETF inflows in May unlikely to persist.

Despite the rally in gold price in April, we noted that there was still a net outflow on gold ETF funds. Particularly, since Nov'20, gold has been experiencing mostly fund outflows, with the inflows in Jan'21 almost minimal. Therefore, although we note that total gold ETF holdings rose 1.58mil oz in May'21, we think this trend is unlikely to persist, especially with the weak start gold prices have shown in June to-date.



Source: Bloomberg, OCBC

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