Weekly Commodity Outlook

20 April 2021

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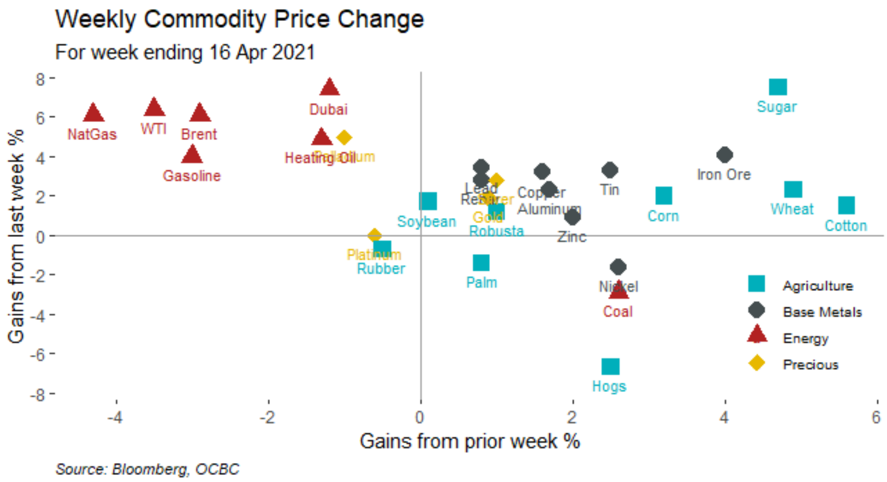
Commodity View

Week in review: Commodities mostly gained last week, with the broad energy and metal complexes having rallied. Crude oil broke out of its broad trading range and looks set to resume its upward climb.



Trade ideas:

- **Go long Brent spread (long Jun'21, short Nov'21).** Crack spreads are on the up, which should provide the support for crude oil prices to continue rallying. The 1-6m calendar spread on Brent has also yet to return to the peaks seen in Feb, suggesting further space for the curve to invert. *Consider entry at $2.30; take profit at $3.25; cut loss at $1.70.*

The week ahead:

- **Weekly US DOE crude oil inventory forecasts.** A further drawdown in crude oil stocks suggests that supply is unable to keep up with demand, which on a net gasoline basis is currently already below the 5-year average.

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Summary Views

Commodity	Market Roundup & Opinion	Strategy Week	Strategy Month
Crude oil	**A break to the upside.** Brent broke through the $65 handle last week after a larger-than-expected drawdown in US crude oil inventories proved the catalyst for oil's rally. Brent for June delivery rose to as high as $67.38 last Friday and has so far found decent support at around the $66 handle in the past two sessions. In the past two weeks the 5-day average of Asia gasoline and crack spreads have been inching higher. In the case of gasoline, whether one looks at the gasoline FOB Houston-WTI crack margin or the Asia 92 RON Singapore gasoline-Brent spread, those have been closing in on the highs seen in 2019 and are pointing to a supply tightness in the market, by virtue of which suggests commuters are now increasingly up and moving. Specs are also the least long on NYMEX on a ytd basis as of last Tuesday and that presents an opportunity for longs to start building their positions again. We maintain our view that oil will likely continue to climb through the rest of 2021.	↑	↑
Soybeans	**Soybean prices rise against the odds.** Soybeans rose 1.7% last week, tracking the broad commodity movement higher. Jitters about corn supply also supported the rally in soybeans. This came amid a series of bearish fundamentals and was further entrenched last Thursday, when both current US crop shipments and orders looked soft once again. We stay short soybeans but remain wary that the tightness in the corn market as well as rising global risk sentiment may continue to lift agriculture prices in general.	→	↓
Cotton	**Squeeze in Jul-Dec may persist.** The squeeze in the Jul-Dec calendar spreads – which went from about $1 on Tuesday to about $3 by Thursday – looks likely to persist, although it is unlikely to return to the Feb height of $6.50. US cotton stocks continue to be exported rapidly each week and outstanding sales as a percentage of total exports are running at pace that is slightly higher than average. This gives room for buyers to add fresh orders on current crop, which could pressure the Jul-Dec spread higher. However, we see no further adjustments to the current export estimate if 15.75mil bales, which means there will be likely ample ending stock by season's end and that is unlikely to send the Jul-Dec spread skyrocketing.	↑	→
Iron Ore	**Iron ore prices rise on positive Chinese data.** China's output of crude steel reached 94.02mil tons in March, which is the second highest on record. Steel prices continue to increase while spot iron ore prices in China have reversed their downward trend in the past week. The rally might continue with firming risk sentiment this week.	↑	→
Copper	**Record imports of copper ore concentrate by China.** China imported 2.17mil tons of copper ore concentrate in March, beating the previous record of 2.14mil tons last September. Despite the high volume of imports, treatment charge of copper ore remains at a ten-year low of $30.50/mt, suggesting that demand remains brisk. We stay bullish copper in the medium to long term.	↑	↑

Gold	**Falling yields and dollar support gold's rise.** The fall in US Treasury yields and the DXY index have supported gold's elevated level. Our model suggests a fair-value range of $1671-$1775/oz for gold at current inputs, which means at current levels ,gold is not too far off its fair value estimation. We close our tactical recommendation of short gold and stay neutral on the precious metal in the short term. Longer term, we expect the possible resumption of rising Treasury yields to pressure gold down once more.	→	↓

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