OCBC TREASURY RESEARCH

Weekly Commodity Outlook

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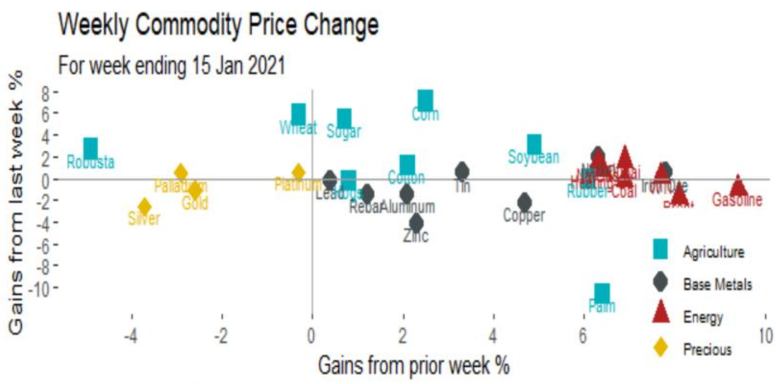
Commodity View

Week in review: Commodities largely sagged last week, in tandem with the general mixed risk sentiment. Agriculture outperformed, with soybeans surging above $14/bu. Energy was mixed, while both industrial and precious metals fell. Palm oil dropped a staggering 10.6%.

The week ahead:

- **Biden's inauguration on Wednesday.** Commodities will take their cues on both the scale of planned disruption from Trump's supporters and Biden's inauguration speech on fiscal aid. The former should eventually prove to be noise; all things constant, any market selloff from said event may provide opportunities to buy on dips.



Source: Bloomberg, OCBC

Trade idea of the week:

- **Go long cotton (Mar'21).** This is a multi-month trade idea we are looking at. Following last week's WASDE report, we think cotton may be next in following soybean's rallying act (see analysis below). We choose the Mar'21 contract over the May'21 contract due to its relative value, following the recent decline in the Mar-May spread. *Consider entry at 80.50 c/lb; take profit at 90 c/lb; stop loss at 75 c/lb.*

- **Stay long copper (Mar'21).** Last week's decline is likely a technical dip. China's sizeable purchases of copper concentrate in Dec shows demand remains intact. *Consider entry at $7750/mt; take profit at $8200/mt; stop loss at $7400/mt.*

- **Stay long gold (spot).** Our model suggests gold is currently trading near the bottom of its fair-value range. Biden's outsized stimulus should prove to be supportive for gold this year. *Consider entry at $1820; take profit at $1920; stop loss at $1780.*

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Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**US STEO, OPEC reports see soft demand persisting in 2021.** Both reports released last week showed demand estimates for 2021 staying soft despite advances in vaccine developments. While OPEC sees virtually no change in oil demand for 2021, the US STEO was more bearish, slashing about 400kbpd from its full year consumption estimate. The nail in the coffin was the trade data on Friday showing only 38.5mmt of oil imports in Dec'20, although that is largely due to domestic oil refiners having run out of import quotas for the year. The dip in price last week is a timely breather for a market that has rallied almost 10% since the start of the year. We see last week's price decline as technical and expect oil to rally through the year, consistent with our earlier trade calls.	↑	↑
Soybeans	**Another good week for US soybean exports as China imports 42.8mn bu of American beans.** Assuming China continues to import about 50mn bu per week from the US, at exactly halfway through the current season it would have matched the full-season record high of 1.33bn bu set in 2015/16. It is now a matter of how much a record-breaking season this would be for Chinese imports of soybeans, rather than when or if. With Latin America still facing possible harvest delays, the US remains the only viable source for China's purchases. One dampener we see for the market is the current rise in the dollar, but with China's latest 5-year plan making it clear that food security is a key goal, even a rising greenback is unlikely to dampen China's voracious appetite. We now raise our soybean forecast to $16/bu by season's end.	↑	↑
Palm Oil	**Steep plunge.** Palm prices fell everyday last week and closed the week 13.3% lower. Poor export prospects have cooled the red-hot market, whose recent rally took it close to almost 4000 MYR/mt last week. On the back of firmness in the grains market, we think the uptrend in palm should continue through 1H 2021, possibly setting a new record high in this period.	↑	↑
Cotton	**After soybeans, cotton is likely the next to skyrocket.** This market is looking extremely tight, which we think USDA has yet to fully capture in the latest export estimate. US ending stocks for 2020/21, according to the latest WASDE report last week, showed a 1mil bale drop in production and a 250k bales increase in exports, both of which combined to send ending stocks to 4.6mil bales. Even assuming no further change to US production estimate at 14.95mil bales, US exports at 15.25mil bales remain too low, in our opinion. We still estimate exports at 16-17mil bales, which potentially means ending stocks should finish the season below 4mil bales – the lowest since 2016/17. Coupled with the ongoing reflation theme, we expect cotton for Jul'21 delivery to eventually trade between $0.90-$1.00/lb before its expiry.	↑	↑
Iron Ore	**Iron ore imports into China a tad disappointing at 96.75mmt.** This figure is the lowest since May'20. We have expected 100.7mmt of iron ore imports from China last month, so a six-month low import figure was a surprise to us. We still see China's demand for iron ore staying robust, based on the domestic crude steel output in Dec'20. Any dip in prices would see buyers quickly returning to the market for stockpiling. Prices have consolidated between $160-$170/mt since the start of the year but the reflation story should present more upside than downside risks to the iron ore market at this stage.	→	↑

Gold	**First rising yields, then an appreciating dollar.** Gold was hit by rising yields the prior week and was then pressured lower by an appreciating dollar last week. The DXY index traded firmly above 90 for most of the week and closed the week 0.7% higher. Our gold model suggests the precious metal's fair value at $1810-$1920 currently, so at $1828, gold is currently trading at the bottom end of this range. We stay bullish on gold, especially after the latest Biden stimulus stoking further inflationary concerns.	→	↑

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