OCBC TREASURY RESEARCH

Weekly Commodity Outlook

23 February 2021

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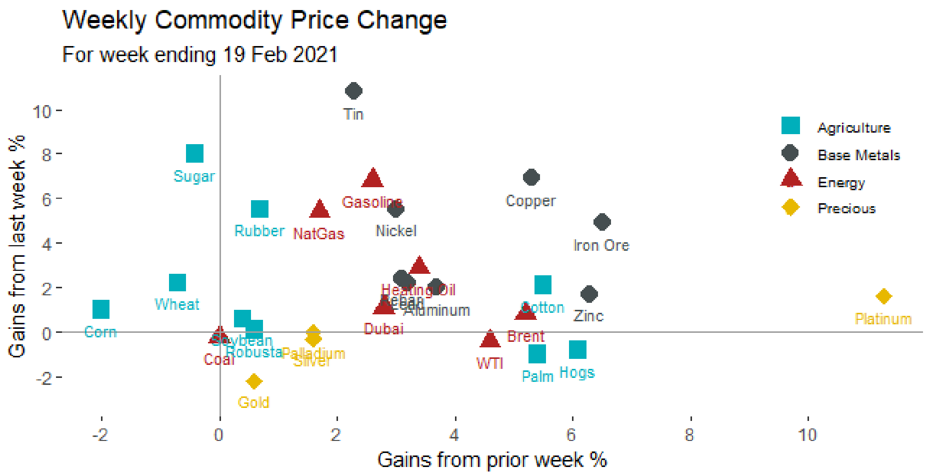
Commodity View

Week in review: Metals were the biggest winner, with tin and copper outperforming. The broad energy complex continued to post gains, with downstream assets like gasoline and heating oil outperforming crude oil. Gold was, once again, the biggest laggard.



Source: Bloomberg, OCBC

The week ahead:

- **US crude oil inventories are now just about 6 million barrels away from pre-virus levels –** about half a day's production in the US. Given reports of wide shut-ins among US producers last week on the Texas cold snap, this week's DOE data may see inventories comfortably tumbling back to pre-pandemic stock levels.

Trade idea of the week:

- **Take 50% profit on cotton (ICE May'21).** From when we first initiated this trade call on 18 Jan, prices on this contract have risen 10 c/lb to net a neat 12.2% gain. Our model suggests cotton has a fair value range of 90-100c and we advocate taking 50% profit on existing positions and letting the other half possibly run to 100 cents.

- **Go long copper spread (long May'21, short Mar'22).** Our long copper position from 11 Jan was closed out on 8 Feb after hitting our target of $8250/mt. We reinitiate a long position on copper after it closed above $9000 yesterday, and see a long time-spread play as the best expression for near-term tightness. *Consider entry at $141; take profit at $200; stop loss at $80.*

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Summary Views

Commodity	Market Roundup & Opinion	Strategy Week	Strategy Month
Crude oil	**Drawdown in inventories faster than we initially expected.** If the US reports another 6.5 million barrels drawdown in its commercial crude oil inventories this Thursday, the level of stocks will have returned to pre-virus levels. We had initially estimated this level to be met only at the end of Q1, but the cold snap in Texas has accelerated the drawdown process. Considering the US recorded weekly declines of about 7 million barrels for the past two consecutive weeks and Texas feeling its deepest chill last week, a drop of 6.5 million barrels in inventory levels last week is highly possible. In turn we have seen gasoline inventories swell as consumers continued to be hampered by the volatile weather and coronavirus restrictions, but gasoline (and other downstream) prices have continued to rise, widening crack margins. The bullish momentum remains intact and we stay long crude oil.	↑	↑
Soybeans	**Poor shipments last week likely a one-off.** The US shipped 36.7mn bushels of soybeans in the week ending 11 Feb, with China conspicuously missing from both the export and fresh orders market. We think this is unlikely to last for several reasons. First, the slowdown in Chinese buying may largely be due to LNY festivities. Second, the cold snap in the US may have hampered logistical shipments out of its ports. Third, Brazil is having to contend an immense bottleneck at its ports due to poor weather and rough seas, with the likes of cotton and sugar all joining the logjam. We think China will return for American beans after LNY and we maintain our US export forecast at 2.3bn bushels. Separately, the USDA Outlook Forum last week for 2021/22 placed a preliminary estimate of 140mn bushels on US new crop soybeans. While more than the current ending stock, it is still very low by historical standards. We maintain our view that soybeans may see record high prices this year, especially if the current Brazilian harvest turns out worse than expected.	↑	↑
Palm Oil	**Palm continues to trade at sharp discount to soyoil.** Palm has rebounded about 10% since its lows at the start of Feb but is still trading at a sharp discount to soyoil. We think the spread is not sustainable and in addition, we see tight stocks for palm through 2021 due to Chinese end-user demand and expectations for record high soybean prices. Palm has underperformed so far in 2021, falling 2.2% ytd but we think the lifting of MCO restrictions should accelerate its exports to China and placed further stress on already-low inventory levels.	→	↑
Cotton	**Cotton now 90 cents.** Similar to soybeans, we view the soft export numbers last week as a result of LNY festivities and the TX cold snap. We expect China to return for American cotton in the coming weeks. Prices for current crop are now trading above 90 cents. With our fair value model pointing to a range of 90-100 cents, we suggest taking 50% profit on existing long positions that we previously prescribed on 18 Jan and letting the other half run possibly to $1.	↑	↑

Iron Ore	**China returns from LNY with a vengeance.** With all the focus on copper, few noticed that Chinese buyers are also in the market for steel. Spot rebar in China jumped from 4314 RMB/mt to 4621 RMB/mt post LNY. We also saw a similar move in copper, which registered strong open interest on SHFE and prices having risen by 10,000 RMB/mt since early Feb. The interest in metals remains strong in onshore China and we stay bullish the metals complex.	↑	→
Copper	**Copper prime for breakout.** A record deficit of more than twice that in 2010 and low exchange stocks globally, combined with the ongoing EV revolution, could drive copper prices to a record high. Our detailed report here.	↑	↑
Gold	**Gold showing improved buying appetite from softer dollar.** The rise in Treasury yields continue to impede gold's bullish run for now and indeed, the yellow metal is the worst performer ytd among 30 commodities that we tracked. With all the inflationary talk going on, however, it remains a mystery as to why gold is still not responding to said theme. We think it is a matter of time before the market catches on and favours gold as an inflationary hedge once again. Gold may continue meandering sideways for now but we are still bullish in the long term.	→	→

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