OCBC TREASURY RESEARCH

Weekly Commodity Outlook

12 April 2021

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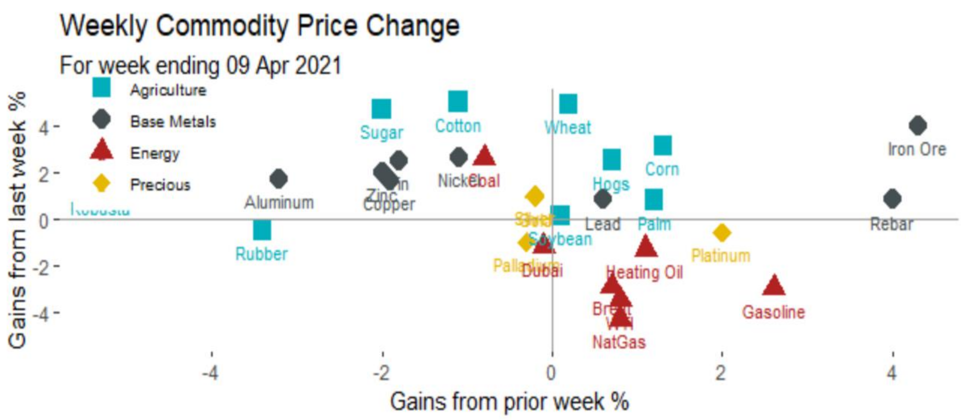
Commodity View

Week in review: Commodities largely rebounded last week. Most agriculture and base metals were up on the week, although the energy complex struggled to produce gains.



Source: Bloomberg, OCBC

Trade idea of the week:

- **Stay short gold (spot).** No change to our view. We estimate gold's fair value range at $1625-$1725. With spot gold currently trading at around $1740, we see scope for gold to correct downwards.
- **Go short soybeans (ICE Jul'21).** Data in the past week – CONAB, WASDE, weekly exports, Brazilian harvest – all suggests the bearish pressure on beans are rising. In fact, it is a surprise to us that soybeans have not cracked under that pressure. With the Brazilian harvest almost done, ICE prices may see sell off. *Consider entry at $13.89 (a break below the 50D MA); take profit at $13.25; cut loss at $$14.51.*

The week ahead:

- **Two key macroeconomic release to watch this week.** US CPI (core CPI est 1.5% yoy Bloomberg consensus forecast) and China's Q1 GDP growth (est 18.5% yoy Bloomberg consensus forecast) are key determinants of the broad market's risk-taking direction. Better-than-expected prints for both are likely to send commodity markets higher.

Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**Stabilisation around $60-$65.** Despite the surprises by OPEC+ the week before, the market is contented to let Brent prices drift in the range of $60-$65 for now. The US has appeared to finally gotten over its Q1 cold snap, with the refinery utilization rate now at 84% - the highest in more than a year. This should help to draw down crude oil stocks more quickly, which means how quickly gasoline inventories can draw down from here will be the main determinant of oil prices in the immediate future. The resurgence of the virus worldwide – first in Europe, now in Asian economies like India and S.Korea – mean the upward bull run may be derailed for the time being. China's Q1 GDP this week will be keenly watched. For now, we expect the $60-$65 consolidation to hold, although our bias is still to the upside.	→	→
Soybeans	**Bearish pressure persistent.** Last week brought a trove of information on the soybean market. We had Brazil's CONAB upgrading the current crop production slightly to 135.54mil tons, while USDA raised its US exports outlook marginally (although ending stock stayed the same via lower crush demand). We estimate that the Brazil harvest is about 85% done as of last week. While that is still way behind the average, in pure tonnage terms the amount of Brazilian beans harvested is already at a record high, which should continue to add pressure on American bean exports. That brings us to our last point – US soybean exports was again paltry last week at 12.7mil bu. More worrying was the net cancellations of fresh orders from China of 7.9mil bu, presumably on the back of export pressure from Brazil. Against such a bearish environment, it is perhaps surprising that ICE soybeans have yet to materially correct downwards. $14 appears to be the crucial support for ICE soybeans – if that is broken, we may see a quick unwinding of long positions.	↓	↓
Palm Oil	**Malaysia CPO stock at 1.45mil tons in March.** Data from this afternoon showed MPOB stocks at 1.45mil tons, reinforcing our view that stocks are likely to trend below 2mil tons through 2021. Production jumped from 1.1mil tons to 1.4mil tons m/m, but gains in output from here will be increasingly challenging in our view, primarily due to a shortage of labour in the Sabah/Sarawak plantations. MPOB conducted a recent survey and estimated that the dip in labour-led productivity could result in a yield drop of almost 20% yoy in 2021. The palm-soyoil spread also remains heavily discounted in palm's favour and that ought to be supportive for a further rally in palm prices.	↑	↑

Cotton	**USDA revises its export estimate, in-line with our forecasts.** We have been saying since the start of the year that US cotton exports are likely to hit 16mil bales in this season, 1 mil bales more than USDA's then-estimate of 15mil bales. Last week's WASDE has revised that forecast to 15.75mil bales and that is now at the bottom end of our forecast range, i.e there may be no more changes to US 2020/21 cotton export estimates from here on. Nonetheless, it has been a remarkable turnaround – the estimated ending stock of 3.9mil bales is the lowest in three years. Considering USDA had expected the ending stock for this crop to be at 7.6mil bales at season's start in Aug'20, the pace of price gains in this market appears justified. Attention now turns firmly to next season's crop, in which USDA will release its first S&D estimate in next month's WASDE.	→	↓
Iron Ore	**Iron ore prices stable.** Iron ore prices have stabilised around $166 in the past three months, although huge price swings on either side of this price level has been observed occasionally. Much has been made about China's latest producer price index (PPI), which rose 4.4% yoy in March. A part of this is due to the low base, while the rise in commodity prices in the past 12 months also played a role. This PPI is expected to continue trending higher in the next two months on a yoy basis. We do not see a large tapering of iron ore demand from China as of yet, given end-user consumption of construction materials and automobiles.	→	→
Copper	**Cash prices on the rise again.** While the benchmark 3M forward price on LME has shown some weakness in the past week, the cash basis (cash price over forward price) has started to rise again and now averages about $6.75/mt from almost flat a month ago. Meanwhile there is no end in sight for the tightness in copper concentrate, with the TC charge in China declining to $30.50/mt- less than half of that a year ago. We stay bullish copper in the medium to long term, partly aided by the stabilisation in iron ore, and think the base metal is on track to hit $10000 before year end.	→	↑
Gold	**We continue to stay short gold as a tactical strategy.** We have been highlighting gold's appeal as an inflationary hedge since the start of the year but the market appears to place that feature as a low priority, preferring to ride along the inflation/reflation theme by piling into risk assets. The mood surrounding Treasury yields has shifted and the market is now looking at how much higher rates can go, which in essence is negative for gold prices. We turn bearish on gold in the short term and neutral in the medium to long term.	↓	↓

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