

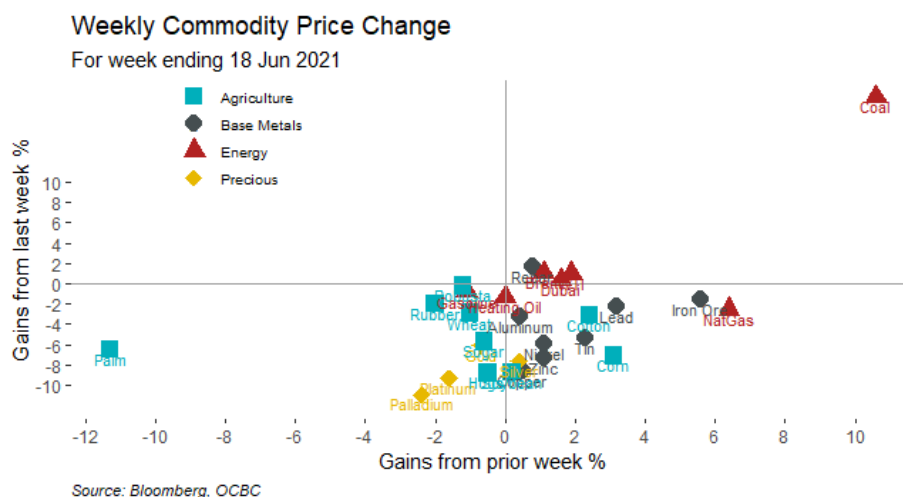
## Weekly Commodity Outlook

21 June 2021

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### Commodity View

**Week in review:** With the broad exception of crude oil, commodities sunk across the board. Brent was up 1.1% on the week. Gold lost 6% on a hawkish FOMC.



### The week ahead:

- **The slew of Fed speak this week** may further hurt global risk sentiment if officials continue to sound more hawkish than the market expects.
- **US EIA weekly crude stocks on Thursday** to ascertain the continued drawdown in US crude oil inventories.

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### Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	<b>Oil undented by souring global sentiment.</b> We want to highlight two things. One, industrial data from China last week showed crude oil demand (throughput) at a record high 60.5 million tons in May. Similar to crude steel, it further ascertains our hypothesis that while Chinese commodity imports may look weak, but domestic demand in China for raw materials continue to remain strong. Two, US crude oil stocks have fallen to 466.7mil barrels, the lowest since the pandemic. It is premature to suggest oil demand has peaked and we see prices continuing higher.	↑	↑
Soybeans	<b>We expect a correction to materialise.</b> Soybeans for Nov'21 delivery fell 8.7% last week on a combination of factors – rains in the US, awful weekly sales data and souring risk sentiment post FOMC. We had, before last week, already thought the 2021/22 US stock situation is less tight than it looks, but after the rains and the disappointing exports figure, the final figure may be even more expansive than we had initially thought. We expect prices to find its first support at \$12.	↓	↓
Cotton	<b>Verdict yet to be out on production.</b> The soil moisture levels in Texas are now perfectly balanced between the low abandonment years (2015, 2016 and 2019) vs the high abandonment years (2017, 2018, 2020). How much rain Texas receives from now will be key to its production, and the change will probably be binary (ie either low or high abandonment as opposed to a spectrum change). What remains unchanged, however, is the continued strong pace of cotton demand from China. Exports are likely to end in 2020/21 400k bales more than USDA expects, by our estimates, putting a strain on what looks like already a very tight balance sheet next year.	→	→
Palm Oil	<b>CPO price has declined 25% since last month.</b> Since touching a high of 4500 MYR/mt last month, palm has fallen about 25%. This move comes on the back of a collapse in the downstream soy complex, particularly soymeal and soyoil. These prices have, in turn, plummeted due to the slump in Chinese hog prices on oversowing, prompting farmers to cull early or feed less to their livestock. Despite the collapse, palm spreads with gasoil and soyoil have actually returned closer to average levels, having traded at a sharp discount prior. Prices may continue to decline for now and we expect support at 3000 MYR/mt.	↓	↓
Iron Ore	<b>Similar to crude oil, crude steel demand remains strong in China.</b> A clear distinction should now be made with the import market and the domestic demand market, neither of which are clear indicators of each other at this point due to China's desires to a) tame prices and b) encourage stricter environmental regulation. China is likely to continue drawing down on existing iron ore port stocks for now and may return to the international market to replenish its ferrous stock later in Q4.	→	→
Copper	<b>Near-term weakness in copper to sustain.</b> Treatment charge for concentrate has continued to rise last week, while the cash-3m futures spread as well as the 3-12m futures spread continue to decline. Having broken below the 100D MA line, we expect selling pressure on copper to sustain in the near-term.	↓	→

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<b>Gold</b>	<b>Bearish pressure may ebb this week</b> – not because we favour the precious metal, but our valuation model suggests gold is currently trading in the middle of its fair-value range after last week’s sharp selloff. Regardless, our bearish call from two weeks ago has played out nicely. Global assets now look like they are beginning to move in tandem – the decline in Treasury breakeven yields and gold price reinforce the “transitory” inflation idea, while prospects of rate normalisation have dampened riskier assets like equities and commodities. We see gold likely to trade range bound in the short term but stay bearish longer term.	→	↓
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## Treasury Research & Strategy

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## Weekly Commodity Outlook

21 June 2021

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