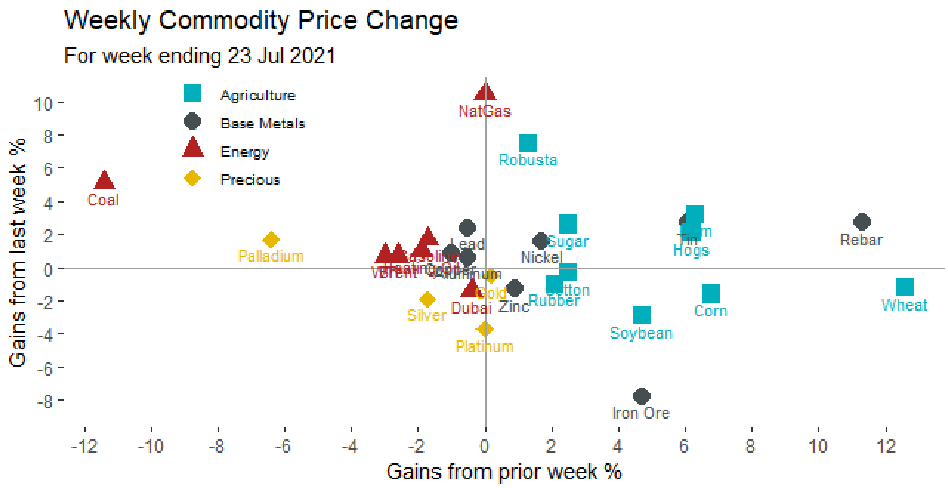
Weekly Commodity Outlook

26 July 2021

Howie Lee
Economist
+65 6530 1778
howielee@ocbc.com

Commodity View

Week in review: Oil snapped a two-week losing streak. Agriculture commodities were mixed as weekly export sales from the US disappointed. Iron ore fell below \$200/mt for the first time since end-June.



Source: Bloomberg, OCBC

Trade idea of the week:

- **Go long oil (ICE Sep'21).** As with previous episodes, oil faced a short-lived correction and is likely to continue its upward trend. Even with additional oil output from OPEC, we expect Brent to attempt the recent high of \$77.

The week ahead:

- **FOMC meeting on Thursday** should be a non-event for commodities, given most of the hawkish surprises have already past in the June meeting.
- **US EIA weekly crude stocks on Thursday** to ascertain the continued drawdown in US crude oil inventories.
- **China manufacturing PMI on Saturday** to determine the continued appetite for raw materials.

OCBC TREASURY RESEARCH

Weekly Commodity Outlook

26 July 2021

Summary Views

Commodity	Market Roundup & Opinion	Strategy Week	Strategy Month
Crude oil	**Compromise reached.** The UAE and Saudi Arabia have finally reached a compromise on their production impasse. OPEC+ is set to increase production by 400kbpd beginning August. Saudi Arabia, the UAE, Iraq, Kuwait and Russia, in turn, have all been given higher revised production baselines, potentially setting the market up for more output increase in 2022. The market did not take kindly the prospect of more production, with Brent closing below $70 on Monday and Tuesday, but it has since rebounded strongly as demand fundamentals continue to point towards a supply deficit. We expect oil to continue its uptrend.	↑	↑
Soybeans	**For the second week running, China failed to order a single bushel of soybean from the US.** This is highly unusual for this time of the season, when orders for the new crop should be flying in thick and fast. Falling pig prices and poor crush margins in China continue to be key reasons for weak soybean demand. ICE soybean for Nov delivery fell almost 3% last week and we expect the price weakness to trend towards $12/bu, as we have previously mentioned.	↓	↓
Cotton	**Five times cotton attempted to break above 90c, and five times it failed.** In the past seven sessions, cotton for Dec delivery have tried to rally above 90 cents but conviction has been found lacking. Presumably, the weakness in soybeans and general risk sentiment may have been impeding cotton from pushing towards the $1 level. The balance sheet, in our opinion, is much tighter than USDA's estimates. Continued strong export sales will likely drive cotton to the $1 level before the end of 2021.	→	→
Palm Oil	**Back above 4000 MYR/mt.** Supply tightness in Malaysia has sent prices back above 4000 MYR/mt. Despite the price rally, however, palm is still trading at a steep discount to soyoil of about $450/mt from the usual $50-$100 spread. We expect the spread to narrow in the coming week, led by higher palm prices.	→	↑
Iron Ore	**Pig iron, crude steel production falls.** Crude steel production in China fell to 93.9mn tons in June, a sharp decline from the 99.5mn tons produced in May. Pig iron production has also failed to trend higher for the sixth consecutive month. All signs are pointing to weakening demand for iron ore from China in the near term, which has resulted in iron ore falling below $200/mt last week. We expect the price weakness to continue for now.	↓	↓
Copper	**Price weakness set to persist.** Multiple indicators point to continued weakness in the copper market. The all-important copper treatment charge in China has now risen to $52.50/mt, the highest in almost a year and 72% higher from its lows in April. Meanwhile copper ore imports into China has been less than inspiring in June, falling 14% m/m to 1.67mil tons. Both the cash basis as well as the futures market continue to trade deeper into contango. The signs point to weakening demand fundamentals in China for the time being and we expect copper prices to be potentially capped at $10,000/mt for now.	↓	→

Gold	**Prices may remain supported on dovish Fed.** The FOMC meeting is expected to be a non-event this week but a surprising dovish U-turn from the Fed may send gold prices higher. 10Y US real rates now trade below -100bp, led lower by nominal yields. Combined that with continued worries over the Delta variant, the current setup looks prime for gold to continue its upward trend.	↑	↓

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com