OCBC TREASURY RESEARCH

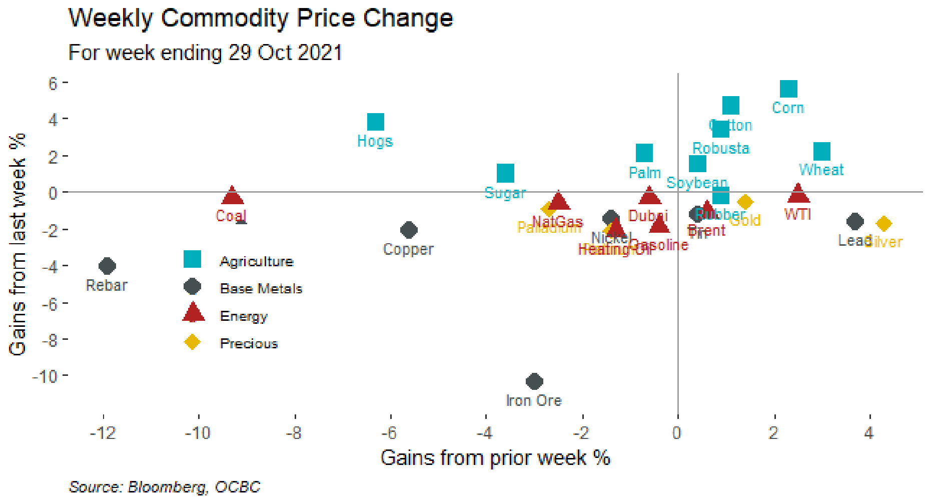
Weekly Commodity Outlook

31 October 2021

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

Commodity View

Week in review: Agriculture outperformed while energy and metals sagged.



Trade idea of the week:

- **Go short gold (spot).** Our model suggests gold is trading above its fair value range ($1645-$1745). Given the recent tailing off in oil prices as well as chart action, we recommend going short gold at $1800. *Consider going short at $1800; cut loss at $1816; take profit at $1750.*

The week ahead:

- **COP26 begins 31 Oct and ends 12 Nov.** Expect some volatility in the oil markets on 1-2 Nov during the Leaders' Summit.
- **US FOMC meeting on Wednesday (Thursday morning SGT),** where the Fed may announce the start of tapering.
- **OPEC+ meeting on Thursday,** where an increase in oil supply may be announced given the recent price surge.
- **US nonfarm payroll report on Friday,** where a stronger than expected figure may increase rate hike speculations.
- **China trade balance on Sunday,** which will show the extent of China's slowdown during the period of power crisis.

Weekly Commodity Outlook

31 October 2021

Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**Oil struggling to go past $85. W**e previously stuck out our necks and said current oil stock-to-use levels are not tighter than what was seen in 2017/18 and hence would make little sense for oil to even breach past $85, much less $100. That still holds true for us right now, judging by said ratios in the US and OECD. Oil's decline last week may have been precipitated by news of Europe-Iran nuclear talks but the signs were forthcoming. Calendar spreads have started to plateau since late October while crack margins have begun declining. Additionally, based on shipping data from Bloomberg, crude berth visits to China may not have exceeded 250 in October – excluding May'21, that would be the lowest since the pandemic started. We still remain bullish oil – it would be courageous to be bearish given the current supply issues around the world – but unless consumption data greatly improves from here, we expect Brent to range trade $80-$85 for now.	↓	↑
Natural Gas	**European gas prices collapsed at month's end.** Prospects of increased gas supply from Russia sent front-month Dutch TTF gas prices falling 11% on Friday. European gas prices closed at around $22/mmbtu last Friday, almost half the peak of $40/mmbtu recorded earlier this month. This is still, however, about thrice what European gas prices started the year at $7/mmbtu and we do not expect a reversion to that levels in the near term. Asian LNG prices remain heavily elevated at $32/mmbtu, near its record high of $35/mmbtu.	→	↑
Soybeans	**Two solid weeks of American exports to China.** For the second week running, American shipments to China was in the range of 60mn bushels, which is double that of what could be mustered in totality in the first five weeks of the season. We stick to our hypothesis that through China's power crunch, crushing activity and soybean demand are unlikely to be as impacted as the likes of steel or aluminium due to food security objectives. Harvesting in the US is progressing at average levels (70-75% as of last week) and any inter-crop shortage is unlikely to surface.	↑	↑
Palm Oil	**Palm continues to trade at 5000 MYR/mt. F**inally, we see some "normalcy" in this market. Palm trading at record high of 5000 MYR/mt is not normal, but its relative spread to soyoil – after trading at extreme discounts in Q2 and Q3 of >$500/mt – have now returned to average levels of $100/mt. We expect palm to continue trading around this level for now.	→	→
Iron Ore	**Continue to stay bearish on iron ore.** Since the power crisis unfolded in China we have been calling for iron ore to return to $100/mt. Fe62 CIF China spot price is currently at $113/mt from $137/mt two weeks ago and we expect iron ore to end the year at $100/mt.	↓	↓
Gold	**Briefly above $1800 but inertia to break higher remains strong.** Gold closed above $1800 on Monday but then sagged below that handle for the rest of the week, in tandem with the decline in oil prices. Our fair value range currently sits at $1645-$1745/oz for gold, which means the current gold price is above what we deem as fair. Concurrently, based on chart action we think gold is worth going short at $1800.	↓	↓

Weekly Commodity Outlook

31 October 2021

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
Commodities
HowieLee@ocbc.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