Weekly Commodity Outlook

29 March 2021

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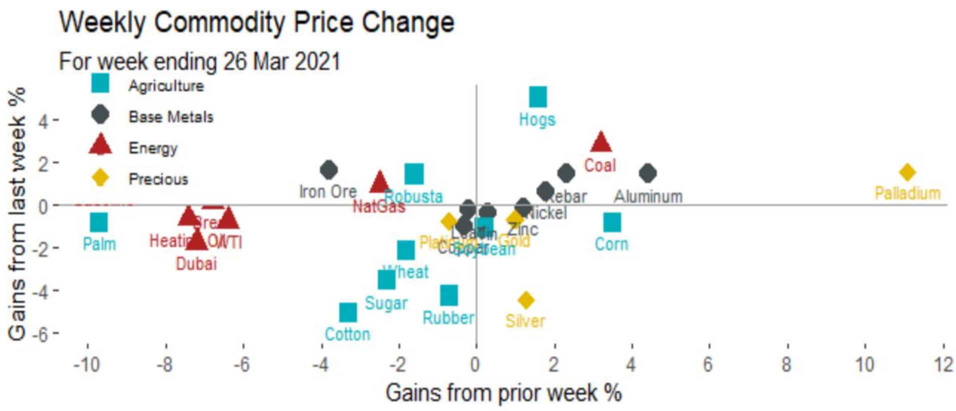
Commodity View

Week in review: Commodities were largely mixed last week. Aluminium, iron ore and steel were the biggest winners. Oil saw a mid-week rebound due to the Suez Canal blockage. Ags sagged.



Source: Bloomberg, OCBC

Trade idea of the week:

- **Stay short gold (spot).** Following up from last week's trade call, with 10Y Treasury yields now at 1.68%, gold looks over-valued at current levels. We see gold's fair value range at \$1600-\$1700. *Take profit at \$1650; cut loss at \$1760.*

The week ahead:

- **OPEC+ meeting in mid-week** will decide the amount of additional supply from the oil bloc hitting international waters in May. Market is expecting no change in supply but the price risks are tilted to the downside.
- **US acreage planting intention** on Wednesday, which would likely see a record acreage for soybean planting in the 2021/22 season. An intention of more than 91mil ha is likely to drive Jul-Nov spreads lower.

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Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**Risks tilted to the downside.** There are two main risks on the horizon this week. The first is the OPEC+ meeting in mid-week, where market expectations for no change to output are largely priced in. The risk is, therefore, for OPEC+ members to cut back on its output curbs – the converse, where members reduce their output further, looks comparatively more unlikely. The root of this fragility traces back to the resurgence of the coronavirus in Europe, whose weakening demand for oil has put a break on oil's resurgence. Secondly, Chinese teapot refineries are reportedly buying crude from Iran despite existing US sanctions against the latter. China has also inked a 25-year oil investment deal with Iran over the weekend, which could further strain US-China ties. Both factors – the increased oil supply returning to international waters and a potential deterioration of US-China relations – are probably negative for oil. We remain cautious of oil heading into this week.	↓	→
Soybeans	**All eyes on planting intentions this week.** US farmers will report its planting intentions for major crops this Wednesday, with acreage for soybean expected at a record high 90.3mil ha, according to the USDA Outlook Forum in Jan. The median expectations on Bloomberg are for 90.1mil ha. Current crop prices have so far refused to budge below $14/bu, but that could very well change if the intended acreage turns up larger than 91mil ha. Given the weakness in US soybeans exports lately, we view the Jul-Nov timespread as too high and may correct towards 150 cents/bu if the planting intentions does turn out larger than expected.	↓	↓
Palm Oil	**We continue to hold a constructive view for palm oil prices in the near-term.** Palm oil continues to trade at a sharp discount to soyoil, while a potential tapering of crush demand in China due to a new wave of the African Swine Flu could support vegoil prices.	→	↑
Cotton	**US hits 10mil bales of cotton exports in current season.** That is two weeks earlier than its previous record pace in 2010/11, and we estimate the US is still on track to achieve 15.8-16.0mil bales of exports in the current crop. Last week, however, saw net cancellations of orders from China, which sparked a selloff in the cotton market. Cotton for Jul delivery has fallen from 90 to 80 c/lb in the month of March and is currently trading at our fair value estimate. We see stabilisation in the cotton market from here.	→	↓
Iron Ore	**Steel prices rise.** Domestic spot prices of steel rebar are now at their highest in almost four months, coinciding with a decline in the operating rate of Tangshan's steel mills as authorities clamp down on pollution. Iron ore prices have staged a rebound in the past week possibly as a result of the squeeze in steel prices but it remains to be seen when authorities may lift production curbs on domestic steel mills. We continue to expect iron ore to trade $140-$150/mt in the near term.	→	→

Copper	**Timespreads continue to indicate tightness.** The timespread of copper prices between cash and the 3M forward has risen to a two-year high of $45.50/mt as of last Friday, consistent with our long-term call for copper's tightening fundamentals. The 3-12 month timespread has similarly risen to a decade high of $125/mt last week. Recent weakening of risk sentiment due to a resurgence in coronavirus cases in Europe has dented the outright increase in front month copper prices but the rally in spreads suggest copper's bull run is probably not finished yet.	→	↑
Gold	**We continue to stay short gold as a tactical strategy.** With US 10Y Treasury yield rising to 1.68% yesterday, we view gold's current level of $1730 as too rich. Our model suggests a fair value range of $1600-$1700/oz.	↓	→

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