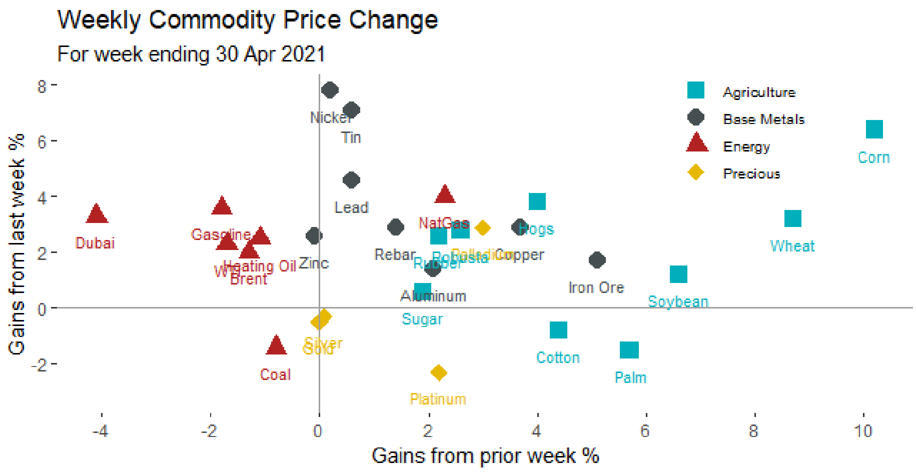
Weekly Commodity Outlook

3 May 2021

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

Commodity View

Week in review: The risk-on momentum appeared in full swing last week, with most commodities inching higher. Precious metals lost ground. Copper topped $10,000/mt and is within 5% of a new record high.



Source: Bloomberg, OCBC

Trade ideas:

- **Stay long Brent spread (long Jul'21, short Dec'21).** India remains the wild card to the energy complex, with the demand loss from its uncontrolled outbreak potentially up to 20%. Asian crack margins, however, have continued to stay healthy, which are likely to provide a firm support for crude oil prices.
- **Go short gold (spot).** Treasury yields have started to rebound higher following their April decline, and if that trend continues the downward pressure on gold could intensify. This would largely tie in with the broad risk-on momentum that appears to have restarted in the past two weeks. *Consider entry at $1773; take profit at $1722; stop loss at $1803.*

The week ahead:

- **US labour market report on Friday.** A strong nonfarm payroll figure (>1 million) will probably solidify the risk-on sentiment and sent commodities soaring. Gold will likely dip in that scenario. The USD may likely strengthen on the strong numbers but is unlikely to create a dent on prices.
- **Chinese trade numbers on Friday.** Strong commodity import numbers, especially crude oil, copper and iron ore, are likely to support the theory that last month's strong industrial output could continue in the near term.

Weekly Commodity Outlook

3 May 2021

Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**India remains the wild card.** The uncontrolled coronavirus outbreak in India will continue to pose the biggest downside risk to oil prices for now. Bloomberg reported in April, gasoline consumption in India probably fell 6% and diesel about 2%. This consumption weakness is likely to continue into this month, given the ever-worsening daily cases in India. As such, we see selling pressure starting to build each time Brent attempts a break above $68. This cap may persist until India contains its latest outbreak, which may take at least a month or more. Our bias, however, is for oil to continue breaking to the upside.	↑	↑
Soybeans	**Soybeans closing in on record high.** Soybeans are trading close to $16/bu at time of writing. Bean prices have risen about 80% since the start of H2 2020 and has shown little signs of stopping its upward run. The rally in beans look heavily overextended and does not appear to commensurate with the weakening orders from China. Consolidation is likely ahead after the heady rise in the past three weeks.	→	↑
Cotton	**Texas drought concerns keep prices supported.** Much of the key West Texas cotton-growing region is now classified as extreme drought, which raises serious concerns about next season's crop outturn. China continues to buy cotton at an aggressive pace and that has supported prices so far. Current crop prices touched a high of 91 c/Ib last week and could consolidate between 85-90 cents for now until we have better clarity in next week's WASDE report.	→	↑
Palm Oil	**Soyoil-palm oil spread now in excess of $500/mt.** Despite palm's recent topping of the 4000 MYR/mt level, it still trades at a considerable discount to soyoil at an average of $517/mt last week. This spread typically trades about flat to $150/mt in soyoil's favour and highlights the tightness in soyoil supply in China at present. We expect palm oil prices to continue inching higher as it plays catch-up to soyoil.	↑	↑
Iron Ore	**April export estimates.** We estimate that Australia shipped about 67 million tons and Brazil 26 million tons last month, which is lower than the average of the past six months. The corresponding dip in Chinese port inventories of iron ore last week – which fell about 2% on the week to 133.1mn tons – could continue in the coming weeks on a slower import pace. Look to this Friday's trade numbers for China to gauge the country's commodity demand.	↑	→
Copper	**Copper attempts $10,000/mt.** Copper briefly took out $10,000/mt last Wednesday, trading an intraday high of $10,008/mt before retreating back to $9,825/mt by Friday close. We have always maintained our bullish call on copper and continue to think prices are likely to break higher. The intraday record high of $10,190/mt is now less than 5% away and we see the base metal setting a new high before the end of Q2.	↑	↑
Gold	**Gold to see selling pressure on risk-on return.** The recent rise in US Treasury yields and firming of asset prices globally (commodities included) have started to manifest in gold prices, which is starting to look lofty based on current inputs. Our model suggests gold currently has a fair value of $1670-$1770/oz, which may continue falling if Treasury yields continue to climb.	↓	↓

OCBC TREASURY RESEARCH

Weekly Commodity Outlook

3 May 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
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