OCBC TREASURY RESEARCH

Weekly Commodity Outlook

30 August 2021

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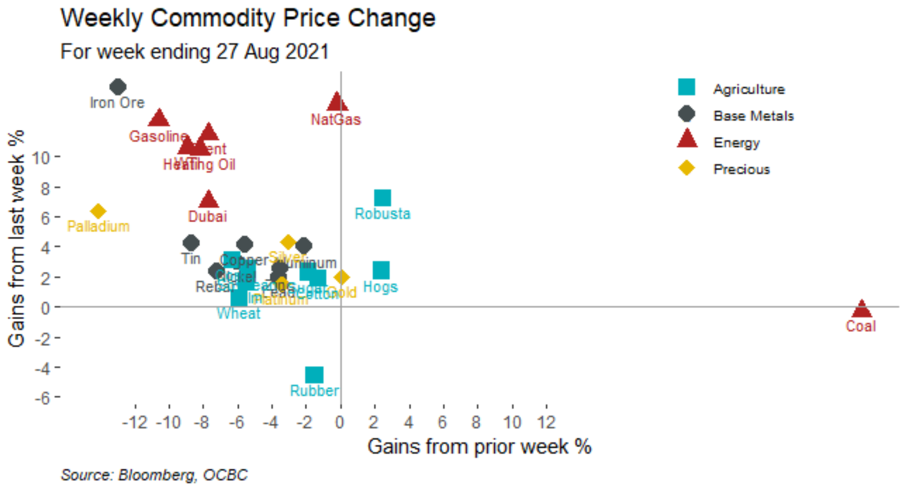
Commodity View

Week in review: Commodities rebounded across the board, with crude oil the largest winner with gains of 11.5% on the week.



Trade idea of the week:

- **Go long oil (ICE Nov'21).** With the Fed in no rush to raise interest rates and tapering plans still up in the air, the risk on sentiment should continue its recovery this week. Oil has yet to recover to its recent high since the August selloff and we expect it to benefit from the firming global risk sentiment. *Consider going long at $70; cut loss at $67; take profit at $75.*

The week ahead:

- **Hurricane Ida is set to make landfall in Louisiana on Monday.** A stronger than expected impact could result in logistical disruptions and a longer shutdown of US refineries.
- **China PMI on Tuesday** will provide clues on the impact of the virus outbreak on China's economic rebound.
- **US nonfarm payrolls report on Friday** will reveal how resilient the US labour market has been in the face of the recent Delta outbreak.

Summary Views

Commodity	Market Roundup & Opinion	Strategy	
		Week	Month
Crude oil	**Brent was up 11.5% last week** and ended Friday even higher than the start of its recent 7-day consecutive slump. Supply concerns on two fronts - a fire at Mexico's Ku-Maloob-Zaap (est 440kbpd production loss) and Hurricane Ida bearing down on Louisiana (est at least 1.2mbpd production loss) - have made light of crude's oil losses from the prior week. A rebound in risk sentiment globally also helped lifted oil prices. The rally is unlikely to sustain given the continued softening of economic data globally, but prices could stay elevated until Hurricane Ida subsides. There are several more hurricanes on the horizon for the US and each could keep oil vols supported. We see Brent trading in a broad consolidation range from $70-$75 until the end of the quarter.	↑	→
Soybeans	**Hurricane fears also lifted US soybean prices over concerns of logistical disruptions.** Soybeans for Nov'21 delivery rose 2.5% on the week to $13.25/bu, but have found little impetus to break above its 50D MA of about $13.40/bu. Beyond the immediate hurricane concerns, prospects of a bumper crop from both the US and Brazil have capped the soybean rally since June. We expect soybean to continue trading above $12.50 through the current season as the global balance sheet remains very tight.	↑	→
Cotton	**Cotton has consistently tested the 95c/lb level** but has so far refrained from breaching the key resistance handle. Import demand from China continues to remain robust and we think USDA may have to upgrade its export estimate. That could send the US ending stock to levels below 3 million bales, which has occurred on only three seasons in the past decade. We still expect cotton to eventually trade above 100c/lb in the upcoming season.	↑	↑
Palm Oil	**Palm rose in tandem with soybean prices.** Now trading at 4333 MYR/mt as of last Friday's close, palm is just 4.1% away from closing at a new record high. The soyoil-palm spread continues to suggest palm remains cheap and unless a drastic correction occurs on soyoil, we expect a rally in palm prices to revert the spread back to average levels. Our forecast of MPOB ending stock trending below 2mil tons until Q3 2022 remains as well, which is supportive of palm prices.	↑	→
Iron Ore	**Iron staged a strong recovery last week, rebounding to $160/mt after falling to a low of $128 the previous week.** It will be a key week for iron ore, with a slew of key releases that could determine if last week's bounce was a one-off. China's PMI data on Tuesday will provide further clues if the country's economic rebound has slowed over its Delta virus outbreak. Brazil reports export numbers on Wednesday while Australian producer Fortescue Metals will likely provide forward guidance on Monday in its earnings report. If these reports prove supportive, we expect iron ore to head towards the $175 resistance handle.	→	↓

Copper	**Copper posted a 4.1% rebound on the week** but much of the rally occurred across last Monday and Tuesday. From Wednesday on, copper effectively traded in a flat line, testing the $9400 level multiple times but refusing to materially break above said level. The treatment charge in China rose again on Wednesday to $61.50, which continues to reflect easing tightness in the copper concentrate market. The abatement of risk-off sentiment globally may drive copper prices higher in the near-term and possibly send it back to $10000/mt, but the move to a new record high may well be a 2022 story.	→	→
Gold	**Gold rose as Treasury yields declined,** after the Jackson Hole symposium reaffirmed the Fed was in no rush to raise interest rates. Fed Chair Powell revealed the central bank is likely to begin tapering this year, but said little about the pace and timing of how the tapering process might be conducted. Gold closed above $1800 once more on Friday after a two-day hiatus, suggesting interest in gold as an inflation hedge may be returning. We expect gold to possibly head towards $1830 in the near term if the rally continues and possibly to $1900 if this Friday's job report disappoints.	↑	↓

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