

Commodity Market Update

Date Issued | 22nd February, 2021

COMMODITY MARKET OVERVIEW

- In the just ended week, the price of all tracked commodities depreciated in price with the exception of Brent Crude.
- Gold price decreased by 2.51% to \$1,777.40 compared to the previous week's price of \$1,823.20.
- WTI Crude declined by 0.39% at \$59.24 while on the contrary Brent Crude improved by 0.77% at \$62.91 to close the trading week.
- Cocoa price also dipped by 0.97% at \$2,371.71 to close the week compared to its price of \$2,394.93 in the previous week.
- On a year-to-date basis, gold and cocoa fell by 6.21% and 2.17% respectively whereas WTI and Brent crude oil went up by 22.09% and 21.45% respectively.
- Year-on-year, gold was up by 10.27% and cocoa was down by 13.32%. While WTI and Brent crude oil gained 11.17% and 6.41% respectively.

MARKET UPDATE AND OUTLOOK

CRUDE OIL

OIL EXTENDS LOSSES AS TEXAS PREPARES TO RAMP UP OUTPUT AFTER FREEZE

- WTI Crude fell on Friday (19/02/2021), retreating further from recent highs, as Texas energy companies began preparations to restart oil and gas fields shuttered by freezing weather and power outages.

- Unusually cold weather in Texas and the Plains states curtailed up to 4 million barrels per day (bpd) of crude production and 21 billion cubic feet of natural gas.

- Oil prices fell despite a surprise drop in U.S. crude stockpiles last week, before the big freeze hit. Inventories fell 7.3 million barrels to 461.8 million barrels, their lowest since March, the Energy Information Administration reported.

- While much of the selling relates to a gradual resumption of power in the Gulf coast region ahead of a significant temperature warmup, the magnitude of this week's loss of supply may require further discounting given much uncertainty regarding the extent and possible duration of lost output.

- However, vaccines and the impressive rollouts we've seen have delivered strong gains, as have the efforts of OPEC+ - Saudi Arabia, in particular and the big freeze in Texas, is expected to provide some support for oil prices in the coming week.

- We therefore expect oil prices to rebound as the slow return of U.S. crude output cut by frigid conditions served as a reminder of the tight supply situation, just as demand recovers from the depths of the COVID-19 pandemic.

GOLD

GOLD OFF TO 7-MONTH LOW AS DOLLAR WEAKNESS OUTWEIGHS FIRMER YIELDS

- Gold recouped some losses on Friday (19/02/2021) after dropping to its lowest in more than seven months, but stayed on course for its biggest weekly drop since end-November as rising U.S. Treasury yields eroded the appeal of non-yielding bullion.

- The dollar was sold to multi-year lows against sterling and rival currencies, but benchmark U.S. Treasury yields hit a near one-year high, increasing the opportunity cost of holding non-yielding bullion.

- Apart from the \$1.9 trillion U.S. COVID-19 aid that is expected to pass by the end of the week, investors await Federal Reserve Chairman Jerome Powell's testimony on the Semiannual Monetary Report to Congress starting Tuesday (23/02/2021).

- The rise in yields will be the major headwind for gold for now, but if Powell hints at any dovishness or implies that current yields are too high for sustained economic recovery, then we can see gold embark on a rally again.

- However, gold will continue to remain under pressure due to optimism over the global economic recovery, robust economic data, higher yields and stabilizing dollar.

COCOA

COCOA PRICES CLOSE LOW ON SURPLUS COCOA SUPPLY

- NY cocoa fell to a 3-month low and London cocoa dropping to a 1-month low during the week under review. Cocoa prices retreated after the International Cocoa Organization (ICCO) on Wednesday (17/02/2021) made a forecast of a global 2020/21 cocoa surplus of 100,000 MT, wider than the 19,000 MT surplus from 2019/20.

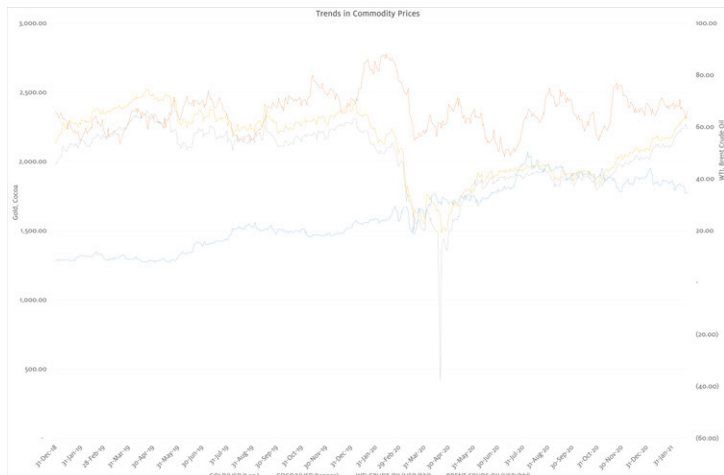
- Cocoa prices were already on the defensive on ample cocoa supplies from the Ivory Coast, the world's largest cocoa producer. The Ivory Coast government reported that Ivory Coast farmers sent 51,2957 MT of cocoa to ports during the week of Feb 8-14 (+30% y/y) and that cumulative cocoa bean deliveries to Ivory Coast ports during Oct 1-Feb 14 were up +8.3% y/y at 1.57 MMT.

- Also, cocoa prices were undercut by favorable weather in West Africa. A weak Harmattan, a seasonal wind from the Sahara Desert that blows across West Africa, has benefitted Ivory Coast cocoa crops. Farmers across the Ivory Coast have reported mild Harmattan winds so far this year, with continued rain boosting cocoa crop yields.

- We therefore expect the price of Cocoa to trade sideways as cocoa prices continue to be undercut by signs of slack chocolate demand and ample supply.

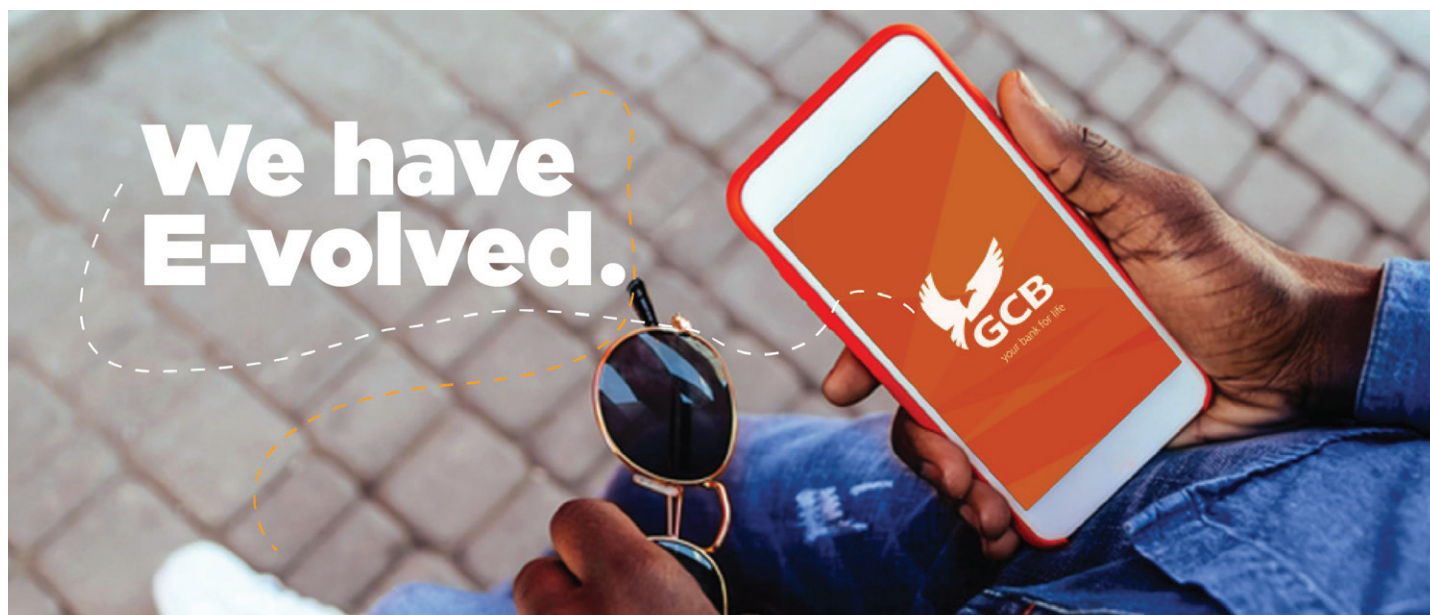
COMMODITY	Unit	Price (week start)	Price (week close)	Previous week close	Wkly (%Δ)
Gold (Comex)	USD/oz	1,823.20	1,777.40	1,823.20	(2.51)
Cocoa ICCO	USD/ton	2,394.93	2,371.71	2,394.93	(0.97)
WTI Crude	USD/bbl	59.47	59.24	59.47	(0.39)
Brent Crude	USD/bbl	63.30	62.91	62.43	0.77
Source: Bloomberg; International Cocoa Organization					

WEEKLY HIGHS AND LOWS				
COMMODITY	Weekly high	Weekly low	YTD (%Δ)	YoY (%Δ)
Gold (Comex)	1,823.20	1,772.80	(6.21)	10.27
Cocoa ICCO	2,371.71	2,311.74	(2.17)	(13.32)
WTI Crude Oil	61.14	59.24	22.09	11.17
Brent Crude	64.34	62.91	21.45	6.41
Source: Bloomberg; International Cocoa Organization				



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