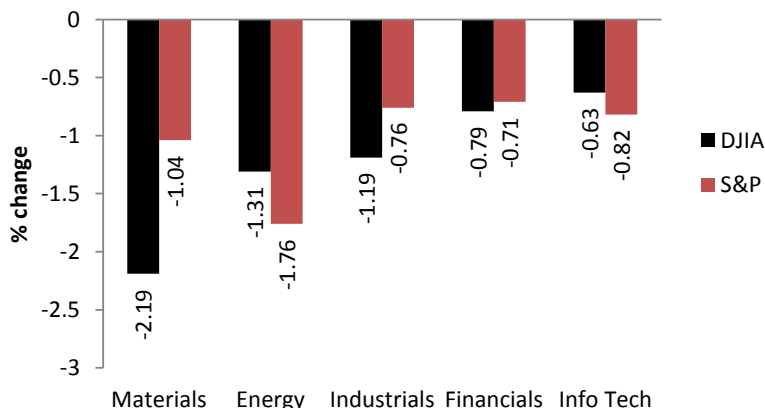


Weekly Commodities Outlook

Energy: It proved to be an eventful week for the commodity complex, with events largely concentrated in the United States. For the energy space particularly, crude oil prices started the week lower. News on higher US oil rig counts and US President's executive order to ban foreign arrivals for 90-days from seven Middle East countries (namely Iran, Iraq, Libya, Sudan, Yemen, Syria and Somalia) were effective drivers to drag risk appetite and crude oil prices lower. Should we look at Wall Street, the spillover effects from risk aversion into the commodities space can be made clearer: the lower equity prints, especially as the Dow Jones Industrial Average fell below its coveted 20,000 handle, were largely seen in Materials, Energy, Industrials, and Info Tech at the onset of the US travel ban. As of last night, Wall Street continued to remain relatively softer, as market-watchers digest the recent FOMC statement amid Donald Trump's lack of concrete cues over his fiscal / infrastructure policy plans.

Wall Street movement after Trump's travel ban



Source: Bloomberg, OCBC Bank

Fundamental-wise, do note that fresh US crude oil inventory prints aided in lifting prices higher in the later part of the week. On one hand, total US crude oil inventories rose by 6.5 million barrels, surprising expectations for inventories to climb by only 3.0 million barrels. Market-watchers however focused on the fall in Cushing oil inventories (-1.2 million barrels) and higher implied gasoline demand over the same period. Moreover, Russian Energy Minister Novak commented that Russia has reduced 117 thousand barrels per day (bpd), further reassuring the market that the production curb agreement is still being adhered to. Lastly, news of Rex Tillerson's confirmation as the US Secretary of State could have also lifted bullish sentiments, owing to Tillerson's background as the CEO of ExxonMobil.

Commodities Futures

Energy	Futures	% chg
WTI (per barrel)	53.54	-0.63%
Brent (per barrel)	56.56	-0.42%
Heating Oil (per gallon)	1.652	-1.33%
Gasoline (per gallon)	1.533	-2.93%
Natural Gas (per MMBtu)	3.187	0.60%

Base Metals	Futures	% chg
Copper (per mt)	5,886.0	-0.99%
Nickel (per mt)	10,349	1.43%
Aluminium (per mt)	1,815.8	0.54%

Precious Metals	Futures	% chg
Gold (per oz)	1,216.7	0.92%
Silver (per oz)	17.429	-0.12%
Platinum (per oz)	999.6	-0.02%
Palladium (per oz)	759.1	-0.50%

Soft Commodities	Futures	% chg
Coffee (per lb)	1.460	-2.80%
Cotton (per lb)	0.7691	0.61%
Sugar (per lb)	0.2055	-1.39%
Orange Juice (per lb)	1.6640	-2.89%
Cocoa (per mt)	2,084	-1.19%

Grains	Futures	% chg
Wheat (per bushel)	4.3450	0.17%
Soybean (per bushel)	10.373	0.05%
Corn (per bushel)	3.6750	-0.20%

Asian Commodities	Futures	% chg
Crude Palm Oil (MYR/MT)	3,258.0	0.87%
Rubber (JPY/KG)	332.0	-0.60%

Source: Bloomberg, OCBC Bank

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We continue to believe that the supply-demand fundamentals would eventually dominate over the above-mentioned short-term noises. For one, upside risk in US crude oil production remains to be a wild-card and possibly diluting any bullish calls from OPEC's continued claim that 80% of the agreed production curbs have been implemented to-date. Secondly, the relatively uncertainty over the next FOMC rate hike, and uncertainty over US President Trump's fiscal / infrastructure policy plans does inject further risk aversion. Lastly, and perhaps the most important, is the question over the future of the OPEC production cut after the six months period is up, and any unexpected upside in production then would almost certainly result in a quick surrender of all the price gains seen since late last year.

Precious Metals: Investors flocked to gold once again on safe haven demand. Risk aversion was likely driven by Trump-centric concerns, especially after numerous executive orders that may future inhibit global trade. Risk aversion continued to reign as market-watchers digested the new travel ban imposed on seven Middle Eastern nations.

More importantly, gold rallied further into the week after the release of the FOMC monetary policy statement, with the yellow metal trending to its 12-week high. In short, the central bank kept its benchmark rate unchanged with a unanimous 10-0 vote, remained data-dependent, while reiterating that "economic activity has continued to expand at a moderate pace." Note that the Federal Reserve had raised the rate by 25 basis points in its last December 2016 central bank meeting, in a unanimous vote setting as well. The interesting aspect of it all was the whipsaw behaviour seen in gold prices at the onset of the statement release, with the yellow metal falling quickly below \$1,200/oz before closing higher. The reasoning behind this, was possibly due to some market-expectation for the Federal Reserve to sound relatively more hawkish on rates, thus dragging gold prices, before sentiments turned into disappointment as little cues on rate hikes are given. Moreover, given that none of Donald Trump's fiscal or infrastructure spending has materialised so far, this could add further ambiguity as to future interest rate trajectory. Amid the uncertainty, gold should thrive given its safe haven status into the coming week.

Base Metals: In the same vein of things, Trump's travel ban and its impact on US manufacturing industries has likely removed some bullish bets off the table. Indeed, copper has already fallen for two

consecutive trading days, and remained reluctant to near the coveted \$6,000/MT resistance handle. The first-order impact from the travel ban may be seen in foreign-labour dependent industries in the US, which includes Trade, Transportation & Utilities and Manufacturing, thus explaining the downside risk for base metals and other growth-related commodities. Details are found in the table in the appendix below.

The fall in copper is observed even as talks between BHP Billiton and the workers union at the Escondida copper mine in Chile ended in failure last week and a labour strike is likely to occur. Elsewhere, copper stocks recorded by the London Metals Exchange (LME) also fell over the last week. Still, these factors failed to give copper any head room in the last week of January.

Amid the risk aversion, Nickel remained supported on continued supply concerns. Note that Nickel prices edged higher back above its \$10,000/MT higher. Importantly, upside in nickel prices could also have been driven by fresh news on Philippines closing over 20 mines and suspending six (includes Philippines top gold miner Australia's OceanaGold Corp) for environmental destruction. Most mines are nickel producers, and accounts for half of nickel ore production in the Philippines.

Agriculturals: Some support in palm oil prices can be expected as wet weathers in Malaysia and Indonesia, accounting for over 70% of global palm oil production, continues. Note that wet weather induced flooding has affected palm oil operations in central Johor and Pahang, though conditions are described to be improving and well under control. Moreover, Malaysian palm oil exports reportedly rise 4.3% to 1.16 million tons in January (+4.3% yoy), according to surveyor Societe Generale de Surveillance, giving palm oil a formidable support of MYR3,200/MT over the next week.

Elsewhere, the Indonesian Oil Palm Producers Association (GAPKI) revealed that the El Nino phenomenon had little negative impact on palm oil production last year. Palm oil production in Indonesia fell only 3% to 34.5 million tons in 2016, from 35.5 million tons two years ago. Still, reserve stocks at the end of 2016 had drastically fallen to a miniscule 1 million tons, compared to a strong 4.5 million tons in 2015, as consumption of palm oil picked up on the B20 government policy which mandates a mixture of diesel and substances from crude palm oil to be used nationwide.

Appendix

Share of foreign persons employed in US local industries

Industry	Share of GDP	Industry share of total employment	Industry Employment in 2015 (persons th)	% immigrant workers	No of immigration workers (persons th)	No. of local workers (persons th)
Trade, transportation and utilities	16%	19%	28,278	17.3%	4,319	23,960
Healthcare and social services	7%	14%	20,837	12.8%	3,195	17,641
Leisure and hospitality	4%	10%	14,883	12.3%	3,070	11,813
Manufacturing	12%	10%	14,883	12.0%	2,996	11,888
Construction	4%	6%	8,930	8.5%	2,122	6,808
Other services	2%	5%	7,442	6.6%	1,648	5,794
Administrative Services	3%	4%	5,953	6.5%	1,623	4,331
Education services	1%	9%	13,395	6.1%	1,523	11,872
Professional, scientific, technical & mgmt services	9%	7%	10,418	6.1%	1,523	8,896
Finance and real estate	20%	7%	10,418	5.2%	1,298	9,120
Agricultural and extraction	4%	2%	2,977	2.8%	699	2,278
Public Administration	13%	5%	7,442	2.3%	574	6,868
Information	5%	2%	2,977	1.5%	374	2,602
Total	100%	100%	148,834	100.0%	24,963	123,871

Source: CEIC, US Bureau of Labor Statistics, Pew Trusts

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