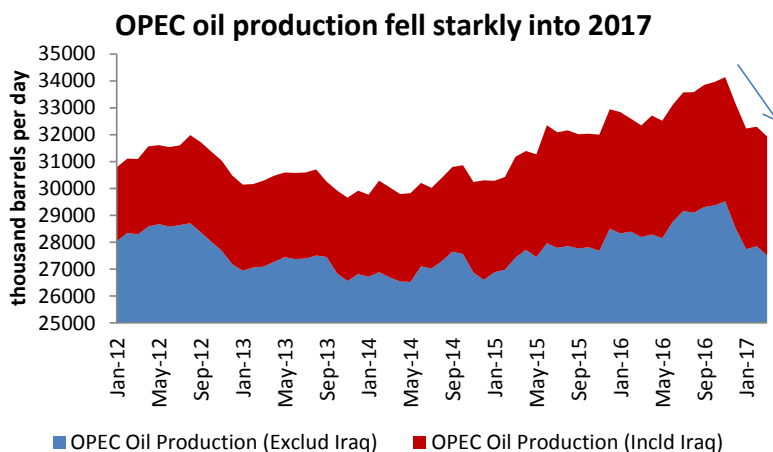


Weekly Commodities Outlook

Energy: Market watchers are likely keeping their ears close to the ground, in regards to any hint of future production cues ahead of the upcoming 172nd OPEC meeting this week. Arguably, crude oil prices surged above its \$50/bbl handle on Friday last week, given the likelihood for a further extension of the OPEC production cuts period beyond June this year. Similarly, any hiccups to a decisive conclusion in the upcoming meeting would almost certainly leave oil prices weaker into the year.

At least for now, recent official rhetoric continues to suggest that further extensions are likely to happen; crude oil prices had only recently edged higher earlier last week as market-watchers cheered on a joint statement by both Saudi Arabia and Russia to extend the production cut agreement by nine months to 1Q18. This announcement is particularly relevant for the oil rally, given that both countries collectively account for roughly 20% of global supply. Should production cuts are enforced by the rest of the OPEC members, it highlights the fact that oil production from OPEC+Russia, which accounts for roughly 45% of global oil production, are on reverse gears.



Source: Bloomberg, OCBC Bank

However, oil bears were also quick to point out the rapid increase in US oil production. Statistically, US oil production rose by 4.0% since the start of this year, up from 8.9 million barrels per day (bpd) to 9.3 million bpd in April. Moreover, US oil rig counts, widely regarded as a leading cue for future oil production, has also grown past its 700 mark and thus suggest further upside risk to US oil production in the coming weeks. Should we tally US crude oil production with the price tag attached to each barrel, it does suggest that the higher oil prices beyond its \$50/bbl handle does incentivise US production higher.

Updated as of 22 May 2017

Selected Indices	Close	Weekly Change	YTD	MTD	QTD
US Dollar Index (DXY)	97.3	-1.7%	-4.8%	-1.8%	-3.1%
Reuters / Jefferies (CRB)	185.1	1.3%	-3.9%	1.8%	-0.4%
Dow Jones Industrial Avg	20,804.8	-0.8%	5.3%	-0.6%	0.7%
Baltic Dry Index	956	-3.8%	-0.5%	-13.8%	-26.3%

Energy	Close	Weekly Change	YTD	Net Position	Weekly Change
NYMEX WTI Crude	50.6	3.6%	-5.8%	381,437	-6,169
ICE Brent Crude	53.9	4.0%	-5.1%	280,678	0
NYMEX RBOB Gasoline	166.0	4.1%	-0.3%	32,340	2,821
NYMEX Heating Oil	159.0	5.3%	-6.7%	13,135	2,783
NYMEX Natural Gas	3.3	-1.9%	-11.8%	57,455	37,130

Base Metals	Close	Weekly Change	YTD	Net Position	Weekly Change
LME Copper	5,682	1.2%	2.6%	8,775	518
LME Aluminium	1,944	2.0%	14.8%	-	-
LME Nickel	9,360	1.4%	-6.6%	-	-

Precious Metals	Close	Weekly Change	YTD	Net Position	Weekly Change
COMEX Gold	1,255.6	2.1%	9.0%	120,256	-21,130
COMEX Silver	16.8	1.3%	4.9%	43,075	-10,986
NYMEX Platinum	941.3	1.4%	4.4%	11,719	2,507
NYMEX Palladium	759.8	-4.7%	11.2%	19,897	-643

Agriculture	Close	Weekly Change	YTD	Net Position	Weekly Change
CBOT Corn	374	1.6%	6.1%	-131,826	7,231
CBOT Wheat	439	3.6%	7.5%	-102,951	-13,139
CBOT Soybeans	957	-0.9%	-4.0%	-21,841	1,062

Asian Commodities	Close	Weekly Change	YTD	MTD	QTD
Thai W. Rice 100% (USD/MT)	433.0	6.1%	13.6%	7.7%	11.3%
Crude Palm Oil (MYR/MT)	2,885.0	-1.2%	-10.3%	7.1%	1.8%
Rubber (JPY/KG)	309.5	8.6%	18.1%	17.6%	14.4%

Source: Bloomberg, CFTC, OCBC Bank

Note: Closing prices are updated as of 22 May 2017

Note: Speculative net positions are updated as of 16 May 2017

Note: Speculative net positions for Aluminium and Nickel are unavailable

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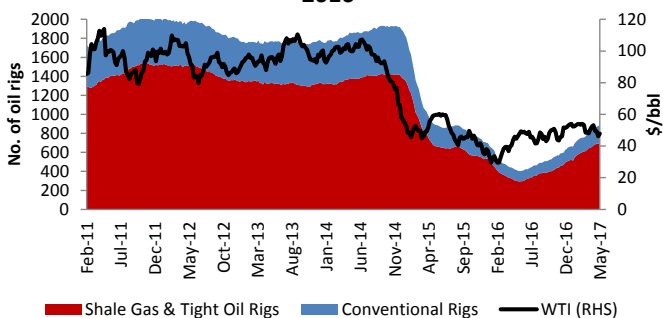
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Putting the parts together, these concurrences do spell a prolonged period of uncertain production pattern, and thus cast a rather hazy outlook on crude oil prices. For that matter, we remain concerned over the sustained increases in US' crude oil production levels, which had effectively undermined the production cut efforts made by OPEC+Russia in December last year. To exacerbate matters, the Energy Information Agency (EIA) had downgraded its oil outlook by 3% for WTI and Brent to average \$50.68/bbl and \$52.6/bbl, respectively, in light of the lower prices to-date.

US oil rig counts has been increasing since June 2016



Source: Bloomberg, US EIA, OCBC Bank

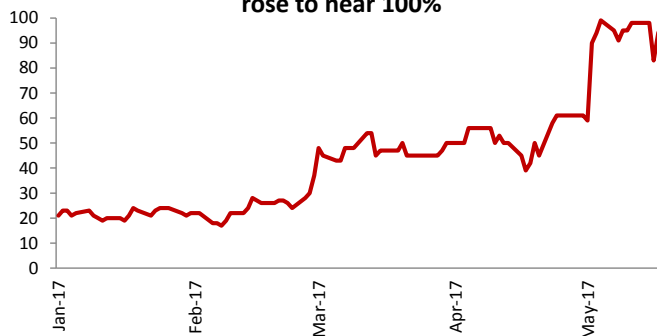
Crude oil has been rather volatile in the first five months. For one, WTI has seen a rally to its \$54.5/bbl handle earlier in February, before plunging to its \$45.5/bbl in early May. In a nutshell, short-term volatility is likely here to stay, especially as an OPEC production cut-led rally (should it come to pass) would likely be limited by the profit-driven US oil industry. With only limited downside risk to oil supplies, the only hope for a sustainable oil rally would be an improvement in global growth environment and stronger oil demand.

In a nutshell, we opine that crude oil prices may continue to stay supported ahead of the upcoming OPEC meeting in the coming week. With higher prices seen in May (+8.8% since the trough on 4th May) it does suggest that the decision for a production cut extension into end 2017 has been priced-in. However, even if oil prices rally after the OPEC meeting (especially if the cartel announces deeper production cuts and/or extending its production period beyond 2017), the rally may be effectively capped around its \$55 - \$60/bbl especially when US oil production comes raging back.

Precious Metals: Aside from the upcoming OPEC meeting, gold-watchers are eying closely on the upcoming FOMC meeting in mid-June. Should we consider current market-implied probability of 97.5% for

a rate hike in the next month in isolation, the strong likelihood for a 25bps rate hike should lead gold prices lower. Elsewhere, with the global economic backdrop looking positive, led by encouraging global trade prints, gold prices largely should point south year-to-date.

Rate hike probability for FOMC June meeting rose to near 100%

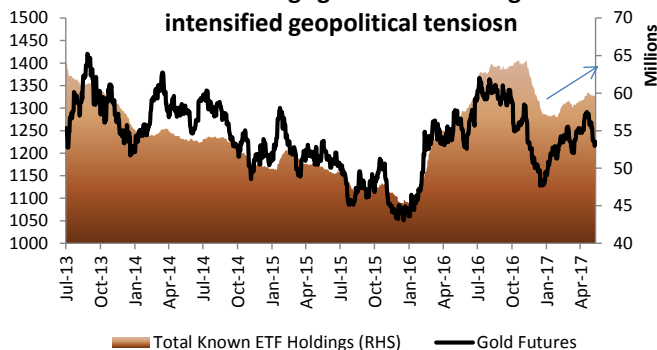


Source: Bloomberg, OCBC Bank

However, factors that affect gold prices are almost never that simple; gold's nature as a safe haven demand has still been frequently sought after many political-influenced events, including geopolitical tensions in the Korean Peninsula and more recently, the appointment of Robert Mueller to oversee investigation over possible US-Russia collusion. With gold regarded closely as a safe haven asset, the flight to safety (amid a weaker greenback as well) has elevated the yellow metal higher to its \$1,260/oz handle late last week.

As such, the outlook on gold remains relatively hazy at this juncture, given on-going geopolitical concerns amid a likely rate-hike into the next month. With especially the US-led political concerns in the frontlines at the moment, the increased volatility for the greenback seen of late has led gold as a quasi-FX/Commodity asset to trend in line with the USD. Such events are highly relevant in explaining gold's movement, but they are largely unquantifiable in nature.

Gold ETF holdings gained into 2017 given intensified geopolitical tensions

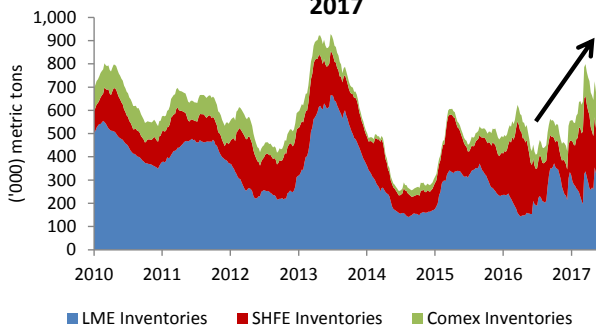


Source: Bloomberg, OCBC Bank

Fundamentally, we remain bearish on the yellow metal, underpinned by two more rate hikes by US central bank in 2017. Should that come to pass, higher rates should eventually inject a stronger greenback, while gold as a zero-yielding asset should see a stark fall in demand as yield-chasing behaviour takes hold. Moreover, given the increased uncertainty in the horizon, the upcoming dot-plot chart into June's FOMC meeting would be particularly interesting, which may give further cues on the number of hikes this year. But should history be of reference, gold thrives on uncertainty, and the increased suspense over the said issues may continue to overshadow

Base metals: Copper prices remained relatively weaker into the month, which fell around 2% MTD to its current price of ~\$5,600/MT. From a supply perspective, copper price fell as much as 7% in the first week of May to register a low of \$5,467/MT amidst concerns over surge in copper inventories, before recovering to above \$5,600/MT after inventories gradually fell. Moreover, fresh strike concerns resurfaced at Peru's largest copper mine, Cerro Verde, where the labor union threatened to hold an "indefinite strike" should Freeport suspends any workers. Elsewhere, the world's 2nd largest copper mine from Indonesia, Grasberg, is still operating on its temporary permit as its owner given regulatory hurdles. In light of these events, we can expect copper supply to trend south should supply hiccups come to pass.

Copper inventories has been growing since early 2017



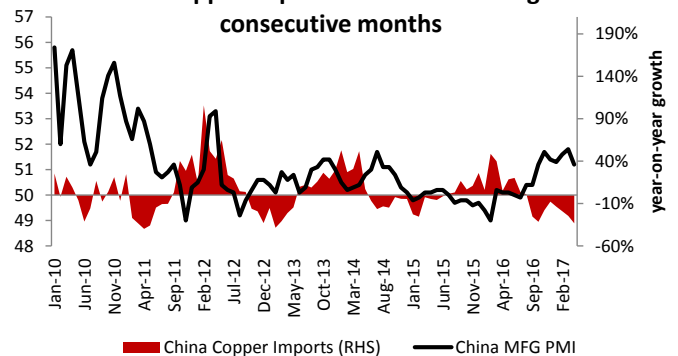
Source: Bloomberg, OCBC Bank

On the flipside, the demand outlook appears hazy. In a nutshell, on top of the continued delay in Trump's infrastructure spending promised during his campaigning phase, the recent appointment of Robert Mueller to investigate allegations of Russia's

interference with the 2016 elections may mean increased uncertainty for Trump's proposals to materialize. Specifically, some unwinding of the previous copper rally especially seen at the onset of Trump's presidential election victory has already materialized, likely as market-watchers increasingly discount the fruition of Trump's \$1.0 trillion infrastructure plan.

Importantly as well, copper prices could have also trended lower given sustained weakness in Chinese copper demand. Empirically, Chinese imports of unwrought copper have contracted for eight consecutive months, with latest April '17 growth print at -34.0% yoy. Meanwhile, Chinese manufacturing PMI fell to 51.2 in April, its lowest print since October 2016, suggesting some slowdown in industrials and manufacturing growth momentum.

China copper imports contracted for eight consecutive months



Source: Bloomberg, OCBC Bank

In a nutshell, global consumption growth has remained subdued for 2017 so far as year-on-year growth has consistently remained under water. In the short-run, any supply hiccups from mine strikes may give falling copper prices some reprieve. However, should one account for the relative weakness in global growth sentiment amid falling copper demand, copper prices may resume its downward trend to average \$5,550/MT into 2Q17, and eventually ending the year at our revised copper outlook of \$5,250/MT (down from our previous outlook of \$5,500/MT).

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