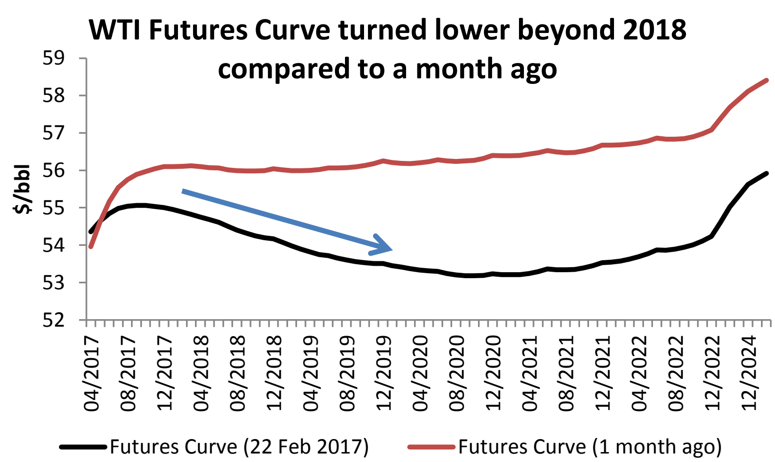
Weekly Commodities Outlook

Energy: Crude oil prices touched its 6-week high earlier this week, as speculative positions in both Brent and WTI continued to climb. At least on the fundamentals, market-watchers likely took comfort from OPEC secretary-general's recent comment that "anything less than 100% (compliance) is not satisfactory", as he discussed the issues surrounding the production cut agreement made between OPEC and non-OPEC late last year. On that front, empirical data in January 2017 does indicate that more than 90% of the cuts have already been implemented, suggesting that OPEC is determined to narrow the global supply glut. Note lower-than-expected climb in US crude oil inventories, while inventories of gasoline and distillates fell more than expected.

Still, even as crude oil price remains above its $50/bbl handle, the rally is still potentially fragile. This is seen from the recent backwardation seen in the WTI futures curve dating beyond 2018 compared to a month ago, as market-watchers digested recent US historical-high crude oil export print of 1.0 million barrels per day (bpd). Technically, the futures curve is still positively trended for contracts dating till end 2017, likely as investors continue to price-in a potential rebalancing story for crude oil later this year. The negative trend seen in the futures curve beyond 2018 could likely be a reflection of concerns over the prospects of future production curbs beyond OPEC's six months agreement term.



Source: Bloomberg, OCBC Bank

We remain bullish on crude oil prices, penciling a $65/bbl price outlook into end-year. Our bullish call is underpinned by our expectations for the crude oil supply glut to fully balance itself in the second half of this year. For that to happen, our second-order assumptions are that (1) OPEC will remain compliant on its production curbs, (2) extend its current 6-months agreement into the second half of this year while (3) global risk appetite and growth to remain positive into 2017. A clear indication for higher oil

Commodities Futures

Energy	**Futures**	**% chg**
WTI (per barrel)	54.45	1.60%
Brent (per barrel)	56.58	1.33%
Heating Oil (per gallon)	1.657	1.66%
Gasoline (per gallon)	1.529	1.01%
Natural Gas (per MMBtu)	2.617	0.96%
Base Metals	**Futures**	**% chg**
Copper (per mt)	5,859.0	-3.00%
Nickel (per mt)	10,538	-2.14%
Aluminium (per mt)	1,862.0	-0.88%
Precious Metals	**Futures**	**% chg**
Gold (per oz)	1,250.2	1.48%
Silver (per oz)	18.117	0.93%
Platinum (per oz)	1011.9	0.92%
Palladium (per oz)	773.3	0.55%
Soft Commodities	**Futures**	**% chg**
Coffee (per lb)	1.479	-0.90%
Cotton (per lb)	0.7502	1.19%
Sugar (per lb)	0.2016	-2.66%
Orange Juice (per lb)	1.7580	1.12%
Cocoa (per mt)	2,067	1.92%
Grains	**Futures**	**% chg**
Wheat (per bushel)	4.3800	-0.74%
Soybean (per bushel)	10.115	-1.10%
Corn (per bushel)	3.6550	-1.48%
Asian Commodities	**Futures**	**% chg**
Crude Palm Oil (MYR/MT)	2,945.0	-2.55%
Rubber (JPY/KG)	302.6	-8.58%

Source: Bloomberg, OCBC Bank

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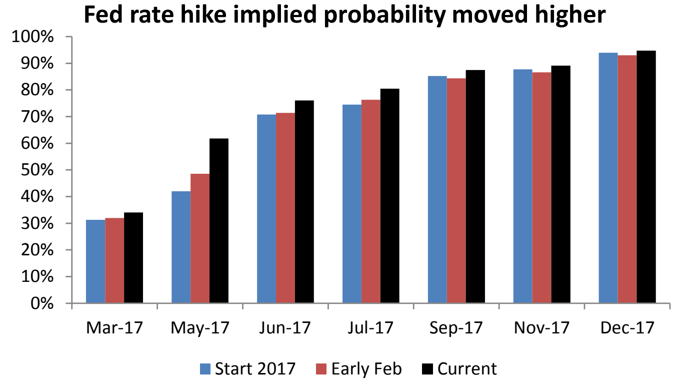
prices can be heard from recent Iraqi rhetoric stating that current prices are still too low to plug its domestic budget deficit.

Precious Metals: Yet again, it is uncertainty that drove investors to hold more gold. Gold rose to above $1,250/oz in this morning's trading, the highest since Nov 2016, while silver trended higher in tandem. Quasi industrial/precious metals like palladium and platinum also trended marginally higher in the later of this week.

The strength in gold prices is still seen despite the increased implied probability for a FOMC rate hike in March. Empirically, current probability for a March rate hike is printing at 34%, according to Bloomberg calculations. Moreover, the probability for a rate hike in May has moved significantly higher to 62% given recent relative hawkish Fed talk. Note that yesterday's FOMC minutes also indicated that "it might be appropriate to raise the federal funds rate again fairly soon". Still, gold prices remain elevated, suggesting that its safe haven appeal is providing some interim support at this juncture. Empirically, gold's correlation with the US dollar index is also at its weakest since the start of the year.

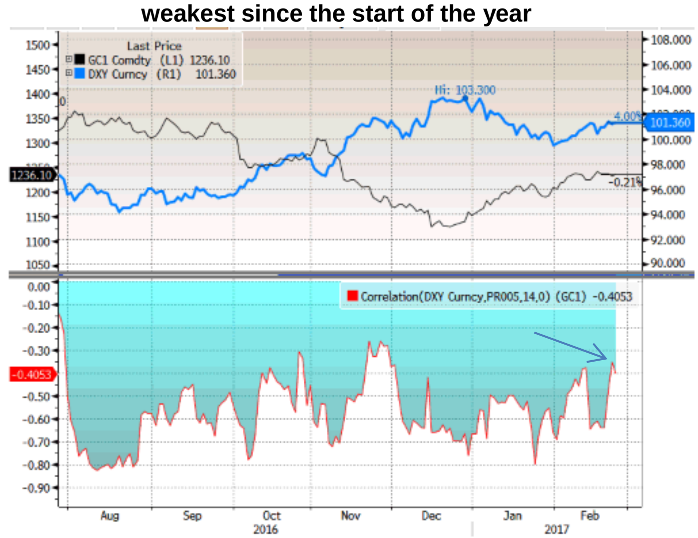
Fed rate hike implied probability moved higher



Source: Bloomberg, OCBC Bank

Furthermore, one can argue that more uncertainty is seen from recent US official rhetoric. Note that Treasury Secretary Steven Mnuchin aired his aim to see "very significant" tax reform to be passed before August, reinforcing President Trump's promise to unveil a tax plan in the coming weeks. However, Mnuchin added that these tax cuts may only see pass-through effects to economic growth until late 2018. Elsewhere, the Treasury Secretary also surfaced the possibility of having 50y- and 100y- treasury bonds, coupled with a view that US interest rates will probably have low rates for a long period. Lastly, Donald Trump continues to label China as "grand champions" of currency manipulation, just hours after Mnuchin commented little urgency to brand China as such. Elsewhere in Europe, the IMF chief Lagarde commented that Greece should restructure its debt in order to qualify for fresh monetary aid from the IMF. With these issues, it is not surprising to see a stronger gold amid falling correlation behaviour with the US dollar index.

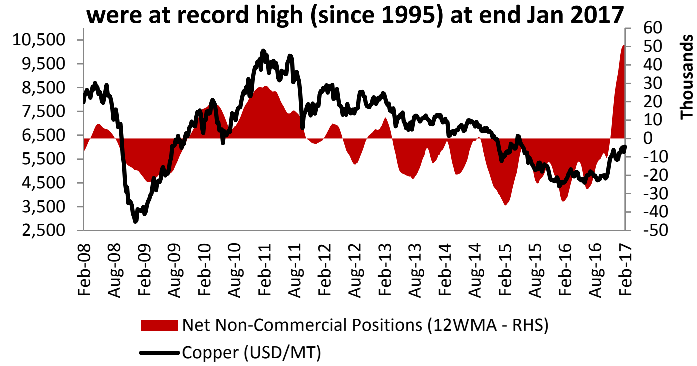
Gold price correlation with the dollar index is at its weakest since the start of the year



Source: Bloomberg, OCBC Bank

Base Metals: Base metal prices continue to stay elevated into the week, as little resolution can be seen from the recent mine strikes in Escondida. On this, note that BHP Billiton had decided to wait out 30 days (instead of 15 days) before attempting to resolve the labour strike, suggesting that copper is likely to stay elevated till then. Other contracts talks in Collahuasi (owned by Anglo American Plc and Glencore) later this year will also be watched very closely as well. In Asia, negotiations between Indonesian government and US mining giant Freeport McMoran continue to see hiccups, as the company refused to accept government's new regulation on divestment.

Copper net-long speculative combined positions were at record high (since 1995) at end Jan 2017



Source: Bloomberg, CFTC, CMX, OCBC Bank

Still, the notion that copper prices are supported on temporary production shocks suggest that a consolidation is on the cards especially when the supply shocks in the said mines are resolved. Note that copper's per cent of open interest (%OI) remains elevated amid record high net-long speculative combined positions at end January. This suggests that speculative interests are strong, and any unwinding of these speculative positions could result in a quick downward normalisation of copper prices.

Agriculturals: In Asia, crude palm oil likely garnered interests amongst agricultural traders, especially as CPO futures finally fell below its critical MYR3,000/MT handle.

The fall in prices was mainly due to increased expectations for production to improve further into the year amid falling prices in alternative substitutes such as rapeoil and soyoil. As commented in our previous weekly outlooks, Asia's palm oil production will likely increase from March to September this year, given seasonal patterns. More crucially perhaps, is that this production increase will probably see a strong year-on-year growth owing to very low production levels seen in 2016 given weather extremities.

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