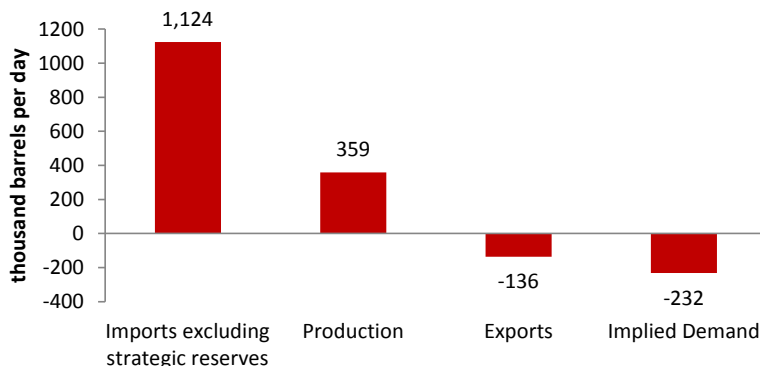


## Weekly Commodities Outlook

**Energy:** We may only be in the third month of the year, but some emerging discussions over OPEC's upcoming meeting in May have been heard from the ground. Specifically, given the fall in oil prices to below its \$50/bbl handle (note that Brent had fallen below its \$50/bbl mark on intraday trading on Thursday as well), OPEC members would likely see more impetus to extend its current 6-month production curb agreement into the second half of this year. In fact, tell-tale signs of such an event happening can be seen from recent rhetoric by Saudi Arabia, with its energy minister commenting that OPEC members have "a strong willingness" to extend the deal.

This "strong willingness" to extend the deal is not surprising, given that crude oil prices have ticked lower over the last few weeks. As mentioned in our past reports, the key concern that led to lower oil prices has been the rising crude oil production and inventory levels in the US. Recent data showed that US crude oil stocks surprised higher than expected with an increase of 4.95 million barrels (versus market estimate of an increase of 3.0 million barrels) for the week ended 17 March 2017. However, should we delve in the details, much of the increase in oil stocks was driven by the uptick in import data which surged to its highest in six weeks at 8.31 million barrels per day (bpd), from 7.4 million bpd, over the same period.

**US oil stocks were driven by higher imports**  
(change from Jan - 17 March 2017)



Source: Bloomberg, US Department of Energy, OCBC Bank

**We opine that the concerns over increasing US oil supply has been unduly emphasised.** It is important to consider the US oil supply environment holistically, in which one should take into account production levels, export/import levels, and refinery utilisation rates. Empirical evidence indicate that US oil production only grew 359,000 bpd since the start of the year, a growth print that is grossly lower than OPEC's actual production cut of 613,000 bpd in February (for more details on OPEC's production, kindly

### Commodities Futures

Energy	Futures	% chg
WTI (per barrel)	47.70	-0.71%
Brent (per barrel)	50.56	-0.16%
Heating Oil (per gallon)	1.490	-0.45%
Gasoline (per gallon)	1.590	-0.77%
Natural Gas (per MMBtu)	3.051	1.33%

Base Metals	Futures	% chg
Copper (per mt)	5,812.5	0.55%
Nickel (per mt)	9,989	0.10%
Aluminium (per mt)	1,929.0	0.53%

Precious Metals	Futures	% chg
Gold (per oz)	1,247.2	-0.20%
Silver (per oz)	17.563	0.10%
Platinum (per oz)	963.8	0.20%
Palladium (per oz)	801.9	1.32%

Soft Commodities	Futures	% chg
Coffee (per lb)	1.405	-0.85%
Cotton (per lb)	0.7727	-0.09%
Sugar (per lb)	0.1760	1.73%
Orange Juice (per lb)	1.8515	-2.04%
Cocoa (per mt)	2,176	0.51%

Grains	Futures	% chg
Wheat (per bushel)	4.2100	-0.30%
Soybean (per bushel)	9.910	-0.88%
Corn (per bushel)	3.5675	-0.56%

Asian Commodities	Futures	% chg
Crude Palm Oil (MYR/MT)	2,771.0	-2.05%
Rubber (JPY/KG)	277.0	0.00%

Source: Bloomberg, OCBC Bank

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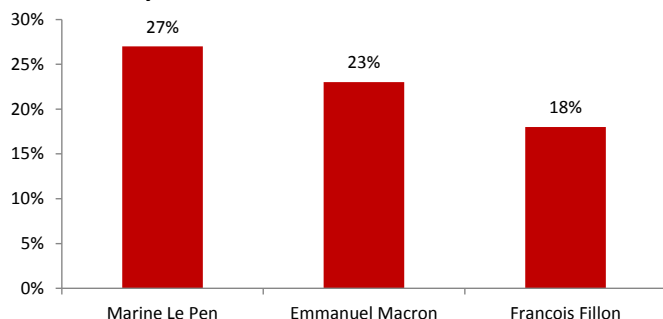
Tel: 6349-1810

refer to our previous Weekly Commodities Outlook – 17 February 2017). Moreover, Russia has also explicitly targeted a production cut of 300,000 bpd by end-April, up from a realised cut of 100,000 bpd seen since February year-to-date. Given the statistics above, **the insipid rise in US oil production, versus the ambitious production cuts planned by OPEC+Russia should persuade market-watchers that the rebalancing story is still on the cards.**

**Precious Metals:** It has been a relatively quiet week for precious metals, as market-watchers have little to trade on after the recent FOMC rate hike (16 Feb), in which market-watchers were quick to refer to as a “dovish hike” given the lack of new hawkish guidance. Since then, gold has traded higher for five consecutive trading days, before ending slightly lower this morning below its perceived technical resistance level at \$1,250/oz.

**A quick scan on European politics still depicts a rather worrying climate,** thus also explaining gold’s appeal as a safe haven. Empirically, latest poll results continue to suggest France’s Marine Le Pen’s lead over her presidential election competitors, which indicates her ability to likely breeze through to the second and final election round in May, thus likely raising concern over another possible “Brexit”-like scenario in France.

**Opinionway-Orpi Poll suggests a four-point lead by Marine Le Pen over her closest rival**

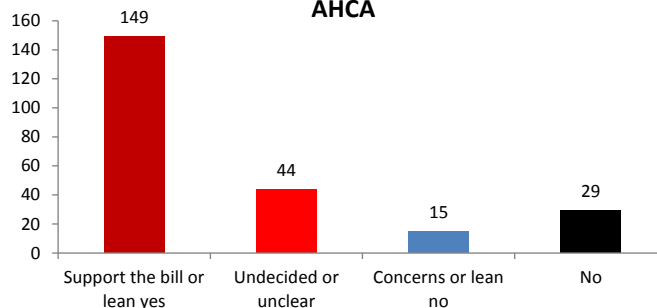


Source: Opinionway-Orpi Poll, dated 21<sup>st</sup> March 2017

**Elsewhere, the unexpected delay of US President Trump’s proposed American Health Care Act (AHCA) lifted doubts over Trump’s ability to push forward his promised economic policy agenda.** Technically, the AHCA bill needs 218 votes to pass, and none of the democrats are likely to support it. Moreover, members of the conservative 30-member Freedom Caucus remain unsupportive as the group felt that the “modifications” were not enough to completely repeal the current Affordable Care Act, or better known as

Obamacare. Note that the vote has been rescheduled to today, though risk appetite may take another notch down should persistent disagreement is seen over this issue.

**Of the 237 Republicans in the House of Representatives, only 149 hints at supporting AHCA**



Source: New York Times

**Base metals: Copper prices remained elevated around its \$5,800/MT handle for the most of March** this year, amid production concerns in mines across the world. Specifically, market-watchers eye closely on the mine strikes in world’s largest copper mine in Chile (Escondida Mine), regulatory hiccups in the world’s second largest copper mine in Indonesia (Grasberg Mine) and in Peru’s top producing copper mine (Cerro Verde Mine).

**However, these production hiccups are likely to see a quick resolution in the immediate future.** Note that mine strike in the world’s largest copper mine, BHP Billiton’s Escondida in Chile, had ended yesterday, after a record-long 43 days of strike in Chile’s history. Notably, BHP Billiton has reverted to the old labour contract for the next 18 months. The mine is expected to return to normal production in about two weeks, as the strikes had reportedly dented production by between 3.6 – 4.0 million tonnes. Moreover, Freeport’s Grasberg mine in Indonesia has also reportedly resumed copper production earlier this week to 40% of its normal capacity, even as negotiations between Freeport and the Indonesian government are still ongoing. Separately, the strike at Freeport’s Cerro Verde mine in Peru, which supposedly ended yesterday, may restart today (24 March) as workers demand better wages and healthcare.

**On the demand side of the equation, worrying signs of faltering demand** from the world’s largest consumer of copper is still being observed. Empirically, China’s refined copper import growth had fallen for its eighth

consecutive month to 233.8 thousand metric tonnes (-28.8% yoy) in February.

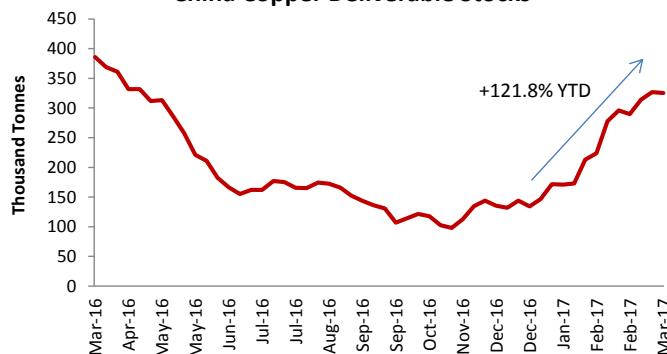
**China Copper Import Growth fell for its eighth consecutive month**



Source: Bloomberg, OCBC Bank

**weakness in Chinese copper imports, copper prices may likely consolidate lower into the weeks ahead.**

**China Copper Deliverable Stocks**



Source: Bloomberg, SHFE, OCBC Bank

Note that China's copper deliverable stocks as reported by the Shanghai Futures Exchange (SHFE) remains elevated into the week ended 17 March at 325.3 thousand tonnes (+121.8% ytd). **In a nutshell, with some resolution already seen in the two of the three mine production hiccups coupled with continued**

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