OCBC Bank

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Weekly Commodities Outlook

Energy: Risk appetite continues to stay buoyant, as the Dow Jones Industrial Average (DJIA) continued to gain above its 20,000 handle. Likewise for the energy space, WTI and Brent surged further especially with the latter comfortably sitting above its $56/bbl handle overnight. Much of the optimism came from the repeated announcements by members of the OPEC cartel, seemingly reassuring the markets that 80% of the promised cuts are in place. More recently is Algeria Energy Minister Boutarfa's assertion that the oil producers are slated to reach the 1.8 million barrels per day (bpd) of cuts in the coming month. Moreover, market-watchers likely cheered on the recent US EIA's Short Term Energy Outlook (STEO) report, which suggested that global crude consumption is expected to outpace global production through 2018. Details are in the table below.

EIA Global Oil Demand and Supply Estimates			
(million bpd)	**2016**	**2017**	**2018**
Production	96.4	97.5	98.9
Consumption	95.6	97.2	98.7

Source: US Energy Information Administration

Other noteworthy happenings in the last week includes China's commercial crude oil inventories which surprisingly declined 1.9% month-on-month in December, despite the sharp rise in imports throughout the year, thus suggesting that oil consumption in the China remains robust. Still, many questions lay unanswered at this juncture, and much of the wildcards are undoubtedly Trump-related, including Trump's pulling out of the Trans-Pacific Partnership accord and his indication to cut off Saudi Arabia's supply of crude oil into the US. Elsewhere, Trump also signed a number of executive orders to advance construction of the controversial Dakota Access Pipeline and the Keystone XL Pipeline, going against the multitude of protestors who remained concerned over environmental and safety issues. Moreover, he indicated a possibility of a levy on imports on Mexican imports, including those in oil and related products (total oil-related imports from Mexico clocked $14 billion in 2015). In a nutshell, President Trump's policy proposals does suggest his continued efforts to reduce US oil reliance (likely to fulfill his promise to make the US energy-independent).

Should history be of reference, trade barriers has the effect of effectively raising commodity prices overtime due to higher imported inflation and benefiting high-cost / inefficient producers. **All these could point to lifting domestic WTI oil prices should these policies come to pass.**

Precious Metals: In a quick turn of events, gold illustrated how volatile it can be in a mere three days. For one, the yellow metal

Commodities Futures

Energy	Futures	% chg
WTI (per barrel)	53.78	1.95%
Brent (per barrel)	56.24	2.11%
Heating Oil (per gallon)	1.641	1.83%
Gasoline (per gallon)	1.543	1.24%
Natural Gas (per MMBtu)	3.382	1.50%
Base Metals	**Futures**	**% chg**
Copper (per mt)	5,857.0	-1.43%
Nickel (per mt)	9,366	-3.01%
Aluminium (per mt)	1,809.3	-0.90%
Precious Metals	**Futures**	**% chg**
Gold (per oz)	1,189.8	-0.67%
Silver (per oz)	16.850	-0.77%
Platinum (per oz)	977.9	-0.01%
Palladium (per oz)	724.5	-1.58%
Soft Commodities	**Futures**	**% chg**
Coffee (per lb)	1.515	-0.95%
Cotton (per lb)	0.7419	0.42%
Sugar (per lb)	0.2036	0.10%
Orange Juice (per lb)	1.6435	-1.38%
Cocoa (per mt)	2,132	-2.74%
Grains	**Futures**	**% chg**
Wheat (per bushel)	4.2700	0.59%
Soybean (per bushel)	10.495	-0.54%
Corn (per bushel)	3.6375	-0.68%
Asian Commodities	**Futures**	**% chg**
Crude Palm Oil (MYR/MT)	3,238.0	-0.55%
Rubber (JPY/KG)	328.0	6.74%

Source: Bloomberg, OCBC Bank

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fell below its $1,200/oz, and had stayed below this handle this morning. Reasons for the sharp fall mostly surround the fact that risk sentiment has improved, signalled by strong US Wall Street print and surprisingly positive US earning results (more than 70% of the companies reported better-than-expected earnings). Moreover, ETF holdings in gold had reportedly fallen over the last week, to its lowest in two weeks, suggesting that paper demand in gold has dulled as risk-on sentiment picked up. On physical demand, gold imports into China from both Switzerland and Hong Kong rose substantially into the months leading to the Lunar New Year, thus also explaining why the yellow metal rallied in the last two weeks. Given that the Lunar New Year is just around the corner, do expect Chinese buying to tame as much of the purchase would have already been made, while China enters into a seven-day holiday starting today.

Into the medium horizon ahead, our view on the yellow metal remains unchanged. **The prospect of higher US interest rates, especially driven by our call for the US FOMC to hike rates by two more times to 1.25% by the end of this year, underpins our bearish call for gold to touch $1,100/oz by year-end.** Moreover, with the improvement seen in the US labour prints (US jobless claims calculated across the 4-week average fell to 246k, lowest since November 1973), amid President Trump's fiscal plans, should drag gold prices lower on stronger risk appetite. **However, into the immediate months ahead, do keep an eye on political events in Europe, especially March's Netherland elections and Britian's triggering of Article 50, and April's 1st round of the French elections, that may drag risk appetite momentarily.**

Base Metals: New custom data from China this week once again reminded market watchers that Chinese base metal demand remains robust. Empirically, refined copper imports accelerated to 359.8 thousand metric tons in December (up from 276.7 thousand in the previous month). Should we look at the totality of things, China's imports of unwrought copper & copper products rose 2.7% yoy for the whole of 2016, while iron ore imports surged 7.5% yoy over the same period of time. Elsewhere, aluminium import demand fell for its fourth consecutive year (-7.0% yoy) in 2016, down from a peak 28.4% growth seen back in 2012).

For the last week, market-watchers have attributed copper's resilience to a recent threat of a strike at the Escondida mine in Chile, owned by BHP Billiton Ltd. Moreover, Freeport- McMoRan, the world's largest exchange-traded copper producer, reportedly failed to achieve its planned production target in 2016 given mining-related problems in Indonesia, and is anticipating a 12% decline in production growth in 2017. Still, note that copper has already risen by more than 7.0% since the start of the year, or a 25% appreciation in the last three months. Other base metals such as aluminium, lead, and zinc had also seen huge gains since the start of the year before correcting lower. **Still, the industrial metal**

Commodities Calendar

Date		Event		Survey	Actual	Prior
26-Jan	SI	Total Weekly Fuel Stockpiles Bbl	Jan-25	--	48.7m	47.8m
26-Jan	SI	Light Distillates Fuel Stockpiles Bbl	Jan-25	--	13.7m	13.8m
26-Jan	SI	Middle Distillates Fuel Stockpiles Bbl	Jan-25	--	13.1m	12.0m
26-Jan	SI	Residue Fuel Stockpiles Bbl	Jan-25	--	21.8m	22.0m
26-Jan	UK	LME Aluminum Alloy Stocks	Jan-26	--	0	0
26-Jan	UK	LME Copper Stocks	Jan-26	--	-2050	-1125
26-Jan	UK	LME Lead Stocks	Jan-26	--	-125	-475
26-Jan	UK	LME Nickel Stocks	Jan-26	--	1848	4650
26-Jan	UK	LME Primary Aluminium Stocks	Jan-26	--	-7700	5350
26-Jan	UK	LME Primary NASAAC Stocks	Jan-26	--	1520	400
26-Jan	UK	LME Steel Billet Stocks	Jan-26	--	0	0
26-Jan	UK	LME Tin Stocks	Jan-26	--	100	450
26-Jan	UK	LME Zinc Stocks	Jan-26	--	-2700	-3675
26-Jan	CH	SHFE Aluminium On Warrant Change	Jan-26	--	1149	551
26-Jan	CH	SHFE Copper On Warrant Change	Jan-26	--	1203	6421
26-Jan	CH	SHFE Gold On Warrant Change	Jan-26	--	0	0
26-Jan	CH	SHFE Steel Rebar On Warrant Change	Jan-26	--	0	0
26-Jan	CH	SHFE Zinc On Warrant Change	Jan-26	--	327	1301
26-Jan	RU	Gold and Forex Reserve	Jan-20	--	385.9b	385.4b
26-Jan	US	Net Export Sales Corn-Total	Jan-19	--	1391.4	1379.9
26-Jan	US	Net Export Sales Corn-Old Crop	Jan-19	--	1370.4	1367.6
26-Jan	US	Net Export Sales Soybeans-Total	Jan-19	--	665.4	1046.3
26-Jan	US	Net Export Sales Soybeans-Old	Jan-19	--	539.4	979.6
26-Jan	US	Net Export Sales Wheat-Total	Jan-19	--	957.3	303
26-Jan	US	Net Export Sales Wheat-Old	Jan-19	--	853.4	242.5
26-Jan	US	Net Export Sales Soy Oil-Total	Jan-19	--	49.5	41.5
26-Jan	US	Net Export Sales Soy Oil-Old	Jan-19	--	49.5	41.5
26-Jan	US	Net Export Sales Soy Meal-Total	Jan-19	--	282.9	318.6
26-Jan	US	Net Export Sales Soy Meal-Old	Jan-19	--	276.8	269.8
26-Jan	US	Net Export Sales Cotton-Total	Jan-19	--	467.4	378.3
26-Jan	US	Net Export Sales Cotton-Old	Jan-19	--	457	346.6
26-Jan	US	New Home Sales	Dec	588k	536k	592k
26-Jan	US	EIA Natural Gas Storage Change	Jan-20	-117	-119	-243
26-Jan	US	EIA Working Natural Gas Implied Flow	Jan-20	-117	-119	-243
27-Jan	US	Poultry Slaughter LW YOY%	Dec	--	-0.40%	6.90%
27-Jan	UK	LME Aluminum Alloy Stocks	Jan-27	--	--	0
27-Jan	UK	LME Copper Stocks	Jan-27	--	--	-2050
27-Jan	UK	LME Lead Stocks	Jan-27	--	--	-125
27-Jan	UK	LME Nickel Stocks	Jan-27	--	--	1848
27-Jan	UK	LME Primary Aluminium Stocks	Jan-27	--	--	-7700
27-Jan	UK	LME Primary NASAAC Stocks	Jan-27	--	--	1520
27-Jan	UK	LME Steel Billet Stocks	Jan-27	--	--	0
27-Jan	UK	LME Tin Stocks	Jan-27	--	--	100
27-Jan	UK	LME Zinc Stocks	Jan-27	--	--	-2700

Source: Bloomberg

complex is very much influenced by China's fundamentals, and the upcoming Lunar New Year over the next week may erase some volatility off the table.

Agriculturals: Palm oil futures were largely flattish over the last two weeks. Over the week, palm oil is seen trying to test its psychologically important MYR3,250/MT, before trading lower that handle. **In our view, the drivers for lower palm oil prices seen in the last month were two-fold: (1) the relatively stronger MYR seen since the start of this year, and (2) absence of weather extremities previously seen in the last year.** Moreover, the breakdown of the Trans-Pacific Partnership (TPP) agreement could be another factor limiting palm oil demand, especially as Asia accounts for over 85% of global palm oil production. To mitigate this risk, Malaysia is reportedly pivoting its sales to the Middle East to sustain its export growth of palm oil. To that end, the Malaysian Cabinet has approved the setting up of a regional palm oil office in Tehran, Iran, by mid-2017.

Data-wise, since the start of this year, Malaysia's palm oil export print according to Intertek has grown for four-consecutive weeks. Elsewhere, China's Custom General Administration also released Dec import data for corn, wheat and sugar. Delving into specifics, China did see a strong 13.4% yoy growth in wheat imports for the full-year 2016, but observed contractions in sugar (-36.7% yoy) and corn (-24.2%) over the same period of time.