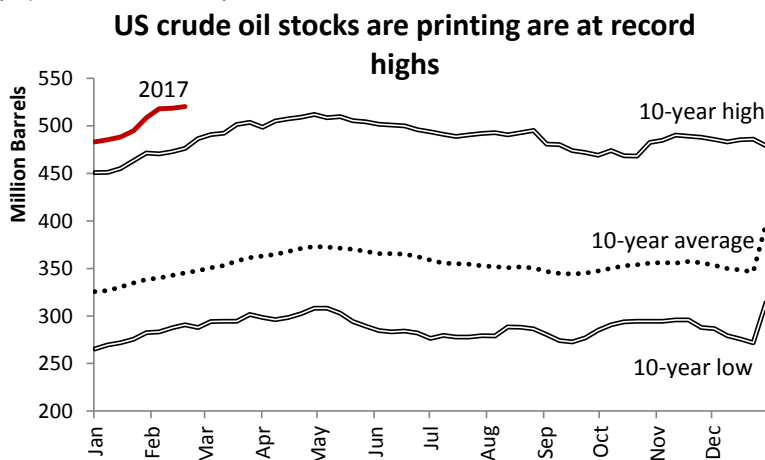


Weekly Commodities Outlook

Energy: The uptick in US oil rig counts and oil inventories, coupled with a relatively stronger greenback this week dragged energy commodities. Notably, both Brent and the West Texas Intermediate (WTI) has fallen to their lowest since early February. Empirically, US oil rig counts gained for its 6th consecutive week to past its 600 count handle for the week ended 24 Feb 2017, the highest since October 2015 Elsewhere, US crude oil inventories have been printing hit historical high at 520.2 million barrels last week. Despite the uptick in oil rig counts and inventories, US oil production was roughly unchanged at 9.0 million barrels per day (bpd) over the same period.



Source: Bloomberg, US Department of Energy, OCBC Bank

While the gain in US oil stocks is undoubtedly colossal, it is also matched with equally strong US oil and gasoline demand in 2016. Statistically, oil demand in 2016 was at its highest since 2007 at 19.98 million barrels per day, according to EIA. Demand for gasoline also hit record levels in 2016, averaging 9.326 million barrels per day. These prints suggest a couple of things: (1) US energy demand remains strong, and recent better-than-expected US-centric data seen in the first two months of 2017 should continue to support oil demand in the US. More importantly, (2) market-watchers could have been momentarily blinded by the strong US oil inventories and ignored the relatively stable oil production and strong demand prints, thus explaining the bearish trend over the week.

Into the near term, we remain very comforted with the continued compliance seen by the Organisation of the Petroleum Exporting Countries (OPEC). According to recent Reuters Poll, OPEC is seen to have fulfilled 94% of its production cuts that was spelt out in late 2016, up from 90% in January. Moreover, analyst polls also indicate a gradual rising oil price into end 2017, suggesting that market-watchers are still confident for supply to eventual balance with demand trends.

Commodities Futures

Energy	Futures	% chg
WTI (per barrel)	52.61	-2.27%
Brent (per barrel)	55.08	-2.27%
Heating Oil (per gallon)	1.579	-2.77%
Gasoline (per gallon)	1.643	-2.07%
Natural Gas (per MMBtu)	2.804	0.18%

Base Metals	Futures	% chg
Copper (per mt)	5,930.0	-1.43%
Nickel (per mt)	10,734	-2.29%
Aluminium (per mt)	1,904.3	-2.06%

Precious Metals	Futures	% chg
Gold (per oz)	1,232.9	-1.37%
Silver (per oz)	17.705	-4.00%
Platinum (per oz)	989.9	-2.85%
Palladium (per oz)	769.3	-1.13%

Soft Commodities	Futures	% chg
Coffee (per lb)	1.422	-0.32%
Cotton (per lb)	0.7569	-1.51%
Sugar (per lb)	0.1966	0.92%
Orange Juice (per lb)	1.7060	2.43%
Cocoa (per mt)	1,962	1.61%

Grains	Futures	% chg
Wheat (per bushel)	4.3200	-0.80%
Soybean (per bushel)	10.268	-1.39%
Corn (per bushel)	3.7275	-0.80%

Asian Commodities	Futures	% chg
Crude Palm Oil (MYR/MT)	2,979.0	0.95%
Rubber (JPY/KG)	306.0	0.43%

Source: Bloomberg, OCBC Bank

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Interest Rate Derivatives

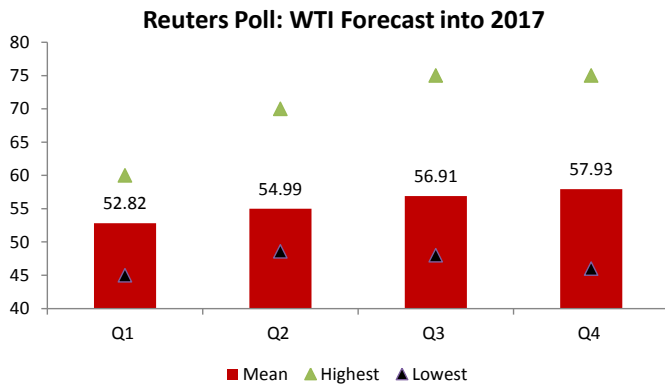
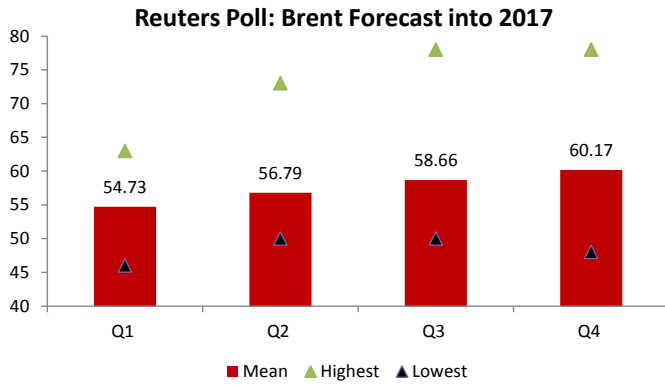
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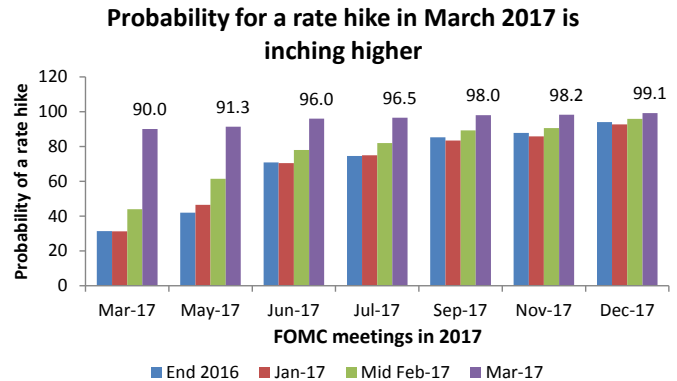
Source: Reuters Oil Poll, OCBC Bank

For now, we believe that key market movers would still be official rhetoric from OPEC, especially those pertaining on its production and price outlook. Importantly, note recent Saudi Arabia’s rhetoric for crude oil to rise to around \$60 per barrel this year, suggesting OPEC’s continued need to curb production until a \$60/bbl handle is found.

Precious Metals: Market-watchers concentrated on the relatively hawkish Fed talk over the week, leading to further dollar strength and consequently weaker gold prices. Specifically, both Fed officials Dudley and Williams lifted market expectations for a March rate hike, with the former noting that “the risks to the outlook are now starting to tilt to the upside” and “I think the case for monetary policy tightening has become a lot more compelling”, while the latter opined that a March hike would see “serious consideration”.

Importantly, the implied probability for a Fed rate hike in its March meeting has risen considerably to 90.0% this morning, up from a mere 31.3% seen at the start of the year. Similarly, the greenback has risen to its highest since the start of the year as well. In-all, gold prices have subsequently moved below its \$1,250/oz handle given the

stronger greenback and higher possibility for a rate hike in March.



Source: Bloomberg, OCBC Bank

Given the recent better-than-expected US-centric economic data of late, coupled with Trump’s continued promise to inject \$1 trillion worth of investment in a national infrastructure program, we upgrade our rate hike expectations to three times this year, with the immediate hike likely to come in the upcoming March FOMC meeting.

Base Metals: Aside from the ongoing mine strikes seen in Chile and Quebec, favourable manufacturing prints across Asia could have aid risk appetite and lifted risk-related commodities. Empirically, China’s official manufacturing PMI print accelerated to 51.6 in February, up from 51.3 in Jan. For the SME-dominated Caixin manufacturing PMI, the reading improved to 51.7 for the same month, up from 51.0 in January.

The rosier manufacturing climate does suggest that China’s economic fundamentals are gaining momentum and hints towards a sustained healthy demand for commodities. Other Asian economies also suggest a recovering manufacturing environment, seen from the expansion in Japanese manufacturing activity at its fastest pace in almost three-years in February, while as South Korea’s exports grew at its fastest pace in five years over the same period.

Elsewhere, Zinc and Copper prices continue to rise on Tuesday given ongoing strikes in Canada and Chile. Notably, strikes continued at Noranda Income Fund’s zinc processing plant in Quebec, the second-largest in North America, and at Escondida in Chile, the world’s largest copper mine. Production at giant copper mine Grasberg in Indonesia remained offline given contract dispute with the government.

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