OCBC Bank

Monday, October 31, 2016

OCBC Commodities Outlook 2017

Energy

Crude oil prices should remain volatile into year-end given Russia's vagueness on its plans to trim output, amid suspense over OPEC's implementation of an output cut later in November. We think OPEC has endured low oil prices for far too long, with much damage already done on its fiscal space. That alone should coax the cartel to initiate a production cut. Global growth should accelerate into 2017 and support crude oil demand. That should give crude oil prices a welcomed boost into 2017.

Base Metals

Base metals may likely be a bright spot in the commodity spectrum in 2017. A rosier global economic outlook in the next year should lift growth-related commodities, especially base metals. We look for base metals to remain strong into 2017 given the mine crackdowns in the Philippines, falling mine yields in Australia, while copper as a barometer for global growth should rally in tandem with global growth.

Precious Metals

Gold has been supported by risk-off sentiments since the start of 2016, led by Fed rate hike concerns, slowing Chinese growth, and the unexpected Brexit outcome. Our base case scenario is for global growth to accelerate, albeit gradually, into 2017. With the US being one of the bright-spots next year, the Federal Reserve is expected to raise interest rates by December 2016, and another two more times in 2017. Alongside a rosier 2017 global outlook, the higher interest rate environment should underpin a bearish gold outlook next year.

Agricultural and Asian Commodities

Malaysia's palm oil production is likely to contract 13.2% this year, as producers struggle with lower production from the harsh El Nino weathers in 2015. A La Nina phenomenon to occur this year has been downgraded to 40% (down from an earlier 75%), according to the latest official report from the National Oceanic and Atmospheric Administration (NOAA). With weather extremities behind us, prices may rally into end 2016 given seasonally lower production, but subsequently normalise lower into 2017.

Commodities Performance Table

Updated as of 31 October 2016

Selected Indices	Close	Weekly Change	MTD	QTD	YTD
US Dollar Index (DXY)	98.5	-0.3%	3.1%	3.1%	-0.2%
Reuters / Jefferies (CRB)	189.2	-0.1%	1.6%	1.6%	7.4%
Dow Jones Industrial Avg	18,161.2	-0.3%	-0.8%	-0.8%	4.2%
Baltic Dry Index	834	0.4%	-4.7%	-4.7%	74.5%
Energy	**Close**	**Weekly Change**	**YTD**	**Net Position**	**Weekly Change**
NYMEX WTI Crude	48.5	-4.1%	30.9%	454,404	-4,372
ICE Brent Crude	49.5	-3.9%	32.6%	391,035	-5,659
NYMEX RBOB Gasoline	146.4	-2.7%	15.5%	65,347	738
NYMEX Heating Oil	154.2	-2.4%	40.1%	29,656	-3,184
NYMEX Natural Gas	3.1	10.7%	34.1%	-31,352	23,256
Base Metals	**Close**	**Weekly Change**	**YTD**	**Net Position**	**Weekly Change**
LME Copper	4,843	4.4%	2.9%	-11,175	-15,402
LME Aluminium	1,719	5.4%	14.1%	-	-
LME Nickel	10,430	3.2%	18.3%	-	-
Precious Metals	**Close**	**Weekly Change**	**YTD**	**Net Position**	**Weekly Change**
COMEX Gold	1,277.7	1.2%	20.5%	194,895	-15,702
COMEX Silver	17.9	1.5%	29.4%	61,996	-3,541
NYMEX Platinum	979.1	4.7%	9.8%	20,382	-4,946
NYMEX Palladium	617.6	-2.1%	9.9%	9,536	-2,903
Agriculture	**Close**	**Weekly Change**	**YTD**	**Net Position**	**Weekly Change**
CBOT Corn	354	1.6%	-1.4%	45,800	64,984
CBOT Wheat	411	2.0%	-12.6%	-76,742	30,828
CBOT Soybeans	1,003	1.1%	15.1%	110,697	17,697
Asian Commodities	**Close**	**Weekly Change**	**MTD**	**QTD**	**YTD**
Thai W. Rice 100% (USD/MT)	375.0	-0.3%	-3.4%	-3.4%	2.7%
Crude Palm Oil (MYR/MT)	2,784.0	-1.3%	0.3%	0.3%	16.1%
Rubber (JPY/KG)	179.4	5.5%	6.4%	6.4%	21.8%

Source: Bloomberg, CFTC, OCBC Bank
Note: Closing prices are updated as of 31 October 2016
Note: Speculative net positions are updated as of 18 October 2016
Note: Speculative net positions for Aluminium and Nickel are unavailable

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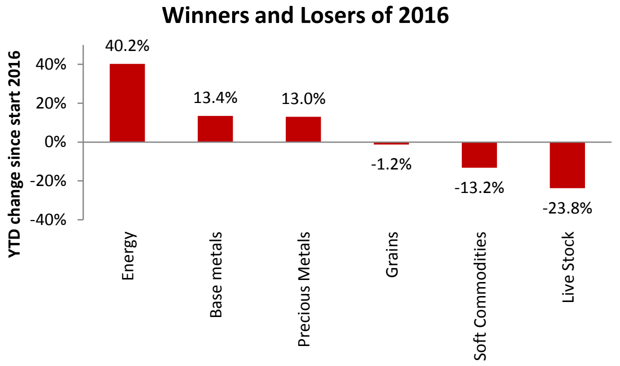
The hope for a rosier 2017

For what's left of 2016

In the first 9 months of 2016, the recovery in commodity prices has only been seen in selected areas, namely gold, silver and crude palm oil. Others like the energy sector and the base metals complex, traditionally recognized as growth-related commodities, have remained in the doldrums. In the Platinum Group Metals (PGM) space, platinum and palladium have also fallen starkly from 2015's levels given its quasi industrial-precious status amid the overall weak global macroeconomic fundamentals.

Nonetheless, various supply-demand drivers have lifted selected commodity prices into the third quarter of this year, and should continue till year-end assuming ceteris paribus. Changing fundamentals especially in the energy sector have lifted crude oil futures of late, as market-watchers monitor the possible production deal to be made in the November OPEC meeting. Supply shocks seen in nickel, tin, and zinc, especially with mines closure in the Philippines and falling mine yields in Australia, have led these metals to outperform its peers in the base metal space. Weather extremities owing to the El Nino phenomenon have also lifted crude palm oil prices, with the vegetable oil printing its high since 2012.

But for what's left of this year, the one thing that has not changed is the atmosphere of uncertainty, alongside the sustained weakness in the global macroeconomic backdrop. Owing to the rising probability for a Fed rate hike at the end of this year, we downgrade our gold outlook to $1,300/oz, with upside risk should the US Federal Reserve fails to deliver. Silver, which correlates closely with gold prices, should decline in tandem to our newly downgraded call of below $19/oz at end-year. Elsewhere, the prolonged flattish global growth, led by a decelerating Chinese growth in particular, would leave base metals such as copper to disappoint below its coveted $5,000/MT outlook that we previously envisioned.



Source: Bloomberg, OCBC Commodity Index

The crystal ball is still cloudy

The economic outlook into 2017 remains fairly uncertain - Key themes surrounding 2016, which includes negative spill-over effects from Brexit, slowdown in global trade activities, laggard Chinese growth and concerns over higher interest rates in key economies may persist into the next year. Monetary policy space in the majority of both developed and emerging economies are increasingly limited, and the tools available to policy-makers are likely restricted to fiscal measures and targeted economic/structural reforms. Moreover, growth downgrades by global agencies including the World Bank, International Monetary Fund, and the World Trade Organisation, are also advocating a fairly cautious environment into the next year. The consolation in the midst of all these bad news however, is the slow but gradual acceleration in global economic growth likely to be seen into the next year.

Translating this backdrop to the commodity complex, growth related commodities such as energy and base metals will be underpinned by this cautiously optimistic outlook. Similarly, traditional safe havens like gold and silver may then lose their shine should risk-on sentiments and yield-seeking behavior dominate. Still, we remain concerned over these wildcards: the uncertainties including the aftermath of the US Presidential Elections, UK's eventual triggering of Article 50, sustained deceleration of Chinese economic growth, all of which combined, paint an extremely cloudy outlook and consequently, a volatile market.

Indeed, the downturn seen in the commodities sector has been around for many years, and each new-year's hope is for prices to eventually recover from its rout. Into 2017, our hope for a recovery especially in growth-related commodities is chiefly underpinned by the slow (but sure) recovery in global economic fundamentals. There is however a possibility, that event-driven negative spill-over effects may give rise to risk-off sentiments, and commodity prices may behave just like how it did in 2016.

But hope is Hope. And our hope is for global growth to accelerate further into 2017, while negative spill-over effects from the above-mentioned wildcards to stay contained. Volatility is here to stay into the next year. At the very least, the green-shoots that can be seen already in 4Q16 is a comfort to those who hope for a rosier economic backdrop into 2017.

Gold: Risk off or risk on? Aye that's the question.

Highlights

- Gold has been largely supported by risk-off sentiments since the start of 2016, led by Fed rate hike concerns, slowing Chinese growth, and the unexpected Brexit outcome. Subsequently, the relatively healthier risk appetite into 2H16 amid an increasing probability for higher US interest rates led dollar higher and gold lower.
- Into 2017, the relatively cloudy economic backdrop should mean another year of volatility especially for gold – the metal should flourish on safe haven demand, while any upside economic surprises would encourage the search for yields instead.
- Our base case scenario is for global growth to accelerate, albeit gradually, into 2017. With the US being one of the bright-spots next year, the Federal Reserve is expected to raise interest rates by December 2016, and another two times in 2017.

Improved risk appetite seen in 2H16

We have traditionally recognized three main drivers that influence gold prices: (1) gold being a safe haven, thrives on uncertainties, while (2) lower interest rates reduces the opportunity costs of holding gold. Finally, given that (3) gold is a dollar-denominated commodity, it is naturally a dollar-hedge.

It is by the same drivers that gold has trended year-to-date. Since the start of the second half of 2016, global economic data has been generally positive, and thus supporting risk-on sentiment and the search for yield. At the very least, commodity prices have largely pointed north, given that the financial market volatility following UK's vote to leave the European Union has been generally contained. Beyond that, the improving US labor market amid fears of unnecessary prolonged low interest rates have led markets to believe a rate hike by the end of this year. Gold prices, being a safe haven asset, has invariably declined on the stronger greenback and improved risk appetite.

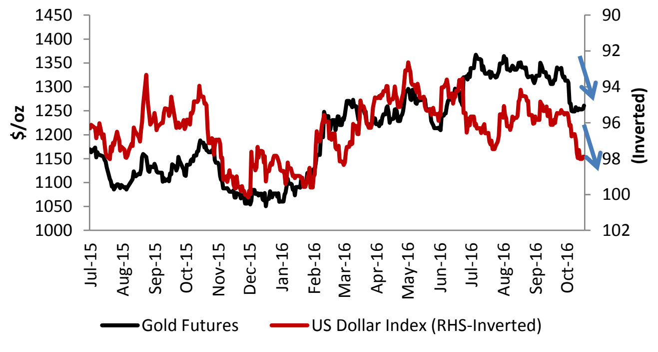
Assuming that the FOMC does hike interest rates at the end of this year, gold prices should stay range-bound and average $1,300/oz in 4Q16 (current at the time of writing: $1,261.3/oz) into end-2016. In a nutshell, gold would have gained 22.6% since the start of this year, with most of its gains seen in 1H16 given the many economic concerns then.

More rate hikes amid global uncertainty

In the same vein, the relatively healthier US-centric economic prints, including labour and upside risk to inflationary pressures, are key factors that underpin further rate hikes into 2017. Empirically, US unemployment rate has fallen markedly from the 08/9 crisis levels, while initial jobless claims levels are at its multi-year low. Moreover, with oil prices pointing north at this juncture, upside risk to overall inflation pressures is likely to be seen into the year-end. Going by the central bank's goal of achieving maximum employment and stable prices, recent data seems to be in-line in achieving the Fed's dual mandate goal. With the strong correlation gold has with the dollar, the likely higher interest rate environment and the consequent firmer greenback should underpin a bearish case for gold next year.

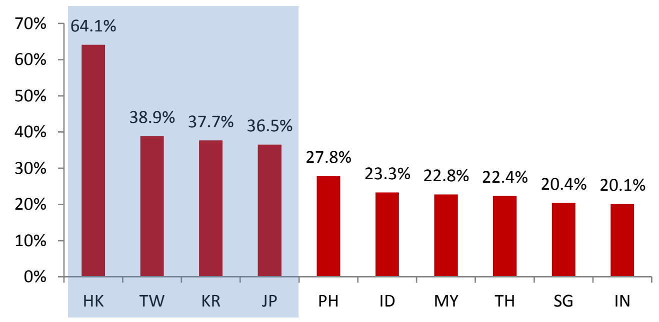
However, gold strives on uncertainties. There are many questions left unanswered as we step into 2017, as well as event wildcards before 2016 is up. Top of our list would be the upcoming November US presidential elections, where policy uncertainty and protectionism may likely surface. Interestingly as well is market-chatter over Donald Trump's proposed policies which may lift US federal debt levels and elevate unemployment levels into 2017. Tellingly, our study relating to this issue of protectionism reveals that Hong Kong, Taiwan, Korea, and Japan are highly susceptible to the rise in protectionism given their high trade exposure to both US and China. Elsewhere, the Italian constitutional referendum in December 2016 may inject political uncertainty especially if incumbent Prime Minister Matteo Renzi resigns should the referendum fail.

Gold is still tracking dollar value closely

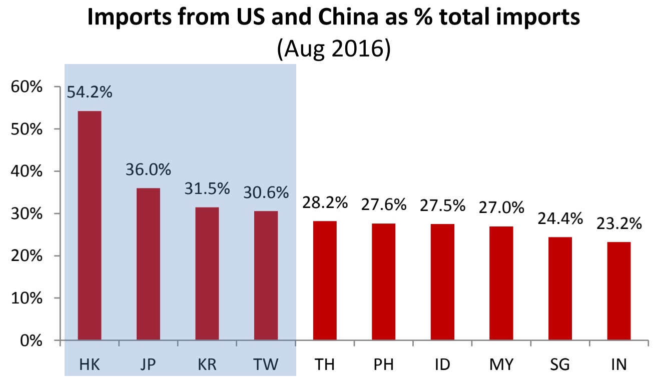


Source: Bloomberg, OCBC Bank

Exports to US and China as % total exports (Aug 2016)



Source: Bloomberg, OCBC Bank



Source: Bloomberg, OCBC Bank

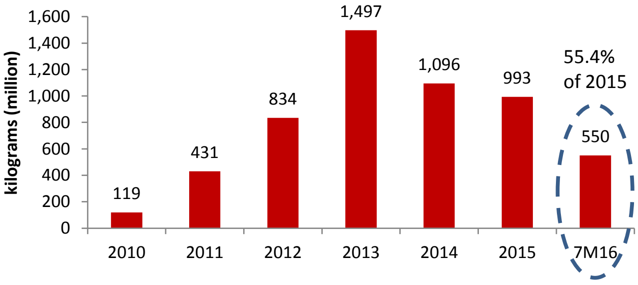
Further political risks may persist into 2017. We are faced with the United Kingdom's schedule to trigger Article 50 of the Lisbon Treaty in March, following Britain's vote to exit from the European Union, or known as the Brexit. At this juncture, the risks surrounding this issue have been largely contained, given the need for a "smooth and orderly" exit. Moreover, the withdrawal agreement would also have an ample two-year negotiation period post the triggering of the Article, meaning that the UK will only officially leave the EU no later than April 2019. We maintain our view for a "known unknown" aftermath from this issue – while we do know that Article 50 will be triggered in time to come, the degree of impairment it may bring to risk appetite and global growth is still uncertain. Other euro-centric political concerns would also include the planned Scottish Independence Referendum next year, which mirrors Britain's referendum to leave the European Union.

Physical demand update

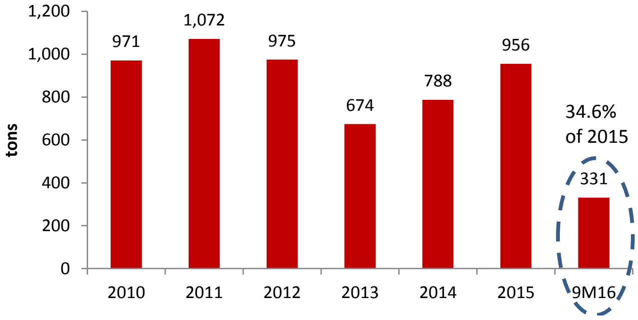
On contrary to the healthy investment demand for gold in 2016, physical demand has remained lacklustre over the same period. Empirically over the last 9 months of 2016, India and China's gold demand growth remained in contraction terms, accounting for only 34.6% and 55.4% of total 2015 imports, respectively. However, China's gold imports from Hong Kong have recently picked up of late, in tandem with the surge in gold premiums. This suggests that physical gold demand in China has recovered somewhat year-to-date.

Elsewhere in the G7 space, the 2Q16 gold demand data provided by the World Gold Council reflects a sustained healthy demand in the US (+33% yoy) amid flattish demand in Europe (-1% yoy). All-in-all, despite the fall in physical demand seen in 1H16, gold prices rallied markedly, suggesting that physical demand has little beta influence on prices.

Chinese gold imports from Hong Kong will likely contract for the third consecutive year



India gold imports are also far from previous glory



Source: Bloomberg, OCBC Bank

We agree that our argument so far has been rather conflicting – on one hand, gold prices are likely to trend in a bearish fashion given the hope for a rosier global economy and higher US rates into 2017. On the other hand however, the various exogenous uncertainties next year may give rise to safe haven demand.

Through the test of time, gold prices have correlated firmly with the value of the greenback, which consequently has been a function of interest rates in the US. Fundamentally, gold is a quasi FX-Commodity asset, and the sustained likelihood for the Federal Reserve to engage in further rate hikes into the next year should translate into a firmer US dollar then.

In a nutshell, barring a quick and sudden deterioration in risk appetite given the many event risks discussed earlier, our call for gold to trend to $1,100/oz in 2017 is largely underpinned by this driver alone. But for the remaining of 2016, the suspense given the US presidential election alone should be enough to support gold prices.

Crude Oil: The hope for a fully balanced market

Highlights

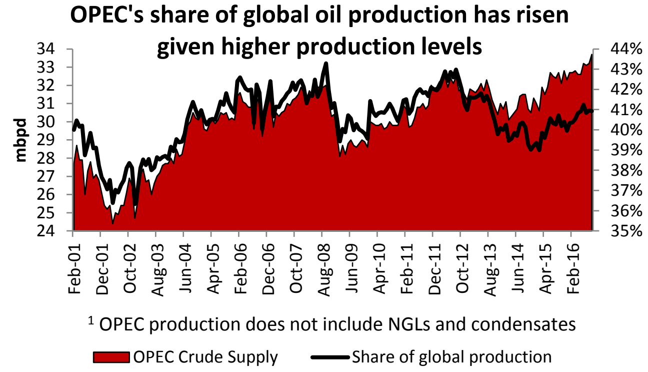
- Crude oil prices are expected to remain volatile into year-end given Russia's vagueness on its plans to trim output, amid suspense over OPEC's implementation of an output cut later in November.
- It is a binary scenario for crude oil next year: crude oil will push towards a rebalanced environment if a unified OPEC unanimously acts to effectively reduce oil production. The traditional acts of overproducing (despite having quotas), internal disagreements, and even exclusions from cuts by selected countries may delay the rebalancing yet again.
- We think OPEC has endured low oil prices for far too long, with much damage already done on both fiscal and social fronts. That alone should persuade the cartel to stay true to its production cut. Global growth should accelerate into 2017 and support crude oil demand. Collectively, these should give crude oil prices a welcomed boost into 2017.

So far so good?

Ever since the surprise announcement to limit oil production seen in the last informal OPEC meeting, oil prices have rallied for many weeks. On the technical aspect, the West Texas Intermediate (WTI) has been largely supported above its $50/bbl handle, with the Brent trailing slightly higher of late. It could be OPEC flexing its muscles once more in lifting prices, but it sure is effective in buoying oil prices.

However, new puzzle pieces are being revealed at every turn, puncturing the well-crafted impression of a unified OPEC cartel. Primarily, the production-cut proposed in the last informal meeting already has signs of disunion, given that Nigeria, Libya and Iran are excluded from the act. The exclusion would certainly give rise to the envy of others, as seen by Iraq's recent request for exclusion as well. Moreover, OPEC's persistent call for Russia to cooperate in cutting production has clearly suggested the cartel's inability to unilaterally influence oil prices. Importantly as well is Russia's ambiguity over its move to curb production, which cast doubt over OPEC's feasibility and efficacy in its bid to rally prices.

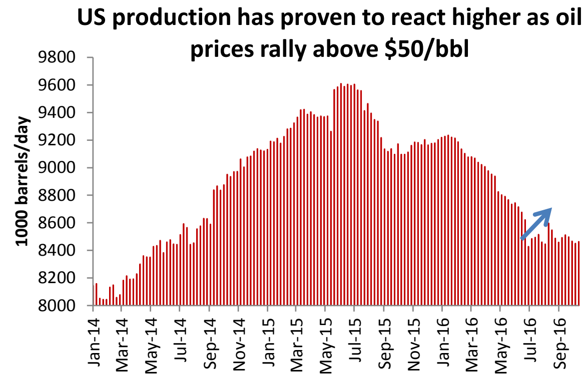
We had discussed the recent informal OPEC meeting in the last crude oil report – Nothing fundamentally has changed (29 Sept 2016). Many questions from then still lay unanswered, including if the proposed production cut to a range of 32.5 – 33 million barrels per day (mbpd) is sufficient to rebalance the market. Moreover, we still have doubts over the efficacy of this cut given the exclusion of Iran, Nigeria and Libya (accounts for a quarter of OPEC's production in 2005 – 2010)[1]. Should Iraq be excluded as well, a third of OPEC will be excluded from the production cuts, exacerbating the ineffectiveness of any production cuts in its November meeting.



Source: Bloomberg, OCBC Bank

US oil production may quietly return

Still, the collective oil production of OPEC and Russia is just one side of a coin – US oil production has clear upside risk into 2017 especially if oil prices stay above $50/bbl. Higher US oil production had already been seen earlier in June this year when crude oil prices rally above its $50/bbl mark, before trending sideways till-date. More starkly perhaps, is the higher oil rig counts for the 9th consecutive week, reinforcing this upside risk in oil production. Equally important as well, is US Energy Department's recent upgrade in its 2017 production forecast to 8.6 mbpd (+0.1mbpd) in its latest STEO report.



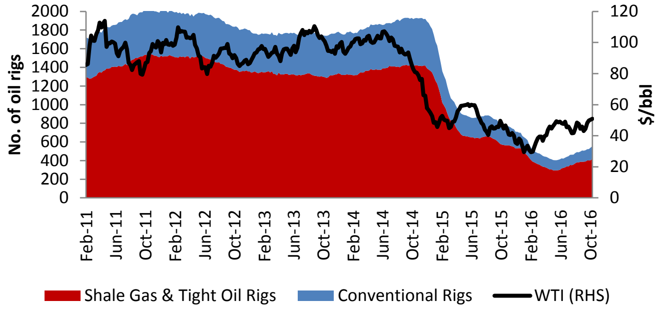
Source: Bloomberg, US Energy Department, OCBC Bank

The higher oil prices, despite the fragility seen in the OPEC cartel, suggests that market-watchers are betting on higher oil prices based solely on a short-term adjustment to crude oil production. We think otherwise - the downside in production

[1] A measure of production levels during 2005 – 2010 is more representative compared to current levels, as it captures the upside surprise these countries may inject should production rises.

from OPEC's traditional oil wells may be replaced by non-OPEC production. In a nutshell, OPEC would have to share the stage with shale oil producers, especially given the fact that the cost of production in US shale oil well had drastically fallen over the many years. With supplies likely to stay status quo, the only hope for higher oil prices into 2017 must be based on a rosier global growth environment and resultant healthier global oil demand.

US oil rig counts gained for the 9th consecutive week

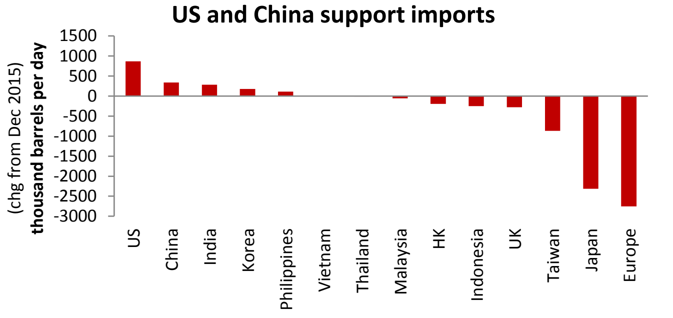


Source: Bloomberg, US Energy Department, OCBC Bank

Global demand outlook

The encouraging news is for the fact that global demand still appears supported. According to the Energy Intelligence Group, global oil demand grew to 97.6 mbpd (+1.5% yoy) in Sept 2016 and thus narrowed the supply glut from 3.7mbpd seen earlier in January 2016, to the latest 1.6mbpd. The higher demand is led by strong Chinese oil imports, which rose to its highest in 5 months to 8.34 mbpd (We assume 1:7.1475 ratio when converting from tons to barrels, divided by 30 days) although Europe's oil imports should likely disappoint into Sept (Aug's imports printed 13.6mbpd, or 2.8mbpd lower vs January's levels) given the sustained growth uncertainties. Elsewhere, US oil imports (8.1mbpd in July) will likely to stay supported on lower domestic production.

A mixed bag: Oil demand in Europe and Japan continue to disappoint, healthy fundamentals in US and China support imports



Source: Bloomberg, OCBC Bank

For what's left of 2016 and into 2017, oil demand should likely stay supported. Firstly, the relatively colder winters as compared to 2015's El Nino phenomenon should lift demand in the US. According to the US Energy Department, the average household expenditure for heating oil, propane, and natural gas are expected to be higher compared to the previous winter. Elsewhere, Chinese oil demand should stay strong into 2017 in part of the country's new strategic reserve site and higher processing capacity given the rise in numbers of small refineries, or more popularly known as teapots.

All-in-all, on top of higher US refined oil demand into the winters and China's sustained healthy imports into 2017, the overall oil demand environment into the next year should be underpinned by a rosier economic performance into the coming year.

Will the market balance?

We recognise four different factors that would have to come to play for oil prices to see a quick and sustained rally: (1) OPEC implements individual production quota to reinforce its overall quota of 32.5 – 33.0 mbpd, (2) the cartel to dictate how much production growth each of the excluded members can achieve, (3) Russia's concrete plans to limit oil production and lastly (4) sustained robust demand growth to sustain into 2017.

Without a doubt, we strongly believe that the oil markets will one day rebalance itself, be it by the invisible hand or by the workings of the OPEC. The question is when. We opine that the path of least resistance would be for the oil markets to fully balance itself by 2H17, as oil demand recover while supply growth decelerates.

The central argument for oil to trend higher into 2017 is largely underpinned by the rebalancing story. Should either side of the equation falter, either from OPEC's inability to unanimously limit production or from the sudden shortfall in demand, the oil climate in 2017 may behave just like how it did in 2016. But even if the above-mentioned four factors come to pass, the once $100/bbl seen many years ago is but a dream, while a gradual rally into the $65/bbl handle is likely the reality one wakes up to next year.

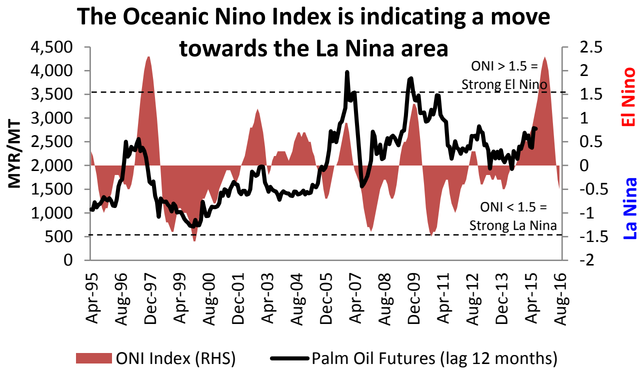
Crude Palm Oil: Weather extremities no more

Highlights

- Mother Nature has taken news headlines over the last couple of years – the El Nino extremity has come and gone, leaving many palm trees void of reasonable produce this year.
- The reactive La Nina however, is likely to be "weak and potentially short-lived", according to the National Oceanic and Atmospheric Administration (NOAA). This suggests that weather extremities may be behind us as we approach the new year.
- With supply shocks likely to be a thing of the past, overall global demand for palm oil should be the only aspect influencing palm oil prices.

Carry an umbrella at all times

Notice the higher frequency of rain in the last few weeks? Weather experts have since indicated the end of the El Nino phenomenon. Nature's compensation to this dry and hot condition would be the corresponding wetter season that Asia is facing at this juncture. Still, the experts are refraining from calling this a La Nina phenomenon, a condition seen from lower sea surface temperatures across the equatorial Eastern Central Pacific Ocean, above-average precipitation across North America, and torrential rains in Southeast Asia. Especially in the latter, it is the home to the majority of palm trees found in the world, and weather extremities does have profound effects on production levels and prices.



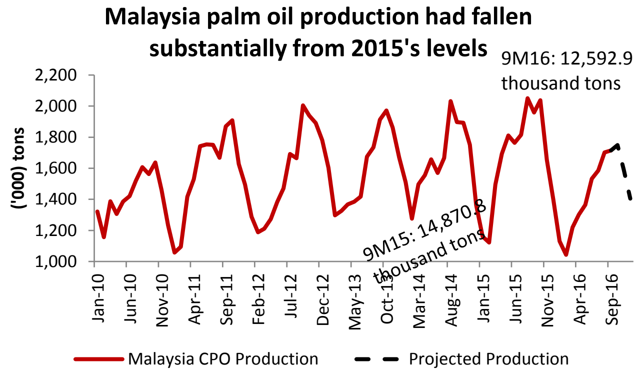
Source: NOAA, Bloomberg, OCBC Bank

For the palm oil industry, weather extremities are closely watched upon: the dry and hot weathers seen from the El Nino prevents quality produce and adversely limits overall production quantity. As for the La Nina, the unusually wet season give rise to poor harvesting conditions (floods), deterioration of soil quality, and shorter lifespan of the palm fruit (moisture increases the chance of rot). Should the La Nina come in full force, we may see another year of lacklustre palm oil produce and elevated prices. Conversely, if the weather normalises instead, the palm oil industry has to contend with the low base effect seen in production levels, and the ensuing ample supply should pressure prices lower.

The signs indicating for the coming of La Nina however, are weak. By May 2016, El Nino was officially dead, but a corresponding abnormal cooling usually seen is not observed. Models are indicating that the weather conditions are normalising, and at best, a weak and short-lived La Nina, should it occur in the first place. Statistically, the Oceanic Nino Index is only indicating a -0.2 print, a level too meagre for any suggestions for weather extremity.

Production thus far

Malaysia's palm oil production, which accounts for the second largest palm oil production behind Indonesia, has been extremely weak this year. With the effects of the El Nino likely to linger for approximately 9 to 12 months (the lag observed between the ONI index and palm oil futures), palm oil prices continued to rally post May 2016. Empirically, Malaysia's palm oil production clocked a measly clip of 12.6 million tons in the first 9 months of 2016, versus a bumper 14.9 million tons during the same period last year. Should palm oil production continue to stay lacklustre towards year end, Malaysia should see a record contraction in production by 13.2% on-year basis, a contraction even exceeding the shortfall during the 1998 El Nino occurrence.

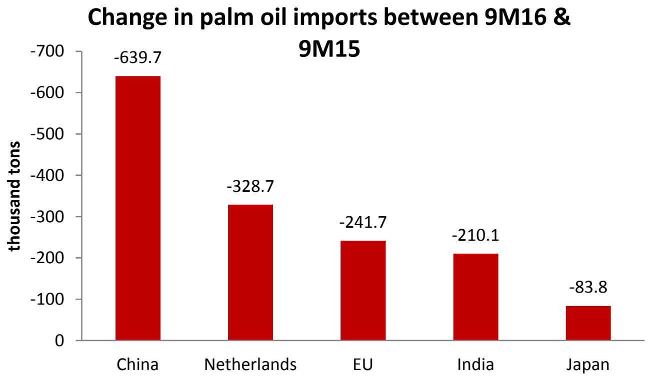


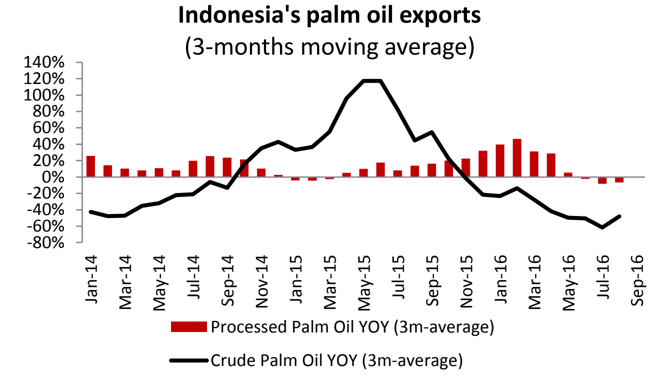
Source: MPOB, Bloomberg, OCBC Bank

Importantly, the shortfall in supplies in 2016 will serve as a low base effect for 2017. With tamer weather conditions, palm oil production should revert back to typical production levels, which averages an annual volume of 19.3 million tons during 2011 to 2015. In this case, the shortage seen in 2016 will eventually turn to abundance in 2017.

Demand has been lacklustre in 2016

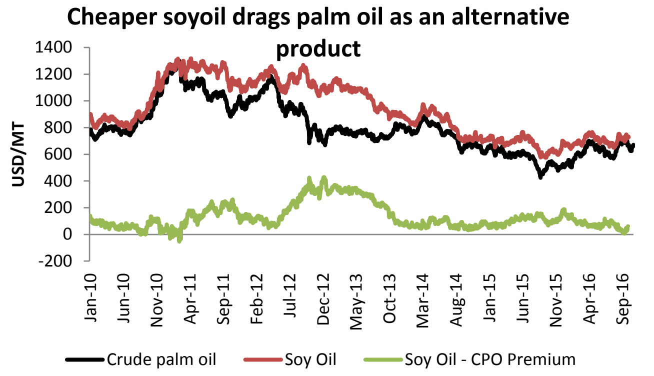
The bad news is, despite the shortage in palm oil production levels, palm oil exports seen in both Indonesia and Malaysia have shown some signs of weakness as early as May 2016. Emprically, Malaysia's top 3 export destinations, namely the European Union, India and China, had experienced contraction in palm oil exports in the first 9 months of this year. Similarly, Indonesia's processed palm oil exports, on a 3-month rolling average basis, have contracted for its third consecutive month till August 2016.

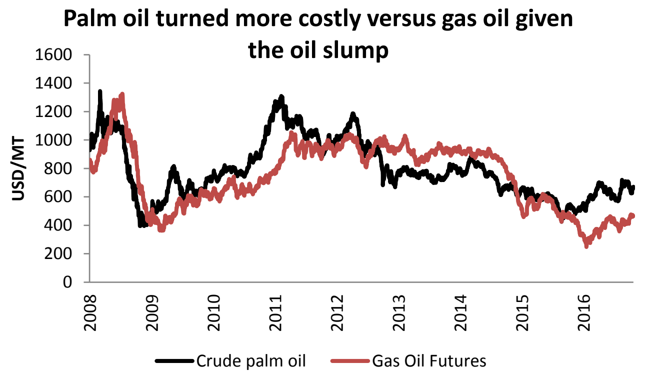




Source: CEIC, MPOB, OCBC Bank

This has presented a worrying trend for palm oil bulls, and serves as a reason as to why palm oil prices failed to rally to market consensus of MYR3,000/MT this year. In our view, the shortfall in palm oil demand globally is led by the fall in biodiesel demand given the low gasoline prices, and cheaper alternative cooking oil sources seen from relatively cheaper soyoil and rapeseed oil. The relatively expensive palm oil seen this year could have also driven China to release cooking oil reserves from state-owned inventories as an alternative source to palm oil supplies in 2016, thus explaining China's sudden fall in palm oil imports.





Source: Bloomberg, OCBC Bank

A year of ample supplies and falling demand

We have since presented a supply-demand view into 2017. In a nut-shell, signs are indeed pointing towards a year of ample supplies and weak demand. The resultant effect to this likely phenomenon would be for palm oil prices to correct lower into 2017 in order to stay competitive with both low gas prices, and alternative oils such as rapeseeds and soyoils.

For the rest of this year, the seasonally lower palm oil production in Malaysia and Indonesia should continue to support prices above its MYR2,700/MT into early 2017. However, once production tunes higher by April 2017, any upside in palm oil prices must then be supported by healthy demand. Should a robust palm oil demand continue to stay absent till then, prices would have to correct lower in order to achieve market balance, a scenario that we think is most likely to happen next year.

OCBC Commodity Forecast 2017

As of October 12, 2016			2016				2017				9M16	2016	2017
	3y AVG	Spot	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	%yoy	%yoy	%yoy
Energy													
WTI ($/bbl)	95.1	49.8	33.6	45.6	44.9	50.0	53.8	57.5	61.3	65.0	-18.8%	-10.7%	36.3%
Brent ($/bbl)	106.7	51.5	35.2	47.0	47.0	50.0	53.8	57.5	61.3	65.0	-24.0%	-16.5%	32.5%
Gasoline ($/gallon)	2.80	1.45	1.18	1.54	1.40	1.56	1.64	1.72	1.79	1.86	-21.3%	-13.2%	23.3%
Natural Gas ($/mmbtu)	3.61	3.20	1.98	2.25	2.79	2.78	2.91	3.03	3.14	3.25	-15.2%	-6.8%	25.7%
Precious Metals													
Gold ($/oz)	1,449	1,251	1,185	1,260	1,334	1,300	1,288	1,225	1,163	1,100	7.0%	10.6%	-6.9%
Silver ($/oz)	24.7	17.5	14.9	16.8	19.6	18.6	18.6	18.0	17.3	16.6	7.1%	12.6%	-0.3%
Platinum ($/oz)	1,476	939	919	1,007	1,091	1,074	1,089	1,061	1,031	1,000	-8.9%	-2.1%	1.2%
Palladium ($/oz)	725	645	526	569	680	674	674	648	622	595	-17.8%	-10.5%	2.6%
Base Metals													
Copper ($/MT)	7,378	4,814	4,669	4,728	4,793	4,850	5,063	5,125	5,188	5,250	-17.1%	-13.5%	8.3%
Tin ($/MT)	21,755	19,850	15,465	16,912	18,592	18,302	18,080	18,304	18,527	18,750	3.7%	7.8%	6.3%
Nickel ($/MT)	16,496	10,522	8,514	8,834	10,271	9,898	10,125	10,250	10,375	10,500	-27.4%	-21.0%	9.9%
Zinc ($/MT)	2,023	2,264	1,684	1,927	2,257	2,205	2,177	2,092	2,015	1,944	-4.4%	3.9%	1.9%
Aluminum ($/MT)	1,945	1,685	1,515	1,583	1,633	1,617	1,633	1,653	1,673	1,694	-9.5%	-5.7%	4.8%
Asian Commodities													
Crude Palm Oil (MYR/MT)	2,577	2,670	2,467	2,597	2,629	2,800	2,900	2,817	2,733	2,650	17.5%	19.7%	5.8%

Source:
Historical Data - Bloomberg
Forecasts - OCBC Bank
Note: Data reflects average price