

Thursday, July 19, 2018

OCBC Commodities Outlook – July 2018

Energy

Crude oil prices have pointed south of late, with WTI prices falling from its \$74/bbl high to its \$69/bbl handle in the recent week. Supply upside risks given higher OPEC and US oil production into 2H18 are effective price drags. The OPEC cartel has decided to raise oil production into 2H18. We keep our WTI and Brent outlook at \$65/bbl and \$70/bbl, respectively at year-end.

Base Metals

Growth-related commodity prices have tuned lower given the increased risk aversion led by US-Sino trade concerns. Copper in particular, fell by a eye-boggling 16.9% since its June's peak of \$7,294/MT to July's \$5,976/MT as market-watchers anticipate China's slowdown in semi-finished and intermediate good import demand. Manufacturing and durable products, ranging from semi-conductors, solar cells and modules and other semi-finished base metal products may see further fall in import demand should trade tariffs exacerbate in the foreseeable horizon.

Precious Metals

There are signs for further weakness in the precious metal space. Safe haven demand has not flowed into Gold and its precious metal cousins; market-watchers seem to prefer the greenback and US assets instead, with the DXY rising beyond its 95.0 handle of late. Physical and paper gold demand remained weak, while higher US interest rates into 2018 could cap gold's rally.

Agricultural

The key driver for the sustained weakness in crude palm oil (CPO) prices lies in the lacklustre global demand. Collective crude palm oil exports from Indonesia and Malaysia fell 61.9% y/y in May, the second consecutive month of contraction. India, being the world's leading vegetable oil buyer, saw its lowest palm oil import print at 75.3 thousand tonnes from Malaysia since March 2013, as importers were seen to grapple with the higher import tax for CPO. Still, the hope is for palm oil to rally further into 2019, given the need for a higher biodiesel mandate in both Malaysia and Indonesia then.

Commodities Performance Table

Updated as of 09 July 2018

Selected Indices	Close	Weekly Change	MTD	QTD	YTD
US Dollar Index (DXY)	94.0	-0.9%	-0.5%	4.5%	2.0%
Reuters / Jefferies (CRB)	198.1	0.3%	-1.2%	1.4%	2.2%
Dow Jones Industrial Avg	24,456	0.6%	0.8%	1.5%	-1.1%
Baltic Dry Index	1,622	14.1%	17.1%	53.7%	18.7%

Energy	Close	Weekly Change	Net Position	Weekly Change	YTD
NYMEX WTI Crude	73.9	-0.1%	693,179	-9,177	22.3%
ICE Brent Crude	77.2	-0.1%	447,801	-9,587	15.5%
NYMEX RBOB Gasoline	211.5	0.5%	102,466	4,433	17.5%
NYMEX Heating Oil	217.6	0.9%	50,485	1,847	4.8%
NYMEX Natural Gas	2.8	-0.6%	-100,660	-9,626	-3.7%

Base Metals	Close	Weekly Change	Net Position	Weekly Change	YTD
LME Copper	6,282	-3.7%	14,000	-10,866	-13.3%
LME Aluminium	2,080	-0.9%	-	-	-8.3%
LME Nickel	13,945	-4.2%	-	-	9.3%

Precious Metals	Close	Weekly Change	Net Position	Weekly Change	YTD
COMEX Gold	1,256.6	1.2%	69,056	2,737	-4.0%
COMEX Silver	16.1	1.6%	23,399	-1,159	-6.2%
NYMEX Platinum	848.0	4.3%	-6,314	126	-9.6%
NYMEX Palladium	949	1.6%	7,549	-1,304	-10.5%

Agriculture	Close	Weekly Change	Net Position	Weekly Change	YTD
CBOT Corn	360	3.8%	-7,648	-48,665	2.7%
CBOT Wheat	515	7.3%	7,566	-2,372	20.7%
CBOT Soybeans	895	2.9%	-31,398	7,510	-7.0%

Asian Commodities	Close	Weekly Change	MTD	QTD	YTD
Thai W. Rice 100% (USD/MT)	424	-2.3%	-2.3%	-8.4%	-0.7%
Crude Palm Oil (MYR/MT)	2,266	-2.7%	-2.6%	-6.6%	-9.5%
Rubber (JPY/KG)	170	-2.2%	-3.6%	-7.7%	-17.8%

Source: Bloomberg, CFTC, OCBC Bank

Note: Closing prices are updated as of 09 July 2018

Note: Speculative net positions are updated as of 10 July 2018

Note: Speculative net positions for Aluminium and Nickel are unavailable

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Recap: OCBC 2H18 Commodities Outlook

Uncharted Territories

The commodities complex has turned increasingly volatile (and interesting) to-date, following the effects geopolitical and policy uncertainties can have on the commodity space. Meanwhile, despite the risk aversion to-date, gold prices have failed to rally on safe haven demand, in which our report serves to explain this phenomenon. Elsewhere, previous bull expectations on the crude oil space remains on tenterhooks, following OPEC's decision to raise oil production into the second half of this year. Palm oil prices rather, continues its soft trajectory despite the ongoing trade tensions that could potentially raise Chinese demand on Asia's palm produce.

The second half of 2018 will likely give us further color on how these uncertainties can play out, though chances is that more questions than answers would likely surface. With these uncertainties in focus, the commodity outlook has been clouded by market guesswork on how policies and geopolitical happenings could materialise into the months ahead. While we present our commodity outlook and price forecasts into end-year, we do recognise that we are still in uncharted territories.

Delving into gold, crude oil and crude palm oil

First off, gold prices faded lower despite the uptick in risk aversion into June, highlighting gold's disfavor with investors as a safe haven asset to-date. Since the start of 2018, gold prices declined from its \$1,300/oz handle to as low as \$1,224/oz of late.

The yellow metal's 60-day correlation with the greenback tuned stronger into May to as strong as -0.77, suggesting that much of gold's movement has been predicated by dollar trend. Fundamentally, the relatively rosier US-centric economic indicators have supported dollar strength, led by strong job gains, lower unemployment levels, higher household spending and business fixed investment. Elsewhere, the surprisingly dovish central bank rhetoric by the ECB and BOJ also gave the greenback further strength into June. We downgrade our gold outlook at \$1,300/oz at end-year. Still, while a firmer dollar story into 3Q18 could potentially keep gold bulls at bay, some unwinding of dollar strength in 4Q18 will likely give gold the necessary boost to our year-end target.

In the energy space, oil prices may continue to dip further into the months ahead, following OPEC's decision to raise production into 2H18. Still, note that the proposed rise in production is considered to be small, given a total of 2.4 million bpd of production cut seen since 2016. Information regarding who and by how much the production hikes may affect remains

to be an unknown at this juncture. Further upside risk in US-led oil production cannot be ruled out. US crude oil production rose to new record highs of 10.9 million barrels (+16.6% y/y) as of 15th June 2018, just second to Russia's 11.1 mbpd production pace. Oil-rig counts continue to gain as well into end 1H18, a leading indicator that US-led production will likely grow further into 2018.

Note that global fundamentals indicate that supplies have surpassed demand seen since March 2018, and any exacerbation of the supply glut may persuade oil prices lower. Accounting for further upside risk in oil production into 2H18 given potentially higher US and OPEC supply, we continue to see lower WTI and Brent prices into the second half to touch \$65/bbl and \$70/bbl, respectively.

Lastly, the disconcerting aspect of palm oil prices is the surprisingly weak demand despite the recent Ramadan season. Demand has been surprisingly weak into July 2018, a key driver for falling palm oil prices of late. Statistically, Malaysia's crude palm oil exports in June fell 33.1% y/y to 140.8 thousand metric tonnes, marking its second straight month of y/y decline. Indonesia's crude palm oil exports have also contracted by five consecutive months into May 2018. Collectively, crude palm oil exports from Indonesia and Malaysia fell 61.9% y/y in May, the second consecutive month of contraction.

Trade tariffs and China's threat to restrict soybean imports from the US should drive palm oil prices higher, though it remains to be seen at this juncture. Should history be of reference, palm oil prices surged on fresh trade tariff-related news in April 2018, highlighting market bets over potentially higher Chinese palm-related imports. The prospect for higher China's palm oil import demand into 2H18 could still play out given China's import tariff against US soybeans. In fact, orders for nearly 1 million tonnes of US soybean exports were cancelled in May, according to US government data, leading market-players to suspect that the shortfall in Chinese demand was the cause of this phenomenon. However, cheaper soybean was also attracting soybean buyers to soak up US excess supplies, seen in the recent sales print as of 5th July 2018.

We continue to stay bearish over palm oil prices into 2H18 given the fundamental picture. With supplies likely to print higher into the third quarter amid lackluster demand, we keep our 3Q price outlook at MYR2,250/MT with downside risks, before seeing some recovery to our MYR2,400/MT estimate into year-end as supplies dwindle then.

Crude Oil: Risk off appetite to drag growth-related commodities

Highlights

- Supply upside risks ranging from higher OPEC and US oil production into the second half of 2018 are effective price drags. Note that US oil production printed 10.9 million bpd to-date, a notch below Russia's 11.1 mbpd. The OPEC cartel has decided to raise oil production into 2H18.
- Policy uncertainties however, remain to be wildcards that are highly unquantifiable but significant drivers. These consist of US-led sanctions against Iran and Venezuela, which in turn resulted in Iranian threats to close the Strait of Hormuz.
- We think that there are more downside risks to oil prices as seen from the fundamental backdrop, though policy uncertainties amid trade war concerns could prove to be strong drivers in determining oil prices. We keep our WTI and Brent outlook at \$65/bbl and \$70/bbl, respectively at year-end.

Clouding fundamentals

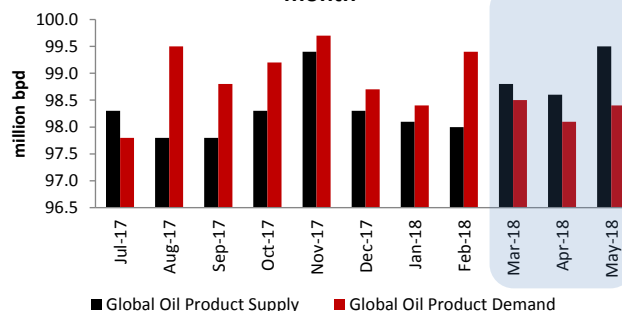
Energy prices are arguably supported by political uncertainties, specifically US-led sanctions against Iran and Venezuela which threatens to limit oil supplies from these regions. Coupled with Iranian threats to close the Hormuz Strait in early July, oil market-watchers were left little choice but to price-in further supply threat from potential shipping disruptions.

Indeed, with the Hormuz Strait accounting for about 40% of total oil trade by sea, it makes this narrow trade artery a highly important location for international trade. However, estimates as to how oil prices could react should the strait closes its doors may prove to be hard to model. This is due to the fact that (1) the Hormuz Strait was not been closed since July 1972 despite repeated Iranian threats in recent years and (2) the shortfall in supplies may be so extreme that oil prices could react in an unforeseeable fashion. Oil traders however appeared nervous to-date given the uptick in oil prices, despite the intensified US-Sino trade tariff environment which should drag growth-related commodity prices.

Accounting for the increased uncertainty in the geopolitical arena, we note that these factors are clouding the fundamental backdrop. As of May 2018, global oil supply has outpaced demand for three straight months, led primarily by higher US and Russia oil production to-date while OPEC's oil production stabilised around its 31.8 million barrels per day (bpd) handle. Further upside risk to overall global supply remains: US oil production rose by almost 2.0 million bpd since January 2017 to June's print of 10.9 million bpd. Into end-2018, the US Energy Information Administration views total US oil production to rise to an average 10.8 million bpd (currently 6M18 average:

10.4 million bpd). Moreover, the OPEC cartel cited its decision to raise oil production into 2H18, where market estimates suggest that the increase can be between 600k – 1 million bpd.

Global supply surpassed demand for the third month



Source: Bloomberg, OCBC Bank

“As easy as drinking water”

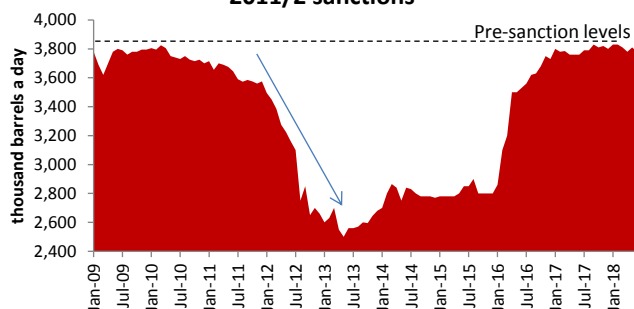
We think that the closure of the Hormuz Strait is likely a low probability event: The Iranian President Hassan Rouhani's threat to close the strait came just as Europe failed to give the guarantee to provide economic benefits and protections that were initially built into the 2015 nuclear agreement. Europe's reluctant to give the assurance can be understood; fresh US-led sanctions will also likely target foreign businesses that continue to deal with Tehran. However, closing the Hormuz Strait will likely not be easy, or at least, not “easier than drinking a glass of water” should we quote the Iranian navy chief Habibollah Sayyari back in 2011.

First, Iran's verbal threats in history have rarely echoed in reality. Back in 2011/2, Iran's threat to block the Hormuz Strait through the increased naval drill and missile tests activities was met with a series of disagreeing rhetoric by the Middle East as well as from US and Europe. The US-Europe coalition navy response then were also effective in preventing the closure, suggesting that Iran's navy size is insufficient for a sustained physical blockade of the strait. Should history be of reference, the increased military presence in the Hormuz Strait back in 2011/2 had raised market concerns over a potential navy military conflict, a scenario that Iran would likely want to avoid.

Second, and more importantly, closing the Hormuz Strait could mean to be more devastating to Iran's economy. While the world depends on the Hormuz Strait for 40% of global oil supply, the strait itself is also the gateway into Iran's seaborne trade. Moreover, the exports of crude oil and its derivatives account for nearly 80% of Iran's total exports while oil export

revenues provide half of the nation's government revenue. It is a classic case of choosing the lesser evil perhaps, in this regard allowing sanctions to partially hinder Iranian's oil exports vis-à-vis choosing to place a full export stoppage that would severely hurt Iran and its neighbours. If history ought to play out, Tehran should wisely choose to keep the Hormuz Strait open, while enduring a potential 1.2 million barrels of production shortfall due to the sanctions.

Iranian oil production fell significantly during 2011/2 sanctions



Source: Bloomberg, OCBC Bank

Demand to trend with trade war

The recent intensification of the US-Sino trade tensions would have clear implications for energy prices as well, including crude oil. Crude oil as a growth-related commodity would eventually depend on three key variables: trade activities (shipping/transportation fuel), household income (gasoline/distillate demand) and overall GDP growth (refining/manufacturing demand).

Our in-house analysis on growth impact to Asia as a result of trade tensions yielded unsurprisingly conclusions; with most of Asia being export-oriented with dominant manufacturing activities, the threat to its external environment will negatively affect energy demand based on the above three stated variables. In a nutshell, the ongoing trade tariffs, should it intensify further, will further drag energy demand as export and manufacturing demand shrinks. Importantly as well, many of

the Asian economies are sizable oil consumers, including China (2nd largest oil consumer globally), India (3rd), Japan (4th), South Korea (8th), Indonesia (14th) and Singapore (17th).

Trade War Analysis: GDP impact from trade war

Total Trade (y/y)	SG	CN	JP	KR	HK	MA	ID
Empirical 5M18	5.7%	16.6%	11.6%	10.9%	10.1%	17.1%	16.9%
No tariffs	4.0%	7.0%	7.3%	8.7%	7.0%	7.6%	9.1%
Stopping at \$50bn	3.3%	6.5%	6.8%	8.1%	6.5%	6.5%	8.6%
Full blown at \$250bn	2.2%	3.0%	3.1%	3.7%	3.0%	3.5%	4.5%
Impact to GDP	-0.3%	-0.5%	-0.2%	-0.3%	-0.3%	-0.3%	-0.1%

Source: OCBC Bank

What to believe then?

We recognise that there are conflicting drivers that could swing crude oil prices either way. Geopolitical uncertainties surrounding US-led sanctions against Iran and Venezuela and the risk of blockage in the Hormuz Strait are factors that could potentially lift oil prices in an unforeseeable fashion. Recent worker strikes in Total's operation in Gabon started and Shell's oil field in Norway also adds to further supply disruptions.

However, we observe that these drivers are likely to be short-lived, considering how history played out in the previous 2011/2 Iran threat to close the Hormuz Strait (which saw crude oil prices rallying by a mere 2.0% before profit-taking ensued quickly). Even so, there remains little surety that the Hormuz Strait may be closed in the near-future, while evidences suggested that Iran has neither little means nor incentive to do likewise.

We still think that fundamentals will eventually prevail, and play a dominant role in determining how prices may move into year-end. To that end, we remain concerned over the expanding supply environment, which in turn led to three straight months of over-supplies into May 2018. Moreover, the uptick in US oil rig counts and overall US-led higher oil production will likely persist into 2H18, amid potentially higher OPEC-led supplies as well. Coupled with likely moderation of global growth and oil demand into 2H18, oil prices should trend lower into end-year.

Gold: Hardly a safe haven, neither an investment

Highlights

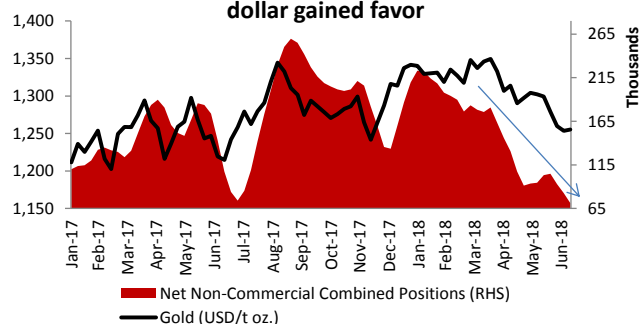
- Risk aversion rose on heightened trade war concerns. With trade war risks exacerbated given US Trump's intention to further impose a 10% tariff on another \$200 billion of Chinese imports, risk appetite tuned softer seen from weaker EM equities and fund outflows.
- However, in a move seemingly to defy logic, safe haven demand has not flowed into Gold and its precious metal cousins. Gold has been declining since its April peak to its \$1,240/oz (-8.8% from April's peak) handle. On the contrary, market-watchers seem to prefer the greenback and US assets instead, with the DXY rising beyond its 95.0 handle of late.
- Not all risk aversion issues are identical, and neither are market reactions to them. Importantly, the nature of the risk off issues is pertinent in explaining gold's lacklustre status; US-led trade tariffs can reduce US reliance on foreign imports, amid a relatively stronger US economic fundamentals to-date. These factors can give the dollar wings, and dull gold's value as a dollar hedge.

"The trend is your friend"

Many market-players can remember Mark Zweig, the famous US stock investor and investment advisor who had forecasted the 1987 market crash and is well known for his popular quote "The Trend is Your Friend Until The End When It Bends".

Should we employ the trend logic in eying gold prices, gold bulls can have much to worry about at the current juncture; amid falling gold prices since its April's peak, demand trend seen in both net long positions as well as in ETF demand have declined considerably as well. Physical gold demand seen in both India and China has been relatively weaker: India's gold imports contracted for six consecutive months in June, while China gold imports from Hong Kong similarly contracted for three consecutive months into April 2018.

Net-long speculative interest in gold declined as dollar gained favor



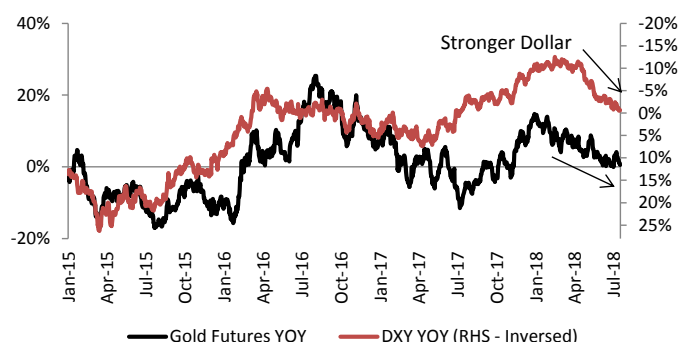
Source: Bloomberg, OCBC Bank

Beyond mere trend observation, careful investigation into gold's fundamentals reveal investors' disregard for gold even during these times of risk aversion. We observe three key factors that dragged gold prices despite elevated risk aversion: (1) the relatively rosier US-centric economic indicators have supported dollar strength, led by strong job gains, lower unemployment levels, higher household spending and business fixed investment, (2) the surprisingly dovish central bank rhetoric by the European Central Bank (ECB) and the Bank of Japan (BOJ) of late has also elevated dollar strength and (3) trade tariffs imposed by the US to narrow its trade deficit can be dollar boosting in nature.

Masking the trade war concerns

Our argument for gold's weakness has been underpinned by dollar strength, as seen from the drivers stated above. Indeed, the strengthening dollar seen since mid-April beyond its 95.0 handle of late is perhaps a natural driver in dragging dollar-denominated asset prices, especially the yellow metal. However, we note that the 60-day Gold-DXY correlation strength has weakened considerably to -0.36 into the third-week of July, down from its -0.77 print seen in May. The weakening correlation is driven by a faster fall in gold prices relative to DXY's range-bound behavior around its 94-95 handle since mid-June.

Dollar movement continue to dictate gold trend



Source: Bloomberg, OCBC Bank

We believe that this phenomenon tells a deeper tale; the relatively rosy US-led economic growth, US-policies including tax cuts and other economic stimulus implemented by the Trump administration have been masking the negative effects of trade barriers. Should we refer to the Fed Chairman Jerome Powell's recent testimony, the negative effects of US trade barriers have yet to translate into economic prints. On the contrary, June's US factory production rebounded by the most in four months, while retail sales expanded by five straight months to-date.

More importantly, the positive US-led economic prints and potentially stronger inflation into the year reinforced market expectations for FOMC rate hikes into 2018 and 2019. The recent Fed Beige Book highlighted the risk of US tightening labour market seen from the lack of skilled workers and rising raw material costs. These factors are potentially inflationary in nature and could persuade policy-makers to hold true to its four rate hike projection into 2018. Higher interest rates can further exacerbate gold's weakness, given its zero-interest yielding nature as investors adopt yield-chasing behavior.

Our advice: Don't catch a falling knife... yet!

For now, the signs are clear. Coupled with the weakening paper and physical gold demand, the strengthening US economy and higher rates environment are persuasive drivers to keep gold bulls at bay. The Gold-DXY correlation may continue to play out as well, as a weaker gold backdrop may persist especially if dollar strength is seen into the coming quarter.

In a nutshell, gold's weakness has been largely driven by dollar strength and the relative-rosy US-led economic growth. In a natural course of logic, the return of gold to our year-end outlook of \$1,300/oz (versus June's average of \$1,284/oz) must be fundamentally supported by further deterioration of risk appetite into year-end. Should we play the devil's advocate, the US-Sino trade tariffs are clearly in its early stages, and could warrant further global growth drags should it exacerbates further.

As such, we think that gold's weakness may be short-lived should the pace of global growth expansion slows into 4Q18. Moreover, while a firmer dollar story into 3Q18 could potentially keep gold bulls at bay, some unwinding of dollar strength in 4Q18 will likely give gold the necessary boost to our year-end target of \$1,300/oz.

Palm Oil: Weak demand to drag prices

Highlights

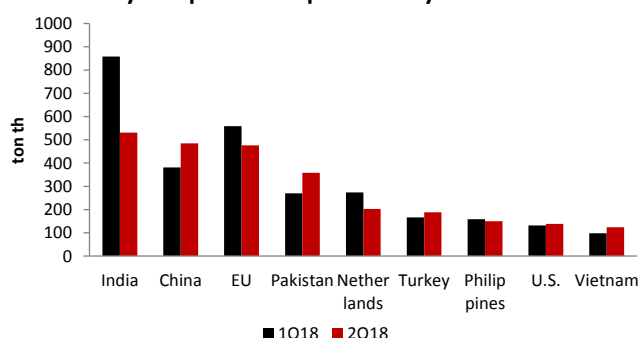
- Lacklustre CPO demand has been the key source of price weakness of late. Collective crude palm oil exports from Indonesia and Malaysia fell 61.9% y/y in May, the second consecutive month of contraction.
- Stronger supplies especially out of Indonesia exacerbated the bearish trend. Indonesia's May palm oil production rose to 4.2 million tons, up from April's 3.7 million tons. Collectively, both Indonesia and Malaysia's palm oil stocks rose into their latest print, suggesting abundant supplies amid poor demand.
- External factors including weather conditions and trade tensions did not aid palm oil prices either. Cheaper soybean futures attracted non-Chinese buyers, even as Chinese soybean imports from the US fell in recent prints. We continue to see further downside risk for palm oil prices into 3Q18, before seasonal factors rally prices back to its MYR2,400/MT.

Lacklustre demand led prices

For those who are wondering why palm oil prices tumbled so weak into the start of the second half, look no further than the weakening demand trend seen since April 2018. Collective crude palm oil exports from Asia key palm oil producing nations, specifically Indonesia and Malaysia, saw a surprising export contraction (-15.7%) in April, the first double digit contraction since August 2017. Moreover, the declining exports continued into May (-61.9%, the deepest contraction seen between 2008 – YTD). Volume-wise, Malaysia's slowing CPO exports into May at 107k, lowest since April 2015, is particularly disconcerting owing to market-expectations for exports to stay buoyant on pre-Ramadan demand.

Across countries, poor palm oil demand has been emanating specifically from India and EU, where both economies have seen two consecutive months of y/y contraction of Malaysian palm oil imports into June. India, being the world's leading vegetable oil buyer, saw its lowest palm oil import print at 75.3 thousand tonnes from Malaysia since March 2013, as importers were seen to grapple with the higher import tax for CPO (44%, up from 30%) and RPO (54% from 40%). The hike in import tax is expected to further dent overseas purchase of palm oil and its refined products from both Indonesia and Malaysia into 2H18.

Malaysia's palm oil exports to key destinations



Source: MPOB, OCBC Bank

Moreover, production continues to stay high despite poor demand. Specifically, Indonesia's total palm oil production crossed its 4.0 million tons handle in May, the first time it did so since Nov 2017. In response, Indonesia inventories also surged to 4.8 million tons, against its two-year average of 2.7 million tons. Malaysia in turn, also saw higher inventories into June, despite three months of month-on-month contraction in production trend seen to-date, an evidence that both domestic and external demand continue to taper lower.

Supplies are to grow into 3Q18

Many will agree that palm oil production is a function of labour, season and acres. Seasonally, palm trees are the most productive from April to October. Moreover, given that an oil palm tree takes about four years to produce fruits suitable for harvest, the planting schedule in the previous years will also determine the production cycle into 2018. In other words, Asia's palm oil production pipeline will proceed despite lower palm oil prices to-date.

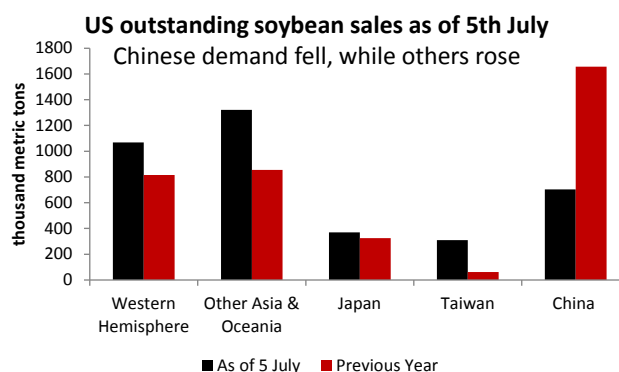
Should we revisit official production estimates, it appears that there is more room for production to grow into 2018. The Malaysian Palm Oil Board (MPOB) targets Malaysia's palm oil production to rise 3.0% to 20.5 million tonnes, while empirical production clocks a mere 8.9 million tonnes in the first six months of this year. Elsewhere, the Indonesian Palm Oil Association (GAPKI) also targets palm oil production to grow to 36.5 million tonnes in 2018, in which Indonesia has fulfilled 18.4 million tonnes in the first five months.

Hope for higher palm oil prices

So far our discussion has centered on palm oil fundamentals, and its effects on lower prices to-date. Technically, the poor fundamentals seen into early 2H18 is by far the most convincing factor that dragged prices to below MYR2,200/MT in the recent print.

However, palm oil prices are also influenced by energy prices, which have been rising since June 2017. The rising crude oil prices to its 3.5 year high have been a persuasive reason for Malaysia and Indonesia to raise their biodiesel mandate into the next year. In fact, it is recently reported that Indonesia's Energy Ministry is aiming to raise Indonesia's biodiesel mandate to at least 25% in 2019, which could pave the path for palm oil to return to an upward trend into 2019. In Malaysia, the biodiesel mandate at 7% is also projected to rise to 10% into 2018, according to the Malaysian Biodiesel Association as well, which could raise domestic consumption of palm oil into end-year.

Lastly, the prospect for higher China's palm oil import demand into 2H18 could still play out given China's import tariff against US soybeans. In fact, orders for nearly 1 million tonnes of US soybean exports were cancelled in May, according to US government data, leading market-players to suspect that the shortfall in Chinese demand was the cause of this phenomenon. However, cheaper soybean prices were also attracting soybean buyers to soak up US excess supplies, seen in the recent sales print as of 5th July 2018.



Source: USDA, OCBC Bank

Path of least resistance

Given the risk of expanding supplies amid poor import demand from India and EU, the prognosis for palm oil prices would likely be a bearish one. With CPO futures touching its Sep 2015 low of MYR2,147/MT in mid-June, the fall in prices is a clear testament that the fundamental outlook to-date is not supportive for higher prices. Should supplies continue to expand amid poor demand, we look for palm oil to see a potential support of MYR2,050/MT into end 3Q18, before a rally back to MYR2,400/MT into year-end given weakening supplies then. Still, the hope is for palm oil to rally further into 2019, given the need for a higher biodiesel mandate in both Malaysia and Indonesia then.

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