

OCBC Commodities Outlook – April 2018

Energy

Prices are getting increasingly volatile. Conflicting drivers over production trends (US vs OPEC) as well as intensifying geopolitical tensions led oil-watchers on a roller-coaster ride. For now, prices pointed north on increased risk premium given U.S. missile strike against Syria over the weekend. However, note that fundamentals will likely triumph over these issues especially if it proves to be short-lived.

Base Metals

US-led sanctions against Russia-based aluminium producer Rusal left aluminium futures surging in the recent week. Rusal is the largest aluminium producer outside of China and accounted for a sizable 7% of global supply. Elsewhere, China's copper import demand recovered from its CNY-induced Feb low (March: +1.86% y/y). In a nutshell, overall higher base metal prices into the week suggest ebbing trade war concerns and better risk-taking appetite of late.

Precious Metals

Precious metal prices, especially seen in gold and silver, remained range-bound. The fact that the yellow metal crossed its \$1,350/oz suggests safe haven demand given trade war and geopolitical concerns. With dollar weakness expected into year-end, coupled with the multitude of uncertainties in the backdrop, we upgrade our gold forecast to \$1,400/oz at year-end (up from \$1,150/oz made in Dec 2017).

Agricultural and Asian Commodities

Trade war concerns have mixed effects on the overall agricultural space. Chiefly, palm oil prices rallied beyond its MYR2,500/MT despite the tame MYR trend, suggesting that market-watchers were likely pricing in a potential uptick in Chinese demand following China's decision to impose import tariffs on US-grown soybeans. However, soybean futures fell 5.8% from its March peak, although prices are seen to be recovering to date. Note that both palm oil and soybean futures have reverted to pre-trade war levels, suggesting that market-watchers have effectively discounted the said risk.

Commodities Performance Table

Updated as of 16 April 2018

Selected Indices	Close	Weekly Change	MTD	QTD	YTD
US Dollar Index (DXY)	89.8	0.0%	-0.2%	-2.5%	-2.5%
Reuters / Jefferies (CRB)	199.7	2.4%	2.2%	3.0%	3.0%
Dow Jones Industrial Avg	24,360	1.6%	1.1%	-1.5%	-1.5%
Baltic Dry Index	1,014	6.5%	-3.9%	-25.8%	-25.8%

Energy	Close	Weekly Change	Net Position	Weekly Change	YTD
NYMEX WTI Crude	67.2	5.9%	742,570	4,114	11.2%
ICE Brent Crude	72.3	5.3%	632,454	20,519	8.2%
NYMEX RBOB Gasoline	205.9	3.8%	72,709	-7,474	14.4%
NYMEX Heating Oil	209.5	4.9%	16,058	872	0.9%
NYMEX Natural Gas	2.8	2.2%	-100,340	-1,491	-6.8%

Base Metals	Close	Weekly Change	Net Position	Weekly Change	YTD
LME Copper	6,830	0.0%	22,610	1,746	-5.8%
LME Aluminium	2,285	6.8%	-	-	0.7%
LME Nickel	13,940	3.8%	-	-	9.2%

Precious Metals	Close	Weekly Change	Net Position	Weekly Change	YTD
COMEX Gold	1,347.5	0.6%	164,227	-8,954	2.9%
COMEX Silver	16.6	0.6%	-16,812	1,630	-3.0%
NYMEX Platinum	934.5	-0.5%	18,194	-4,657	-0.4%
NYMEX Palladium	982	5.3%	8,135	-2,094	-7.4%

Agriculture	Close	Weekly Change	Net Position	Weekly Change	YTD
CBOT Corn	395	-1.1%	317,816	28,140	12.5%
CBOT Wheat	489	-3.3%	-20,425	20,185	14.6%
CBOT Soybeans	1,065	0.7%	200,149	-573	10.7%

Asian Commodities	Close	Weekly Change	MTD	QTD	YTD
Thai W. Rice 100% (USD/MT)	473	0.0%	2.2%	10.8%	10.8%
Crude Palm Oil (MYR/MT)	2,399	-2.6%	-1.1%	-4.2%	-4.2%
Rubber (JPY/KG)	185	2.0%	0.5%	-10.5%	-10.5%

Source: Bloomberg, CFTC, OCBC Bank

Note: Closing prices are updated as of 16 April 2018

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

Note: Speculative net positions for Aluminium and Nickel are unavailable

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Trade tariffs and its effects on commodities

Opening a new chapter

The Boao forum saw Chinese President Xi Jinping highlighting China's intention to open its markets, including (1) relaxing restrictions on the establishment of foreign financial institutions, (2) "significantly" lowering import tariffs for foreign products, particularly for automobiles, (3) enhancing law enforcement to protect intellectual property of foreign firms, (4) increasingly opening up the manufacturing sector, particularly the automotive, aircraft, and shipbuilding industries to foreign investment and (5) improving the investment environment for all foreign investors. In short, Xi emphasized that these policies will "certainly open a new chapter".

Interestingly, market-players' risk appetite rose starkly at Xi's comment. Although the Chinese president did not mention the United States, or Trump, it is seen as a response on the recent tariff-related moves by Washington. Trump himself praised Xi, coining his recent Boao speech as "kind words". At the very least then, trade tariff concerns turned south, while risk-related assets rallied.

However, good things seem to last for only a while. Beyond US-led missile strikes against Syria which have lifted the risk premium in global markets, Trump's latest tweet on China and Russia "playing the Currency Devaluation game" earlier this week plagued market appetite again. Elsewhere, the US Treasury Department continued to voice concerns about the large trade deficit with China, and likely reigniting past concerns over trade tariffs and its effects. When it seems like things can't go any worse, latest move by US Commerce in banning China's ZTE (one of the world's top makers of smartphones and communications gear) fueled the return of trade tensions again.

Warning, the tariffs are still on the table

Despite the positive rhetoric seen post-Boao forum by both US and China, it is important to note that the Trump-led tariff threats of a total of US\$150 billion worth of Chinese imports have not been officially rescinded (and for that matter, also having a 60-days deadline before tariffs are implemented). China's tariff proposals of US\$50 billion worth of US imports are similarly left on table as a response against US' tariff moves.

It is imperative to study how asset prices reacted at the onset of the news. At the time of writing as of 6th April, US stock index futures and growth-related commodity prices fell instantly at the onset of the tariff news, while safe haven demand into gold rallied the yellow metal. The move as such is understandable; trade tariffs threaten the fabric of economic

growth, via negatively impacting trade activities and manufacturing momentum. Note that the IMF commented that trade wars "not only hurt global growth, they are also unwinnable" while World Bank chimed in that protectionism can "disrupt worldwide supply chains and affect long-term productivity". According to Bloomberg Economics, a full-blown trade war may cost the global economy \$470 billion (or about 89.3% of total US imports from China in 2017). Note that both US and China have substantial trade exposures, with US' total trade with China at 16.9% of its total trade with the rest of the world, vice versa China's total trade with the US at 14.3%.

We opine that should trade tariff proposals turn concrete, growth-related commodities could potentially trend similarly to a growth-recessionary year (crude oil, base metals: -10% to 30%), while safe haven demand into gold will lift the yellow metal beyond \$1,600/oz. Even though the energy trade is being excluded from the tit-for-tat tariff threats, crude oil prices remain to be intricately correlated with investors' risk appetite and global growth prospects. As such, the reason behind lower crude oil prices is simple: the inhibition of world trade through trade tariffs between the two largest economies in the world (which represents 48.5% of global nominal GDP) will negatively impact global trade activities, growth prospects, and eventually oil prices.

However, the impact on agricultural prices will likely be mixed, as crude palm oil could find favor with Chinese importers, while soybean prices could potentially fall as demand slackens. Palm oil is said to be second only to soybean oil in world production of vegetable oils. Palm fruits have long been considered to be a viable substitute for soybeans. From the edible oils perspective, both commodities are used to produce cooking oils, used for frying, baking and other types of cooking. Palm oil is also used in the production of livestock feed. Palm fatty acid distillate (PFAD) is also an active ingredient as a fat supplement for livestock. Palm kernel meal, a by-product after oil has been extracted, has also been used as a viable substitute to soy meals. These attributes will elevate palm demand and its prices should the tariffs turn concrete.

At least for now, the trade tariff threats are merely... just threats. Risk appetite could eventually recover should it stay as a war of threats (and executive orders). With the recent events surrounding accusations of devaluation and sanctions against ZTE, we think that the risks surrounding the prospect of trade tariffs still remain. To that end, watch out for potential huge swings in the commodity market (as well as the overall financial markets) should things escalate further.

Crude Oil: Beware of crude oil's super spikes

Highlights

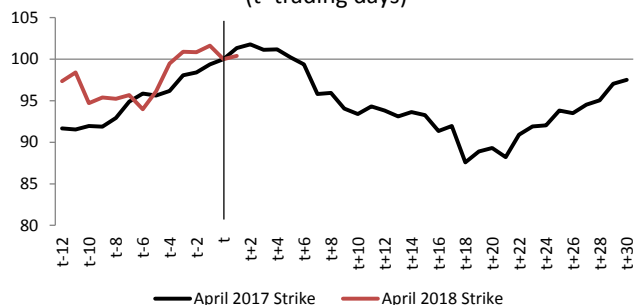
- Intensified geopolitical tensions injected stronger risk premiums into crude oil prices, seen from the weekend's US-led missile strike against Syria. Brent is currently priced above its \$70/bbl handle.
- We view that the rally in oil prices is not sustainable: higher oil prices to-date was likely due to the short-term nature of geopolitical conflicts, as well as fears over potential US sanctions against Iran.
- Convention wisdom however points at the rather worryingly trend of higher U.S.-led oil production in the horizon. With oil prices well above \$50/bbl to-date, it suggests that efficient shale oil wells are able to churn positive profits for producers, and allow overall rig-counts to increase.

Similar event to beget similar conclusions?

On 7th April 2017, the United States fired missiles against the Syrian government airbase. Back then, the severity of the strike was mind-boggling; a total of 59 tomahawk missiles were fired lasting for around 3 to 4 minutes, and described to have severely damaged or destroyed Syrian aircraft and support infrastructure and equipment at Shayrat airfield. Back then, crude oil prices surged near its one-month high beyond its critical \$55/bbl handle as market-watchers priced in significant risk premium to oil prices.

And as recent as mid-April 2018, a similar missile strike against Syria was carried out again, but with even greater severity. The U.S. assault was described to be "twice the size" of the 2017's attack, and had its allied forces (including Britain and France) joining the attack against Assad regime's suspected chemical weapon attack on its citizens. And just like clockwork, investors were quick to relate the similarity of events and instinctively pushed oil prices higher into the weekend.

How Brent trended on missile strikes on Syria
(t=trading days)



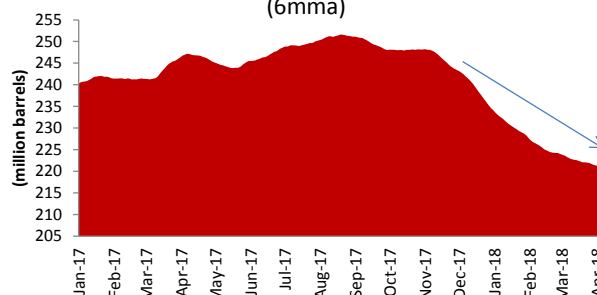
Source: Bloomberg, OCBC Bank

Still, the telling of April 2017's history is not complete; the surge in oil prices then were short-lived given the inbound supply glut from U.S. shale oil fields amid sustained risk-off appetite from global growth concerns did little to sustain the rally. In fact, oil prices plummeted quickly over the months to near its \$45/bbl before the supply glut environment narrowed comfortably in ushering the return of oil prices to today's current levels.

It's always about fundamentals

Should history be of reference, geopolitical tensions has more than often injected a knee-jerk rally reaction to energy-related commodity prices, including crude oil. Fundamentals however, present the backdrop for a rather sustained trend to oil prices, depending on how supply and demand evolves. As such, it is important for both analysts and market-players to recognise the potential short-term effects of the recent rally, understand the longer implication of fundamentals, and see beyond the geopolitical haze.

Crude oil inventories in floating tankers
(6mma)

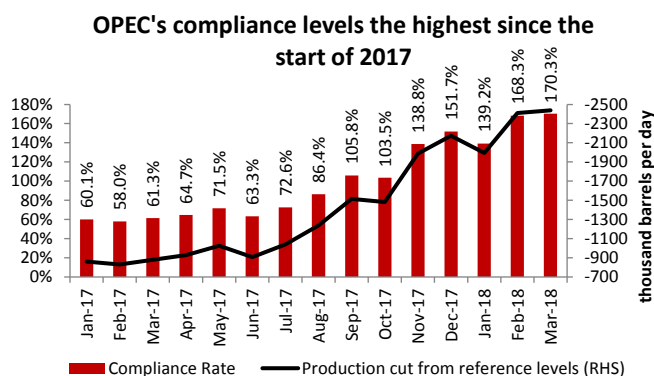


Source: Bloomberg, OCBC Bank

Comfortingly, fundamentals have continued to improve markedly since the beginning of the year. While U.S. led oil production has continued to grow into April, oil inventories seen in both U.S. shores as well those in floating tankers globally has continued to fall. Meanwhile, OPEC-led production has continued to point south (note OCBC-calculated OPEC compliance rate is at a high of 170.3% as of March 2018), given the economic issues plaguing Venezuela as well as sanctions threats against Iran provided the necessary expectations that oil production out from the Middle-East could remain capped for now. Incidentally, even before the weekend's missile strike against Syria, non-commercial net-long positions in Nymex Crude continued to accumulate, suggesting that investors continue to price in higher oil prices to-date.

Convention wisdom however points at the rather worryingly trend of higher U.S.-led oil production in the horizon.

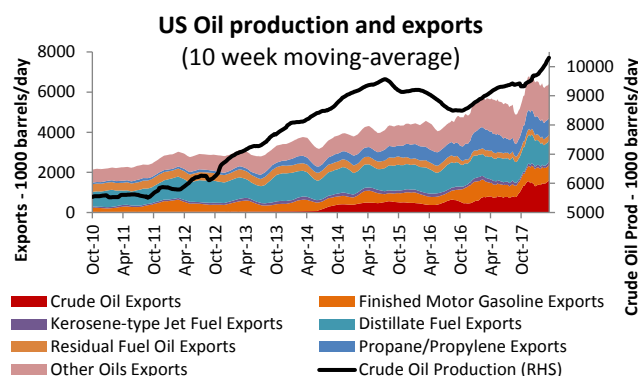
According to an analysis of oil-related companies' financial statements in 2Q17, it is found that the U.S. shale oil breakeven price is at a mere \$50/bbl, while our estimate is at a range of between \$40/bbl - \$90/bbl (2015 prices). With oil prices well above \$50/bbl to-date, it suggests that efficient shale oil wells are able to churn positive profits for producers, and allow overall rig-counts to increase. Importantly, the ostensible ability of shale producers to quickly turn supply on and off in response to price moves suggests that further increase in oil prices beyond \$70/bbl can result in big increases in supply.



Risk premiums are to blame

In a nutshell, oil prices are elevated beyond our comfort zone. While the rally in oil prices has been due to the improving fundamental backdrop, led by stronger oil demand and lower oil inventories globally, we cannot disregard the fact that geopolitical tensions to-date had a part to play. The fall in oil production out from the Middle-East, being a mix of OPEC-led efforts as well as the ongoing economic crisis in Venezuela, have also aided the rally. Even then, market-watchers' concern over potential sanctions against Iran is not unfounded, but the truth remains that the sanctions remain a mere consideration, and has not turned concrete just yet.

Eventually, the rise in US-led oil production from its shale oil wells will likely tweak the bullish fundamental story. As oil prices rise beyond its \$70/bbl to-date, less-efficient shale oil wells will also eventually yield positive returns when pipes are turned on, a scenario that shale producers know too well. Even as at the time of writing, US oil production is already beyond its 1970 high, and could grow larger should current idle shale oil wells turn active as oil prices rally. As such, we believe that oil price any higher than \$80/bbl must be accompanied by a drastic improvement in global economic growth and oil demand in order to effectively absorb the quick uptick in oil supplies.



Such a scenario is not seen to-date, with oil demand only growing at a slow, and hopefully sustainable pace of 1.8% y/y into Feb 2018. Should the current economic growth and oil demand & supply pace sustain at current levels, our estimates point at a quick return of an oil glut as soon as 2H18, spelling a return of oil prices below its \$70/bbl handle. In a nutshell, do look out for the potential act of normalizing oil prices into the coming weeks, and profit-taking once investors digest the higher US-led oil prices again.

Palm Oil & Soybean: A battle between alternatives

Highlights

- Palm oil prices benefited from the onset of trade war concerns. Palm oil is second only to soybean oil in global production of vegetable oils, as well as a viable substitute for producing animal feed.
- Ebbing trade war concerns allowed soybean and palm oil prices to revert to pre-tension levels, suggesting that market-watchers are discounting the risk premiums to-date. Note palm oil futures are relatively weaker now below its MYR2,400/MT handle.
- The lower palm oil prices suggest investors' concerns over rising Asian supply into 3Q18. Moreover, a stronger MYR into year-end could cap potential rallies as well. We view palm oil prices to decline to as low as MYR2,250/MT in 3Q18 before rallying back to its MYR2,400/MT handle at year-end on seasonally lower supplies then.

The risk of trade war and its effects

The tit-for-tat trade war threats had market-watchers worried over global growth and trade activities. Growth-related commodity prices included energy and base metals (ex-aluminium) fell starkly especially as tariff threats are verbalized between the world's two largest economies – U.S. and China. Amongst the decliners however, palm oil prices rallied strongly and for good reasons: the palm fruit has long been regarded as a viable alternative to soybeans, both as a cooking oil and as animal feed, products that China produce out of soybeans.

In fact, palm oil is second only to soybean oil in world production of vegetable oils. Palm fruits have long been considered to be a viable substitute for soybeans. From the edible oils perspective, both commodities are used to produce cooking oils, used for frying, baking and other types of cooking. Palm oil is also used in the production of livestock feed. Palm fatty acid distillate (PFAD) is also an active ingredient as a fat supplement for livestock. Palm kernel meal, a by-product after oil has been extracted, has also been used as a viable substitute to soy meals.

The similarities between these commodities has led market-players to price-in a potential uptick in Chinese palm demand. Globally, China is the world's top soybean importer, and Brazil, U.S. and Argentina being the top three exporters according to import volume in 2017. Importantly, China import demand of soybeans has grown exponentially, accounting for 60% of the soybeans traded worldwide in 2017, up from 41% back in 2005. China is also the top soybean importer from the US, accounting for 57.1% of US total soybean exports last year. The sheer volume of soybean imports, and the potential cessation of imports of US-grown soybeans have consequently

resulted in the fall in soybean futures, and the rally of its alternative palm oil futures.

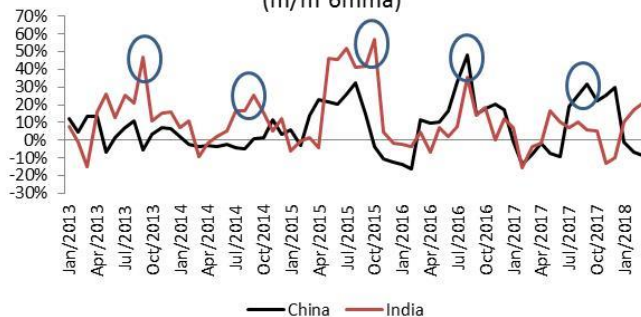
The revert back to fundamentals

However, market-watchers will be quick to point out that palm oil futures have seen declined as trade war concerns ebbed over the last week. For that matter, the easing trade war situation with China's promise to open markets and lower tariffs have allowed soybean prices to return to pre-tension levels, as well as giving investors little reason to stay bullish on palm oil.

Production-wise, investors will likely be watching out for potential uptick in Asian palm oil production into April – October 2018. To-date, Malaysia-led palm oil production has grown into April given seasonal factors, although export volume has remained strong while inventory levels stable. Elsewhere, the relatively stronger MYR has capped palm oil prices in ringgit terms as well, in which further strengthening of the MYR could likely cap palm oil's rally in the coming months. Our estimate for Malaysia's palm oil production growth of between 5 – 10% remains unchanged, accounting for the 12.8% production growth in the first three months of 2018.

Moreover, the demand outlook into 2018/9 remains hazy. Should we dwell on the positive news, Asian palm oil import demand saw marked growth in March. Notably, Malaysia's crude palm oil export grew at a whopping 186% y/y in March, led by strong Indian and Chinese palm oil demand at 130% and 30% y/y growth, respectively. Should we consider past seasonal patterns, Asian palm oil demand should accelerate into 2H18 and peak around August – September 2018, thus providing the necessary cushion for the upside in production growth over the same period.

Asian palm oil demand usually peaks in Aug/Sep
(m/m 6mma)

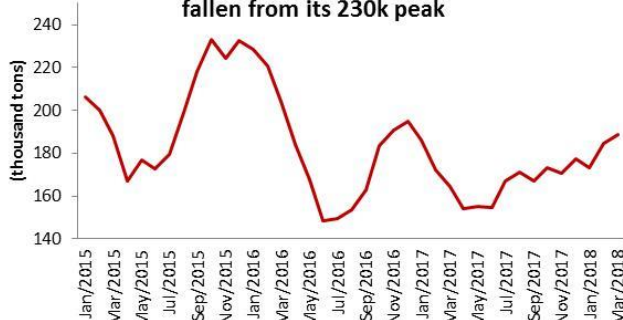


Source: CEIC, OCBC Bank

However, we remain concerned over potential wildcards regarding Europe's restrictions on the use of palm oil in

biofuels due to concerns about its environmental impact. While the import restriction will only be implemented in 2021, key Asian producers including Malaysia and Indonesia (collectively accounting for 85% of global palm oil supply) have labeled Europe's move as being protectionist in nature. According to Malaysia's Plantation Industries and Commodities Minister, Datuk Seri Mah Siew Keong, Malaysia "would have fully complied with the EU ruling to certify our palm oil industry for sustainability and good practices" by the end of 2019. Incidentally, EU's palm oil import from Malaysia has contracted 1.2% at 188.5k tonnes, the first decline since November 2017, and may decline further into 2019 should EU importers adjust import plans to significantly reduce palm oil use in biodiesel.

EU's palm oil import demand from Malaysia has fallen from its 230k peak



Source: CEIC, OCBC Bank

So many factors to affect palm oil trend

The mix of ringgit strength, strong pickup in Asia's palm oil production as well as EU's import restrictions into 2019 could send mixed signals to how palm oil prices may trend into the year ahead. And for the first time in many years, trade war policies can also have the potential to swing palm oil prices into a bull trend. While overall Asian demand out from India and China is likely to accelerate into August – September this year, the question is if the uptick in imports is enough to absorb the huge supplies that Asian palm trees will yield into 3Q18.

Still, looking at the relatively weaker palm oil prices below its MYR2,400/MT handle, it can be implied that investors view on rising Asian palm oil production into 3Q18 likely dominates over the stronger demand backdrop. Moreover, our MYR outlook into end-2018 is perceived at around 3.756 per USD (OCBC Revised FX Outlook – 4th April 2018), suggesting that a stronger MYR could further cap palm oil's rally. Lastly, our outlook for further profit-taking in crude oil prices could potentially drag palm prices as well, given palm oil's biodiesel aspect. Accounting for the multitude of factors at hand (most of which pointing towards further downside risks for palm oil prices), we could see palm oil prices declining to as low as MYR2,250/MT into 3Q18, before prices rally back to our year-end outlook of MYR2,400/MT at year-end.

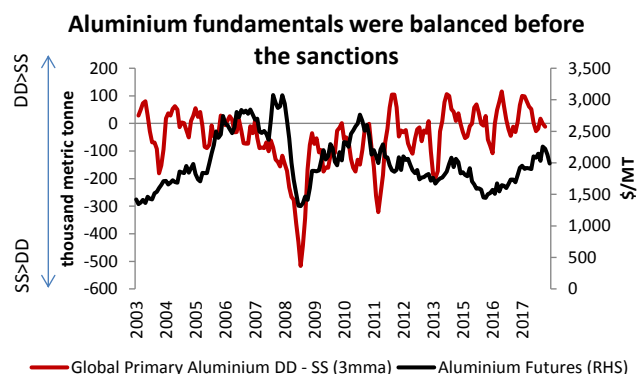
Aluminium: A primer on drivers and price forecasts

Highlights

- US-led sanctions against Rusal have sent aluminium prices soaring to its 2011 highs of beyond US\$2,400/MT. Note that Rusal accounts for a sizable 7% of global aluminium production, and 15% of its aluminium exports goes to the U.S.
- The sanctions followed initial US proposals to impose a 10% import tariff on aluminium imports. Given the uptick in prices to-date, we think US-centric manufacturing costs (especially in automakers and aerospace industries) will inevitably see a comparable increase, thus adding to overall inflation pressures.
- Our initial aluminium outlook of US\$1,900/MT faces significant upside risk, especially if sanctions persist. Any progress on Trump's tariff threats on aluminium imports could further exacerbate matters as well. High prices could potentially impose negative consequences to downstream firms, discourage demand and allow some interim correction of aluminium prices to our revised year-end outlook of US\$2,100/MT.

Setting the stage – What are the fundamentals?

Any analysis on commodities must be accompanied by how fundamentals have performed over the many years. Delving into aluminium, overall demand-supply backdrop was rather uninteresting before the Rusal-related sanctions: global demand-supply fundamentals were balanced at around 4.9 million metric tonnes on both sides of the equation. Into January this year, global aluminium demand has contracted for six consecutive months on a year-on-year basis, although supplies also stage a similar fall for five consecutive months as well.

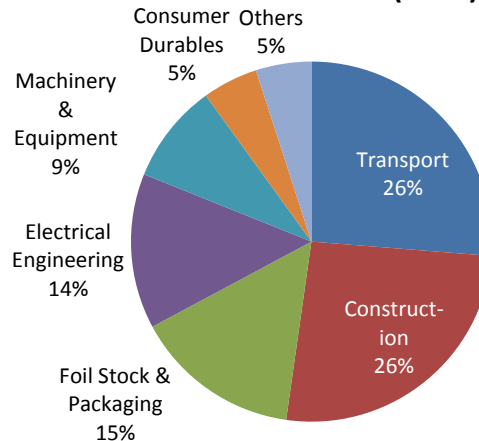


Source: Bloomberg, World Bureau of Metal Statistics, OCBC

Still, aluminium futures rallied since end 2015 as global economic growth backdrop improved to-date. The fact remains that aluminium is a growth-related commodity and is widely used in manufacturing-related industries. Importantly, over 50%

of global aluminium is used in the Transport and Construction industries, while manufacturing-related industries such as Electrical Engineering and Machinery account for almost 25%.

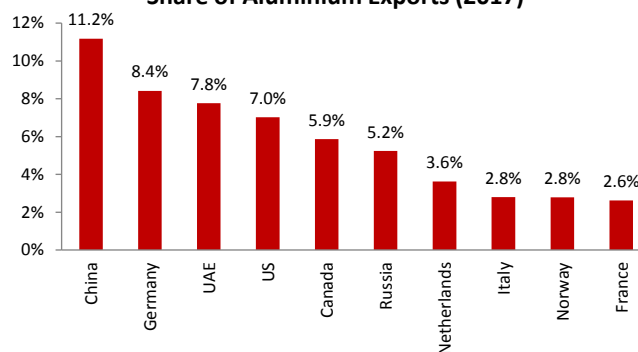
Aluminium end-use (2016)



Source: The Statistics Portal, OCBC Bank

Indeed, should we look at Asia's manufacturing momentum into March 2018, it is encouraging to see most Asian economies (save for S. Korea and Malaysia) seeing above-50 prints in their respective Purchasing Managers' Index (PMI) prints, indicating that manufacturing momentum remains in expansionary mode. Elsewhere, trade activities in key Asian economies continued to grow over the same period, albeit moderating in recent months. Accounting for the expansionary manufacturing and trade activities into 2018, base metal prices, including aluminium, rallied in tandem as well.

Share of Aluminium Exports (2017)



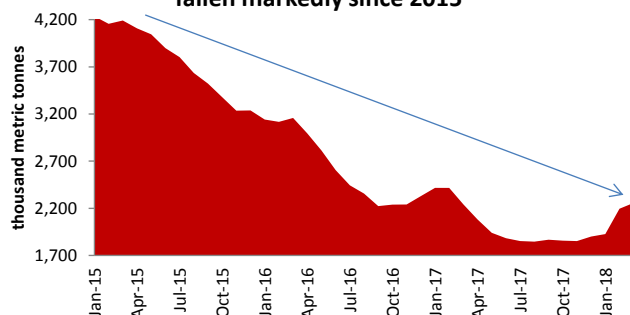
Source: Bloomberg, OCBC Bank

Globally, note that China remains to be the largest aluminium producer, accounting for 55% of global production (bringing Asia's share to a strong 68%). Russia, being the second largest producer, accounts for 7% of global production and 5% of global exports. Importantly, despite China's sizable production, almost 90% of its aluminium production is consumed domestically. From a demand point of view, US is

unsurprisingly the largest aluminium importer, accounting for 13% of global demand, followed by Germany (10%) and Japan (5%).

Summing up the fundamental backdrop, periodic bouts of supply shortage seen since 2015 has brought global aluminium inventories starkly lower since then, adding to further pressure for aluminium prices to rally between the periods 2015 – 2018.

Major Aluminium Exchange Inventories has fallen markedly since 2015



Source: Bloomberg, OCBC Bank

The big deal regarding Rusal

Since the US imposed sanctions on Rusal on 6th April 2018, aluminium prices have rallied to its 2011 highs. The intensity of the sanctions can be felt given major exchanges' (namely LME and CME) decision to suspend Rusal-related aluminium contracts. Importantly as well, the sanctions open up more questions over the status of all Rusal's operating assets beyond Russia's shores, namely its sole aluminium smelter (130k tonne/yr) in Sweden, as well as many bauxite operations in Guyana, Jamaica, Guinea and alumina refineries in Jamaica, Ireland and Ukraine.

Aluminium premiums are at 3-year high (US-China aluminium prices)



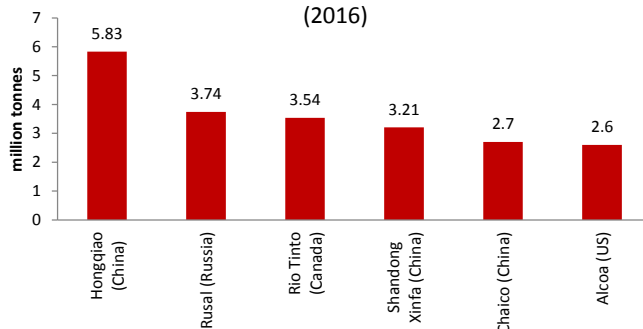
Source: Bloomberg, OCBC Bank

With Rusal being the world's second largest aluminium producer and accounting for 7% of global production, the US-led sanctions could prove to be significant for the said company and the multitude of importers in general. It is important to note that the US-led sanctions, while in force

prohibiting US persons from trading with Rusal, "non-US persons could also face sanctions for knowingly facilitating significant transactions" as well, according to the US Treasury Department. In a nutshell, the US sanctions have effectively discouraged both US-demand, as well as non-US (likely to be US-allies or those having vested interest in avoiding potential sanction threats) demand. In that sense, the sudden disinterest in Rusal-based aluminium supply means that 7% of global aluminium production (or approximately 15% of exports to the US) is effectually cut-off from global down-stream firms.

Given that pre-sanction fundamentals suggest that the aluminium market is balanced, the disappearance of at least 7% of global aluminium production (at around 350 thousand tonnes, assuming 4.9 million tonnes of production in January 2018) suggest a return to an immediate supply shortage environment. Key aluminium consumers are also seen to be drawing down aluminium inventories, with cancelled warrants (an indicator that represents volume earmarked for delivery) rising by over 30%, the largest increase since 2011. The lost supplies may be hard to replace at a short-time, while we think Rio Tinto may be a likely beneficiary given its sizable aluminium production at 3.54 million metric tonnes as of 2016 (third largest aluminium producer). Note that Rio Tinto shares shored at the onset of the sanction to its two-month high of \$54.2.

World's largest aluminium producers (2016)



Source: The Statistics Portal, OCBC Bank

Sanction period and growth factors will matter

We believe that the prolonged US-led sanctions against Rusal will continue to keep aluminium prices above its US\$2,000/MT handle. The sizable shortage in the aluminium market, and the inability for consumers to find viable alternatives to Rusal-supplied aluminium in the short-term would mean that global aluminium fundamentals will remain in supply shortage for the foreseeable future.

Even so, the current high prices at US\$2,400/MT may not be sustainable as well. High aluminium prices may also effectively deter the aluminium consumption both from end-consumers as well as downstream firms. With aluminium accounting for many

manufactured products, the 20% uptick in end products (should we assume an equal proportion of increase in manufactured products) could mean a quick decline in manufacturing demand and consequently inject a downward spiral in global manufactured import demand and lower aluminium demand in general. Coupled with the likelihood for

manufacturing and trade momentum to moderate into 2H18, aluminium prices could eventually trend lower to our revised year-end outlook of US\$2,100/MT.

OCBC Commodity Forecast 2018

Updated as of April 17, 2018

			2017				2018			
	3y AVG	Spot	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F
Energy										
WTI (\$/bbl)	60.1	66.2	51.8	48.2	48.2	55.3	62.9	64.0	62.5	65.0
Brent (\$/bbl)	64.5	71.4	54.6	50.8	52.2	61.5	67.2	69.0	67.5	70.0
Gasoline (\$/gallon)	1.84	2.04	1.58	1.58	1.63	1.71	1.86	2.11	2.04	1.97
Natural Gas (\$/mmbtu)	3.06	2.75	3.06	3.14	2.95	2.92	2.85	2.88	3.07	3.18
Precious Metals										
Gold (\$/oz)	1210.4	1,351	1,221	1,259	1,283	1,279	1,331	1,354	1,377	1,400
Silver (\$/oz)	16.5	16.7	17.5	17.2	16.9	16.7	16.7	17.1	17.5	17.8
Platinum (\$/oz)	994	932	983	942	957	925	981	1,001	1,038	1,077
Palladium (\$/oz)	722	1,004	768	815	899	988	1,026	1,042	1,102	1,120
Base Metals										
Copper (\$/MT)	5,523	6,911	5,855	5,692	6,383	6,856	6,997	6,831	6,666	6,500
Tin (\$/MT)	17,764	21,090	20,012	19,906	20,482	19,817	21,151	20,092	20,199	20,313
Nickel (\$/MT)	10,630	14,307	10,277	9,214	10,547	11,614	13,277	12,199	12,119	12,037
Zinc (\$/MT)	2,265	3,137	2,789	2,604	2,961	3,198	3,390	3,153	3,125	3,095
Aluminum (\$/MT)	1,737	2,399	1,858	1,913	2,027	2,122	2,160	2,350	2,225	2,100
Asian Commodities										
Crude Palm Oil (MYR/MT)	2,523	2,369	2,938	2,545	2,670	2,659	2,491	2,331	2,250	2,400

Source:

Historical Data - Bloomberg

Forecasts - OCBC Bank

Data reflects average price

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