

# Commodities Chartpack

Tread lightly, the path is ridden with holes

Barnabas Gan

Economist

Global Treasury Research & Strategy

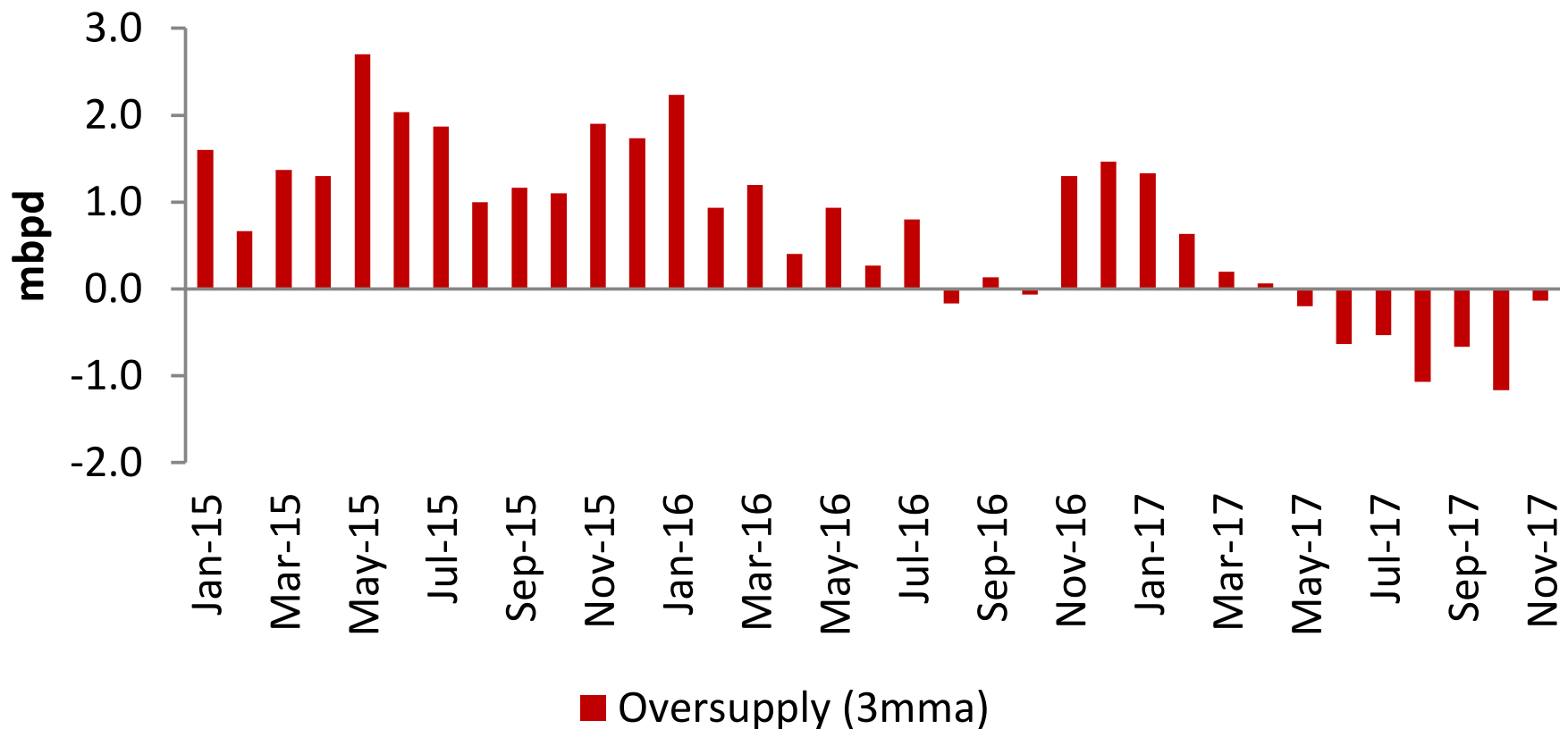
January 2018

# Crude Oil: Mind your step

- Energy prices have rallied distinctly since the start of the year. Both WTI and Brent printed at their three-year highs of \$64.3 and \$69.9 per barrel as of 15<sup>th</sup> January before trending lower. Net-long positions continue to accumulate into the second week of the year, suggesting that market-players continue to stay bullish on the sticky liquid.
- Reasons for the rally are three-pronged: (1) Global oil fundamentals continue to improve as demand grows, (2) a relatively weaker greenback into the third week of January, and (3) geopolitical tensions including recent Iranian anti-government movement amid war of words between Pyongyang and the US.
- Keeping OPEC's oil cut deal into year's end, amongst many others, is likely a key factor that would support oil prices. Note that Iraq voiced support to keep OPEC's production caps in place. Iraq's support is joined by the United Arab Emirates (UAE), Saudi Arabia and Qatar. Latest OPEC's production figures puts the cartel's compliance levels at 125.3%, thanks to falling production especially by Saudi Arabia, UAE, and Venezuela.
- Elsewhere, crude oil as a growth-related commodity should fare positively into the year, given the relatively rosy economic outlook into year-end. Oil prices are already pointing north as equity markets rally to-date. Note that the International Monetary Fund (IMF) projects global growth at 3.7% this year, up from 3.6% in 2017.
- We maintain our crude oil outlook for WTI and Brent at \$65 and \$70 per barrel with upside risks. At this juncture, oil's rally is showing signs of fatigue even as Brent rallied past its \$70/bbl handle last week.

# Crude Oil has tightened markedly since 2017

Crude oil supply glut has narrowed substantially since the start of 2017

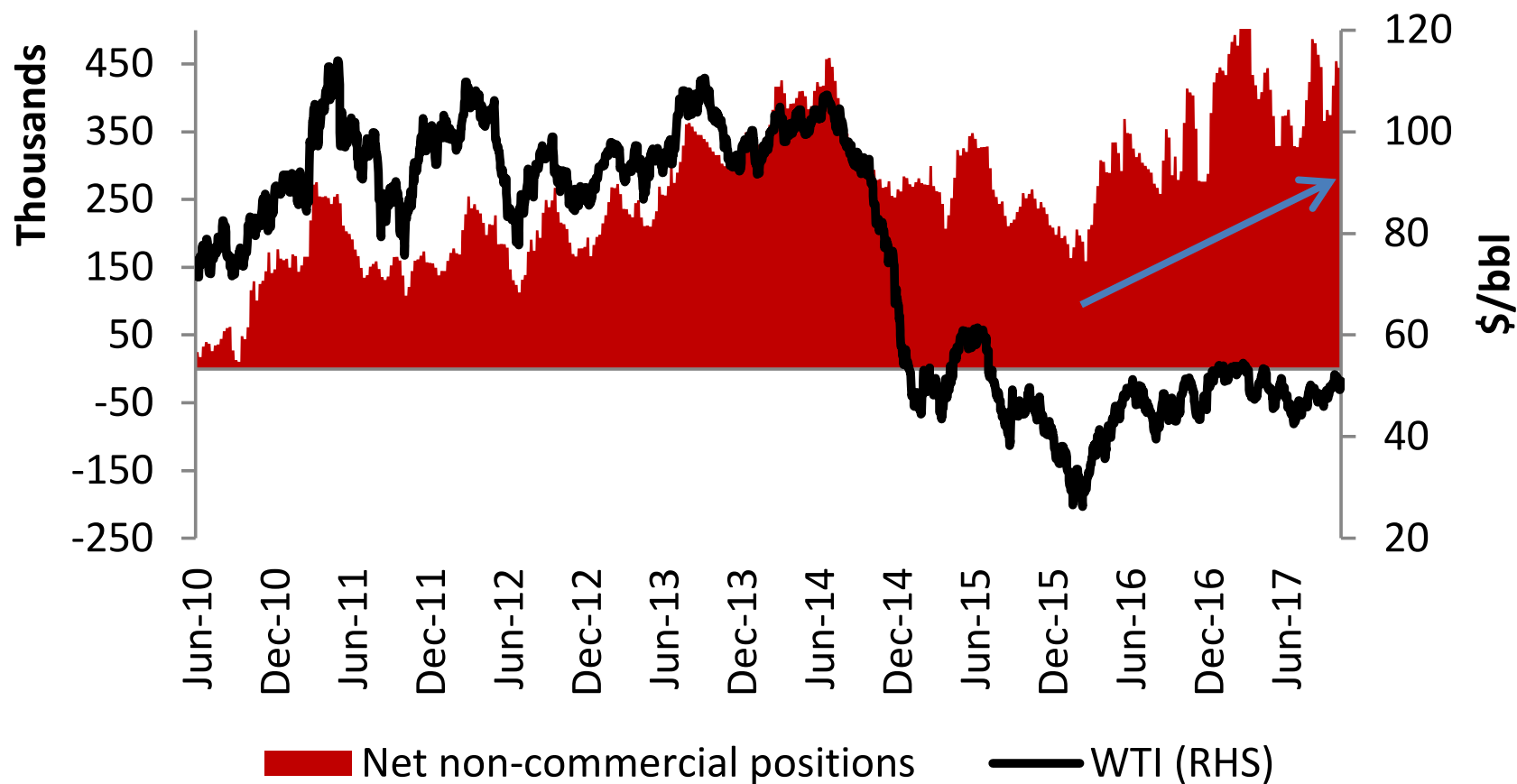


**OCBC Bank**

Source: CEIC, OCBC Bank

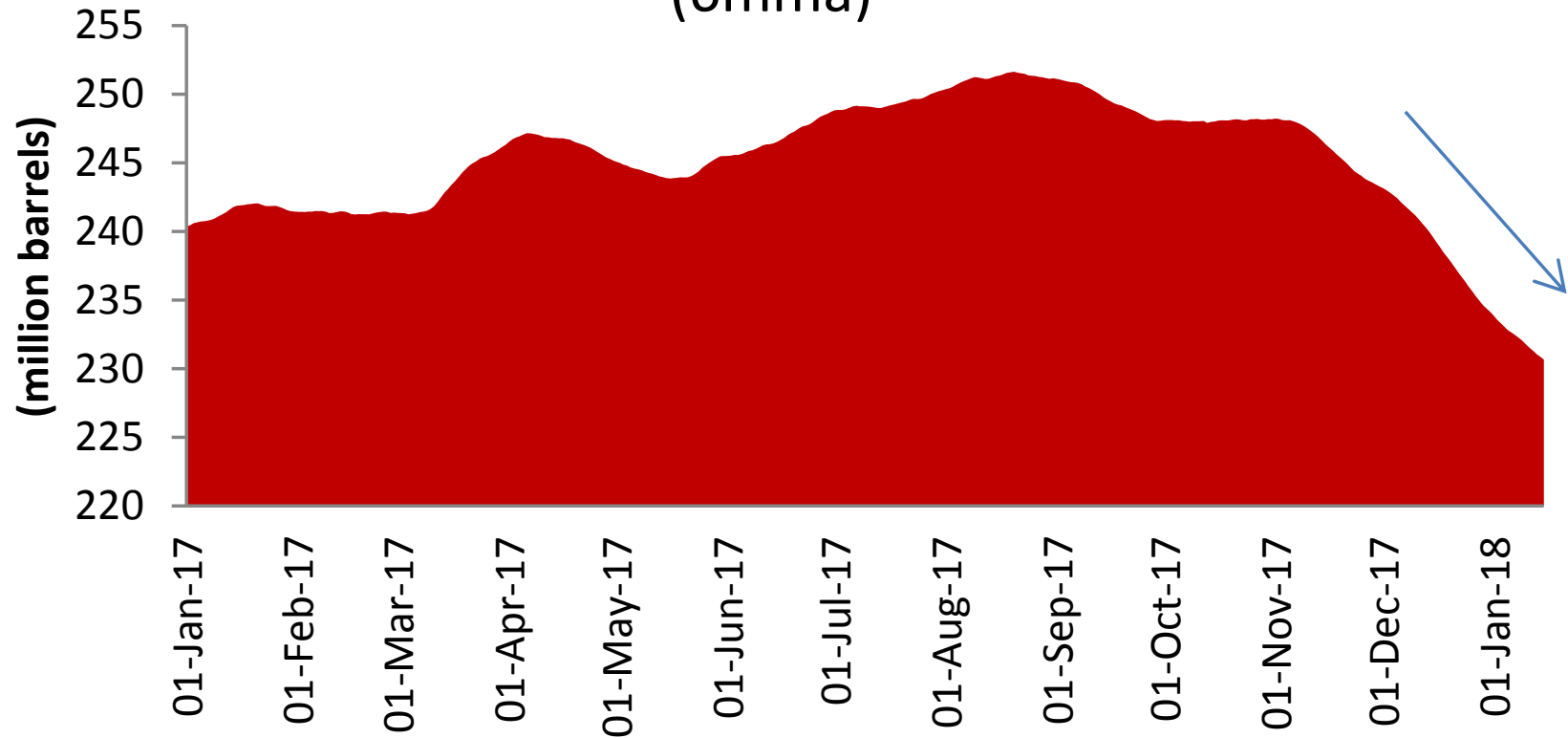
# Market-players continue to stay bullish on oil

## Market clocking up more net-long positions



# Oil inventories consequently falls as fundamental tightens

Crude oil inventories in floating tankers  
(6mma)



**OCBC Bank**

Source: CEIC, OCBC Bank

# OPEC compliance lifts to 125.3% as production falls further

thousand barrels per day	Reference Production Levels	Targeted production level	Production (Oct 2017)	Production (Nov 2017)	Proposed Cuts	Production cuts vs reference level (Oct 2017)	Production cuts vs reference level (Nov 2017)	Individual Level of Compliance *
Algeria	1,089	1,039	997	1,002	-50	-92	-87	174.0%
Angola	1,751	1,673	1,601	1,607	-78	-150	-144	184.6%
Ecuador	548	522	526	521	-26	-22	-27	103.8%
Equatorial Guinea**	-	-	123	124	-			
Gabon	202	193	201	201	-9	-1	-1	11.1%
Iran	3,975	3,797	3,810	3,878	-178	-165	-97	54.5%
Iraq	4,561	4,351	4,360	4,360	-210	-201	-201	95.7%
Kuwait	2,838	2,707	2,700	2,705	-131	-138	-133	101.5%
Libya^	1,000	1,000	967	973	0		-27	-
Nigeria^	1,780	1,800	1,600	1,751	0		-29	-
Qatar	648	618	596	615	-30	-52	-33	110.0%
Saudi Arabia	10,544	10,058	10,056	9,891	-486	-488	-653	134.4%
UAE	3,013	2,874	2,918	2,883	-139	-95	-130	93.5%
Venezuela	2,067	1,972	1,876	1,834	-95	-191	-233	245.3%
<b>Production cut from reference levels</b>	<b>34,016</b>	<b>32,604</b>	<b>32,331</b>	<b>32,345</b>	<b>-1,432</b>	<b>-1595</b>	<b>-1795</b>	
<b>Compliance Rate</b>						<b>111.4%</b>	<b>125.3%</b>	

\* Compliance rate above 100% indicates that the country has cut production above what was agreed.

\* A negative compliance print indicates that country has increased production despite the agreement.

\*\* Excluded from production cut agreement

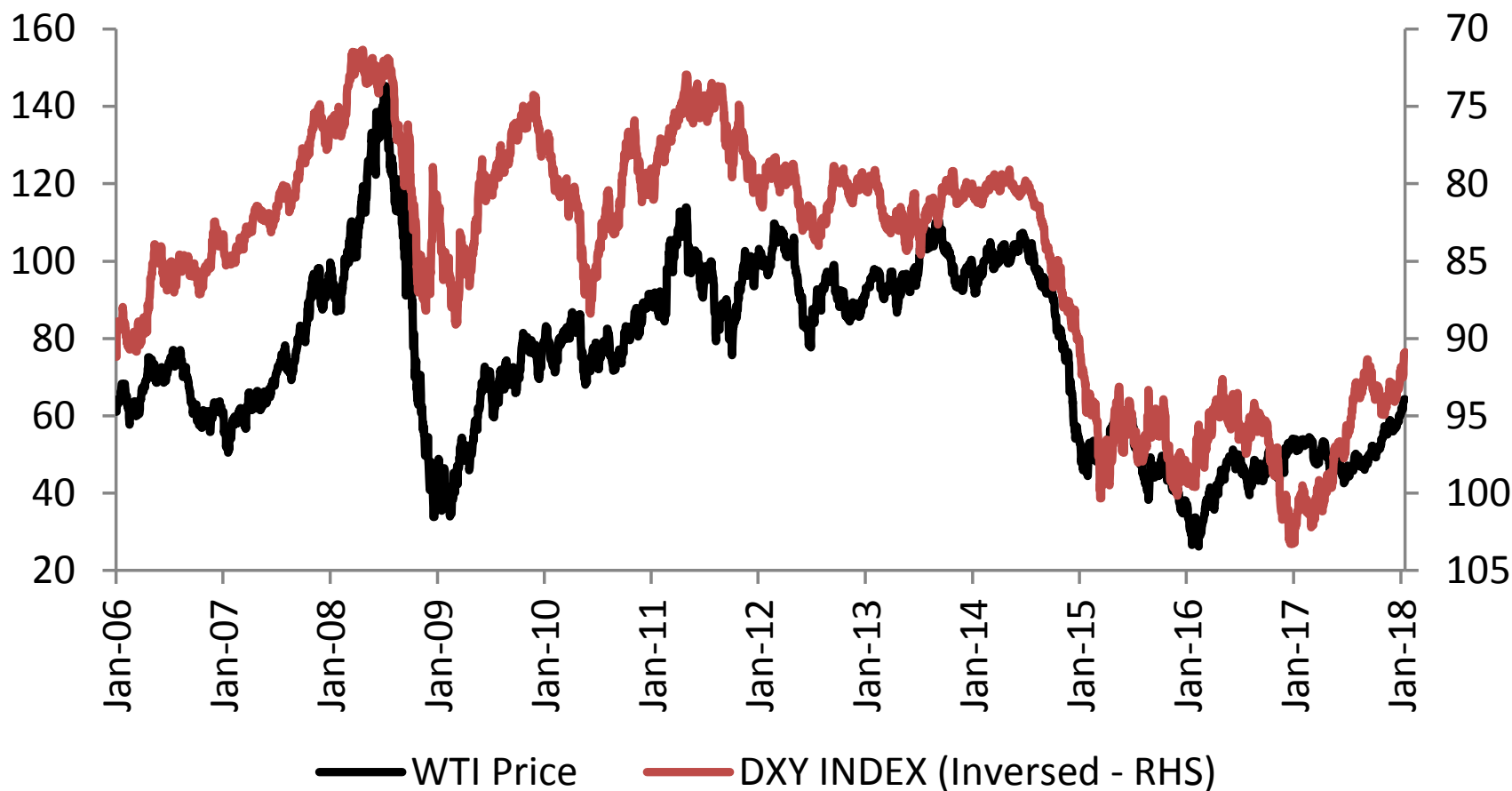
^ Reference production levels are assumed at Dec 2017 levels

Figures in blue are obtained from secondary sources

Source: Bloomberg, OPEC MOMR, OCBC Bank

# Dollar weakness could potentially lead oil higher as well!

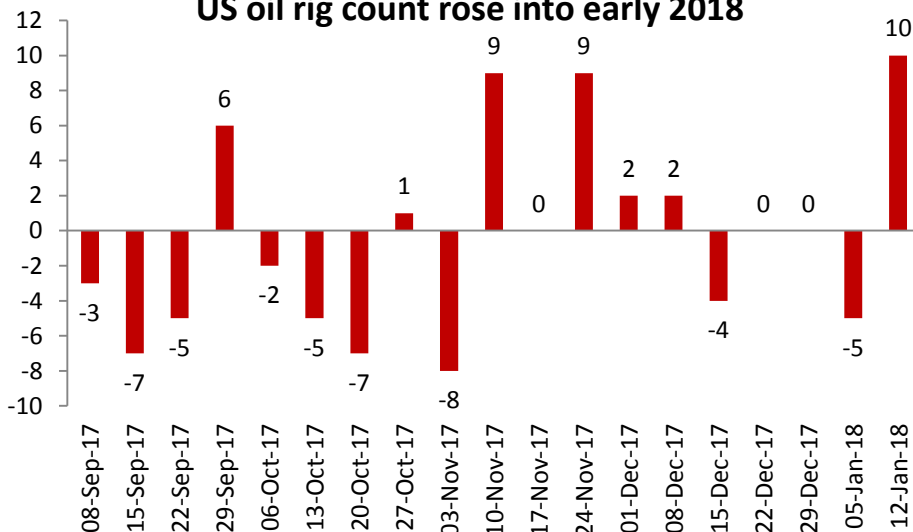
WTI and DXY



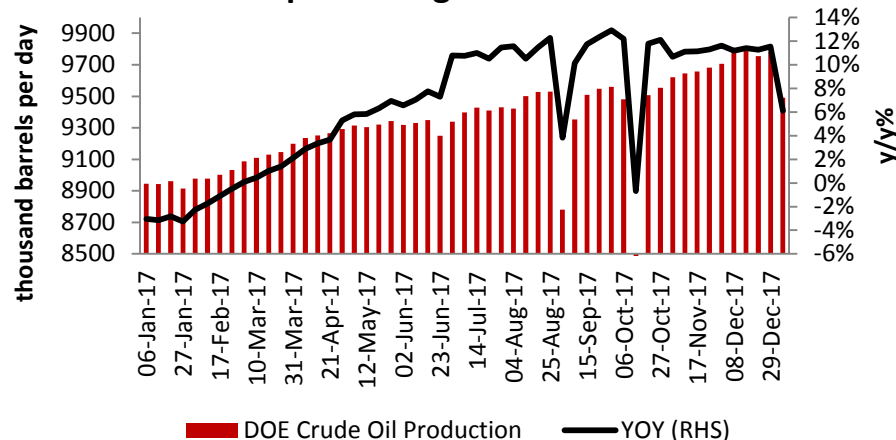
# The paradox of US oil numbers

- Despite higher oil prices, US oil production tapered into the first week of 2018 (+6.1% for the week ended 5<sup>th</sup> Jan 2018, down from double digit growth). Coupled with stronger export prints, overall stocks declined to its 5-year average.
- However, oil rig counts (regarded as a leading indicator) rose into the 2<sup>nd</sup> week, suggesting that production could edge higher in the short-term.

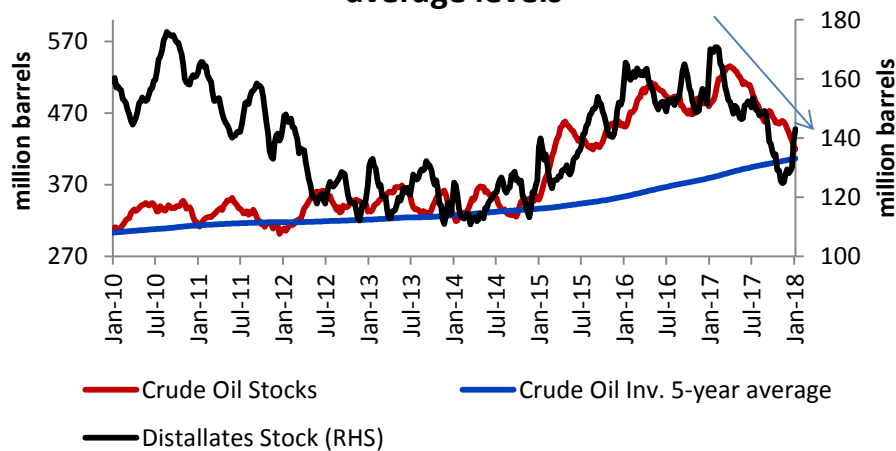
US oil rig count rose into early 2018



US oil production growth appears to be plateauing into 2018?



US crude oil inventories declined to its 5-year average levels

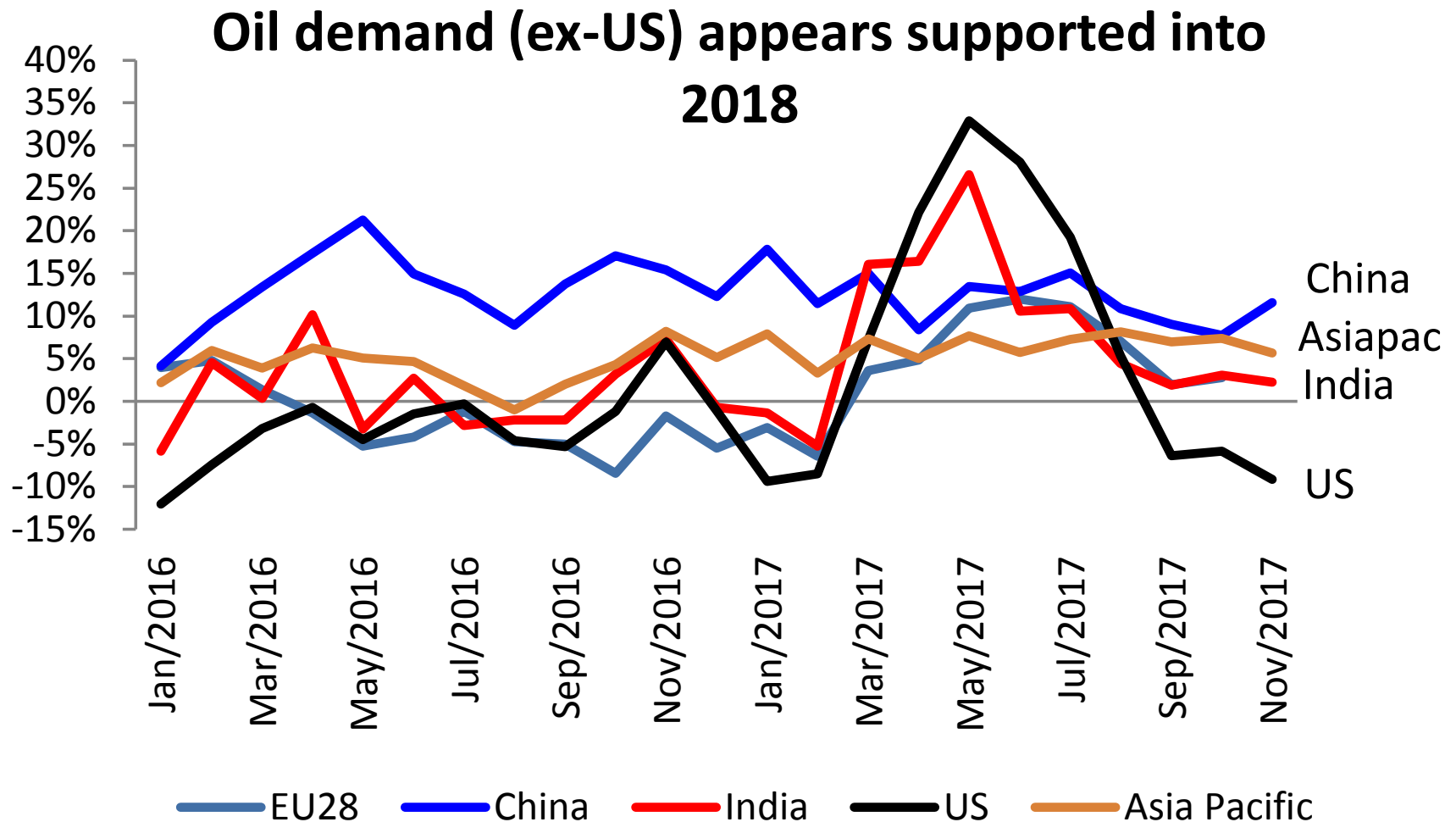


OCBC Bank

Source: CEIC, OCBC Bank



# Demand could still support prices into the year, underpinned especially by Asia



# Rosier oil environment encourages capex growth?

Name	Market Cap (USD mn)	2014	2015	2016	2017^	2018^
Exxon Mobil Corp	368,501.1	32,952	26,490	16,163	16,908	20,007
Chevron Corp	250,736.4	35,407	29,504	18,109	13,580	14,121
BHP Billiton Ltd	126,277.1	15,512	12,763	7,711	6,338	6,872
Statoil ASA	77,197.2	19,506	15,485	12,191	11,057	11,307
ConocoPhillips	70,344.2	17,085	10,050	4,869	4,510	5,324
EOG Resources Inc	65,564.3	8,247	5,013	2,583	4,095	4,964
Occidental Petroleum Corp	57,600.0	8,930	5,381	4,761	3,476	3,769
Anadarko Petroleum Corp	32,036.1	9,508	6,067	3,505	4,598	4,683
Pioneer Natural Resources Co	31,056.9	3,576	2,393	2,060	2,640	2,882
Repsol SA	29,425.3	3,462	3,320	2,217	3,635	4,234
Concho Resources Inc	23,303.6	2,589	2,511	2,458	1,779	1,939
Devon Energy Corp	22,733.1	13,450	6,415	3,971	3,100	2,914
Continental Resources Inc/OK	21,360.6	4,717	3,080	1,165	1,961	2,228
Apache Corp	17,626.2	11,378	4,808	1,949	3,018	3,141
Hess Corp	17,012.6	5,214	4,321	2,251	2,039	2,093
Marathon Oil Corp	15,497.9	5,160	3,476	1,245	1,975	2,442
EQT Corp	14,978.4	2,451	2,434	2,591	1,909	3,911
Cabot Oil & Gas Corp	12,964.1	1,480	956	375	815	1,003
Diamondback Energy Inc	12,567.4	1,448	902	1,190	873	1,173
RSP Permian Inc	6,518.4	816	873	963	664	796
WPX Energy Inc	5,880.8	1,807	1,124	578	1,121	1,161
Murphy Oil Corp	5,879.6	3,679	2,550	927	935	1,020
Energen Corp	5,567.7	1,264	1,154	447	982	969
Range Resources Corp	4,163.8	1,212	1,035	469	1,128	1,077
Chesapeake Energy Corp	3,762.0	6,618	3,771	2,120	2,270	2,090
CNX Resources Corp	3,366.4	1,493	983	227	666	772
SM Energy Co	2,965.9	2,519	1,502	2,814	872	1,093
Whiting Petroleum Corp	2,723.7	2,968	2,497	553	919	827
Oasis Petroleum Inc	2,426.5	1,401	849	1,208	655	823
Denbury Resources Inc	945.1	1,079	562	253	258	333
<b>Total Capital Expenditure</b>	<b>1,310,982.1</b>	<b>226,929.2</b>	<b>162,268.1</b>	<b>101,921.7</b>	<b>98,775.5</b>	<b>109,968.2</b>
% Change			-28.5%	-37.2%	-3.1%	11.3%

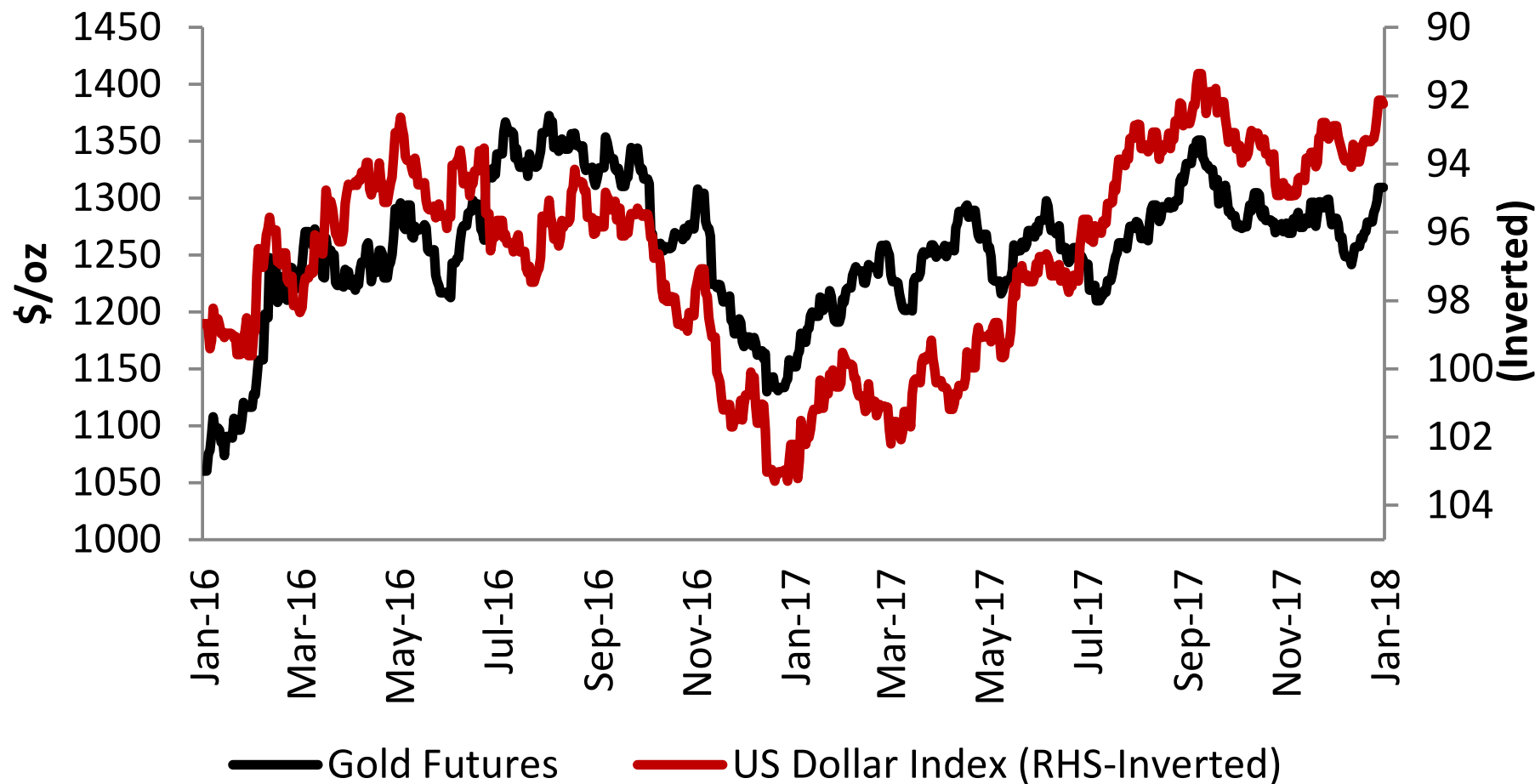
^Bloomberg collated estimates

# Gold: Dollar weakness lifts the metal

- Gold as a dollar denominated asset however, has been lifted primarily by recent weakness in the greenback. Into the third week of the year, sustained weakness in the greenback (DXY fell to its three-year low of 90.3) gave gold prices flight.
- We think that gold prices are slightly elevated to-date. Gold as a safe haven has little reason to rally in today's relatively rosy growth environment. The World Bank postulates global growth to rise 3.1% on the back of unprecedented growth and recovery in investment, manufacturing and trade.
- The yellow metal should perform poorly in a higher interest rate environment. Coupled with the growth environment, a relatively tighter liquidity environment from further rate hikes (note Bank of Canada's third rate hike since the start of their hiking cycle), and balance sheet tapering from both the US Federal Reserve and ECB (the latter likely to start in Sept 2018) could drag gold prices lower.
- Of course, we need to watch out for potential risks. We identify three risks that could potentially derail risk appetite and global growth: (1) higher-than-expected surge in inflationary pressures, (2) re-emergence of protectionist sentiments and (3) unexpected intensification in geopolitical tensions. Each of which, should they happen, would potentially reintroduce safe haven and/or inflation hedge buying into relatively risk-free assets especially gold.
- In a nutshell, 2018's growth outlook still appears positive, almost benign. Policymakers should remain bias towards raising rates, while safe haven demand declines on supported risk appetite. Barring the unexpected risks, we keep our gold outlook at \$1,100/oz at year-end.

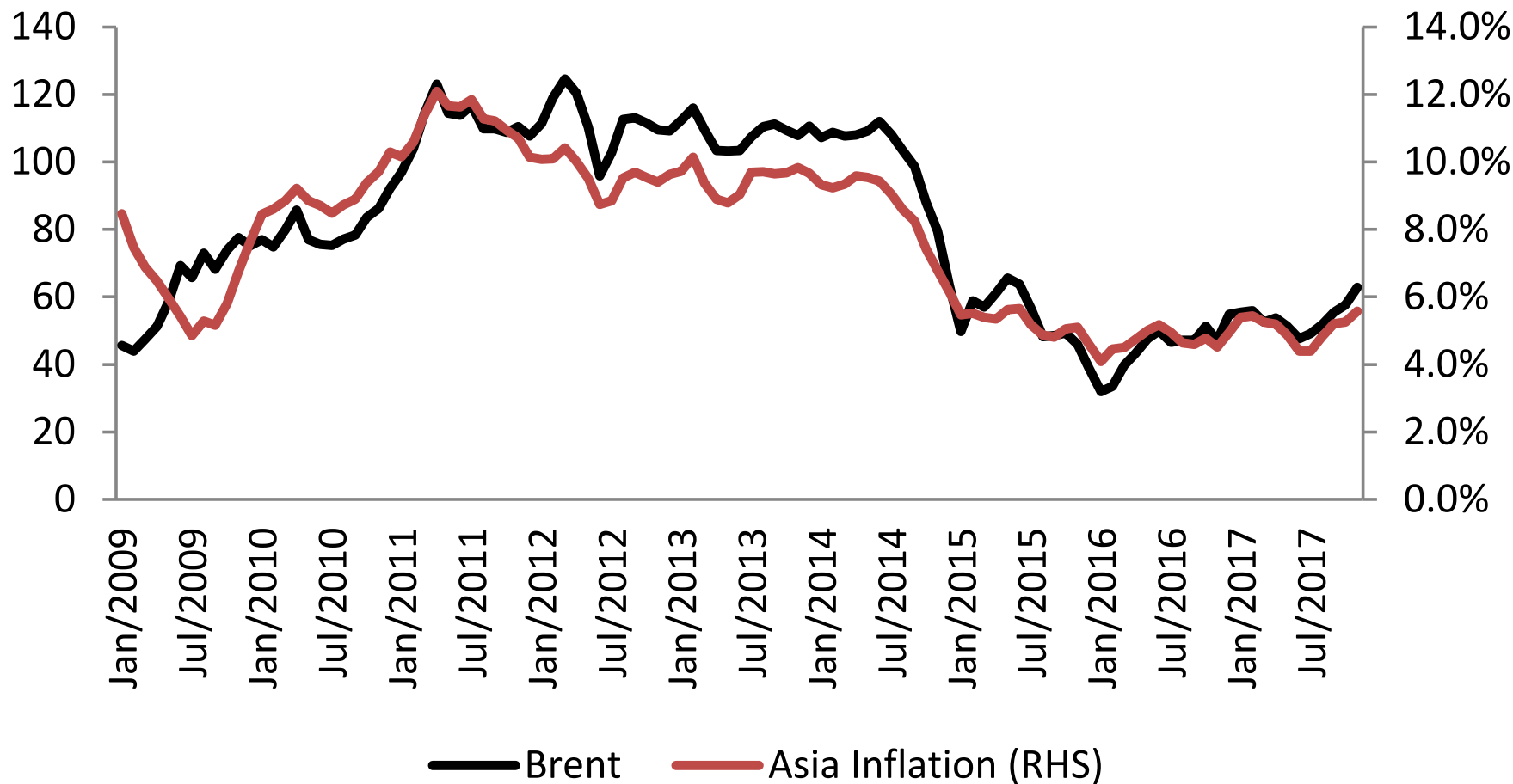
# A weaker dollar has invariably lifted gold prices

## Gold-DXY correlation remain water-tight



# Inflation risk could emerge as oil prices rise

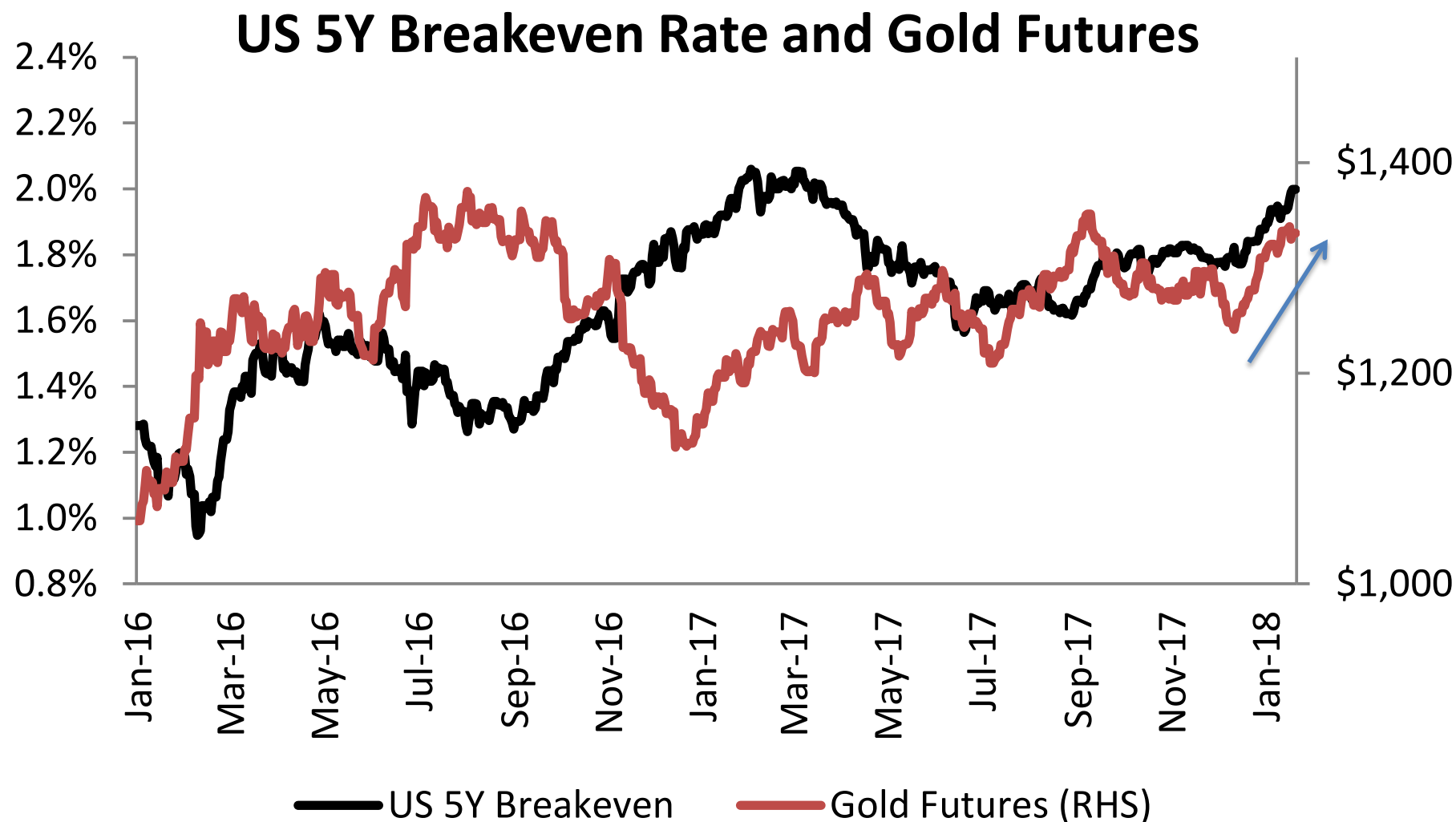
## Higher oil prices could be a source of inflation



**OCBC Bank**

Source: CEIC, OCBC Bank

# Higher inflation pressures could lead gold higher

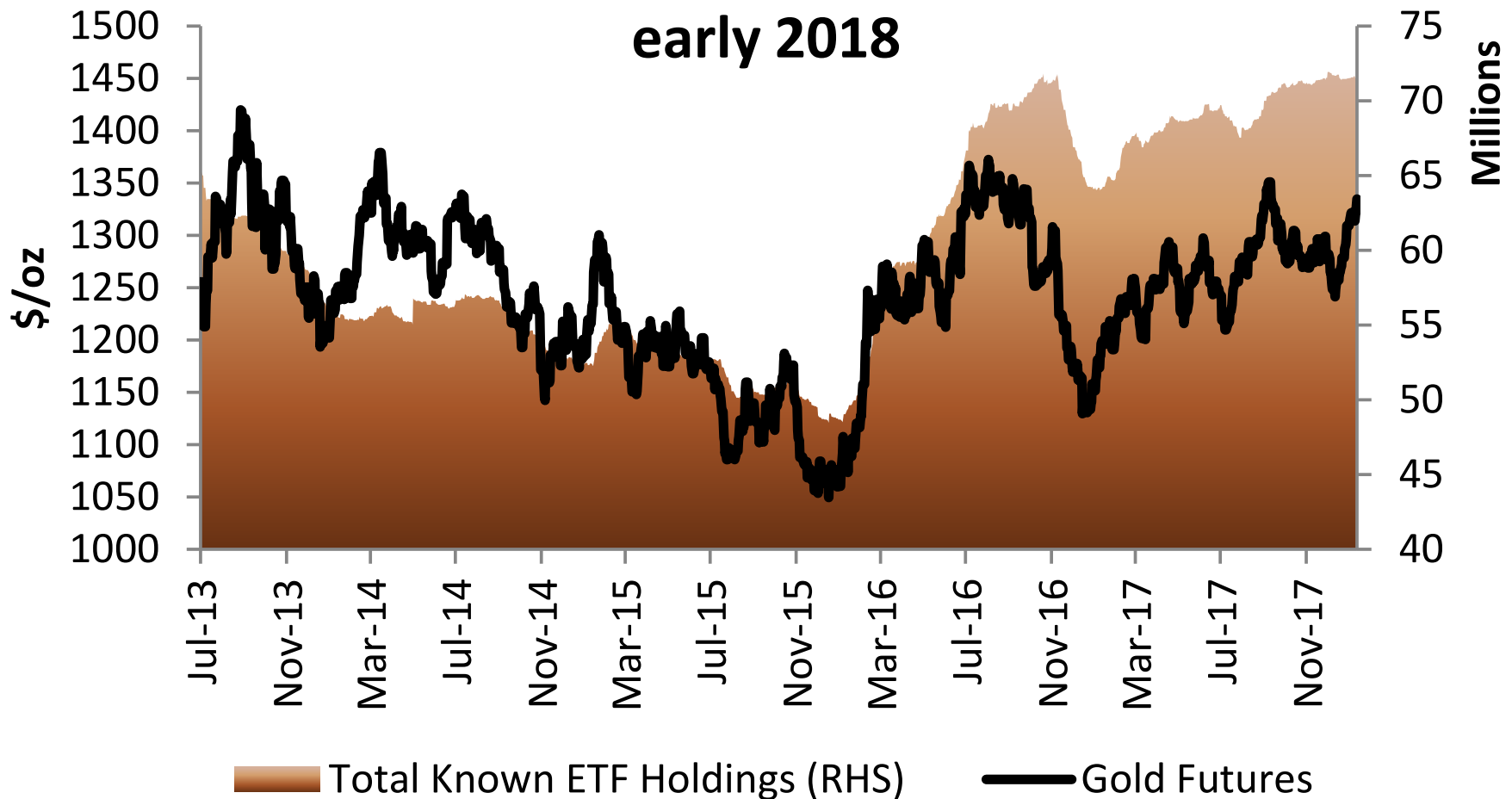


**OCBC Bank**

Source: CEIC, OCBC Bank

# Stable ETF holdings suggest little safe haven demand to-date

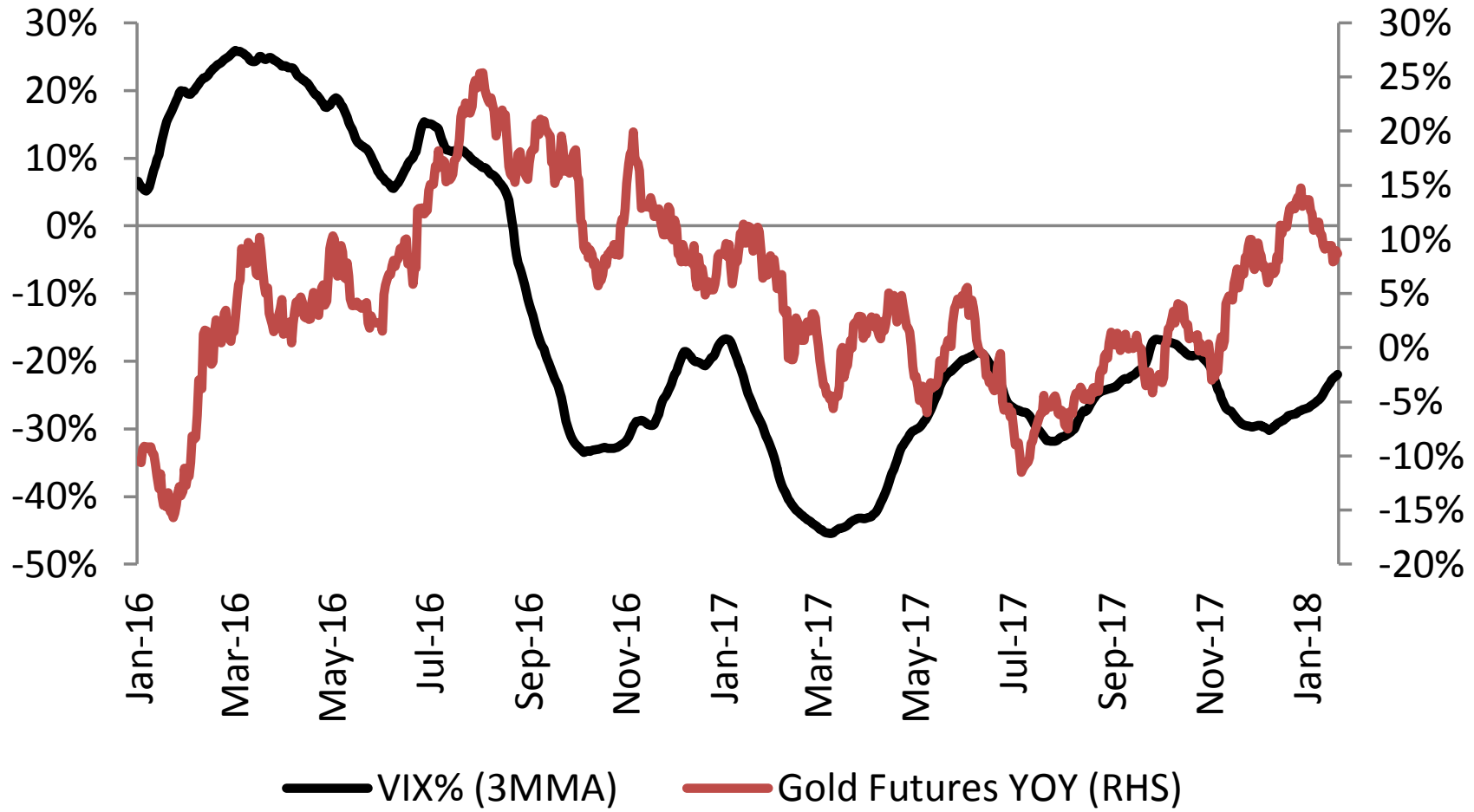
Not so exciting? ETF holdings appear stable into early 2018



**OCBC Bank**

Source: CEIC, OCBC Bank

# VIX slowly fades into 2018... Little safe haven demand to-date



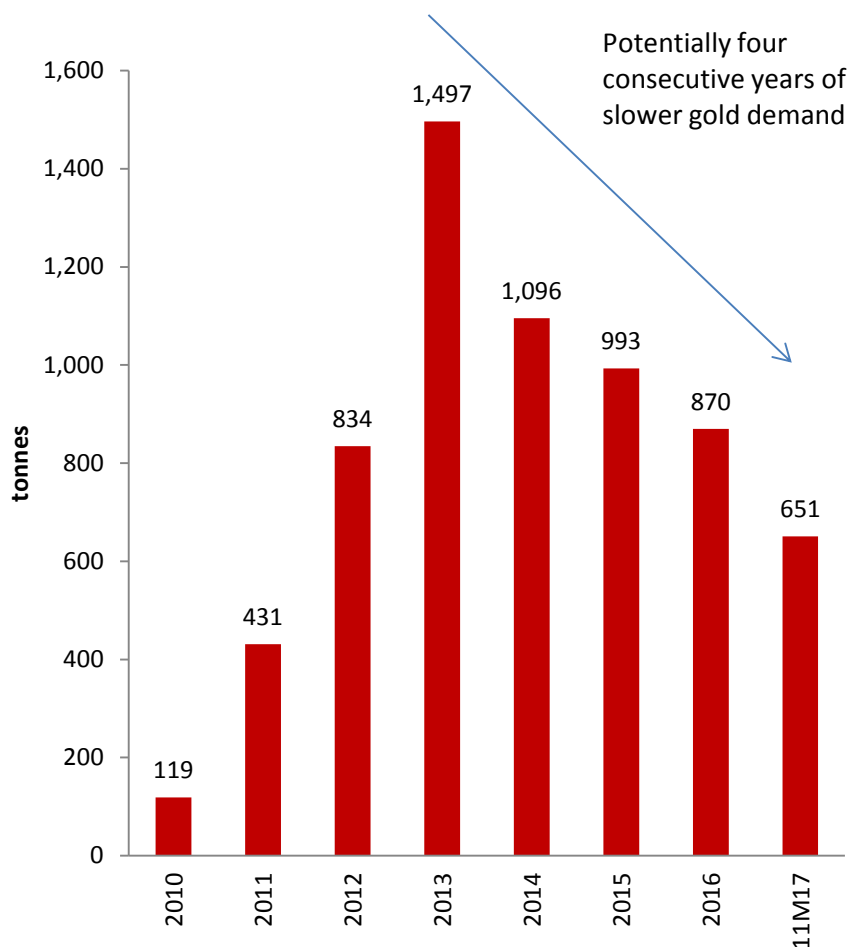
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Source: CEIC, OCBC Bank

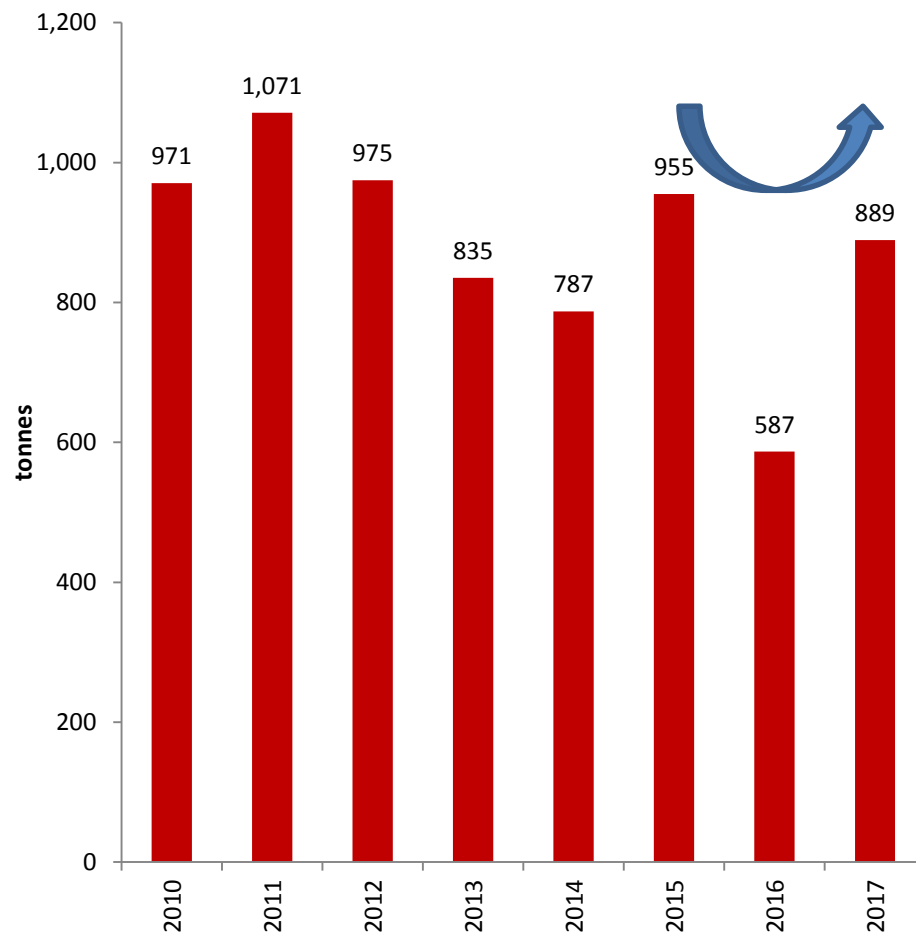


# Physical demand environment still appear mixed

## Chinese gold imports from Hong Kong

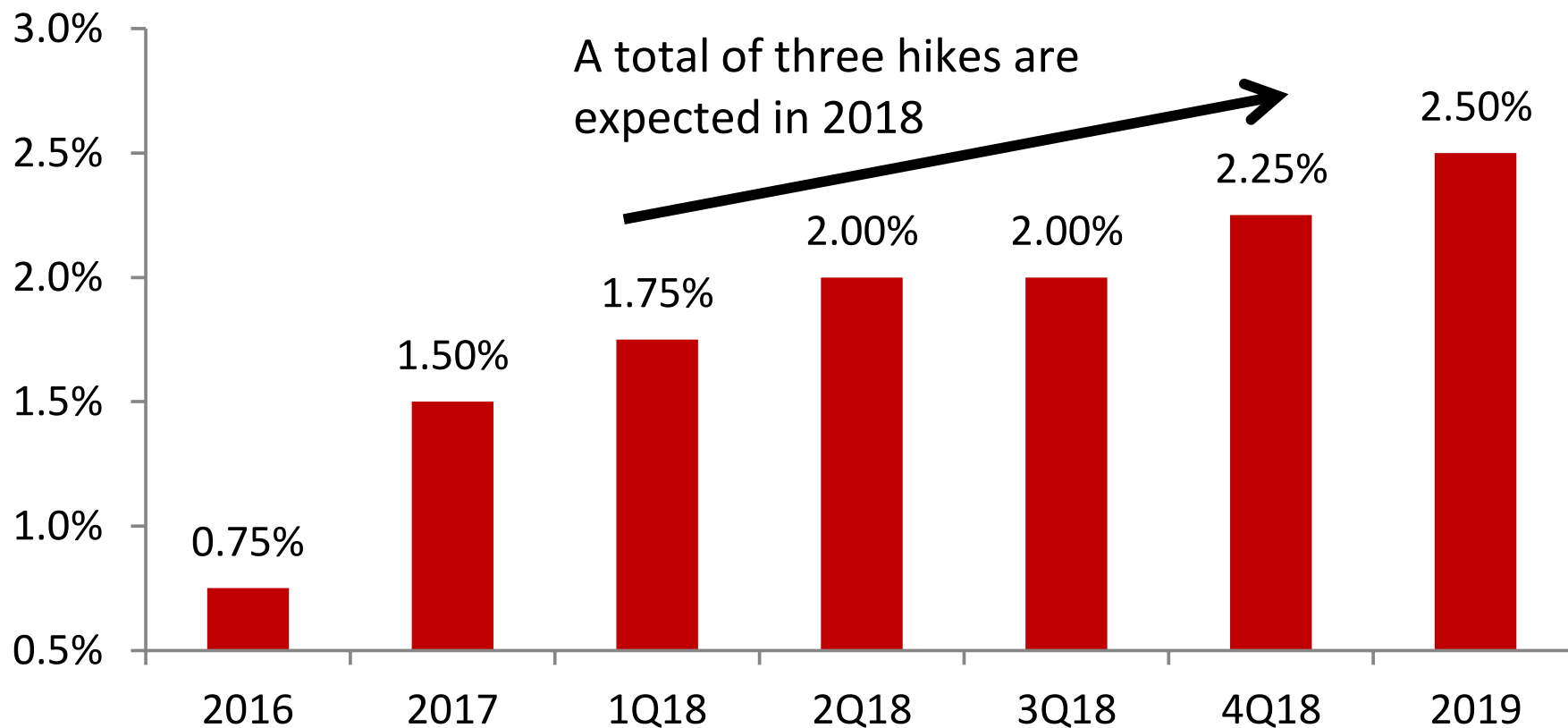


## India gold imports fared better in 2017 given low base seen in 2016



# More rate hikes makes gold a dull asset

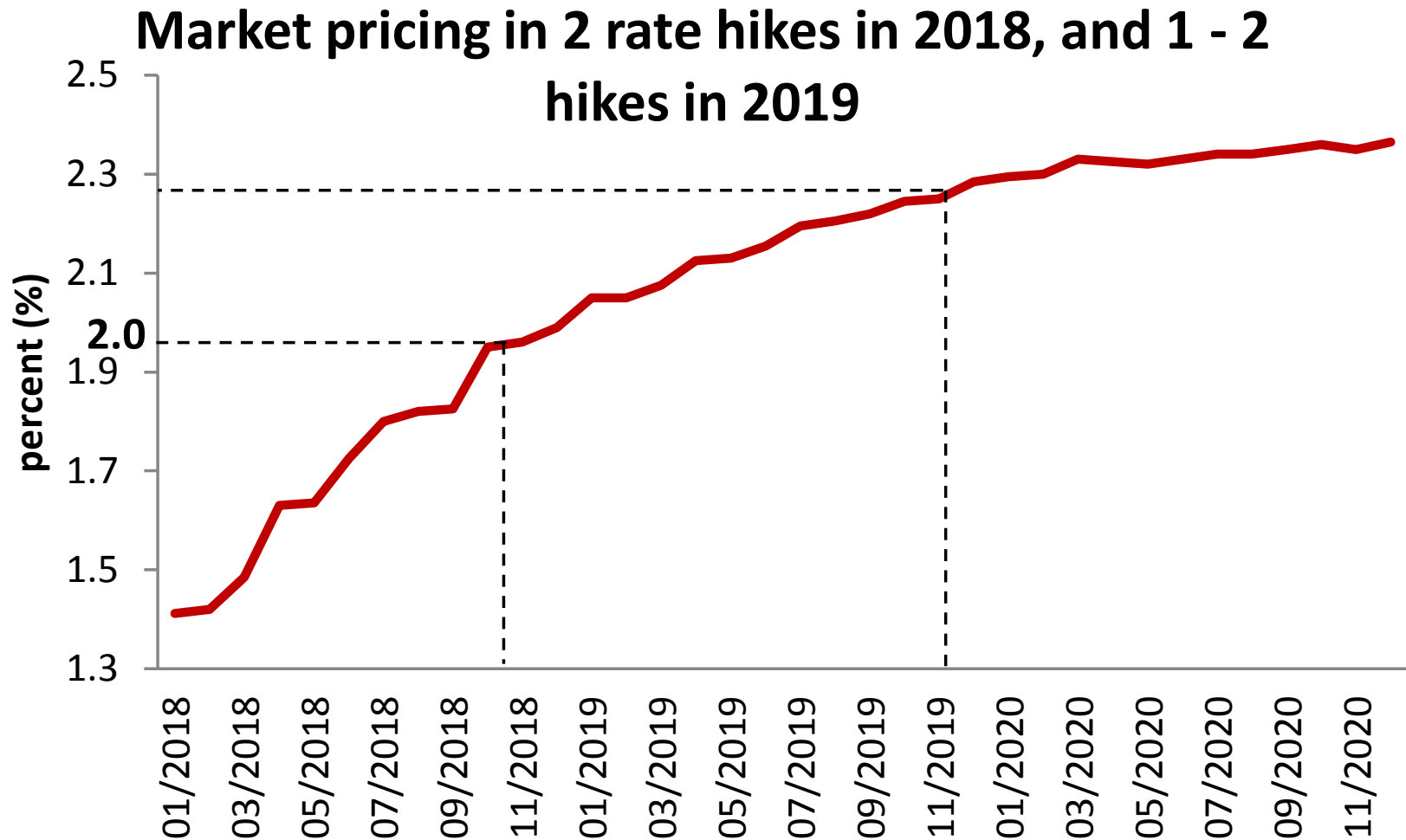
## OCBC Fed Funds Rate Outlook: Three more hikes into 2018?



**OCBC Bank**

Source: CEIC, OCBC Bank

# Fed fund rate futures showing more hikes this year

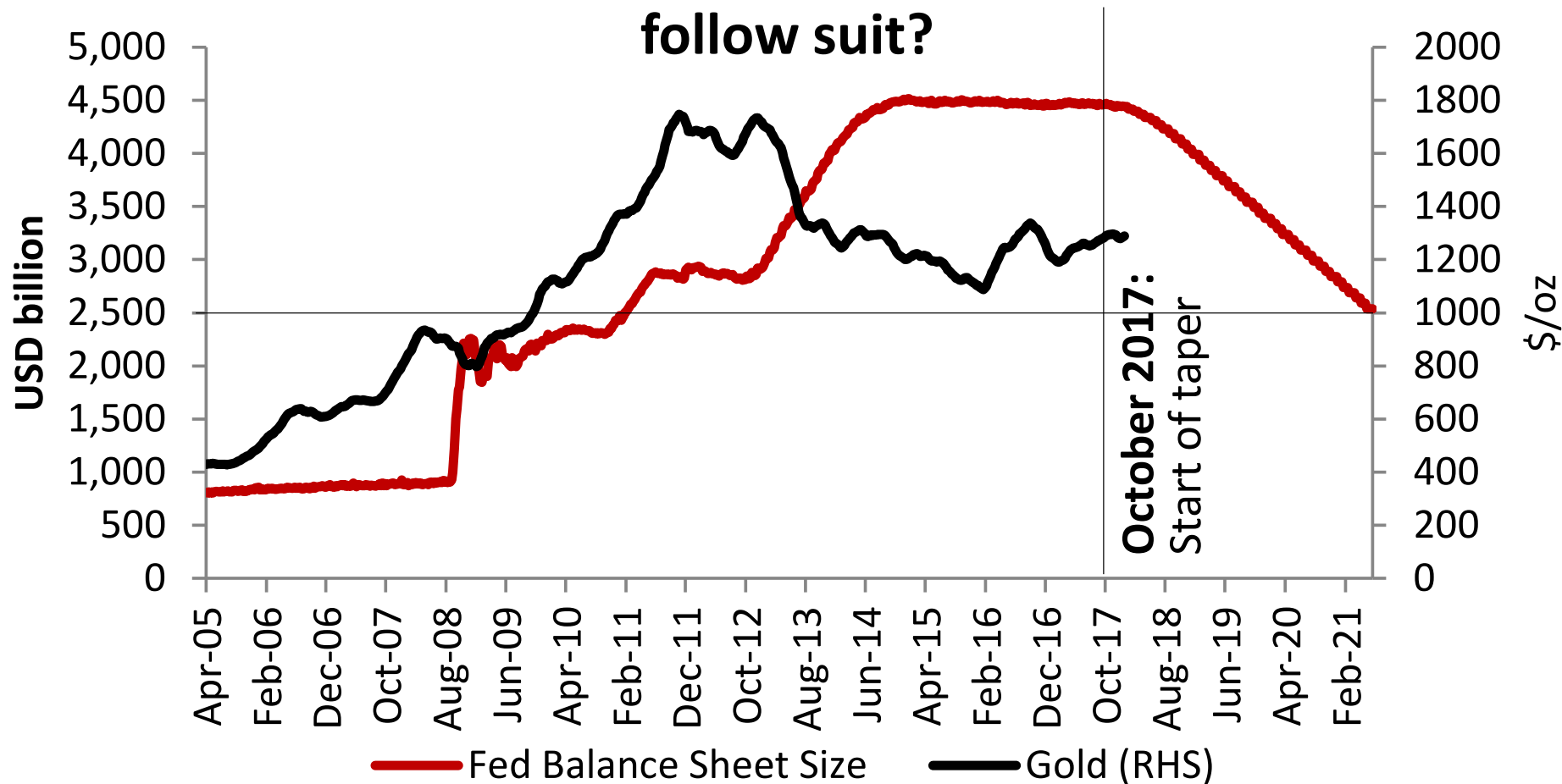


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Source: CEIC, OCBC Bank

# Watch out for balance sheet tapering into 2018

Fed balance sheet size after 44 months... will gold follow suit?

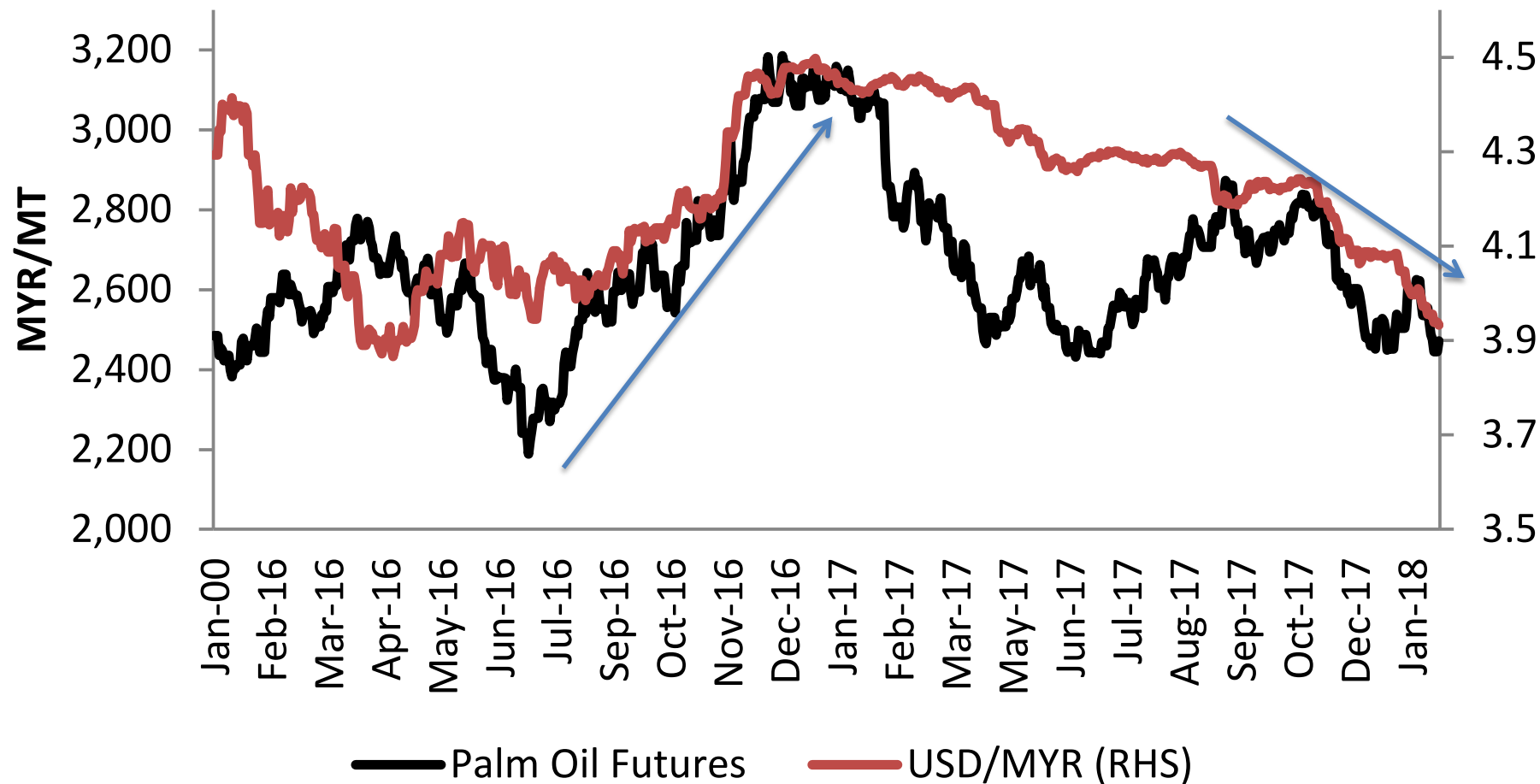


# Palm Oil: The ringgit and many others

- Crude palm oil prices trended lower at the start of the year, driven by upward surprise in CPO production and weaker exports. Malaysia's Palm Oil Association (MPOB) indicated Dec production at 1.8 million tons, clocking three consecutive months of double-digit y/y growth. Intertek data also indicated a rather disappointing -7.4% m/m growth in Malaysia's palm oil shipments in the first 15 days of January.
- A stronger ringgit of late is also to blame for the weaker palm oil price. MYR has appreciated to below 4.0 per USD in the last two weeks. Palm oil, denominated in MYR, fell in value as a natural response to a stronger MYR. In percentage terms, the ringgit has appreciated 2.7% in the first three weeks of 2018, while palm oil futures fell in tandem by 2.3% over the same period.
- Unsurprisingly, La Nina conditions seen of late has failed to support palm oil prices. As predicted by weather experts, 2018's early La Nina severity proved to be a weak one and likely to be short-lived. Importantly as well, should history be of reference, La Nina conditions have a relatively muted effect on palm oil prices if compared to its hotter and dryer 'El Nino' sibling.
- We maintain our bearish outlook for palm oil into 2018. Palm oil production has recovered significantly in 2017, and should continue climbing into the year-ahead. On the other hand, export outlook do appear rather soft, given weaker India's and Europe's demand, especially the latter's decision to ban the use of palm oil in motor fuels from 2021. As such, we keep our year-end palm oil outlook at MYR2,650/MT.

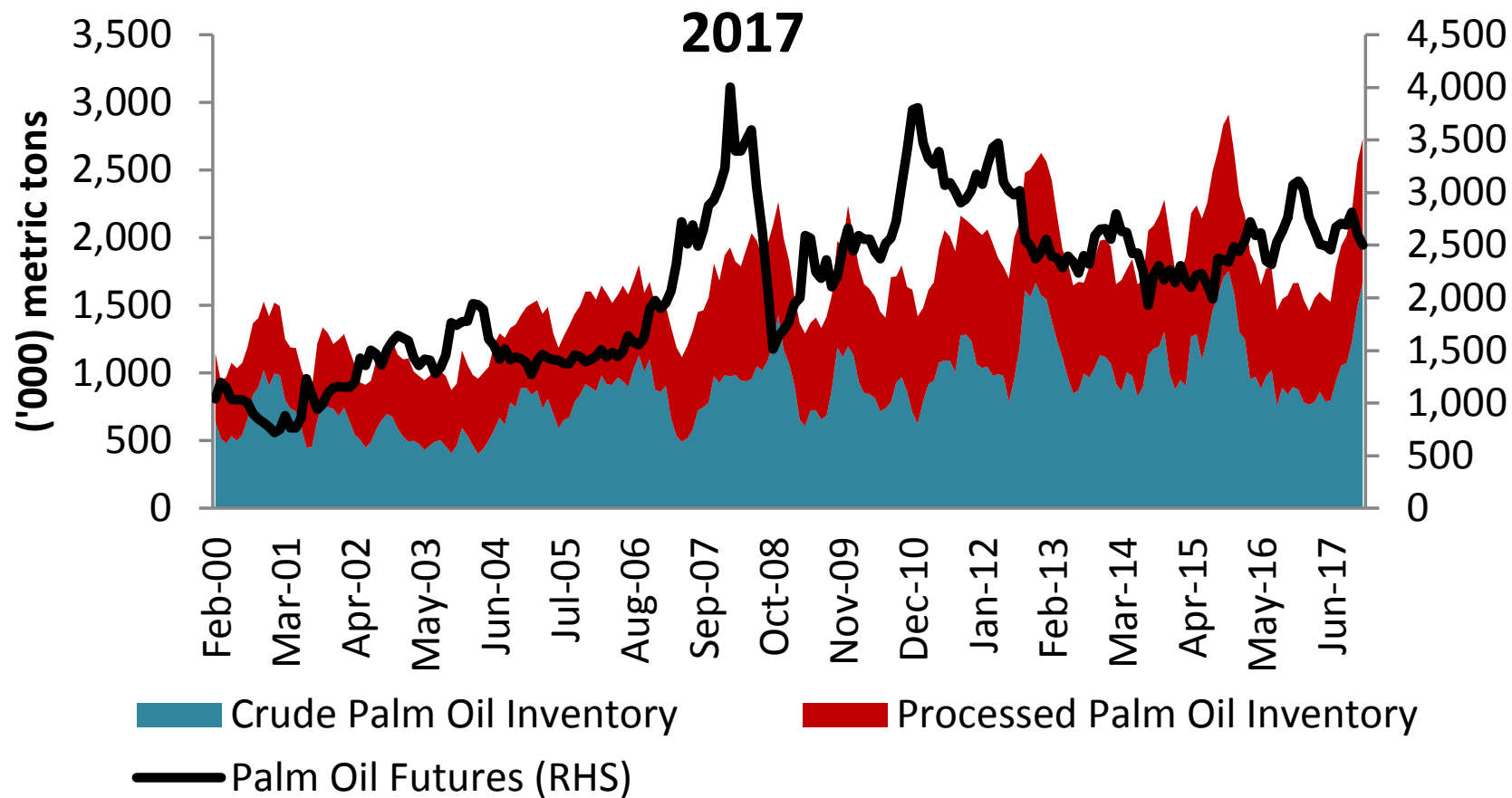
# A stronger MYR of late dragged CPO prices

## Palm oil and ringgit



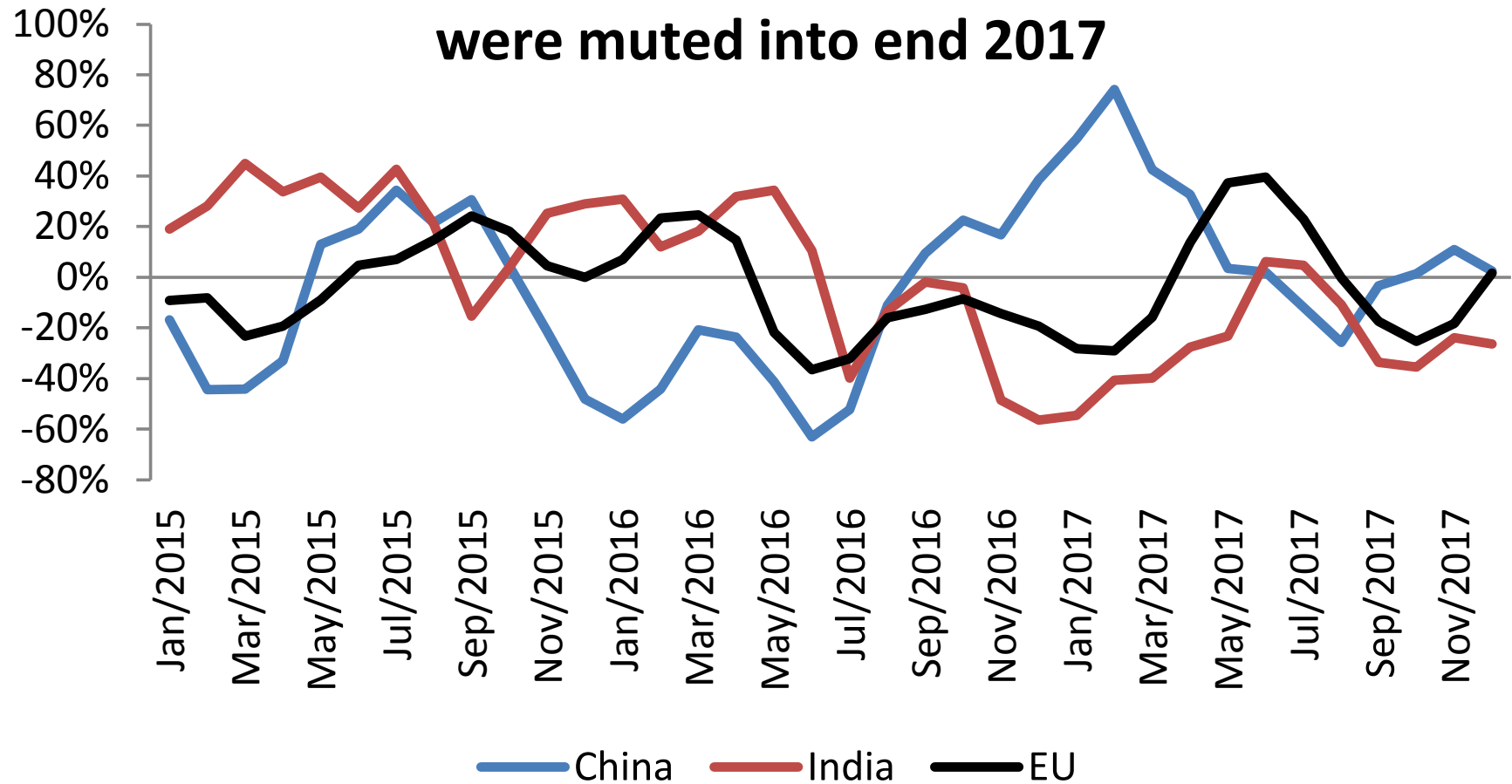
# The mix of stronger supply and weaker exports led inventories higher

## Malaysia palm oil inventories climb into end



# Note India's (very) weak import demand, followed by EU...

## Malaysia exports of palm oil to key destinations were muted into end 2017



**OCBC Bank**

Source: CEIC, OCBC Bank



# Europe's palm oil import demand could decline considerably



## Commitment to Support 100% Sustainable Palm Oil in Europe

We declare to work together and support each other in transforming towards a 100% sustainable palm oil supply chain in Europe by 2020.

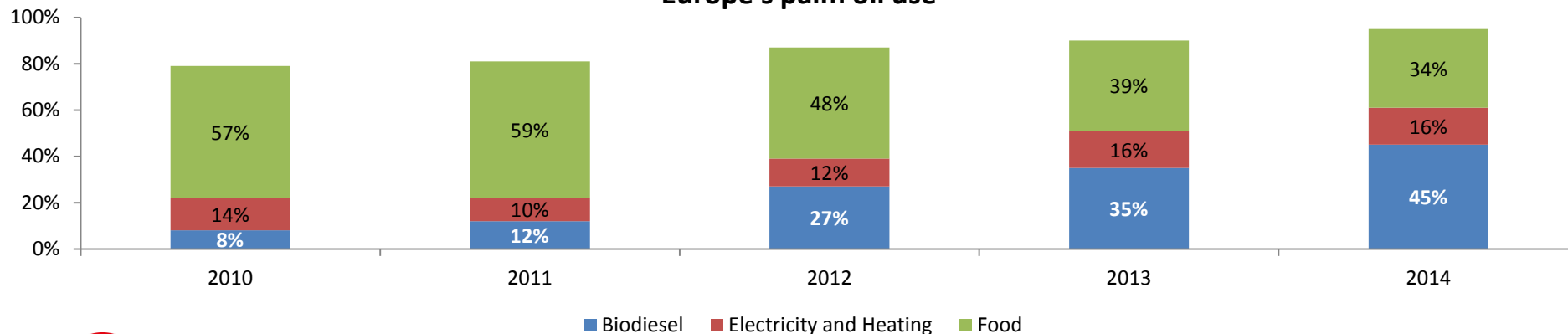
### The Amsterdam Palm Oil Declaration

by the following European governments:

Denmark  
France  
Germany  
The Netherlands  
United Kingdom  
Norway



Europe's palm oil use

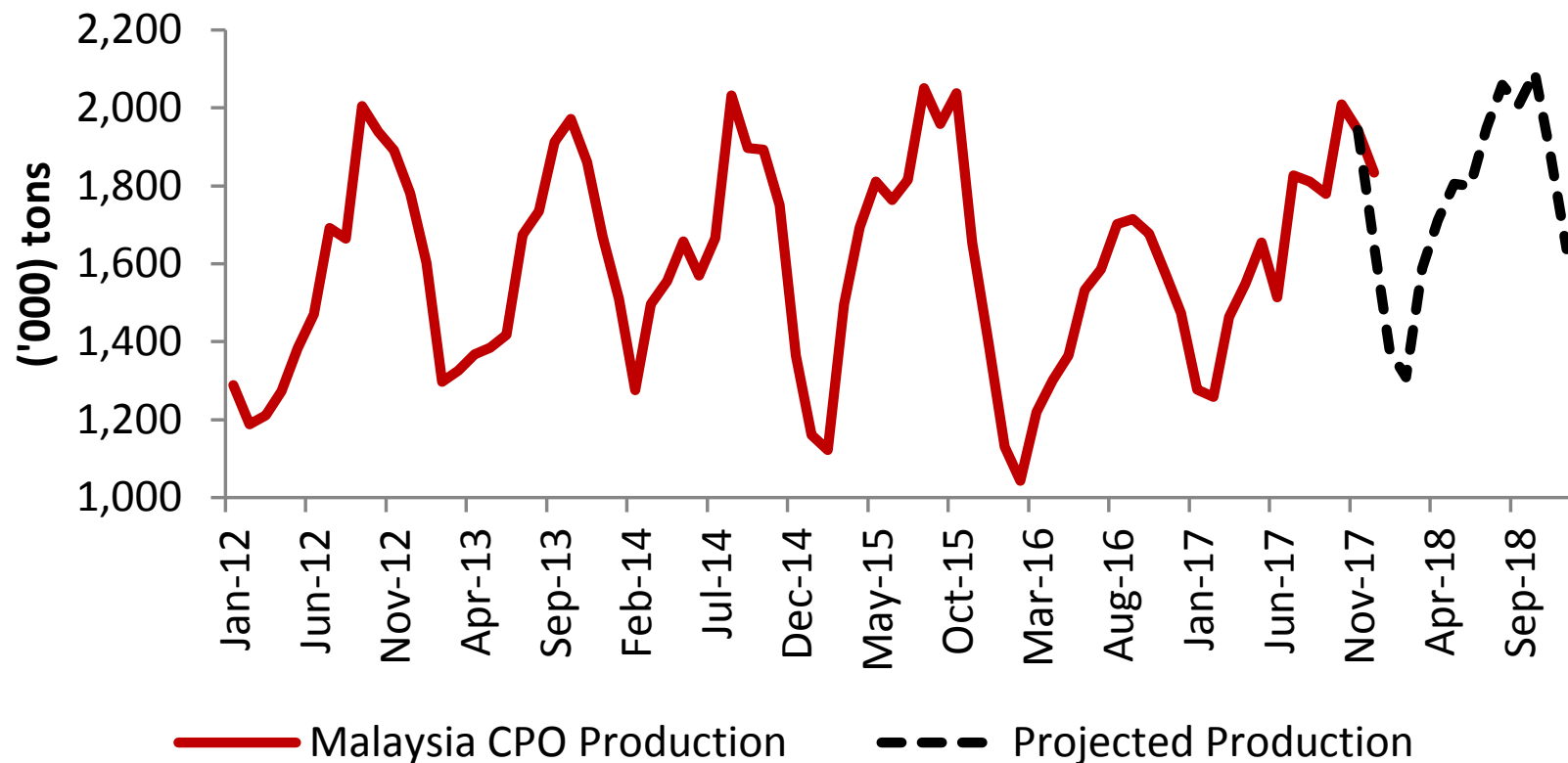


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Source: Google Images, FEDIOL

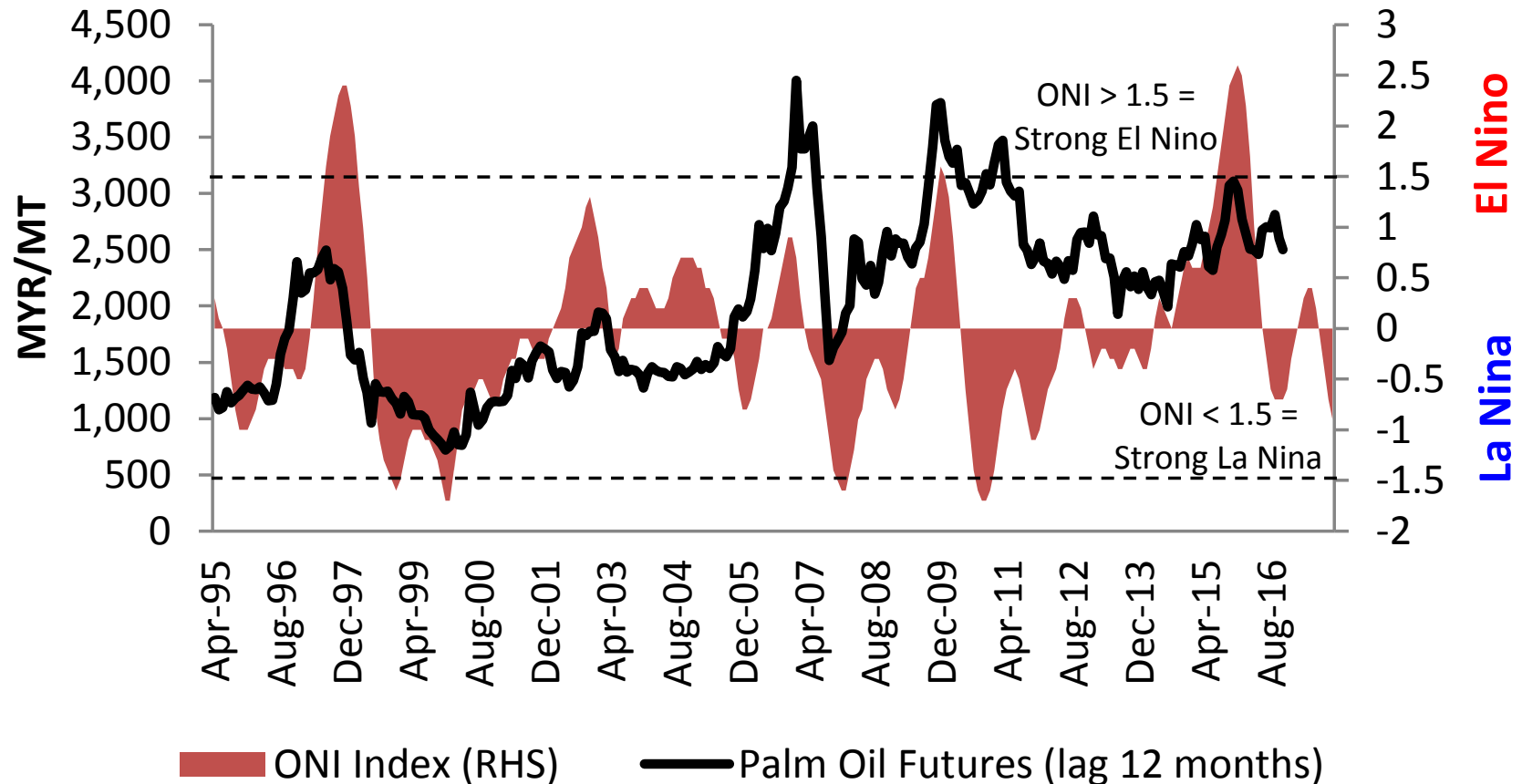
# Palm oil production is likely to grow further, weighing on prices

Malaysia's palm oil production could grow by another 5 - 10% into 2018



# Current La Nina condition is comparatively weaker versus past episodes...

## Palm oil prices appear to have peaked

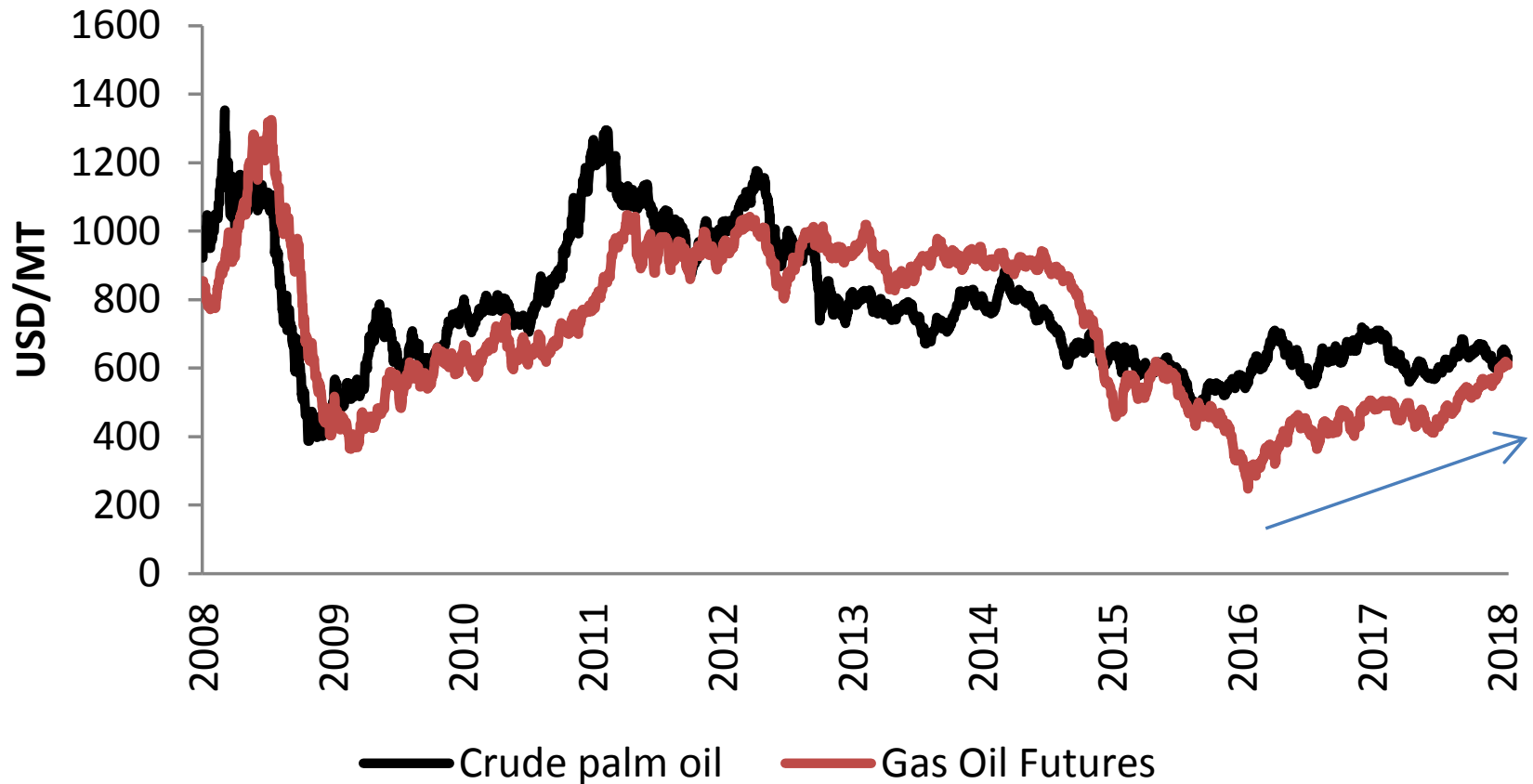


**OCBC Bank**

Source: CEIC, OCBC Bank

# A cushion to future CPO price declines could stem from stronger oil prices

Palm oil prices tuned higher as gasoil prices rise



**OCBC Bank**

Source: CEIC, OCBC Bank



Thank You

# Disclaimer

## Treasury Market Research & Strategy

Selena Ling ([LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com))

Emmanuel Ng ([NgCYEmmanuel@ocbc.com](mailto:NgCYEmmanuel@ocbc.com))

Tommy Xie Dongming ([XieD@ocbc.com](mailto:XieD@ocbc.com))

Barnabas Gan ([BarnabasGan@ocbc.com](mailto:BarnabasGan@ocbc.com))

Terence Wu ([TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com))

Tel : (65) 6530 4887

Tel : (65) 6530 4073

Tel : (65) 6530 7256

Tel : (65) 6530 1778

Tel : (65) 6530 4367

## OCBC Credit Research

Andrew Wong ([WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com))

Wong Liang Mian ([NickWong@ocbc.com](mailto:NickWong@ocbc.com))

Ezien Hoo ([EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com))

Wong Hong Wei ([WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com))

Tel : (65) 6530 4736

Tel : (65) 6530 7348

Tel : (65) 6722 2215

Tel: (65) 6722 2533

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