OCBC Bank

Wednesday, February 14, 2018

OCBC Commodities Outlook 2018

Energy

Too long has the market ignored the rising US production levels, as market-watchers cheered on OPEC's production cap and seemingly better fundamentals. Recent data showed US crude oil production crossing its 10 million barrels per day (bpd) mark, while rig counts gained into February. Although we remain positive on crude oil prices until year-end, an interim correction into 1Q18 cannot be ruled out. From a technical view, crude oil's rally has gone for far too long and far too strong in January, and with the blood-letting seen in equities and risk appetite, crude oil appears primed to see more downside into 1Q18.

Base Metals

Base metal prices continue to stay strong, although more easing will likely be seen into the year ahead. We note that China's supply constraint is slated to end in March 2018, suggesting that higher supplies into the year ahead could lead base metal prices lower. Nickel prices continue to hold up, although we remain cautious as inventories build amid higher supplies especially from Indonesia. Overall, a slowing Chinese economy into 2018 could cap base metal gains into the year ahead.

Precious Metals

Gold prices still remain elevated above its $1,300/oz in our view, though prices are edging lower into February given interim safe haven demand into the greenback. The yellow metal should continue to fade lower into the year as interest rates gradually rise amid a positive global growth backdrop. We keep our outlook at $1,100/oz at year-end.

Agricultural and Asian Commodities

The relatively healthier fundamentals seen since the start of 2018 should have lifted crude palm oil prices higher. Global supplies led by Asia edged lower dragged by seasonal factors, while import demand from key importing nations remained robust. However, the expensive ringgit outweighed any potential rally on crude palm oil (CPO) prices as CPO is primarily priced in the MYR. We downgrade our palm oil outlook to MYR2,400/MT.

Commodities Performance Table

Updated as of 14 February 2018

Selected Indices	Close	Weekly Change	MTD	QTD	YTD
US Dollar Index (DXY)	89.6	-0.7%	0.5%	-2.7%	-2.7%
Reuters / Jefferies (CRB)	189.8	-1.3%	-3.8%	-2.1%	-2.1%
Dow Jones Industrial Avg	24,640	-1.0%	-5.8%	-0.3%	-0.3%
Baltic Dry Index	1,123	2.4%	-2.5%	-17.8%	-17.8%
Energy	**Close**	**Weekly Change**	**Net Position**	**Weekly Change**	**YTD**
NYMEX WTI Crude	59.1	-4.3%	777,453	-6,837	-2.1%
ICE Brent Crude	62.8	-4.2%	574,989	-3,209	-6.1%
NYMEX RBOB Gasoline	167.9	-5.0%	89,791	184	-6.7%
NYMEX Heating Oil	183.8	-4.8%	49,592	-7,761	-11.4%
NYMEX Natural Gas	2.6	-3.6%	-56,843	-38,071	-11.8%
Base Metals	**Close**	**Weekly Change**	**Net Position**	**Weekly Change**	**YTD**
LME Copper	6,988	1.6%	52,040	-869	-3.6%
LME Aluminium	2,139	-0.9%	-	-	-5.7%
LME Nickel	13,450	2.1%	-	-	5.4%
Precious Metals	**Close**	**Weekly Change**	**Net Position**	**Weekly Change**	**YTD**
COMEX Gold	1,335.8	1.6%	208,171	-17,616	2.0%
COMEX Silver	16.6	2.2%	15,718	-16,159	-3.2%
NYMEX Platinum	981.2	-0.1%	43,780	-1,658	4.6%
NYMEX Palladium	985	0.0%	19,756	-4,145	-7.2%
Agriculture	**Close**	**Weekly Change**	**Net Position**	**Weekly Change**	**YTD**
CBOT Corn	365	0.0%	-1,351	40,801	4.1%
CBOT Wheat	468	1.6%	-61,099	4,015	9.5%
CBOT Soybeans	1,018	3.5%	-3,250	9,595	5.8%
Asian Commodities	**Close**	**Weekly Change**	**MTD**	**QTD**	**YTD**
Thai W. Rice 100% (USD/MT)	469	0.0%	-3.7%	9.8%	9.8%
Crude Palm Oil (MYR/MT)	2,515	1.2%	0.9%	0.5%	0.5%
Rubber (JPY/KG)	188	-4.1%	-2.8%	-9.3%	-9.3%

Source: Bloomberg, CFTC, OCBC Bank

Note: Closing prices are updated as of 14 February 2018

Note: Speculative net positions are updated as of 06 February 2018

Note: Speculative net positions for Aluminium and Nickel are unavailable

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Special Commentary: The start of a super cycle?

The Bull Run in commodity prices since 2016 cannot be ignored. Taking many investors by surprise, commodity prices especially in the growth-related cluster climbed significantly in the last twenty four months. This led some to think that a commodity super cycle may be on the cards. Indeed, crude Brent rose past its $70/bbl as early as January 2018, base metal prices rallied in tandem led by further risk-taking and Chinese-centric supply constraints. Even gold prices joined in the fray and clocked close to a remarkable 13.7% appreciation last year, the fastest gain since 2010.

The bullish view on commodity prices is not unfounded into 2018. Global economic strength is expected to stay on track into the year, albeit some moderation in trade and manufacturing momentum given 2017's high base print. Factories are humming, eating into stockpiles of raw materials and driving demand at miners, suggesting that commodity demand will likely stay supported into 2018. However, to call for a 'supercycle' to be around the corner can be a little too premature at this juncture.

The ingredients of a supercycle

Historically, the supercycle seen during the 2000s was led by two key factors. One, it occurred immediately after the Great Commodities Depression of the 1980s and 1990s, in which there was a huge build-up in pent-up commodity demand. Two, with increased globalisation and the emergence of trade deals across trading countries, a commodity boom then emerged in the two decades following the depression. On this, there was a sudden and arguably unprecedented rise in commodity demand especially from emerging markets especially those in the BRIC and other parts of Asia.

Should history be of reference, the ingredients to a similar commodity supercycle remains obscure to-date, while the state of the global economy then is starkly different from what we are facing now. While demand remains supportive of commodity prices, there remain even more uncertainties as to how prices may rally into 2018 based on three factors:

(1) There remains to be little upside risk for crude oil prices above $70/bbl at this juncture. Oil production in non-OPEC nations have been rising rapidly since 2H17, especially led by the shale oil basins in the US. Russia itself is also perceived to potentially leave the OPEC+ production agreement, given how much prices have rallied since the agreement back in 2016.
(2) Growth slowdown in China amid further deleveraging efforts by the Chinese government could potentially limit base metal prices. Especially for the base metals, prices are largely driven by Chinese-centric growth prospects, given China's dominant role in both supply and demand of these metals. Into the year ahead, we are looking for China's GDP growth to slow to 6.5%, down from 6.9% in 2017.
(3) The higher interest rate environment into 2018 could drag precious metals, given that these store of values offer no yield returns. At this juncture, interest rates in both developed and Asian central banks have largely normalised higher (note FOMC, BOC, BOK, BNM etc which saw higher rates into 2017/2018), and further rate hikes cannot be discounted.

In a nutshell, we cannot adequately compare the current uptick in commodity prices to the "supercycle" seen back in the 2000s. The ingredients are different, while the state of the global economy is starkly dissimilar.

Potential risks in commodity sector in 2018?

We continue to see potential risks in the global economic space, including geopolitical-related ones, inflation, and interest rates. The closely-knitted relationship between global economic growth and commodities thus suggest that commodity prices will likely take cues from how these issues pan out into the year ahead. Despite the rosy global economic outlook into 2018, we would need to also consider the moderation of Asia's economic growth, led by slower trade and manufacturing momentum. Protectionist sentiments in particular, recently highlighted by the US administration trade policies, could also weigh on trade should it intensify further into 2018.

Geopolitical risks remain to be an unquantifiable, but highly significant factor that could swing commodity prices, and an unexpected intensification of geopolitical conflicts could well lift gold prices (given its safe haven aspect), and likely crude oil (depending on the severity of intensity). Still, geopolitical noise at this juncture has tuned softer, given North Korea's participation in the Winter Olympics, amid the easing tensions seen from the 2017 Middle East tensions.

Lastly, upside risk to inflationary pressures is likely to be one of the key concerns this year, especially with the onset of higher wage inflation and better global economic fundamentals. Moreover, any upside risk to oil prices may also tick cost-push factors higher as well, thus resulting in higher global prices. The resultant consequence to a surprising higher inflation environment will then surely be met with the tightening of global financial conditions, arguably already seen as central banks in both developed and Asian economies normalise rates higher in their latest MPC meetings. Should this occur, economies with elevated debt levels could be disproportionately affected, and a pullback in investment and consumption growth could be seen as well.

Crude Oil: The season for (some) profit-taking?

Highlights

- January has been a good month of rally for crude oil, but will February spell a different season? A quick downtick in risk appetite seen from a sell-off in equities across both developed and Asian economies also led to profit-taking in the crude oil space.
- Too long has the market ignored the rising US production levels, as market-watchers cheered on OPEC's production cap and seemingly better fundamentals. Recent data showed US crude oil production crossing its 10 million barrels per day (bpd) mark, while rig counts gained into February.
- Although we remain positive on crude oil prices until year-end, an interim correction into 1Q18 cannot be ruled out. From a technical view, crude oil's rally has gone for far too long and far too strong in January, and with the blood-letting seen in equities and risk appetite, crude oil appears primed to see more downside into 1Q18.

Not quite what it seems?

Market sentiments can be hard to predict sometimes. The rally in crude oil prices in the first of the year could have left many market-watchers and analysts dumbfounded; both WTI and Brent prices climbed further even as higher US crude oil production and oil rig counts took to the headlines. Should we had faced a similar scenario as recent as six months ago, oil prices would arguably take another notch lower on oversupply concerns.

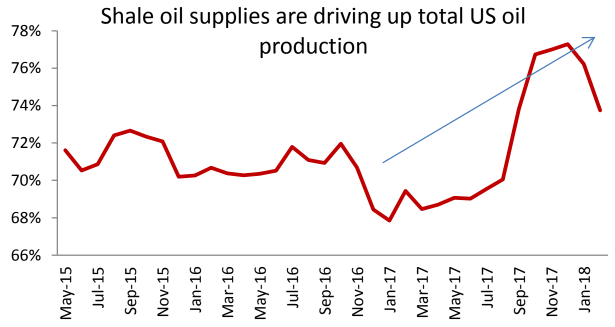
So what has changed since then? Risk-taking appetite has picked up robustly into 2018, seen from the strong equity rally in both developed economies & Asia, as well as a sell-off in seemingly safer assets including the US Treasuries. Counting the months of crude oil's rally, the upward trend clocked a remarkable period of eight months, up from rather dispirited levels of \$45/bbl to over \$70/bbl (highest since Dec 2014) in late January 2018. However, market sentiments can be fickle at times, and a change of tides could persuade market viewers to re-investigate potential risks that could drag oil prices into 2018.

It's (always?) about supplies

The blood-letting seen in both Wall Street and Asia's equity indices in the early week of February was also met with Brent's and WTI's dip into their \$62/bbl and \$56/bbl marks of late. Since the fall, prices saw little change as we end the week, suggesting that the turn of risk appetite has also taken its toll on how market-watchers view oil prices. Importantly, with the upbeat in risk appetite fading softer, investors are likely refocusing on how fundamentals have moved in the recent weeks, and recent news are not supportive of oil prices of late.

Empirical evidence showed that US oil production has risen to a record 10.25 million bpd in the week ended 2nd February 2018, clocking the fastest pace of growth since 1983. The increase in production has also lifted US crude oil inventories by 1.9 million barrels in the same period. US oil rig counts as a credible leading indicator for future oil production, also rose steadily into the second week of February to 765, up from the trough of 729 in Nov 2017. All-in-all, the rise in US production since 2H17 is largely attributed to the rise in production from US shale oil basins, with the share of shale oil production as a percentage of total US oil production rising from a trough of 67.9% to 77.3% at end 2018.

Share of shale oil % of total:



Source: Bloomberg, OCBC Bank

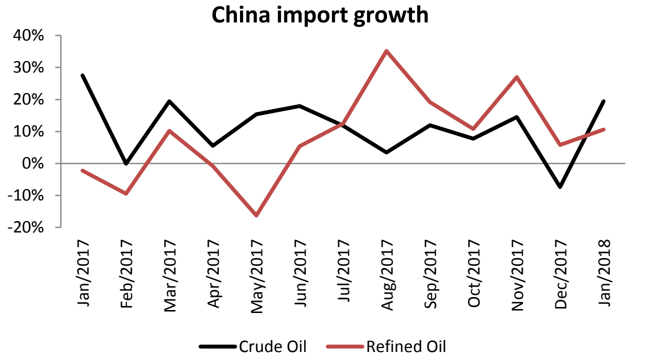
On the other side of the scale, the OPEC cartel is seen cutting back its production to 32.0 million bpd in Dec 2017, accounting for data from direction communication and secondary sources. This latest production print is significantly below the production target of 32.5 million bpd mentioned during the 171st Ministerial Conference held on 30th Nov 2016, suggesting that total OPEC's compliance has remained above 100% to-date. Arithmetically, the OPEC supply curbs have resulted in a fall of 1.8 million bpd since Dec 2016, which has outpaced the rise in US oil production of +1.48 million bpd over the same period. As such, global oil fundamentals remain supportive for oil prices, with global oil demand (100.1 million bpd) still outpacing supplies (98.9 million bpd) as of Dec 2017.

Demand and outlook

Regardless of how supplies may trend into the year ahead, demand still looks supportive for oil prices. For that matter, the International Monetary Fund (IMF) recently upgraded its global growth outlook to 3.9% for both 2018 and 2019, a 0.2% higher than its previous forecast. The faster than previously anticipated growth will likely be underpinned by improved world trade growth, owing to increases in crude oil and petroleum product consumption as well.

In fact, crude oil import demand growth continued to grow especially in China and the rest of Asia, suggesting that this growth momentum seen since 2017 should continue to support oil prices. In our view, oil demand is expected to grow further into 2018, led by strong demand especially from China and Asia, as well as Europe given its stellar performance seen into 2H17. Note that China's crude oil import in volume terms surged 19.4% in January 2018, although market-watchers contributed the surge to the seasonal effects of CNY. Moreover, Chinese oil import growth in both crude and refined products remained in positive zone for most of 2017 as well, suggesting that demand was robust then, and could continue into 2018.

All-in-all, we look for WTI and Brent to rise back to their $65/bbl and $70/bbl handles at year-end, underpinned by the rosy global growth outlook and the positive spill-over effects to energy demand. However, the persistent sell-offs in the energy space into early February could be led by the sudden deterioration in risk appetite, exacerbated over potential rise in US-related crude oil supplies seen of late. With oil rig counts as a credible leading indicator rising to-date, it strongly suggest that overall US oil production could potential see further upside risk into the weeks ahead. In addition, fresh concerns over higher interest rates by both developed and Asian central banks could persist into 1Q18 as policy-makers re-evaluate the fine balance between growth and inflation risks. As such, we turn cautious on crude oil prices especially in 1Q18, before further signs of global growth and oil demand potentially lift oil prices higher into year-end.



Source: Bloomberg, OCBC Bank

Gold: Don't mind the weaker dollar

Highlights

- Gold prices still remain elevated above its $1,300/oz in our view, though prices are edging lower into February given interim safe haven demand into the greenback. The yellow metal should continue to fade lower into the year as interest rates gradually rise amid a positive global growth backdrop.
- However, the traditional relationship between gold and the greenback is hard to disregard. The 30-day correlation between the said assets remain strong at -0.91 in early February, suggesting that gold's climb has largely been attributed to the weaker greenback.
- Higher interest rates across key economies should further persuade yield-chasing behaviour and risk-on appetite. Meanwhile, the rather tame inflation trajectory into 2018 could also bereft gold's lustre as an inflation hedge.

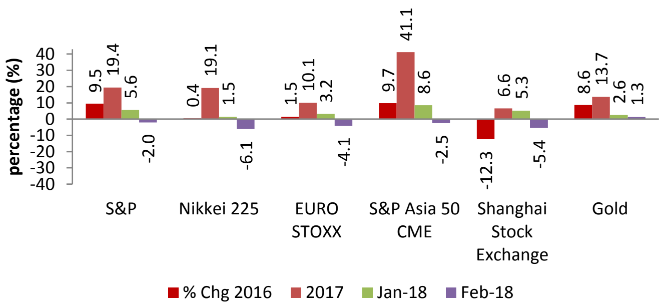
A goldilocks economy, not a gold-loving economy

Recent market chatter into early 2018 is arguably centered upon a set of evident facts: The global growth outlook is positive, interest rates are rising, inflationary pressures remain minuscule etc. Should we piece these chatter into a single view for safe haven assets, there remains little reason why gold prices stay above its $1,300/oz.

In fact, gold prices were as high as $1,370 at one point in early 2018 for little apparent reasons. The last time gold prices were that high was as recent as July 2016, just when the world economy was reeling from an unexpected Brexit result in the UK referendum. Back then, tensions were high while concerns were abundant; market-watchers were suddenly made aware of potential growth pitfalls that UK may land into, coupled with the rather worrisome negative spillover effects from UK to its key trading partners. As per how the International Monetary Fund (IMF) states, the Brexit outcome "which surprised global financial markets, implies the materialization of an important downside risk for the world economy" (July 2016, IMF WEO report).

Should we shift lens back to current day, market sentiments are upbeat over global growth prospects, or in short, a goldilocks environment when growth remains supported while inflation risks remain low. Even if domestic price pressures do edge higher into 2018, yield-chasing behaviour should persist as policy makers consider the need to normalise interest rates higher to keep in check the adequate balance between a potential overheating economy and price pressures.

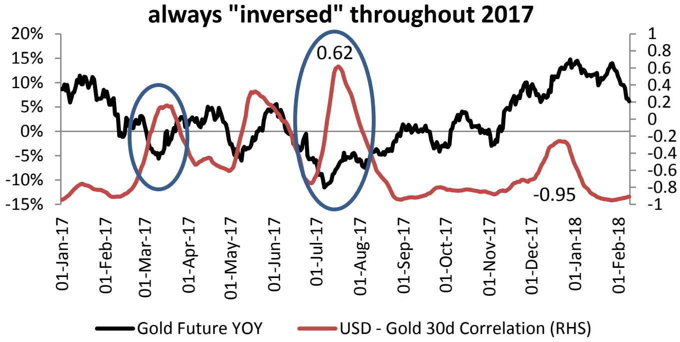
Both equities and gold saw profit-taking into February 2018



Source: Bloomberg, OCBC Bank

Even so, pressures for interest rates to rise further into 2018 cannot be ignored; the Bank of England's (BOE) commented that it is likely to raise interest rates sooner and by more than previously anticipated. Moreover, Fed's Dudley also signaled his support for a March rate hike as long as the US economy grew at an above trend pace, adding that the dot-plot chart outlook for three rate hikes still seems reasonable. Lastly, potentially adding to further discomfort to market-watchers was BOJ Hitoshi Suzuki's comment that policy-makers could raise rates or slow the purchase of risky assets if the central bank deems the costs of prolonged monetary easing outweigh the benefits.

Gold's 30-day correlation with the dollar isn't always "inversed" throughout 2017



Source: Bloomberg, OCBC Bank

Can't rely on the dollar movement all the time!

Bereft of fundamental reasons for the current elevated gold price, the only cause for such a phenomenon would then lie with the recent dollar weakness. The DXY index fell to as low as 88.4 earlier this year, before rising back to above 90.0 of late as the global equity slump ensued. While the rise in dollar strength could be attributed to some return of safe haven buying into the greenback (rather than gold as the yellow metal was already richly priced then), we think that the collective central bank rhetoric especially in the developed economies would likely be sufficient to underpin the weak dollar narrative going forward once the smoke from equity volatility clears.

Despite how the dollar may trend into 2018, gold's almost one-to-one correlation with the greenback has historically broken down at times. Of late, gold's correlation with the dollar was as strong as -0.95 in January. Still, the said correlation with the yellow metal has in fact turned positive periodically in 2017, with the peak in correlation reading during March and July 2017 due to weaker gold prices then.

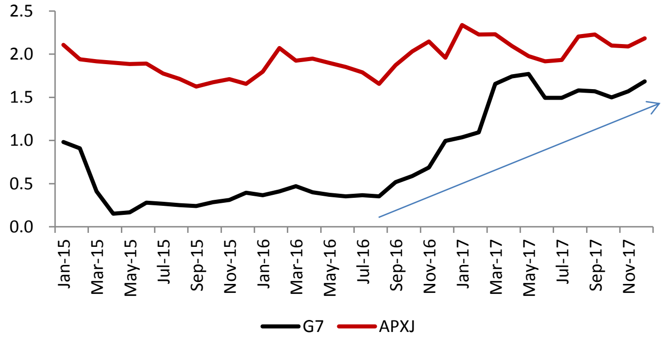
Three reasons to champion over dollar's influence

As such, while further dollar weakness into 2018 could still come to pass, gold's trend with the dollar could potentially weaken as global economic conditions evolve into the year. We point out three potential phenomena that could spell a weaker gold into year-end.

Firstly, inflation fears seen into 2018 may turn out to be naught. Some chatter on the streets are pointing at the "very strong" climb in US-centric data, especially seen in stronger wages and tighter labour environment. Meanwhile, inflation pressures have been climbing especially seen in the G7 space. To those who watched these data closely, the improvement seen in the US economy, and the spillover effect it has on its labour market, is a clear sign that inflationary risks are on the cards. However, we opine that these early signs in inflation could be merely temporal; initial climb in inflation pressures into 2017 were underpinned especially by higher oil prices then. On this, oil prices are pointing south of late amid limited upside risk into our year-end outlook for WTI and Brent at $65/bbl and $70/bbl respectively.

Secondly, even if inflation risks surprise higher, it will only persuade policy-makers to normalise policy rates higher into 2018. The higher interest rate environment into 2018 could limit precious metal prices, given that these store values offer no yield returns to investors, and are only held during times of severe economic stress. At this juncture, interest rates in both developed and Asian central banks have largely normalised higher (note FOMC, BOC, BOK, BNM etc which saw higher rates into 2017/2018), and further rate hikes cannot be discounted fully.

Inflationary pressures have been climbing



Source: Bloomberg, OCBC Bank

Last but not least, gold demand has been lacklustre in 2017, and could potentially remain weak into the year ahead. The World Gold Council highlighted that gold demand slid to an eight-year low in 2017 to 4,071.7 (-7%) tonnes in 2017. The decline was reportedly underpinned by the fall in safe haven demand, while investors flocked to riskier assets. Elsewhere, India's gold import reportedly plunged to a 17-month low in January 2018 as buyers reacted to the relatively higher gold prices amid postponing purchases in expectation of cuts in the import tax. Still, China's gold consumption remain to be the largest in the world at 1,089.1 tonnes in 2017 (accounting for 696.5 tonnes of jewellery, 276.4 tonnes of bullion & 26 tonnes of gold coins), according to the China Gold Association. However, China's gold import (from Hong Kong) has declined for four consecutive years into 2017 to 685 tonnes, the lowest since 2012.

Little case for a bull story

Gold prices could have been supported by the weaker greenback in January, but prices were eventually lifted to a rather uncomfortable elevated level beyond $1,300/oz. In a nutshell, the rosy economic outlook, tame inflationary backdrop and potentially higher interest rates in both developed and Asian economies are persuasive factors to drag gold prices lower. As such, we keep our gold outlook unchanged at $1,100/oz at year-end.

Palm Oil: More downside risks if MYR appreciates further

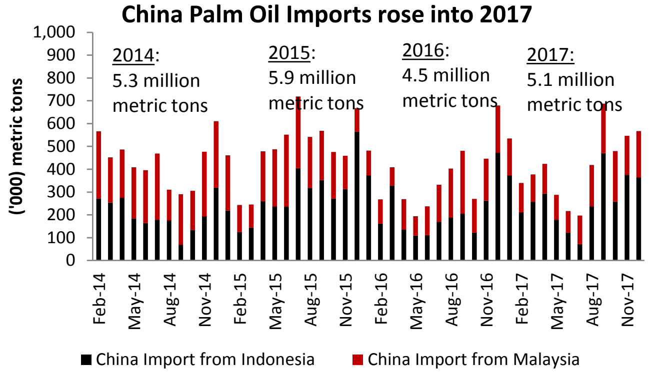
Highlights

- The relatively healthier fundamentals seen since the start of 2018 should have lifted crude palm oil prices higher. Global supplies led by Asia edged lower dragged by seasonal factors, while import demand from key importing nations remained robust.
- However, the expensive ringgit outweighed any potential rally on crude palm oil (CPO) prices as CPO is primarily priced in the MYR. Since the start of 2017, the ringgit has appreciated by almost 14.0% into 2018.
- We have been bearish on CPO prices since the start of 2018. With CPO prices seeing a relatively poorer start vis-à-vis the rest of the commodity complex, do look out for more downside in prices especially if (1) MYR appreciates further and (2) supplies to grow as the season improves into 2Q18.

The expensive currency is the cause

Palm oil fundamentals were exceedingly better into the first month of 2018. Malaysia's palm oil production continued to slip lower for two consecutive months to 1.59 million tonnes in January, the lowest level since June 2017. Malaysia's palm oil exports also surged into January, led by CPO exports (+51.9% y/y) and processed palm oil (PPO, +11.6% y/y), and collectively clocking the fastest palm oil export growth of 17.5%, the fastest pace since June 2017. Elsewhere, while we are waiting for Indonesia's January prints at this juncture, its Dec's CPO export print of 4.5% y/y growth was in a way remarkable given (1) the high base seen in 2016 and (2) clocking a strong palm oil growth of 26.1% y/y, up from 2016's lacklustre growth of -3.3%. The mix of lower supplies and strong import demand by Asia's key trading partners in turn led to lower stockpiles: Malaysia's total palm oil stockpiles fell to 2.55 million tonnes, lowest since Oct 2017.

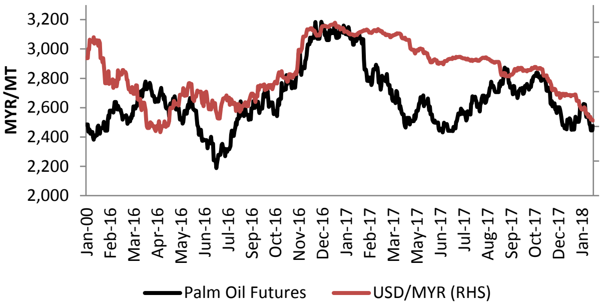
China Palm Oil Imports rose into 2017



Source: Bloomberg, OCBC Bank

Should the improving fundamentals be taken in its entirety and assuming ceteris paribus, CPO prices should invariably rise further to our 1Q18 call of MYR3,000/MT. Clearly, prices fell despite the improving backdrop, thus driving both market participants and analysts to question why. Importantly, the ringgit has been the cause of the lacklustre price; MYR has rallied substantially by almost 14.0% since its 2017's trough as (1) oil prices rallied markedly into 4Q17 and (2) improving domestic economic fundamentals. With palm oil prices denominated primarily in the ringgit, the climb in the MYR eventually negated what seems to push palm oil prices higher, and pushed it south into February 2018.

The appreciating ringgit left palm oil prices weaker

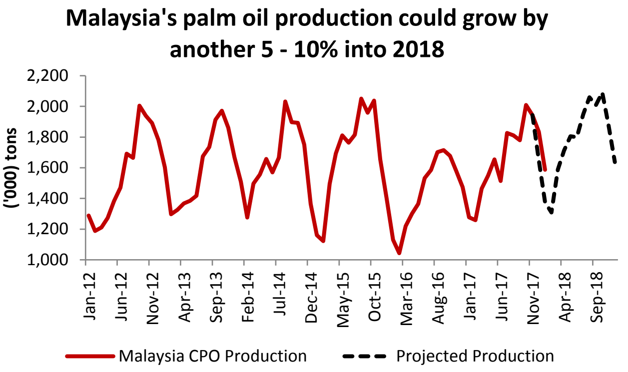


Source: Bloomberg, OCBC Bank

Three challenges to watch out for

The absence of a rally in the first 6 weeks of 2018 has deep implications to how palm oil prices could trend into 2018. Since mid-2017, we have been inherently bearish on palm oil prices given (1) higher Malaysia's palm oil production by between 5 – 10% y/y in 2018, (2) rising operating costs especially in Malaysia given the structural labour shortage environment and (3) EU's efforts to achieve '100% sustainable palm oil in Europe by 2020'. Moreover, should weak palm oil prices continue into end 1Q18, the seasonally higher production out from Asia (specifically April – October 2018) could potentially send palm oil prices lower.

Firstly, do look out for higher palm oil production out from Asia this year. Our estimates show that Malaysia's palm oil production will likely grow by 5 – 10% this year, as production improves since 2015's El Nino phenomenon and the absence of a strong La Nina impact this year. Specifically, the Malaysian Palm Oil Board (MPOB) is predicting production to climb to 20.5 million tonnes in 2018, up from 19.9 million tonnes as well. Do look out for production to climb into the period April to October 2018 given seasonal factors, which could add further downside pressure to CPO prices.



Source: Bloomberg, OCBC Bank

Secondly, the MYR is pencilled to rally further into 2018. The ringgit is expected to strengthen to end 2018 at 3.76 against the USD. While the ringgit could remain supported by oil prices into 2018, the relative weakness of the greenback could further add to MYR's appreciation. Moreover, we think that the divergent central bank positioning between the Fed and other DM central banks would likely be sufficient to underpin the weak USD narrative going forward once the smoke from equity volatility clears. In the same vein, higher interest rates to be seen in Asia (note BNM and BOK being the first movers of a rate hike in Asia of late) may also drive Asian currencies higher (including the MYR).

Lastly, we remain concerned over Europe's effort to reform and reduce energy consumption to meet climate goals, including a ban on the use of palm oil in motor fuels from 2021. The ban is expected to affect palm oil demand especially from Indonesia and Malaysia, which makes up nearly 90% of global supply. Furthermore, a large portion of European palm oil imports are used to produce biofuels, suggesting the possibility for EU demand to fall significantly. While the ban will only start into 2021, market move to price in potential downside in demand, and Europe's likely premature move to restructure its trade deals and production pipelines to meet the ban could eventually lead palm oil demand lower before 2021.

A downgrade, though demand is likely supported

Despite higher production and the stronger ringgit likely to be seen into 2018, we think export growth will likely stay supported despite the EU ban (for now). Note that MPOB continue to stay positive on palm oil demand with its export growth forecast of +5.1% y/y to 17.4 million tonnes this year. The agency also pencilled stockpiles to fall by an ambitious 15.8% to 2.3 million tonnes as export demand picks up.

Despite, the impact from the expensive ringgit cannot be disregarded. History has shown that an expensive ringgit can potentially negate healthier fundamentals. Even so, with supplies to rise into April 2018, some downside risks in palm oil prices must be watched especially with an expensive ringgit. As such, we downgrade our palm oil outlook to MYR2,400/MT into end-2018, down from our previous outlook of MYR2,650/MT.

OCBC Commodity Forecast 2018

Updated as of February 14, 2018			2016				2017				2018			
	3y AVG	Spot	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F
Energy														
WTI ($/bbl)	60.1	59.2	33.6	45.6	44.9	49.3	51.8	48.2	48.2	55.3	61.5	60.0	62.5	65.0
Brent ($/bbl)	64.5	62.7	35.2	47.0	47.0	51.1	54.6	50.8	52.2	61.5	66.5	65.0	67.5	70.0
Gasoline ($/gallon)	1.84	1.69	1.18	1.54	1.40	1.48	1.58	1.58	1.63	1.71	1.84	1.98	2.04	1.97
Natural Gas ($/mmbtu)	3.06	2.59	1.98	2.25	2.79	3.18	3.06	3.14	2.95	2.92	3.10	3.61	3.55	3.50
Precious Metals														
Gold ($/oz)	1,210	1,330	1,185	1,262	1,339	1,219	1,221	1,259	1,283	1,279	1,320	1,247	1,173	1,100
Silver ($/oz)	16.5	16.5	14.9	16.9	19.6	17.2	17.5	17.2	16.9	16.7	17.6	16.8	16.1	15.3
Platinum ($/oz)	994	976	920	1,007	1,092	945	983	942	957	925	1,015	989	946	902
Palladium ($/oz)	722	981	526	568	681	684	768	815	899	988	1,015	997	939	880
Base Metals														
Copper ($/MT)	5,523	6,988	4,669	4,728	4,793	5,291	5,855	5,692	6,383	6,856	7,100	6,733	6,367	6,000
Tin ($/MT)	17,764	21,580	15,465	16,912	18,592	20,777	20,012	19,906	20,482	19,817	20,882	19,804	19,293	18,750
Nickel ($/MT)	10,630	13,409	8,514	8,834	10,271	10,796	10,277	9,214	10,547	11,614	12,456	12,024	11,576	11,111
Zinc ($/MT)	2,265	3,470	1,684	1,927	2,257	2,527	2,789	2,604	2,961	3,198	3,227	3,108	2,984	2,857
Aluminum ($/MT)	1,737	2,139	1,515	1,583	1,633	1,709	1,858	1,913	2,027	2,122	2,200	2,025	1,963	1,900
Asian Commodities														
Crude Palm Oil (MYR/MT)	2,523	2,515	2,551	2,585	2,483	2,899	2,938	2,545	2,670	2,659	2,530	2,487	2,443	2,400

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

Co.Reg.no.:193200032W