OCBC Commodity Outlook

Into the fray of geopolitical concerns

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April 2017

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Crude Oil
Upside risk given geopolitical concerns

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Executive Summary

- **Global growth is slated to accelerate faster than previously estimated**, according to the IMF which lifted its global growth target to 3.5% (+0.1%). IMF also upgraded its crude oil growth forecast to grow 28.9% yoy (+9.0%) this year. Meanwhile, global trade volume is penciled to accelerate to 2.4% in 2017, up from a 1.3% print in 2016 according to the WTO.
- **The bad news however, is that the rally in the crude oil market still appears to be fragile.** Even as global growth accelerates, much of the rally into the year must be underpinned by a continued rebalancing in the oil market. To date, OPEC has not been fully compliant on its production cut agreement made in Dec 2016, which then brings to question if an extension of cuts into 2H17 is sufficient to arrest the oversupply issue.
- **Still, early data seen in 2017 looks promising:** demand looks encouraging given recent data from US and China. The OPEC cartel continues to cut production further, down to 32.0 million barrels per day (mbpd) in March 2017 versus a worrying 33.7 mbpd print late last year. From a market perspective, crude oil futures curves point higher while speculative demand positions still suggest some substantial bullish bets into mid-April.
- **We remain bullish on crude oil prices, keeping to our forecast of $65/bbl at year-end.** Our bullish call is underpinned by better economic fundamentals amid the likelihood for crude oil to rebalance further into 2017. Elsewhere, should history be of reference, geopolitical tensions evidently inject some upside bias to crude oil prices, especially if conflicts are prolonged.

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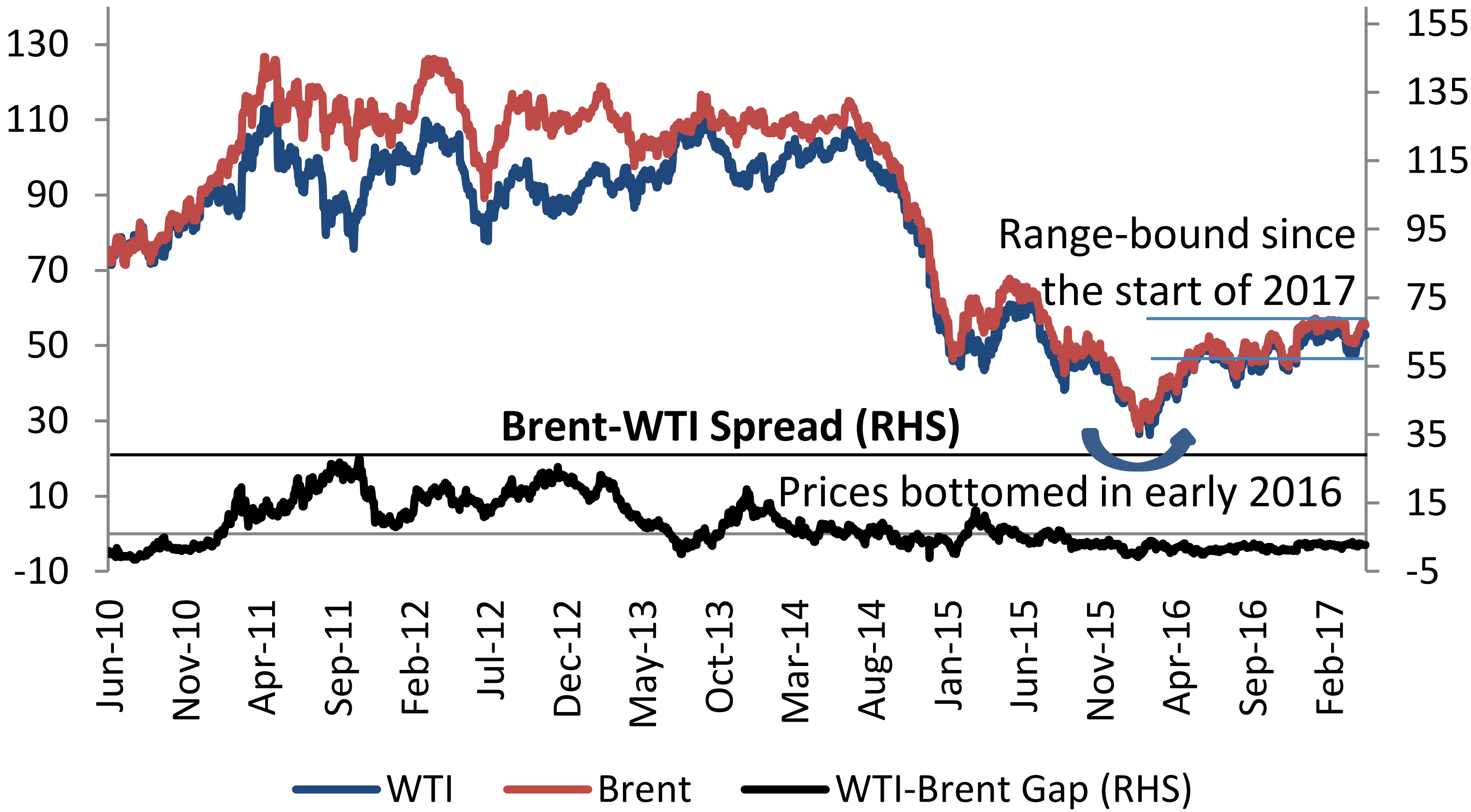
Crude oil prices remain range-bound around its $50 - $55/bbl handle



OCBC Bank Source: Bloomberg, OCBC

IMF lifts crude oil and global growth outlook

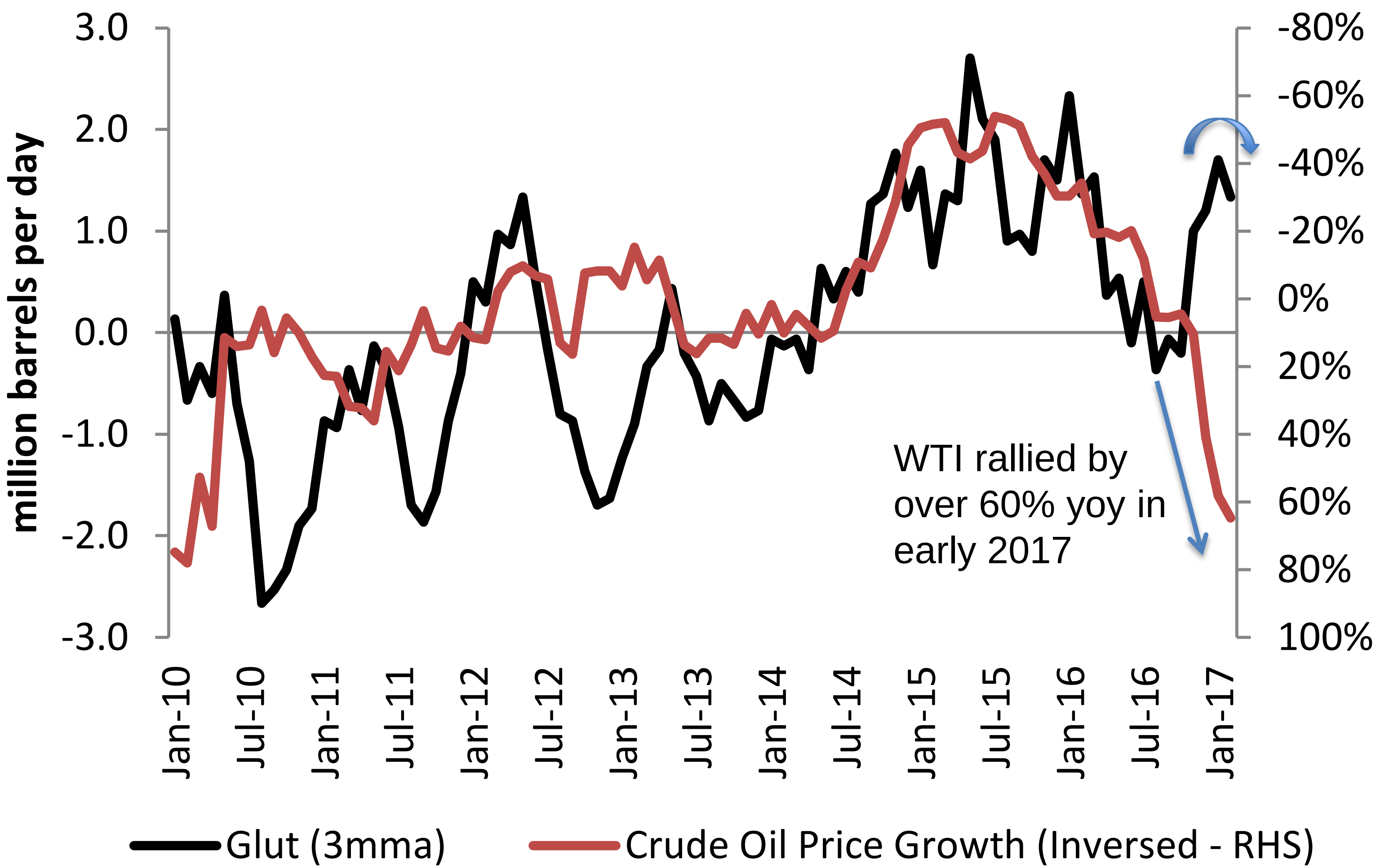
Table 1.1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

		Projections		Difference from January 2017 *WEO Update*[1]	
	2016	2017	2018	2017	2018
World Output	**3.1**	**3.5 ↑**	**3.6**	**0.1**	**0.0**
Advanced Economies	**1.7**	**2.0 ↑**	**2.0**	**0.1**	**0.0**
United States	1.6	2.3	2.5	0.0	0.0
Euro Area	1.7	1.7 ↑	1.6	0.1	0.0
Germany	1.8	1.6 ↑	1.5	0.1	0.0
France	1.2	1.4 ↑	1.6	0.1	0.0
Italy	0.9	0.8 ↑	0.8	0.1	0.0
Spain	3.2	2.6 ↑	2.1	0.3	0.0
Japan[2]	1.0	1.2 ↑	0.6	0.4	0.1
United Kingdom	1.8	2.0 ↑	1.5	0.5	0.1
Canada	1.4	1.9	2.0	0.0	0.0
Other Advanced Economies[3]	2.2	2.3 ↑	2.4	0.1	0.0
Emerging Market and Developing Economies	**4.1**	**4.5**	**4.8**	**0.0**	**0.0**
Emerging and Developing Asia	6.4	6.4	6.4	0.0	0.1
China	6.7	6.6 ↑	6.2	0.1	0.2
India[4]	6.8	7.2	7.7	0.0	0.0
ASEAN-5[5]	4.9	5.0 ↑	5.2	0.1	0.0
Commodity Prices (U.S. dollars)					
Oil[6]	–15.7	28.9 ↑	–0.3	9.0	–3.9

[6]Simple average of prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $42.84 in 2016; the assumed price based on futures markets is $55.23 in 2017 and $55.06 in 2018.

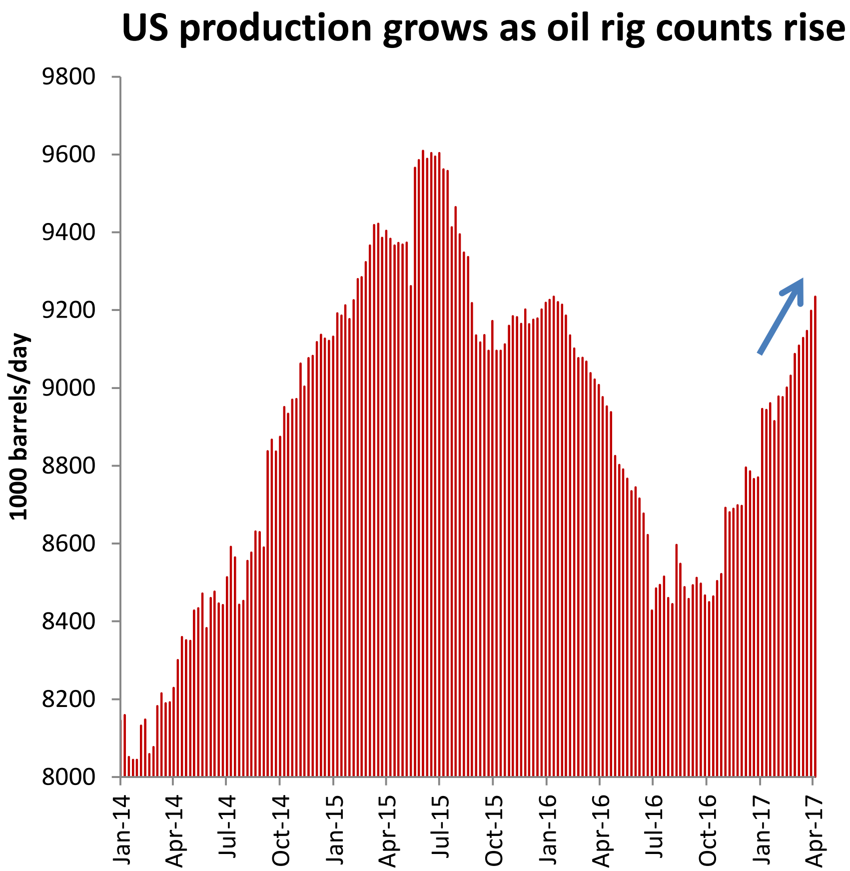
OCBC Bank Source: The International Monetary Fund

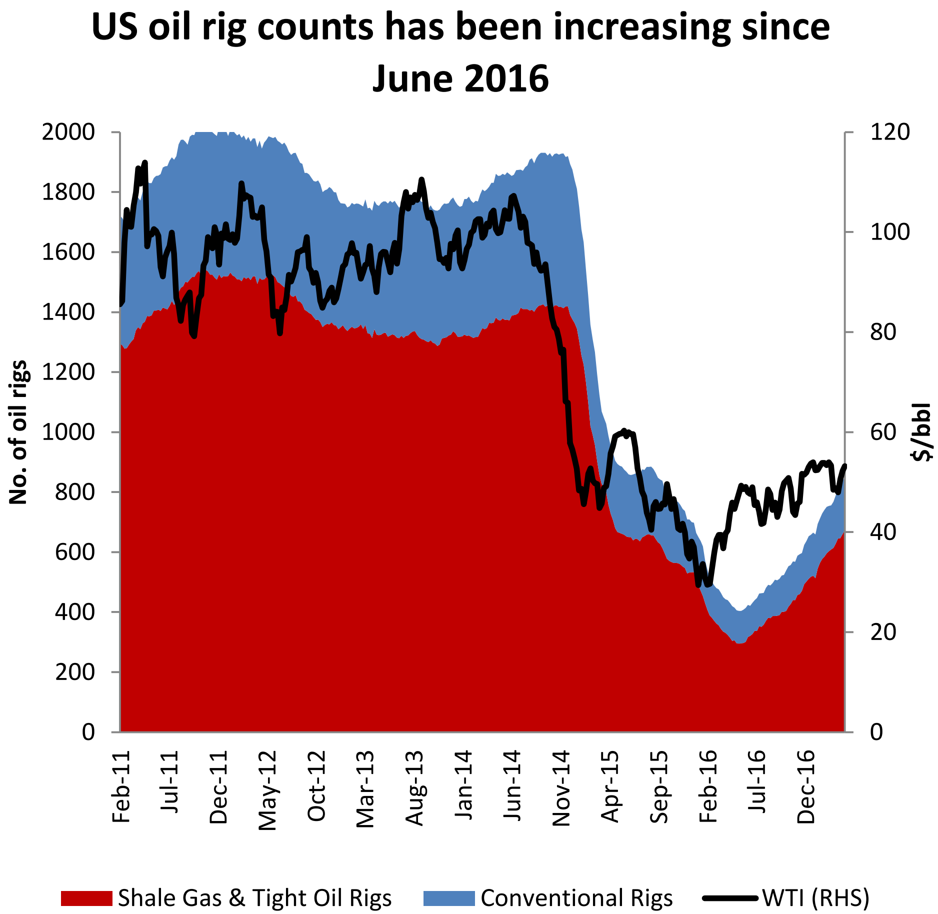
Supply glut narrowed into the new year as OPEC production cuts overshadows higher US supplies



OCBC Bank Source: Bloomberg, OCBC

US crude oil production rose by 465 mbpd since the start of the year





OCBC Bank Source: US EIA, Bloomberg, OCBC

However, OPEC's production cuts at 1.2mbpd as of March overshadows US' supply growth

thousand barrels per day	Reference Production Levels	Targeted production level	Production (Jan 2017)	Production (Feb 2017)	Production (Mar 2017)	Planned cuts vs reference level	Production cuts vs reference level (Jan 2017)	Production cuts vs reference level (Feb 2017)	Production cuts vs reference level (Mar 2017)	Level of Compliance*
	(a)	(b)	(c)	(d)	(e)	(f): (b) - (a)	(g): (c) - (a)	(h): (d) - (a)	(i): (e) - (a)	(j): (i) / (f)
Algeria	1,089	1,039	1,091	1,084	1,085	-50	+2	-5	-4	8.0%
Angola	1,751	1,673	1,615	1,649	1,652	-78	-136	-102	-99	126.9%
Ecuador	548	522	534	535	531	-26	-14	-13	-17	65.4%
Gabon	202	193	203	196	198	-9	+1	-6	-4	44.4%
Iran	3,975	3,797	3,920	3,870	3,790	-178	-55	-105	-185	103.9%
Iraq	4,561	4,351	4,630	4,566	4,402	-210	+69	+5	-159	75.7%
Kuwait	2,838	2,707	2,710	2,705	2,700	-131	-128	-133	-138	105.3%
Libya**	528	-	680	669	622	-	+152	+141	+94	-
Nigeria**	1,390	-	1,533	1,526	1,269	-	+143	+136	-121	-
Qatar	648	618	615	545	621	-30	-33	-103	-27	90.0%
Saudi Arabia	10,544	10,058	9,748	10,011	9,900	-486	-796	-533	-644	132.5%
UAE	3,013	2,874	3,060	2,995	2,973	-139	+47	-18	-40	28.8%
Venezuela	2,067	1,972	2,250	2,248	2,235	-95	+183	+181	+168	-176.8%
Total	**33,154**	**29,804**	**32,589**	**32,599**	**31,978**	**-1,432**	**-860**	**-555**	**-1176**	-

* 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 Oct 2016 levels

Figures in blue are obtained from secondary sources

Source: Bloomberg, OPEC MOMR, OCBC Bank

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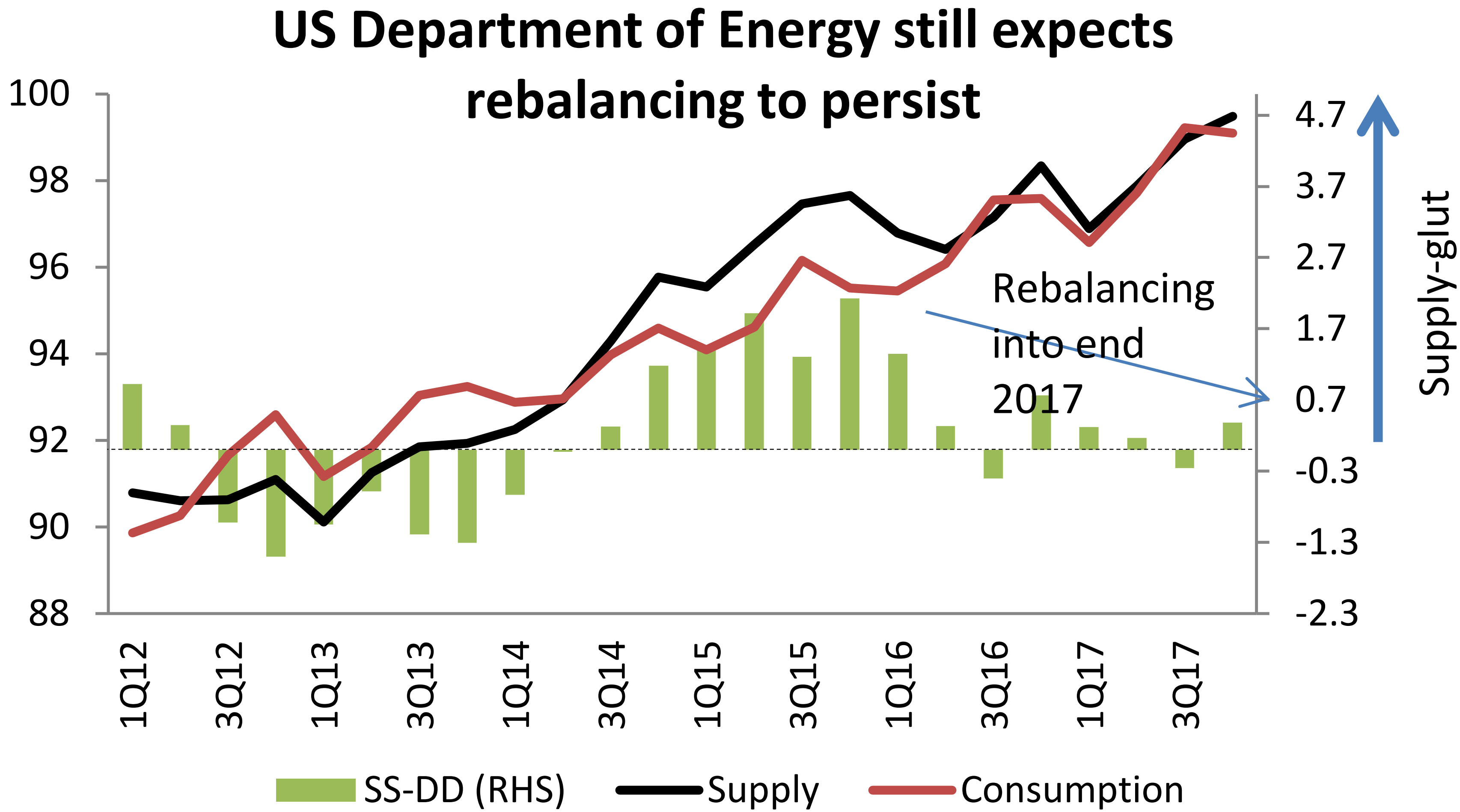
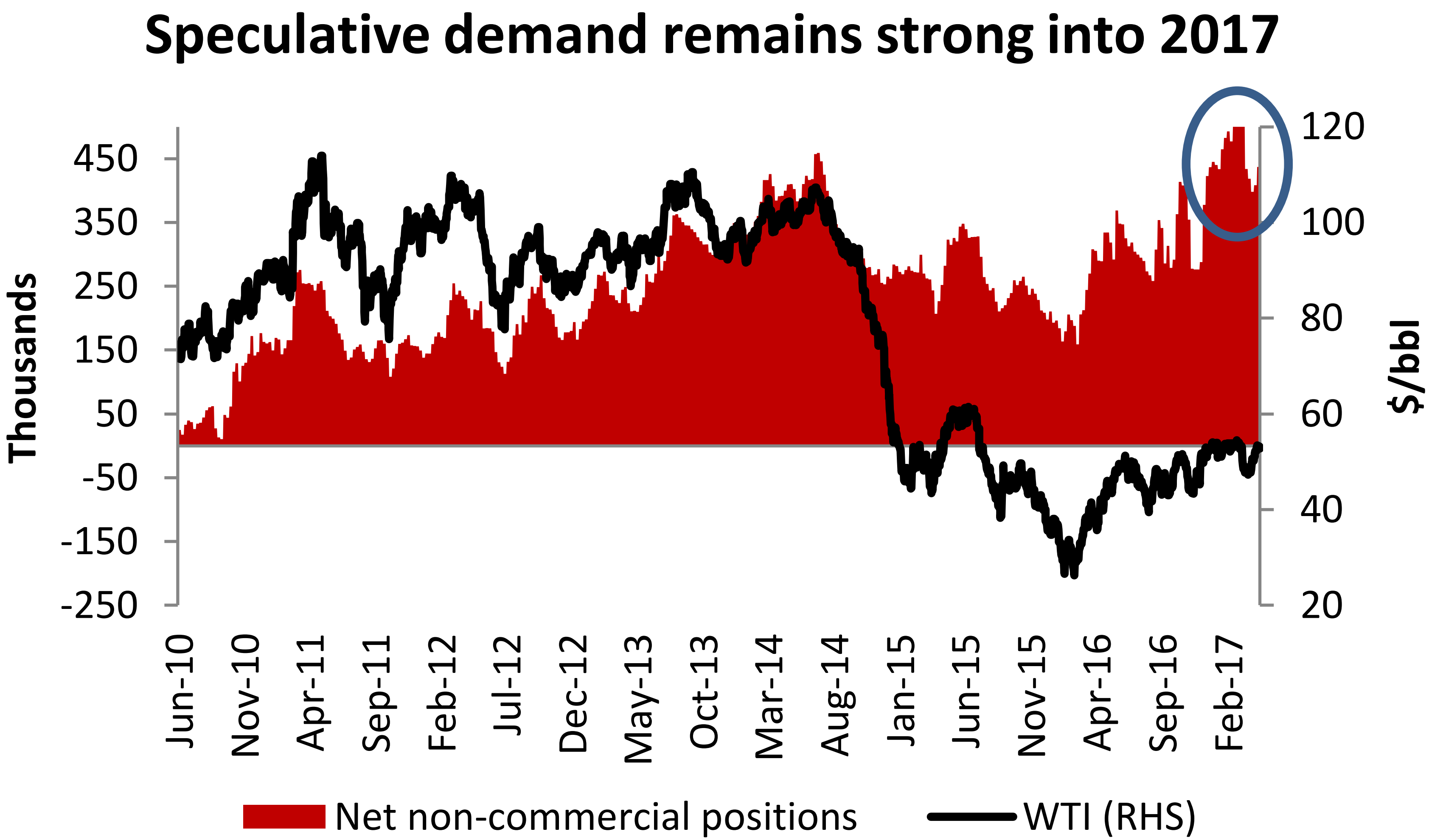
Rebalancing has already started, and likely to fully rebalance by 3Q17



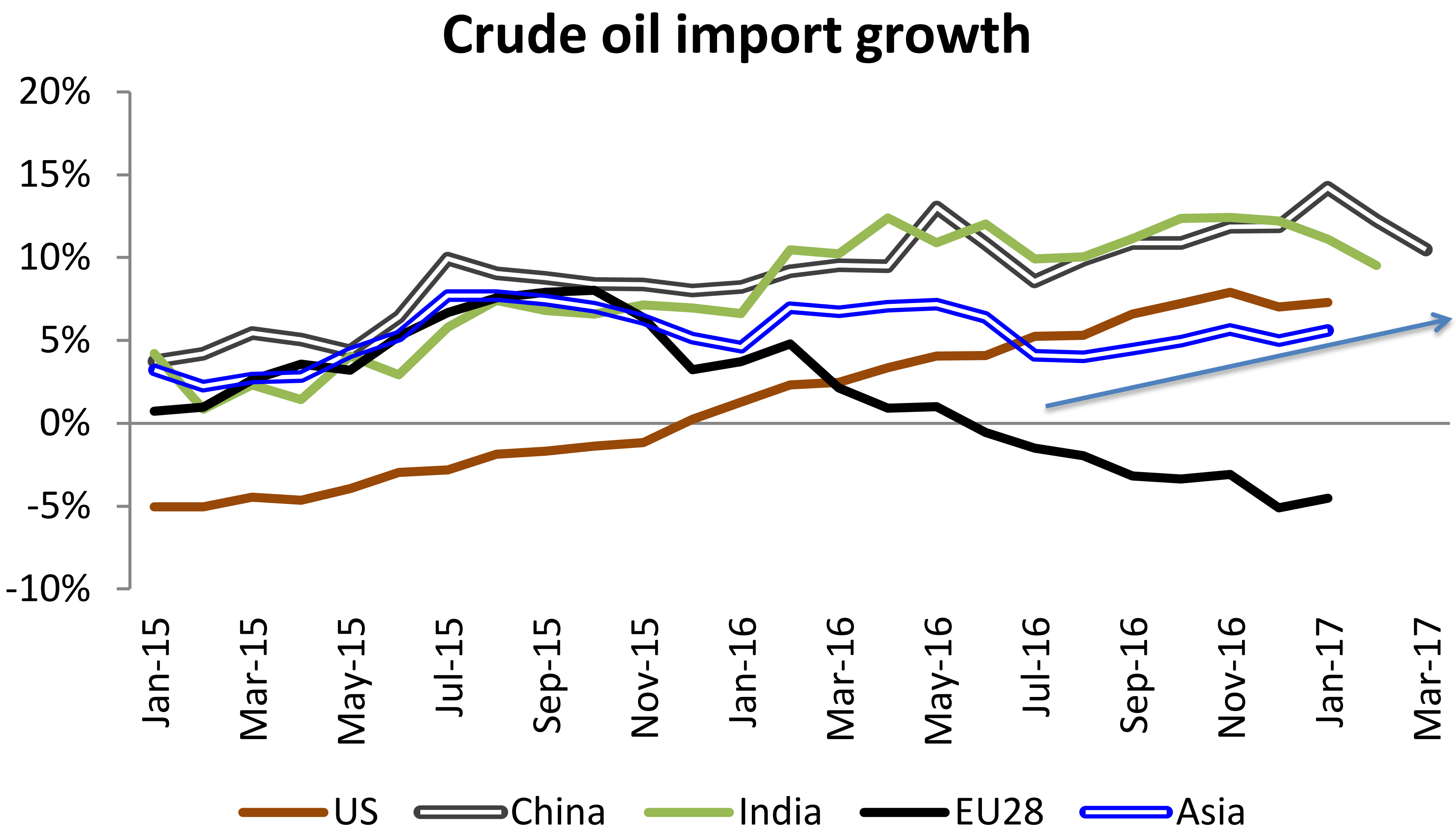
OCBC Bank Source: US EIA, OCBC

Market-watchers are still (very) bullish in fact



OCBC Bank Source: CFTC, Bloomberg, OCBC

Crude oil demand growth remains in positive territories



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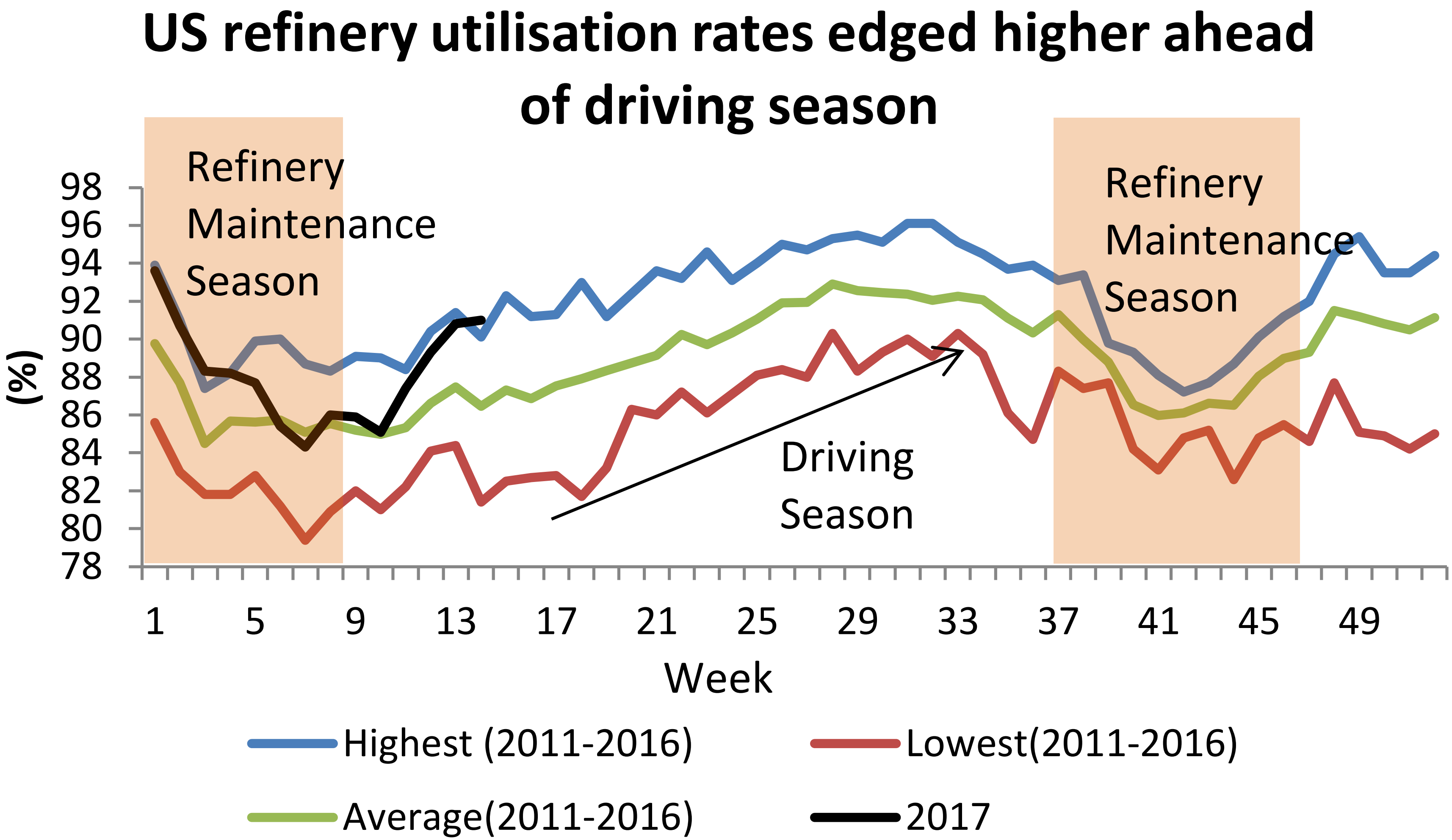
Source: Bloomberg, OCBC
Asia includes China, India, Japan, Hong Kong, Taiwan Malaysia, S. Korea, Philippines, Thailand and Vietnam

Look out for summer (and higher consumption)



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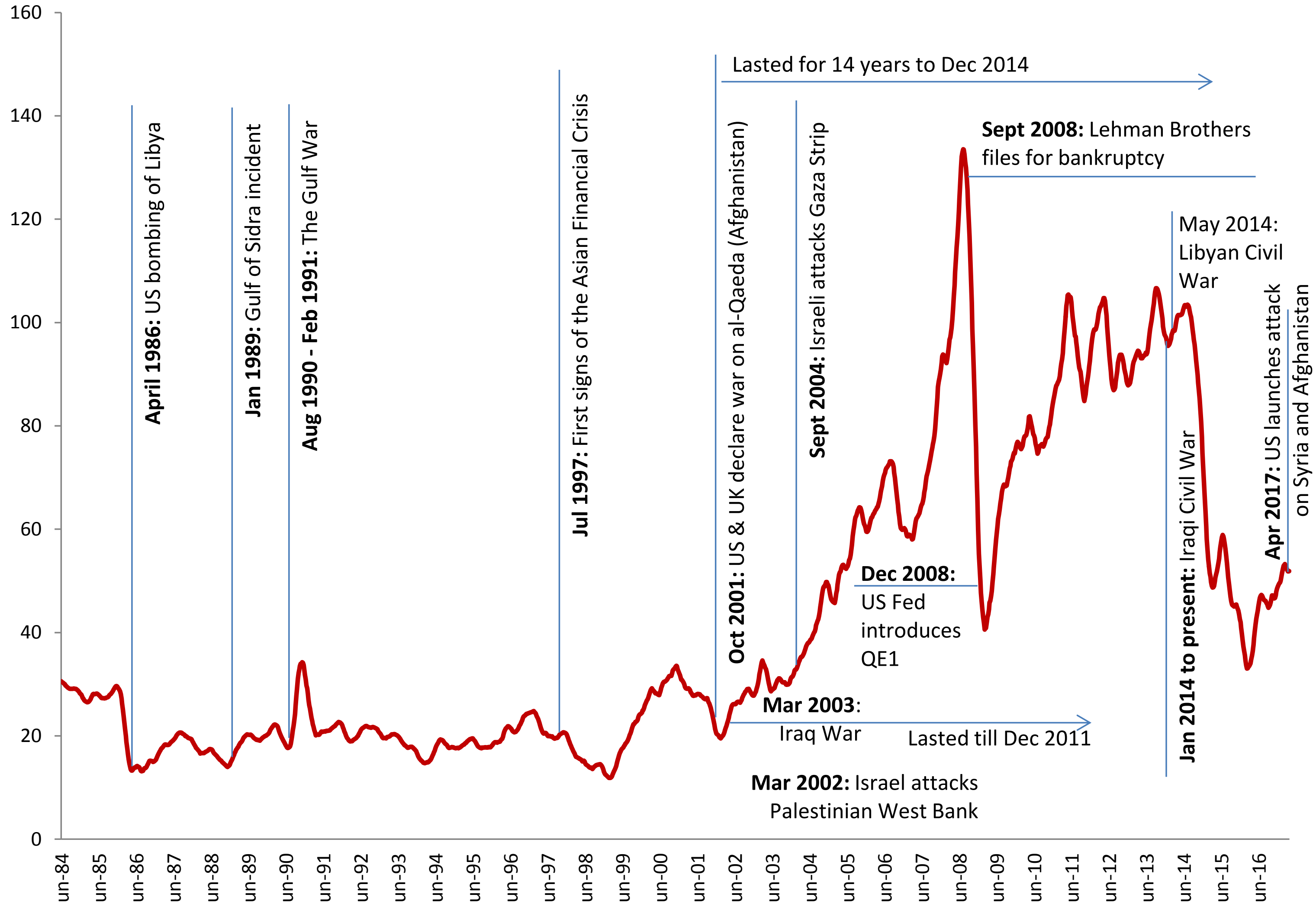
Source: Bloomberg, OCBC

Watch out! War tends to lift oil prices, especially when prolonged



OCBC Bank Source: Bloomberg, OCBC

Gold:
In doubt, buy the yellow metal

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Executive Summary

- **The recent rally in gold prices to its $1,290/oz handle lifted its YTD growth to above 12.0%,** outpacing growth across equity bourses in Asia, Europe and the US. Much of the rally of late is driven by renewed safe haven demand, owing to intensified geopolitical concerns.
- **With geopolitical issues affecting gold prices, price trajectory outlook becomes inherently hazy.** Geopolitical issues remain to be a highly important, but uncomfortably unquantifiable factor when determining market sentiment. Should conflicts intensify into the near future, it will likely cloud the fundamental backdrop, which in this case, a year of rising US interest rates given a rosier economic backdrop, and thus consequently dulling gold as a store of value.
- **Elsewhere, gold prices could have been lifted by physical buying in India as well as the return of reflationary risk in 2017.** Empirically, we have seen a strong 72.3% yoy growth in India gold imports over 1Q17, while the US 10Y TIPS yield has trended in line with higher gold prices.
- **Given the rally seen over the first four months of this year, we raise our gold forecast to touch $1,200/oz at end 2017.** In the near term however, some upside risk above the $1,300/oz could be seen especially if geopolitical tensions intensify further. Still, our view for gold to trend lower into the end-year is underpinned by further FOMC rate hikes later this year.

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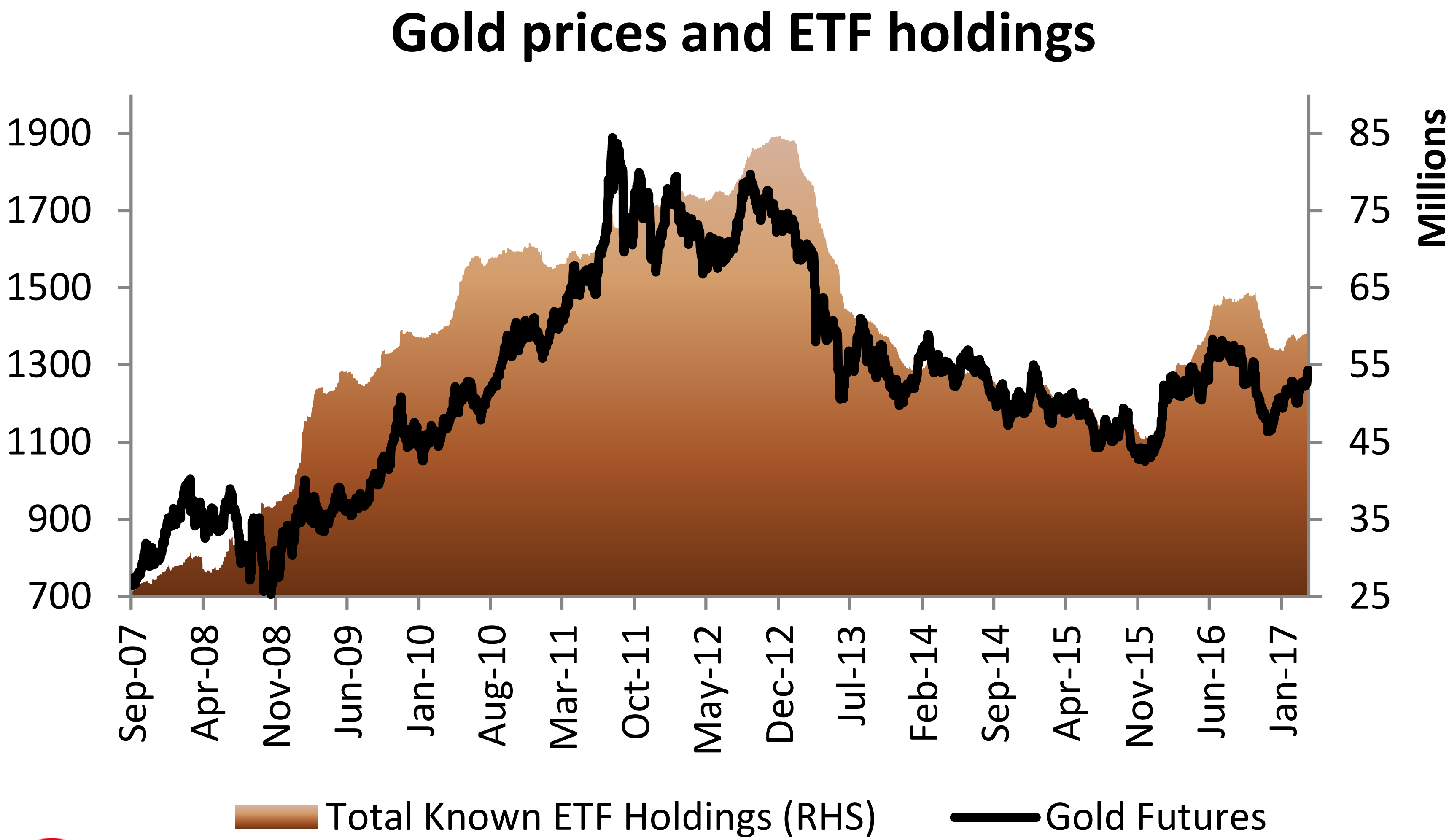
Gold ETF holdings rose into the new-year likely on safe haven demand



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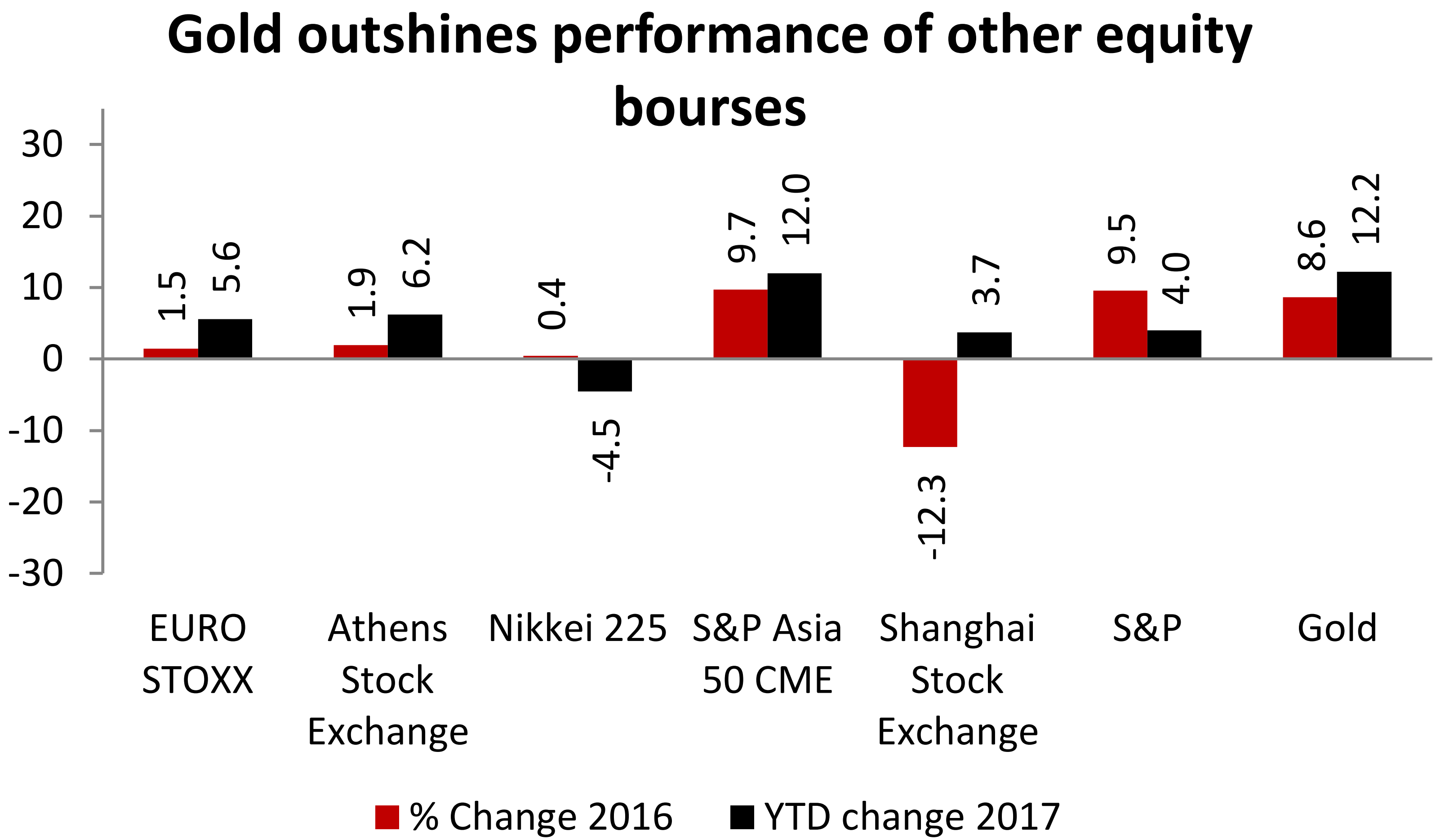
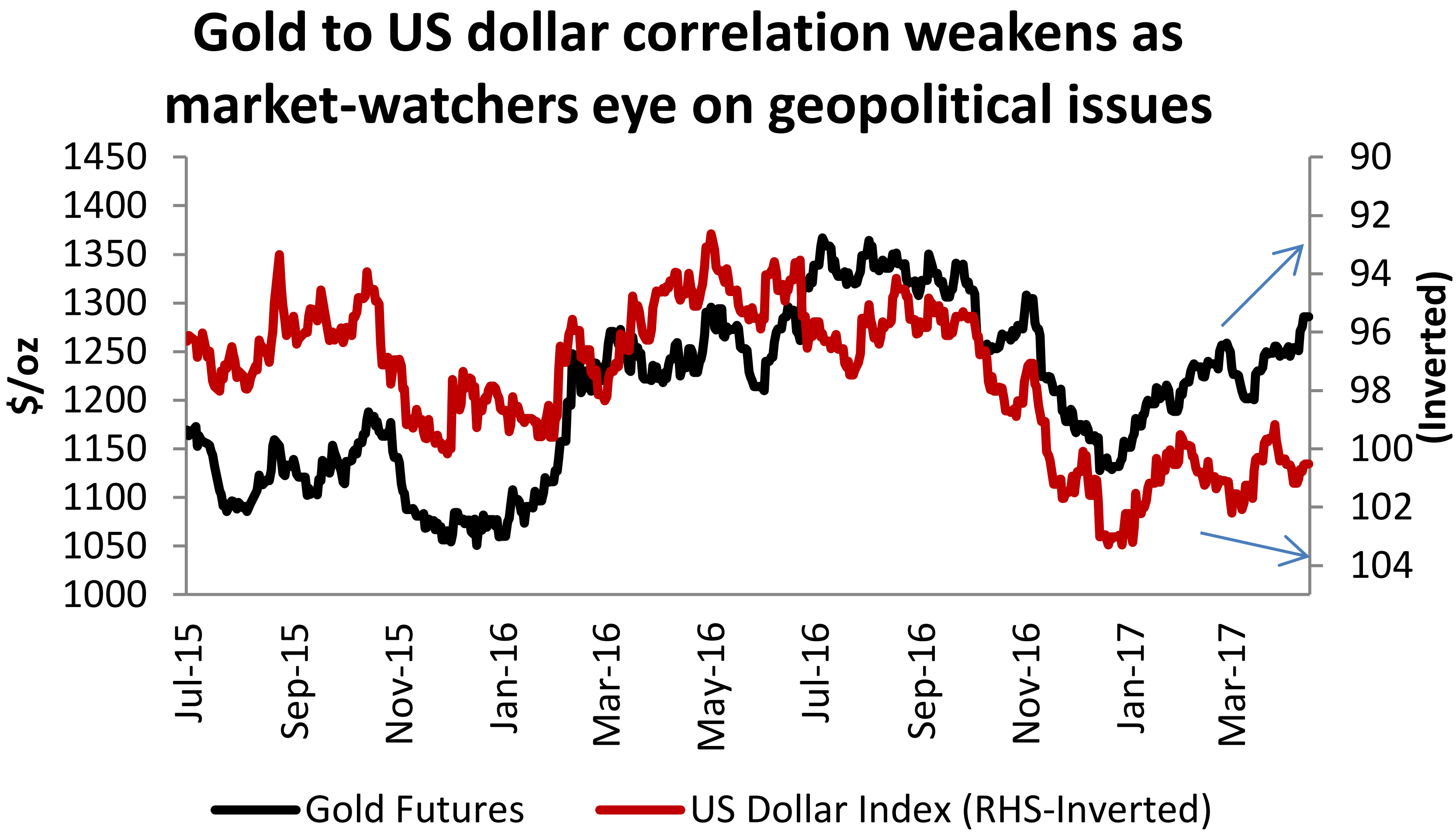
Source: Bloomberg, OCBC

Gold is sought after especially on geopolitical concerns



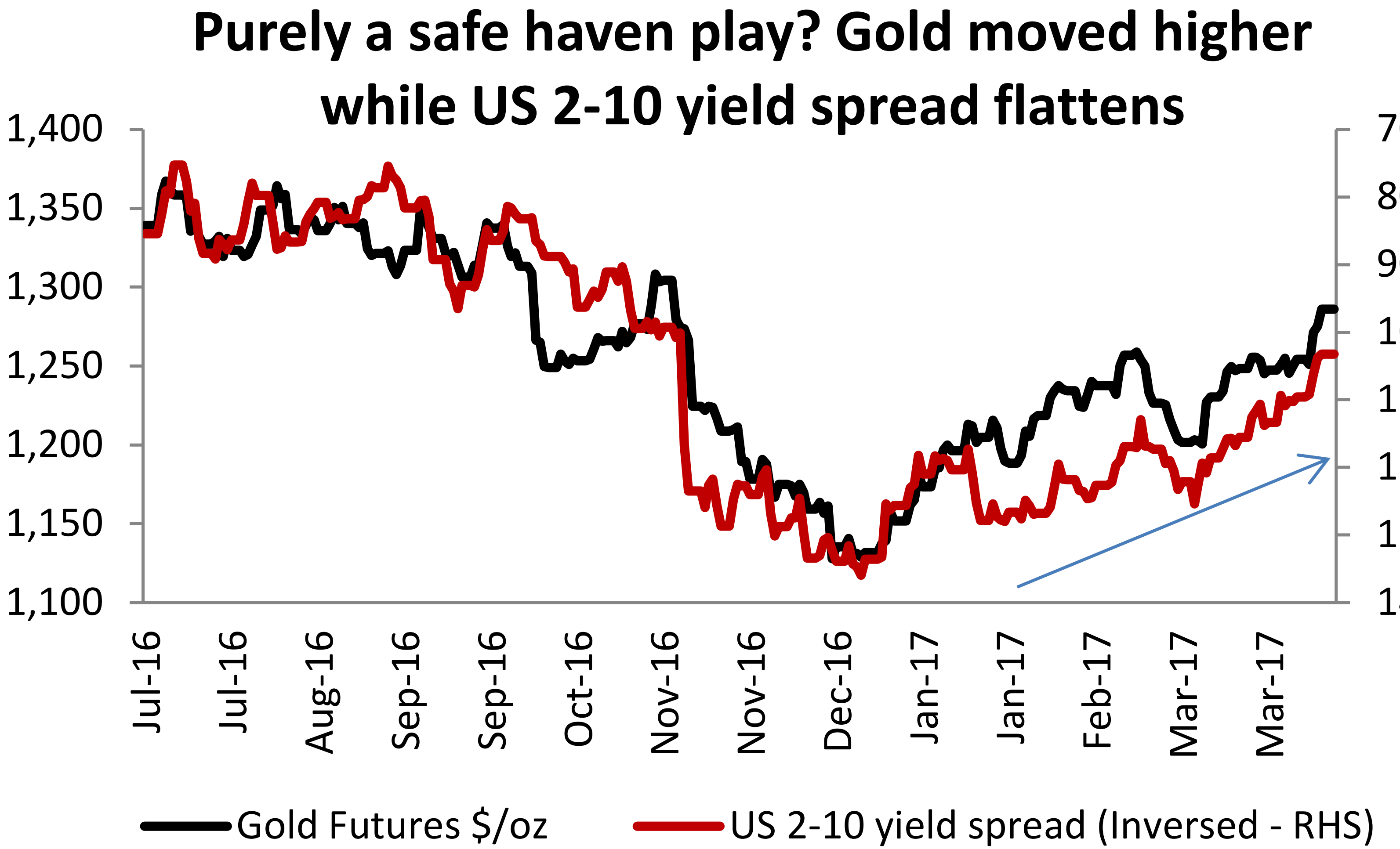
Source: Bloomberg, OCBC

Breakdown in correlation suggests investors flight to safe haven on geopolitical concerns



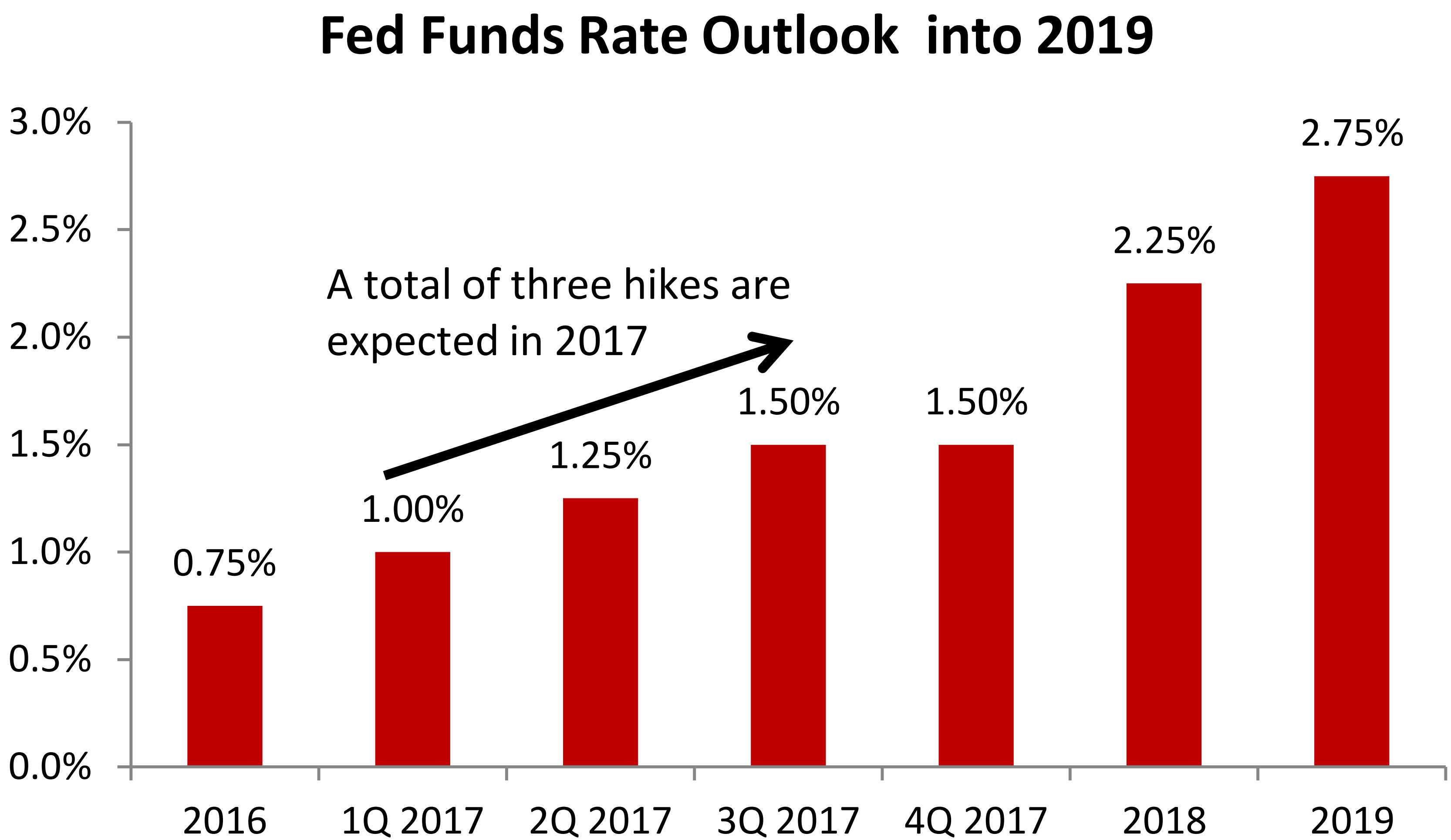
OCBC Bank Source: Bloomberg, OCBC

US 2-10 yield curve flattened into the new year, highlighting some deterioration in risk appetite



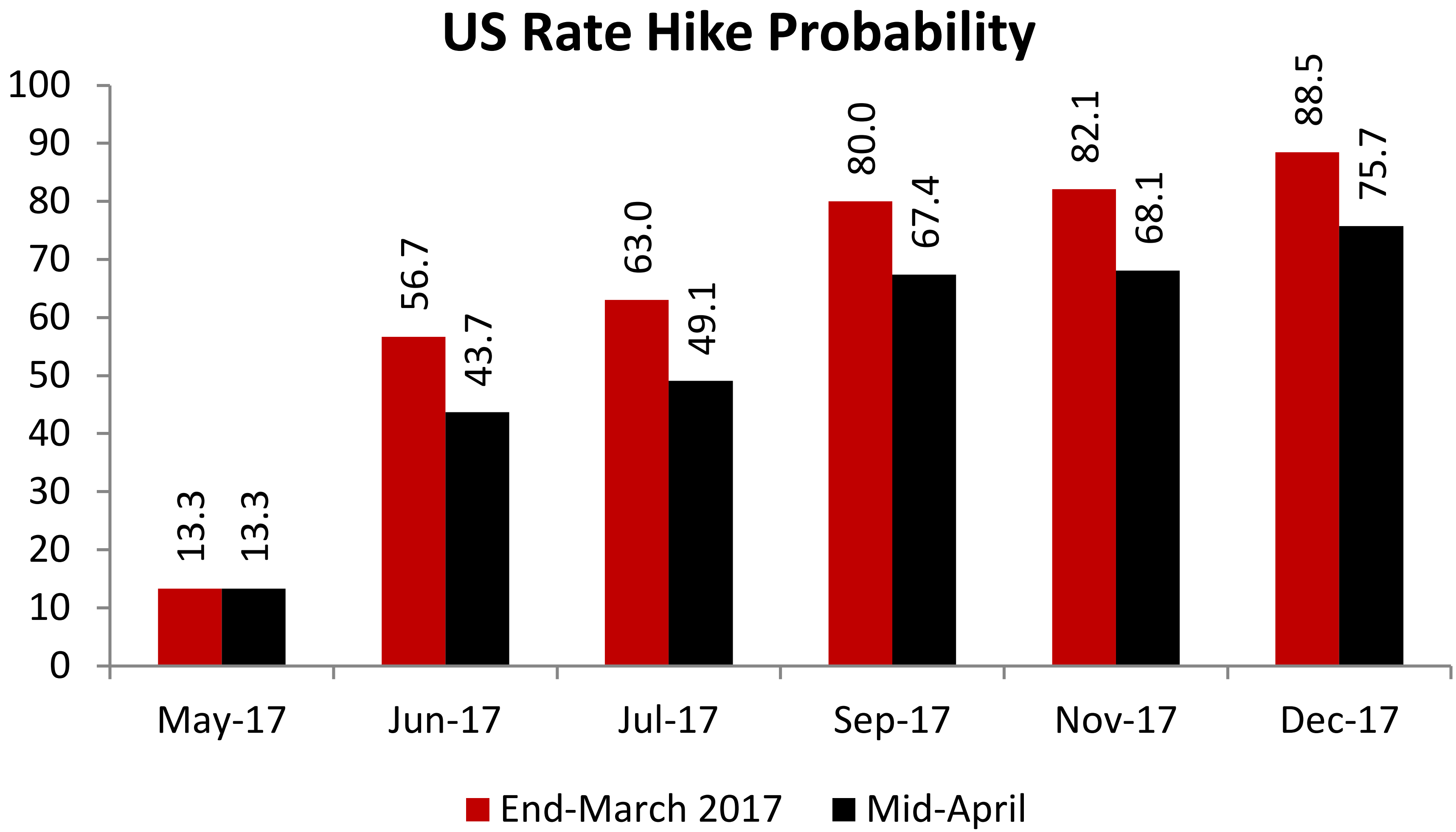
OCBC Bank Source: Bloomberg, OCBC

The US Federal Reserve is slated to hike interest rates by three times in 2017



OCBC Bank Source: Bloomberg, OCBC

Probability for rate hikes into 2017 has fallen somewhat into April



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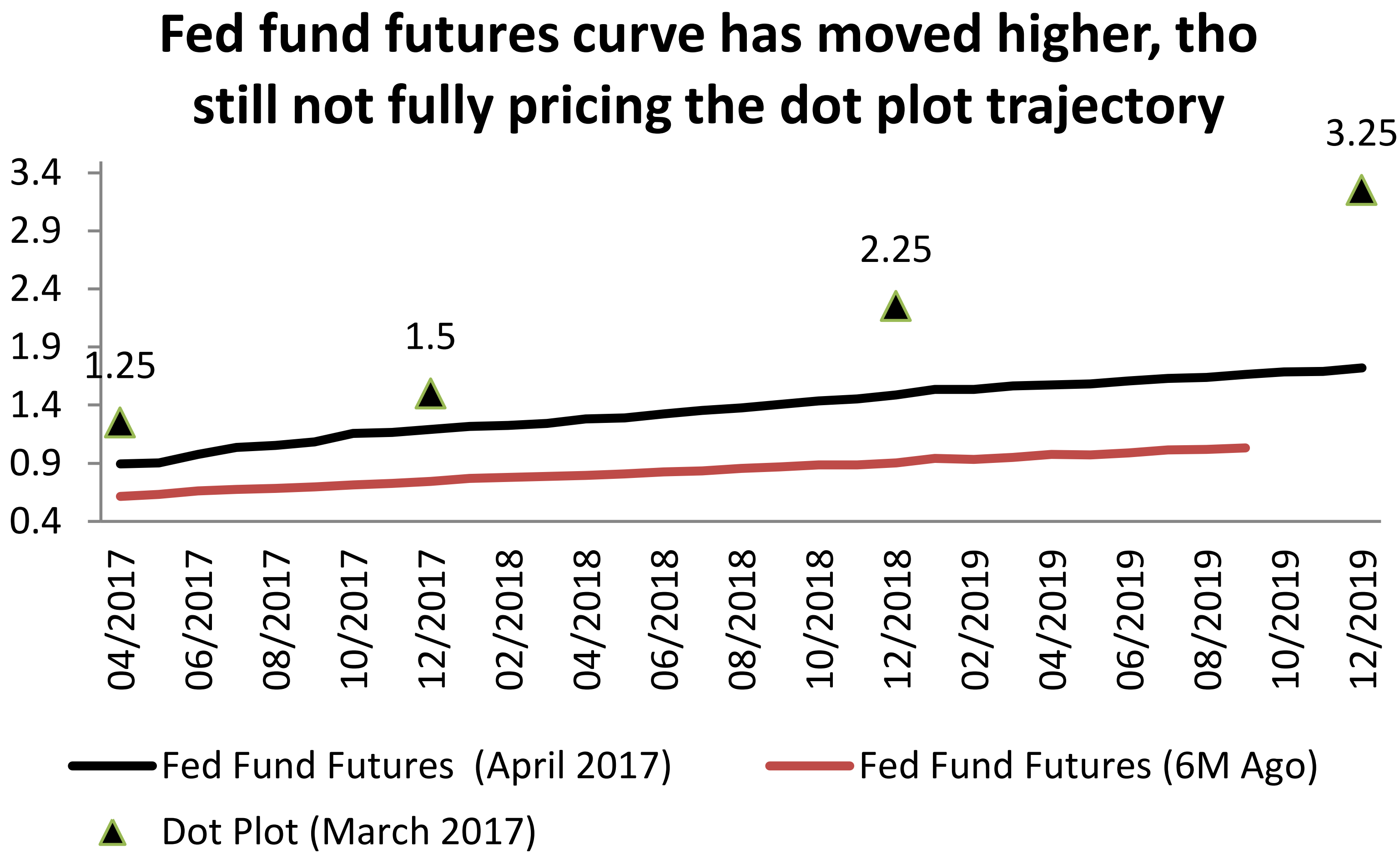
Source: Bloomberg, OCBC

The market is not fully pricing in three rate hikes

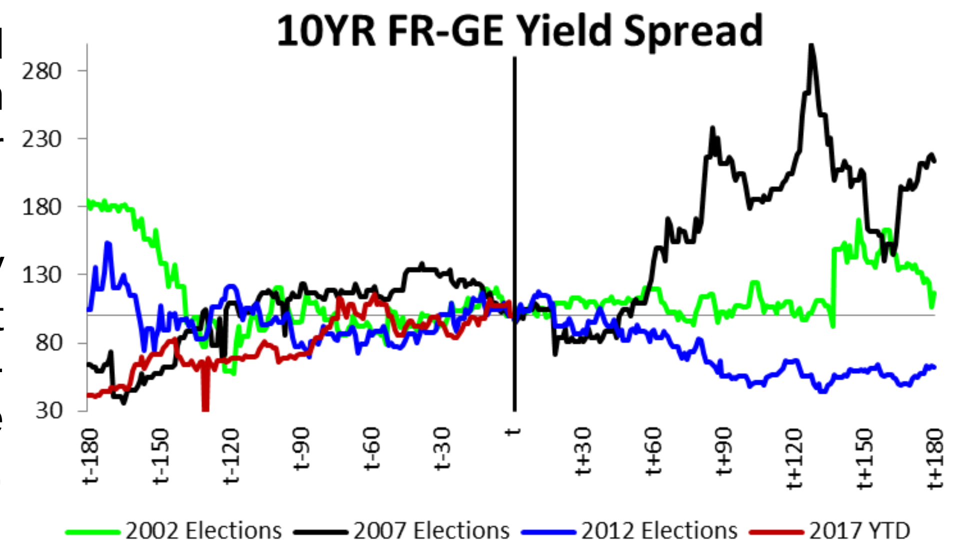
Fed fund futures remain lower vs the dot plot

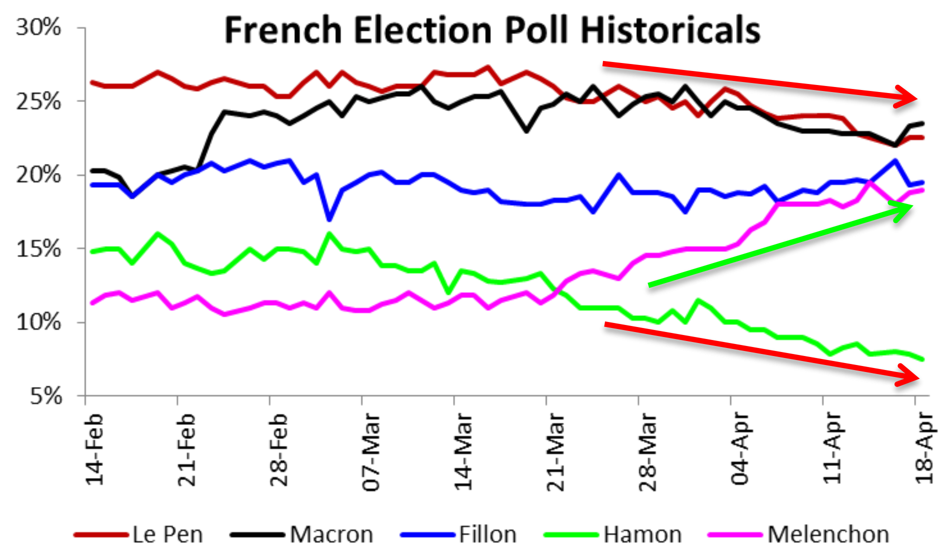


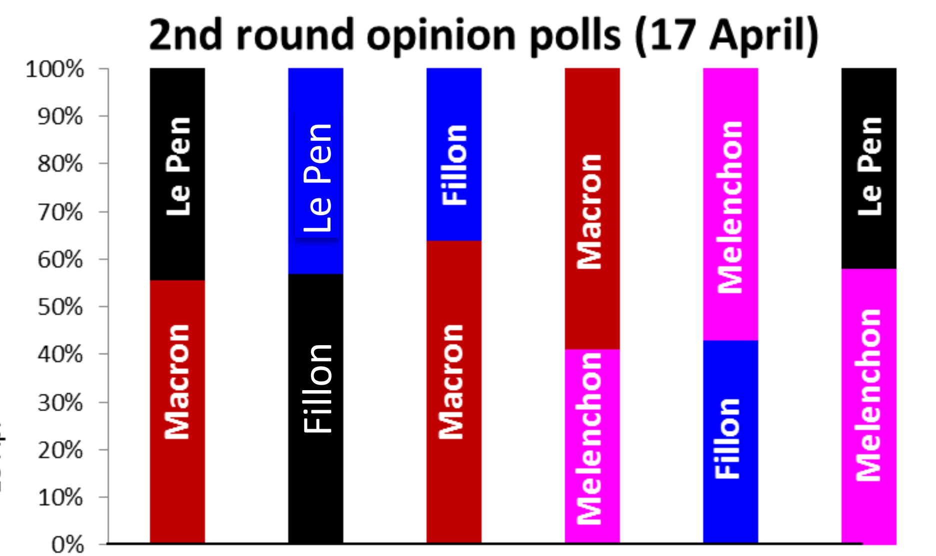
OCBC Bank Source: Bloomberg, OCBC

Remember Brexit, beware Frexit

- Gold rallied impressively by 13% during and after UK's vote to leave the European Union (Brexit), a sign that gold is sought after during times of uncertainty.
- Importantly, French's Melenchon speedy entry into the race posed renewed Frexit fears and uncertainty as reflected in the GE-FR spread reaching -0.785%. Note Marine Le-Pen, or known as "Madame Frexit", remains neck-and-neck with Macron.







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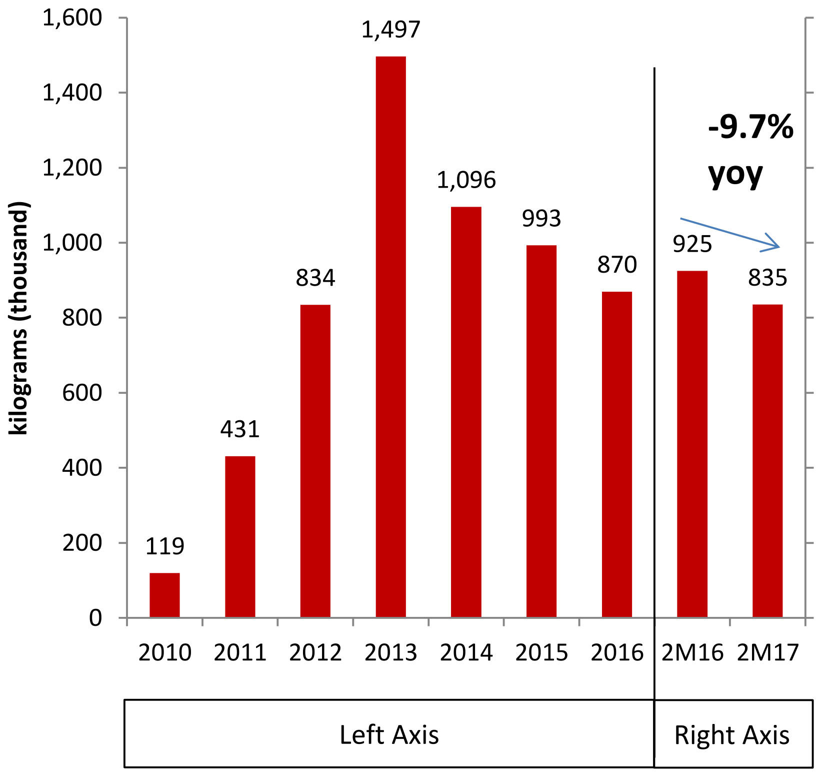
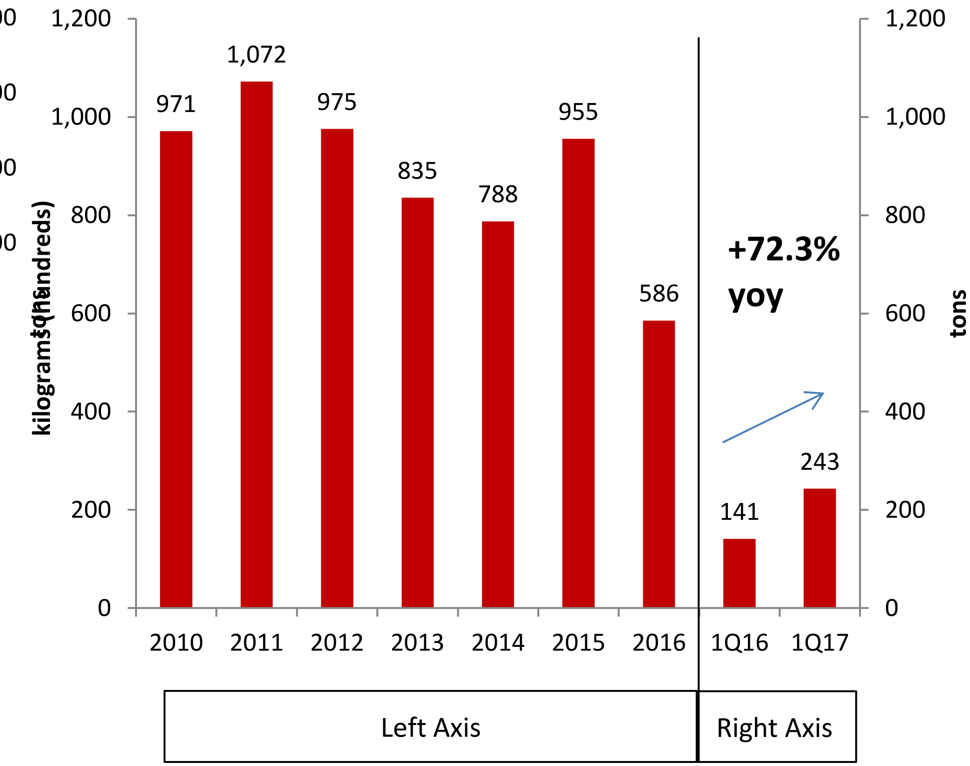
Source: Bloomberg, OCBC, Ifop-Fiducial, BVA, Odoxa

Going physical – Chinese demand fades further, though Indian gold imports rose into 1Q17

Chinese gold imports from Hong Kong remains in contraction terrority



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



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Source: Bloomberg, OCBC Bank

Crude Palm Oil:
Strong supplies, lackluster demand

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Executive Summary

- **Palm oil futures have fallen by over 20% since Feb's peak to recent MYR2,600/MT.** Much of the fall is due to the surprisingly strong double-digit growth in Malaysia's palm oil production into 1Q17. Given the strong production seen in the first three months of this year, it is likely that palm oil production may exceed official estimates of 19.4 million tons to our revised estimate of 19.9 million tons (or 15%yoy growth).
- **Importantly, Malaysia's crude palm oil export growth continues to contract,** exacerbating the fall in CPO prices. Empirically, CPO export growth on a year-on-year basis fell for its 7th consecutive month into March 2017. Coupled with strong production, total inventories rose above its 1.5 million tons mark. Elsewhere, total palm oil exports (which includes processed palm products) contracted 5.3% over the same period.
- **Delving into details, the fall in palm oil exports was mainly driven by India (-42.2%), US (-31.4%) and EU (-18.7%).** Looking ahead, India's palm oil import demand is likely to fall further as officials looks to encourage domestic palm oil cultivation in hope to reduce import reliance. Elsewhere, EU's palm oil demand may be limited by recent EU's resolution that only environmentally sustainable palm oil may be imported after 2020.
- **On weather conditions, the chance for an El Nino phenomenon is penciled at 50%** this year, though should it come to pass, will present only in late 2017. On the other extreme, concerns over wet conditions caused by the La Nina counterpart has vanished owing to the uptick in Oceanic Nino Index (ONI) of late.
- Owing to the lack of weather extremities amid clear signs of weakness in global palm oil demand, we remain bearish on palm oil and pencil MYR2,650/MT at year-end.

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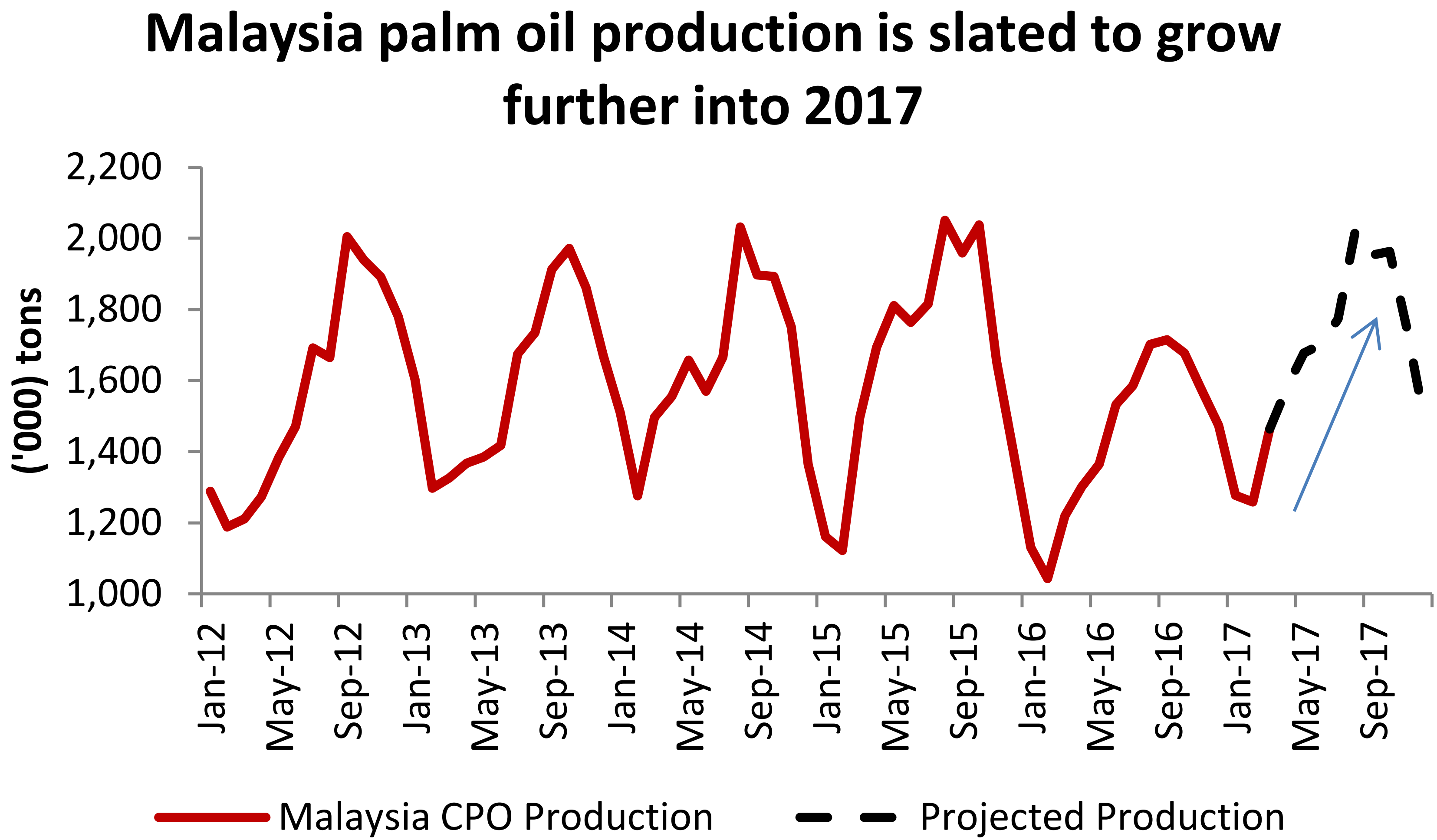
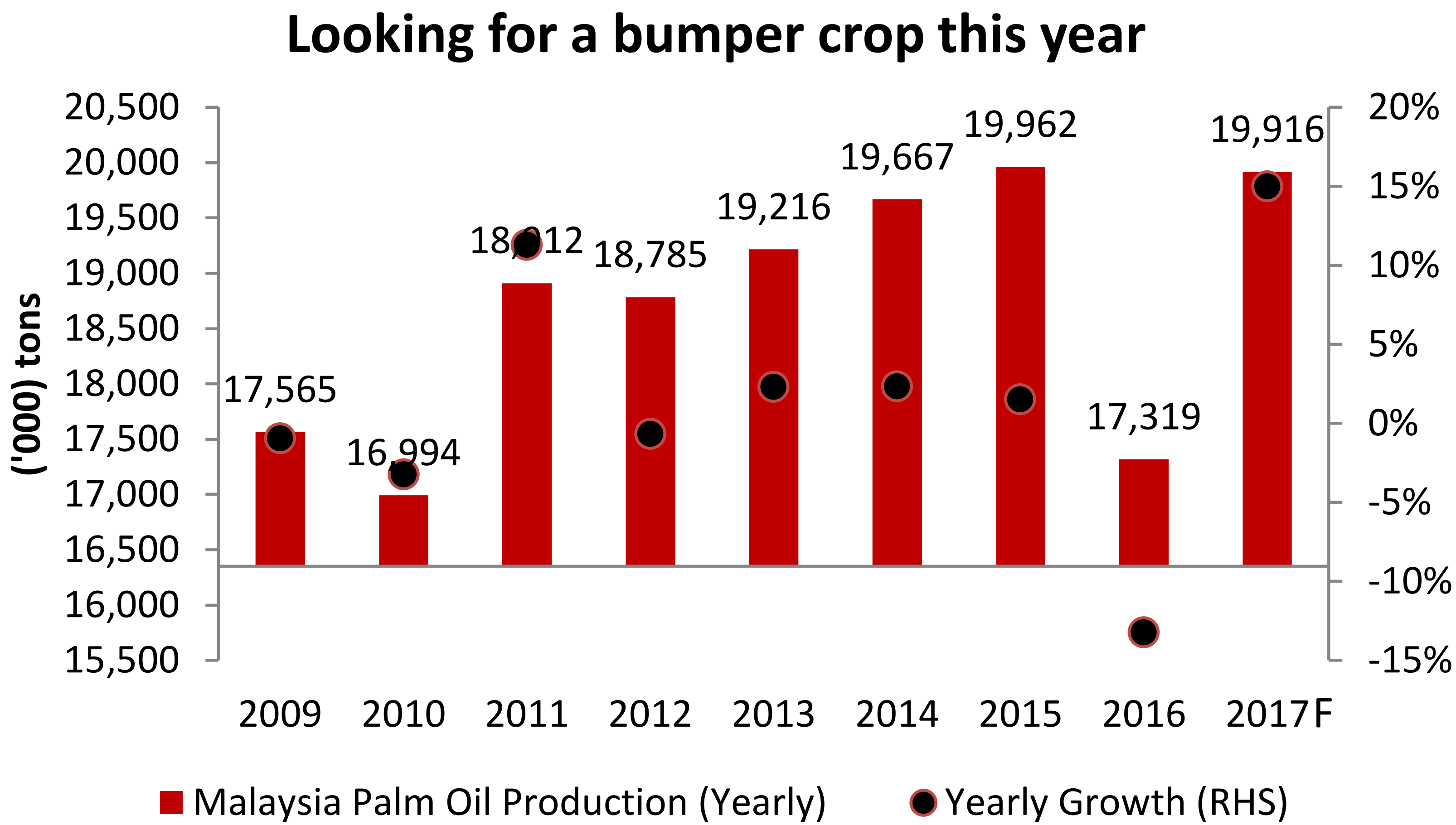
Malaysia's palm oil production gained rapidly as weather conditions improve



Source: Bloomberg, OCBC Bank

Malaysia's total CPO production will likely exceed MPOB's target of 19.4 million tons



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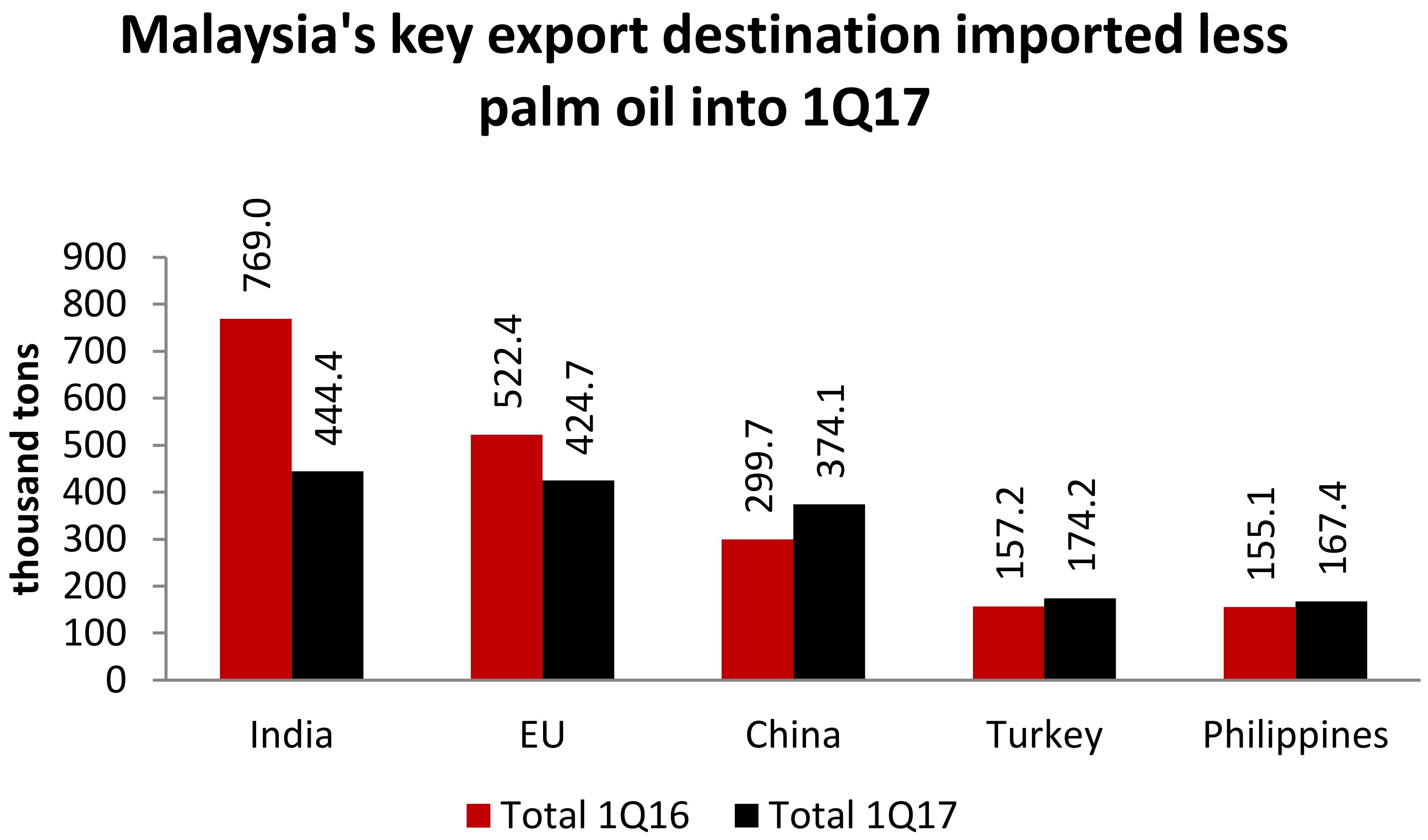
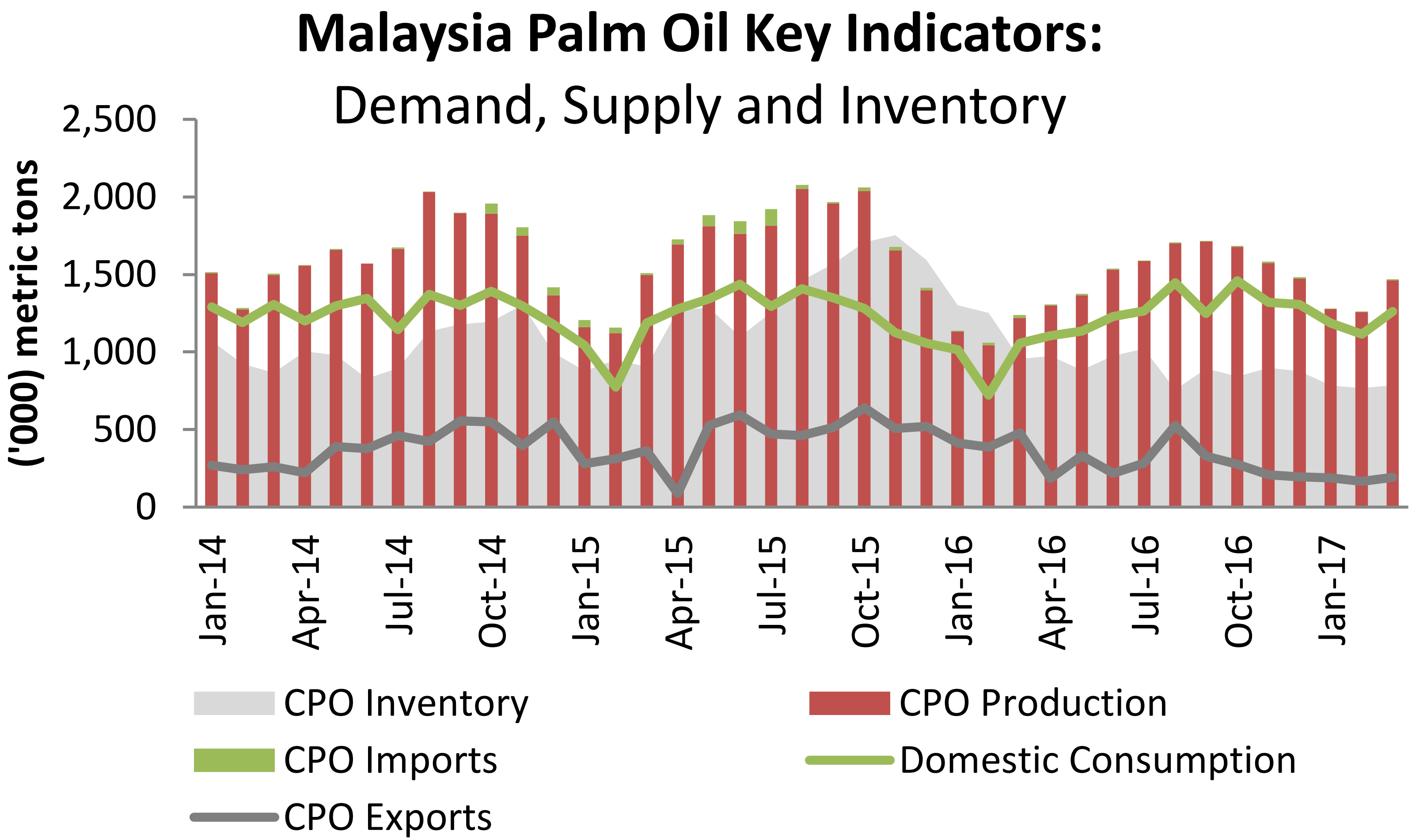
Source: Bloomberg, MPOB, OCBC Bank

Exports remain lackluster, especially seen in India and EU



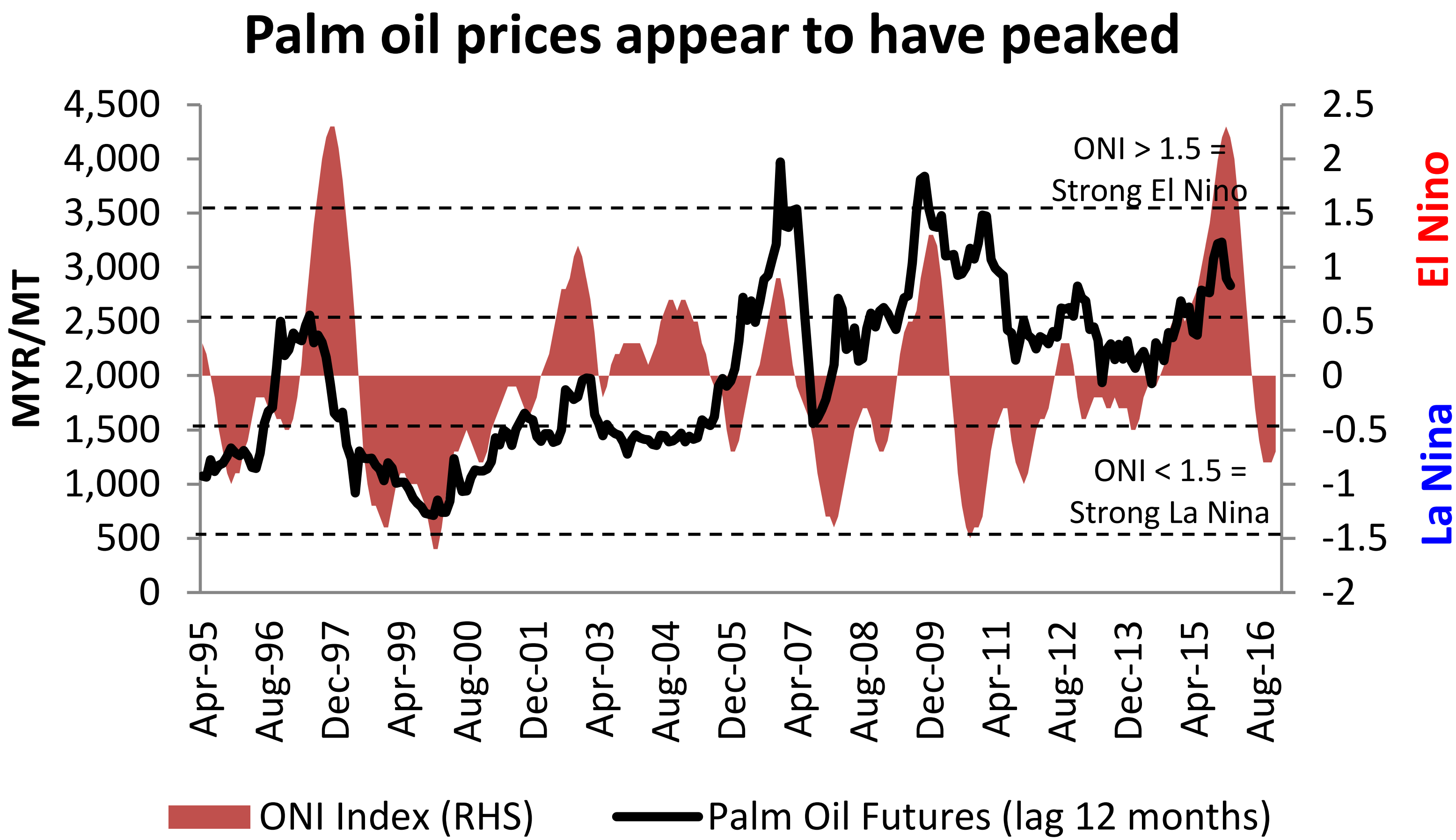
Source: CEIC, Bloomberg, OCBC Bank

In a nutshell, production ticked higher, while exports continue to contract



Source: MPOB, Bloomberg, OCBC Bank

Weather conditions improves, with palm oil futures correcting lower into 1Q17



Source: NOAA, Bloomberg, OCBC Bank

OCBC Commodities Price Outlook

As of April 19, 2017			2016				2017			
	Spot	April Avg	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F
Energy										
WTI ($/bbl)	52.5	52.2	33.6	45.6	44.9	49.3	51.8	57.5	61.3	65.0
Brent ($/bbl)	55.0	55.0	35.2	47.0	47.0	51.1	54.6	60.0	62.5	65.0
Gasoline ($/gallon)	1.70	1.73	1.18	1.54	1.40	1.48	1.58	1.72	1.79	1.86
Natural Gas ($/mmbtu)	3.14	3.22	1.98	2.25	2.79	3.18	3.06	3.03	3.14	3.25
Precious Metals										
Gold ($/oz)	1,284	1,267	1,185	1,260	1,334	1,217	1,220	1,280	1,240	1,200
Silver ($/oz)	18.2	18.3	14.9	16.8	19.6	17.1	17.5	18.3	17.8	17.2
Platinum ($/oz)	982	964	919	1,007	1,091	944	981	1,000	1,012	1,091
Palladium ($/oz)	773	797	526	569	680	684	768	776	729	706
Base Metals										
Copper ($/MT)	5,572	5,748	4,669	4,728	4,793	5,291	5,855	5,750	5,625	5,500
Tin ($/MT)	19,474	19,928	15,465	16,912	18,592	20,777	20,012	20,536	20,089	19,643
Nickel ($/MT)	9,266	9,839	8,514	8,834	10,271	10,796	10,277	10,455	10,817	10,377
Zinc ($/MT)	2,525	2,659	1,684	1,927	2,257	2,527	2,789	2,738	2,679	2,619
Aluminum ($/MT)	1,892	1,931	1,515	1,583	1,633	1,709	1,858	1,855	1,815	1,774
Asian Commodities										
Crude Palm Oil (MYR/MT)	2,594	2,799	2,467	2,597	2,629	2,933	3,100	2,800	2,750	2,650

Source:

Historical Data - Bloomberg

Forecasts - OCBC Bank

Note: Data reflects average price

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Thank You

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