Commodities Chartpack

Doha, Fed Rate Hike and Harsh Weathers

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OCBC Bank

Crude Oil: The Barometer of Global Growth

Hear the rhetoric and the tone

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Executive Summary

- It was as if like yesterday, when market-watchers cheered on Saudi Arabia's call (by a senior OPEC delegate in late March) to participate in an oil output freeze on April 17 when producers meet in Doha. Oil prices surged considerably to touch above $41/bbl then in response.
- Still, there was a lingering concern that a production freeze may be contingent on Iran's participation, one that the nation has repeatedly rejected. The said concern resurfaced in early April, now with Saudi Arabia crown price commenting that the Kingdom's eventual decision to freeze its own production will still be dependent on Iran's participation.
- On fundamentals however, it is still encouraging to see stronger net-long speculative oil positions, while US oil production maintained its decline for the fourth consecutive month to 9.0mbpd in March. All-in-all, oil prices are likely to take cues from whatever agreement (or the lack of it) in the upcoming Doha Talks, though the rebalancing story is to persist into 2H16.
- Elsewhere, should oil prices turn weak (sub-$40/bbl) once again, the need to do more to arrest falling oil prices may be needed. On this, we think a potential 5.0% production cut may surface at the 169th OPEC meeting in June.
- All-in-all, we remain bullish on oil prices, with both WTI and Brent penciled at $50/bbl at end-year.

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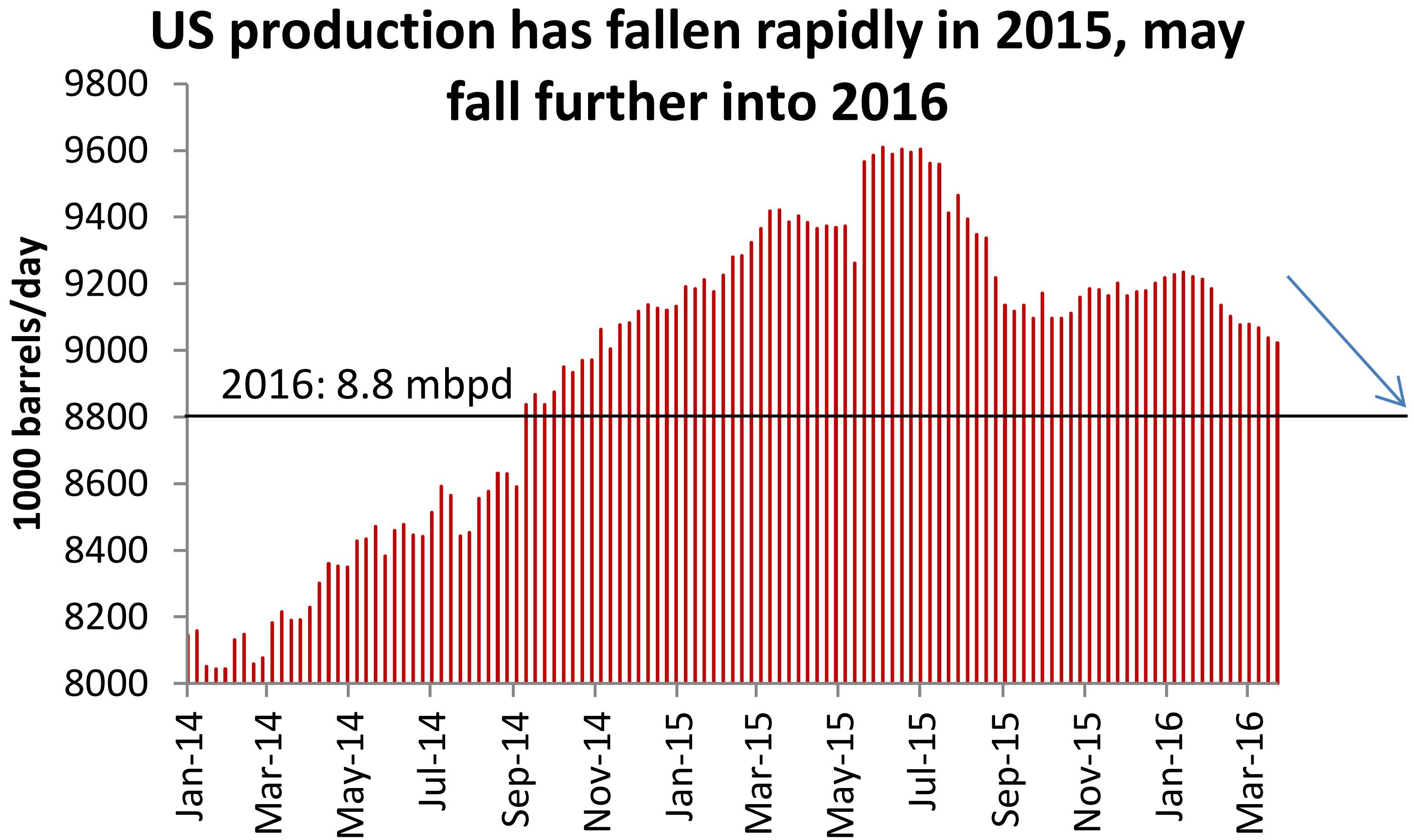
Look out for lower US crude oil production

- US Energy Information Administration estimates that US crude production will continue to decline through mid-2016 before growth resume.

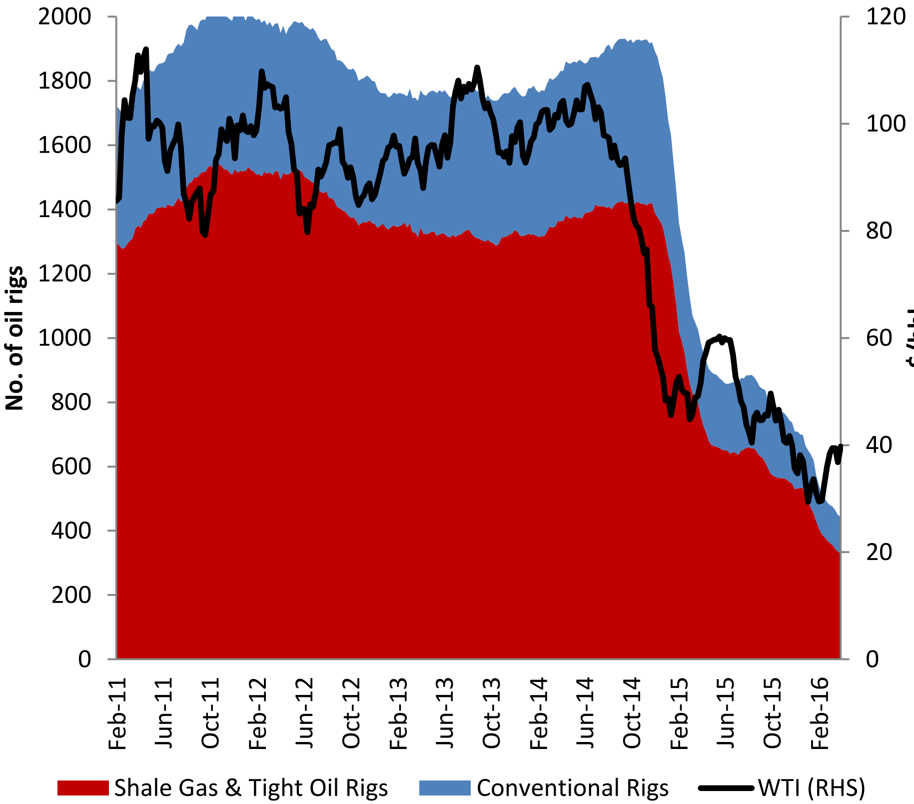


OCBC Bank Source: Bloomberg, OCBC

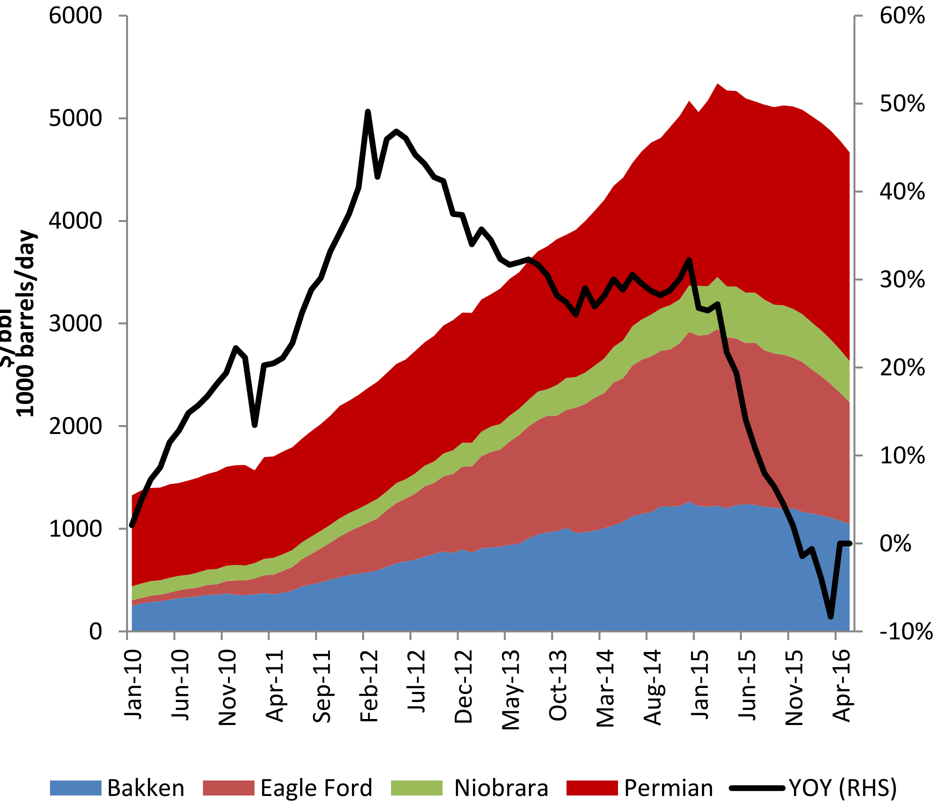
US' production continues to fall

- Oil prices continue to stay weak despite lower US oil rig counts and production levels in September. US oil production into next year may continue to fall as capex cuts are estimated to persist.

Number of US oil rigs continue to fall on low oil prices



Shale oil production is adversely affected, given high production cost



OCBC Bank Source: Bloomberg, OCBC

Capital expenditure cuts to continue in 2016

Capital Expenditure in Major Energy Names (USD mn)

Name	2014	2015^	2016^	2017^
Anadarko Petroleum Corp	9,508	6,067	3,607	4,688
Apache Corp	11,378	5,178	2,531	3,366
Chevron Corp	35,407	29,504	18,251	17,222
Concho Resources Inc	2,589	2,511	1,391	1,811
ConocoPhillips	17,085	10,050	6,555	8,178
Continental Resources Inc/OK	4,717	3,080	1,331	1,794
Denbury Resources Inc	1,079	562	282	418
Diamondback Energy Inc	1,448	902	440	705
Energy XXI Ltd	789	724	154	165
Exxon Mobil Corp	32,952	26,490	21,597	22,452
Goodrich Petroleum Corp	322	47	31	-
Marathon Oil Corp	5,160	3,476	1,773	2,120
Oasis Petroleum Inc	1,401	849	370	498
Pioneer Natural Resources Co	3,576	2,393	2,270	2,866
Rosetta Resources Inc	1,298	362	349	695
Swift Energy Co	386	78	-	-
WPX Energy Inc	1,807	1,124	520	800
Total	**130,902**	**93,397**	**61,450**	**67,777**

Source: Company Balance Sheet, Bloomberg, OCBC Bank

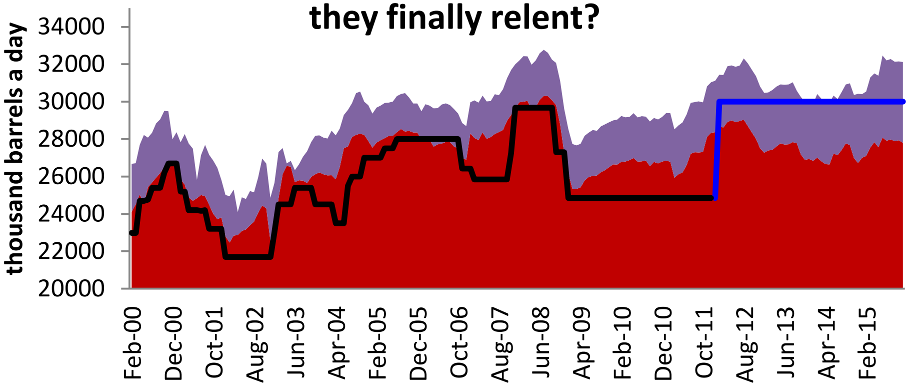
^ Including Bloomberg Estimates & Emprical Data

OCBC Bank Source: Bloomberg, OCBC

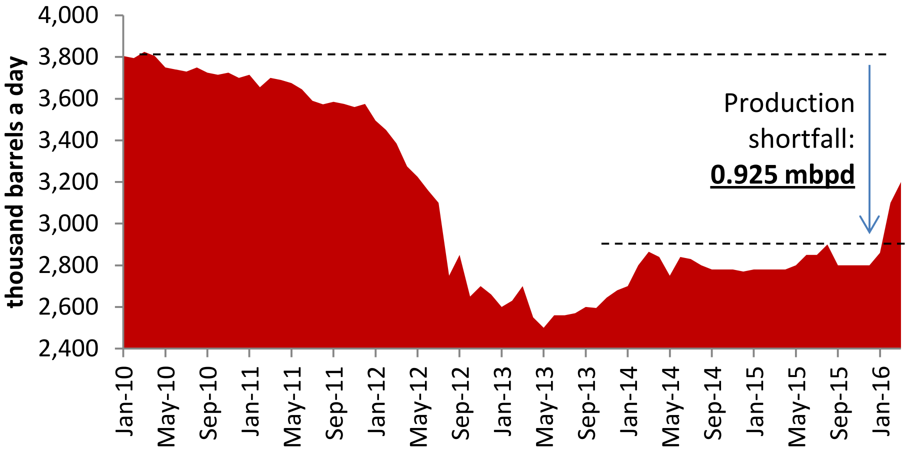
Doha talks to curb future production growth

- The driver underpinning low oil prices due to upside risk for OPEC production, given that Iran and Libya collectively see a production shortfall of **1.8 mbpd** from their 2010 peak.
- Note that we look for the Doha talks to reach an agreement on production freeze, and a possible 5.0% cut in production in June's OPEC meeting should prices continue to stay low.

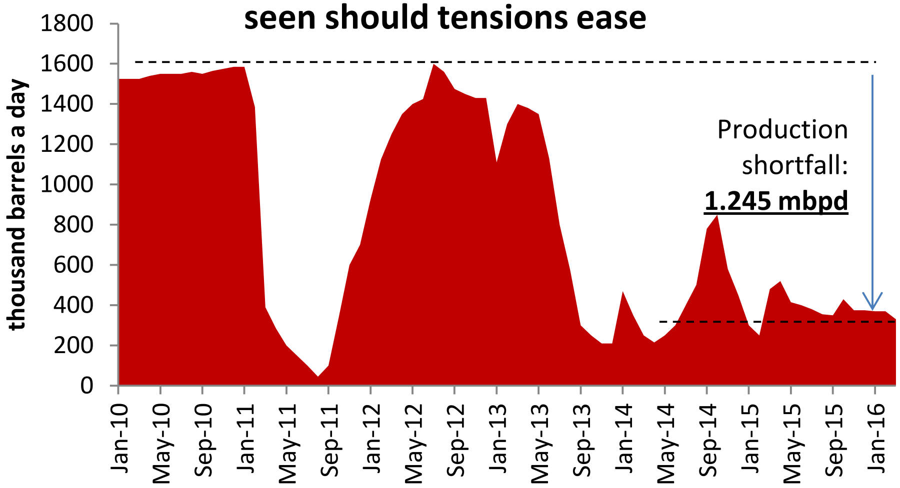
OPEC's production is adding to the glut. Will they finally relent?



Iran has repeatedly highlighted its intention to raise crude oil production by 1 mbpd in 2016



Upside surprises in Libya's production may be seen should tensions ease



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Source: Bloomberg, OCBC

An eventual cut if prices stay low?

Technically, there is little contention over how oil prices would rally into the end of the year. Both OPEC and the US Energy Information Administration (EIA) agree that the rebalancing between supply and demand is ongoing. EIA itself also views that the oil markets will be fully balanced by 2017, thus reinforcing their view for higher oil prices till then.

In a nut-shell, the tenant of economics is already playing out here: low prices dissuade production, and US production has been falling. Should prices stay low despite the fiscal measures in place, the OPEC members will then have a greater need to 'adjust' production accordingly in its scheduled June OPEC meeting, and in our view, a 5.0% cut in overall production is a possible scenario.

Production levels if a cut materialises in June

Production ('000 b/d)	June (5% Cut)	Feb	Jan
1. Total OPEC	**31,882**	**33,060**	**33,139**
Algeria	1,055	1,110	1,100
Angola	1,671	1,759	1,751
Ecuador	513	540	534
Indonesia	690	726	700
Iran^	3,325	3,000	2,860
Iraq	4,166	4,385	4,510
Kuwait	2,850	3,000	3,000
Libya	352	370	370
Nigeria	1,795	1,889	2,028
Qatar	618	650	650
Saudi Arabia	9,690	10,200	10,200
U.A.E.	2,831	2,980	2,970
Venezuela	2,328	2,451	2,466
2. Major Non-OPEC	**19,891**	**20,012**	**20,124**
US[1]	8,981	9,102	9,214
Russia*	10,910	10,910	10,910
OPEC + Major Non-OPEC	**51,773**	**53,072**	**53,263**
Fall of (in mbpd)	-1.30		

^ Priced in Iranian's increase in oil production by 500kbpd

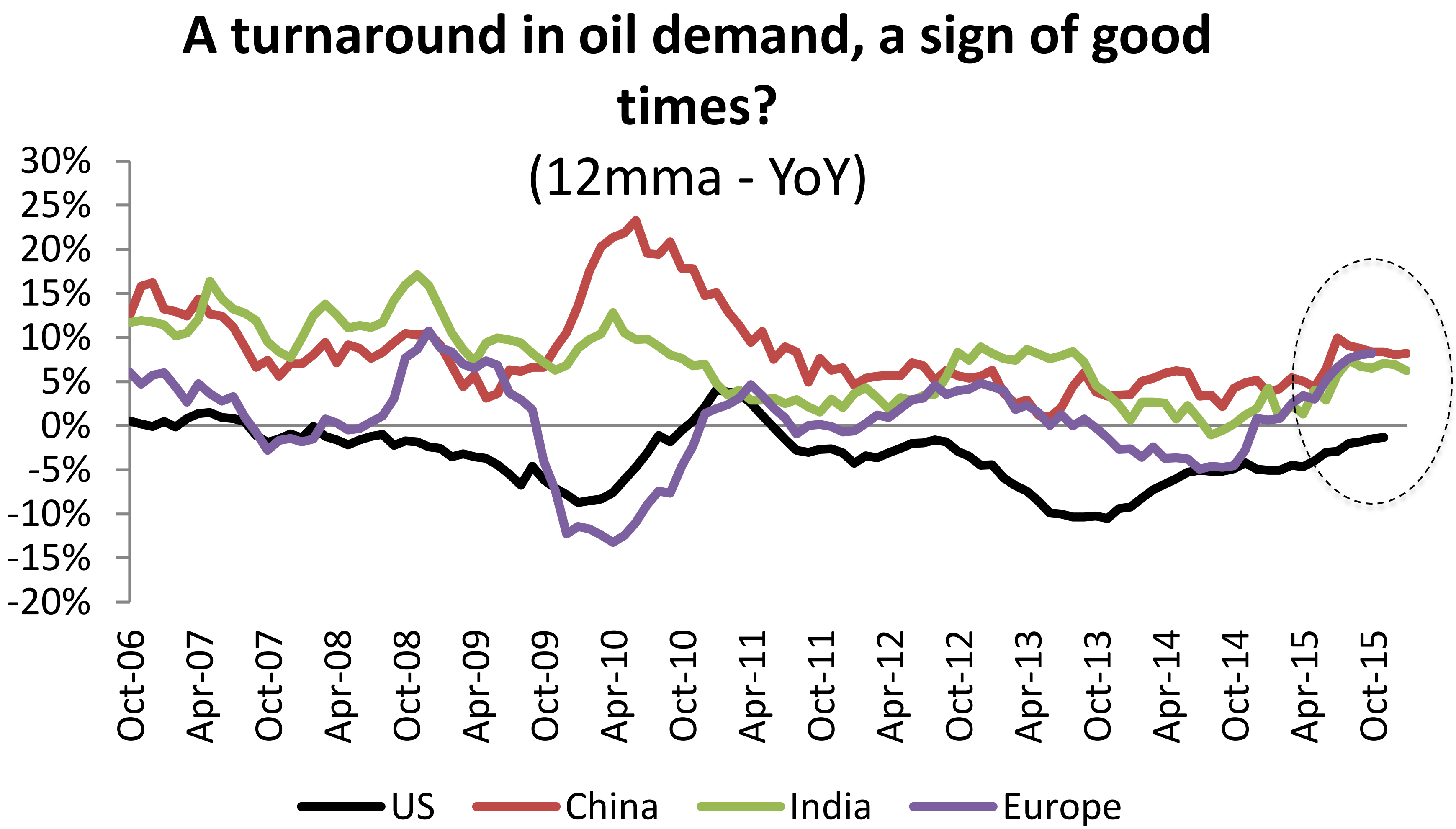
* Assumed production freeze in Russia

[1] Assumed constant rate of decline to 8.8mbpd

Source: OPEC, US EIA, OCBC Bank

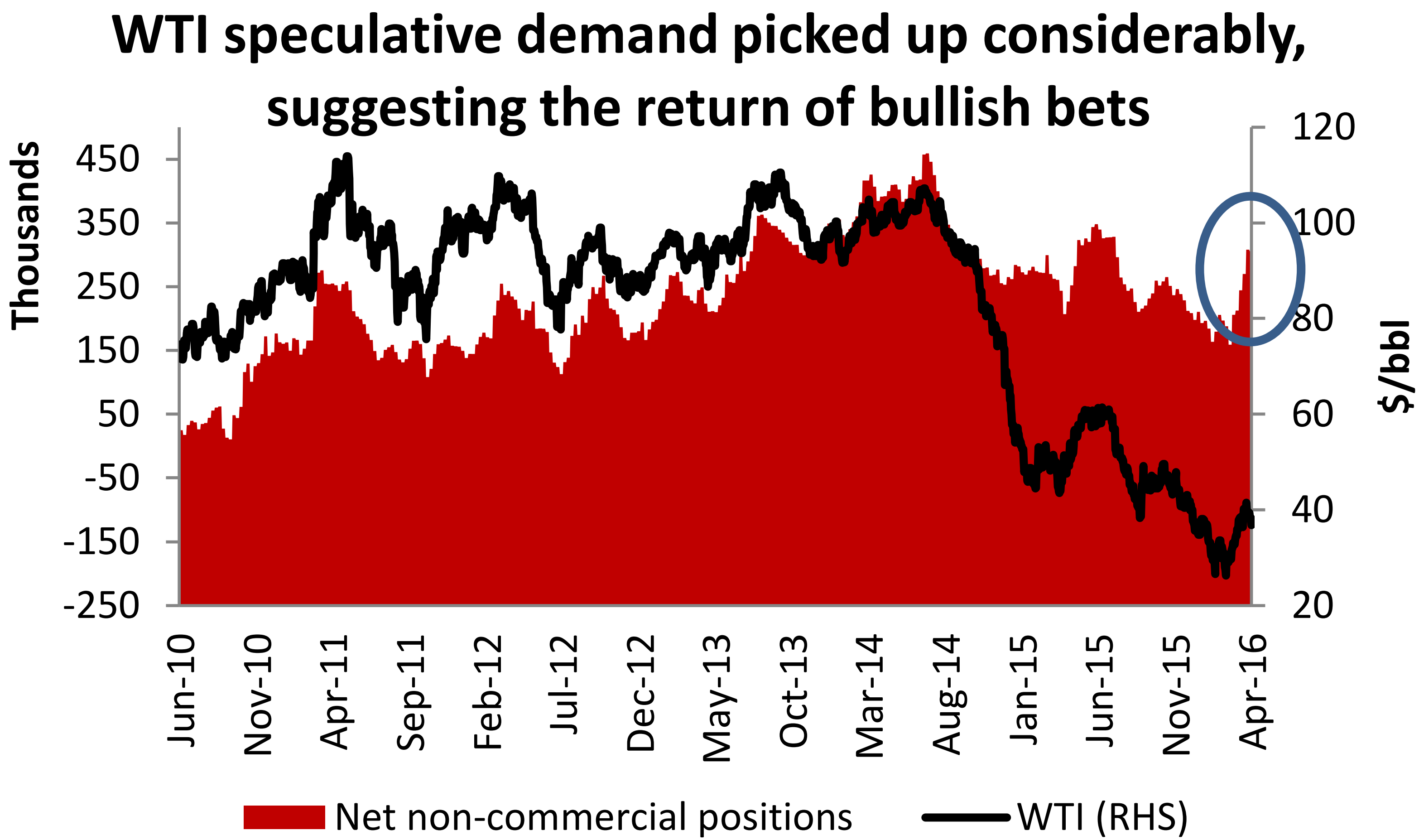
OCBC Bank Source: Bloomberg, OCBC

Higher oil demand, could be cheaper oil?



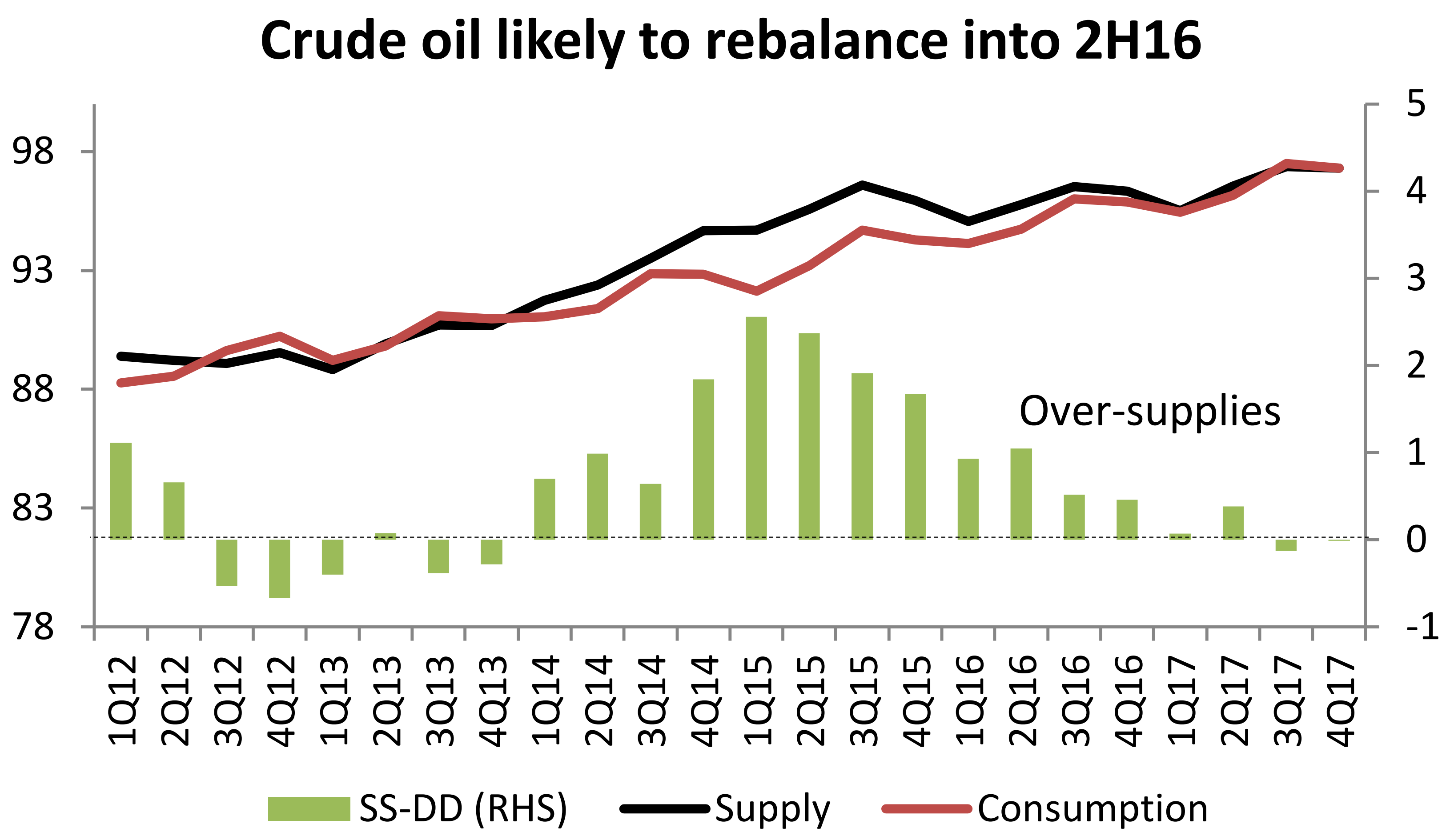
OCBC Bank Source: Bloomberg, OCBC

Market-watchers are increasingly betting on higher oil prices



Source: Bloomberg, OCBC

Rebalancing Story is the key to higher oil prices



Source: US EIA, OCBC

Gold: Case for safe haven

What to buy if all else fails?

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Executive Summary

- Whatever that glitters is good, at least that's what market-watchers were conveying. Gold as a precious metal that yields no return, had an amazing run-up by more than 20% in the first three months of this year.
- Gold traditionally flourishes to a shine based on three key factors: (1) Safe haven demand especially during market volatility, (2) currency hedge typically related to the movement of the US greenback and lastly (3) inflation hedge when gold acts as an effective store of value.
- It is then unsurprising to see the substantial rally in gold prices, given that the first two factors of the above three mentioned being seen in 1Q16. For one, the stock market volatility, led by Chinese growth concerns, falling global trade activity and weaker Asia-centric manufacturing space injecting risk-off emotions. Elsewhere, the relatively dovish US FOMC had projected a gentler hike gradient to two rate hikes in 2016 (vs four hikes previously telegraphed back in December 2015) led to pullback in dollar value.
- Our bearish view on gold prices remains unchanged however, largely underpinned by the continued two rate hikes this year as telegraphed by the US Federal Reserve. Our forecast remains unchanged at $1,100/oz at end-year.
- Still, the second quarter this year should prove interesting for the precious metal complex, owing to several milestone events in June, including the Brexit referendum, OPEC meeting, and the overarching uncertainty over Greece's access to the second tranche of money from the third bailout package.

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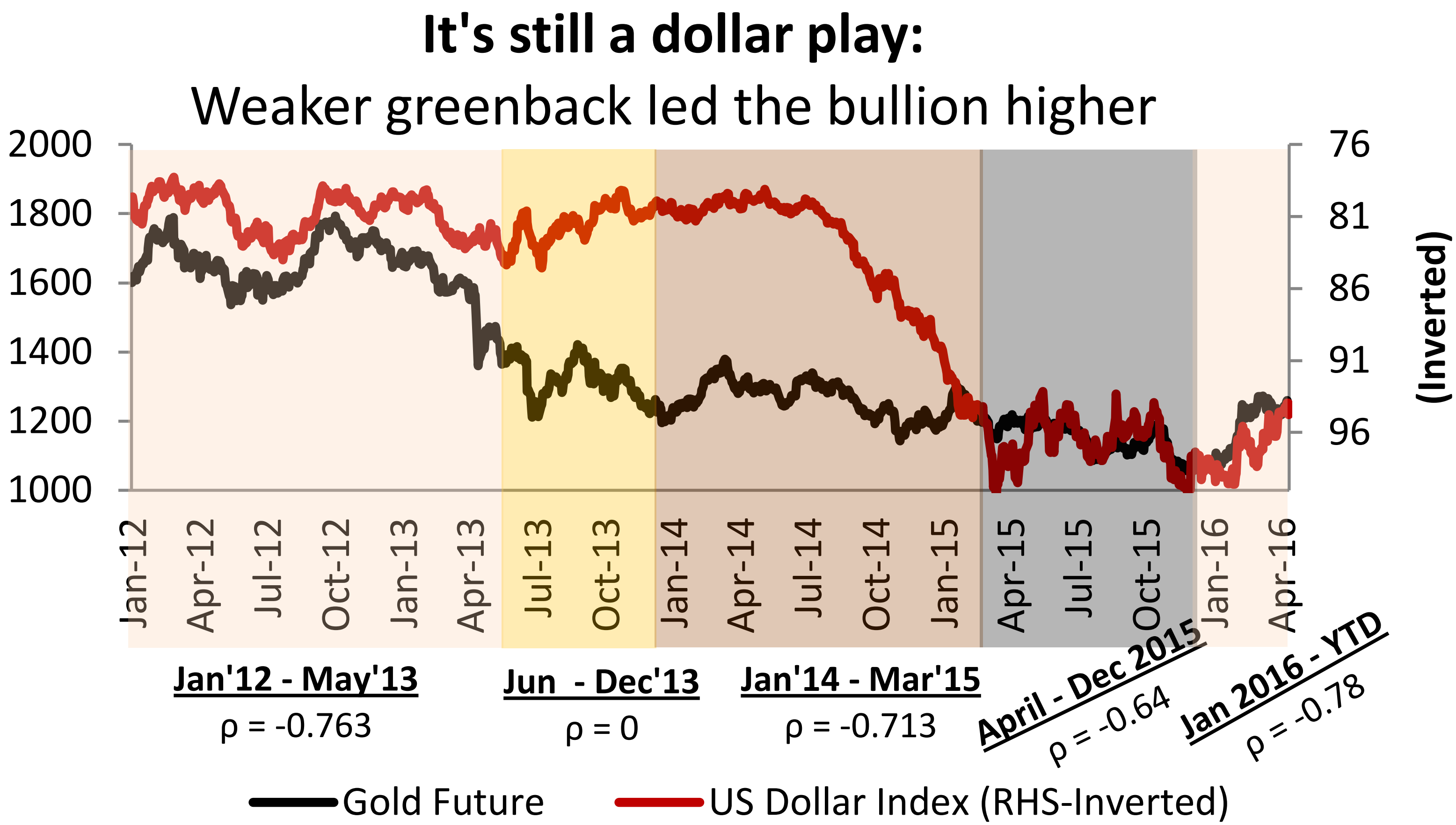
‘Gold’ is prettier than the color ‘green’

- The dullness seen in the greenback made gold attractive to market-watchers. Note that the correlation between gold and the DXY index remains strong at -0.78 in the period leading to April 2016.

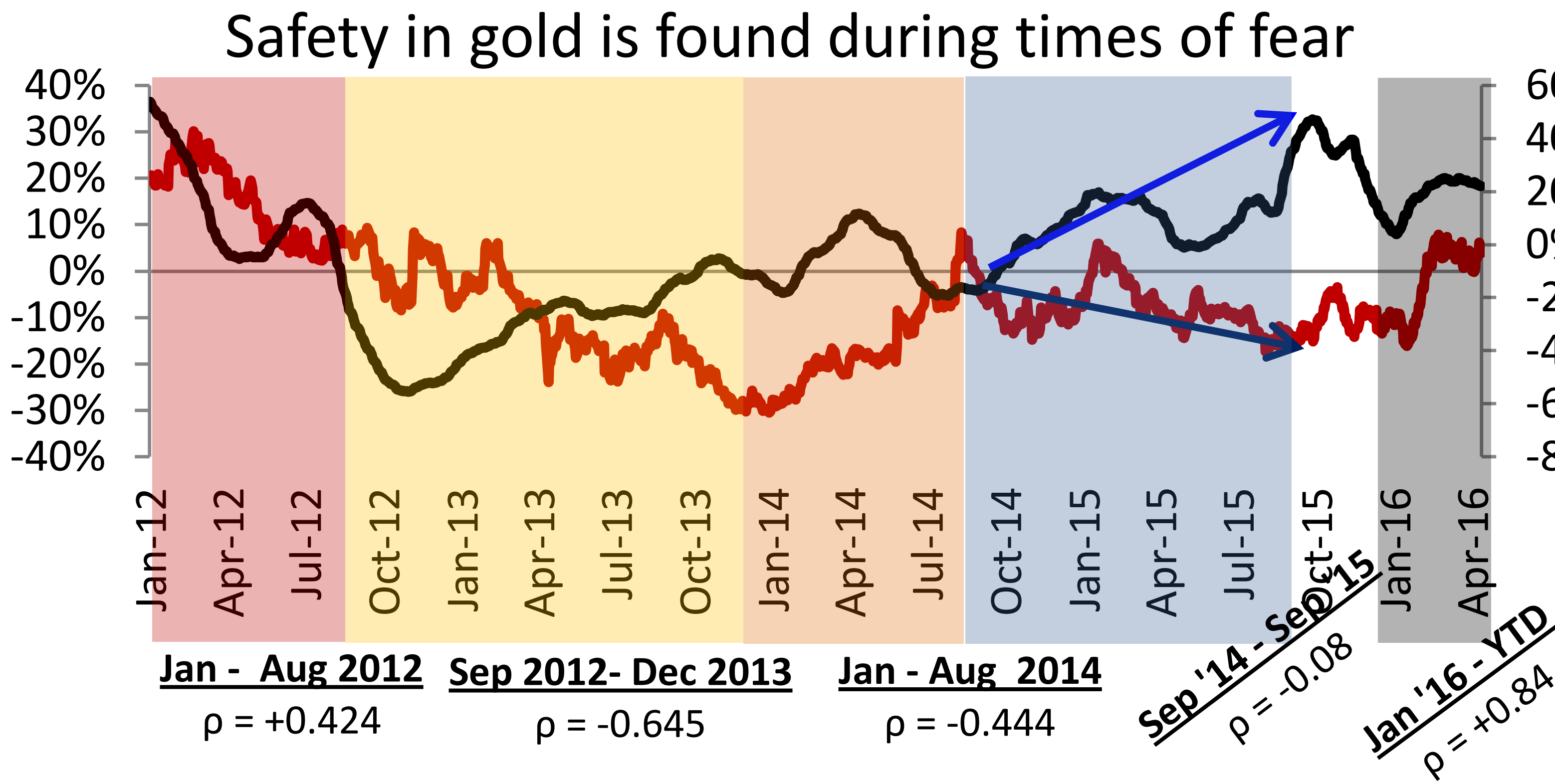


Source: Bloomberg, OCBC

Gold gives confidence to the frightened

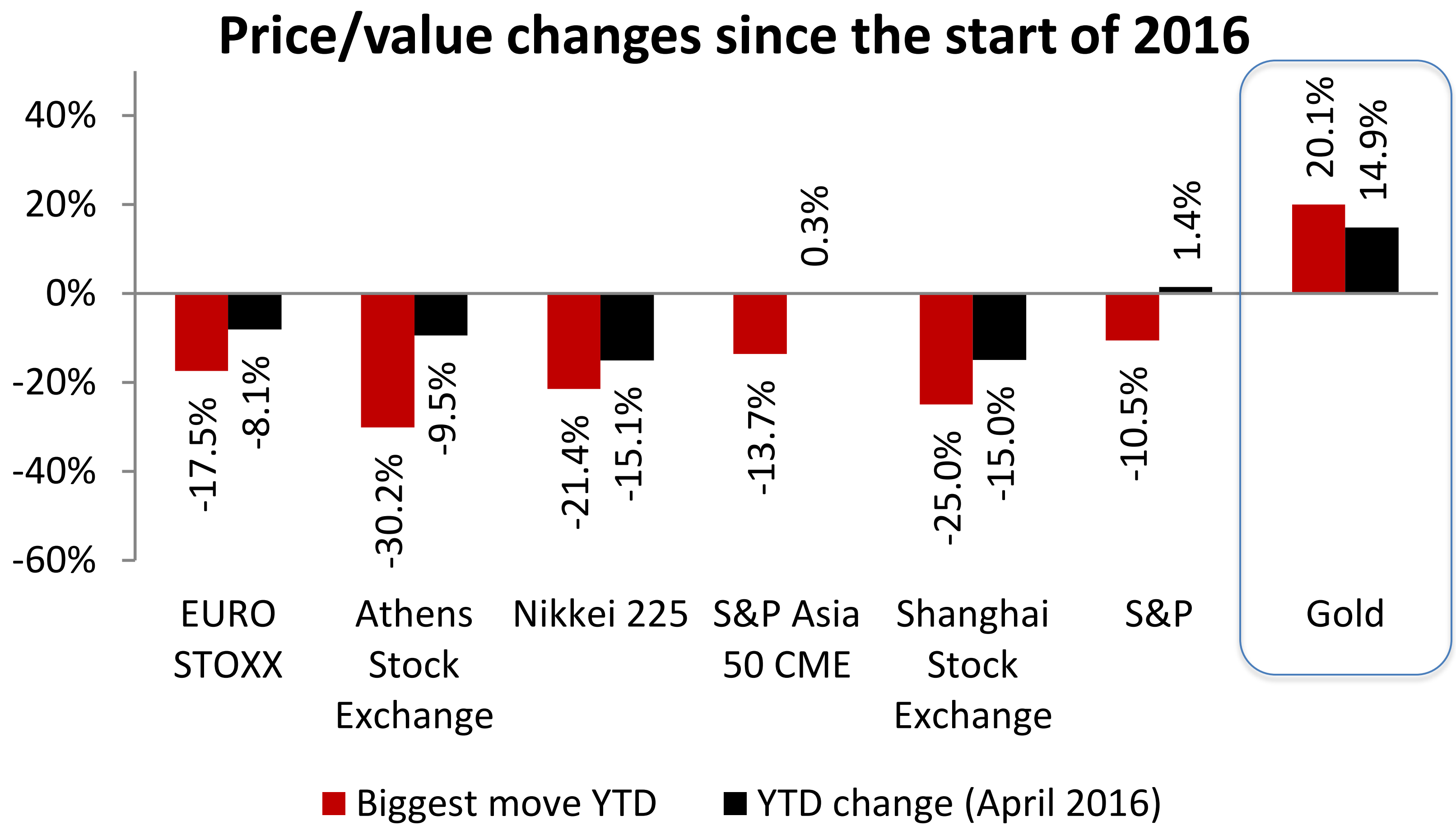
- Likewise, gold as a safe haven flourished during times of risk-off amid market volatility. Interestingly, the VIX index, or commonly referred to as a ‘fear’ index, rallied substantially since the start of the year. Gold followed suit with correlation at +0.84.

Safe haven found in those that glitter:



 Source: Bloomberg, OCBC

Market volatility led to gold's shine



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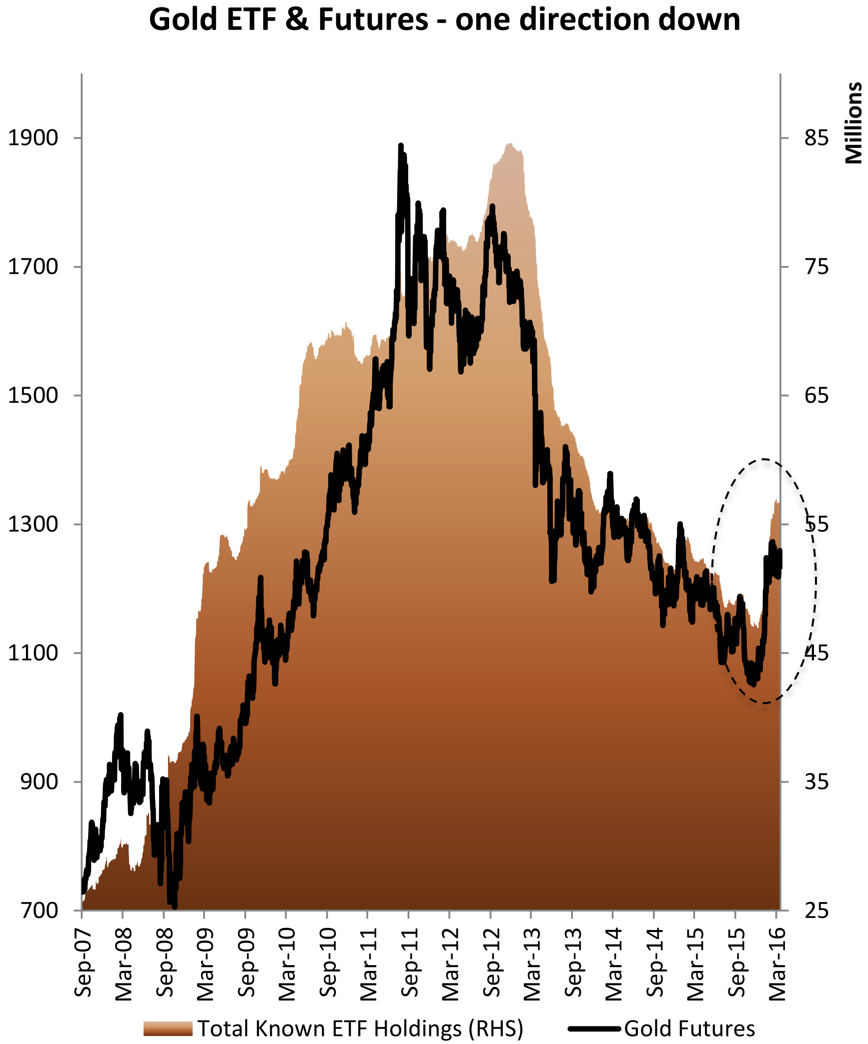
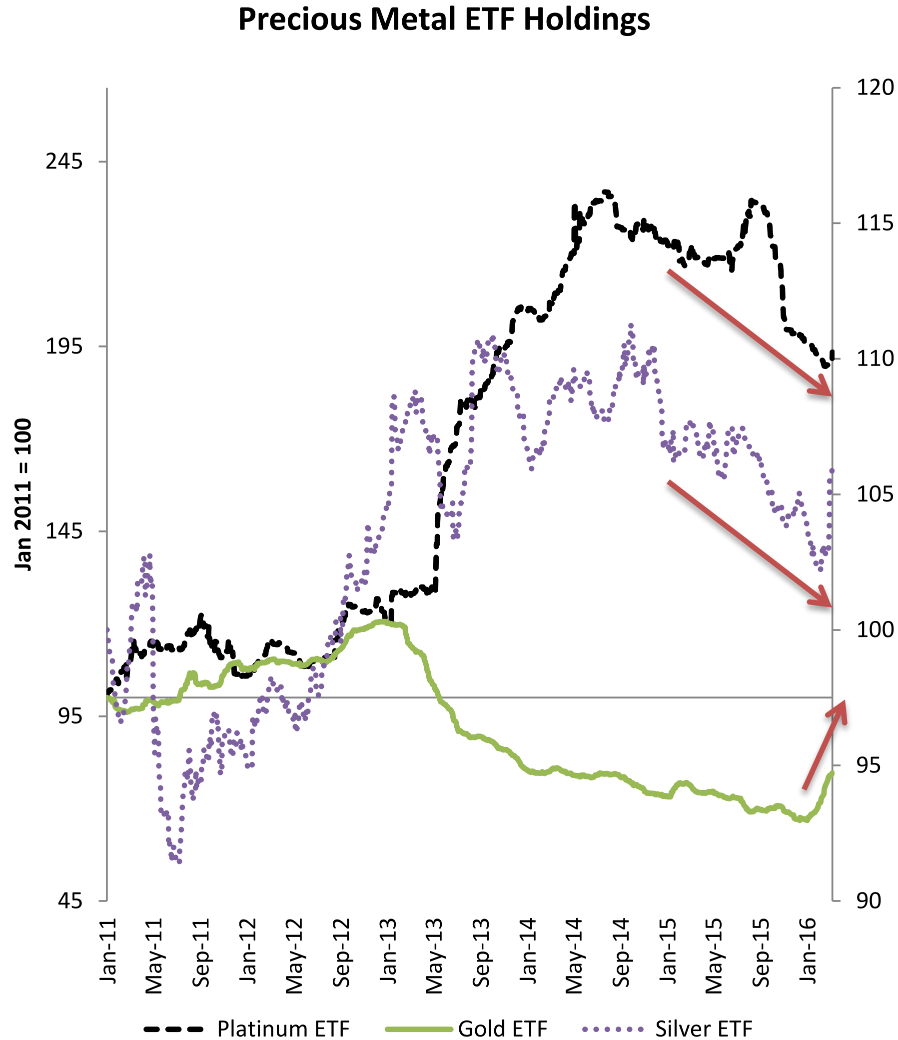
Source: Bloomberg, OCBC

Naturally, gold paper demand picked up in 1Q16





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Source: Bloomberg, OCBC

Wildcards in June:

Markets may 'sell in May and go away'

- **2nd June – 169th OPEC meeting**
  - Much of oil prices would depend on the decision made at the OPEC meeting in June. With prices staying sub $50/bbl at this juncture, there may be a possibility for OPEC to inject a 5.0% production cut to stem further downside.
- **16th June – US FOMC meeting**
  - Market-watchers would play attention to US-centric economic prints and central bank rhetoric to decipher FOMC's stance at its June meeting. Although there are some expectations for a rate hike at this meeting, much of this move would still be dependent on the Fed's data-watching attitude.
- **23rd June – Brexit referendum**
  - Much suspense hangs on the upcoming Brexit referendum, with latest polls for Brexit camp is 43% while Bremain camp accounts for 41%. Note that the IMF commented that a Brexit outcome has "severe regional and global damage" potential.
- **June & July – Greece's access to bailout tranche**
  - Greece will face over EUR10bn (US$11.4 billion) of debt repayments in June and July. The challenge will be on Prime Minister Alexis Tsipras to access the second tranche of money from the country's third bailout package.

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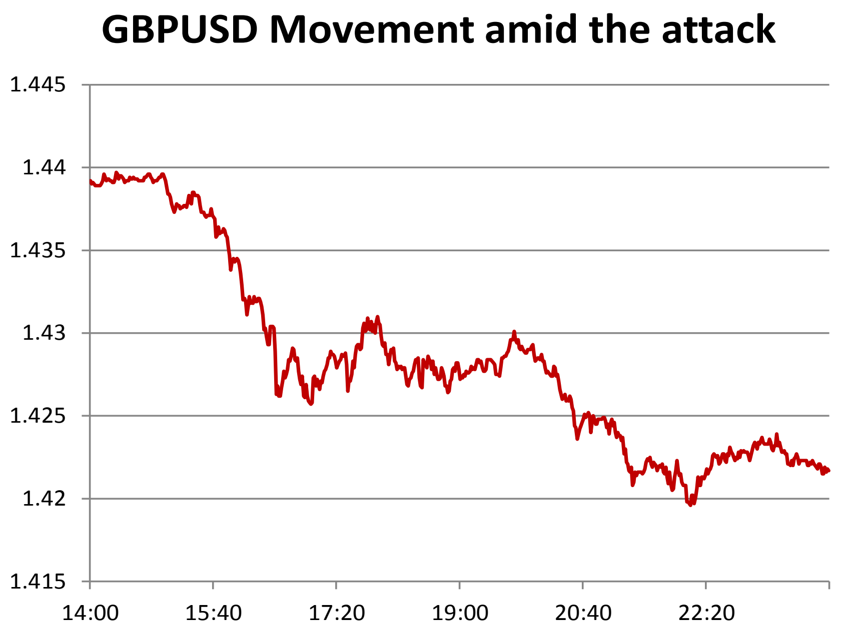
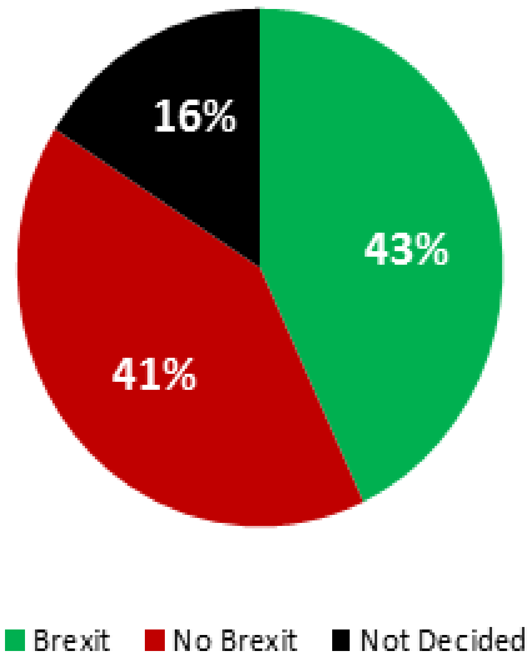
Source: Bloomberg, OCBC

"Brexit" remains as the biggest uncertainty in EU

- Among major currencies, GBP saw the biggest slide as the attack at Brussels triggered another round of "Brexit" support, this time with former HSBC chief Geoghegan in the "pro- Brexit" camp.
- The Brexit referendum due on 23rd June. The latest ICM poll showed that 41% of respondents stood in the "pro-EU" camp while 43% continue to support an independent UK.





Source: Bloomberg, ICM Poll

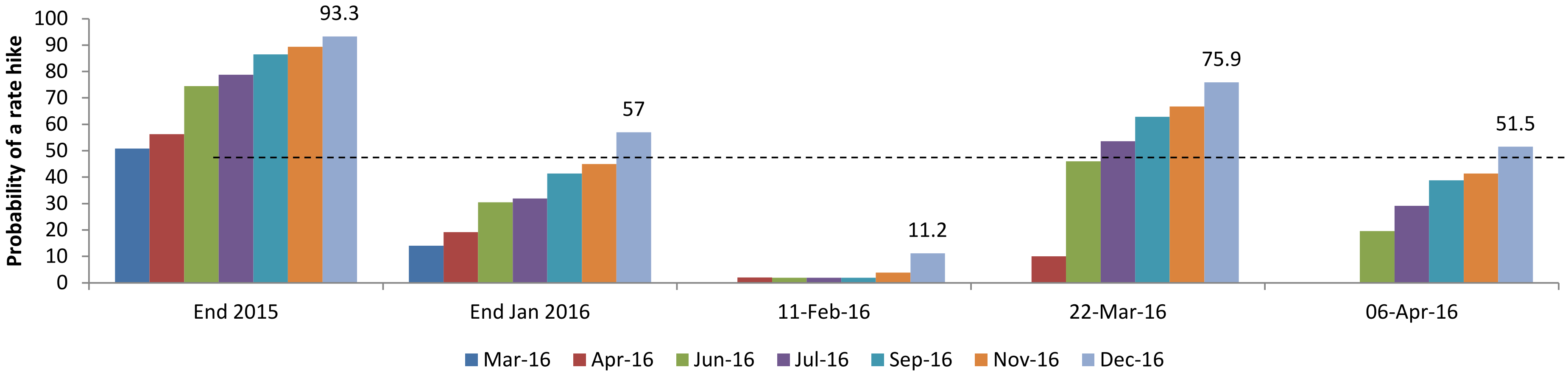
Greece and its bailout concerns again

Source: Bloomberg

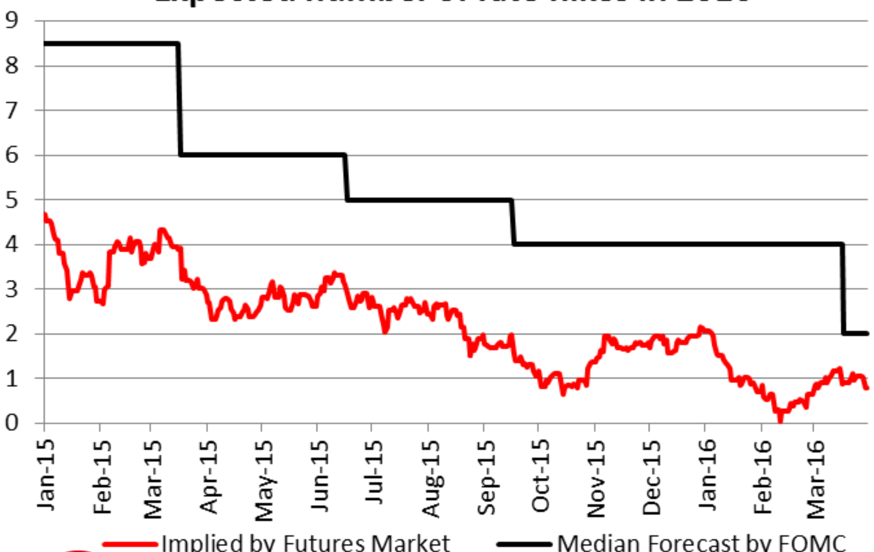
Dollar weakened as rate hike gradient flattened

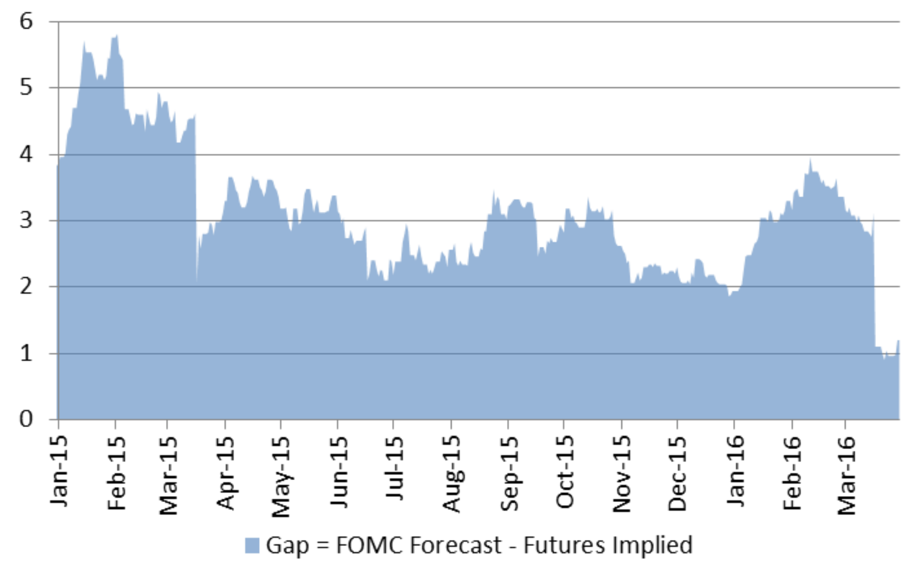
Market expectations for a FOMC rate hike

The question is, by how many times?



Expected number of rate hikes in 2016



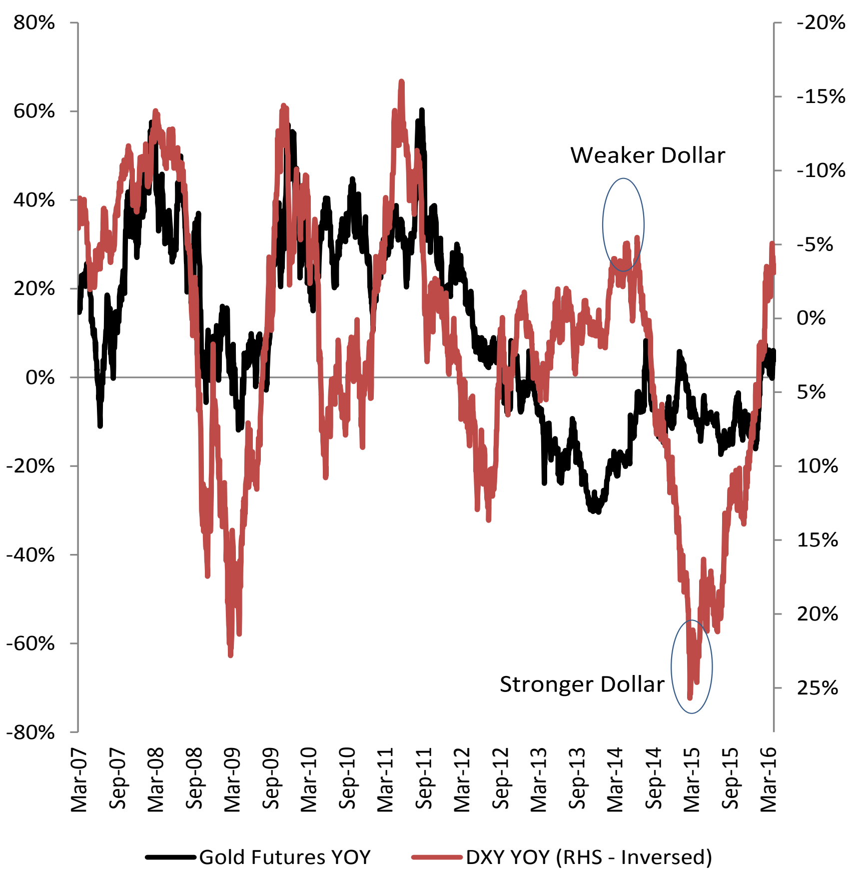


OCBC Bank Source: Bloomberg, OCBC

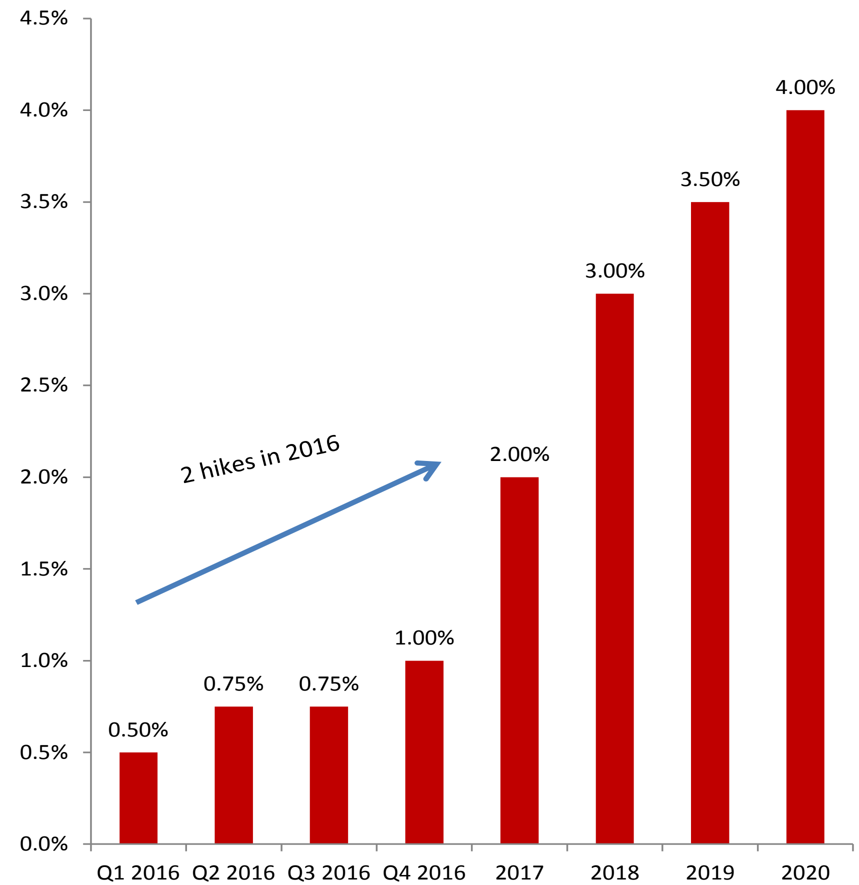
Two rate hikes: Dearer greenback, weaker gold

- We remain firm on our call for the FOMC to inject two more rate hikes this year, with the first one to come likely as early as June 2016. As such, an expensive greenback as a result should pressure gold lower to our year-end outlook of $1,100/oz.

Dollar strength traditionally drags gold prices



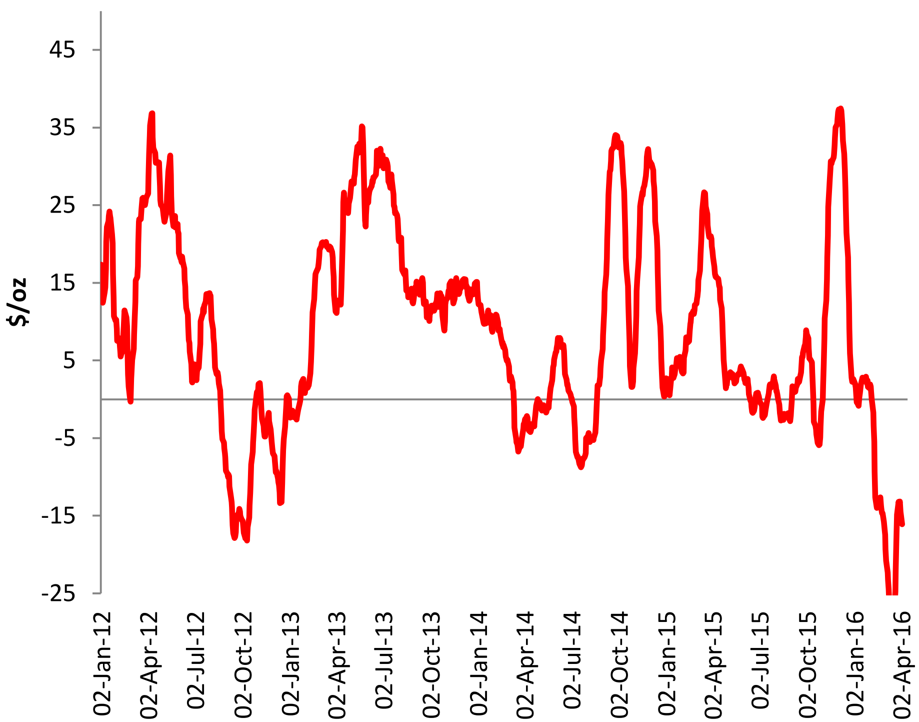
Fed Funds Rate Outlook



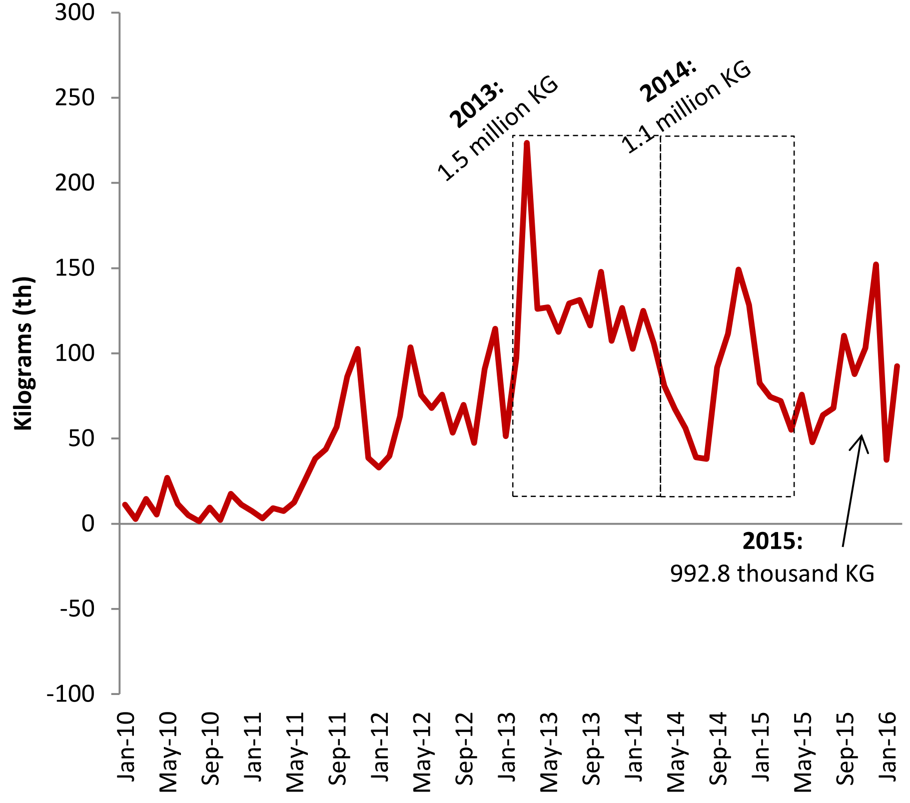
OCBC Bank Source: Bloomberg, OCBC

Getting Physical (1):
Chinese gold demand remains lackluster

Chinese gold discount to international prices widened significantly, suggesting tame gold demand
(3mma)

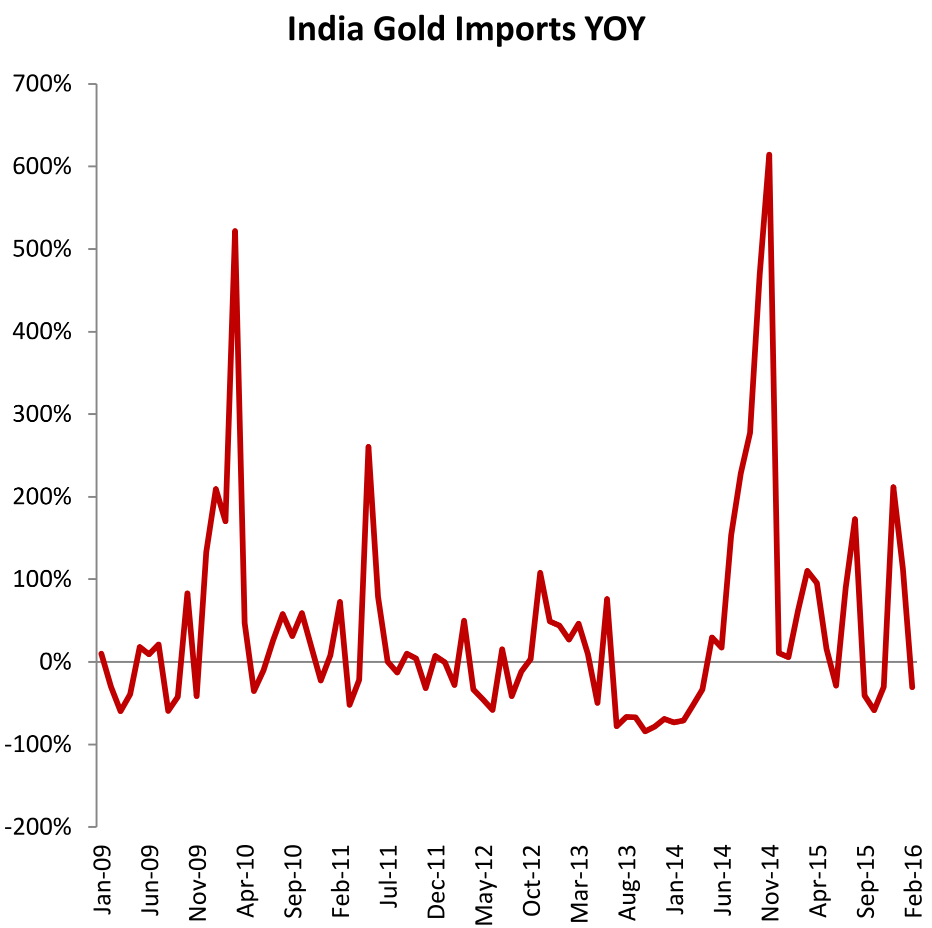


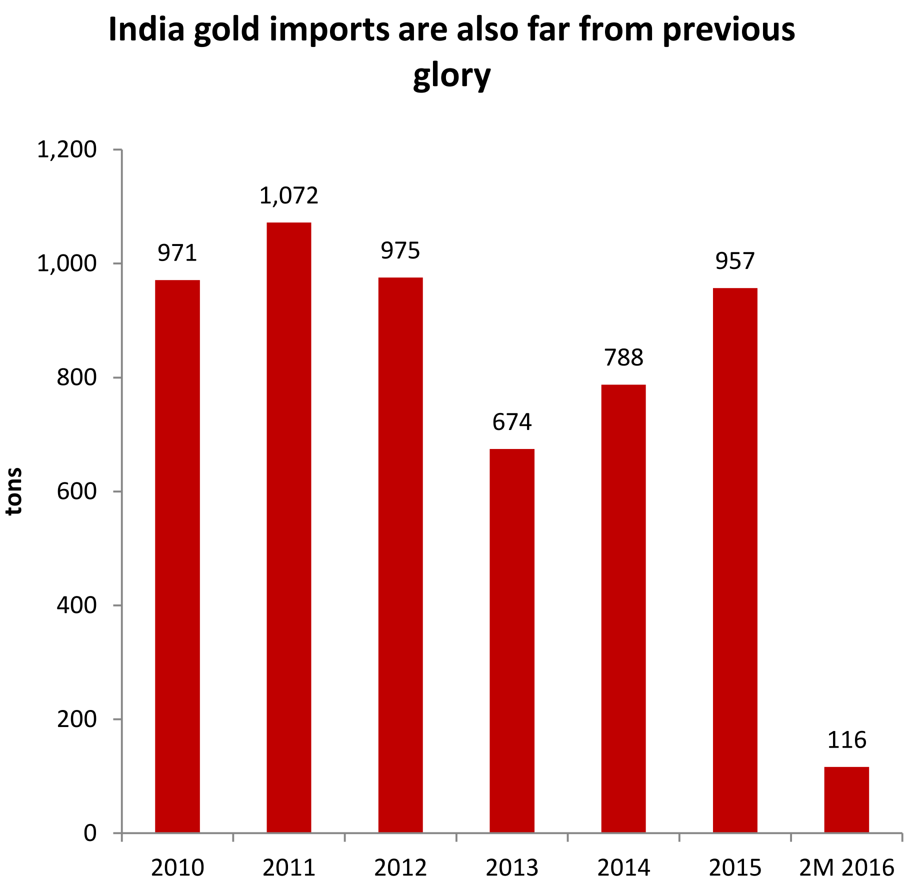
Hong Kong Gold Exports to China edged higher into 4Q15 on lower gold prices



OCBC Bank Source: Bloomberg, OCBC

Getting Physical (2):
Indian gold demand affected by recent tax hikes





OCBC Bank Source: Bloomberg, OCBC

Palm Oil: Mother Nature has her way

Harsh weathers and poor supply

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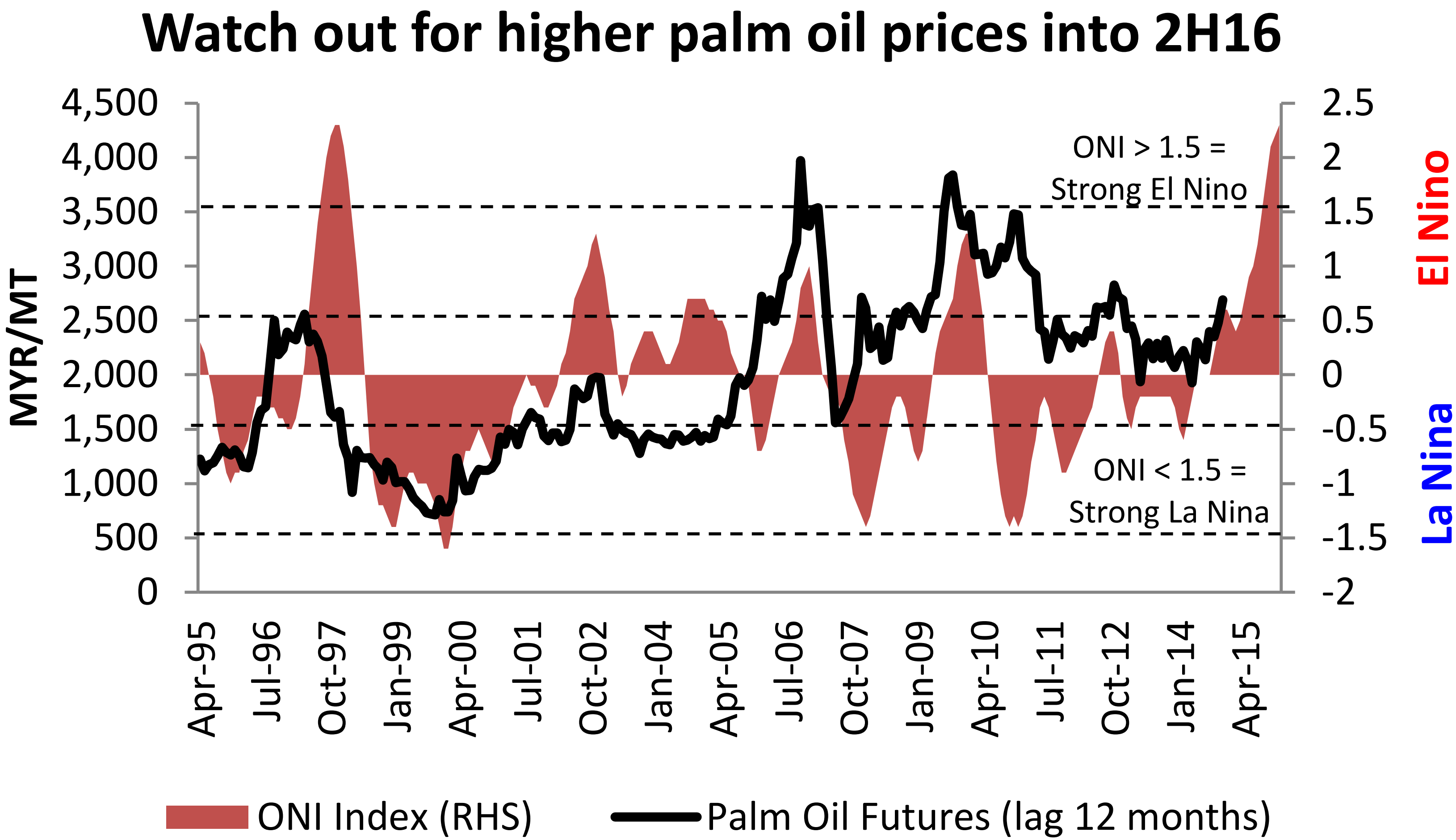
Executive Summary

- The harsh conditions of the El Nino is still felt at this juncture, though recent rains in Asia has been comforting to many. From the indications by the National Oceanic and Atmospheric Administration, the recent drought which peaked in 2015 is as severe as the one seen back in 1997/8.
- Translating this back to palm oil production in Malaysia, harvest in February was bleak, with volume at its lowest since February 1997. Elsewhere, relatively healthier demand from its trading partners were also seen as supplies turn scarce. Coupled with the poor supply and increased demand for the red oil, Malaysia’s inventories fell to its lowest since March 2015 below the critical 2 million tons.
- Despite some reprieve from the rains of late, we note that palm oil as an agricultural commodity has roughly 9 – 12 months of lag given time needed for palm fruit growth, harvest, and other logistical issues. In a nut-shell, palm prices are not likely to adjust lower swiftly even if better weather conditions are seen in the next few months.
- Elsewhere, the adjustments from the hot and dry weathers may be overdone by the design of Mother Nature, with torrential rains and wet conditions likely as early as this year. This phenomenon, termed as the La Nina, is said to be “around the corner” and has a strong 70% probability of happening in 2016.
- All-in-all, we expect relatively stronger palm oil demand in 2016, largely from the need to import/stockpile as supplies turn scarce, especially as we approach the Ramadan session. Elsewhere, the hot and dry weather conditions are slated to turn wetter on La Nina, scenarios deemed detrimental to palm oil production.

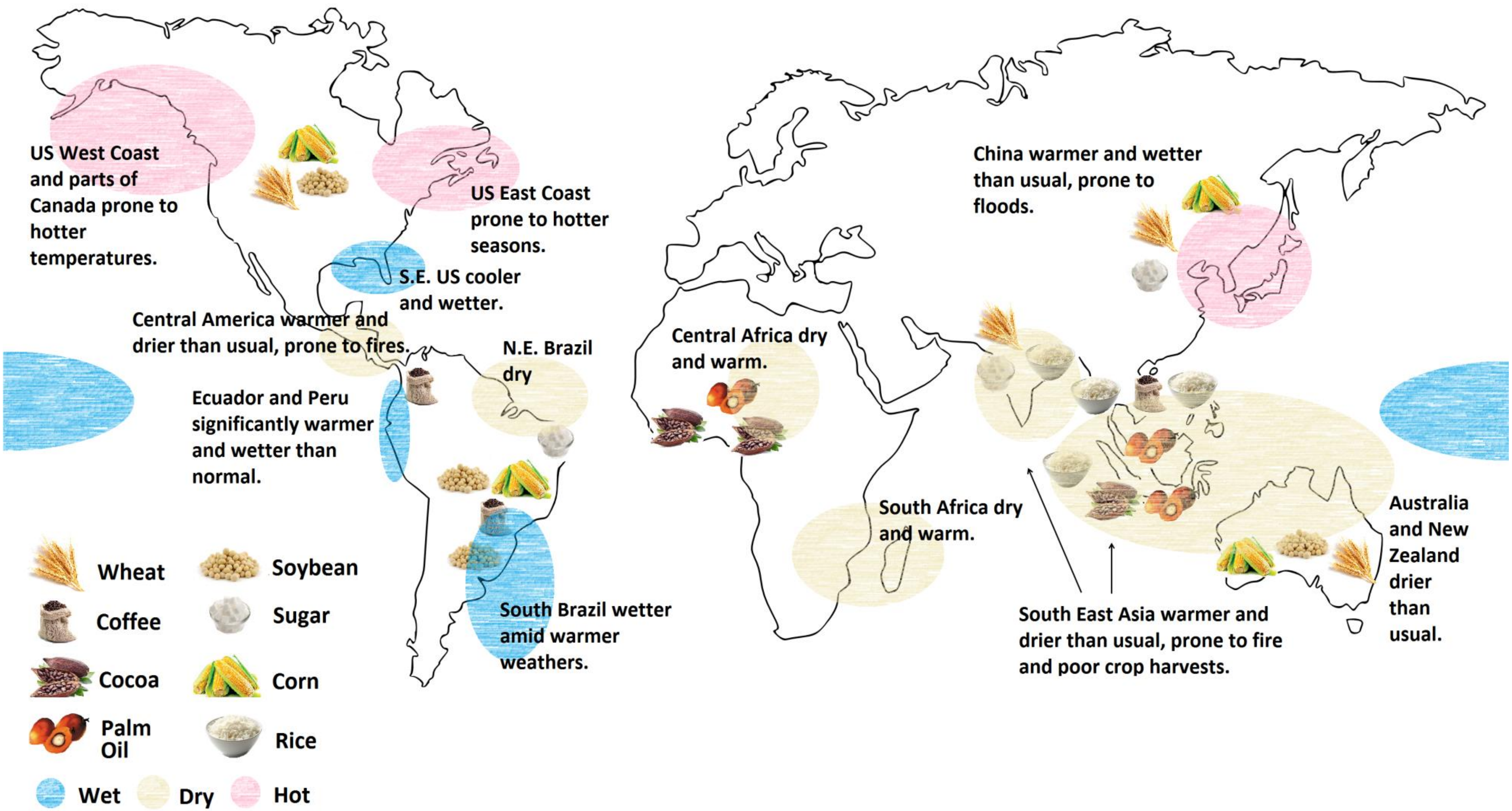
Elsewhere, harsh weathers and higher food prices

- Palm oil prices are poised to rise higher on the El Nino phenomenon. Note that prices lag about 9 – 12 months from the ONI index.



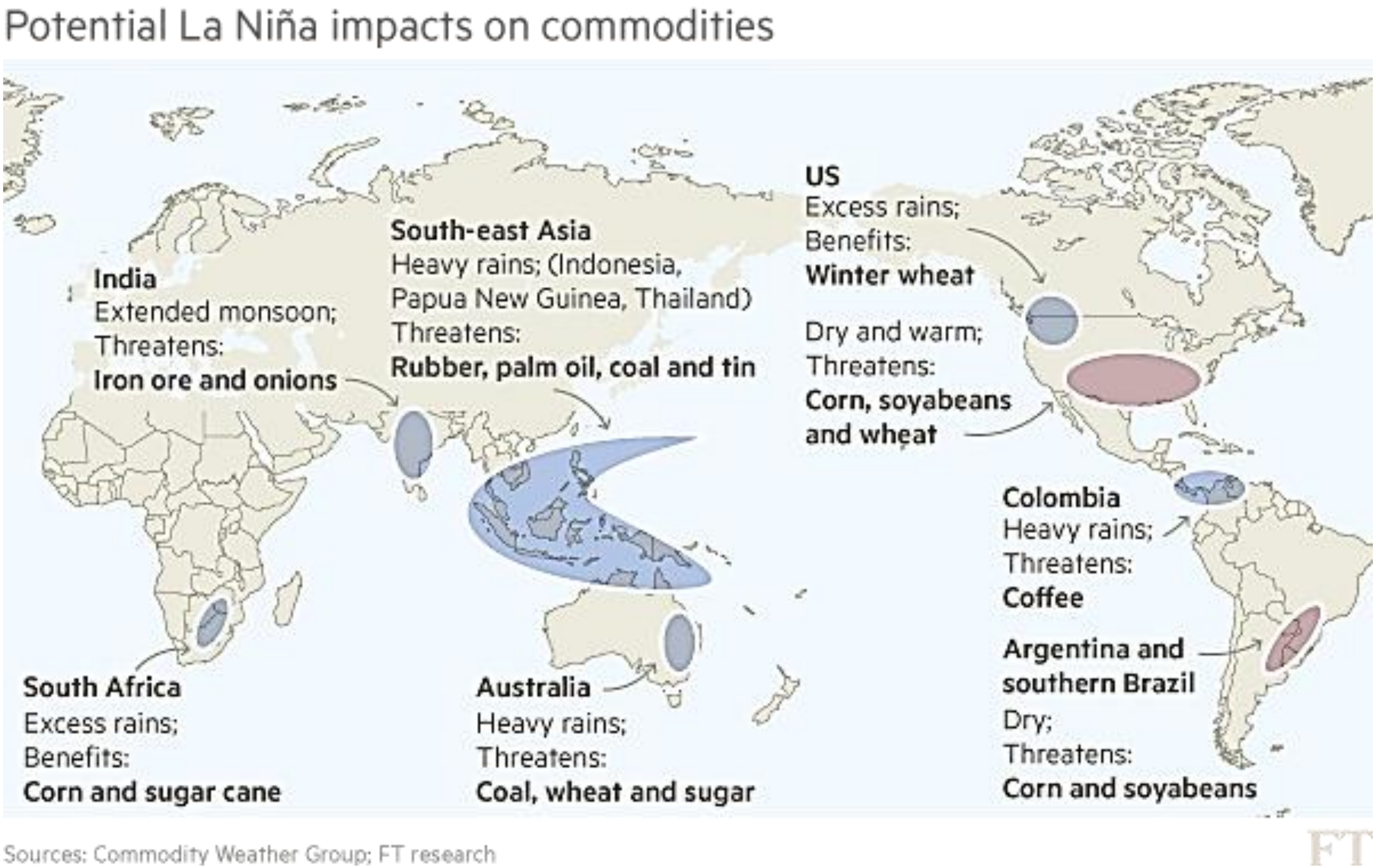
OCBC Bank Source: National Oceanic and Atmospheric Administration, OCBC

Food: El Nino effects are widespread



OCBC Bank Source: OCBC

It doesn't end there, La Nina incoming!



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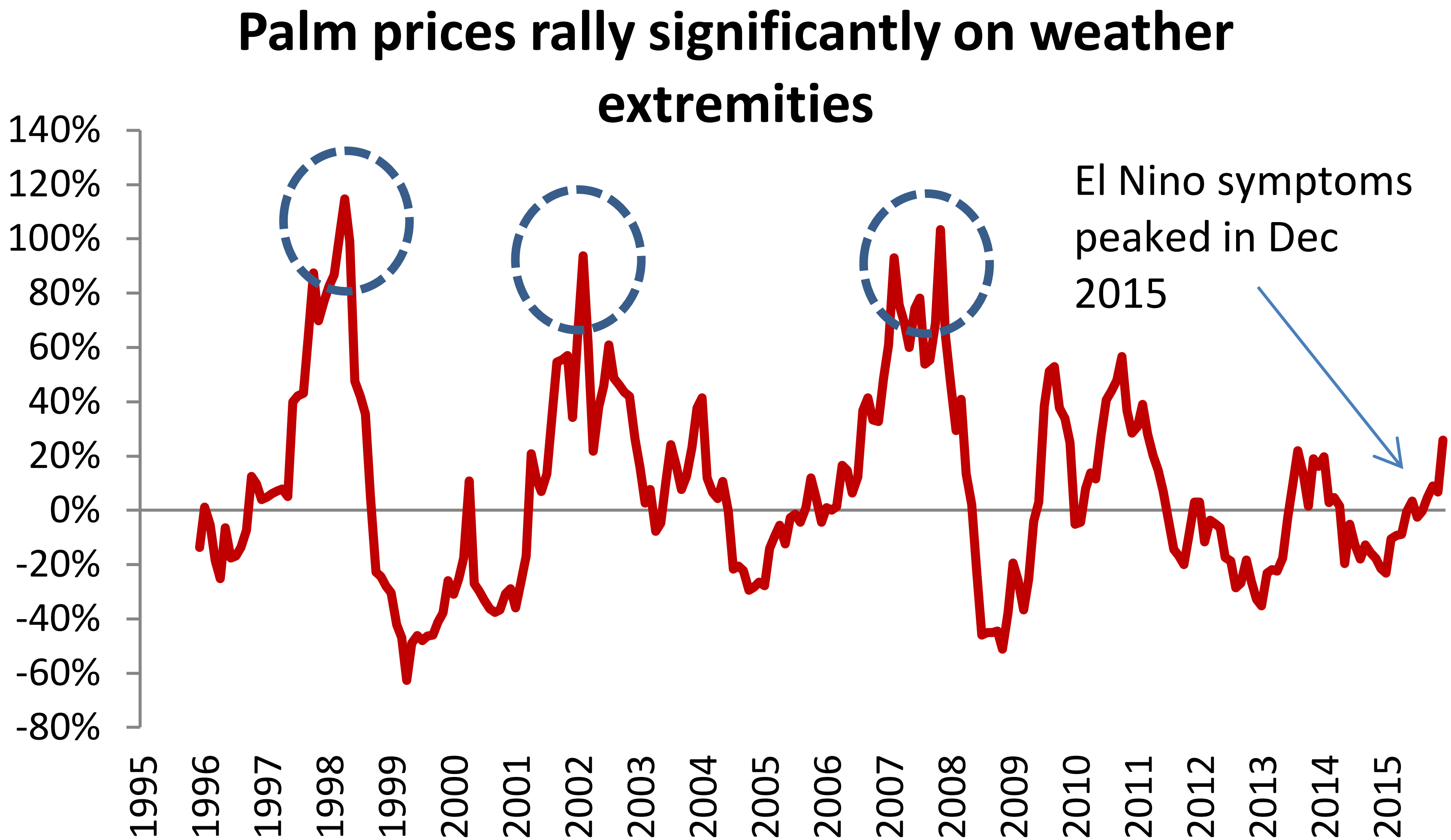
More rally may be seen? Palm oil prices are far from how it rallied in previous El Nino cycles.



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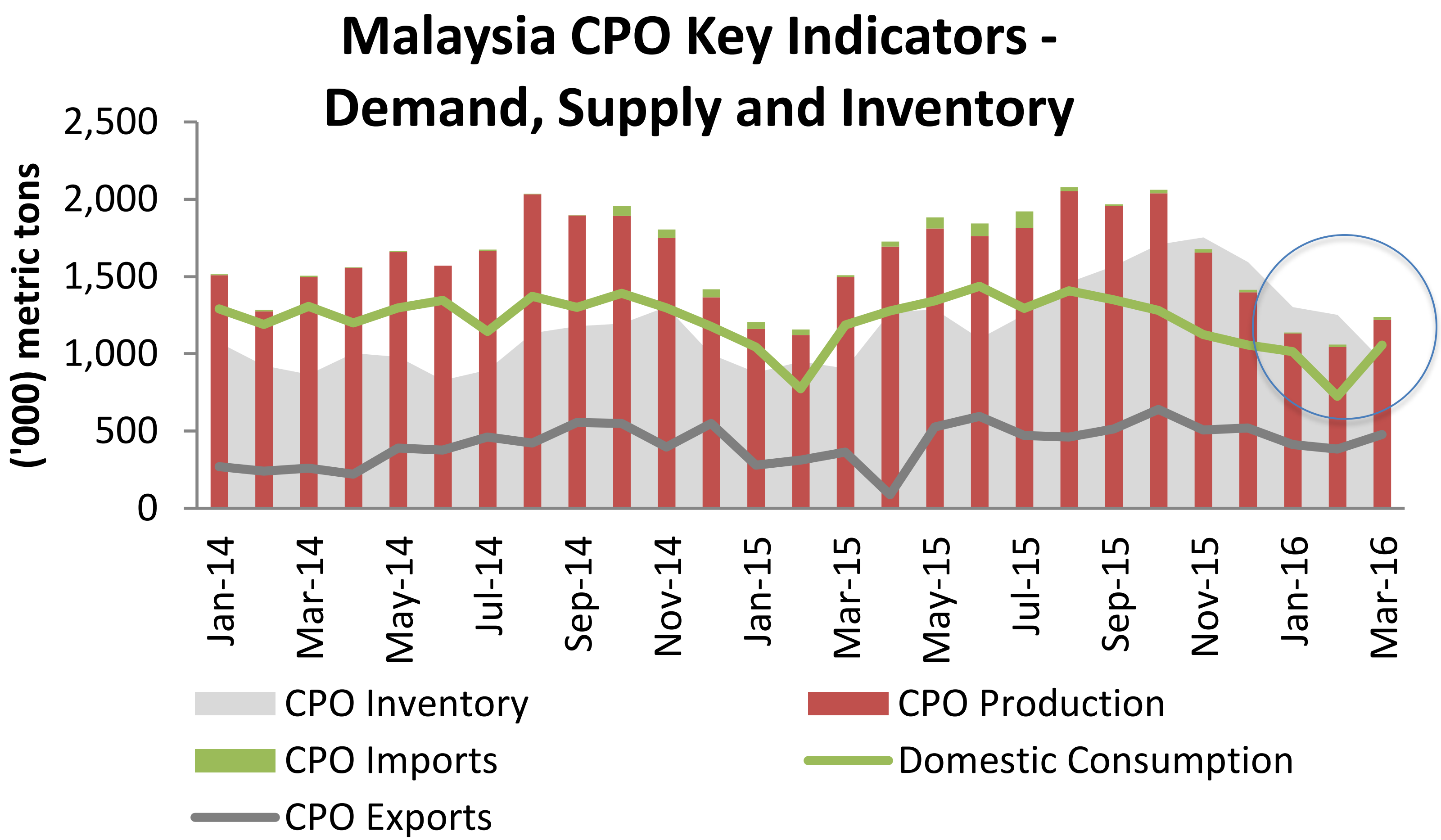
A snapshot of Malaysia's palm oil industry – Production & inventories have fallen significantly



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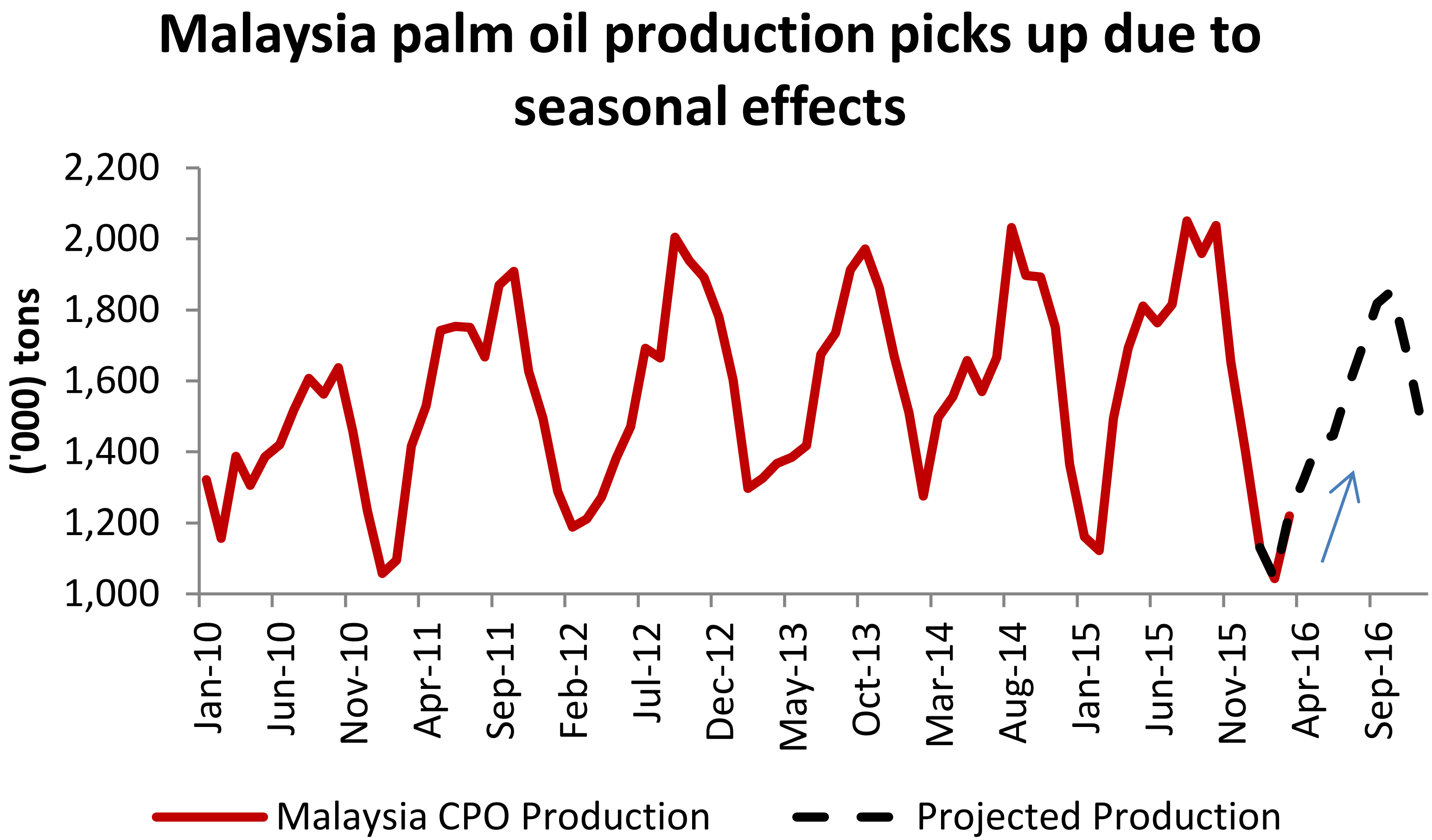
Palm production is likely to pick up in Malaysia due to seasonal effects



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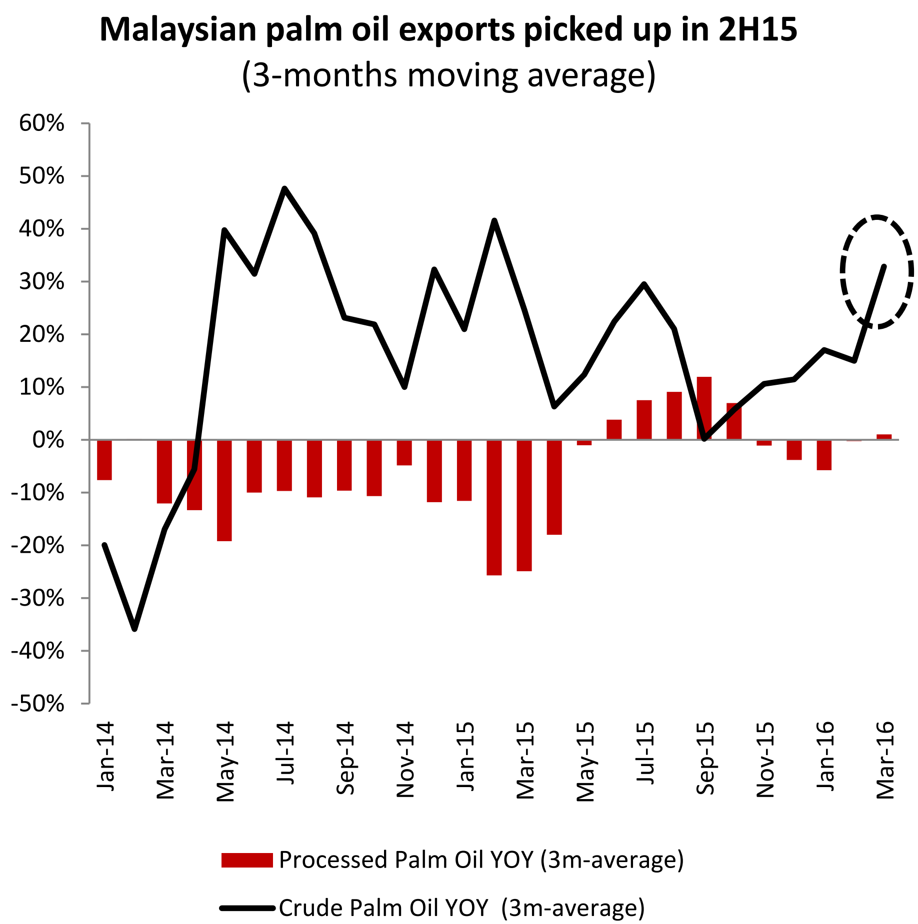
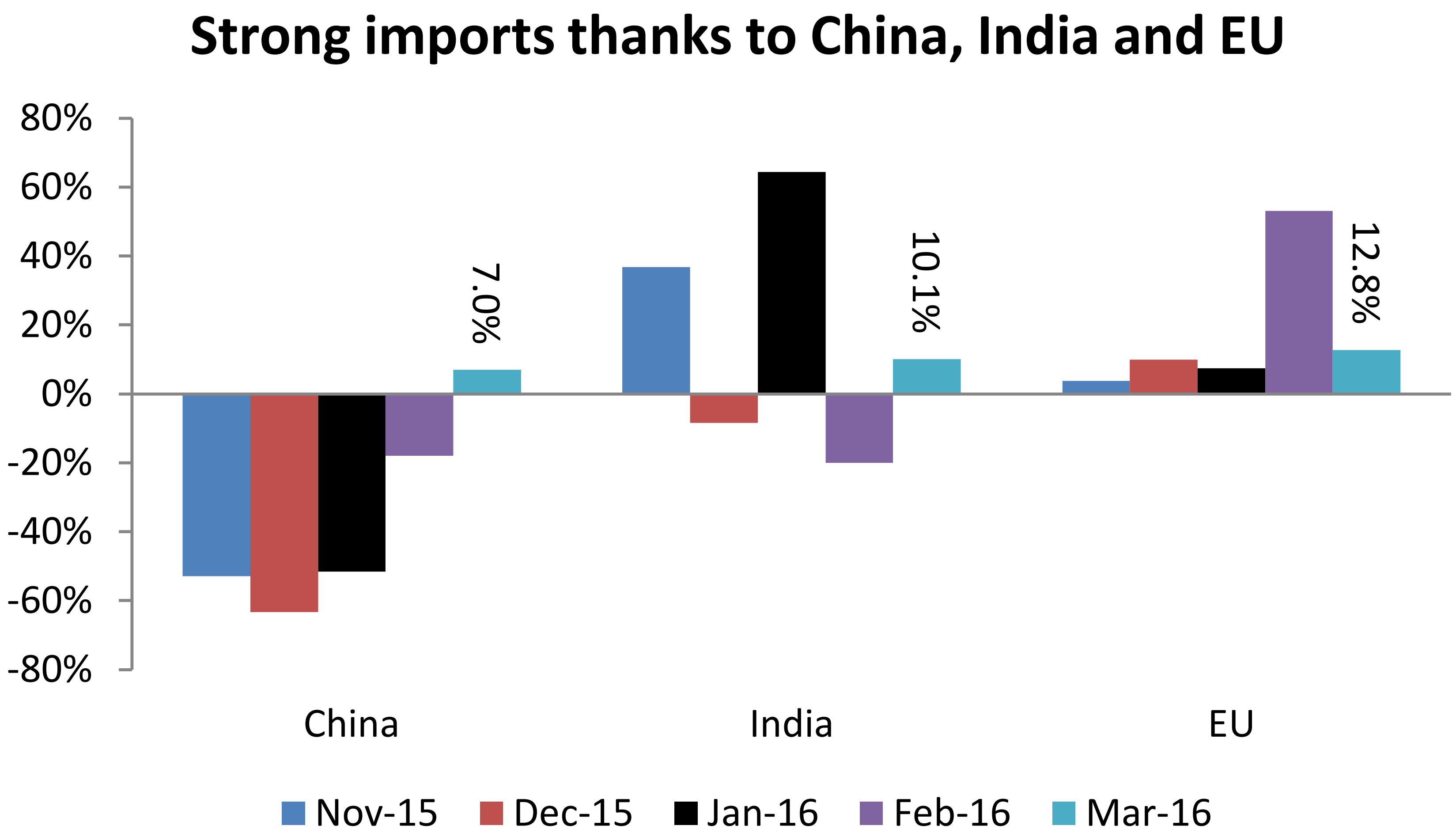
On the demand side, palm oil exports in Malaysia and Indonesia remained strong



Higher palm oil prices may be should the strong import demand sustain



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Commodity Forecasts

As of April 15, 2016	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F
Energy								
WTI ($/bbl)	48.6	58.0	46.5	42.2	33.6	40.0	45.0	50.0
Brent ($/bbl)	55.1	63.5	51.3	44.7	35.2	40.0	45.0	50.0
Gasoline ($/gallon)	1.60	2.00	1.64	1.31	1.18	1.43	1.61	1.56
Natural Gas ($/mmbtu)	2.81	2.74	2.74	2.24	1.98	1.89	2.65	2.50
Precious Metals								
Gold ($/oz)	1,217	1,193	1,124	1,105	1,185	1,200	1,150	1,100
Silver ($/oz)	16.7	16.4	14.9	14.8	14.9	15.5	15.1	14.7
Platinum ($/oz)	1,192	1,128	991	911	919	1,000	986	1,000
Palladium ($/oz)	785	758	616	606	526	571	548	579
Base Metals								
Copper ($/MT)	5,805	6,047	5,274	4,882	4,669	4,676	4,838	5,000
Tin ($/MT)	18,369	15,581	15,224	15,093	15,465	15,762	15,949	16,129
Nickel ($/MT)	14,388	13,046	10,605	9,443	8,514	9,290	9,549	9,804
Zinc ($/MT)	2,090	2,191	1,854	1,634	1,684	1,732	1,759	1,786
Aluminum ($/MT)	1,814	1,788	1,623	1,507	1,515	1,548	1,581	1,613
Asian Commodities								
Crude Palm Oil (MYR/MT)	2,270	2,196	2,082	2,220	2,467	2,578	2,689	2,800

Source:

Historical Data - Bloomberg

Forecasts - OCBC Bank

Note: Data reflects average price

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Thank You

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