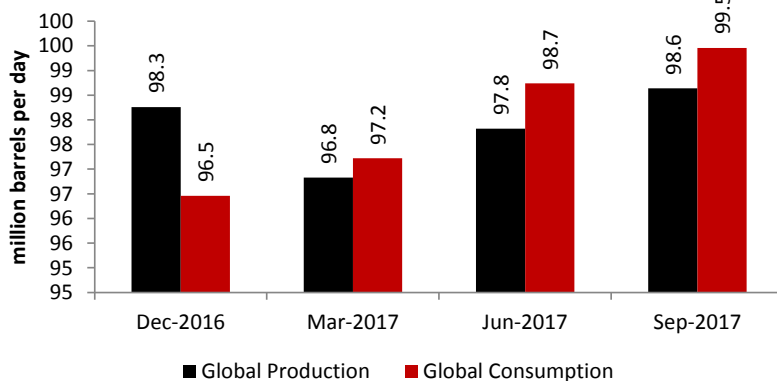


Weekly Commodities Outlook

Energy: Despite the risk aversion seen in the past week, crude oil prices encouragingly kept above its \$50/bbl handle. For one, the reassurance from the US Energy Information Agency (EIA) that oil supplies and consumption would likely rebalance itself as early as first quarter of this year is in line with OPEC's call for the same phenomenon to occur in the first half. In EIA's latest Short-Term Energy Outlook (STEO), the pick-up in oil demand into the year would outpace that of supply growth. Importantly as well, EIA remains bullish on oil prices and had upgraded their oil call to \$53.5/bbl (up from \$52.5/bbl) in 2017, and \$56.2/bbl (up from \$55.2/bbl) in 2018.

Crude oil glut to rebalance as early as 1Q17?



Source: EIA, OCBC Bank

Elsewhere, OPEC is seen to be walking the talk, when it comes to the production cut agreement made late 2016. The compliance made in adhering to the projected cuts is starkly different from the many years of overproducing above its collective production quota, and could have come at a surprise to some market-watchers that an almost 100% compliance seen by the Middle East has been achieved. Moreover, Russia is seen to be cutting production by around 100 thousand barrels per day (bpd) in January, and is said to gradually reduce production to eventually cut by a total of 300 thousand bpd in the months to come.

Still, crude oil prices remained volatile in the last week, as market-watchers were also faced with seemingly bearish news. These include the same STEO report by EIA which upgraded its US oil production outlook to 9.5 million bpd by 2018, up from 9.3 million bpd made earlier this year. Moreover, investors were also faced with higher US crude oil inventories amid a sustained pick-up in US oil rig counts in the last week. Still, we note that the upside in US oil production from February 2017's 9.0 million bpd to an eventual 9.5 million bpd in 2018 is but merely an increase in 500 thousand bpd, a miniscule amount compared to the significant cuts made by OPEC.

Commodities Futures

Energy	Futures	% chg
WTI (per barrel)	53.00	1.26%
Brent (per barrel)	55.63	0.93%
Heating Oil (per gallon)	1.642	0.34%
Gasoline (per gallon)	1.570	1.13%
Natural Gas (per MMBtu)	3.141	0.48%

Base Metals	Futures	% chg
Copper (per mt)	5,822.0	-1.24%
Nickel (per mt)	10,234	-2.04%
Aluminium (per mt)	1,835.5	0.27%

Precious Metals	Futures	% chg
Gold (per oz)	1,235.1	-0.20%
Silver (per oz)	17.741	0.20%
Platinum (per oz)	1022.2	0.27%
Palladium (per oz)	772.6	0.36%

Soft Commodities	Futures	% chg
Coffee (per lb)	1.452	1.61%
Cotton (per lb)	0.7558	0.44%
Sugar (per lb)	0.2065	-0.53%
Orange Juice (per lb)	1.7400	0.58%
Cocoa (per mt)	1,974	-0.95%

Grains	Futures	% chg
Wheat (per bushel)	4.4350	2.54%
Soybean (per bushel)	10.505	-0.78%
Corn (per bushel)	3.6950	-0.34%

Asian Commodities	Futures	% chg
Crude Palm Oil (MYR/MT)	3,301.0	--
Rubber (JPY/KG)	331.4	0.45%

Source: Bloomberg, OCBC Bank

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Precious Metals: We continue to expect gold to remain supported in the first half of 2017, on the back of risk aversion and global uncertainties. Notably, other safe haven assets including US Treasuries with the 10y-yield falling below its 2.35% handle in the later part of this week.

We continue to place Trump-centric concerns as one of the top concerns on our radar, given the uncertainty surrounding his policies. These policies include his recent travel restriction against seven Muslim-majority countries from entering the United States, as well as the lack of concrete cues over his trade sanctions against Mexico and Asia. Moreover, into the months ahead, the potential revisit of “Brexit-like” events in the Netherlands and France may lift gold prices on safe haven demand once again. We revise our 1H17 gold call to above \$1,200/oz, up from \$1,175/oz (1Q17) and \$1,150 (2Q17) given these issues.

Elsewhere, the World Gold Council highlighted another year of strong gold demand in the last year, according to its Gold Demand Trend Full Year 2016 report. Statistically, gold demand grew by 2.0% to reach a 3-year high to 4,308.7 tonnes, while inflows into Electronic Traded Funds (ETFs) reached 5,13.9 tonnes, the second highest print on record. Bar and coin demand was broadly stable at 1,029.2 tonnes. • Still, jewellery demand was at its 7-year low, dragged by regulatory / fiscal obstacles in India amid softening Chinese demand. Central bank demand was also at its lowest since 2010 at net purchases of 383.6 tons (-33% yoy).

In our view, strong gold demand in ETF instruments seen in 2016 is unsurprising, given the need for more paper gold demand to hedge against economic uncertainty from various concerns ranging from Chinese growth concerns to the Brexit event last year. More importantly, it suggests that the yellow metal remains to be a viable safe haven asset in times of fear.

Base Metals: Investors returning from the quiet week in China given the Lunar New Year holidays would face new rules by the People’s Bank of China (PBoC). Empirically, PBoC raised its interest rate for the

7-, 14- and 28- reverse repo rate by 10 basis points (bps) on Friday last week as well as the lending rates on its Standing Lending Facility Rate (SLF) short-term loans. This follows the higher rates made on China’s Medium-term Loan Facility (MLF) implemented in late January. These adjustments are made likely to the increasing concerns over China’s high debt levels and overheating housing market.

The first-order impact was seen in the base metal complex, with metal prices falling across the board.

At the onset of the news, TSI iron ore futures fell by more than 8.0%, while copper and nickel fell by more than 1.0% before correcting higher in the later part of the week. Volatility may continue to present itself as market watchers weigh between the higher rates in China, and the recent labour strike at the world’s largest copper mine. Specifically, a labour strike occurred in the world’s largest copper mine, the Escondida mine by BHP Billiton, after negotiations broke down. The shutdown of the mine is expected to bring about a loss of about 100,000 tonnes a month, or about 5.0% of total world copper production.

Agriculturals: It has been a relatively slow week for palm oil, with palm oil prices range-trading for the most of this week. Notably, crude palm oil futures had rallied past its MYR3,300/MT, although most of the increase could be due to the relatively weaker ringgit of late. Note the USDMYR had risen past its 4.4450 level this morning. Elsewhere, also note that the Malaysian government had voiced its plans to revise its palm oil export duty structure, after a marked drop in demand due to higher prices. No specifics on the changes have been made so far.

We remain bearish on palm oil prices into the year.

We note that the wetter than usual weathers amid a weak ringgit could be effective drivers in lifting prices. Still, we the weak production base seen last year, the recovery in exports into the year should eventually bring palm oil prices lower. For today, look out for Malaysia’s palm oil exports, inventories and production levels.

Commodities Calender

Date Time	Event		Survey	Actual	Prior
02/10/2017 01:00	US WASDE Corn End Stocks	Feb	2330m	2320m	2355m
02/10/2017 01:00	US WASDE Corn Exports	Feb	--	2225m	2225m
02/10/2017 01:00	US WASDE Corn for Ethanol	Feb	--	5350m	5325m
02/10/2017 01:00	US WASDE Corn Production	Feb	--	15148m	15148m
02/10/2017 01:00	US WASDE Corn Total Supply	Feb	--	16940m	16940m
02/10/2017 01:00	US WASDE Corn Yield Per Acre	Feb	--	174.6	174.6
02/10/2017 01:00	US WASDE Soybean End Stocks	Feb	410m	420m	420m
02/10/2017 01:00	US WASDE Soybean Crushings	Feb	--	1930m	1930m
02/10/2017 01:00	US WASDE Soybean Exports	Feb	--	2050m	2050m
02/10/2017 01:00	US WASDE Soybean Production	Feb	--	4307m	4307m
02/10/2017 01:00	US WASDE Soybean Supply	Feb	--	4528m	4528m
02/10/2017 01:00	US WASDE Soybean Yield Per Acre	Feb	--	52.1	52.1
02/10/2017 01:00	US WASDE Total Wheat End Stocks	Feb	1180m	1139m	1186m
02/10/2017 01:00	US WASDE Total Wheat Exports	Feb	--	1025m	975m
02/10/2017 01:00	US WASDE Total Wheat Production	Feb	--	2310m	2310m
02/10/2017 01:00	US WASDE Total Wheat Supply	Feb	--	3410m	3410m
02/10/2017 01:00	US WASDE Wheat Yield Per Acre	Feb	--	52.6	52.6
02/10/2017 01:00	US WASDE Cotton End Stocks	Feb	4.78m	4.80m	5.00m
02/10/2017 01:00	US WASDE Cotton Exports	Feb	12.78m	12.70m	12.50m
02/10/2017 01:00	US WASDE Cotton Production	Feb	17.00m	16.96m	16.96m
02/10/2017 12:30	MA Palm Oil Production Tons	Jan	--	--	1.47m
02/10/2017 12:30	MA Palm Oil Exports Tons	Jan	--	--	1.27m
02/10/2017 12:30	MA Palm Oil Stockpiles Tons	Jan	--	--	1.67m
02/10/2017 17:00	UK LME Aluminum Alloy Stocks	Feb-10	--	--	0
02/10/2017 17:00	UK LME Copper Stocks	Feb-10	--	--	-3200
02/10/2017 17:00	UK LME Lead Stocks	Feb-10	--	--	-75
02/10/2017 17:00	UK LME Nickel Stocks	Feb-10	--	--	-660
02/10/2017 17:00	UK LME Primary Aluminium Stocks	Feb-10	--	--	-7900
02/10/2017 17:00	UK LME Primary NASAAC Stocks	Feb-10	--	--	780
02/10/2017 17:00	UK LME Steel Billet Stocks	Feb-10	--	--	0
02/10/2017 17:00	UK LME Tin Stocks	Feb-10	--	--	0
02/10/2017 17:00	UK LME Zinc Stocks	Feb-10	--	--	-1050
02/10/2017 17:00	CH SHFE Aluminium On Warrant Change	Feb-10	--	--	3714
02/10/2017 17:00	CH SHFE Copper On Warrant Change	Feb-10	--	--	8904
02/10/2017 17:00	CH SHFE Gold On Warrant Change	Feb-10	--	--	0
02/10/2017 17:00	CH SHFE Steel Rebar On Warrant Change	Feb-10	--	--	-295
02/10/2017 17:00	CH SHFE Zinc On Warrant Change	Feb-10	--	--	452
02/10/2017	CH Rare Earth Metals Export Volume MT	Jan	--	--	4805
02/10/2017	CH Crude Oil Imports Volume MT	Jan	--	--	36.38m
02/10/2017	CH Refined Petroleum Oil Exports Volume MT	Jan	--	--	5.35m
02/10/2017	CH Coal/Lignite Imports Volume MT	Jan	--	--	26.84m
02/10/2017	CH Refined Petroleum Oil Imports Volume MT	Jan	--	--	2.59m
02/10/2017	CH Soybean Imports Volume MT	Jan	--	--	9.00m
02/10/2017	CH Fuel Oil Imports Volume MT	Jan	--	--	1.17m
02/10/2017	CH Iron Ore Imports Volume MT	Jan	--	--	89.0m
02/10/2017	CH Copper Imports Volume MT	Jan	--	--	490k

Source: Bloomberg

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Co.Reg.no.:19320003