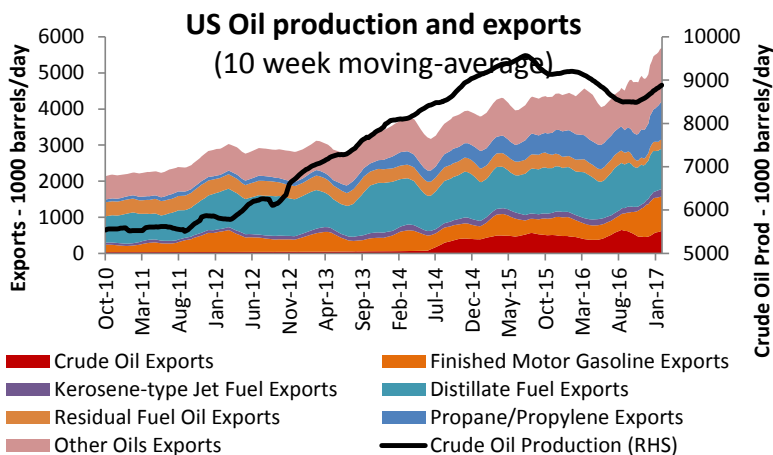


Weekly Commodities Outlook

Energy: Crude oil prices continue to consolidate for the last week, after touching \$57.5/bbl in early February. Market-watchers were once again faced with news of higher US oil supplies amid lower OPEC production, and thus likely weighing on both factors in determining the future demand-supply spectrum. For that matter, US crude oil exports almost doubled from a week ago for the week ended 10 February 2017, clocking 1.0 million barrels per day (bpd) to a historical record-high of 7 million barrels of crude oil. Moreover, US crude oil and gasoline inventories climbed higher as implied crude oil and gasoline demand dipped marginally for the week ended 10 Feb.



Source: Bloomberg, US Energy Information Agency, OCBC

Still, crude oil continues to find support above its \$50/bbl handle despite stronger US oil supplies, given hope for a pickup in global oil demand and lower OPEC oil production. Encouragingly, OPEC's February Oil Market Report iterates a positive demand outlook, penciling in an above 10-year average growth of 1.19 million bpd in 2017 to touch 95.81 million bpd. Elsewhere, non-OPEC oil supply growth is expected to grow by a marginal 240 thousand bpd, led by the increase in drilling activities and investments in the US. Importantly as well was OPEC's oil output in January at 32.1 million bpd (above Bloomberg's calculation of 32.3 million bpd).

Still, note possible upside surprises from Libya and Nigeria, given that these two countries were exempted from the recent OPEC production cut agreement made late last year. On this, Libyan officials commented that the domestic oil production has exceeded 700 thousand bpd of late, and is slated to grow to 1.2 million by August 2017, and 1.7 million bpd by March 2018.

Commodities Futures

Energy	Futures	% chg
WTI (per barrel)	53.36	0.47%
Brent (per barrel)	55.65	-0.18%
Heating Oil (per gallon)	1.629	-0.09%
Gasoline (per gallon)	1.525	-1.50%
Natural Gas (per MMBtu)	2.854	-2.43%

Base Metals	Futures	% chg
Copper (per mt)	6,000.0	-1.10%
Nickel (per mt)	11,032	1.29%
Aluminium (per mt)	1,887.8	-0.88%

Precious Metals	Futures	% chg
Gold (per oz)	1,240.0	0.67%
Silver (per oz)	18.074	0.62%
Platinum (per oz)	1015.7	0.57%
Palladium (per oz)	793.3	0.90%

Soft Commodities	Futures	% chg
Coffee (per lb)	1.463	1.25%
Cotton (per lb)	0.7501	-0.92%
Sugar (per lb)	0.2036	-0.59%
Orange Juice (per lb)	1.7450	0.87%
Cocoa (per mt)	2,072	2.47%

Grains	Futures	% chg
Wheat (per bushel)	4.4775	-1.54%
Soybean (per bushel)	10.438	-1.65%
Corn (per bushel)	3.7350	-1.39%

Asian Commodities	Futures	% chg
Crude Palm Oil (MYR/MT)	3,151.0	-4.69%
Rubber (JPY/KG)	347.1	0.03%

Source: Bloomberg, OCBC Bank

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Precious Metals: “Nobody really understands gold prices and I don’t pretend to understand them either.” This is perhaps one of the famous gold quotes made by the previous US Federal Reserve Chairman Ben Bernanke years ago. For that matter, we have frequently related gold as a “strange animal”, especially in current times of relatively stronger dollar, higher probability for a rate hike in March, and surprisingly stronger gold prices as well. **For that matter, the yellow metal has already rallied by 6.2% since the start of this year.** Contrast this with a similar 2.6% climb in ETF holdings in gold over the same period and we are presented with an argument for gold to remain above its \$1,200/oz in the coming weeks.

One may argue that safe haven demand and the higher inflation trend are the key drivers in propping gold prices higher, should we consider emerging political uncertainties in Europe (French and Netherland elections in the coming months). Moreover, reflationary concerns continue to mount especially as US inflation print is at its 5-year high at +0.6% mom (+2.5% yoy) in January. Admittedly, almost half of the increase in headline prices was due to a 7.8% mom in gasoline prices.

Base Metals: The base metal complex advanced across the board, led by stronger Copper, Nickel and Aluminium. Essentially, base metal prices continue to be influenced by mine production interruptions, from Escondida Mine to those in Asia including the Philippines and Indonesia. For one, planned talks between BHP management and striking workers at the world’s biggest copper mine, Escondida Mine, will be delayed until further notice. Moreover, Freeport-McMoRan has halted production of copper concentrates in the world’s second largest copper mine, Grasberg Mine, following new government rules restricting copper concentrate exports in a bid to boost its domestic smelting industry. **At least for the red metal, these short-term disruptions, should it persist, should continue to support copper prices above its \$6,000/MT handle.**

Elsewhere, base metal inventories seen in the London Metals Exchange (LME) continue to decline, exacerbating the advance in prices. Empirically, copper inventories have fallen 25.5 thousand metric tons in the first two weeks of February, the largest decline seen since Nov 2016 (-58.8 thousand metric tons). On the other hand, Chinese copper demand continue to stay rosy, observed from the higher uptick in warrants

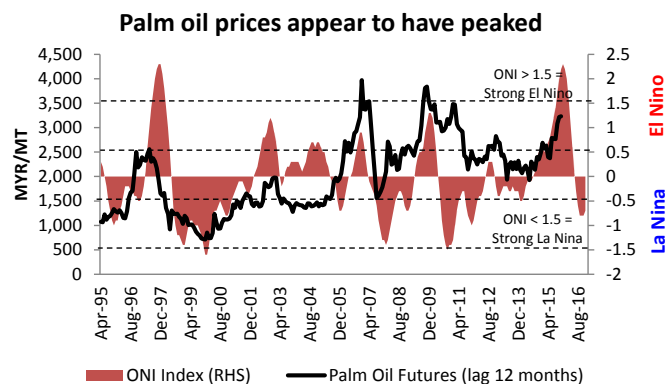
held in the Shanghai Futures Exchange (SHFE) warehouses.



Source: Bloomberg, SHFE, OCBC

Agriculturals: Much of the rally in palm oil prices seen over the last ~15 months was due to weather extremities from the El Nino phenomenon, which lowered palm oil production from Asian producing countries including Indonesia and Malaysia. Market-watchers likely fixated on the worrying 13.2% contraction in Malaysia’s crude palm oil production, and shrugging off poor export prints. To that end, **the rally in palm oil prices is largely dependent on the poor weather conditions, and should this edible oil loses this support driver, prices would likely correct into 2017.**

In our opinion, palm oil futures appear to have peaked. As of last night, palm oil futures fell to its lowest in the year to MYR3,151/MT, after touching its MYR3,300/MT handle earlier this week. From a technical point of view, this fall marks the drop below its psychologically important 50-day moving average. Importantly as well, the fall is also consistent with our Oceanic Nino Index Model which suggests as well that palm oil prices are likely to correct into the year.

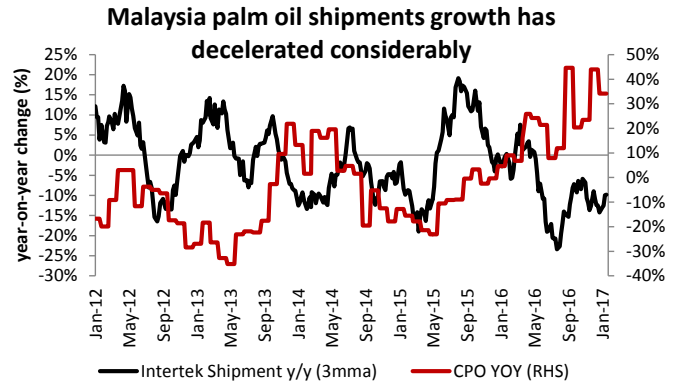


Source: NOAA, Bloomberg, OCBC

Fundamentally, the weakness was likely to to higher palm oil production estimates of about 14% growth in Southern Peninsular Malaysia, according to Bloomberg News, and thus providing a leading indicator than palm oil production may have already started to recover into 2017. This is in line with seasonal patterns; Malaysia palm oil production seasonally recovers into March, after the decline in production levels over the four months from October. Elsewhere, lower soyoil futures are also seen since December 2016, and further declines may continue to drag palm oil prices as alternative oil.

Another crucial data determining palm oil prices would be global demand. Worryingly, Malaysia’s palm oil exports remained lacklustre into February, according to Intertek Shipment data. Much of the decline in 2016 was led by lower Chinese demand (-20.9% yoy), on top of poorer EU (-15.3%) and India (-23.5%) shipments.

With production likely to tick higher into 2017, the only consolation would be that it is met with higher demand, a trend not seen at this juncture.



Source: Intertek, Bloomberg, OCBC Bank

As such, we remain bearish on palm oil futures into 2017, pencilling in a palm oil price of MYR2,650/MT at end-year.

Commodities Calendar (17 February 2017)

Date Time	Event	Survey	Actual	Prior	Revised	
02/16/2017 16:00	SI Total Weekly Fuel Stockpiles Bbl	Feb-15	--	50.5m	54.5m	--
02/16/2017 16:00	SI Light Distillates Fuel Stockpiles Bbl	Feb-15	--	12.8m	14.3m	--
02/16/2017 16:00	SI Middle Distillates Fuel Stockpiles Bbl	Feb-15	--	13.7m	14.4m	--
02/16/2017 16:00	SI Residue Fuel Stockpiles Bbl	Feb-15	--	24.1m	25.8m	--
02/16/2017 17:00	UK LME Aluminum Alloy Stocks	Feb-16	--	0	0	--
02/16/2017 17:00	UK LME Copper Stocks	Feb-16	--	900	-7525	--
02/16/2017 17:00	UK LME Lead Stocks	Feb-16	--	-25	-25	--
02/16/2017 17:00	UK LME Nickel Stocks	Feb-16	--	-510	-936	--
02/16/2017 17:00	UK LME Primary Aluminium Stocks	Feb-16	--	-3950	-8775	--
02/16/2017 17:00	UK LME Primary NASAAC Stocks	Feb-16	--	600	960	--
02/16/2017 17:00	UK LME Steel Billet Stocks	Feb-16	--	0	0	--
02/16/2017 17:00	UK LME Tin Stocks	Feb-16	--	15	50	--
02/16/2017 17:00	UK LME Zinc Stocks	Feb-16	--	-1800	14425	--
02/16/2017 17:00	CH SHFE Aluminium On Warrant Change	Feb-16	--	6689	34434	--
02/16/2017 17:00	CH SHFE Copper On Warrant Change	Feb-16	--	3873	6590	--
02/16/2017 17:00	CH SHFE Gold On Warrant Change	Feb-16	--	0	0	--
02/16/2017 17:00	CH SHFE Steel Rebar On Warrant Change	Feb-16	--	0	0	--
02/16/2017 17:00	CH SHFE Zinc On Warrant Change	Feb-16	--	378	1580	--
02/16/2017 21:00	RU Gold and Forex Reserve	Feb-10	--	393.6b	394.1b	--
02/16/2017 21:30	US Net Export Sales Corn-Total	Feb-09	--	1068.7	1006.2	--
02/16/2017 21:30	US Net Export Sales Corn-Old Crop	Feb-09	--	783.5	971.7	--
02/16/2017 21:30	US Net Export Sales Soybeans-Total	Feb-09	--	1097.4	665.6	--
02/16/2017 21:30	US Net Export Sales Soybeans-Old	Feb-09	--	890	536.3	--
02/16/2017 21:30	US Net Export Sales Wheat-Total	Feb-09	--	588.6	543.6	--
02/16/2017 21:30	US Net Export Sales Wheat-Old	Feb-09	--	569.1	527.3	--
02/16/2017 21:30	US Net Export Sales Soy Oil-Total	Feb-09	--	9.9	35.3	--
02/16/2017 21:30	US Net Export Sales Soy Oil-Old	Feb-09	--	9.9	35.3	--
02/16/2017 21:30	US Net Export Sales Soy Meal-Total	Feb-09	--	121.3	348.7	--
02/16/2017 21:30	US Net Export Sales Soy Meal-Old	Feb-09	--	121.3	347.7	--
02/16/2017 21:30	US Net Export Sales Cotton-Total	Feb-09	--	345.5	254.1	--
02/16/2017 21:30	US Net Export Sales Cotton-Old	Feb-09	--	222.2	208.1	--
02/16/2017 23:30	US EIA Natural Gas Storage Change	Feb-10	-124	-114	-152	--
02/16/2017 23:30	US EIA Working Natural Gas Implied Flow	Feb-10	-124	-114	-147	--
02/17/2017 17:00	UK LME Aluminum Alloy Stocks	Feb-17	--	--	0	--
02/17/2017 17:00	UK LME Copper Stocks	Feb-17	--	--	900	--
02/17/2017 17:00	UK LME Lead Stocks	Feb-17	--	--	-25	--
02/17/2017 17:00	UK LME Nickel Stocks	Feb-17	--	--	-510	--
02/17/2017 17:00	UK LME Primary Aluminium Stocks	Feb-17	--	--	-3950	--
02/17/2017 17:00	UK LME Primary NASAAC Stocks	Feb-17	--	--	600	--
02/17/2017 17:00	UK LME Steel Billet Stocks	Feb-17	--	--	0	--
02/17/2017 17:00	UK LME Tin Stocks	Feb-17	--	--	15	--
02/17/2017 17:00	UK LME Zinc Stocks	Feb-17	--	--	-1800	--
02/17/2017 17:00	CH SHFE Aluminium On Warrant Change	Feb-17	--	--	6689	--
02/17/2017 17:00	CH SHFE Copper On Warrant Change	Feb-17	--	--	3873	--
02/17/2017 17:00	CH SHFE Gold On Warrant Change	Feb-17	--	--	0	--
02/17/2017 17:00	CH SHFE Steel Rebar On Warrant Change	Feb-17	--	--	0	--
02/17/2017 17:00	CH SHFE Zinc On Warrant Change	Feb-17	--	--	378	--

Source: Bloomberg

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