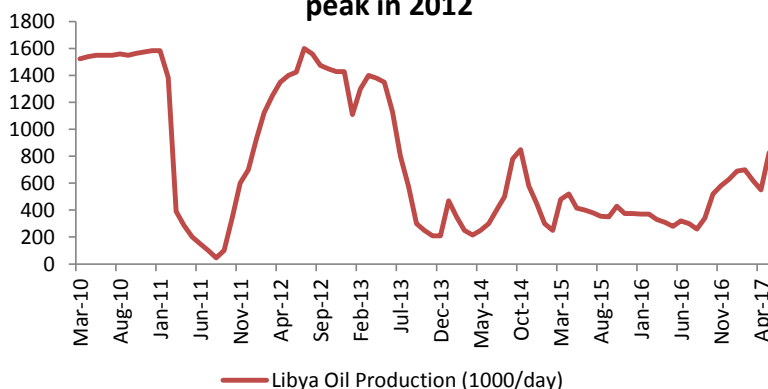


## Weekly Commodities Outlook

**Energy: It seems the no news is good news, at least for the energy market.** With markets still reeling from the recent disappointment at the recent 172<sup>nd</sup> OPEC meeting, fresh news of Libya expanding its oil production to 827 thousand barrels per day (bpd) dragged US West Texas Intermediate prices below its \$50/bbl handle once again. Moreover, with the fact that Libya (and Nigeria on the records) is exempted from the recent production OPEC deal, the increase in its production of late surfaces old concerns given its free rein to lift production beyond current levels.

**Should one delve into this matter deeper, the stark fall in crude oil prices of almost 3.0% presents us with a valuable lesson:** market-watchers do not take kindly when producing countries add to the already widening supply glut. Should we look at the data closely, the increase in Libyan oil production isn't something to be overly concerned about: production did expand by roughly 150% from a month ago, up from a Bloomberg-surveyed 550 thousand bpd in April to 827 thousand bpd in May. However, Libya is a relatively small oil producer, and its increase of 277 thousand bpd in crude oil production is merely 0.9% of total OPEC oil production. Moreover, further increases in Libyan oil production may see some political obstacles, given the regulatory battle between the Libyan National Oil Corporation (NOC) and German oil producer Wintershall. To that end, NOC commented that Libyan's oil production could reach 1.1 – 1.2 million bpd by the end of 2017 on conditions that the said regulatory hurdles are removed.

**Libyan oil production remains low versus its peak in 2012**



Source: Bloomberg, Libyan National Oil Corporation (NOC), OCBC

**Market-watchers clearly disregarded the long-term implications** of the NOC-Wintershall battle, but focused plainly on the 150% growth in Libyan oil production. Though small in production share, it is undeniable that it will add to the supply glut, no matter how small. Moreover, it serves as a reminder that US oil production, a

Updated as of 02 June 2017

Selected Indices	Close	Weekly Change	YTD	MTD	QTD
US Dollar Index (DXY)	97.2	-0.2%	-4.9%	0.3%	-3.1%
Reuters / Jefferies (CRB)	179.1	-1.6%	-7.0%	-0.4%	-3.7%
Dow Jones Industrial Avg	21,144.2	0.3%	7.0%	0.6%	2.3%
Baltic Dry Index	850	-6.8%	-11.6%	-3.2%	-34.5%
Energy	Close	Weekly Change	YTD	Net Position	Weekly Change
NYMEX WTI Crude	47.9	-3.8%	-10.8%	400,402	18,965
ICE Brent Crude	50.2	-3.7%	-11.6%	347,852	51,453
NYMEX RBOB Gasoline	158.9	-3.3%	-4.6%	35,506	3,166
NYMEX Heating Oil	149.1	-4.6%	-12.5%	15,302	2,167
NYMEX Natural Gas	3.0	-6.1%	-18.4%	53,365	-4,090
Base Metals	Close	Weekly Change	YTD	Net Position	Weekly Change
LME Copper	5,699	0.7%	3.0%	13,130	4,355
LME Aluminium	1,927	-1.2%	13.8%	-	-
LME Nickel	8,840	-2.6%	-11.8%	-	-
Precious Metals	Close	Weekly Change	YTD	Net Position	Weekly Change
COMEX Gold	1,265.7	-0.2%	9.9%	159,610	39,354
COMEX Silver	17.2	-0.4%	7.6%	50,784	7,709
NYMEX Platinum	932.7	-3.1%	3.4%	16,022	4,303
NYMEX Palladium	827.0	5.1%	21.0%	17,505	-2,392
Agriculture	Close	Weekly Change	YTD	Net Position	Weekly Change
CBOT Corn	370	-1.3%	5.0%	-111,154	20,672
CBOT Wheat	427	-2.6%	4.7%	-90,978	11,973
CBOT Soybeans	913	-1.5%	-8.4%	-50,511	-28,670
Asian Commodities	Close	Weekly Change	YTD	MTD	QTD
Thai W. Rice 100% (USD/MT)	453.0	1.1%	18.9%	0.0%	16.5%
Crude Palm Oil (MYR/MT)	2,759.0	-2.9%	-14.3%	0.4%	-2.6%
Rubber (JPY/KG)	234.9	-14.6%	-10.3%	-2.9%	-13.2%

Source: Bloomberg, CFTC, OCBC Bank

Note: Closing prices are updated as of 02 June 2017

Note: Speculative net positions are updated as of 23 May 2017

Note: Speculative net positions for Aluminium and Nickel are unavailable

### OCBC Treasury Research

**Barnabas Gan**

Commodity Economist

+65 6530-1778

[BarnabasGan@ocbc.com](mailto:BarnabasGan@ocbc.com)

### OCBC Treasury Advisory

#### FX & Structured Products

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#### Interest Rate Derivatives

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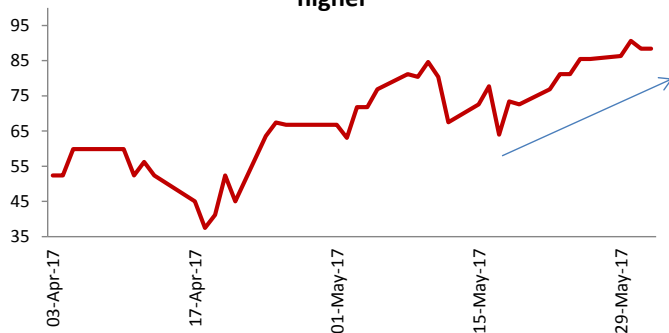
Tel: 6349-1810

significantly larger oil producer if compared to Libya, has also embarked on a higher production path. As such, the higher oil production from oil-producers not bound by the OPEC deal, could eventually negate the production-cut efforts if its increase goes unchecked. At least for now, market-watchers are clearly turning increasingly bearish, with speculative demand non-commercial positions declining into the latest week while its forward curve shifting south.

**As such, the bulls only have demand to lean on,** should they still yearn for higher oil prices. With the next OPEC meeting only occurring on 30<sup>th</sup> November, market-watchers should revert back to headline-watching; any headlines pointing towards an exacerbation of the supply glut would surely be bearish for crude oil prices. However, should demand-related news highlights a period of growth, a scenario that we think likely in 2H17, oil prices may well tune marginally higher to year-end at our outlook for WTI and Brent to print \$55/bbl and \$57/bbl, respectively. Till-then, should we be bereft of such news, market-watchers would likely see little impetus for higher oil prices.

**Precious Metals: Even as market-watchers approach June,** a month closely watched given a potential rate hike decision by the US policy-makers, the yellow metal continued to stay comfortably supported above its \$1,250/oz handle. Fundamentally, an impending rate hike by the US central bank should consequent a stronger greenback, and in turn should lead gold prices lower ahead of the meeting. Thus, gold's recent strength despite a highly possible FOMC rate hike necessitates an explanation.

**A June rate hike probability has been edging higher**



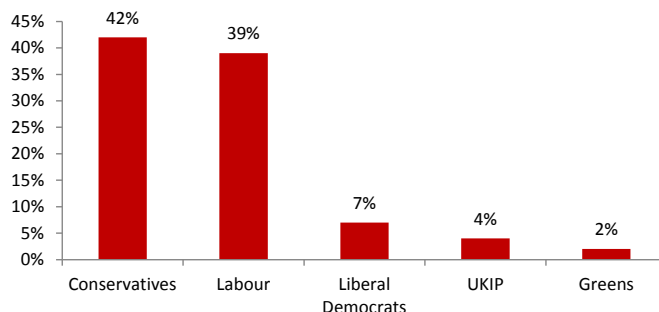
Source: Bloomberg, OCBC Bank

**In our opinion, the chief reasons underpinning gold's strength are the ongoing concerns over geopolitical issues and political uncertainties in the foreseeable horizon.** Namely, the persistent North Korean missile provocations have led market-watchers to find refuge in

safe haven assets, and with it, elevated risks of military retaliation should issues degrade further. As of mid-week, note that the North Korean leader Kim Jong Un reportedly expressed "the conviction... to send a bigger 'gift package' to the Yankees" amid plans to develop a new ballistic missile with precision guidance system.

**Elsewhere, market-watchers are on tenterhooks** over Trump-related events including his firing of FBI Director James Comey, allegations over Trump's sharing of highly classified intelligence with Russian officials and finally, revelations of Comey memos alleging Trump's attempt to influence FBI investigations into former National Security Adviser Michael Flynn's ties to Russia. Also, with UK's general election into the next week, circumstances turn increasingly hazy over the narrowing advantage Theresa May has over the Labour Party. In the nutshell, the above mentioned issues do illustrate a seemingly obscure and yet, almost baffling spectrum of facts, in which market-watchers have little avenue but to find comfort in the yellow metal.

**YouGov/Times poll**  
(as of 31st May)



Source: YouGov

**Importantly, these uncertainties have effectively overshadowed the almost certain rate hike in the upcoming FOMC meeting.** According to Bloomberg-calculated implied probability for a Fed Fund rate hike in the upcoming June meeting, the chance for a hike is currently printing at a high of 90.6%, up from a mere 50% seen in the beginning of April. However, should we compare the rising probability with how the US economy had performed over the same period of time, a new revelation may be found; over the course of time between April to the end of May, there were more downside surprises in US economic data as compared to the number of positive surprises.<sup>1</sup> As such, given the

<sup>1</sup> OCBC US Surprise Index is calculated by an un-weighted accumulation count of data surprises. An upside surprise adds one point to the overall print, while a downside surprise subtracts one point. Thus,

numerous disappointments in US data releases, the current dollar index is seen to be relatively weaker compared to its April's print. Coupled with geopolitical uncertainties, these occurrences served only to add to further dismay over future growth prospects.

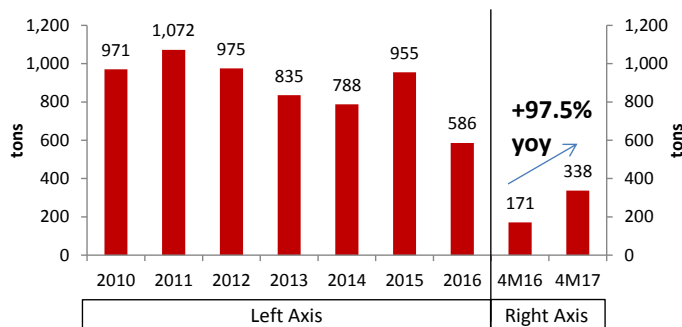
on gold prices at \$1,200/oz at year-end, we also recognise that geopolitical uncertainties may be void of any quick resolutions in the foreseeable future, and any exacerbation of these issues would inject further upside risk to our year-end forecast.



Source: Bloomberg, OCBC Bank

**Lastly, the uptick in physical gold demand could have lent strength to prices as well.** Statistically, China imported 117.6 thousand kilograms of gold (+54.2% yoy) from Hong Kong in March, the highest print since May 2016 (121.97 thousand kg). Likewise, India's gold import rose to 94.5 tonnes in April, up from 29.8 tonnes in the same month last year. Even as gold remains to be a quasi FX-Commodity asset that is mainly influenced by dollar strength and safe haven demand, the strong physical demand seen in China and India would have supported further bullish calls for the yellow metal.

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



Source: Bloomberg, OCBC Bank

**In a nutshell, gold may see further support into 2H17 despite a FOMC rate hike decision** into the third-week of June. The recent disappointment in US-centric economic data, and the geopolitical uncertainties that never seem to have gone away, are persuasive factors that could keep gold supported. While we remain bearish

an overall negative print suggests more downside surprise data-points, vice-versa.

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