Weekly Commodities Outlook

Energy: Crude oil futures dipped below its Dec 2016 levels, as the initial euphoria over the watershed production cut deal between OPEC and non-OPEC producers shuttered down into the new year. For now, it appears that oil bears are the harbingers of OPEC's cheating behavior, US rise in oil production, and the relative higher oil inventories of late. **We think otherwise; the rebalancing story still remains as our base case scenario, and oil prices are estimated to trend higher into the $60/bbl handle in the first half of this year.** There are more signs that crude oil may rally into the year. Encouragingly, the Organization of Petroleum Exporting Countries (OPEC) highlighted that its members have indicated willingness to extend the oil quota deal made last year by another six months, after the expiration of the current one later this June. Moreover, Saudi Arabia's oil minister Khalid al-Falih commented that the supply cuts, which had amounted to 70% of the previously agreed quota, should help balance the market by June. We suspect that much of the optimism is stemmed from the very healthy crude oil imports seen in both China and India. Statistically, Chinese crude oil imports touched its record high in December 2016 at 36.38 million barrels, or 8.57 million barrels per day (bpd), and bringing total crude oil imports to a whopping 13.6% yoy growth in 2016. Moreover, the state-owned major China National Petroleum Corporation (CNPC) has also commented that China's crude oil imports is expected to grow by 4.6% yoy in 2017, while oil consumption is to grow by a smaller clip of 3.4% to about 11.88 million bpd. India's oil imports also grew at stellar pace at 7.5% yoy in 2016.

Precious Metals: Gold was a tad volatile over the last two weeks - prices were trending as high as $1,218/oz as market-watchers fret over UK PM May's talk on Britain's relinquishing its single market status with the EU, to last night's below $1,200/oz handle on Fed Yellen's rhetoric that it "makes sense to gradually reduce the level of monetary policy support". Just ahead of Trump's inauguration later, gold appears to be trending higher this morning, an indication that some risk aversion is on the table at this juncture. On other fronts, do pay close attention to inflation expectations and the upcoming Chinese Lunar New Year that may drive gold prices higher. Empirically, inflation expectations in the US are rising, with the US 5-year breakeven rate rising rapidly to 1.92% at its latest reading, up from 1.862% at end-2016 (or a trough of 1.263% in Aug 2016). Thus, rising inflation expectations can be another driver that brings the yellow metal higher given gold's role as an inflation-hedge. **Elsewhere, some talks have risen over higher Chinese physical gold demand over the Lunar New Year, and this should support gold prices over the next two weeks.**

Commodities Futures

Energy	Futures	% chg
WTI (per barrel)	51.37	0.57%
Brent (per barrel)	54.16	0.45%
Heating Oil (per gallon)	1.618	0.57%
Gasoline (per gallon)	1.535	-0.92%
Natural Gas (per MMBtu)	3.368	2.00%
Base Metals	**Futures**	**% chg**
Copper (per mt)	5,739.5	-0.51%
Nickel (per mt)	9,889	-2.48%
Aluminium (per mt)	1,824.0	-0.38%
Precious Metals	**Futures**	**% chg**
Gold (per oz)	1,201.5	-0.87%
Silver (per oz)	17.002	-1.57%
Platinum (per oz)	952.8	-1.57%
Palladium (per oz)	751.2	0.02%
Soft Commodities	**Futures**	**% chg**
Coffee (per lb)	1.508	1.04%
Cotton (per lb)	0.7269	0.60%
Sugar (per lb)	0.2018	-3.81%
Orange Juice (per lb)	1.6770	-1.21%
Cocoa (per mt)	2,164	-3.09%
Grains	**Futures**	**% chg**
Wheat (per bushel)	4.2350	-1.74%
Soybean (per bushel)	10.703	-0.44%
Corn (per bushel)	3.6625	0.34%
Asian Commodities	**Futures**	**% chg**
Crude Palm Oil (MYR/MT)	3,241.0	-0.06%
Rubber (JPY/KG)	308.5	1.75%

Source: Bloomberg, OCBC Bank

OCBC Treasury Research

Barnabas Gan

Commodity Economist

+65 6530-1778

BarnabasGan@ocbc.com

OCBC Treasury Advisory

FX & Structured Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

Institutional Sales

Tel: 6349-1810

Base Metals: After the stellar performance in 4Q16, the base metal complex has been range-trading for the first two weeks of 2016. Naturally, concerns over Trump's trade policies against China would be at the forefront of concerns, given that China is the largest consumer of many commodities, including base metals, today's upside surprise in Chinese GDP print of 6.8% did help things a little, with the base metal complex pointing higher this morning. More clarity however, is needed from tonight's US president inauguration ceremony speech and China's reaction to any trade sanctions against them. Elsewhere, Chinese import data showed that the Middle Kingdom imported a record 4.95 million tonnes of copper last year, suggesting that Chinese demand remains healthy. On other commodities, do pay attention to Nickel prices especially, given the recent lifting of Indonesia's export ban on nickel ore exports, though mining officials commented that the ban lift will not flood global markets.

Agriculturals: Malaysian palm oil futures fell for the second consecutive session on Thursday, dragged by lower US soy oil prices, while some liquidation of positions could have been made in anticipation of tonight's President-elect inauguration. Moreover, our model continues to suggest that the palm oil rally is likely to peak soon, especially as the weather extremities are largely concentrated in 2016. As such, faced with a high base year in 2016 amid a likely higher palm oil production in Southeast Asia (especially Indonesia, Malaysia and Thailand), some normalisation in palm oil prices should occur into the second quarter of this year. Still, we note that Malaysia's Plantation Industries and Commodities Minister Datuk Seri Mah Siew Keong commented that CPO prices is expected to average between MYR2,700 to MYR2,800/MT this year, compared to MYR2,653/MT seen in 2016, on the back of stronger palm oil demand from both India and China. On production into 2017, the Malaysian Palm Oil Board (MPOB) forecasted that palm oil production will rise by 12% to 19.4 million tons in 2017, up from 17.32 million tons last year. This is the fastest annual growth since 2008. Indonesia's GAPKI also iterated similar expectations for the world's largest producer of palm oil to see stronger production to 32 – 33 million tons in 2017, from 28.5 – 30.0 million tons in 2016. Despite the surge in palm oil production, MPOB further commented that palm prices are still expected to average between MYR2,700 – 2,800/MT this year, up from 2016's average of MYR2,656.9/MT. This is likely due to the optimistic expectations for Malaysia to see stronger palm oil exports at +11.2% yoy to 17.85 million tons this year, up from 16.05 million tons seen in 2016.