Weekly Commodities Outlook

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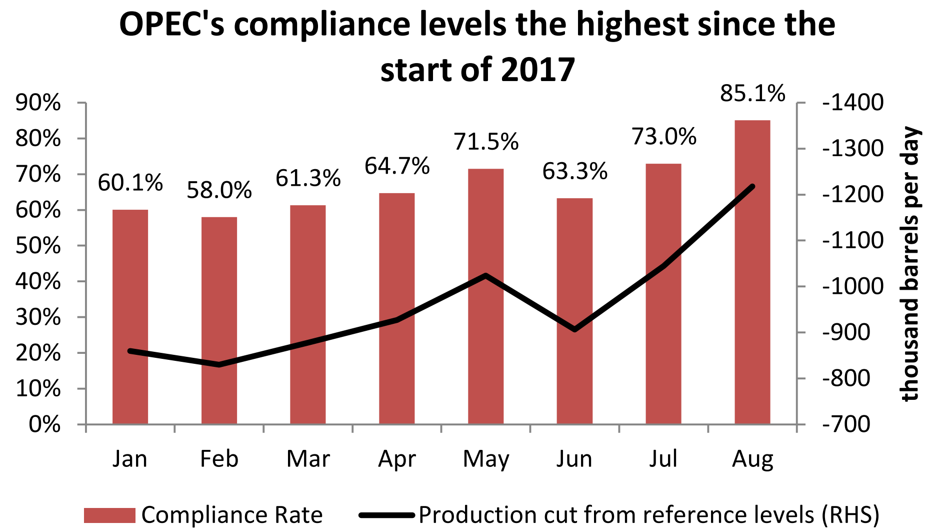
Energy: There is more good news for the oil-bulls. The latest OPEC Monthly Oil Market Report (MOMR) highlighted that the cartel's total oil production fell further into August to 32.8 million barrels per day (bpd), down from July's 33.0 million bpd.[1] More importantly, should we exclude the countries (namely Equatorial Guinea, Libya and Nigeria) that are not part of the production cut agreement, OPEC's compliance level versus its targeted production cut levels are at its highest at 85.1% since the start of the year. Furthermore, OPEC also raised its world oil demand growth estimate for 2017 to 1.42 million bpd (+50 thousand bpd from the previous MOMR) and its 2018 demand growth estimate to 1.35 million bpd (+70 thousand bpd), and thus possibly further shoring up more bullish bets from market-players into the coming week. This is coupled with reports that OPEC and its allies are said to be discussing extending its production cut agreement by another three months into the second half of next year in aim to further support oil prices. Moreover, the International Energy Agency commented that global oil demand this year will climb by the most since 2015, lifting crude oil prices further into Friday. In a nut-shell, the improving oil fundamentals into 2H17 and possibly into 2018 should give oil prices an extended lift into the next year.



Source: OPEC Sept MOMR, OCBC Bank

Delving into recent natural disasters which affected critical refining processes in Texas and Louisiana as well as energy demand in Florida, we note that energy prices have since returned to pre-Hurricane levels, especially seen in gasoline futures which surged to its high of $2.14/gallon before whip-sawing back to near its 8M17 average of $1.65/gallon in mid-Sept. Moreover, the plunge in crude oil futures on Hurricane Irma and her purported damage into Florida quickly un-winded into mid-Sept as the damage were less grave than initially expected. As of early this week, eight of the 20 refineries that were either totally or partly shuttered are reportedly operating at normal levels,

[1] OPEC's total oil production is calculated using data from direct communication and secondary sources.

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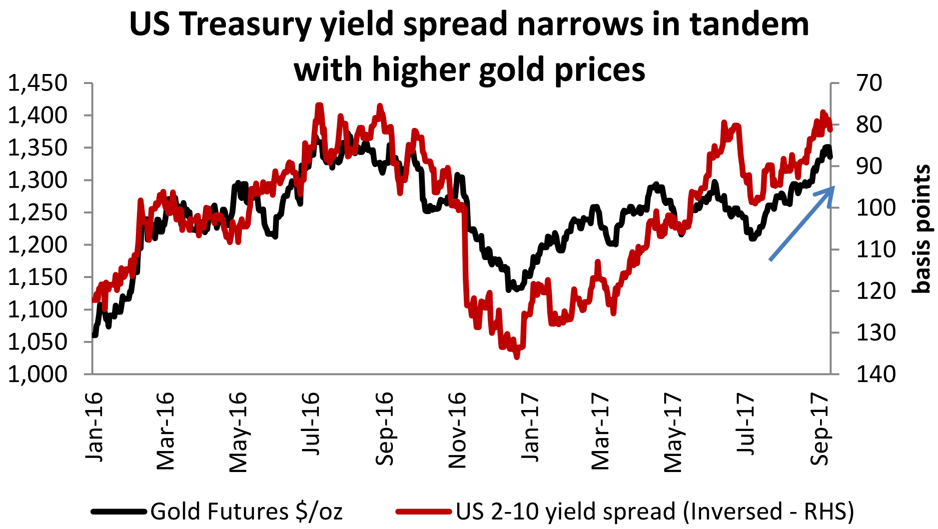
while eleven of the other 12 refineries are preparing to restart. As such, the quick normalisation of energy prices post the hurricane events suggest that oil-players should once again monitor oil fundamentals in determining price movements again.

Still, we need to do consider geopolitical drivers that could dominate and cloud crude oil's fundamentals. Crude oil is inherently a risk-related asset, and a fall in risk appetite from any intensification of geopolitical frictions could dampen prices again.

As such, we continue to maintain our crude oil outlook for WTI and Brent to touch \$55/bbl and \$57/bbl, respectively. As written in our past outlooks, our bullish call is chiefly underpinned by the recovering global oil demand, led especially by Asian and European demand. Prices have already risen to their multi-month high given The rosy economic backdrop amid the equivalent support for oil demand should lift oil prices to our 2018 forecast of \$65/bbl for both WTI and Brent.

Precious Metals: Gold and silver prices continue to stay elevated as market-watchers monitor the geopolitical arena. The yellow metal has surged by almost 13% in less than three months from its \$1,204/oz handle in early July to touch above \$1,360/oz in September. Of late, geopolitical tensions remain elevated given Pyongyang's rejection of the "illegal and unlawful" sanctions made by the U.N. Security Council to ban North Korea's textile exports and cap imports of crude oil, and the country is "ready to use a form of ultimate means… to make the U.S. suffer the greatest pain it ever experienced in its history".



Source: Bloomberg, OCBC Bank

Importantly, we note that risk appetite has taken another beating since the start of 2H17: the US 2-10 yield spread has narrowed substantially to 80 basis points (bps), down from 99bps in early July (or for the matter, down from 136bps since December 2016). In tandem with the flattening yield curve, the flight to safe havens namely Gold, JPY and USTs were seen as well. Coupled with the recent Hurricane mishaps in Florida and Texas, the implied probability for another rate hike by the US Federal Reserve remains below the critical 50% (current as of 13th Sept: 35.5%), suggesting that most market-watchers are pricing in the Fed's likely hesitance to trigger a rate hike before the year is up. Regardless, global liquidity is likely to take a step down once the US Federal Reserve initiates its balance sheet reduction before the year is up, while the European Central Bank's (ECB) asset purchase program at the current monthly pace of €60 billion, is intended to run until the end of December 2017 (or longer if the central bank deems it necessary).

The impact on gold prices given the above-said factors is multi-faceted at best. Gold prices tend to point north as risk appetite falters as investors ditch yield-chasing behaviour. However, the prospect for another Fed rate hike (should it happen) coupled with a step down in global liquidity levels into end-2017 is by far the most persuasive driver for lower gold prices. Throw in the wild card of an intensified of geopolitical climate and the outlook for gold turns inherently cloudy. At best, it is more viable to evaluate the factors that has a numerical attached to it, in which case are the specified balance sheet reduction pace by the US central bank, a rate hike (possibly 25bps before is up), and ECB's expiration of its asset purchase program. Fundamentally, the central banks' willingness to rein in their previously loose monetary policies may be seen as an act of confidence over sustained healthy global economic fundamentals.

Into the year, the outlook for gold is inherently hazy given the ongoing geopolitical tensions. Gold prices thrive on uncertainties, and the uncertainty over potentially intensification of geopolitical tensions will likely dominate over market fundamentals. Till then, Pyongyang's relentless pursue to develop nuclear powers despite toughened sanctions suggest an unlikely quick resolution to the current conflict. As such, gold prices could likely find support at its $1,300/oz handle over the months ahead, though a bearish trend towards our $1,250/oz year-end call remains conceivable especially if market-watchers re-tune their vision back to the relatively rosier market fundamentals and potentially higher interest rates into 2018.

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