



Today's Daily

■ Pakistan Commodities: Mar'18 Review

Supported by robust growth dynamics prevailing in the world's largest economies, fundamental growth drivers seen in the Eurozone, US and China continued to cement momentum in global commodity markets (TRJ Core Commodity Index moving +0.73%MoM/+0.77%CYTD). Energy commodities persisted to climb (Brent/Arab Light +1.04/+0.51%MoM) supported by continued (and collectively adhered to) OPEC supply limits draining inventory overhangs. Contrary to liquid fuels, Richards Bay Coal was down 4.2%MoM (averaging US\$92.2/mton for March'18 down -1.8%MoM) on soft demand from India. In the agriculture space, Cotton prices rallied from strong demand uptick (COTLOOK average up 4.4%MoM) with prices at a four year high mark, while Urea prices weakened slightly (monthly average fell 2.3%MoM). Food commodity prices hardened where the FAO food price index rose 1.1%MoM led by dairy price index hike of 3.3%MoM, whereas continued sugar supply glut kept a lid on global prices. Steel prices (CRC/HRC prices dip 2.23/2.56%MoM) offered a sign of possible roadblocks in the form of trade tensions. Despite expectations of robust global industrial activity (PMIs for US, Eurozone, China, India & Brazil stronger in March) fears of a trade-war, sparked by imposition of tariffs on Chinese steel and aluminum products by the US, and reciprocation by the Chinese have riled commodity markets, where a continuation of the spat is seen to be detrimental to global trade dynamics.

KSE100 - Index

Current	46,476.73
Previous	46,580.62
Chg.	-0.22%

Mkt Cap. (PkRbn/US\$bn)

Current	9,499 / 82.16
Previous	9,507 / 82.24
Chg.	-0.09%

Daily Turnover (mn)

Current	219.83
Previous	202.79
Chg.	8.4%

Value Traded (PkRmn/US\$m)

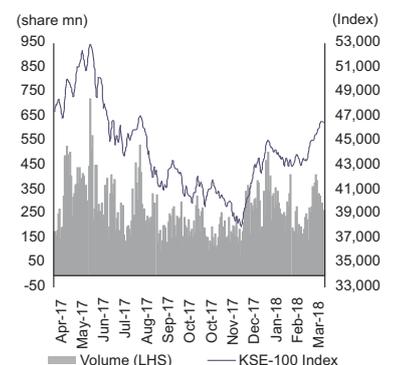
Current	7,904 / 68.37
Previous	8,359 / 72.31
Chg.	-5.4%

AKD Daily

Wednesday, Apr 11, 2018

News and Views

- Advisor to Prime Minister on Finance Dr Miftah Ismail has reportedly dismissed the possibility of raising loans from the international capital market by issuing bonds due to high interest rate. Another gov't official informed that there would be no need for the government to launch the bond in international market after announcement of amnesty scheme.
- The country received US\$14.6bn remittances during the first nine months of this fiscal year, registering a 3.5%YoY growth. The SBP reported on Tuesday that remittances grew 22.4% to US\$1.77bn in March over February.
- SNGPL owes PkR23.1bn to PSO on account of purchase of RLNG. The receivable payable position also reveals that public sector electric power generation companies (Gencos) owe PkR148bn to PSO, Hub Power Company (Hubco) PkR73bn and Kot Addu Power Company (Kapco) PkR39bn.

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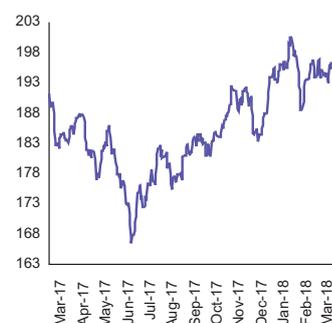
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Price momentum persists: Oil prices witnessed a relatively stable month, with WTI/Brent/Arab Light rising 1.04/1.02/0.51%MoM. Initial weakness resulted from fears of prolonged US-China trade tensions, increasingly outpaced by easing tensions on the Korean peninsula, coupled with friction in the Middle East (possible roll-back of Iran deal resulting in supply restriction of about 0.5mbpd). Moreover, International Energy Agency in its report increased its 2019 demand forecast to 1.5mbpd (from 1.4mbpd previously). Finally, a late push came from Saudi Oil Minister's bullish comments hinting the Kingdoms willingness to continue limiting supply till 2019. As of yet, oil prices have been on a rising trend since Nov'17 meeting of OPEC members where they pledged to continue to supply cuts in 2018. With Saudi Aramco's IPO reportedly scheduled for 2018, the Kingdom would push for higher oil prices to secure hefty valuation for the company, although US drillers seem to grab the opportunity, with output rising further by 0.09mbpd to 10.46mbpd towards the end of Mar'18. For domestic refiners, spreads on MS/HSD withered while the impact of PkR devaluation could further erode margins.

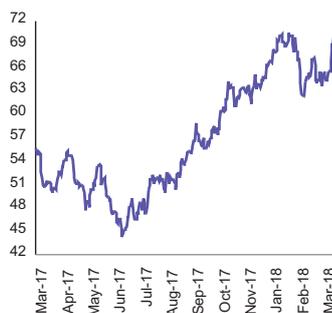
Steel down 2.3%MoM: After an 8-month upward rally, steel prices went into a correction mood in Mar'18, with avg CRC/HRC prices declining by 2.23%/2.56%MoM. The price decline was initially stoked by the demand weakness in key markets (China, & European Union particularly Turkey), which was further aggravated by the vibes of the China-US trade spat.

TRJ Index



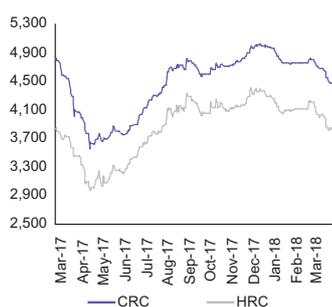
Source: Bloomberg & AKD Research

Brent (US\$/bbl)



Source: Bloomberg & AKD Research

Steel Prices (CNY/MT)



Source: Bloomberg & AKD Research



Going forward, we expect the current bearish trend to continue until recovery in demand. Moreover, the current wave of protectionism (with Australia and Saudi Arabia recently initiating steel dumping investigation) could add to downward pressures on steel prices.

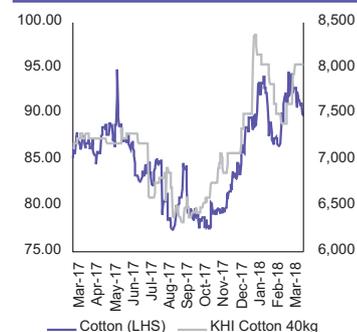
Buoyant demand pushes cotton up 4%MoM: Gaining momentum, cotton prices continued to gain steam, rising 4.4%MoM in Mar'18 (with 'COTLOOK A' index touching 4yr high at US\$92.09/lbs (avg.)), after a short break in Feb'18 when prices declined 3%MoM. Following international prices, domestic cotton prices gained 3.5%MoM, as supply shortage of quality cotton kept prices rigid. As per revised USDA estimates, expected global cotton consumption/production in MY18 now stands at 120.5mn bales/121.4mn bales (-0.3mn/+0.4mn bale variation from previous estimates), leaving world ending stocks of 88.6mn bales (+0.8mn bales higher than prior forecasts). Considering the strength of cotton prices, most producers are expected to increase acreage, eventually leading to further accumulation of supply next year. This along with higher ending stocks this year (+22%YoY-outside China) could weigh on prices, as we enter MY19.

Food prices on the rise: Representing the second consecutive monthly rise, FAO food price index averaged 172.8pts in Mar' 18 (up 1.1%MoM) while on YoY basis the index was slightly up 0.69%YoY. Dairy prices continued their upward trend (up 3.3%MoM) on back of stronger global demand along with lower than anticipated production. However, on account of sustained supply glut, sugar index remained under pressure marking its fourth straight MoM decline since Dec'17 (down 3.4%MoM). In this regard, India recently scrapped 20% sugar export tax until the end of current season strengthening the prevailing bearish trend in global markets.

Coal prices breathe a sigh of relief: Weakness in the Richards Bay 6,000Kcal/kg Coal benchmark (March'18 (monthly average price of US\$92.2/mton down 2%MoM) showed a slight cooling off in the thermal coal market, following a sharp run-up, as price levels stood higher by 14.9%YoY. Higher prices have opened up the relative spreads, prompting the demand to shift to similar-grade suppliers (Colombia and Indonesia), while some demand centers withhold purchases at these levels, holding out for a likely bottom in the South African coal price benchmark.

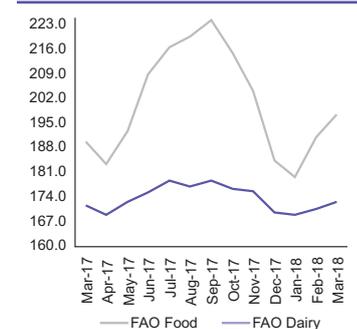
Expected weakness in Urea playing out: Benchmarks for the nitrogen compound averaged US\$250.4/ton for March'18 marking a decline of 2.3%MoM, where end of the month prices (US\$240/ton) amount to weakness of 7.7%CYTD. Faltering prices were a result of additional suppliers being brought online, while rising domestic production for the commodity (in China, US) limited trading activity in the international market. In the run up to summer, seasonal weakness in international urea prices are expected to weaken international benchmarks in the medium term.

Cotton Prices (USc/lb)



Source: KCA, Bloomberg & AKD Research

FAO Index



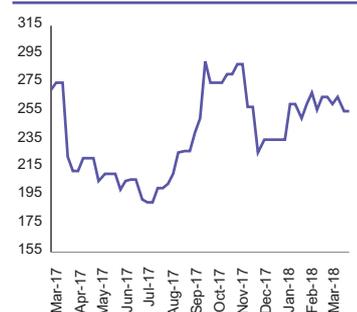
Source: FAO & AKD Research

Coal Prices (US\$/MT)



Source: Bloomberg & AKD Research

Urea Middle East Granular (US\$/MT)



Source: Bloomberg & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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