

COMMODITIES
UPDATE

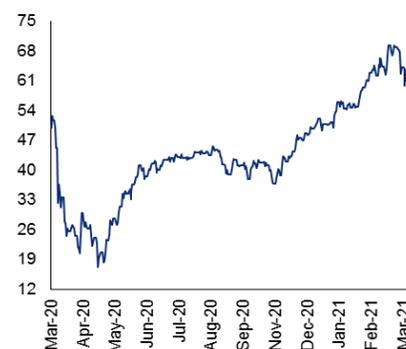
REP-019
MARKET
VISTA

Demand concerns weighing on commodities

- Concerns over complete demand recovery in the short term amid shaky COVID vaccine roll-out in parts of the world seems to have put a halt on commodities bull-run where TRJ Index is down 4.0%MoM in Mar'21 vs. 9.3% increase in Feb'21.
- One-off supply hiccups namely, i) freezing weather condition in major US oil producing areas, and ii) massive container ship 'Ever Given' blocking Suez Canal, causing a week long hindrance in global trade, drove oil prices higher +6.0MoM. However, normalization of the same resulted in oil prices receding by 8.0% at the end of the month from its high of US\$69.0/bbl in Mar'21.
- Supply side issues continue to inflate prices of commodities with Coal, DAP, and Scrap prices +4.3%, 14.0%, and 7.6% respectively in Mar'21. Similar trend was witnessed in food commodity prices with FAO index +2.1%MoM however, the pace of accretion has slowed down with supply constraints coinciding with grey demand outlook.
- Ease-off in upward price momentum in commodities should benefit import-dependent-countries particularly with Central Banks beginning to weigh accommodative monetary policies against inflationary pressures/deteriorating external accounts. Pakistan being one of such countries should also benefit from easing food prices (Wheat/Sugar prices down 7.8%/16.1%MoM) to neutralize supply side constraints, in our view.

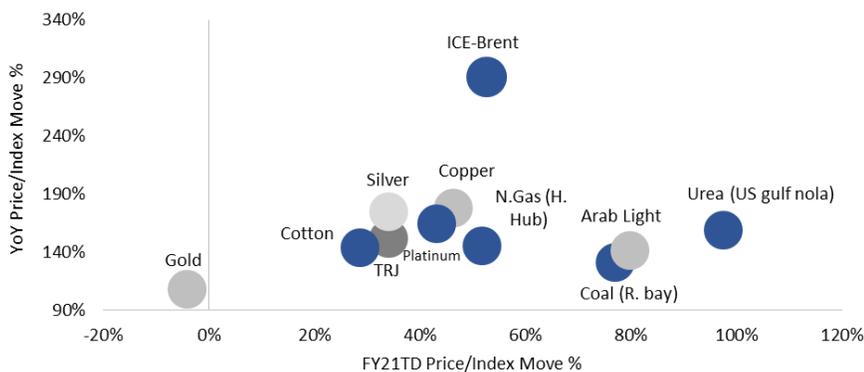
AKD Research
research@akdsecurities.net
111-253-111-Ext: 639

Brent (US\$/bbl)



Source: Bloomberg & AKD Research

YoY% (X Axis) and FYTD (Y axis) Commodity price movement snapshot



Source: Bloomberg & AKD Research

One-off supply hiccups drive oil prices higher: Oil prices increased 6%MoM in Mar'21 averaging at US\$65/bbl, where supply crunch from US continued, courtesy freezing weather in 2H of the previous month. Towards the end, the situation was further intensified due to a massive container ship 'Ever Given' blocking Suez Canal, causing a week long hindrance in global trade. This was amidst the 1mn bpd cut in crude oil production during Feb'21-Apr'21 announced in Feb'21, causing a rally in global crude prices. On the flipside, renewed lockdowns in most of the countries sprawling over EU region could hurt the oil demand, amidst resurgence of COVID'19 third wave. A slow roll-out of vaccinations in EU as compared to US and UK is also worrying. On that note, while, US and UK are targeting for 90/60% of population to receive first dose of COVID'19 vaccines by Jul'21, emerging variants which are more contagious are potential risk to global crude oil demand. To add, Saudia Arabia has recently announced to increase its output gradually over May'21 to Jul'21, which may continue to keep a cap over global crude oil prices.

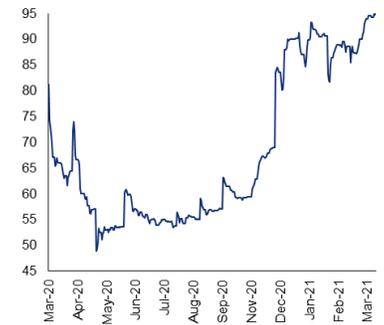


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Coal prices increased on the back of supply disruptions: In a season where historically demand remains low post conclusion of winter season, Richards bay coal prices have made a 2.5 year high of USD97.5/ton and currently trade around USD95.35/ton, up 4.3% against average of USD91.34/ton for Mar'21. Number of reasons have contributed to the increase including shifting of orders from Australia along with logistical issues at the Richards Bay port. Supply from Australia tightened after floods in Eastern Australia impacted operations and resulted in shipments being delayed. The delays come at a time when demand from India is expected to ramp up as stock piles are built before the monsoon season, increasing prices in the sea borne coal market. Moving forward, economies coming back online will continue to provide steam to coal prices particularly as vaccination continues on a fast pace. However, easing out logistical issues can impart downward pressure on prices. Even though local cement prices were increased by PKR45-50/bag to pass on the impact of coal prices, if coal prices sustain high ground, prices will need to be further increased in order to pass-on the impact. To note, increase in coal prices impact PIOC the most form AKD Cement Universe while MLCF stands on the other end of the spectrum.

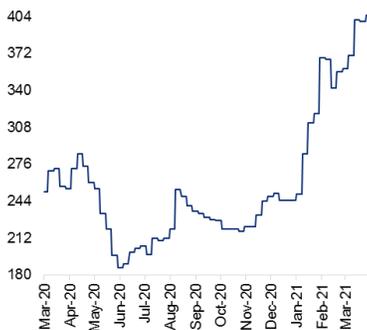
Cotton prices surged locally on a monthly basis: International cotton prices ended Mar'21 on a low note, with international cotton prices receding towards Dec'20 price levels after hitting their highest in Feb'21 of US\$98.5/lbs in about two years. In this backdrop, Cotlook's A index reduced 1.87%MoM to stand at US\$87.4/lbs in the month of Mar'21. The latest USDA report featured a marked 0.9mn bales increase in global production estimates unmatched by consumption estimates (0.38mn bales increase). The combination of a smaller crop and higher offtake caused the projected 2020/21 ending stocks to drop 1.1 million bales to 93.5 million. Domestic prices have soared to PKR12,518/40kg or 10.37%MoM showing an opposite trend in comparison to global cotton prices but have started to recede in the last week of Mar'21 due to thin trading volumes and delay in abolishment of ACD and RD synthetic yarns. Going forward, crop quality concerns and fear of lockdown of third wave of COVID-19 are key sources to keep prices flat or in attrition.

COAL Price (US\$/MT)

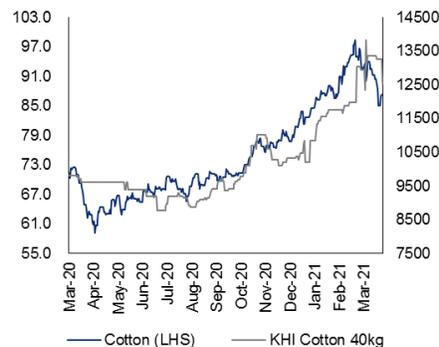


Source: Bloomberg & AKD Research

Urea Middle East Granular (US\$/MT)



Cotton Price (USc/lb)

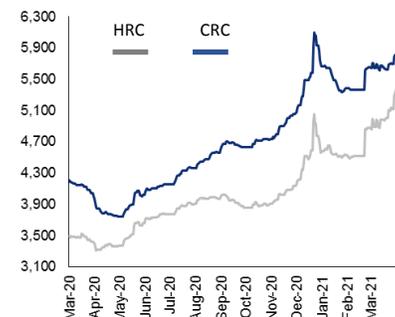


Source: Karachi Cotton Bloomberg & AKD Research

Fertilizer prices continue their climb in Mar'21: DAP prices have averaged at US\$580/MT in Mar'21, up 86%YoY and 14%MoM amid global shortage of the commodity. This translates into local DAP price of PKR5,600/bag vs. current dealer transfer price of PKR5,400/bag to PKR5,500/bag for FFC. To recall, 60% of DAP consumption is imported, whereas regional supply chain disruption is leading to continued upsurge in local DAP prices. FFBL, the only local DAP producer may continue to capitalize on the supply shock in upcoming months, given gas availability situation improves. To emphasize, phosphoric acid prices have increased only 35%YoY and 3%MoM in Mar'21, at a much lower clip than DAP prices. Meanwhile, urea prices have also climbed up by 53%YoY and 7% MoM, averaging at US\$352/MT in Mar'21, translating into local urea price of PKR3,400 more than double as compared to local price. Fertilizer players have increased PKR70-75/bag in last 6 months, after passing on the benefit of GIDC elimination early last year. However, LNG supply to hitherto closed urea capacities (15% of total capacity) may keep a cap on urea prices.

Scrap prices to remain upbeat as China lifts ban on imports of metal scrap: International scrap prices have increased by 7.6%MoM in Mar'21 to avg. at US\$445.5/mt compared to last 6 month average of US\$387.2/mt as demand from China increased once again due to the, i) bilateral trade issues, ii) resumption of Chinese scrap imports, and iii) change in raw material mix by increasing scrap ratio in pig iron and steel making process to substitute pig iron due to decarbonization campaign going on in China. Moving forward, we expect medium term demand for scrap to remain upbeat as Chinese players looking to enhance EAF capacities due to decarbonization campaign in China and in Europe.

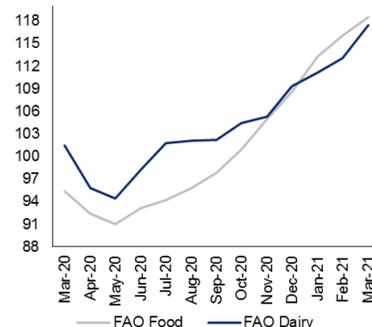
Steel price (CNY/MT)



Source: Bloomberg & AKD Research

FAO food prices index continues to surge however pace of accretion has slowed down: FAO index averaged at 118.5pts, +2.1%MoM and standing at highest level since Jun'14 where the increase is attributable to ascending vegetable oils, meat and dairy sub-indices. FAO Vegetable Oil Price Index surged by 8.0%MoM to average at 159.2pts driven by across the board increases in palm, soy, rape and sunflower oils. International palm oil prices recorded their 10th consecutive monthly increase as concerns over tighter inventory levels coincided with the gradual recovery in global import demand. FAO Dairy Price Index averaged at 117.4pts in Mar'21, +3.9%MoM underpinned by, i) surge in international butter prices consequent to tight supplies in Europe and anticipation of robust food service recovery, and ii) Milk powder prices given inventory build up by China amid supply issues. Lastly, FAO Meat Index was +2.3%MoM to average at 99.0pts in Mar'21 recording sixth consecutive monthly increase largely driven by increase in poultry and pig meat quotations due to higher imports by China and consumption by Europe in preparation for the Easter Celebrations.

FAO Index



Source: FAO & AKD Research

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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net