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Today's Daily

■ Pakistan Commodities: July'18 Update

Distinct moves in international Crude (WTI/Brent/Arab Light +4.8/-1.4/-0.5%MoM), Coal (+2%MoM), Urea (+10%MoM) and food prices (FAO Food/Dairy Index -3.7/-6.6%MoM), underlie the Thomson Reuters Commodity Index move of -4.4%MoM. Global political developments and rising hostility over international trade have softened optimism, leading to heightened caution over global economic growth for the rest of the year. US remains the largest outlier, where recent fiscal stimuli have raised near term growth, while industrial production and GDP data from China, the EU, Brazil and India exhibit moderation. Outcome of trade disputes remain in the spotlight, with the IMF forecasting a decline of 0.1% to Global GDP (relative to baseline) and 0.5% if followed by a confidence shock. Policy initiatives, trade actions and retaliatory measures adopted by the US and China may augment fissures for the domestic market, with the new government possibly dealing with import curtailment (as part of IMF negotiations) or tariff impositions to deal with blowback at home.

KSE100 - Index

Current 42,731.86
Previous 42,760.13
Chg. -0.07%

Mkt Cap. (PkrBn/US\$bn)

Current 8,760 / 70.52
Previous 8,766 / 70.56
Chg. -0.06%

Daily Turnover (mn)

Current 191.47
Previous 239.52
Chg. -20.1%

Value Traded (PkrMn/US\$m)

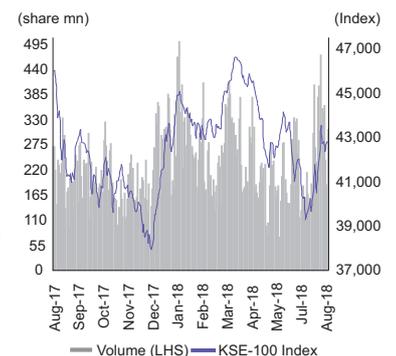
Current 9,091 / 73.18
Previous 9,936 / 79.98
Chg. -8.5%

AKD Daily

Friday, Aug 10, 2018

News and Views

- Caretaker Prime Minister Nasir-ul-Mulk has formally called the first session of the National Assembly on Aug 13' 18. The outgoing speaker of the National Assembly is expected to administer oath to the newly elected members which will be followed by election of speaker and deputy speaker.
- Pakistan intends to borrow up to US\$4bn from Saudi-backed Islamic Development Bank as part of its attempts to shore up depleting FX reserves. The arrangements are likely to be made after the formation of new government, where previously a US\$4.5bn oil financing facility had been committed by IDB.
- Central bank FX reserves marginally increased by US\$19mn (up 0.2%WoW) to record at US\$10.4bn during the previous week. However, reserves held by commercial banks dropped 1.4%WoW which more than offset the increase in SBP's reserves resulting in decline in total liquid reserves (down -0.4%WoW).



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Oil benchmarks take different routes: Exhibiting bizarre trends, the three major oil benchmarks took different directions with WTI gaining 4.77%MoM on average, while Brent and Arab Light both declined by 1.42/0.45% MoM, respectively. The month began with a ramp up in Russian and Saudi output, as pledged in the last OPEC meeting in Jun'18 leading Brent towards its initial decline, while falling output from Canada countered WTI's any potential slump. Moreover, Trump slapping US\$34bn worth of tariffs on Chinese imports along with resumption in Libyan oil supplies (0.7mn bbls), possible exemptions for countries importing Iranian oil and G20 meeting pointing towards short & medium term downside risks in the global economy exerted further pressure on oil dynamics, especially that of Asian and European sands. On the other hand, US inventories declined by 9.14mn bbls over the month, while oil rig count went up by just 3 lending support to WTI. On the domestic front, refinery margins weakened on MoM basis while currency devaluation (~5.7%) is expected to drag profits further down.

Coal price remain high: International thermal coal prices remained upbeat in Jul'18 (+2%MoM/31%YoY) with average prices residing at US\$107.4/ton. Monthly price increase was largely driven by strong demand across Asia and China in particular, as an early summer heat-wave drove electricity demand. Strong demand from China (imports surged 14%MoM/10%YoY to 29/147mn tons in Jul'18/1HCY18) has been supported by hotter than average temperatures in confluence with lower hydro power output, and limited growth in domestic supply (reforms on supply-side slowing production by 1.2% in Jun'18 to eight-month low). Higher consumption in India (imports rose by more than 13%YoY to 82mn tons in 1HCY18 - highest in last 2yr)

TRJ Index



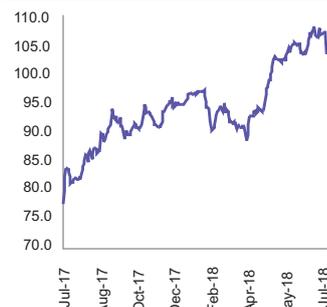
Source: Bloomberg & AKD Research

Brent (US\$/bbl)



Source: Bloomberg & AKD Research

Coal Prices (US\$/MT)



Source: Bloomberg & AKD Research



has also been a major driver behind the strong recovery seen in heating commodity this year. Ban on use of petcoke in some regions, logistical bottlenecks, surging power demand and regulatory changes targeting pollution cuts have all fueled the higher imports by India, which are expected to stay firm through the rest of the year. In this regard, uncharacteristically, heating commodity is still up 40%YoY to stand at US\$105/ton at the end of Jul'18, a level last seen in early 2012. Going forward, global coal prices are expected to remain near US\$100/ton throughout 2018 owing to increasing demand from China and India along with relatively tight supply (heavy rainfall in Indonesia coupled with higher demand from domestic market in South Africa).

Urea price rises again to stand at US\$284/ton in Jul'18: After gaining 6%MoM in Jun'18, int'l urea price further rose by almost 10%MoM to stand at an average of US\$284/ton (Middle East Granular) in Jul'18. The global urea market is building on recent gains, with prices inching higher as producers have committed most of their Jul-Aug cargoes on strong demand from Brazil and Asia, further exaggerated by US sanctions on Iran (which exports 3-4mn tons of urea annually). Urea prices remains very strong compared to a year ago, where the prices are almost up 46%YoY. Increased energy cost, particularly for producers in Europe and China, have significantly increased production cost of manufacturers, supporting higher prices. In this regard, China exported 74% less urea in 1HCY18 as compared to a year ago. Going forward, int'l urea prices are expected to remain on the higher side in 2018 as global supply and demand balance will tighten further, with net global urea supply growth (new capacity of 4.3mn tons will be more than offset by a projected 7.1mn tons of nameplate urea capacity closures during 2018 - Soucre: Yara & Worldfertilizer) expected to be well below the historical demand annual growth rate of a ~2%. On the domestic front, local prices are currently enjoying their continuous upward trend and are expected to remain strong on the back of: 1) lower inventory levels (high demand against low production) and 2) elevated landed cost of imported fertilizers, currently hovering around PKR1,950-2,000/bag (owing to higher int'l prices along with currency pressures).

Cotton witnesses mixed trend in Jul'18: After climbing to 6yr high in mid Jun'18, int'l cotton prices marginally retreated in Jul'18, with benchmark 'COTLOOK A' index averaging out at US\$96.17/lbs (down 1.8%MoM). Overall, prices across the world remained firm on account of renewed buying by China. Domestic prices, however, witnessed significant jump (up 12%MoM to PKR9,009/40kg) due to lack of any carryover from outgoing season, delay in sowing of cotton for the incoming crop (Aug'18/Jul'19), lack of irrigation water and late arrival of the rains. As per latest USDA's estimate, the expected global cotton consumption/production in 2018/19

Urea Middle East Granular (US\$MT)



Source: Bloomberg & AKD Research

Cotton Prices (USc/lb)



Source: KCA, Bloomberg & AKD Research

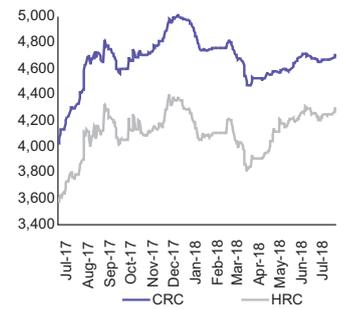


now stands at 127mn bales/120.1mn bales (+1.6mn/-0.29mn bales), which leaves world ending stocks of 77.8mn bales. With cotton prices at 6-yr high level, China's decision to include cotton in the proposed items list that could potentially face higher tariffs has added another layer of uncertainty in the current volatile cotton market. Potential implementation on this front could reverse the current bullish trend in the cotton market.

Steel loses momentum on emerging uncertainty: Flat steel prices receded in Jul'18 (avg. CRC/HRC prices declining by 0.32%/0.93%MoM), as buyers held back from making new deals ahead of the preliminary decision in the European Commission's safeguarding case. Subdued demand in key markets also played its due role in softening prices during the outgoing month. Looking ahead, the direction of steel prices will be determined by the outcome of ongoing protectionist measures proposed by the various countries, where potential implementation of the same could weigh on prices.

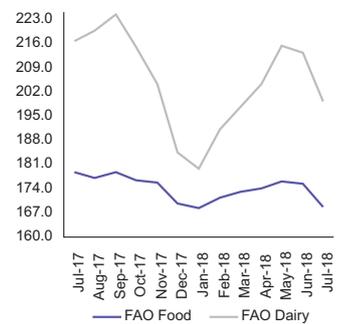
Food prices plunge: FAO food price index averaged at 168.8pts in Jul'18, down 3.7%MoM. In this regard, all major traded items posted notable declines as heighten trade tensions between US and its trading partners particularly China weighed on food prices. Additionally, averaging at 166.7pts, sugar price index was also down 6.0%MoM (down 19.6%YoY) primarily on account of improved production prospects in major sugar producing countries. However, recent drought like conditions in Brazil (largest exporter of sugar) could likely lead to reversal of downward trend (since Oct'16) in sugar prices. Additionally, Dairy price index also slipped 6.6%MoM supported by ample export supplies.

Steel Prices (CNY/MT)



Source: Bloomberg & AKD Research

FAO Index



Source: FAO & AKD Research



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