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Today's Daily

■ Nov'16: Commodities Update

Commodities experienced significant tailwinds from: 1) OPEC (and now non-OPEC) deal to curtail output, 2) rising dollar (dollar index up 2.6%MoM) keeping commodity prices in check, and 3) resilient global growth with global manufacturing activity in expansion territory, leading the Global Commodity Index to increase 2.75%MoM. OPEC's decision to curtail supply by 1.2mn bpd stoked bullish sentiment pushing Brent/WTI higher by +6.8%/+5.5%MoM, while contract for delivery in six months remains below prevailing levels, signaling weakness. Steel (+16.4%MoM) continues to climb, as Chinese producers re-align supply and the government implements a policy of curtailing supply. Supply disruptions and market imbalances propelled the FAO Dairy Index higher by 1.9%MoM. Agri-linked commodities Urea (+12%MoM) and Cotton (+0.7%/6%MoM for global/local prices) were impacted by consolidating supply dynamics despite supply overhangs. However, coal fell 9%MoM after rallying 27% MoM in Oct'16. Going forward, threats from higher trade protectionism, strength of the US\$ and demand side weakness for soft commodities (particularly agricultural) remain key sources of weakness in global commodity prices.

KSE100 - Index

Current 45,387.23
Previous 44,741.98
Chg. 1.44%

Mkt Cap. (PkRbn/US\$bn)

Current 9,127 / 87.13
Previous 9,009 / 86.00
Chg. 1.31%

Daily Turnover (mn)

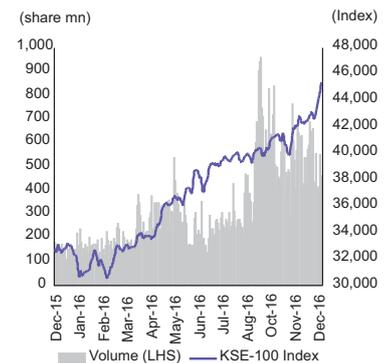
Current 407.12
Previous 368.24
Chg. 10.6%

Value Traded (PkRmn/US\$m)

Current 22,097 / 210.95
Previous 15,858 / 151.39
Chg. 39.3%

News and Views

- Overseas Pakistani workers remitted US\$7.87bn in 5MFY17, down 2.45%YoY. In Nov'16, the inflow of worker's remittances stood at US\$1.616bn, which is 3.63%MoM/3.27%YoY higher.
- Nishat Energy Limited (NEL) has found a foreign partner to go ahead with its plan of setting up a 660-megawatt power plant on imported coal by December 2020. TBEA Xinjiang Sun Oasis Company Limited (a Chinese firm) has shown interest in participating in the project as a co-sponsor to provide technical and project financing proficiency. The government gave an option to local firms that introduced their projects on imported coal, but did not meet financial close by October, to either arrange foreign financing or convert their projects on local coal. The application documents said TBEA would hold 70% stakes in the power project.
- Asian Development Bank (ADB) has delayed the approval of a third loan tranche worth \$300 million for budget financing after the government put energy sector reforms on the back-burner. The third tranche was part of a five-year \$1.6-billion package the ADB had approved to make the country's energy sector sustainable and self-reliant. The government has already received \$800 million in two equal tranches in 2014 and 2015.



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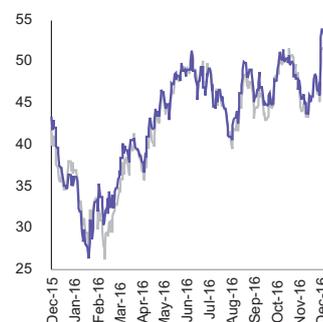
Nov'16: Commodities Update

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Joint production cuts drive oil prices: Oil prices pushed higher during the month (WTI/Brent: +5.5%MoM/+6.8%MoM to US\$49.44/US\$49.86 per bbl) on the back of the OPEC deal to cut oil production by 1.2mn bpd, reaching the target of 32.5mn bpd (effective from Jan'17). While OPEC noted that the deal was reached on an understanding with key Non-OPEC producers to cut their production by 0.6mn bpd. We expect the ~1.8mn bpd in production cut to temporarily provide stability, as the market reaches a short term equilibrium (oil supply surplus: -1.46mn bpd in Nov'16), with the potential for disturbance by rising shale oil production. Additionally, the duration of the agreement is for 6 months (extendable by further 6 months) that can make the deal and its impact short lived. Furthermore, the non-bearing nature of this deal on future agreements indicates that future efforts to coordinate supply will have to start from square one.

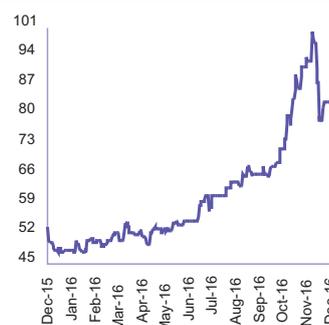
Coal price drop on Chinese relaxation on mining controls: After reaching a 5-year high (due to mining controls introduced by China to cut operational days by 16% to 276 days p.a.), coal price has fallen by 9%MoM to US\$83.5/ton as the government asked the coal miners to lift up output (based on previous 330 operational days p.a.) till the end of end of winter heating season to counter the surging price. The coal price decline has remained slower as the Chinese coal producers were unable to ramp up production quickly due to medium-to-long term supply contracts and time to bring back coal mines into production. Nonetheless, normalizing of seasonal demand post-winters, will likely witness further fall in coal price as China will continue its policy to do away with coal based energy.

WTI & Brent (US\$/bbl)



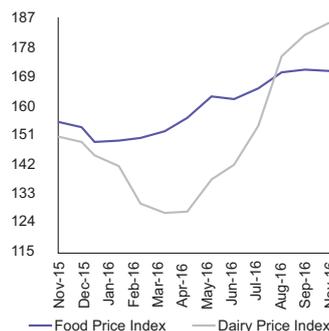
Source: Bloomberg & AKD Research

Coal Prices (US\$/MT)



Source: Bloomberg & AKD Research

FAO Index



Source: FAO & AKD Research



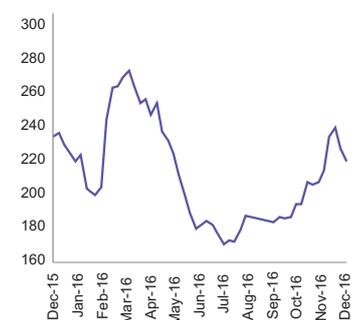
Food prices on the mend: The FAO Dairy Price Index averaged 186.4 points in Nov'16, up 1.9%MoM. Sustained import demand combined with limited availability from New Zealand, the main world supplier, led to the increase in dairy prices with Whole Milk Powder prices rising the most (+9%MoM). With dairy prices rising steadily during the year and expected to remain range bound, we see limited gains for the local dairy manufacturers going forward.

Urea rebounds to avg. US\$224/ton: Urea prices rose 12%MoM in Nov'16 to stand at an average of US\$224/tons vs. US\$201/tons in Oct'16. While continuing to recover from lows of ~US\$172/ton seen in Jul'15, urea prices remain down 8%YoY as oversupply and weak demand continue. On the domestic front, recovery in international prices are likely to enhance pricing power of local manufacturers, who are already plagued by lower off-take (down 87%YoY in 10MCY16) and looking for export opportunities. However, further recovery in off-take remains more likely to be a product of price reduction (Urea: PkR390/bag, DAP: PkR300/bag) announced in Budget FY17 and ongoing Rabi season.

Cotton prices remains flat 0.7%MoM: Global cotton prices during Nov'16 gained 0.7%MoM to stand at an average USc79/lb, remaining higher than last year (up 14%YoY) on the back of continued price recovery through Feb'16 to Aug'16 (gaining 30%). The monthly USDA report featured an increase in global annual production by 586k to 103.3mn bales and virtually no change to world mill-use (-32k to 112mn bales), resulting in additions to global ending stocks (956k bales added). Following the global trend, prices in the domestic market remained on the higher side in Nov'16 (up 6%MoM). Despite higher-than-expected phutti arrivals, prices of quality cotton move higher because of sustained buying by mills and spinners. Moreover, temporary ban on cotton import from India supported local cotton in the Nov'16.

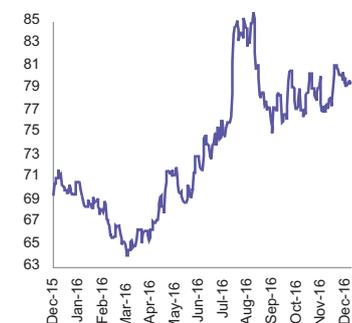
Steel sticks to seasonality: Chinese steel manufacturers suffered from compressed margins (rising cost of coking coal) and planned maintenance outages, allowing CRC Sheet steel prices to rise 16.4%MoM. Adding to the yearlong rise (CRC sheet prices up 73.9/46.2% CY/FYTD), China's policy of curtailing output (cutting capacity by up to 150mn tons by 2020) may be bearing fruit. However, exports of steel products from China for Nov'16 dropped 16%YoY to 8.12mn tones, where trade tariffs imposed by US, EU, India and others were to blame. Prices are expected to be depressed in the current month (Dec'16), following production lines coming online post maintenance and exports continuing there slide.

Urea Prices (US\$/ton)



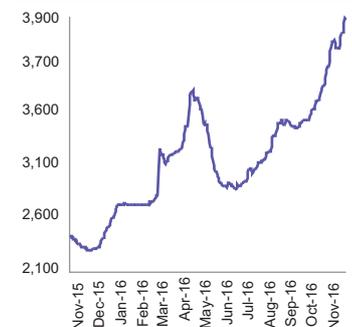
Source: Bloomberg & AKD Research

Cotton Prices (USc/lb)



Source: Bloomberg & AKD Research

Steel Prices (CNY/MT)



Source: Bloomberg & AKD Research



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