

MARKET VISTA

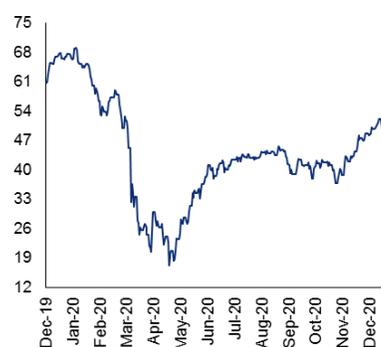
COMMODITIES UPDATE

Vaccine optimism lends comfort to markets

- Global economic activity, and in particular trading metrics have effectively bounced back to pre-pandemic levels, propelled by strong export data from China, marking a manufacturing led recovery with consumer spending remaining marginally buoyant, lifting the TRJ composite index up 4.8%MoM to close CY20 at pre-COVID levels
- While retail sales maintained their seasonal upward momentum through to Dec'20, consumer confidence lagged, as EU nations introduced new restrictions ahead of holiday season to ward-off possible resurgence of the virus, where the news of recent mutations detected in the UK and South Africa remain alarming, and are likely to delay any resurgence in consumer spending
- Energy commodities treaded higher, following bounce back in demand from emerging markets following the seasonal uptrend witnessed during winter months, where an uncharacteristically colder winter has also played a role in driving prices higher, while revival of industrial activity in energy intensive Asian markets kept demand upbeat
- Supply chain disruptions and revival of demand from emerging markets remained pervasive themes driving commodity benchmarks higher, while Food prices in particular are seen to approach drastically higher levels (FAO index climbing for 7 consecutive months)
- Implication of commodity price inflation were apparent in widening trade deficit for Dec'20 (US\$2.6bn up 26%MoM/32%YoY), while a continuation of the same is like to drive external vulnerabilities going forward. On the contrary, some relief in the latter half of CY21 is likely as supply chain disruptions subside following global vaccination programs and nations reversing lockdown restrictions

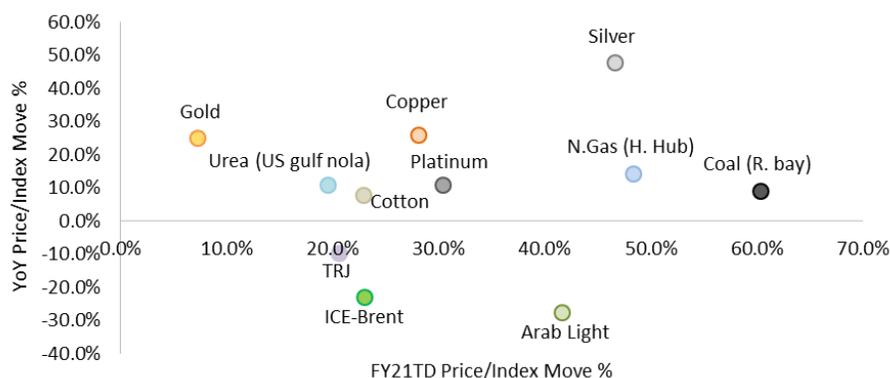
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Brent (US\$/bbl)



Source: Bloomberg & AKD Research

MoM% (X Axis) and CYTD (Y axis) Commodity price movement snapshot



Source: Bloomberg & AKD Research

Crude sways with mutations, stimulus & OPEC: Brent/Arab Light benchmarks climbed 8.5/7.2%MoM posting avg. of US\$49.9/48.9/bbl. Crude optimism was a function of the passage of US\$900bn in additional stimulus by the US, vaccine efficacy coupled with distribution following approvals from major regulatory bodies, strong carryover of Asian demand on the back of strong macros and tensions in the middle east (Iran actions against Korean tanker). These bullish sentiments were tempered by the UK announcing new round of restrictions following the announcement of a mutated strain of COVID which is highly transmissible and was followed by cases of the mutated virus spreading globally. Heading into Jan'21, prices were muted on the back of new reports indicating Russia was adamant on lifting supply curbs ahead of the OPEC+ monitoring committee to assess supply cuts. However, oil prices climbed to 11 month highs, as

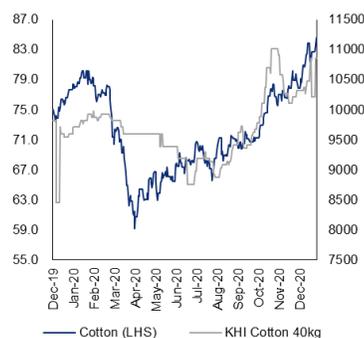


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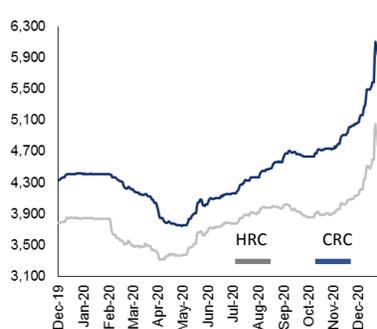
Saudi Arabia announced a surprising 1mn bpd unilateral supply cut for February and March, thus wildly topping market expectations which had seen a rollover of current cuts as the best case outcome. Moreover, Russia and Kazakhstan were allowed to raise output by a modest 0.15mn bpd combined. Going forward, ministers will meet again in March to evaluate fundamentals and April production levels

Cotton prices respond to curbed production: International cotton prices ended 2020 on a high note, with international cotton prices hitting their highest in about a year-and-a-half. In this backdrop, Cotlook’s A index soared 4.6%MoM to average at $USc81.2/lbs$. The latest USDA report featured a marked 2.2mn bales reduction in global production estimates and a 1.6mn bales increase in global consumption. The combination of a smaller crop and higher offtake caused the projection for 2020/21 ending stocks to drop 3.9 million bales to 97.5 million. Domestic prices remained largely flat at $PKR10,397/40kg$. Going forward, crop quality concerns and demand optimism particularly after successful trials of COVID-19 vaccine are key sources of support to prices. On the flip side, elevated inventory levels will keep upside movement in check.

Cotton Price (Usc/lb)



Steel price (CNY/MT)



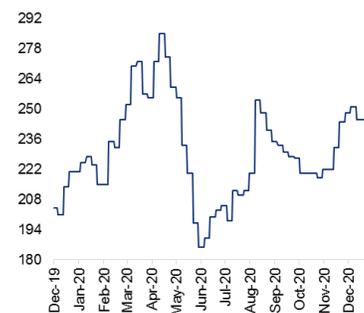
Source: Karachi Cotton Bloomberg & AKD Research

Supply chain hurdles and pent-up demand drive scrap prices higher: Steel price benchmarks continued their upsurge during Dec’20 on account of new variant of COVID-19 strain as global supply chains remained marred by border restrictions. Additionally, recent industrial stimuli released by China coupled with curtailed production from Japan, South Korea tilted prices to favor suppliers and extending lead times for deliveries. This rebound in pent-up demand from China coupled with Iron Ore supply disruptions have led to higher usage of scrap, leading to shortages in key scrap markets (Turkish ferrous scrap prices have risen to multi-year highs). In terms of category wise benchmarks, average CRC/HRC prices recorded monthly gains of 13%/12.4%MoM, while average re-bars/billets prices jumped 3.4%/7%MoM during the month.

Intl. DAP prices up 27% FYTD: DAP price continue their uptrend in Dec’20, rising 3% MoM and 36% YoY to $US\$374/MT$. DAP prices are currently hovering at $US\$390/MT$, translating into local DAP price of $PKR4,000/bag$. Approximately 60% of local DAP demand is met through imports, where a supply shortage in international markets could result in an upsurge in DAP prices in local arena (case in point: $PKR400/bag$ in DAP price by EFERT, while FFC & FFBL are expected to follow). On the other hand, urea price remained flattish MoM averaging at $US\$245/MT$, but are up 17% FYTD following a reversal in global demand and energy prices from their early CY20 lows. In local context, the international urea price translates into $PKR2,650/bag$, at a 65% premium to current local prices, leaving a wide margin for the Fertilizer players to increase urea price (FFC/EFERT already increased $PKR30/25$ per bag in Jan’21/Aug’20). Apart from healthy farmer economics and consequently demand, Fertilizer players are also expected to pass-on the impact of budgetary measure w.r.t income tax for sales to unregistered dealers ($PKR45-50/bag$ impact in terms of urea price for EFERT and FFC, assuming 100% sales to unregistered dealers).

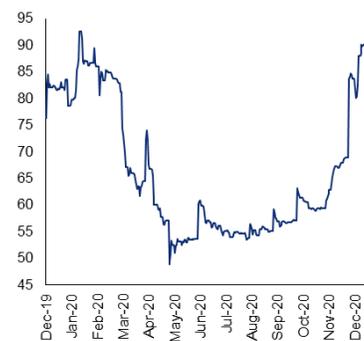
Coal prices ease a bit at the start of year: Coal prices have eased a bit after Dec’20 as we move past the peak winter while supply also increased after prices touched $USD100/ton$ during Dec’20. For Dec’20, coal prices averaged at $USD87.3/ton$ but have declined currently and trade around $USD85.9/ton$. Moving forward, local coal prices in China have picked up significantly on the back of improved economic activity and hence increased import orders from China can provide uplift to coal prices. However, as we move past winter a dip in prices will be witnessed with seasonality taking a back seat. High coal prices bode negatively for local cement manufacturers and can result in potential pressure on margins however recent recovery in PKR/USD can provide some respite while local players also look towards increasing prices to pass-on the impact. To note, increase in coal prices impact PIOC the most form AKD Cement Universe while MLCF stands on

Urea Middle East Granular (US\$/MT)



Source: Bloomberg & AKD Research

COAL Price (US\$/MT)

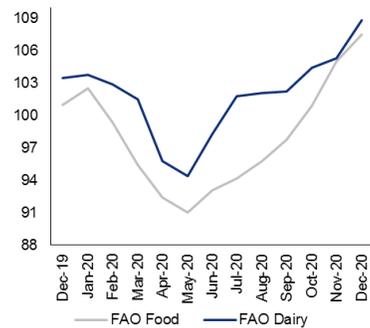


Source: Bloomberg & AKD Research

the other end of the spectrum.

FAO price index continue to ascend for seventh consecutive month: FAO Index averaged at 107.5pts, +2.2%MoM – marking 7th month of consecutive increase driven by vegetable oil sub-index gains followed by dairy, meat and cereals. FAO vegetable oil index gained 4.7%MoM to 127.6pts as a result of across the board surge in prices particularly of palm oil. International palm oil prices rose for a seventh successive month, chiefly reflecting lingering supply tightness in major producing countries. Moreover, sharp increase in export duties in Indonesia also translated into higher prices. FAO dairy and meat price index surged 3.2%MoM and 1.7%MoM respectively, where former’s increase was underpinned by strong global import demand, mostly induced by concerns over the adverse impacts of drier and warmer weather conditions on Oceania’s milk production. With regards to latter, confluence of i) increase in poultry meat prices as a result of firm import demand especially from Middle East, and ii) adverse production impact of avian influenza outbreaks in Europe translated into stronger prices. We believe UNITY to be the key beneficiary from the recent uptick in FAO index.

FAO Index



Source: FAO & AKD Research

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- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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