



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

### Today's Daily

#### ■ Jun'17: Commodities Update

Commodities remained largely depressed during Jun'17 with the TRJ-CRB Index falling 2.8%MoM. This downtrend was primarily led by oil prices with Arab Light/Brent losing 6.7%/3.7%MoM on continuous increase in OPEC production (Libya and Nigeria ramp up supply) and OECD stockpiles, negating the extended OPEC deal to cut output. Similarly, lingering oversupply concerns amid lower demand continued to keep urea and cotton prices under pressure while steel recovered modestly. That said, Dairy (+8.3%MoM on limited exports from major producing countries) and (Coal (+6.8%MoM on increased consumption by Chinese power producers) were notable exceptions to the trend. Moving ahead, oil prices are likely to determine the trend in commodity prices where continuous increase in shale oil production presents significant headwinds for bullish sentiment in crude.

#### KSE100 - Index

Current 46,273.81  
Previous 45,222.15  
Chg. 2.33%

#### Mkt Cap. (PkrBn/US\$bn)

Current 9,459 / 89.91  
Previous 9,280 / 88.20  
Chg. 1.93%

#### Daily Turnover (mn)

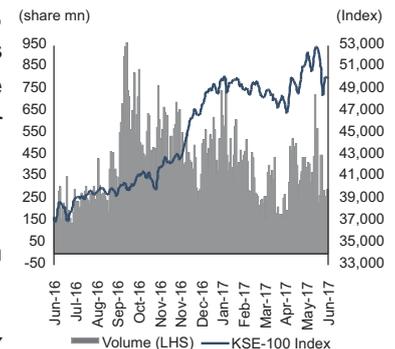
Current 235.30  
Previous 132.37  
Chg. 77.8%

#### Value Traded (Pkrmn/US\$mn)

Current 12,817 / 121.83  
Previous 6,982 / 66.36  
Chg. 83.6%

### News and Views

- Under the Panama-gate investigations, JIT has submitted its final report revealing: 1) PM's family has assets beyond Known sources of income, 2) Sharif-owned enterprises mostly loss making don't justify family's wealth, 3) confirmation of Maryam Nawaz beneficial owner of offshore companies, and 4) confirmation of Nawaz Sharif as the beneficial owner of FZE. Hearing on the report will begin from Jul 17'17.
- The special bench of the Supreme Court has ordered the registration of FIR against SECP chairman for tampering official records.
- As per recent data released by SBP, workers' remittances fell 3.08%YoY to US\$19.303bn during FY17. On a monthly basis, foreign remittances during Jun'17 declined by 11.2%YoY to US\$1.839bn.
- KEL has unveiled a biggest private sector investment plan of US\$1bn to set up 900MW dual-fired power plant. The expected COD of the plant will be the end of FY18.



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## Jun'17: Commodities Update

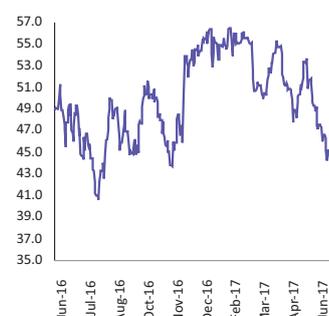
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**Shale fears keep Crude in check:** Despite remaining sanguine on global demand drivers, crude benchmarks continued to tread lower with Arab Light/Brent closing the month -6.7/-3.7%MoM and fiscal year -2.4/-0.4%YoY. Based on ex-refinery import data for POL products, HSD/Mogas crack spread (for June'17) have risen 18%/9%MoM boding well for refiners in these segments. OPEC production reached a CY17 high of 32.08mbpd as Libya and Nigeria ramp up supply (not included in OPEC cuts), and OECD commercial stockpiles continue to rise, negating the extended OPEC deal to cut output. Resilience of shale oil output from US fields at below US\$50/bbl levels, with additional increase in production forecasted to match (or in some cases) outpace cuts enacted by OPEC present significant headwinds for bullish sentiment in crude.

**Cotton prices down 4.1%MoM:** Taking respite from an upward trend, cotton prices during Jun'17 retreated 4.1%MoM to stand at average US\$84.87/lbs. The decline was primarily led by expectations of higher stocks in the new crop year owing to favorable weather and crop in the US, China and India. As per Jun'17 USDA's report, global consumption of cotton (116.5mn bales) in MY18 is projected to outpace the global cotton production (114.7mn bales), resulting in production deficit of 1.8mn bales, which may keep prices stable at current levels going forward. However, Chinese government's decision to further drawdown its cotton reserves should fill demand-supply gap exerting downward pressure on prices. On the domestic front, cotton prices during Jun'17 remained flat at Pkr7,248/40kg (0.6%MoM) as little buying interest was witnessed owing to Ramadan and Eid-ul-Fitr holidays. Looking ahead, cotton prices in the local market may face some headwinds due to tepid demand from local mills.

**Urea prices continue to slide:** Continuing its downward trend, urea prices in Jun'17 slides further by 2.4%MoM to stand at an average of US\$166.8/ton. Urea prices currently stand at US\$164/ton, the lowest level in the last 14

Brent (US\$/bbl)



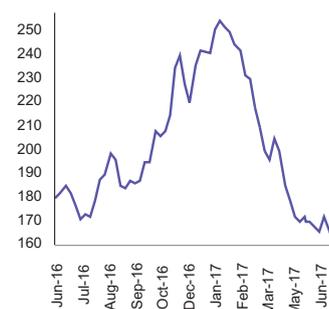
Source: Bloomberg & AKD Research

Cotton Prices (US\$/lb)



Source: Bloomberg & AKD Research

Urea Prices (US\$/ton)



Source: Bloomberg & AKD Research



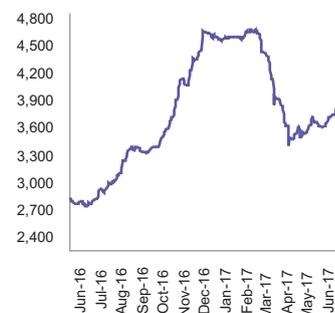
years (breaking its low of US\$165/ton seen in Aug'08). The price outlook for urea remains soft as weaker prices of downstream products, as well as ample supply continues to exert downward pressure. Although a portion of anthracite facilities in China have been shut down, new thermal capacity has been added proportionately positively impacting capacity growth in the region, in turn pushing down prices. On the domestic front, the declining trend in international prices is likely to restrict local industry's pricing power which is already struggling to clear excessive inventory stockpile (at 1.70mn tons in May'17).

**Steel prices witnessed some recovery:** After reaching their 5-month low, flat steel product prices witnessed some recovery during Jun'17, where average hot rolled coil (HRC)/cold rolled coil (CRC) prices surged by 5.9%MoM(32.3%YoY)/2.6%MoM (31.5%YoY). Factors contributing to the steel prices recovery were: 1) strong import demand from Brazil (4xYoY in Jun'17), Saudi Arabia and Vietnam, and 2) stabilization of domestic Chinese market. Going forward, we expect recovery in steel prices to be short lived, as the downward pressures remain likely in the form of protectionist measures taken up by steel importing countries (first EU imposed duty and now India also contemplating anti-dumping duty) and excess supply concerns.

**FAO Dairy index at its 3yr high:** Gaining 8.3%MoM in Jun'17, the FAO Dairy index closed at 209 points - the highest level witnessed since 2015. Limited exports of dairy products in all major producing countries pushed prices upwards with prices for butter and skim milk powder registering sharp gains. While prices remain below their peak 2014 levels, the recovery in dairy prices during the year has been significant. This could prove detrimental for margins of local dairy producers that were importing inexpensive skim milk powder, should the trend persist.

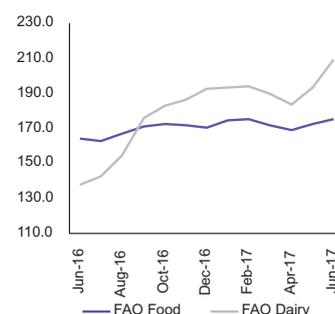
**Coal climbs from power demand:** Richard's bay was up 6.8%MoM and 34.3%YoY during June'17, with the benchmark resting at US\$81/mt currently, due to increased consumption by Chinese power producers in their bid to meet power demand shortfall during peak seasons. Additionally, rising gas prices have favored coal power producers, where activity on the mining front from China and India seem to be gaining steam as well.

**Steel Prices (CNY/MT)**



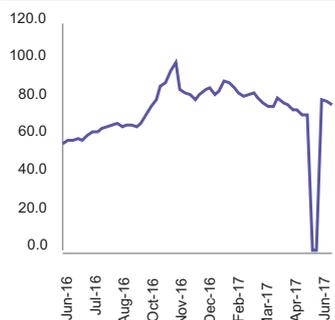
Source: Bloomberg & AKD Research

**FAO Index**



Source: FAO & AKD Research

**Coal Prices (US\$/MT)**



Source: Bloomberg & AKD Research



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