



## Today's Daily

### ■ May'17: Commodities Update

Mimicking bearish oil price trend, the global commodity index lost 1.1%MoM in May'17. Despite OPEC's decision to extend cuts till Mar'18, a combination of resilient shale output and surprisingly sluggish demand in summers have resulted in crude prices going down 1.5%/2.1%MoM for Brent/Arabligh. Similarly, Urea (down 11.4%MoM) and Coal (down 6.4%MoM) also declined on excessive supply while steel prices remained flat. Dairy (+5.1%MoM) and cotton prices (+2%MoM) were exceptions where firm demand for both favored the uptrend. Going forward, we feel oil price volatility, threats from higher trade protectionism and demand side weakness for soft commodities (particularly agricultural) remain key sources of weakness in global commodity prices.

#### KSE100 - Index

Current	49,958.33
Previous	50,162.81
Chg.	-0.41%

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

Current	9,934 / 94.73
Previous	9,960 / 94.98
Chg.	-0.26%

#### Daily Turnover (mn)

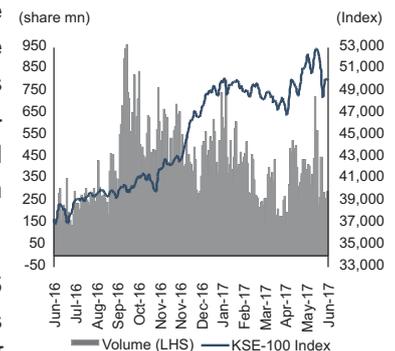
Current	268.79
Previous	232.51
Chg.	15.6%

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

Current	11,795 / 112.49
Previous	11,324 / 107.99
Chg.	4.2%

## News and Views

- The Senate Standing Committee on Finance (SSCF) has proposed 275 recommendations for the National Assembly consideration and possible inclusion in the budget, including some key amendments to the Finance Bill 2017. Key recommendations from SSCF include 1) reduction in sales tax on locally manufactured tractors from current 5% to 2%, 2) zero-rating regime for imported tractors, agriculture machinery and educational stationery, 3) abolishment of GST on all fertilizers products, 4) reduction of GST on dairy and livestock sector.
- Pakistan's foreign exchange reserves plunged US\$1.255bn to US\$20.515bn during the last week ended Jun 02'17; where SBP reserves decreased US\$1.215bn to stand at US\$15.707bn, following payment of US\$1.239bn on account of external debt servicing, while commercial banks reserves slightly slimmed to US\$4.809bn.
- As per news sources, Punjab government is mulling over strategic sale of Pakistan's first and biggest solar power plant of 100MW (Quaid-e-Azam Solar Park) through initial public offering (IPO).



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

**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.



## May'17: Commodities Update

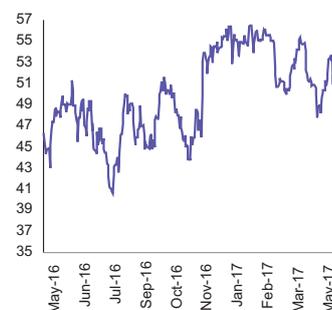
Mimicking bearish oil price trend, the global commodity index lost 1.1%MoM in May'17. Despite OPEC's decision to extend cuts till Mar'18, a combination of resilient shale output and surprisingly sluggish demand in summers have resulted in crude prices going down 1.5%/2.1%MoM for Brent/Arablight. Similarly, Urea (down 11.4%MoM) and Coal (down 6.4%MoM) also declined on excessive supply while steel prices remained flat. Dairy (+5.1%MoM) and cotton prices (+2%MoM) were exceptions where firm demand for both favored the uptrend. Going forward, we feel oil price volatility, threats from higher trade protectionism and demand side weakness for soft commodities (particularly agricultural) remain key sources of weakness in global commodity prices.

**Crude slips as tensions rise:** In a frenetic month for crude, both Arab Light/Brent were modestly lower (-2.1/-1.5%MoM) remaining range bound, as crack spread edged lower (HSD/Mogas/HSFO crack spread narrowed 14/18/11%MoM). Despite the significance of OPEC and Russia renewing their supply rationing agreement (cutting ~1.8mn bpd from supply) aiming to draw down inventories to the five year industry average by March'18. A key factor remains increased production from shale oil in the US (rig count rising for 20 weeks straight) which looks to rise as prices remain firm (May'17 US production crossed 9.3mn bpd). Even so, a string of inventory drawdowns in the US (lower inventory levels consecutively for eight weeks) point to higher than expected demand that is likely to continue till summer. Recent run of geopolitical tensions in the Middle East highlights the threats to compliance with OPEC cuts, particularly from peripheral members and non-OPEC states which could dampen prices accordingly.

**Urea prices continue to slide:** Breaking last summer's low (US\$171/ton in Jul'16), urea prices in May'17 slid further by 11.4%MoM to stand at an average of US\$170.4/ton with urea prices remaining under pressure on account of ongoing capacity additions. The overall short-term outlook for urea prices remains soft as weaker prices of downstream products, as well as generally ample supply continue to exert downward pressure. Excess capacity will continue to put pressure on prices - while some production capacity curtailments are expected this is likely to be offset by more additions expected in 2017. 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, standing at 1.67mn tons in Apr'17.

**Coal dips further:** Thermal coal continues to slide, resting at an average of US\$72.8/mt for May'17 (down 6.4%YoY) driven by overcapacity on the back of: 1) reduced demand from coal power producers in Turkey, Japan, Australia and smelters in China, 2) Indian imports receding as the country moves to reduce reliance on high quality imported coal for blending in

Brent (US\$/bbl)



Source: Bloomberg & AKD Research

Urea Prices (US\$/ton)



Source: Bloomberg & AKD Research

Coal Prices (US\$/MT)



Source: Bloomberg & AKD Research



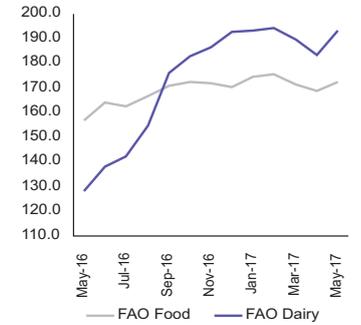
power plants and 3) closure of older coal plants accompanied by Carbon levies in the EU making coal based power plants uneconomical.

**FAO Food index rebounds sharply:** Increasing 2.2% MoM /10% YoY, FAO food index recovered sharply after three months of consecutive declines. In this regard, dairy prices gained the most, up 5.1%MoM/51%YoY on firm domestic demand in Europe. While recovery is encouraging, the dairy index still remains 30% below its peak reached in Feb'14.

**Cotton price edges up 1.95%MoM:** Continuing their upward trend, cotton prices in May'17 edged up +1.95%MoM to average US\$88.5/lbs. The key factor driving prices upward was strong demand from cotton importing countries such as Vietnam, Bangladesh and India. As per the May'17 USDA report, global consumption of cotton (115.8mn bales) in MY18 is projected to outpace global cotton production (113.2mn bales), which is likely to keep cotton prices upbeat going forward. That said, higher than expected cotton supplies from Chinese reserves exerting downward pressure remains a risk. On the domestic front, cotton prices during May'17 managed to remain largely stable at Pkr7,202/40kg (-0.3%MoM) with little buying interest in the local market. Looking ahead, cotton prices in the local market may face some headwinds due to lackluster demand from local mills as witnessed in the latter part of the previous month.

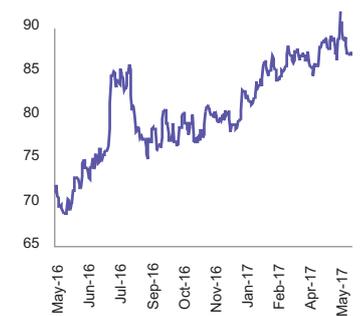
**Steel prices remain largely flat:** After plunging in Apr'17, average hot rolled coil (HRC) prices during May'17 remained largely flat (+0.1%MoM), while average cold rolled coil (CRC) prices declined by 1.6%MoM (though standing higher 10%YoY). The sequential decline in CRC prices was on the back of subdued import demand from Turkey and other European countries, where importers restrained buying over expectations of further decline in prices. With average prices for flat steel products touching their 6-month low, some respite from the downtrend is likely going forward; however pressures linger in the form of regulatory measures (anti-dumping duty ) taken up by importing countries and concerns of excess supply.

**FAO Index**



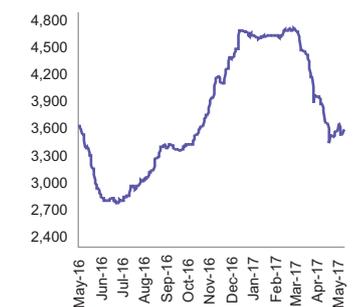
Source: FAO & AKD Research

**Cotton Prices (US\$/lb)**



Source: Bloomberg & AKD Research

**Steel Prices (CNY/MT)**



Source: Bloomberg & AKD Research



## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

### Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

#### *Rating Definitions*

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential



### **Analyst Certification of Independence**

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

### **Disclosure of Interest Area**

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

### **Regional Disclosures (Outside Pakistan)**

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.