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COMMODITIES UPDATE

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MARKET VISTA

Patient growth, mounting risks buoy commodities

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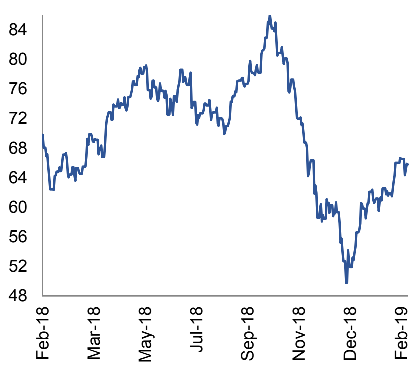
- **Amidst reported progress on US-China trade talks and the dovish tone from the US Federal Reserve, global commodity markets breathed a sigh of relief, demonstrated by the TRJ Commodities Index rising 1.7%MoM for the month of Feb'19 but still 6.7% below last year's levels**
- **Energy commodities were led by rising crude prices (Arab Light/Brent was up 7.0/6.4% MoM) as OPEC output curbs were adhered to by major swing producers, while Richard's Bay coal prices dipped 7.09%MoM with weak imports from China proving to be a major dampener**
- **Amongst soft commodities, the FAO food price index climbed 1.7%MoM gaining on the back of edible Oil price upswing (FAO Veg. Oil index up 1.8%MoM), with Urea prices dipping 10%MoM and Cotton prices treading lower on weak demand. Steel prices recovered from sagging demand as tight supply and improving expectations of US China trade talk outcomes lift flat/long category prices by 1-4%MoM.**
- **Upcoming meeting of OPEC+ members (March 17-18th) to review output curbs imposed in Jan'19 (1.2mn tonnes, KSA making up ~35% of cuts) and conclusion of US China trade (US stayed punitive rise in tariffs) talks remain near term inflection points.**
- **Commodities should remain burdened by global economic fragility, where recent macro indicators and 'patient' central banks stress intertwining cyclical and structural impediments. Moreover, China's latest growth outlook of 6-6.5% (lowest in 30+yrs) is likely to be mirrored by decelerating demand from the world's largest commodity importer (coal imports halved in Feb'19).**

Crude rises as output curbs keep a floor on price: Major crude benchmarks witnessed upswings (Arab Light/Brent prices up +7.0/6.4%MoM) averaging US$65.1/55.1/bbl, however, still hovering near/below levels seen last year (+0.9/-12%YoY). Sanctions imposed by US on Venezuelan and Iranian crude imports kept prices for Saudi crude elevated as Asian refiners seek out sources of heavier crude, a trend likely to support Arab Light prices over the medium term. On the flipside, calls from President Trump to Saudi policymakers to keep crude at lower levels could come to a head in upcoming OPEC+ talks, leading to OPEC's ministerial meeting in April. Any decision by the Saudi's to expand on previous output curbs could sway the US government in granting waivers granted to major Asian buyers of Iranian crude (set for renewal in early May), effectively keeping a ceiling on prices. Additionally, heightened supply risks from Libya (0.9mn bpd in Feb'19), Nigeria (1.82mn bpd), Angola (1.44mn bpd) and Algeria (1.05mn bpd) with cumulative weight of ~17% in OPEC 14 exports for Feb'19 could further inhibit crude price weakness.

Brent (US$/bbl)



COAL Price (US$/MT)

Source: Bloomberg & AKD Research

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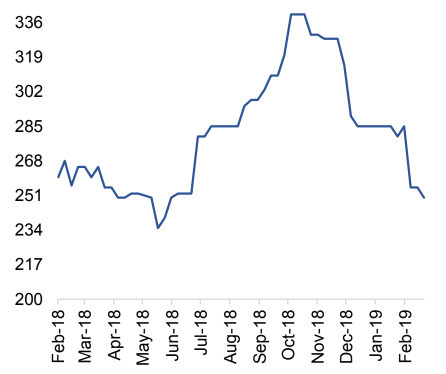
Uncertainty taking a toll over coal prices: Richards bay coal prices of Feb'19 averaged at USD84.4/ton, down 7.9%MoM, as the expectations of global economic slowdown loom large over the prices while the decline in Chinese imports on the back of lunar year holidays also played a part. With China-US in a trade war, the expectations of a global economic slowdown were rife where European Central Bank (ECB) decreasing the growth forecast to 1.1% from 1.7% for 2019 has added fuel to the fire. Moreover, China's coal imports declined to 17.6mn tons from 33.5mn tons backed by lunar year holidays while uncertainty persists over government's policy regarding imports as it looks towards supporting local industry. Moving forward, Chinese demand still hasn't picked up pace after resumption of business post lunar year holidays while clouds of uncertainty surround the outcome of US-China trade talks thus pressure on coal prices is expected to remain in near-term.

Urea hit by seasonal demand weakness: International Urea prices have corrected 10% MoM to US$238 per MT, and are down 12% CYTD, mostly as seasonality kicks in (low Urea demand period), coupled with 8% MoM decline in coal prices (used as fuel stock in China). The local prices on the other hand remained firm at PkR1,740 per bag, with dealers pocketing higher margins due to minimal Urea inventory in stock. The local Urea prices may likely stay unaffected by the downtrend internationally due to different demand supply dynamics and stable price of feed and fuel stock. Furthermore, the international Urea price despite a decline, still translates into landed cost of over PkR3,000 per bag, implying significant 72% premium over local Urea prices. The government would have to weigh its options of importing Urea or supplying LNG to closed fertilizer plants to manage the local demand supply dynamics, where latter is economically more feasible, in our view.

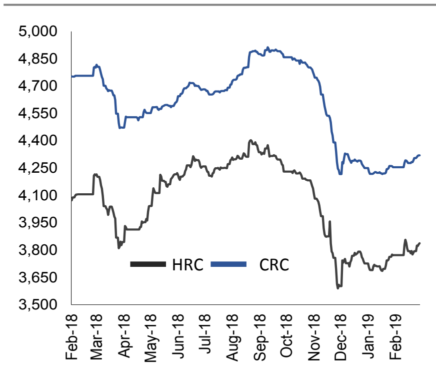
Urea Middle East Granular (US$/MT)



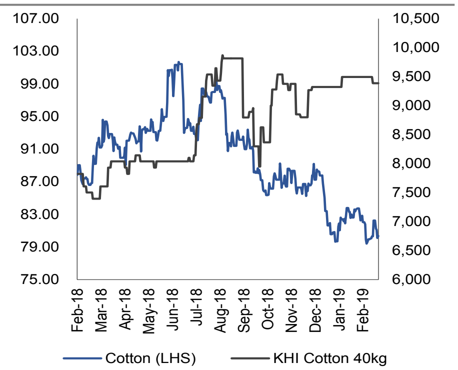
Source: Bloomberg & AKD Research

Cotton marginally down on weak consumption data: Average International cotton prices in Feb'19 marginally declined (-1%MoM, Cotlook A index averaging at USc81.39 per lbs.), where a larger decline in global consumption (-2.0mn bales) relative to production estimates (-0.28mn bales) caused the price decline. Domestic prices however remained largely unchanged, averaging Feb'19 at PkR9,464 per 40kg, with limited trading activity. Going forward, price outlook is uncertain and largely dependent on how the trade dispute between the US and the China settles. News flows emerging from the latest round of negotiations suggest some easing of tension between the two economic giants, with US announcing a delay in a scheduled increase in tariffs on Chinese goods.

Steel price (CNY/MT)



Cotton Price (Usc/lb)

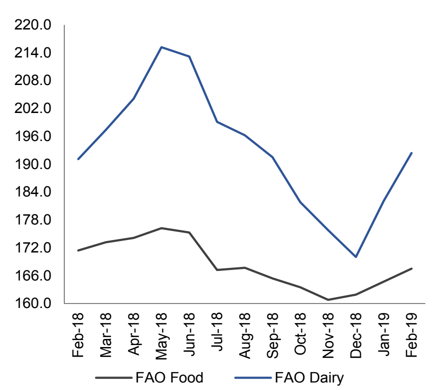


Source: KCA, Bloomberg & AKD Research

Steel edges up on a relatively tight supply: Reversing their declining trend witnessed in the last few months, steel prices staged recovery on a relatively tight supply and expectations of the demand rebound. Flat steel prices moved up, with average CRC/HRC prices up 1.09%/2%MoM, while in long steel, both re-bar and billet prices soared 2%MoM and 4%MoM, respectively. Looking ahead, steel prices could continue their upward trend in the near term amidst tight supply and demand euphoria. In the longer run, weak global economic outlook as reflected in recent IMF's forecasts would have subsequent spillover effects on commodity prices particularly steel.

Edible oil prices lift food price index: The FAO Food Price Index (FFPI) averaged 167.5pts (highest since Aug'18) in Feb'19, up 2.7pts MoM (or 1.7%). Similarly, FAO Vegetable Oil Index averaged 133.5pts in Feb'19, up 2.3pts MoM (or 1.8%), marking its highest level since Oct'18, on the back of upward trending palm oil price since the start of 2019 (Feb'19: US$603/mt, +12.7%CY19TD). The higher palm oil prices are due to higher biodiesel consumption in Indonesia and Malaysia. Malaysia has switched its fuel stations to B10 biodiesel from B7 diesel blend, using more palm oil in the transport industry. In this backdrop, world palm oil stocks could fall by 1-1.5mn tonnes in 2019 (current stock level: ~3.5mn tonnes) considering stable B20 and B10 biodiesel mandates by

FAO Index



Source: FOA & AKD Research

both Indonesia and Malaysia. It could also offset potential drop in EU demand due to environmental concerns. Higher palm oil prices would have negative implications for Pakistan consumer space (such as EFOODS, FFL, UNITY) due to competitive pressures hampering their ability to pass-on cost inflation.

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Sell	< 13% expected total return (Rf: 13%)

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Accumulate	> 5% to < 20% upside potential
Neutral	< 5% to > -5% potential
Reduce	< -5% to > -20% downside potential
Sell	< -20% downside potential
Not Rated	No investment opinion or recommendation

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