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Today's Daily

■ Pakistan Commodities: Feb'18 Review

Mimicking bearish oil price trend, the global commodity index lost 1.7%MoM in Feb'18. The energy component recorded the steepest decline with oil prices (Arab Light/Brent: down 4.7%/4.8%MoM) losing out the most. In this regard, a strengthening US Dollar (DXY: +1.7%MoM) together with rising production statistics from US weighed on energy prices. Similarly, lower demand on account of end of heating season kept coal prices under pressure while cotton prices retreated from its 3.5yr high following a strong rally in Jan'18. That said Dairy (+6.2% MoM on strong import demand and lower output in the largest milk producing country, New Zealand) and Urea (+4.4%MoM on lower production as gas supply issues intensify in China) were notable exceptions to the trend. Going forward, commodities are likely to consolidate around current levels however much depends upon the environmental/trade policies adopted by China and incoming US oil production data that can impact prices accordingly.

KSE100 - Index

Current 43,072.74
Previous 43,441.18
Chg. -0.85%

Mkt Cap. (PkRbn/US\$bn)

Current 8,993 / 81.33
Previous 9,072 / 82.05
Chg. -0.88%

Daily Turnover (mn)

Current 163.27
Previous 142.43
Chg. 14.6%

Value Traded (PkRmn/US\$m)

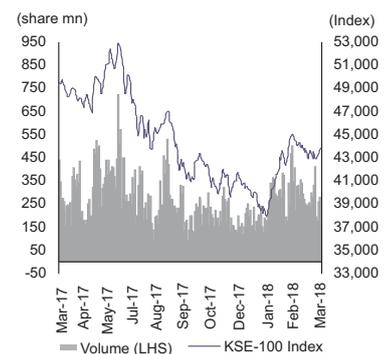
Current 7,405 / 66.97
Previous 5,875 / 53.13
Chg. 26.0%

AKD Daily

Friday, Jan 09, 2018

News and Views

- The foreign exchange reserves continued their consecutive four weeks decline during the previous week, with country's total reserves standing at US\$18.33bn (down US\$84mn). The reserves held by central bank fell by US\$112mn to reach at US\$12.23bn, while commercial banks' reserves increased by US\$28mn.
- In the credit review, Standard Chartered Bank has downgraded credit outlook on Pakistan from stable to negative, citing concerns over widening twin-deficits and high external funding needs major risks that could hamper growth momentum.
- For managing the affairs of ministries smoothly, GoP has decided to withdraw ban on re-appropriation of funds allocated for development projects which was previously imposed by the GoP itself last week.



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Oil prices take a breather: After having rallied to its 3 year high, intl. crude oil prices adjusted during the month, with WTI/Brent/Arab Lite losing 2.3/4.8/4.7%MoM during Feb'18. Rising US output during the first half of the month took a toll on prices that were previously overshadowed by OPEC cuts and tensions in the Middle East. In this regard, US production has now risen to 10.28mnbbbls, at its highest ever level, breaking the previous record of Jan'18. In addition to, all oil benchmarks took hit from the global sell-off in the equity market during the first week of Feb sparked by concerns over rising US inflation while a firmer dollar also contributed towards the downfall. On the domestic front, MoGas spread remained at the same level as Dec'17, while that of FO and export Naphtha further withered. That said, diesel spread witnessed a positive trend in Feb'18.

Coal prices down 3.7%MoM in Feb'18: Coal prices eased down a little (down 3.7%MoM) to avg. US\$93.6/ton in Feb'18 primarily due to slightly lower demand in Feb'18 with the arrival of Chinese New Year holiday coupled with the end of heating season. However, thermal coal prices are still up 11%YoY to currently stand at US\$92/ton at the start of Mar'18 where, 1) stable coal demand in China as well as rising coal demand in India (increased appetite for imported coal), and 2) limited coal production due to weather conditions led to the rally. Going forward, global coal prices are expected to remain stable throughout 2018 owing to stable demand from China and increasing consumption in India (soaring demand from its power generation sector and lower-than-expected domestic production).

Cotton retreats in Feb'18: Following a rally in Jan'18 that led int. cotton prices to touch 3.5yr high, prices in Feb'18 retreated 3%MoM, with 'COTLOOK A' index settling at 88.21USc/lbs (avg.). In tandem, domestic

TRJ Index



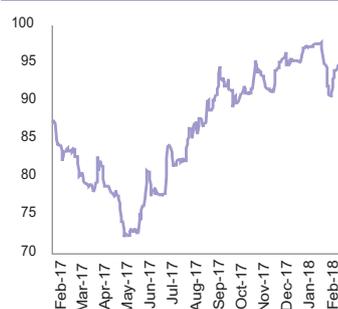
Source: Bloomberg & AKD Research

Brent (US\$/bbl)



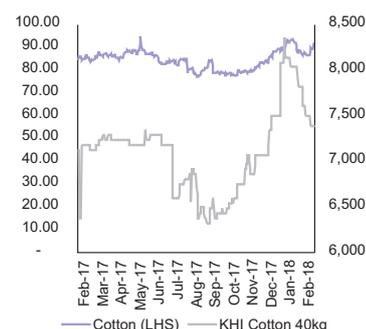
Source: Bloomberg & AKD Research

Coal Prices (US\$/MT)



Source: Bloomberg & AKD Research

Cotton Prices (USc/lb)



Source: KCA, Bloomberg & AKD Research



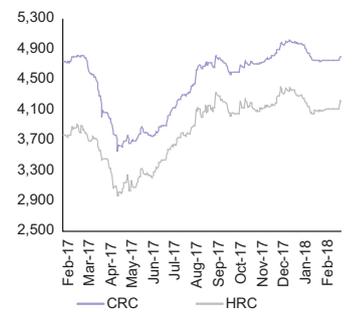
prices also declined 6%MoM following GoP's decision to withdraw duty on imported cotton. As per revised USDA's estimate, the expected global cotton consumption/production in MY18 now stands at 120.5mn bales/121.4mn bales (-0.3mn/+0.4mn bales), leaving world ending stocks of 88.6mn bales (+0.8mn bales). Considering the strength of cotton prices, most producers are expected to increase cotton acreage, eventually leading to further accumulation of supply next year. This along with higher ending stocks this year (+22%YoY- outside China) could weigh on prices, as we enter MY19.

Steel prices remain flat: Despite slowing demand in certain markets (Turkey & UAE), steel prices during Feb'18 have largely been stable (CRC/HRC prices: -1.73%MoM/0.73%MoM), as strong demand in China kept prices at a higher level (flat steel prices hover around 4yr high). Looking forward, we expect steel prices to remain range bound, where current wave of protectionism (namely Trump's decision to impose 25% duty on steel imports) could once again stage supply pressures (earlier seen in early 2016). However, further reduction in Chinese capacity holds the key in sustaining current price level.

Dairy prices continue to climb: FAO Dairy price index was up 6.2%MoM to average at 191.1points during Feb'18. Strong import demand together with lower than expected milk output in New Zealand pushed up dairy prices across all major constituents including Skim Milk Powder. The index however still remains below its last year level of 194.2 points in Feb'17.

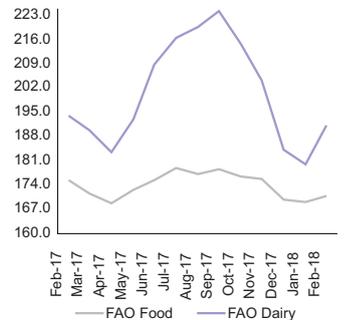
Urea prices rise further to avg. at US\$262/ton in Feb'18: Urea prices in Feb'18 rose 4.4%MoM to stand at an average US\$262.3/tons. After having dropped to ~US\$225/ton in Dec'17, we saw some recovery in prices as the market consolidated with Urea prices currently hovering around US\$265/tons. That said, urea prices are still down 4.8%YoY as excess supply and weakening demand continue to exert pressure. On the domestic front, recovery in international prices are likely to further ease pressure on pricing power of local urea manufacturers with discount levels already down to PkR30-40/bag (previous PkR100-120/bag) due to higher urea off-take and lowering inventory.

Steel Prices (CNY/MT)



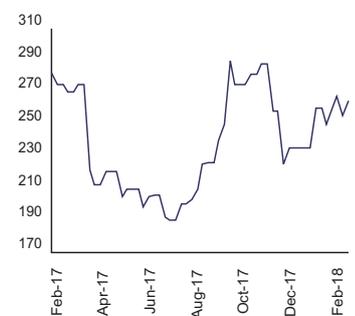
Source: Bloomberg & AKD Research

FAO Index



Source: FAO & AKD Research

Urea Middle East Granular (US\$MT)



Source: Bloomberg & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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