



AKD Securities Limited

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Pakistan Stock Exchange

Equity Research / Pakistan

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Today's Daily

■ Feb'17: Commodities Update

Continuing to climb, albeit at a slower pace than the tail end of CY16, bullish sentiment prevailed during February'17 in global oil (Arab Light/Brent +3.90%MoM/+1.61%MoM), Cotton (+3.7%MoM), Steel (+2.4%MoM) and food commodity prices (FAO Index up 0.52%MoM). Whereas, Coal (Richard Bay down 2.6%MoM) and Urea (down 3.0%MoM) prices cooled on the back of policies and capacities raising global production. Going forward we expect factors driving commodity prices arising from: 1) divergence in global monetary policy, where any tightening in US rates could strengthen the greenback, softening commodity prices, 2) global economic activity picking up pace as global manufacturing PMI remain expansionary (at 52.7 for Feb'17) and 3) continued tightening of supply dynamics for energy prices expected to keep supply constrained. Lastly, political factors including expansionary fiscal policies by the US government and China's meeting of the Politburo Standing Committee are expected to renew commitments to infrastructure development, providing support to metals, energy and hard commodity prices.

KSE100 - Index

Current 49,696.08
Previous 48,992.16
Chg. 1.44%

Mkt Cap. (PkRbn/US\$bn)

Current 9,825 / 93.72
Previous 9,715 / 92.67
Chg. 1.13%

Daily Turnover (mn)

Current 398.53
Previous 234.95
Chg. 69.6%

Value Traded (PkRmn/US\$m)

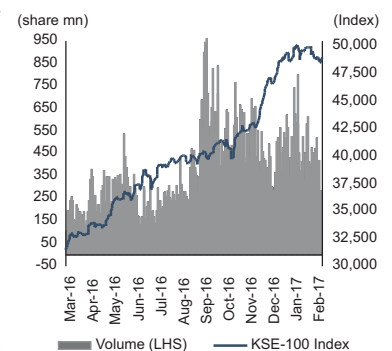
Current 17,747 / 169.29
Previous 14,339 / 136.78
Chg. 23.8%

AKD Daily

Friday, Mar 03, 2017

News and Views

- As per PBS, CPI inflation came in at 4.2%YoY in Feb'17, as perishable food and fuel prices were seen rebounding. During 8MFY17, PBS recorded CPI inflation at 3.9%YoY as compared to 2.48%YoY in 8MFY16.
- As per SBP, The total liquid foreign reserves held by the country stood at US\$21.822bn on February 24, 2017. Foreign reserves held by the SBP stood at US\$16.85bn, while net foreign reserves held by commercial banks are US\$4.97bn.
- The government has so far released PkR441.4bn for executing development projects of all ministries/divisions and attached departments during the 8MFY17. Out of total allocated development outlay of PkR800bn for FY17, the GoP released about 55% of the total for undertaking crucial development projects of the country.



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Feb'17: Commodities Update

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Oil prices hold ground on high production cuts' compliance: Oil prices increased during the month (Arab Light/Brent/WTI: +3.90%MoM/+1.61%MoM/+2.27%MoM to US\$54.37/US\$55.56/US\$54.01 per bbl) backed by high compliance with OPEC/Non-OPEC members' production deal. In this regard, OPEC/Non-OPEC members cumulatively reduced their output by 1.514mn bpd that was 84% of targeted 1.812mn bpd production cuts. While Iraq and Russia remained the major shirkers in meeting their targets (Iraq/Russia's actual output cuts of 0.085/0.118 mn bpd vs. target of 0.210/0.300 mn bpd), Saudi Arabia played the major role in production cuts by reducing its output by 0.598mn bpd compared with 0.486mn bpd target production cut. Whereas rising US oil rig count (+36 MoM to 602 during Feb'17) in the backdrop of stable oil prices did not create material pricing pressures as the US oil production remained stagnant during the month. Our expectation of improving compliance of OPEC/Non-OPEC members and increasing US shale oil production leads us to maintain our medium term outlook of stable oil prices at current levels.

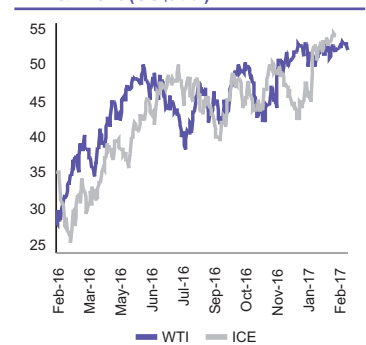
Cotton prices gain 3.7%MoM: After rising significantly in Jan'17 (up 3.3%MoM), global cotton prices continued their upward journey during Feb'17 as well, gaining 3.7%MoM to stand at an average of US\$85.2/lb (highest level since Jul'14). Feb'17 USDA report featured a slight increase to world production by 83k to 105.4mn bales and relatively upbeat world mill-use (+762k to 112.5mn bales), resulting in lower global ending stocks (lower by 747k bales to 89.9mn bales). On the domestic front, after gaining 6.9% in Jan'17, prices in the domestic market remained flat during Feb'17. On YoY basis cotton prices are up 26%YoY owing to: 1) lower than expected arrivals this season, where mills and spinners remained engaged in price competition with ginners, exacerbated by shrinking domestic stocks and 2) upward price momentum in international cotton markets.

Oil production cuts

(K bpd)	Target cuts	Actual cuts	Compliance
Algeria	50	44	88%
Angola	78	100	128%
Ecuador	26	21	81%
Gabon	9	3	33%
Iraq	210	85	40%
Kuwait	131	120	92%
Qatar	30	30	100%
Saudi Arabia	486	598	123%
UAE	139	82	59%
Venezuela	95	63	66%
OPEC members	1,254	1,146	91%
Russia	300	118	39%
Mexico	100	86	86%
Oman	45	51	113%
Azerbaijan	35	35	100%
Malaysia	20	20	100%
Kazakhstan	20	20	100%
Eq. Guinea	12	12	100%
Bahrain	10	10	100%
South Sudan	8	8	100%
Sudan	4	4	100%
Brunei	4	4	100%
Non-OPEC members	558	368	66%
Combined	1,812	1,514	84%

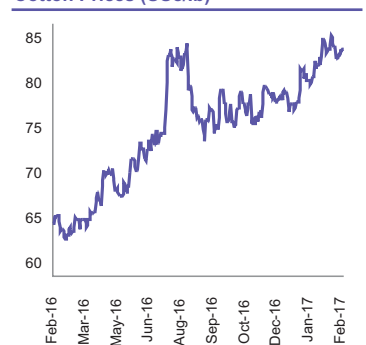
Source: Bloomberg & AKD Research

WTI & Brent (US\$/bbl)



Source: Bloomberg & AKD Research

Cotton Prices (US\$/lb)



Source: Bloomberg & AKD Research



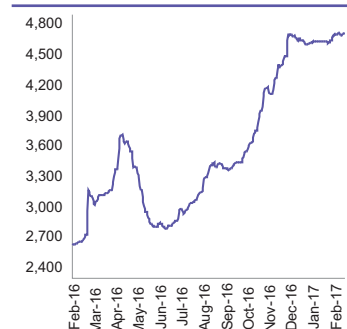
Steels price rise stymied: Slowdown in ascent of steel prices (CRC Sheet Steel up 58.9%FYTD) is evident in Feb'17 where the commodity inched higher by 2.4%MoM, making a CYTD move of 2.8%. This is largely seasonal where Chinese production bounces back at the beginning of the New Year (blast furnaces operational). Going forward, we believe CRC Steel prices are expected to slow down due to: 1) subdued demand growth as Chinese housing prices cool down and construction activity tapers, 2) government mandated production cuts to steel production are lower than expected and, 3) exports continue to decline where 7.4mn tonnes of steel product exports in Jan'17 was 23.8%YoY lower.

FAO Index - steady rise: Continuing with the rising trend, the FAO Food Index gained 0.52%MoM in Feb'17 to average 175.5 points (up 17.2%YoY) reflecting broad based price increase in food categories except vegetable oils. The FAO Dairy Index averaged 194.2 points in Feb'17, rising 0.6% sequentially and 36.8% on YoY basis underpinned by steadier import demand, EU food support prices and relatively tighter supplier dynamics. Going forward, prices are likely to depict strength where rising demand scenario will support expected increase in EU exports over current season.

Coal price dip on rising Chinese production: Coal price dipped 2.56%MoM to US\$83.8/ton in Feb'17 led by rise in Chinese coal production as the Chinese government relaxed its coal mining restrictions allowing all mines to produce at 330 days p.a. capacity till the end of Mar'17. We foresee coal price to decline as Chinese coal demand is expected to cool off ahead of winter heating season while China continues to phase out coal based energy in accord with Paris Climate Agreement. Nonetheless, abrupt coal supply tightening post expiration of mining output relaxation period (end of Mar'17) can result in yet another coal price shock.

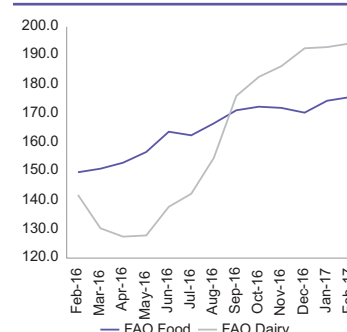
Urea prices: Urea prices in Feb'17 declined 3%MoM to stand at an average of US\$242.2/tons, breaking its 4 month price recovery where prices rebounded to US\$255/tons in Jan'17. After having dropped to ~US\$172/ton in Jul'16, we saw some recovery in prices as the market consolidated. Urea prices faced a reversal in Feb'17, as fresh production capacity was brought online. Going forward, the boost to world urea prices is expected to be short-lived, as additional production capacity comes on-stream, with additions (net of closures) expected to come in at 8.0mn tons this year. On the domestic front, recovery in international prices (up 40.8%FYTD) have eased pressures on pricing power of local urea manufacturers, struggling due to flattish urea off-take in CY16, and looking at offshore markets to clear huge inventory stockpiles.

Steel Prices (CNY/MT)



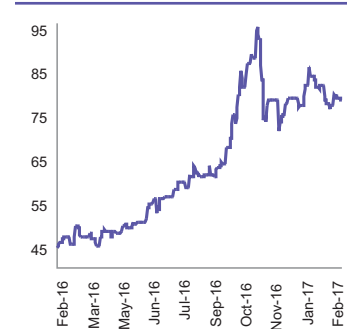
Source: Bloomberg & AKD Research

FAO Index



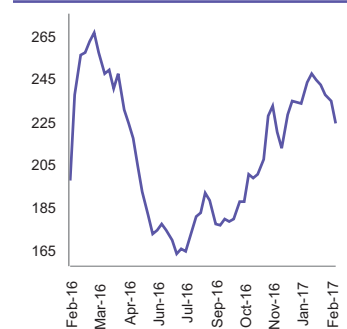
Source: FAO & AKD Research

Coal Prices (US\$/MT)



Source: Bloomberg & AKD Research

Urea Prices (US\$/ton)



Source: Bloomberg & AKD Research



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