

COMMODITIES UPDATE

REP-019

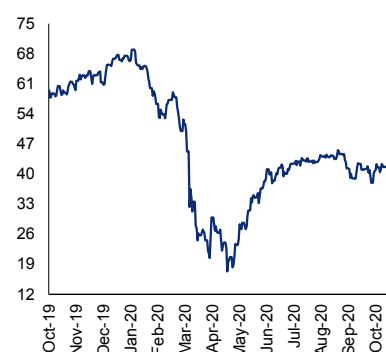
MARKET VISTA

Oct'20 bounce-back encouraged by vaccine data

- Global macro recovery was widely seen to improve during Oct'20, as output rose incrementally from the deep trough reached during pandemic-triggered lockdowns earlier in the year, led by manufacturing and trade while consumer spending also showed signs of buoyancy. Hence the TRJ index moved higher by 2.0%MoM on the back of strengthened recovery.
- China remains the only major economy to have restored normal economic activity within its borders while continuing with its economic expansion, while the Eurozone and the US also measured strong third-quarter GDP growth but deeper contractions earlier in the year left both economies significantly scarred and in need of fiscal interventions.
- Seasonality coupled with upbeat demand expectations kept crude prices on an upbeat path, while depleted climate conditions and negative weather related developments kept cotton and edible oil prices high whereas negatively influencing the demand for fertilizers leading to soft prices for Urea on MoM basis.
- We re-iterate the vulnerability of the domestic macro backdrop (currently on trend for marked improvements) to rise in commodity prices, where global energy prices remain a key gauge to monitor over the near term. In terms of food prices, global benchmarks continue to witness significant supply side stress, partially from weak supply dynamics, where further rise is likely to be fueled from vaccine supply to developed markets (US, EU first to secure vaccine supply agreements).

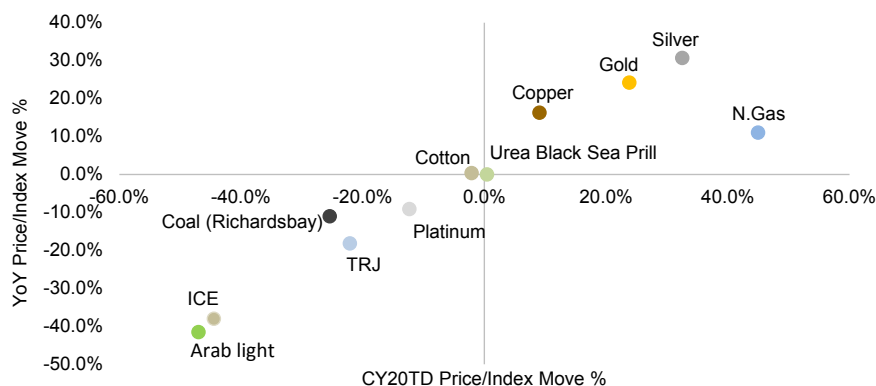
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Brent (US\$/bbl)



Source: Bloomberg & AKD Research

MoM% (X Axis) and CYTD (Y axis) Commodity price movement snapshot



Source: Bloomberg & AKD Research

Oil rises on vaccine optimism, demand recovery: Crude benchmarks witnessed sustained uptick as optimism over vaccines for COVID-19, backed by initial testing data provided the impetus for commodity market investors to upgrade global energy demand expectations with Brent/Arab light moving +3.1/1.2%MoM averaging US\$40.6/40.9/bbl for first half of Nov'20. Additionally, there is notable optimism around coronavirus-driven lockdowns, where EU advisers have called lockdowns as 'draconian' while recent comments from a top medical advisers to President-Elect Biden, are contradicting previously held notions of lockdowns being the only measure to control infections. Additionally, global oil demand trends also received positive indications from record throughput for Chinese processors (mostly private sector refiners) and Indian fuel usage, which rose YoY for the first time since Feb'20. On the OPEC front, the Joint Ministerial Monitoring Committee will meet yesterday, providing little tangible insight ahead of the main ministerial meeting later this month. OPEC and its allies are discussing a delay of the supply boost that was set for January, though ministers are focused on a three-to-six month postponement given demand pullbacks in areas including Europe. That said, vaccine progress relieves pressure on OPEC



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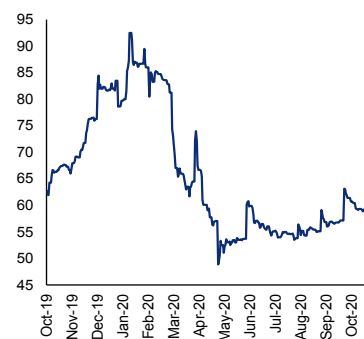
and its allies, though developments surrounding supply chain and inoculation of sizeable share of populations are not expected to provide a significant boost to demand until 2HCY21.

Seasonality and economy recovery led to strong coal prices: Rebound in economic activity is imparting its effect on coal prices as well with Richards Bay average for Oct'20 standing at USD60/ton, up 4.3%MoM mainly buoyed by demand from South Asian countries while they currently trade around USD67/ton. Demand in India is also picking up as industry comes back online while power consumption is also returning to pre-lockdown levels while in Pakistan as well, demand remains high with impressive growth in cement production. Additional support to Richards Bay Coal prices is being provided by high prices of pet coke forcing consumers to search for alternative while overzealous trading activity also has a part to play. Moving forward, seasonality is expected to keep coal prices strong as demand increases in winter while economic activity pickup in India and China successfully avoiding the second COVID-19 wave so far can result in further increase in prices. However, with a surge in prices, buyers shifting to coal from other destinations in a bid to decrease costs cannot be ruled out. Increase in coal prices bode negatively for local cement manufacturers and can result in potential pressure on margins however recent recovery in PkR/USD can provide some respite. To note, increase in coal prices impact PIOC the most form AKD Cement Universe while MLCF stands on the other end of the spectrum.

Cotton gains further momentum: International cotton prices gained another 5.6%MoM in Oct'20, with crop quality concerns due to bad weather conditions in the US (i.e. hurricanes) and Xinjiang, China driving prices higher. The latest USDA report featured offsetting revisions in global production and consumption, with small reductions in global production (-158,000 bales to 116.1 million) and mill-use estimates (-158,000 bales to 114.1 million) for 2020/21, however, better than expected output from Brazil in 2019/20 raised the beginning stocks, which lifted the forecast for 2020/21 ending stocks (+301k bales to 101.4mn bales). Domestically, the prices surged 9.7%MoM on a historically weak harvest in the outgoing season. Looking ahead, crop quality concerns and improved trade-related demand are key sources of support to prices. On the flip side, elevated inventory levels (expected to reach the second-highest level) will keep upside movement in check.

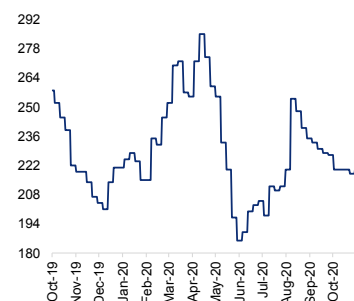
Urea prices take a breather; DAP prices on a rise: The urea price in Oct'20 declined 3% MoM averaging at US\$245/MT, but are up 11% FYTD following a reversal in global demand and energy prices from their early CY20 lows. In local context, the international urea price translates into PkR2,650/bag, at a 65% premium to current local prices, leaving a wide margin for the Fertilizer players to increase urea price in case of no relaxation given on budgetary measure (EFERT already increased PkR25/bag in terms of urea price w.e.f 10th Aug'20). To recall, Budget FY21 entails 10% expense disallowance on sales to unregistered persons, w.e.f Oct'20. Assuming 100% sales to unregistered dealers, this translates into PkR45-50/bag impact in terms of urea price for EFERT and FFC. On the other hand, DAP price continue their uptrend, rising 3% MoM and 15% FYTD to US\$351/MT, while prices from China are at US\$370/MT, with the latter translating into local DAP price of PkR3,900/bag. PkR appreciation will negate the upward trend in DAP price for local players, leaving little room to increase DAP price (increase of PkR500/bag FYTD), in our view.

COAL Price (US\$/MT)



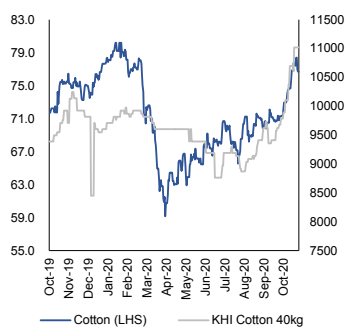
Source: Bloomberg & AKD Research

Urea Middle East Granular (US\$/MT)

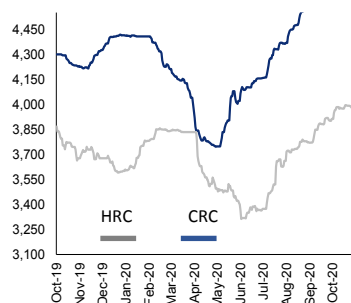


Source: Bloomberg & AKD Research

Cotton Price (Usc/lb)



Steel price (CNY/MT)



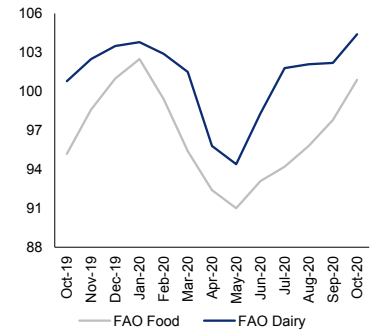
Source: Karachi Cotton Bloomberg & AKD Research

Steel rises on improved demand outlook: After a brief respite in Sep'20, steel prices once again surged across the board in Oct'20, with a more prominent increase in flat steel prices, where CRC/HRC recorded monthly gains of 3.2%/2.7%. The price surge came on account of improved international demand amidst tight supply in the EU. Despite steady demand in one of the largest consumer markets (i.e. China), the price increase was relatively moderate in long steel, with re-bars/billets prices inching up 0.7%/0.2%MoM.

Food prices continue to climb: FAO food price index averaged 100.9pts in Oct'20, +3.1/6.0% MoM/YoY – representing 5th consecutive increase on a monthly basis. All sub-indices except meat sub-index, witnessed firmer prices MoM. FAO Vegetable sub-index averaged 106.4pts,

+1.8%MoM reaching highest level in nine months, driven by increase in prices of palm and soy oil where the rise in former is underpinned by below-potential production prospects in leading producing countries and robust global import demand. FAO dairy index averaged 104.4pts, +2.2% MoM as prices of all dairy products firmed up with cheese witnessing major surge in price, followed by skim milk powder. Prices reflected market tightening for near-term deliveries amidst tight supply from Oceania as seasonality kicks-in. On the other hand, FAO meat index diminished 0.5%MoM to average at 90.7pts- marking 9th monthly decline since the start of the year. Bovine meat prices declined due to weak demand in USA amid rising shipment from South America whereas poultry meat prices dwindled because of reduced orders from China and Saudi Arabia. From market's vantage, increase in palm oil prices play in favor of UNITY while are detrimental to margins of milk producers (which are already stressed due to surge in SMP prices).

FAO Index



Source: FAO & AKD Research

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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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