

COMMODITIES
UPDATE

REP-019
MARKET
VISTA

Global industrial slowdown takes its toll

- Indicators of manufacturing activity exhibited significant weakness (JPM global PMI dropped to 49.3) pushing expectations of soft GDP growth (World Bank forecast of 2.6%, slowest since 2014), seeping into weaker commodity prices (TRJ index declined 4.6% MoM)
- Amongst broad categories for every major commodity class except safe-haven precious metals, prices have exhibited significant depression in CYTD basis, while energy commodities were broadly higher on CYTD basis (except Richards Bay coal and WTI), pulled lower by strained demand outlooks and supply gluts
- During the outgoing month, oil prices crept lower (Brent/WTI price fell 7.7/5.9%MoM), with coal prices reeled from lower demand from India and EU post declines of 6.2%MoM. Moreover, the downtrend in coal prices pulled Urea benchmarks lower YoY (but flat MoM). Trade tensions pulled soft commodity prices lower as well, while combinations of supply glut and weak outlook for imports kept food prices on the lower
- Amidst unprecedented trade tensions, weak commodity prices hold significant weight for import reliant Pakistan, where lower energy prices could hasten the revival of industrial output. On the flipside, rattled financial markets, with increasing risk-off sentiment and flight to safety may ward off potential investors, while responses from global Central Banks remain key in determining potential avenues for foreign portfolio flows.

Oil weakens under trade tensions: Major global crude benchmarks fell during July (Brent/WTI price down 7.7/5.9%MoM) where the latest round of US-China sanctions on Aug 23rd included Beijing imposing a 5% levy on US crude. This comes on top of sanctions already in place on US origin propane and LNG, sending Asian energy commodities into a tailspin (LNG spot prices fell below US\$4.5/mmbtu, Brent slope falling to 11% from 15% earlier). Apart from trade flows hindering demand, structural declines in global manufacturing and fears of recession risk continue to cloud sentiments surrounding oil markets. Developments surrounding OPEC+ meetings, US China trade negotiations and thawing of US Iran relations are key geopolitical developments driving prices, where risk to the downside seem to be more prominent in the near term.

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



Source: Bloomberg & AKD Research

Coal continues to tumble: Reduced shipping volumes and steady deliveries to the port of Richard's Bay have contributed to increased stockpiling, where weak demand from India (latest GDP growth of 5.8% being weakest in four years) has depressed prices by 6.2%MoM (adding to CYTD weakness of 38.1%). Mostly pushed lower by slowing demand from steel mills, coal imports

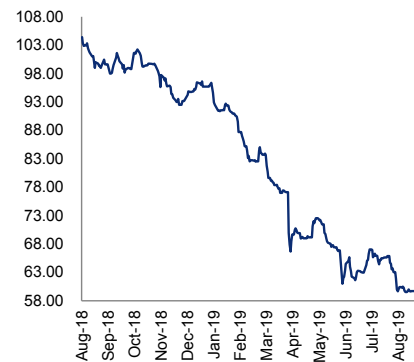
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Brent (US\$/bbl)



Source: Bloomberg & AKD Research

COAL Price (US\$/MT)



Source: Bloomberg & AKD Research

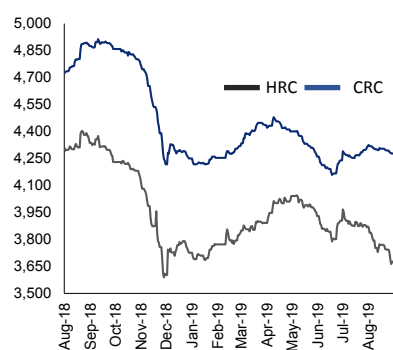


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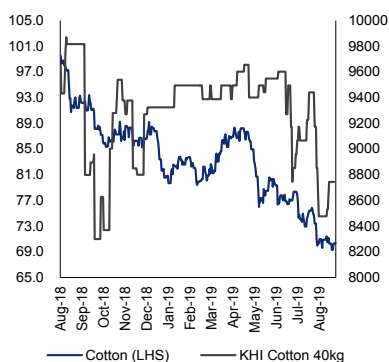
have weakened as China enhanced domestic production (against stated goals for curtailment) to fuel power generation demand. Additionally, lower LNG prices for spot deliveries to Asia seem to exert pressures on other thermal fuels, where power generation demand peaks during July to September period for most markets.

Decline in international urea price not concerning for local players: Benchmarks for Urea averaged US\$256/ton for Aug'19 staying flat MoM, but declining 6% YoY, due to downward trend in coal prices. The PKR devaluation has however more than nullified the impact of YoY increase in international urea price, translating into 19% YoY higher landed cost of Urea for the month (32% premium to local price). The fertilizer players thus remain in a position to maneuver pricing in case of continued delay in GIDC settlement. As per company notification during rounds, FFC has increased urea dealer transfer price by PKR90/bag, effective 08th Sep, 2019. The Fertilizer players had increased dealer transfer price by PKR80/bag in Mar-Apr'19, thus making the latest round of price hike sufficient to pass on the impact of 62/31% higher feed/fuel gas price, effective 01st Jul'19. A potential risk to urea pricing could emerge from continued operations of LNG based fertilizer plants for 12 more months, beyond the recently approved period of Nov'19.

Steel price (CNY/MT)



Cotton Price (Usc/lb)



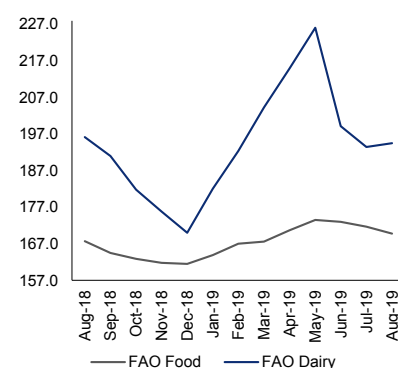
Source: KCA, Bloomberg & AKD Research

Cotton down 6.1%MoM as trade spat deepens: Soft demand outlook amidst trade uncertainty continued to weigh on cotton prices. Trade spat between US and China further intensified following president Trump's announcement of additional tariffs. In this backdrop, the benchmark Cotlook A index fell 6.1%MoM in the outgoing month, averaging USc70.91cents/lbs. Latest USDA's estimates indicate a substantial decline in world cotton consumption (-1.2mn bales, from 124.3mn to 123.1mn bales) versus a slight decline in production (-179k bales, from 125.8mn to 125.6mn bales), leaving higher global ending stocks (+1.0mn bales, from 80.4mn to 82.5mn bales). Following international prices, domestic prices slipped 4.8%MoM, as local mills remained reluctant to enter into new deals over cotton quality concerns. Looking ahead, the direction of cotton prices hinges upon the outcome of ongoing trade spat between China and the US.

FAO food prices continuing to move South: Following the 3M trend, Aug'19 FAO food prices contracted 1.1%MoM to 169.8pts, however +1.1%YoY. The latest drop is attributable to sharp fall in the prices of sugar and leading cereals, negating the impact of surge in prices in other indices. Sugar sub-index was down 4%MoM to 174.8pts in Aug'19 as higher potential exports due to weakening Brazilian real and prospects of larger shipments by India and Mexico in 2019/20 weighed on price. Cereal sub-index witnessed a sharp fall, down by 6.4%MoM to 157.6pts with primary contribution coming from pressure on prices of wheat (large export availabilities) and maize (much larger-than-earlier anticipated harvest in the United States). On the other hand, FAO Vegetable Oil price sub-index and FAO Meat price sub-index remained flat (+0.5%MoM). SMP prices surged (+3%MoM to US\$2500/t, +13.6%YoY CYTD), reflecting higher import demand for near-term deliveries as market activities began normalizing with the end of the summer recess in the northern hemisphere – Negative for FCEPL. Vegetable Oil sub-index, +5.9%MoM to 133.9pts (11M high) backed by firmer palm oil and other oil prices, underpinned by i) rebound in global import demand, ii) lower than expected inventory levels in Malaysia, and iii) unfavorable weather conditions in Indonesia – Negative for UNITY.

Challenging global backdrop continues to haunt steel product prices: Breaking from their historic trend, CRC/HRC prices took diverging path in Aug'19, where CRC prices moved up ~1%MoM while HRC prices declined ~1.74%MoM. As a result, the pricing spread widened to US\$70 per ton (vs. US\$56 per ton in Jul'19). Long steel prices plunged to set fresh YTD lows on weak demand in the downstream long steel markets. In this backdrop, rebars/billets recorded monthly price decline of 3.4%/3.5%MoM, with the primary spread remaining flat at US\$60 per ton.

FAO Index



Source: FOA & AKD Research

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Neutral	> 13% to < 19% expected total return
Sell	< 13% expected total return (Rf: 13%)

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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
Not Rated	No investment opinion or recommendation

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