



## Today's Daily

### ■ Aug'17: Commodities Update

Matching positive data points on global trade and economic growth, commodity markets consolidated led by energy (average Arab light/Brent up +6/+6%MoM and thermal coal +5%MoM), hard commodities (CRC/HRC steel +9/+10%MoM) and fertilizers (urea higher by 14%MoM). On the other hand, soft commodities (cotton prices down 6%MoM) and general food indices (FAO food price index down 1.3%MoM) receded, largely from higher than expected supply from the current crop season. The US Dollar continued to slide against major global currencies (Dollar index -3%/-9% FY/CYTD), aiding in the upwards movement of commodities while the after effects of hurricane season depleted demand for crude near month-end. Furthermore, growth in trade activity, measured growth numbers from China and increased retail activity in developed markets effectively balanced receding tensions from geopolitical shocks seen in 1HCY17.

#### KSE100 - Index

Current 41,126.83  
Previous 41,401.02  
Chg. -0.66%

#### Mkt Cap. (PkRbn/US\$bn)

Current 8,640 / 81.97  
Previous 8,698 / 82.53  
Chg. -0.67%

#### Daily Turnover (mn)

Current 94.95  
Previous 140.78  
Chg. -32.6%

#### Value Traded (PkRmn/US\$m)

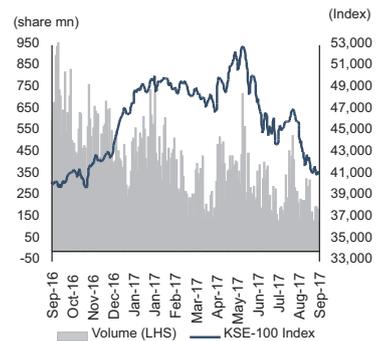
Current 5,557 / 52.73  
Previous 8,448 / 80.15  
Chg. -34.2%

## News and Views

■ A three-member bench of the Supreme Court, headed by Justice Ejaz Afzal, will today (Tuesday) take up the review petitions of Nawaz Sharif, his children and Finance Minister Ishaq Dar, while the counsel of Nawaz's children moved an application seeking hearing to be delayed till the formation of the five-member bench.

■ As per recent data released by PBS, country's trade deficit sharply widened by 33.52%YoY to US\$6.29bn in 2MFY18. Trade deficit in Aug'17 also widened 29.2%YoY/6.84%MoM to US\$3.42bn, where both exports and imports registered growth of 25.17%YoY/27.63%YoY to clocked in at US\$2.07bn and US\$5.49bn, respectively.

■ An inter-ministerial committee headed by Commerce Minister has approved export of 1.5mn tons of sugar in three phases with a subsidy of PKR10.70/kg. However, the Economic Coordination Committee (ECC) of the Cabinet is the final authority to approve quantity and rebate/subsidy.



AKD Research  
research@akdsecurities.net  
111-253-111 Ext: 639

**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

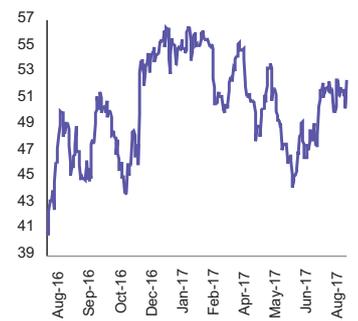


## Aug'17: Commodities Update

Matching positive data points on global trade and economic growth, commodity markets consolidated led by energy (average Arab light/Brent up +6/+6%MoM and thermal coal +5%MoM), hard commodities (CRC/HRC steel +9/+10%MoM) and fertilizers (urea higher by 14%MoM). On the other hand, soft commodities (cotton prices down 6%MoM) and general food indices (FAO food price index down 1.3%MoM) receded, largely from higher than expected supply from the current crop season. The US Dollar continued to slide against major global currencies (Dollar index -3%/-9% FY/CYTD), aiding in the upwards movement of commodities while the after effects of hurricane season depleted demand for crude near month-end. Furthermore, growth in trade activity, measured growth numbers from China and increased retail activity in developed markets effectively balanced receding tensions from geopolitical shocks seen in 1HCY17.

**Oil supply glut overshadows depleting inventory:** Monthly averages for Brent/Arab Light climbed +6/+6%MoM averaging US\$51.87/48.06/bbl during the month, whereas on month-end prices Brent/Arab Light slipped -0.51%/-2.11%. Depleting inventory levels during the month, accompanied by slipping US rig counts were overshadowed by the deteriorating effect on crude demand from hurricane Harvey on month end prices. Moreover, Libya and Nigeria, both exempt from the OPEC deal, ramped up production as their security situation improved. Crude oil inventory levels fell by 25.64mn bbls during the month to 457.76mn bbls and US rig count dropped by 7 to 759, but failed to provide any substantial support to prices. The month ended with hurricane Harvey hitting the US shore causing ~30% of US refining capacity to shut, exerting pressure on the US benchmark as demand for crude flat lined. Additionally, differentials between WTI and other benchmarks widened significantly with better Eurozone growth numbers and the OPEC deal members improving compliance (89% compliance level against 84% in Jul'17). On the domestic front, crack spreads remained range-bound without significant movement in the benchmark, while retail prices of MS/HSD were cut by Pkr1.8/2.5/litre on 6th Aug'17.

Brent (US\$/bbl)



Source: Bloomberg & AKD Research

**Coal on the rise again:** Global thermal coal prices are experiencing their third spike in the past 12 months due to supply constraints from Chinese mines. Currently standing at its 9 month high of US\$91/mt (vs. previous high of US\$99/mt in Nov'16), thermal coal went up by +5%MoM/+31%YoY in Aug'17, to stand at an average of US\$87/mt. Strong performance in thermal coal price is being driven by market dynamics in the top importer China (increased appetite for imported coal). A crackdown on illegal mining and pollution in China has curbed domestic coal supplies while, prevailing heat wave and lower hydro power output lifted demand for coal in power generation, forcing prices higher.

Coal Prices (US\$/MT)



Source: Bloomberg & AKD Research

**Steel prices surge amidst strong demand:** Maintaining their upward trajectory, flat steel product prices moved uphill during Aug'17 where



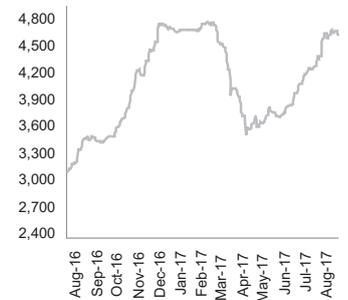
average hot rolled coil (HRC)/cold rolled coil (CRC) prices surged +9%MoM/+10%MoM averaging US\$594/US\$678/ton. Factors contributing to rising steel prices were: 1) recovery in Chinese domestic steel demand along with capacity shutdowns, 2) higher export demand, and 3) strong import demand from Brazil. Looking ahead, steel prices in the short run are likely to continue posting recovery. However, long term outlook remains gloomy as downward pressures could emerge from protectionist measures taken up by steel importing countries (first EU imposed duty and now India also contemplating anti-dumping duty) and risks of a slowdown in Chinese domestic demand.

**Cotton prices down over bumper crop expectations:** With a new crop year (MY18) starting in Aug'17, cotton prices declined -6%MoM/0.1%YoY to an average of US\$79.29/lbs over the expectations of significant increase in cotton supply. As per recent USDA's report, the global cotton production/consumption estimates for FY18 have been revised upward by 1.9mn/0.4mn bales to 117.3mn/117.4 bales, leaving production deficit of mere 0.1mn bales (previously at 1.6mn bales). With narrowing production deficit along with expected Chinese auction to lower stockpile, cotton prices are expected to soften further going forward. Following this international yardstick, cotton prices in the domestic market fell 2%MoM/6%YoY to PkR6,651/40kg in Aug'17. The decline in prices was primarily on account of arrival of new crop creating short term supply glut.

**Urea prices rebound to avg. at US\$200/ton in Aug'17:** After breaking its 14yr low (US\$163/ton in Jun'17), urea prices in Aug'17 bounced back by +14%MoM/+2%YoY to stand at an average of US\$200/ton vs. US\$176/ton in Jul'17. After having dropped to ~US\$163/ton in Jun'17, recovery in prices was witnessed. The overall short-term outlook for urea prices remains soft through weaker prices of downstream products. Moreover, excess production capacity is expected to continue putting pressure on prices - while some production capacity curtailments are expected, this is likely to be offset by more additions expected in 2017 (~8.1mn tons). On the domestic front, the declining trend in international prices is likely to restrict local industry's pricing power which is already struggling to clear excessive inventory stockpile, currently at 1.15mn tons as of Jul'17.

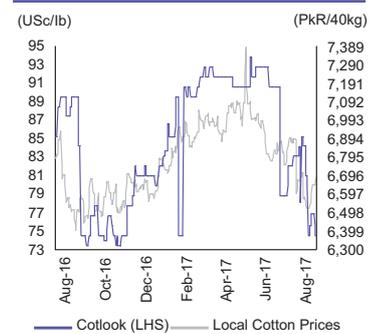
**FAO index conforms to the trend:** Following seasonal price movements, the FAO Food Price Index edged lower by -1.3%MoM while remaining higher by +6%YoY. Softened by lower movements in cereals (-5.4%MoM on oversupply from Black Sea exporters), sugar (-1.7%MoM on favorable cane prospects from India, Brazil) and meat (-1.2%MoM, on oversupply from Australia and USA) components. Even so, vegetable oil (+2.5%MoM on smaller production from Southeast Asia) and dairy (+1.4%MoM as butter and whole milk demand jumped in EU) indices kept the food index from slipping further.

**Steel Prices (CNY/MT)**



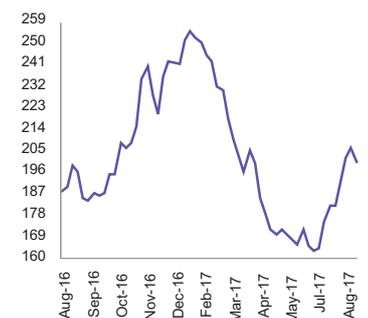
Source: Bloomberg & AKD Research

**Int. Cotton Prices vs. Local Cotton Prices**



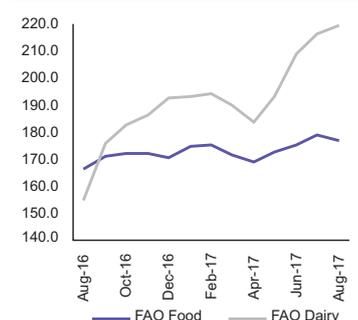
Source: Bloomberg & AKD Research

**Urea Prices (US\$/ton)**



Source: Bloomberg & AKD Research

**FAO Index**



Source: FAO & AKD Research



## Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

### Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

#### *Rating Definitions*

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



### **Analyst Certification of Independence**

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

### **Disclosure of Interest Area**

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

### **Regional Disclosures (Outside Pakistan)**

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.