

# MARKET VISTA

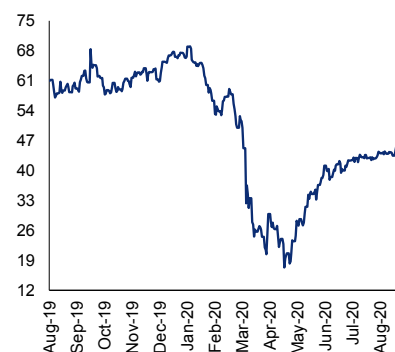
## COMMODITIES UPDATE

### Prices track the rebound

- Improving macro indicators, recovering trade and industrial activity on the global scale have characterized the outgoing month, where commodity benchmarks reflect the same return path to recovery indicated by the TRJ index climbing 6.6%MoM
- While demand remains below pre-COVID levels and stifling of growth resulting from specific restrictions on movement and sub-par public health outcomes (accelerating COVID cases in India, Brazil and parts of USA) constrain consumer sentiments, all major commodity classes in our analysis have treaded higher on MoM basis (with the exception of -0.4%MoM move in Gold)
- In terms of energy commodities, Crude benchmarks (Brent/Arab Light up 3.7/10.0% MoM) and Coal (average prices up 2.4%MoM) as lower price levels made shale production unfeasible reducing active rigs further and effective supply curbs tightened demand-supply dynamics
- Urea (up 20%MoM), Cotton (up 0.5%MoM) and Steel (rebar/billets price rose 1.3%/2.1% MoM) during Aug'20 benefitted from lower supply while individual restrictions on import of commodities amidst an environment of rising protectionism has also distorted pricing dynamics over the medium term
- With major global economies suffering from historic contraction in growth and job losses, Pakistan remains relatively shielded from the negative repercussions of COVID-19 outbreak. Despite this cushion, inflation remains volatile, with food prices the usual culprit. Additionally remittances and constrained import bill lend some support on the external front.

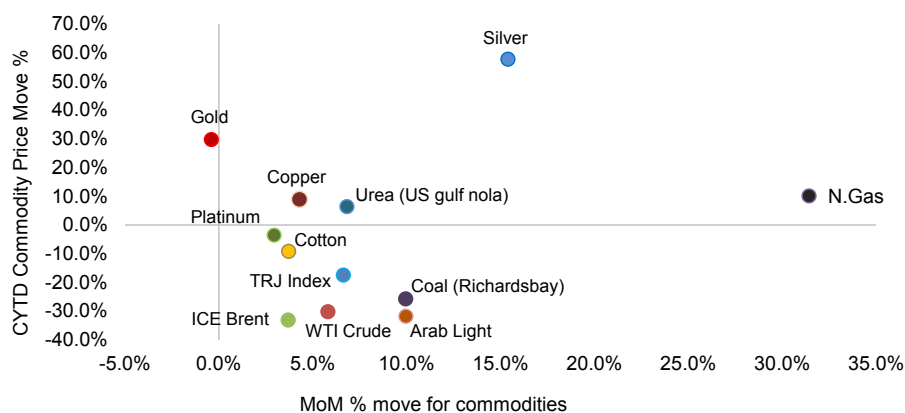
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Brent (US\$/bbl)



Source: Bloomberg & AKD Research

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



Source: Bloomberg & AKD Research

**Oil inches higher as supply dynamics wilt:** Crude prices reflect a continued rebound (Brent/ Arab Light prices up 3.7/10.0%MoM), while remaining below levels witnessed last year (Brent/ Arab Light prices down -25/-25%YoY). Major supply demand dynamics dictating crude price movements include: 1) depleting rig counts in North America as low price levels make production through shale unfeasible and 2) growing discontent amongst OPEC+ members where consensus amongst producers faces hurdles in the form of prolonged dampness in global demand. The number of active oil rigs has been broadly stable for the last seven weeks, after plunging almost 75% between mid-March and mid-July. Even so, the rig count is likely to start moving higher as the rise in oil prices since April starts to filter through into business decisions resulting in reallocation of capital to feasible production. Additionally, members of the Organization of the Petroleum Exporting Countries (OPEC) and their partners in the broader exporters' alliance (OPEC+) are showing signs of weakening resolve to output cuts agreed in April. OPEC+ consensus faces



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headwinds in the form of over-production by several countries for idiosyncratic reasons, the need for “compensating” output cuts in future, and requests for “exemptions”. At the same time, consumption is not recovering as fast as anticipated three months ago, as the coronavirus epidemic continues and major economies are hit by job losses.

**Low economic activity keeps coal prices range bound:** Coal prices have remained range bound for the last two months with prices averaging USD54.6/55.3/ton for Jun'20/Aug'20 as global economy continues to grapple with COVID-19 related restrictions while currently Richards bay prices are trading around USD56.6/ton, up 2.4% against Aug'20 average. The two major demand centers saw a decline in demand with China largely abstaining from coal imports to support local coal prices while India's imports also declined by 34.9% during Aug'20 to 12.5mn tons. Moving forward, we expect the same to continue as COVID cases in India continue to increase while increasing risk of second wave has reduced the pace of recovery in US and Europe. Low coal prices are a breath of fresh air for local cement manufacturers after depressed margins in 4QFY20 and are going to provide much needed support. As per our estimates, PIOC is the most sensitive to change in coal prices while MLCF stands on the other end of the spectrum.

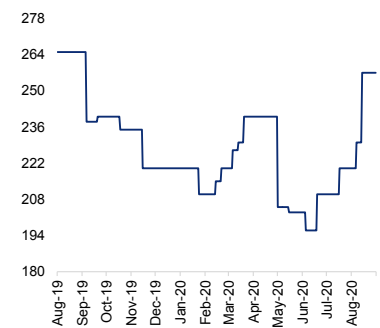
**Local prices likely to follow international trend:** The urea price in Aug'20 continued their up-trend, rising 13% MoM and 22% CYTD to US\$243.5/MT, with a reversal in global demand and energy prices from their early CY20 lows. In local context, the international urea price translates into Pkr2,760/bag, at a 73% premium to current local prices, leaving a wide margin for the Fertilizer players to increase urea price in case of no relaxation given on GIDC payment timeline and schedule. To recall, Supreme Court directed complete recovery of GIDC dues from the industrials within next 24 months, w.e.f Aug'20. However, the Fertilizer players have demanded an extension of 8 more years to repay the GIDC dues, indicating a potential urea price increase in case of dismissal of request. In similar vein, DAP price are also on the route of a comeback, rising 5% MoM and 11% CYTD to US\$323/MT, translating into local DAP price of Pkr3,700/bag. With the onset of Rabi season, the local DAP is expected to cumulative increase of Pkr200-250/bag in prices to be in the range of Pkr3,700-3,800/bag, as per our channel checks.

**COAL Price (US\$/MT)**



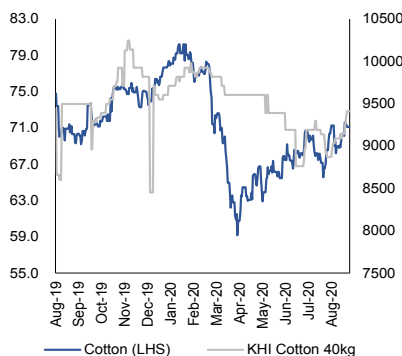
Source: Bloomberg & AKD Research

**Urea Black Sea Prill (US\$/MT)**

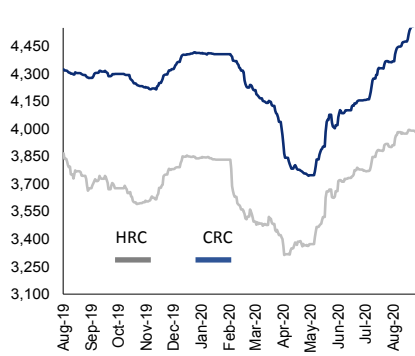


Source: Bloomberg & AKD Research

**Cotton Price (Usc/lb)**



**Steel price (CNY/MT)**



Source: Karachi Cotton Bloomberg & AKD Research

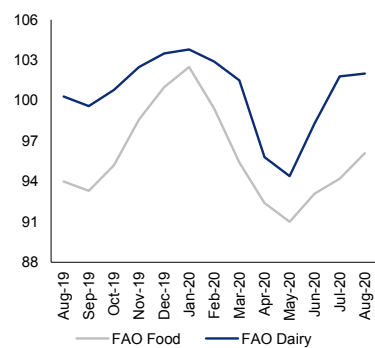
**Cotton keeps the momentum going:** Cotton maintained its upward momentum during Aug'20, with international cotton prices nominally increasing by 0.5%MoM to USC70.37 per lbs. The latest USDA report featured small declines to global estimates for MY21 production (-326k bales to 117.2 million) and mill-use (-366k bales to 112.7 million), however, a larger revision to global production for MY20 (-1mn bales) led to lower ending stocks (-1.1mn bales to 103.8mn bales), providing critical support to international prices. Domestic prices observed a steep increase of 4.8%MoM on the fears of damage to crop following torrential rains during the monsoon.

**Steel prices up on rising input costs and demand recovery:** Long steel prices continue their surge for the consecutive 4th month, supported by rising feedstock prices and recovery in demand. Average rebar/billets price rose 1.3%/2.1%MoM during the Aug'20, with the rebar-billet spread narrowing to a multi-year low of US\$29 per ton. Scrap prices witnessed 10%MoM as Turkey resumed buying in the outgoing month. The story was more or less similar for flat steel products, where improved demand from the automotive sector and rising feedstock costs pushed the final product prices higher. Average CRC/HRC prices moved up 4.78%/2.99%MoM during the month.

**Food price index climbs to 6-month high:** FAO food price index averaged 96.1pts in Aug'20, +2.0%MoM to reach the highest point in six months helped by weaker dollar and price increases in sugar and vegetable oil segments. Vegetable oil price index surged 6.0%MoM to average at 98.7pts (highest level since Jan'20) mainly reflecting firmer palm oil prices as a result of prospective production slowdowns and higher import demand – negative for UNITY and milk manufacturers (FCEPL, FFL). On the other hand, dairy subindex remains unchanged MoM at 102.0pts in

Aug'20 under influence from offsetting impact of price decline in whole milk powder (WMP) and cheese and increase in value of skimmed milk powder (SMP) underpinned by steady global import demand for medium-term deliveries and reduced milk production in Europe. Moreover, meat price index remains flat MoM at 93.2pts in Aug'20 where prices of bovine, poultry, and ovine meat diminished amid lower import demand, only to be offset by increase in prices of other components.

### FAO Index



Source: FAO & AKD Research

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To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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Buy	> 14.5% expected total return (Rf: 8.5% + Rp: 6%)
Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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