

OCBC Commodities Outlook

Energy

Recent geopolitical tensions in Syria had previously lifted WTI above its \$105/bbl handle, and prices are likely to stay range-bound given the on-going negotiations for the termination of Syrian chemical arsenal. We continue to see ample global supply given recent data from Saudi Arabia and US amid easing Libyan strikes. Our forecasts for WTI and Brent at \$95/bbl and \$100/bbl at end year remain unchanged.

Base Metals

Copper remains supported above its \$7,000/MT handle as the red metal took cues from favourable global economic headlines. Specifically, PMI/ISM manufacturing data across key markets, including US, Eurozone and China were above market expectations. Meanwhile, LME copper stockpiles continue to decline over the past 11 consecutive trading days, suggesting that copper prices should stay supported above its critical \$7,000/MT handle.

Precious Metals

Gold prices remained volatile of late, as recent events cast a spectrum of reasons for the fluctuation of gold prices between \$1,280 - \$1,420/oz over the last two months. With the absence of a Sept QE taper, the market may now look towards October's FOMC for tapering cues. Given the eventual QE taper, gold may lack major triggers that can drive prices higher, and prices are expected to remain range-bound between \$1,300 - \$1,400/oz ahead of the next FOMC event.

Agriculturals and Asian Commodities

CPO futures had remained range-bound between MYR2,200 – MYR2,500/MT since the start of 2013 and is likely to remain soft given the climbing CPO production in key producing countries amid lackluster demand seen of late. Meanwhile, coffee prices continued to slide in August, extending the downward trend since May 2011 as supplies stay abundant, primarily due to the increased planting of coffee plants in key coffee producing countries over the last few years.

Commodities Performance Table

Updated as of September 10, 2013

Selected Indices	Close	Weekly Change	MTD	QTD	YTD
US Dollar Index (DXY)	81.8	-0.7%	-0.3%	-1.6%	2.7%
Reuters / Jefferies (CRB)	290.1	-0.9%	-0.4%	5.2%	-1.6%
DJIA	15,191.1	1.7%	2.6%	1.9%	17.4%
S&P 500	1,684.0	1.9%	3.1%	4.8%	20.1%

Energy	Close	Weekly Change	YTD	Net Position	Weekly Change
NYMEX WTI Crude	107.4	0.1%	18.3%	379,763	-7,219
ICE Brent Crude	111.3	-3.2%	0.6%	203,151	-21,754
NYMEX RBOB Gasoline	273.6	-4.5%	-2.3%	56,029	-1,748
NYMEX Heating Oil	306.7	-2.2%	0.7%	8,733	-4,188
NYMEX Natural Gas	3.6	-2.7%	3.3%	-148,844	-6,638

Base Metals	Close	Weekly Change	YTD	Net Position	Weekly Change
LME Copper	7,170.0	0.6%	-9.1%	-8,592	-4,119.0
LME Aluminum	1,752.0	0.2%	-14.0%	-	-
LME Nickel	13,669.0	0.4%	-20.3%	-	-

Precious Metals	Close	Weekly Change	YTD	Net Position	Weekly Change
COMEX Gold	1,363.7	-1.86%	-17.65%	110,665	-16,998
COMEX Silver	23.0	-1.72%	-23.24%	21,588	-3,242
NYMEX Platinum	1,474.1	-1.38%	-2.85%	38,752	-1,243
NYMEX Palladium	691.1	-0.80%	-1.32%	22,147	-1,415

Agriculture	Close	Weekly Change	YTD	Net Position	Weekly Change
CBOT Corn	474.8	-3.9%	-31.6%	-27,698	-4,453
CBOT Wheat	633.8	-0.1%	-18.6%	-49,154	-7,831
CBOT Soybeans	1,403.8	0.4%	-1.4%	152,333	-14,286

Asian Commodities	Close	Weekly Change	MTD	QTD	YTD
Thai Hom Mali Rice (THB/KG)	33.8	0.0%	1.5%	3.0%	9.7%
Crude Palm Oil (MYR/MT)	2,351.0	-2.9%	-3.8%	0.6%	-0.7%
Rubber (JPY/KG)	269.8	-0.1%	5.2%	16.1%	-6.6%

Source: Bloomberg, CFTC, OCBC

Note: CFTC net positions for Aluminum and Nickel are unavailable.

OCBC Treasury Advisory

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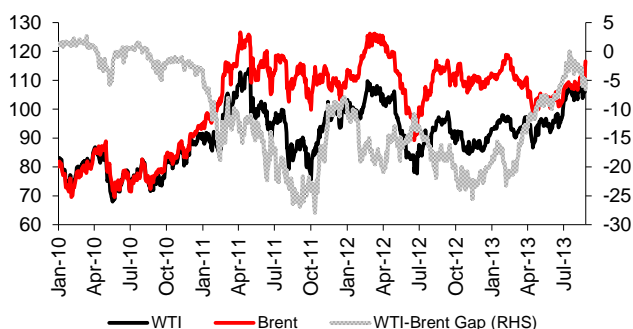
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Energy: Dearth of geopolitical tensions

Recent geopolitical tensions in Syria had previously lifted WTI above its \$105/bbl handle, and prices are likely to stay range-bound given the on-going negotiations for the termination of Syrian chemical arsenal. The risk of any military aggression, in our opinion, has significantly diminished, given the preference for a diplomatic solution amid the lack of popular support for military intervention by the US Congress and its people.

The higher oil prices however, are likely to correct once the underlying issues dematerialise. In fact, the increased supply from Saudi Arabia (highest in more than 32 years) and US' increased oil production (highest since 1989) may eventually feed into lower oil prices. Likewise, Libyan oil output had reportedly recovered about 25% of total capacity following talks between the government and its striking workers. Initial success of negotiations between US and Russia in dealing with Syrian chemical arsenal has also likely defused much geopolitical tensions. As such, the correction in oil prices is likely to be as sharp as how it rallied in July, given the unsustainable and elevated percentage of open interest seen in August (highest since 1995), suggesting that any profit-taking is likely to send oil prices back to its \$95/bbl handle.

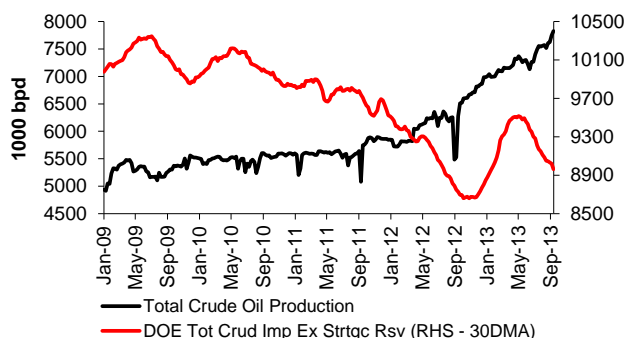
Brent and WTI Spot



Source: Bloomberg, OCBC Bank

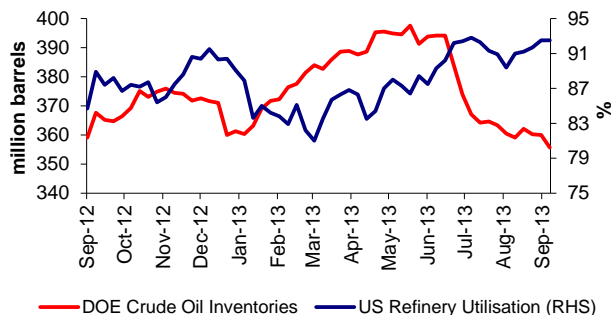
While much of oil's rally is blamed on Syrian civil war, it is important to note that several other factors have reinforced the bull run of late. Firstly, Libya faced labour strikes by its own government employees, effectively disabling key oil export terminals and bringing oil supply to a tenth of pre-strike levels. Secondly, US oil inventories have fallen to its lowest since March 2012 despite the increase in oil production. Thirdly, growth-linked commodity prices may have also taken cues from the green-shoot recovery signs in Europe, relative improvement in US labour market, and the positive manufacturing PMI prints in key markets.

US oil production rose to its highest since 1989



Source: US Department of Energy, Bloomberg, OCBC Bank

US Oil Inventories fell to its lowest since March 2012 as refineries run above 90% utilisation levels



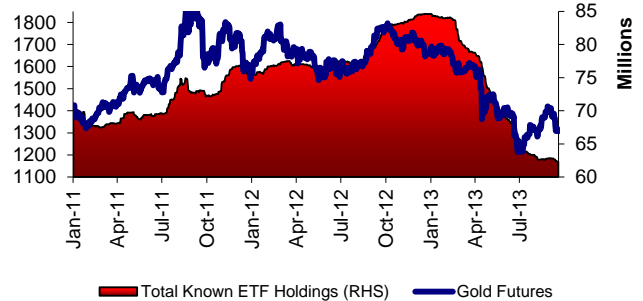
Source: US Department of Energy, Bloomberg, OCBC Bank

The unlikely event of a military action against Syria given recent successful negotiations will likely depress oil prices further in 2H13. Still, we note that there still needs further confirmation (and greater cooperation) from Syria and its surrender of its chemical weaponry to fully defuse military tensions. The absence of such may allow geopolitical tensions (should it arise again) to overshadow the healthy oil supply and support oil prices above its \$100/bbl handle. Given our expectations for the dearth of military tensions in Syria and healthy oil supply outlook for the rest of the year, we still hold our WTI and Brent outlook at \$95/bbl and \$100/bbl at year's end.

Precious Metals: Onward to October!

Gold prices remained volatile of late, as recent events cast a spectrum of reasons for the fluctuation of gold prices between \$1,280 - \$1,420/oz over the last two months. And this is not surprising, given its many natures, from its role as a safe-haven which allowed it to rally in the heat of geopolitical tensions in Syria, to its deterioration as a store of value given the risk of a QE taper in the Sept FOMC. With the absence of a QE taper, gold prices rallied almost 5.5% on intra-day trading to its \$1,360/oz handle, suggesting that the market still viewed the prospect of the Fed's bond purchase programme as a key driver for gold prices.

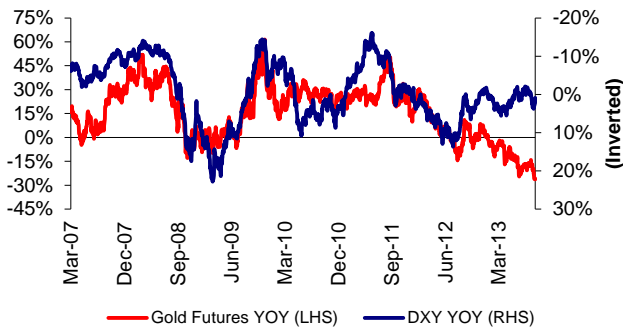
Gold ETF holdings remain soft, suggesting lackluster speculative interest



Source: Bloomberg, OCBC Bank

The rather lacklustre speculative interest seen of late may also be exacerbated by potentially softer physical demand, especially from India. India, being the largest consumer of gold in the world, has raised its duty on gold jewellery imports to 15% from a previous 10%. It has also previously hiked its import duty on raw gold three times this year to a latest print of 10% in a bid to narrow its current account deficit. As such, gold's physical demand is likely to continue to take cues from China, where Chinese consumers typically pay a premium for physical gold.

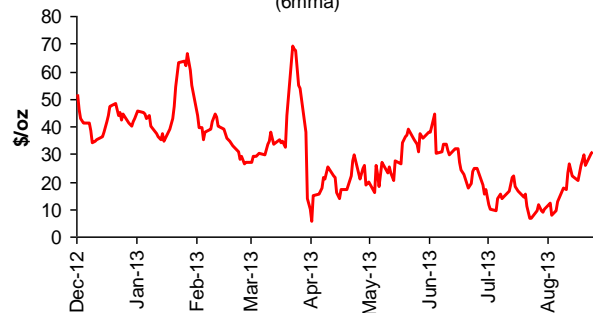
DXY and Gold Futures



Source: Bloomberg, OCBC Bank

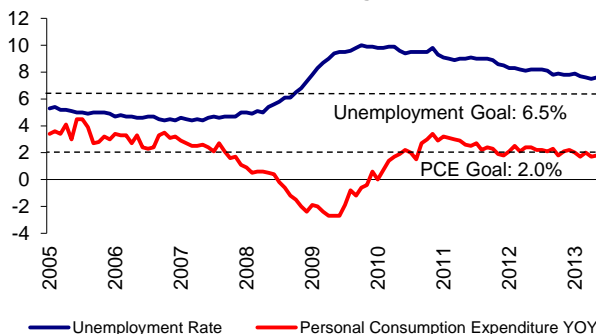
With the absence of a Sept QE taper, the market may now look towards October's FOMC for tapering cues (another \$10bn?) in accordance to June's FOMC where the committee voiced appropriateness for a taper later this year. Importantly, the Fed kept to its dual mandate of maximum employment and price stability, while citing economic risks given elevated unemployment rate and soft sub-2.0% inflation rate. As such, we note that the prospect of any tapering this October remains data-dependent, and speculative interest may remain soft as investors continue to play a wait-and-see game for incoming US-centric economic data.

Chinese gold premium (6mma)



Source: Bloomberg, OCBC Bank

US economic goals



Source: FOMC, Bloomberg, OCBC Bank

Given the eventual QE taper, gold may lack major triggers that can drive prices higher, and prices are expected to remain range-bound between \$1,300 - \$1,400/oz ahead of the next FOMC event. In the event of a QE taper in October, we tip gold to touch \$1,250/oz at year-end. However, should the Fed refrain from any moderation in its bond purchase programme for the rest of the year, gold is likely to rally pass \$1,400/oz in 2013 before setting a downward course once again in 2014.

Crude Palm Oil: Still no light at the end

CPO futures had remained range-bound between MYR2,200 – MYR2,500/MT since the start of 2013 and is likely to remain soft given the climbing CPO production in key producing countries amid lackluster demand seen of late. Specifically, Malaysia's CPO production had outperformed our expectations in August at 1.735 million (OCBC expectation: 1.698 million), suggesting some upside risk to our initial Malaysia's full-year CPO production of 19.0 million tons. Meanwhile, CPO exports from Malaysia and Indonesia (accounting for almost 90% of global CPO output) continued to contract in August.

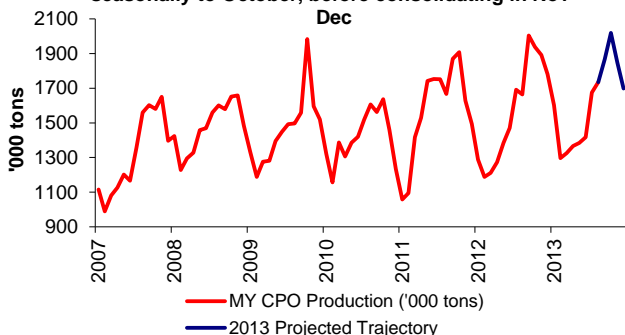
Key Palm Oil Statistics					
Exports Growth YOY	Apr-13	May-13	Jun-13	Jul-13	Aug-13
CPO - Malaysia	-41.1%	-33.6%	-47.9%	-11.1%	-24.6%
CPO - Indonesia	-28.3%	15.0%	14.7%	-39.4%	-32.2%
PPO - Malaysia	28.8%	12.6%	10.5%	16.2%	18.9%
PPO - Indonesia	20.3%	27.3%	38.1%	44.3%	54.4%

Malaysia CPO Data ('000 MT)					
	Apr-13	May-13	Jun-13	Jul-13	Aug-13
Production	1,366.5	1,384.3	1,416.8	1,674.9	1,735.3
Inventories	1,913.5	1,816.3	1,647.6	1,663.8	1,665.6

Source: Bloomberg, MPOB, OCBC Bank

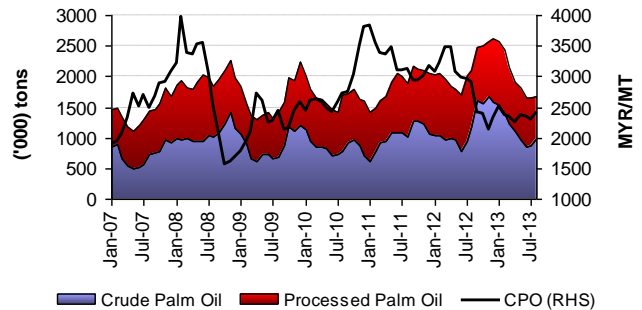
The upside risk to CPO production levels and lackluster export demand continues to paint a bearish picture for the palm oil market. Specifically, Malaysia's top destinations for CPO exports continued to contract, with India leading the fall in exports by an alarming contraction print of 43.8% yoy in August given the currency degradation in the INR. Meanwhile, CPO production in Malaysia and Indonesia is expected to climb seasonally till October, before consolidating in Nov-Dec. As such, the eventual consequence to the lackluster global demand had resulted in a build-up in Malaysian palm oil stocks for 3 consecutive months to 1.67 million tons in August, and inventories may see further build-up should demand remains soft.

Malaysia CPO production is expected to climb seasonally to October, before consolidating in Nov-Dec



Source: MPOB, OCBC Bank

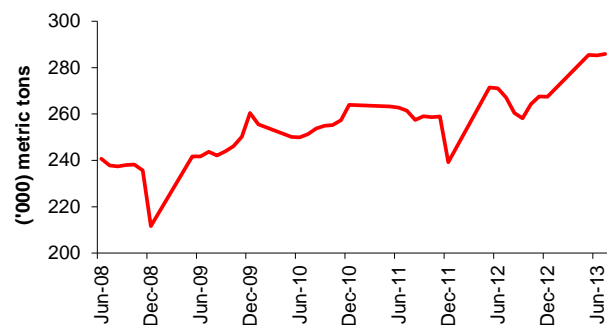
Further build-up in Malaysia's CPO stocks may be seen should lackluster demand sustains



Source: MPOB, Bloomberg, OCBC Bank

Furthermore, it is imperative to account for the potential downside in soybean prices, given that supplies remain healthy. Specifically, USDA estimates that soybean should range between \$11.50 - \$13.50 / bushel (last week: \$14.4/bushel), while the commodity remains shackled to a backwardation forward curve, suggesting that prices are likely to remain soft for the rest of the year. The relatively cheaper soybean, which is a choice alternative to CPO, is likely to inject an extended period of lackluster for its competitor.

Global Soybean Production remains healthy



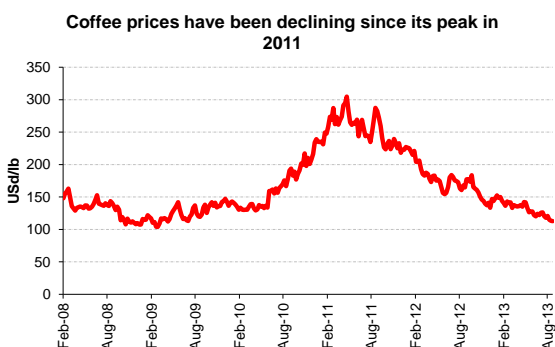
Source: US Department of Agriculture, OCBC Bank

Given the above reasons, we perceive CPO to see an initial support of MYR2,250/MT, and to remain bound to its MYR2,250 – 2,500/MT range for the rest of the year. For 2014, a better global economic footing, and CPO's increasing involvement in biofuel should allow CPO futures to rally to MYR2,375/MT in 1H14.

Coffee: No Turning of Tide

Adapted from Coffee Outlook: Sept 10, 2013

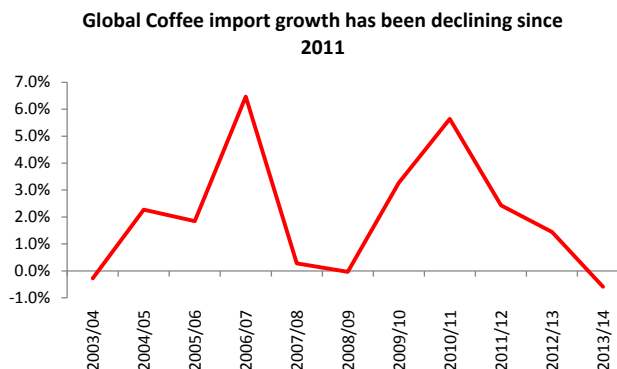
Coffee prices continued to slide in August, extending the downward trend since May 2011 as supplies stay abundant. According to estimates by International Coffee Organization (ICO) and US Department of Agriculture (USDA), coffee production by all exporting countries is estimated at 144.4 million bags (+7.6% yoy) for the year 2012/3, and should remain high at an estimate of 146 million bags in 2013/4. Demand has also remained soft of late, where total shipments in July 2013 contracted 6.6% yoy (or 9.1 million bags), according to ICO.



Source: Bloomberg, OCBC Bank

Coffee supply is expected to stay abundant for the year primarily due to the increased planting of coffee plants in key coffee producing countries over the last few years. According to the Agricultural Trade Office (Sao Paulo), the amount of non-bearing trees in Brazil (note that Brazil is the largest coffee producer in the world) rose 196 billion trees (+29.0% yoy) in 2009/10, likely in anticipation by farmers to take advantage of higher coffee prices and supply crunch during the same period of time. The increased planting spree is also seen other key coffee producing countries in Vietnam, Indonesia and Columbia, according to USDA and other official data. Note that coffee plants take about 5 years to mature into a bean-bearing tree, and are expected to remain productive over the next 15 years, thus indicating that trees planted in 2009/10 has already started to mature into fruit-bearing trees as of this year

From the demand point of view, global import growth has been declining since 2011, after the surge in coffee consumption in developing countries since 2003 which subsequently led to appreciating coffee prices and increased coffee plantings/hectare. Nevertheless, coffee consumption is still dominated by developed economies, especially in North America and Developed Europe, which made up more than 1/3 of global coffee consumption in 2012 (see appendix). Given this fact, much of the decline in coffee import growth may be attributed to the economic woes seen of late, which saw a contraction in coffee imports by Germany (-6.7% yoy) and Canada (-2.1% yoy) in 2012. As such, the sustained decline in coffee prices in 2011 – 2013 is unsurprising, given the lacklustre demand by key importing countries.



Source: International Coffee Organisation, OCBC Bank

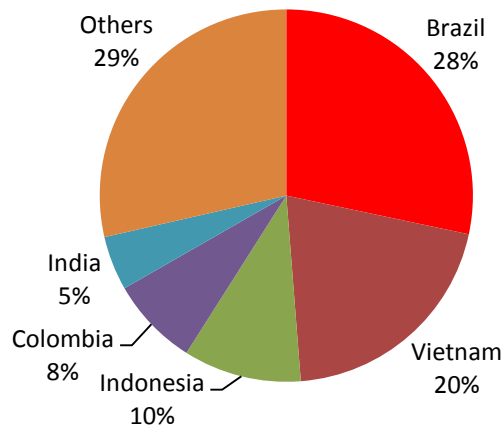
The expected high coffee production for the year (and next) amid tame coffee consumption is likely to cap potential rallies in coffee prices at least for the year. In addition, coffee positions remain in net-short levels, according to CFTC data, suggesting that the market remains expectant on lower coffee prices. As such, we stay bearish on coffee and look for prices to see an immediate support of \$1.10/lb should prices fall further.

Brazilian Coffee Area and Tree Population

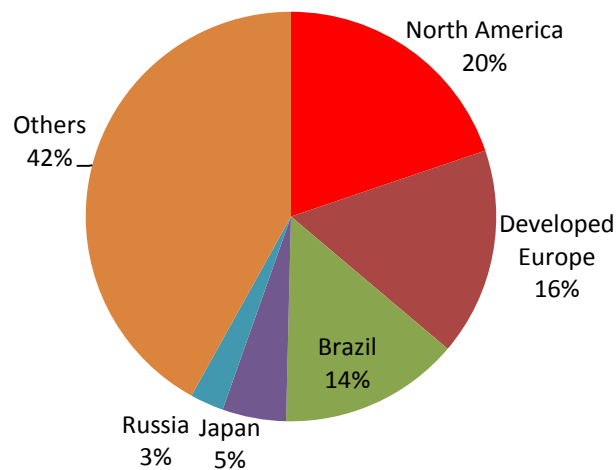
	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
Total Trees (billion)	6,293	6,567	6,598	6,635	6,595	6,595
Non-Bearing	563	679	677	873	815	835
Bearing	5,730	5,720	5,890	5,725	5,820	5,760
Total Area (million hectares)	2,431	2,431	2,424	2,395	2,409	2,410
Non-Bearing	186	196	201	244	234	260
Harvested	2,245	2,235	2,223	2,151	2,175	2,150
Trees/ha (thousand trees/hectare)	2,589	2,632	2,710	2,755	2,754	2,737
Non-Bearing	3,030	3,468	3,368	3,578	3,483	3,212
Bearing	2,552	2,559	2,650	2,662	2,676	2,679

Source: Agricultural Trade Office, Sao Paulo

Global Coffee Exports (Aug 2012 - Jul 13)



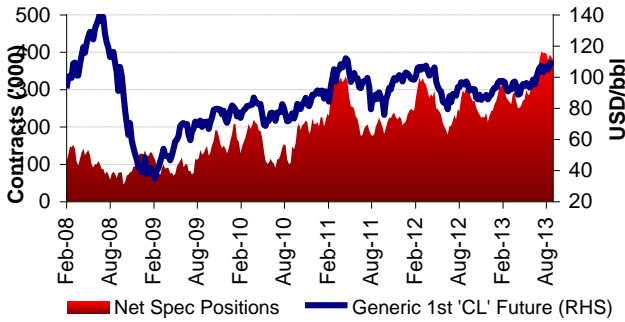
Global Coffee Consumption (2012)



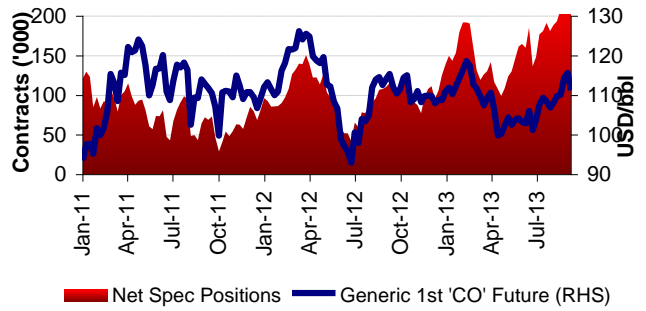
Source: International Coffee Organization, USDA

Commodities CFTC Positioning Charts

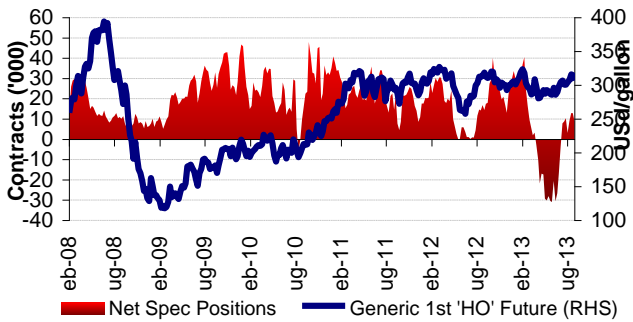
NYMEX WTI



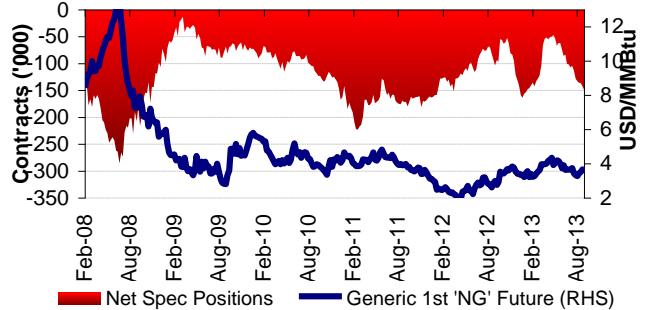
ICE BRENT



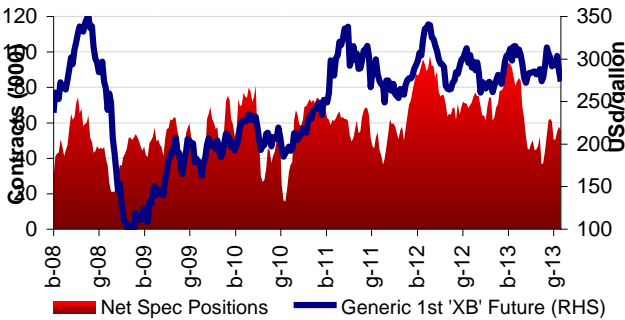
HEATING OIL



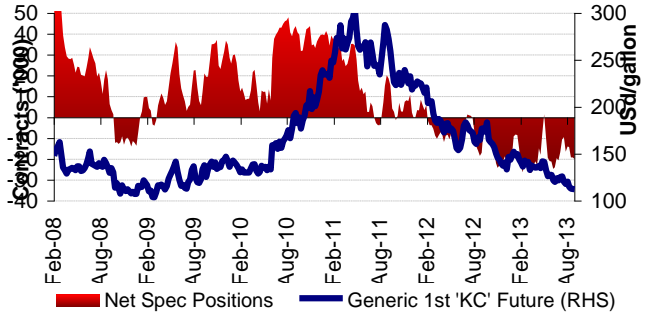
NATURAL GAS



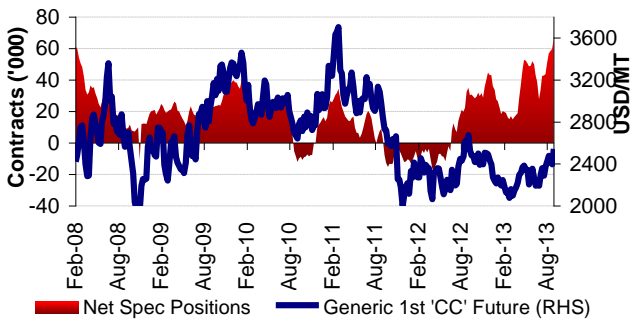
NYMEX GASOLINE



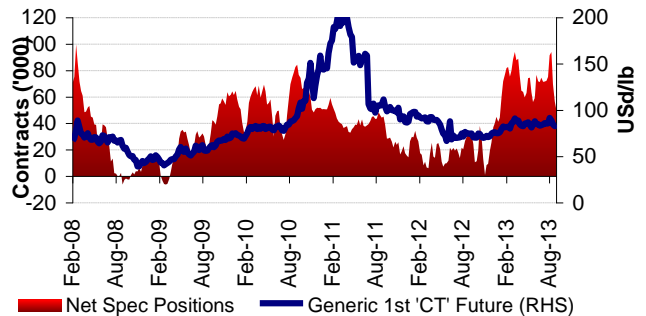
NYBOT COFFEE



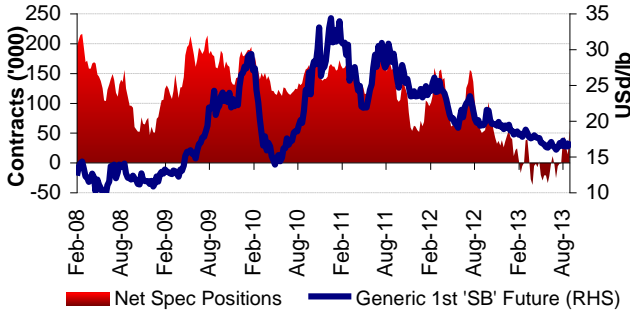
NYBOT COCOA



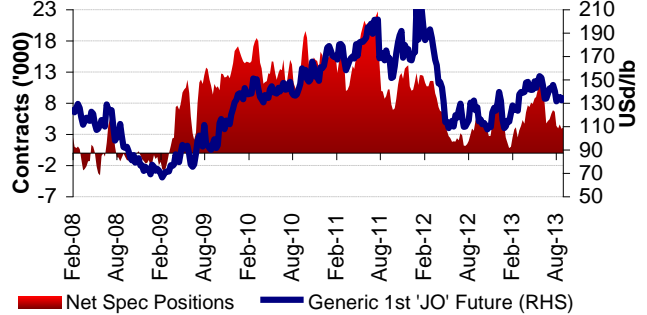
NYBOT COTTON



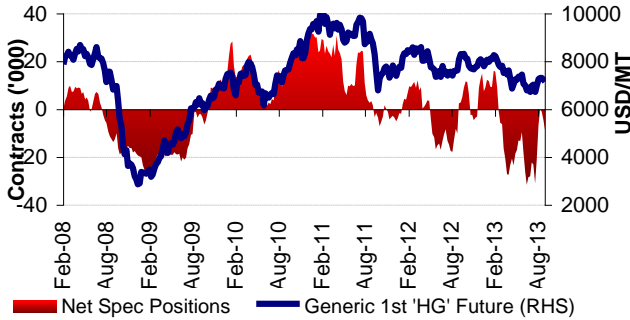
NYBOT SUGAR



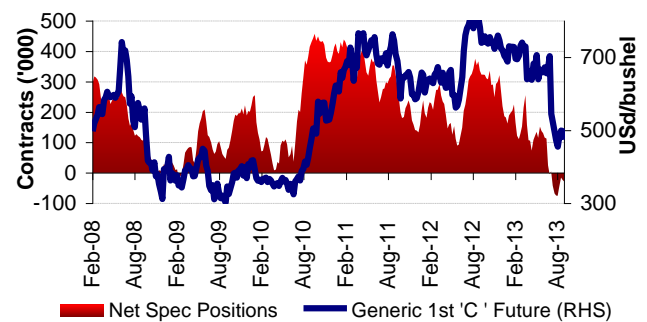
NYBOT ORANGE JUICE



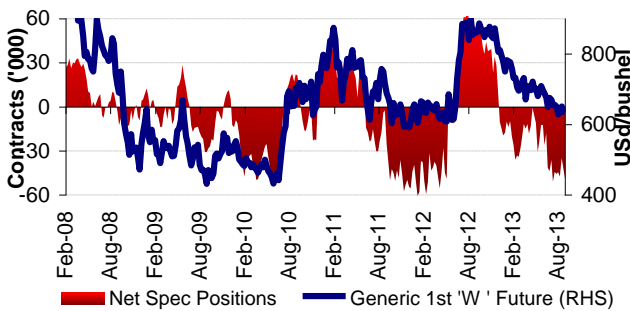
COMEX COPPER



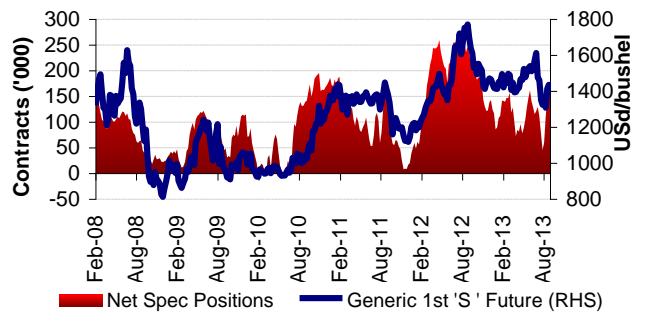
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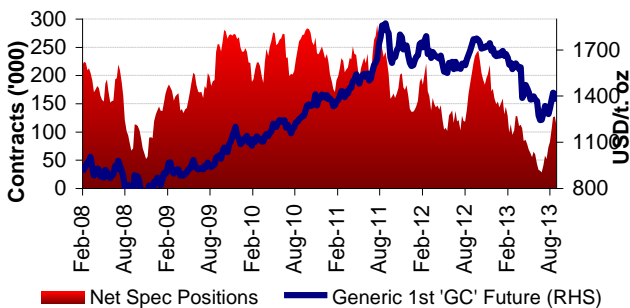
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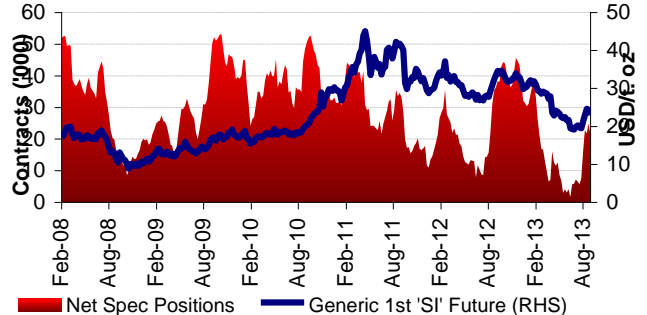
CBOT SOYBEAN



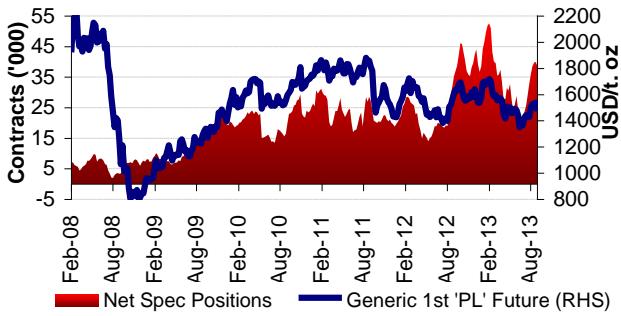
COMEX GOLD



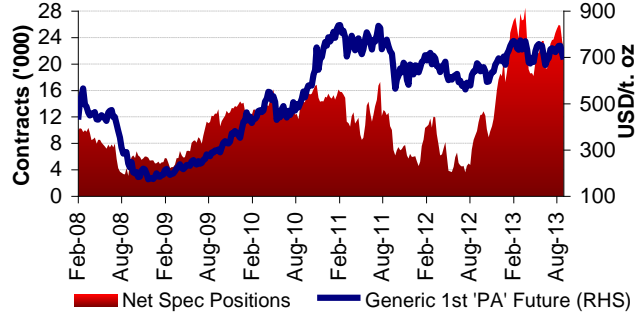
COMEX SILVER



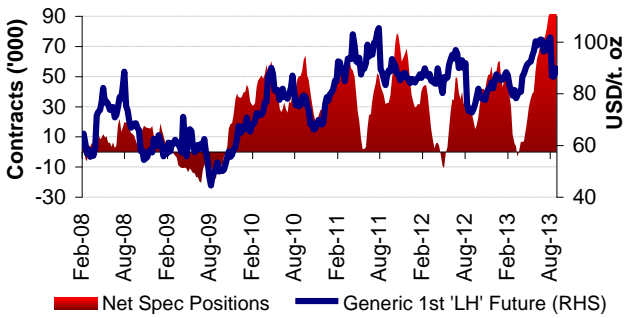
NYMEX PLATINUM



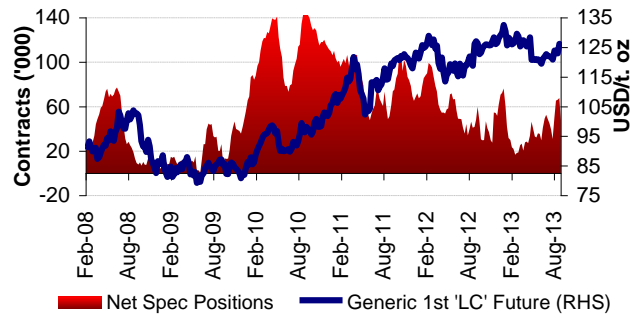
NYMEX PALLADIUM



CME LEAN HOGS



CME LIVE CATTLE



Source: CFTC, Bloomberg

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