

Commodity

Industry Report
February 12, 2019

PT. Mirae Asset Sekuritas Indonesia

Commodity

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Weekly commodity alerts

Golden week

We are optimistic that global gold price would rise this week on the back of US' economic slowdown and the uncertainty in the US-China's trade talks. Meanwhile, we see mixed catalysts for basic metal and agriculture sectors this week. Additionally, we doubt that the energy sector would shine in global oil or coal market. Overall, we suggest investors to play on gold-related stocks.

Energy

We predict that the US' oil inventory net change will continue to spike up this week, given the projection of the US' economic slowdown. Meanwhile, we suspect that OPEC's monthly oil market report (MOMR) in February would not change full-year 2019F global oil demand estimate. We also predict that OPEC would not change Non-OPEC oil supply estimate in its February MOMR. As to global coal market, China will release its January thermal coal import data, which we predict will report a continued decline in its thermal coal import in January. Additionally, we see that China's 6 major power plants' average weekly burn was trending down. From inventory position, we note that those major power plants' coal inventory was still high at 14.7mn tonnes.

Basic metal

We see mixed catalysts for global nickel market, such as LME's nickel inventory release and the US-China's trade talks. The positive catalyst is lower global nickel inventory this week, while the negative catalyst comes from the uncertainty in the US-China's trade talks. From supply side only, we believe that global tin price will continue going up along with lower global tin inventory estimates this week. However, we see a possible downside risk from demand side amidst US' weakening economic activities this year. In the medium term, we have concerns about the additional tin supply from AfriTin as the company plans to upgrade its tin production capacity located in Namibia to increase by 5,000 tonnes/year.

Precious metal

Given the US' sluggish January inflation, which could drag down USD against other global currencies, we believe that global gold price will surge this week. According to Bloomberg's consensus, US' January inflation will slow down to 1.5%, from 1.9% in December and US' PPI YoY in January would fall to 2.1%, from 2.5% in December.

Agriculture

Based on a supply-demand analysis, we believe that upside risks will outstrip downside risks in global CPO market, given Malaysia's lower CPO production numbers in January. In contrast, due to China's lower January soybean import estimates and the hanging trade talks between the US and China, we see more downside risks coming from soybean as one of CPO's substitutions.

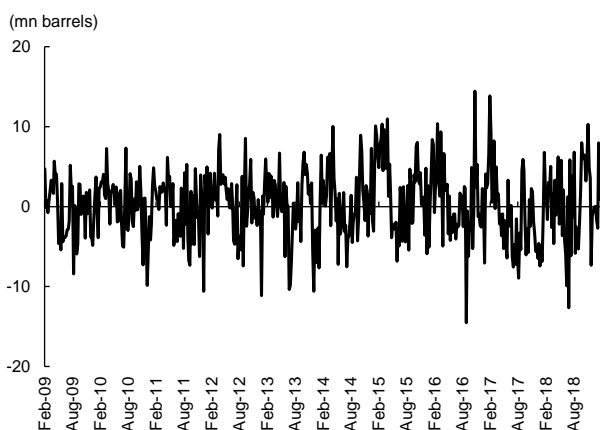
Energy

Crude oil: The continuing US vs. OPEC battle

US' total change in oil inventory potentially increases further

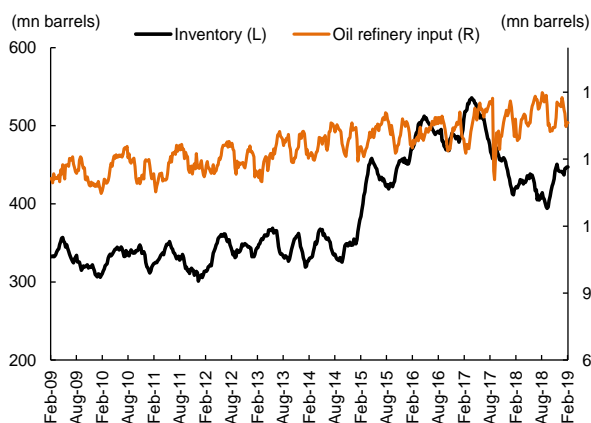
Given the US' economic slowdown estimates, we predict that the US' oil inventory net change will continue to spike up this week. In the meantime, we predict that US' oil refinery input would be flat at 16.6mn barrels, considering its weakening oil demand estimate this week. Furthermore, we predict that US' oil inventory would come in flat at 447.2mn barrels this week.

Figure 1. US' oil inventory net change



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 2. US' oil inventory vs. crude oil input

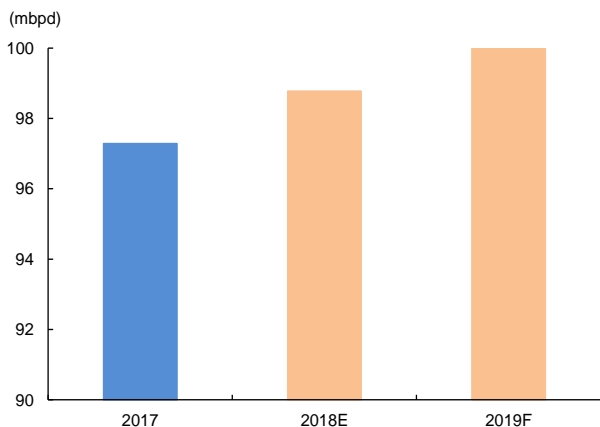


Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

OPEC's monthly oil market report (MOMR) release

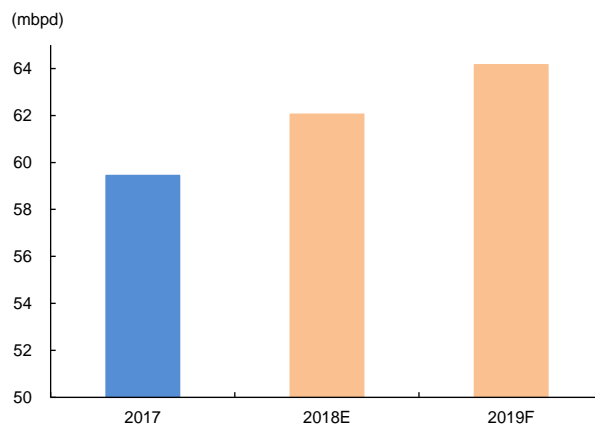
Besides the US' net change in oil inventory release, we believe that OPEC' monthly oil market report (MOMR) release would also be watched by investors as OPEC has a significant influence on the global oil market. We note that OPEC's January MOMR reports that full-year 2019F global oil demand will stay the same at 100.08mn barrels/day. Likewise, we expect no change in full-year 2019F global oil demand in OPEC's February MOMR. From supply side, we predict that OPEC would not change Non-OPEC oil supply estimate in its February MOMR. To note, in January, OPEC predicted that full-year 2019F Non-OPEC oil supply estimate will stand at 64.16mn barrels/day.

Figure 3. Global oil demand estimates



Source: OPEC, Mirae Asset Sekuritas Indonesia Research

Figure 4. Non-OPEC supply estimates



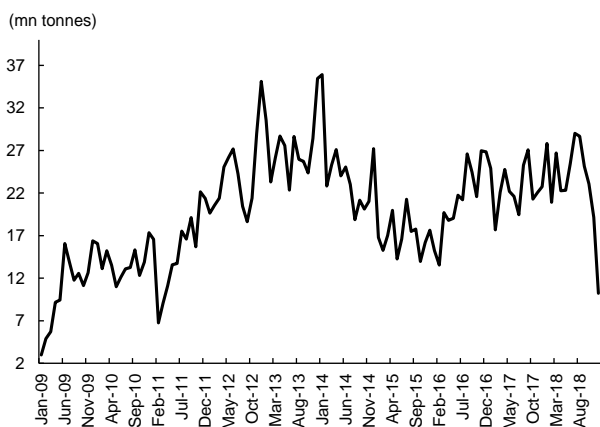
Source: OPEC, Mirae Asset Sekuritas Indonesia Research

Coal: China coal import

China's coal lignite import release

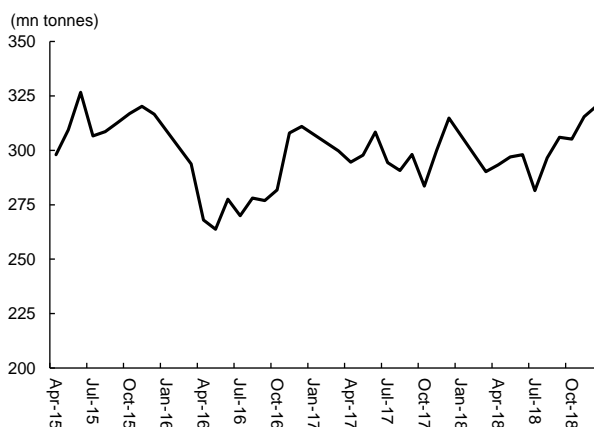
Given China's higher coal industrial output, we predict that China's thermal coal import in January would continue going down. In December, China's thermal coal import stood at 10.2mn tonnes (-46.6% MoM; -55.0% YoY), while its coal industrial output increased to 320.4mn tonnes (+1.6% MoM; +1.8% YoY).

Figure 5. China's thermal coal import trend



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 6. China's coal industrial output

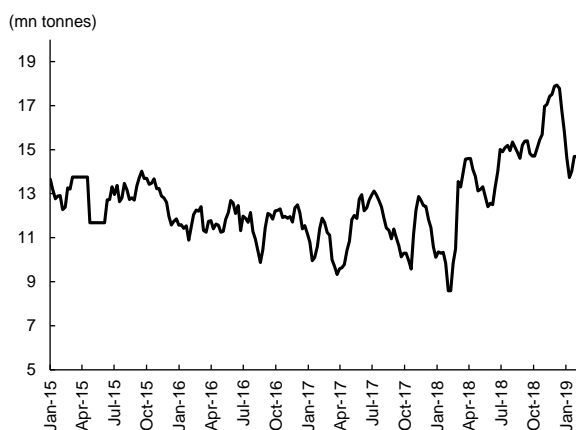


Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

China's 6 major power plants' updates

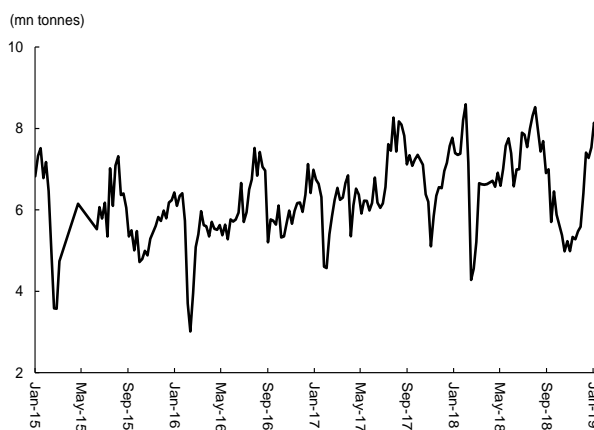
Additionally, we see that China's 6 major power plants' average weekly burn was trending down. We note that China's 6 major power plants' average weekly coal burned went down to 6.3mn tonnes on January 25 (-16.8% WoW) due to conducive weather condition. From inventory position, we note that those major power plants' coal inventory was still high at 14.7mn tonnes. Thus, their coal inventory should suffice facing the spring season. Overall, we predict that global coal price would continue going down this week and is still in line with our prediction (please see our 1H19 coal outlook "[Maintain overweight stance](#)").

Figure 7. China's 6 major power plants' coal inventory



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 8. China's 6 major power plants' coal burned



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

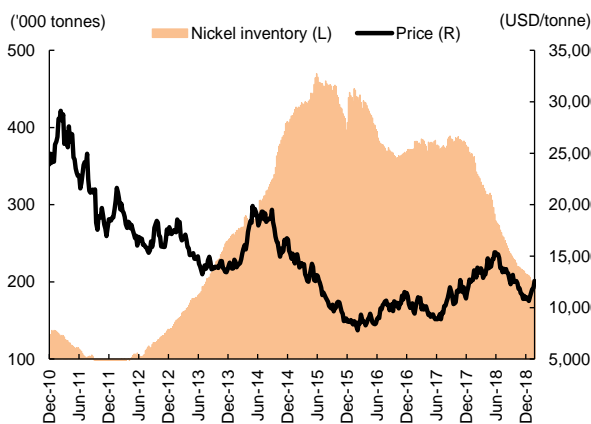
Basic metal and minerals

Nickel: Mixed catalysts

Inventory remains low, but downside risk from the US-China's trade talks

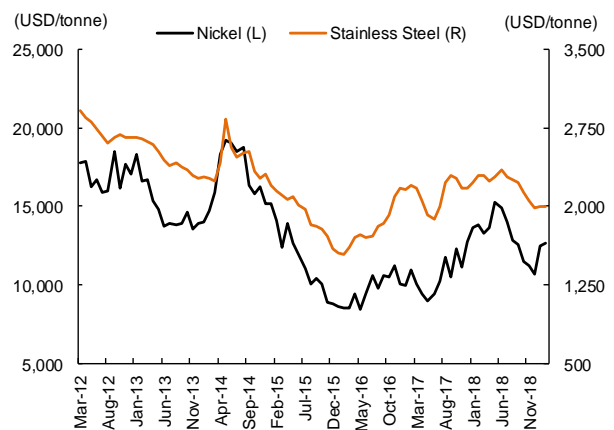
We see mixed catalysts for global nickel market, such as LME's nickel inventory release and the US-China's trade talks. The positive catalyst is lower global nickel inventory this week, while the negative catalyst comes from the uncertainty in the US-China's trade talks. Even though global nickel inventory would drop this week, we see that the US-China's hanging trade talks would have a bigger influence on global nickel price than LME's nickel inventory release would.

Figure 9. Global nickel inventory vs. price



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 10. EU's, China's stainless steel and global nickel price

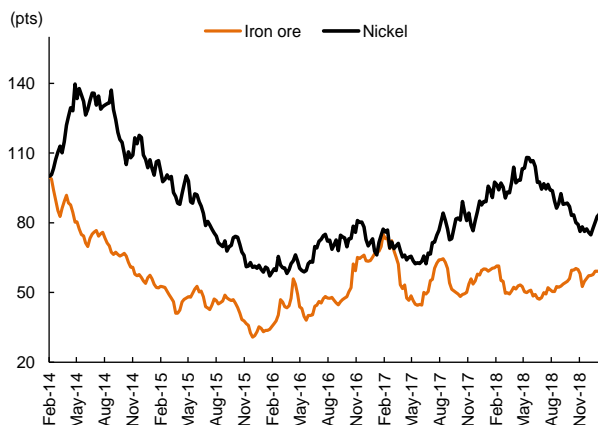


Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Vale's disruption being a consistent upside risk for global nickel price

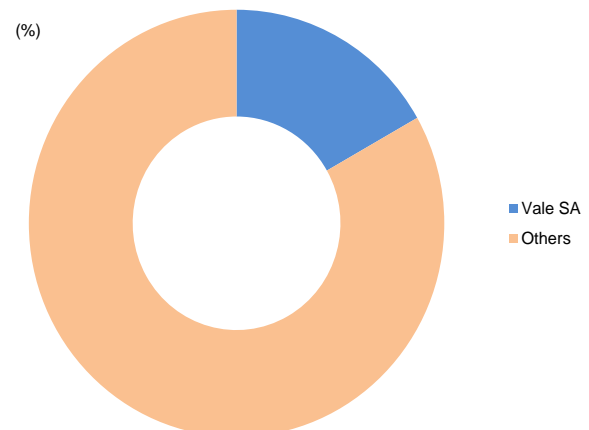
We believe that Vale's iron ore accident that happened a couple of weeks ago is an upside risk for not only global iron ore price but also global nickel price as both prices are strongly positively correlated. In January, one of the biggest iron ore mine concessions had an accident and killed dozens of people in Southern Brazil, leaving rescue workers with little hope of finding survivors among the hundreds still missing. We note that Vale contributed to 16.8% to total global iron ore production in 2015.

Figure 11. Iron ore vs. global nickel price



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 12. Vale is one of the biggest global iron ore producers



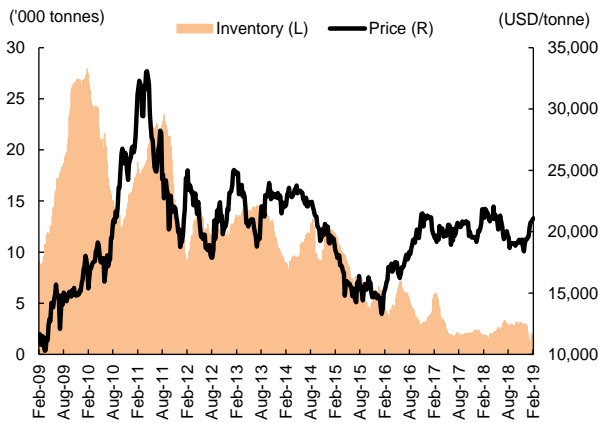
Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Tins: Not different from Nickel commodity

Tin supply disruption still continues

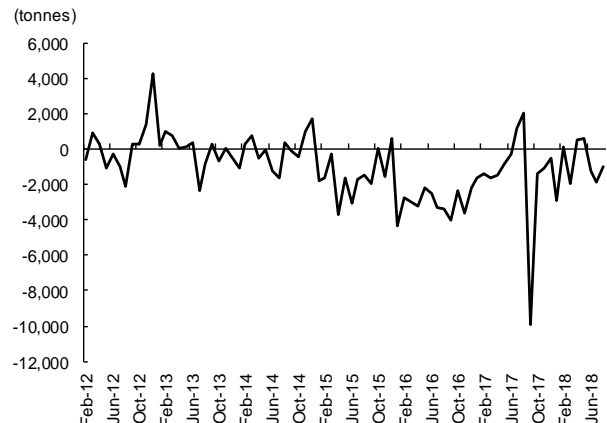
From supply side only, we believe that global tin price will continue going up along with lower global tin inventory estimates this week. On February 8, global tin inventory stood at 1,735 tonnes (-6.0% WoW). However, we see a possible downside risk from demand side amidst US' weakening economic activities this year.

Figure 13. Global tin inventory vs. price



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 14. Global refined tin

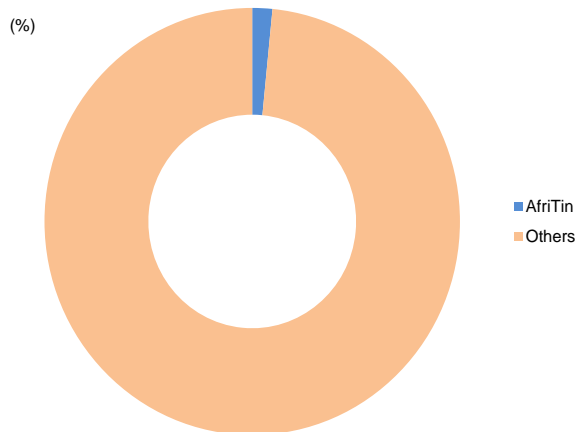


Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Possibility supply addition from AfriTin

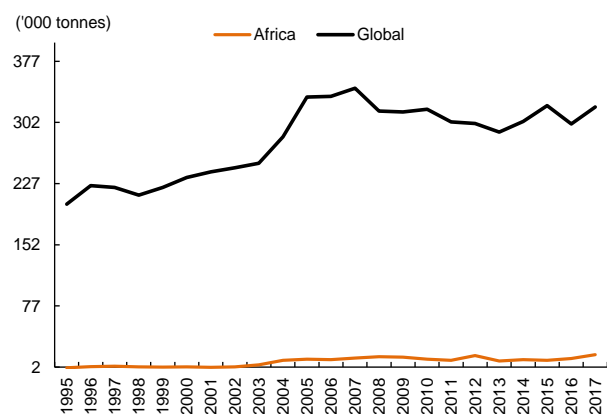
In the medium term, we have concerns about the additional tin supply from AfriTin as the company plans to upgrade its tin production capacity located in Namibia to increase by 5,000 tonnes/year. Based on our calculation, a 5,000 tonnes/year increase in tin production capacity from AfriTin will contribute 1.6% to total global tin production. Thus, we believe that it would be a downside risk for global tin price in the medium term.

Figure 15. AfriTin's production estimates



Source: Bloomberg, Company Data, Mirae Asset Sekuritas Indonesia Research

Figure 16. Global and Africa's tin mined production trend



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

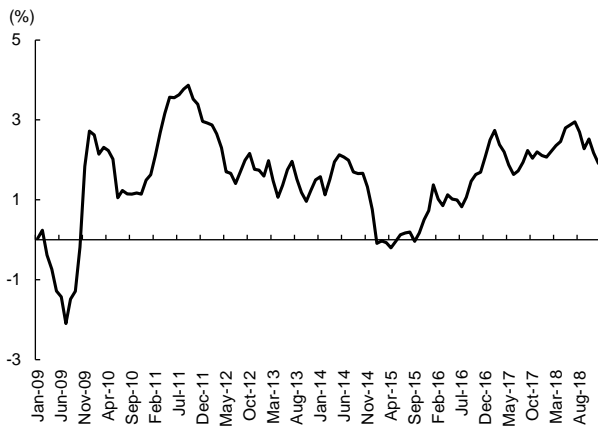
Precious metal

Gold: US' CPI & PPI and Cleveland Fed's President's outlook

US' CPI and PPI release

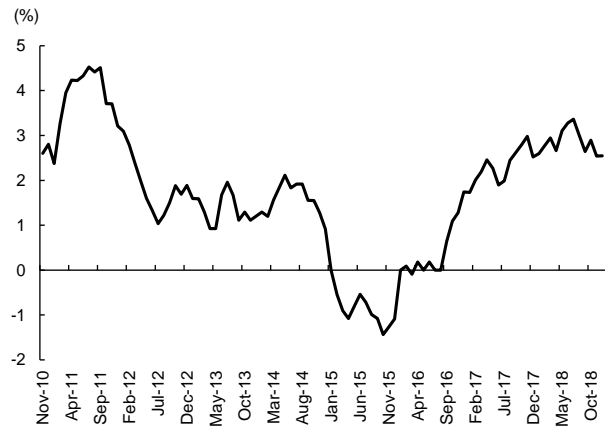
According to Bloomberg's consensus, US' January inflation will slow down to 1.5%, from 1.9% in December and US' PPI YoY in January would fall to 2.1%, from 2.5% in December. Overall, we suspect that the weakening inflation rate is due to US' waning purchasing power which was impacted by US' government shut down.

Figure 17. US' CPI YoY trend



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 18. US' PPI YoY trend

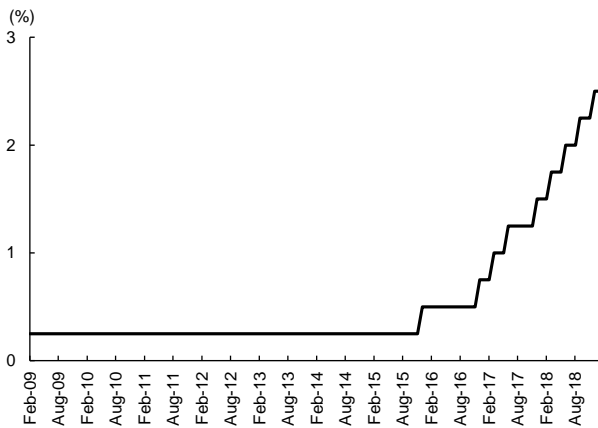


Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Cleveland Fed's President's outlook

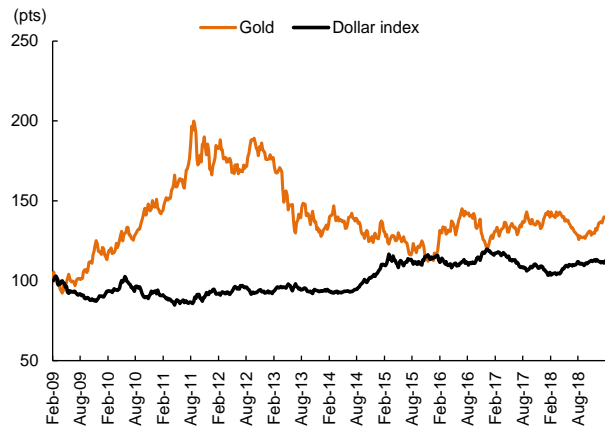
On the other side, Cleveland Fed's President, Loretta Mester, would announce full-year 2019F US' economy. In January, Mester told CNBC that the central bank could stop the hiking interest rate if inflation does not rise. Furthermore, The Fed lowered its rate hike projection for 2019 from three to two times. Given US' slackening inflation in January, which could drag down USD against other global currencies, we believe that global gold price will surge this week.

Figure 19. The Fed Fund Rate's history



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 20. DXY and gold price



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

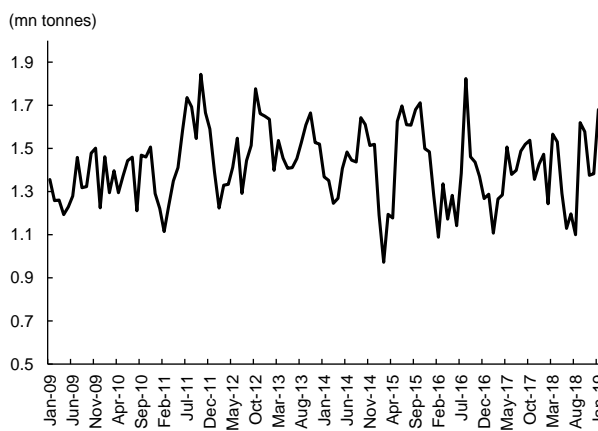
Agriculture

Palm oil: Malaysia's CPO activities released

Production continued to fall with higher export numbers

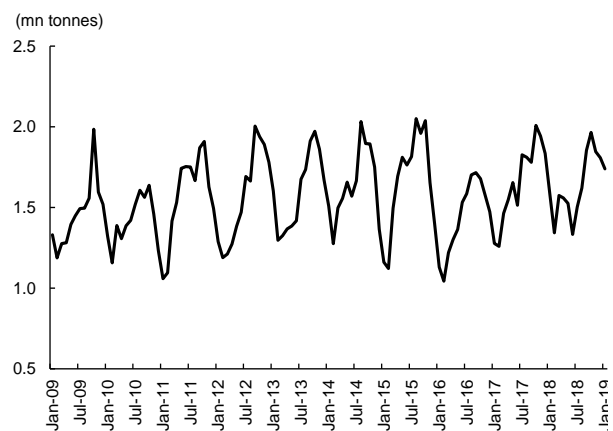
In January, we note that Malaysia's CPO production went down to 1.81mn tonnes (-3.8% MoM; +9.7% YoY). Furthermore, we believe that Malaysia's February CPO production continues going down with the seasonality effect. Meanwhile, we also note that Malaysia's January CPO export increased to 1.68mn tonnes (+21.4% MoM; +14.1% YoY), compared to the previous months. Based on a supply-demand analysis, we believe that upside risks will outstrip downside risks in global CPO market.

Figure 21. Malaysia's CPO export



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 22. Malaysia's CPO production

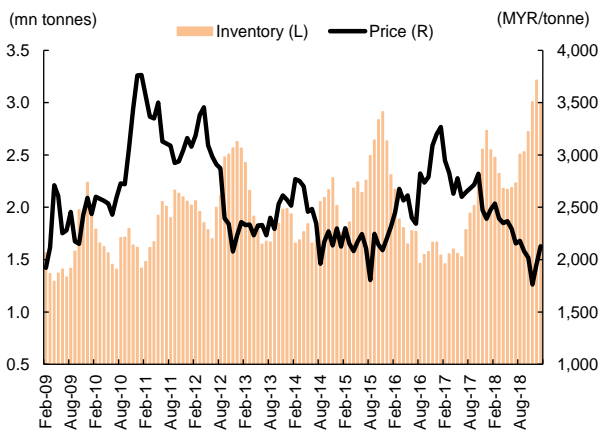


Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Production should be seasonally lower in 1H

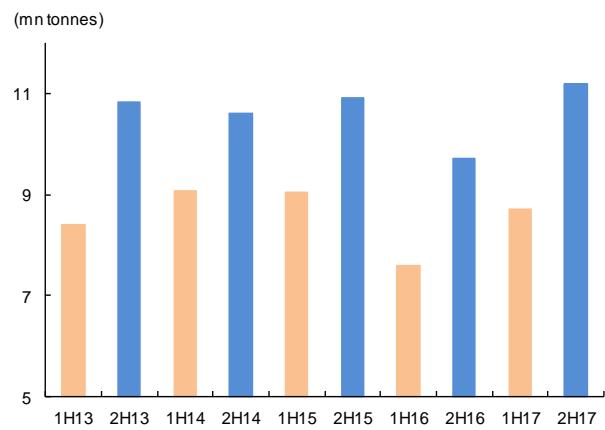
Typically, Malaysia's CPO production declines in the first half of the year before picking up in 2H. Indeed, this was the case even in 2015-16, despite the El Niño event. (We think examining Malaysia's case is relevant, as the country is the world's second largest CPO producer after Indonesia, and its climate and soil texture are similar to Indonesia's.) Therefore, we expect Malaysia's CPO production to be lower in 1H19 than in 2H19 (please see our 1H19F CPO outlook "[Maintaining our neutral stance](#)").

Figure 23. Malaysia's CPO inventory vs. price



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 24. Malaysia's CPO production to be higher in 2H



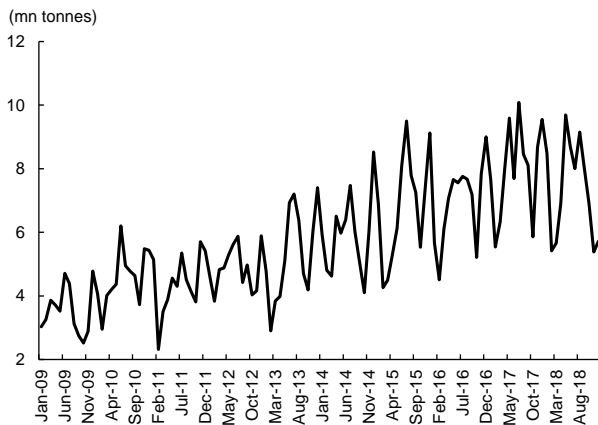
Source: MPOB, Mirae Asset Sekuritas Indonesia Research

Soybean: China's soybean import release

China's soybean import to likely decrease

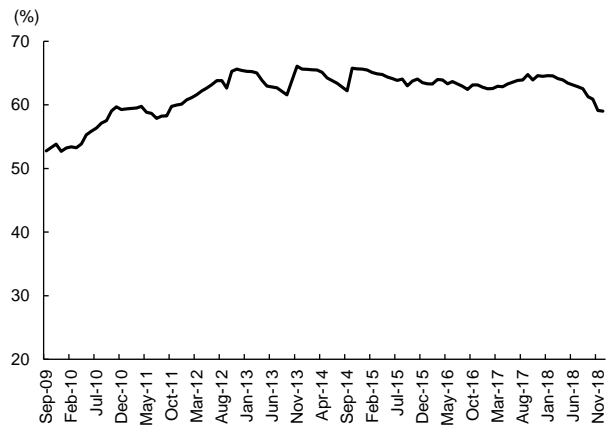
Given the uncertain trade talks between the US and China, we are eyeing a decrease in China's January soybean import. In December, China's soybean import reached 5.7mn tonnes (+6.3% MoM; -40.1% YoY). Following the trade war that broke out last year, we saw that China's soybean production increased further. So far, China's soybean inventory has been in the safe zone.

Figure 25. China's soybean import



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 26. China's soybean market share import

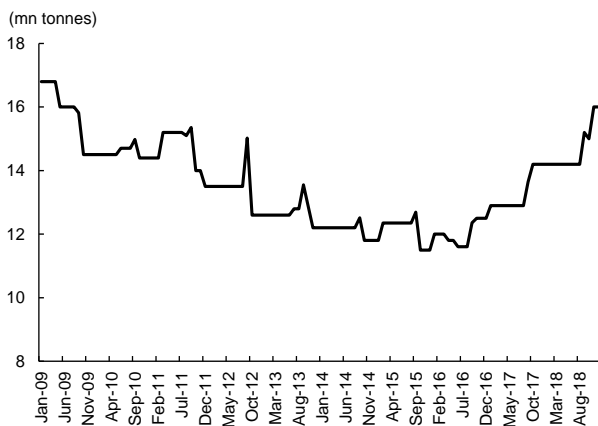


Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

China's soybean production increases

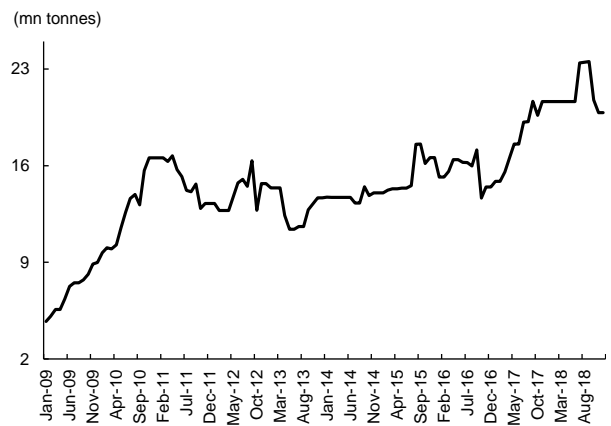
In December, China's soybean production was relatively flat compared to the previous months. However, it had increased by 12.7% YoY to 16.0mn tonnes. Additionally, we saw that China's soybean inventory has been going up since 2016, given its increasing production. All in all, we are anticipating more downside risks in global soybean market this week.

Figure 27. China's soybean production increases



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

Figure 28. China's soybean ending inventory



Source: Bloomberg, Mirae Asset Sekuritas Indonesia Research

APPENDIX 1

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