Strategy and Tactics Report

26 April 2017

Base metals (click to view) and Fuel (click to view)

26-Apr-17	Brent Crude	WTI Crude	Fuel Oil / Bunker	Gas Oil / Diesel	Aluminium	Copper	Iron Ore	Thermal Coal
Current	**52**	**49**	**308**	**61**	**1,943**	**5,653**	**64**	**83**
Previous Month	51	47	295	59	1,918	5,783	84	81
1 Year Ago	46	44	192	52	1,632	4,936	66	51
3 Year Average	**59**	**55**	**322**	**69**	**1,725**	**5,588**	**65**	**66**
7 Year Average	**86**	**78**	**492**	**98**	**1,922**	**6,917**	**109**	**84**
Change 1 Month	3%	4%	4%	3%	1%	-2%	-24%	2%
Change 1 Year	14%	12%	60%	17%	19%	15%	-3%	61%
7 Year Peak	**127**	**114**	**756**	**143**	**2,772**	**10,148**	**192**	**139**
Change / Peak	-59%	-57%	-59%	-57%	-30%	-44%	-67%	-40%
7 Year Trough	**28**	**26**	**148**	**33**	**1,424**	**4,311**	**38**	**47**
Change / Trough	87%	88%	109%	88%	36%	31%	69%	75%
Units	USD/bbl	USD/bbl	USD/mt	USD/bbl	USD/mt	USD/mt	USD/mt	USD/mt

Indices and Soft commodities (click to view)

26-Apr-17	CRB Index	CRB Food	WMP	Wheat	Corn	Soybean	Sugar	Palm Oil	Barley
Current	**182**	**325**	**2,998**	**409**	**365**	**955**	**16**	**581**	**200**
Previous Month	183	337	2,855	425	356	976	18	631	190
1 Year Ago	181	365	2,156	480	382	1,018	16	689	255
3 Year Average	**212**	**365**	**2,592**	**484**	**370**	**1,008**	**16**	**627**	**231**
7 Year Average	**265**	**404**	**3,305**	**612**	**504**	**1,202**	**19**	**793**	**231**
Change 1 Month	-1%	-4%	5%	-4%	2%	-2%	-9%	-8%	5%
Change 1 Year	0%	-11%	39%	-15%	-5%	-6%	3%	-16%	-22%
7 Year Peak	**371**	**514**	**5,245**	**943**	**839**	**1,768**	**35**	**1,307**	**282**
Change / Peak	-51%	-37%	-43%	-57%	-56%	-46%	-54%	-56%	-29%
7 Year Trough	**155**	**322**	**1,590**	**361**	**302**	**851**	**10**	**471**	**169**
Change / Trough	17%	1%	89%	13%	21%	12%	56%	23%	18%
Units	Index	Index	USD/mt	Usc/bushel	Usc/bushel	Usc/bushel	USD/lb	USD/mt	AUD/mt

pwc

Strategy and Tactics

Report on base metals – 26 April 2017

pwc

Aluminium table

USD/mt	Spot	3m	15m	27m
Current	1943	1963	1991	2015
Two weeks ago	1907	1896	1928	1956
Six months ago	1673	1680	1721	1771
One year ago	1632	1650	1671	1711

PwC Expected Aluminium Range USD/MT		
LME Aluminium Spot: 1,943	Low	High
1 month	1,780	1,950
6 month	1,700	2,000

Copper table

USD/mt	Spot	3m	15m	27m
Current	5653	5706	5764	5777
Two weeks ago	5685	5624	5679	5694
Six months ago	4787	4843	4881	4908
One year ago	4936	4965	4956	4958

PwC Expected Copper Range USD/MT		
LME Copper Spot: 5,653	Low	High
1 month	5,650	6,100
6 month	5,600	6,250

Our central view

- Consolidating slightly higher than historic lows reached in early 2016
- Moderate final demand adding to increased inventory levels. Further demand to keep pushing prices higher if Trump follows through with infrastructure spend projects
- US economic strength has led the completion of US Quantitative Easing (QE). USD strength as the Federal Reserve continues on their tightening programme, may provide resistance to material price increases

Hedging recommendations (generic)

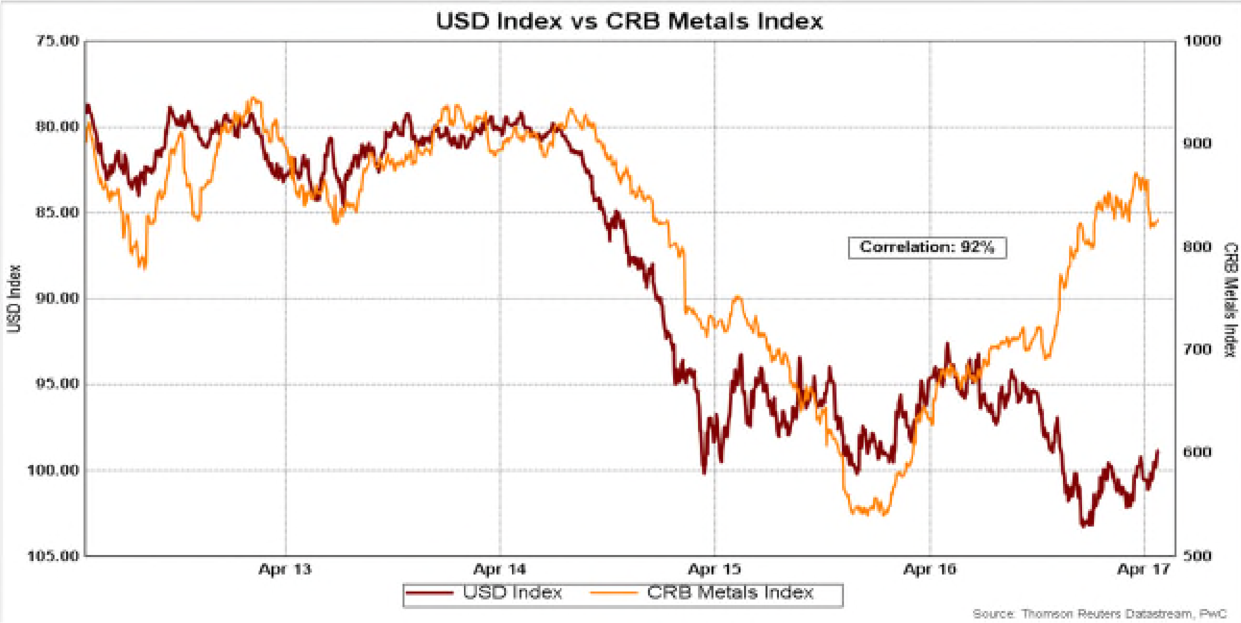
- **Buyers:**
  - **0-6 month aluminium;** maintain maximums with staggered orders from USD1,750/mt down to USD1,700/mt
  - **6-12 month aluminium;** maintain midpoints with staggered orders from USD1,750/mt down to USD1,700/mt
  - **12+ month aluminium;** filter tests are activated though we recommend holding off on any longer dated hedging at current levels
  - **0-12 months copper:** additional hedging between mids and max should be entered around USD5,500/mt with staggered orders lower to USD5,000/mt to target maximums of policy

Producers: aluminium/copper; no new hedging.

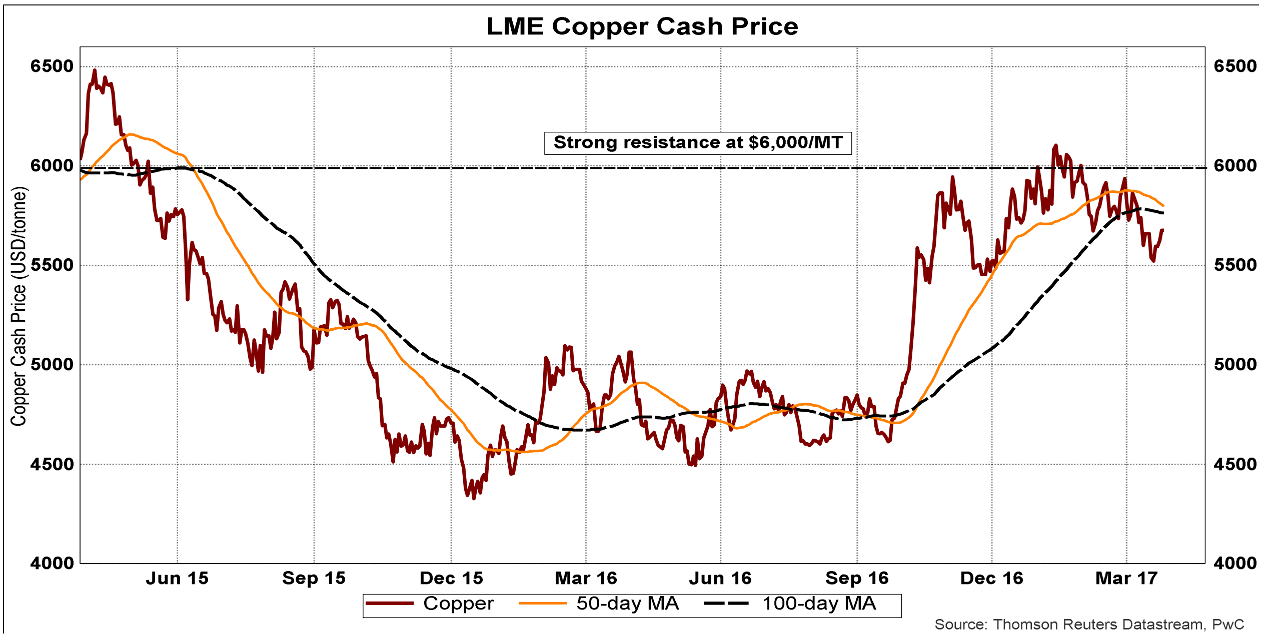
pwc

Base Metals Charts of the Week

Increased risk appetite following the first round of the French elections has put an end to the three week slide in hard commodity prices. Over this week there has been a reversal of the recent safe haven flows with equity markets higher, USD weaker and hard commodity prices improving. Financial markets now await the second and final round of the French election (7 May) which will determine whether hard commodities will continue to be supported by a more risk friendly environment.



Copper has been the best performer during this week, reaching as low as US$5,520/mt before rebounding to currently trade at US$5,653/mt. Speculation that the US corporate tax rate will be cut from 35% to 15% has improved the US demand outlook, supporting higher prices. The tax package is expected to be announced tomorrow (NZT). Should Trump follow through with these proposals we would expect copper to test its 100 day moving average at US$5,790/mt.



Aluminium prices continue to track recent trendlines, also buoyed higher by the increased risk appetite and US tax cut speculation. Furthermore, prices have been boosted from recent media reports that China is set to focus their regulatory attention on aluminium, where overcapacity has suppressed prices for the past five years.

The reports suggest that Chinese authorities will crack down on illegal aluminium smelting in their 2017 winter air pollution prevention plan. If this were to occur, we would expect prices to shift higher above US$2,000/mt. However, given Chinese media reports need to be met with significant sceptiscim, we see aluminium prices currently at the upper end of their short term trading range.

pwc

Brent table

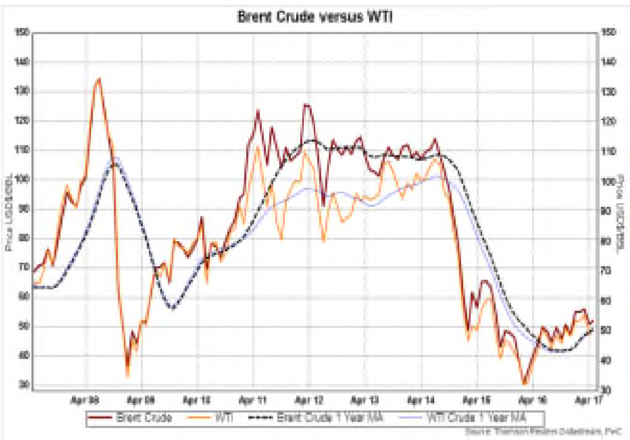
USD/bbl	Spot	3m	6m	12m	24m
Current	52	53	53	53	53
2wks ago	56	57	57	57	56
6m ago	50	51	53	54	56
1y ago	46	46	47	49	51

Gasoil table

USD/bbl	Spot	3m	6m	12m	24m
Current	61	62	63	63	64
2wks ago	65	66	67	67	68
6m ago	61	61	63	65	114
1y ago	52	53	55	58	114

LFO table

USD/bbl	Spot	3m	6m	12m	24m
Current	358	351	352	352	352
2wks ago	370	375	376	376	373
6m ago	338	335	338	345	668
1y ago	252	269	277	293	682



PwC Expected Brent Crude Range USD/bbl		
Brent Crude Spot: 51.90	Low	High
1 month	50	60
6 month	45	60

Our central view

- Strong global oil supply to prevent prices from moving materially higher. Prices to remain range bound over the coming months (limited upward pressure).
- Improved outlook to the US economy to support financial market sentiment and oil prices. However, stronger USD likely to limit stronger demand for commodities priced in USD.
- European and Japanese economic growth to remain sluggish for some time. China to experience a gradual slow-down in economic growth as a result of structural reform measures. Combination creates subdued global demand for oil.
- The OPEC production cap deal is unlikely to materially improve the fundamental outlook for fuel

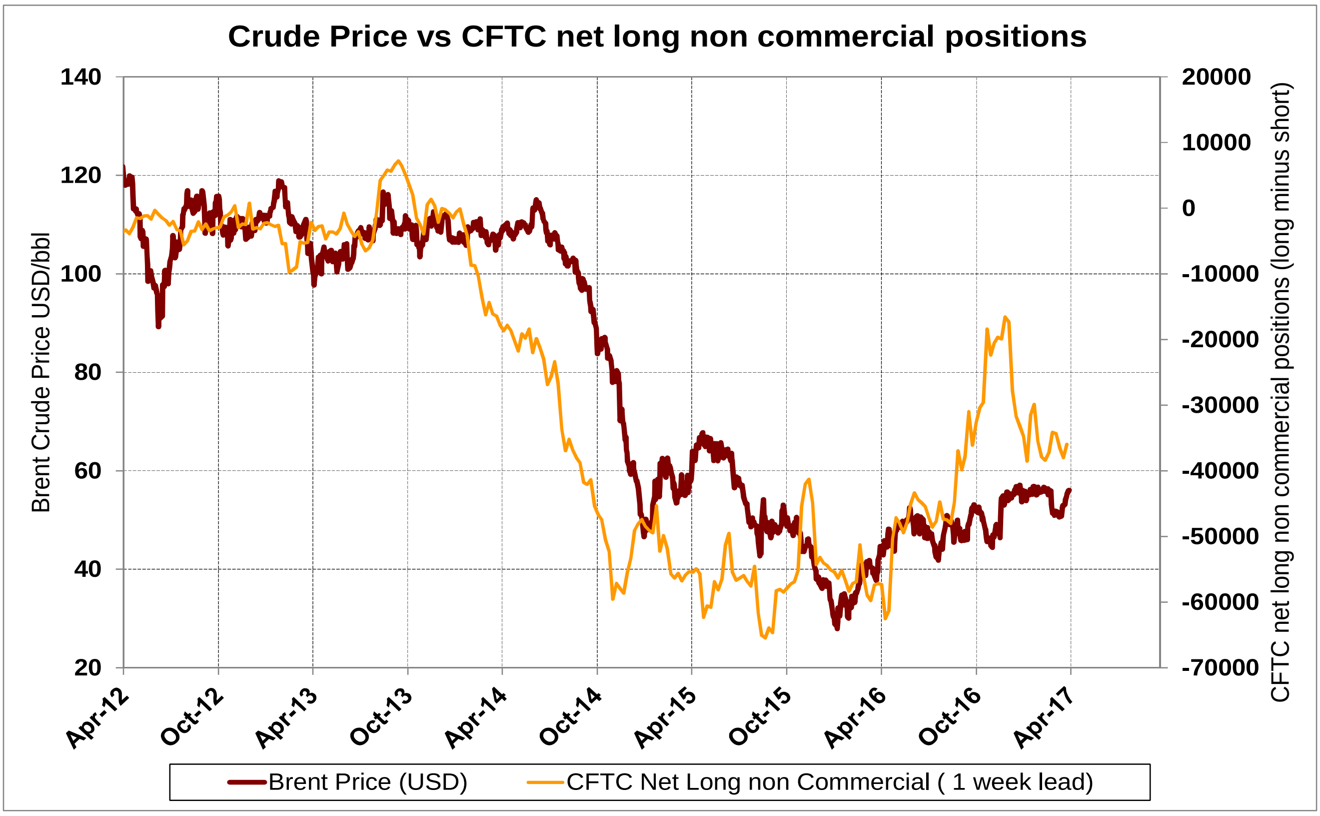
Hedging recommendations (generic)

- **Buyers:** 0-12 months; buyers maintain midpoints around USD50/bbl, moving to maximums at USD45/bbl in the 0-12 months' time frame.
- **Buyers:** 12-24 months; if prices were to drop below USD45/bbl this would present hedging opportunities past 12 months, given filter tests are currently activated.

pwc

Fuels Chart of the Week

Crude oil prices have increased slightly today following six straight days of consecutive declines as financial markets lose confidence that the pledged output cuts by producers will rein in the oversupply of fuel. Despite efforts from OPEC and Russia to cut output by 1.8 million barrels per day in the first half of 2017, prices have dropped 10% since the end of 2016 and the supply glut remains.



If OPEC does not extend the supply reduction deal beyond June, Russia has indicated that it can lift their output rate to the highest seen in 30 years. The March data showed that Russia has reclaimed the position as China's biggest Crude oil supplier pushing Saudi Arabia down to second place.

Chinas crude oil imports have risen to record highs in March overtaking the United Sates as private refineries maintained high processing rates and inventories were restocked after receiving fresh 2017 import quotas.

As we have touched on in many recent reports, increasing US shale production and oil stockpiles continues to suffocate ongoing price gains. We maintain that this will continue to be the case providing a 2017 price cap at $60/bbl. In the short term we expect prices between $50/bbl - $55/bbl.

pwc

Wheat table

Usc/bu	Spot	3m	6m	12m	24m
Current	409	427	441	483	520
2wks ago	433	446	460	497	538
6m ago	409	428	444	473	504
1y ago	480	488	497	529	562

Corn table

Usc/bu	Spot	3m	6m	12m	24m
Current	365	372	379	389	403
2wks ago	369	376	383	393	406
6m ago	355	363	370	377	405
1y ago	382	387	389	395	410

Soybean table

Usc/bu	Spot	3m	6m	12m	24m
Current	955	965	964	962	963
2wks ago	948	959	958	956	960
6m ago	1,001	1,012	1,024	1,029	994
1y ago	1,018	1,027	1,017	1,009	981

Palm oil table

Usc/bu	Spot	3m	6m	12m	24m
Current	581	556	558	561	558
2wks ago	590	560	560	563	562
6m ago	644	664	663	651	650
1y ago	689	669	664	671	654

Sugar table

Usc/bu	Spot	3m	6m	12m	24m
Current	16	16	16	17	17
2wks ago	17	17	17	17	17
6m ago	22	22	21	20	18
1y ago	16	16	16	17	16

WMP table

USD/mt	Spot	1m	3m	6m	12m
Current	2,998	3,230	3,150	3,200	3,060
2wks ago	2,924	3,000	3,140	3,150	2,835
6m ago	2,760	2,960	3,120	3,145	2,815
1y ago	2,156	2,210	2,270	2,440	2,270

Soft commodities generic recommendation

Buyers - Top up hedging levels/secure fixed price contracts at:

- Corn<350; Wheat<400, Palm oil <625, Soybeans<950, Sugar <18

WMP generic recommendations

- **Buyers –**Secure fixed contracts at current price levels.

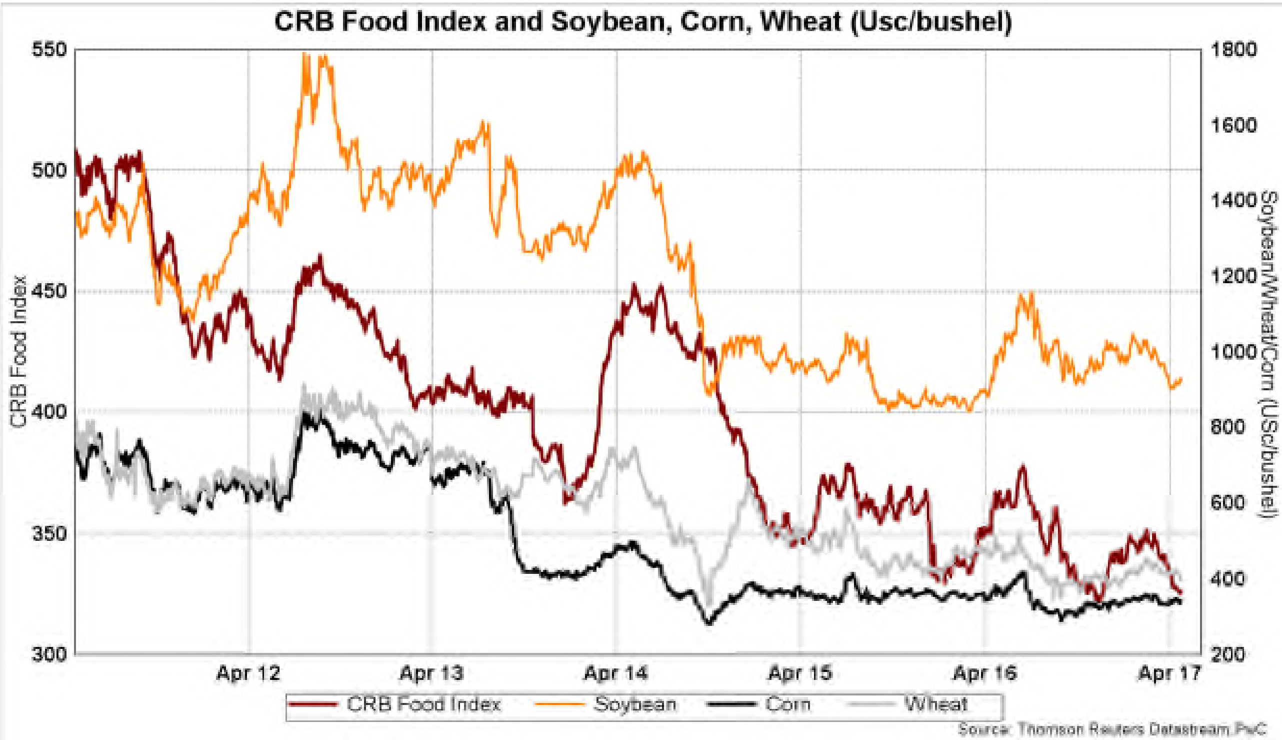
Milk Payout Futures recommendations

- **Sellers –**50% hedged this season at current levels. Filter test hedging for next season activated at a Farmgate Milk Price of $7.20

pwc

Soft commodity Sentiment and Direction

The majority of soft commodity forward curves remain flat at current low levels, indicating a lack of investor conviction around material price recoveries.



Prices for **soybean** edged slightly higher on Monday prompted by the risk of delayed US sowings as the weather forecast is for rain over the coming week, this was combined with a lower USD, which raised hope of new export sales. The USDA estimated planting for the upcoming harvest is at 6%, well ahead of the 2% forecast with farmers having made a faster start than expected. With US planting intentions at 89.5 million acres, record supplies coming from South America and record output globally it's hard to see any upward pressure on prices in the coming months.

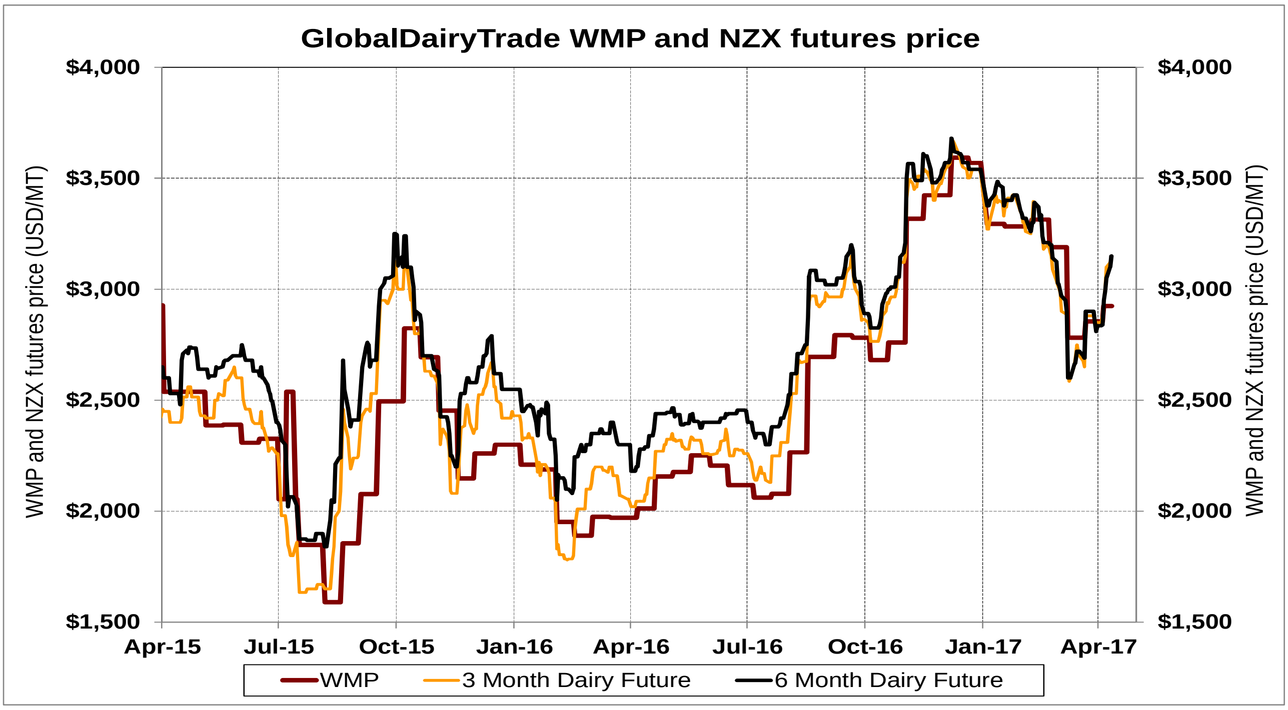
Corn has continue to trade in a tight range between $3.60 and $3.80 with gains being capped by expectations around demand factors and large supplies coming from Brazil and Argentina. Ethanol production recently fell below the long running output of 1 million barrels per day and the current USDA projection around **corn** used for ethanol is 5.45 billion bushels. In the short term we expect prices to continue to trade within the aforementioned range as old crop inventories appear in the market. The prospect of prices making significant movements in either direction will depend on new crop yield potential.

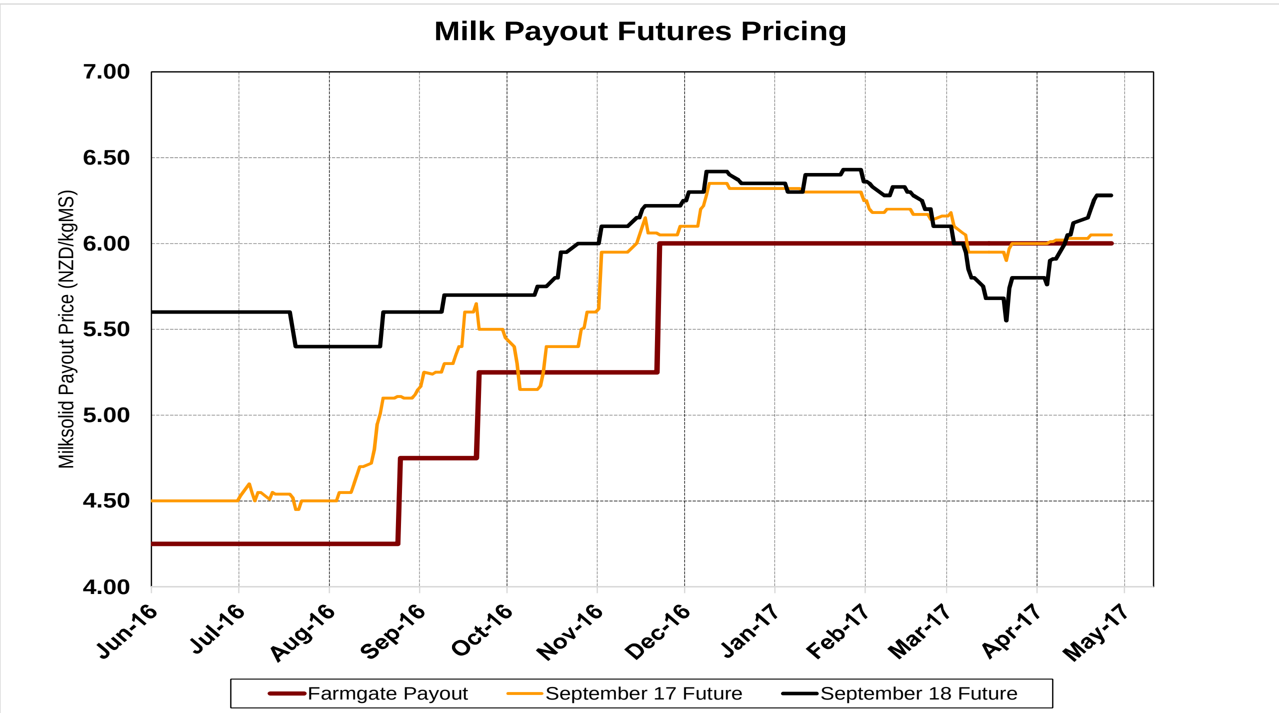
Spring **wheat** planting is now at 22%, well below the five year average of 34%. This can be attributed to the wet conditions that are being experienced and with the expectation of more rain coming we could see a slight uptick in prices over the coming week. However, the risk of increased supply later in the year coming into the market could see prices lower in the long term

Palm oil output in Indonesia rose last month due to favourable weather conditions from 2.8 million tonnes in February to an estimated 3.08 million tonnes for March. Given that the El Nino weather conditions have subsided this year alongside output in Malaysia increasing last month we expect global output to continue to creep higher throughout the year limiting the upward pressure on prices.

pwc

Whole Milk Powder (WMP) prices increased in line with futures market expectations at last week's auction, increasing +3.5% to US$2,998/mt. Futures pricing has ticked higher since the result largely driven by production concerns from flood-stricken rural areas of New Zealand. Looking ahead however, we see the supply demand equation as largely balanced and **WMP** prices near the upper end of their short term range (barring any further adverse weather related supply shocks). Global milk output remains low although higher European production is beginning to re-emerge. With Chinese import demand expected to increase around Q3, the WMP price dynamics are largely balanced for the next two months.





Get in touch

Stuart Henderson
Partner
T: +64 9 425 0158
M:+64 21 343 423
E:
stuart.r.henderson@nz.pwc.com

Roger Kerr
T: +64 9 355 8181
M:+64 21 935 288
E: roger.j.kerr@nz.pwc.com

Brett Johanson
Partner
T: +64 4 462 7234
M:+64 21 771 574
E: brett.a.johanson@nz.pwc.com

Chris Hedley
Director
T: +64 9 355 8183
M: +64 21 479 680
E: chris.m.hedley@nz.pwc.com

James McHardy
Director
T: +64 9 355 8342
M: +64 21 263 4282
E: james.c.mchardy@nz.pwc.com

Jason Bligh
Associate Director
T: +64 4 462 7265
M: +64 21 386 863
E: jason.p.bligh@nz.pwc.com

Alex Wondergem
Associate Director
T: +64 9 355 8252
M: +64 21 041 2127
E:alex.j.wondergem@nz.pwc.com

James Butler
Treasury Advisor
T: +64 9 355 8265
E: james.p.butler@nz.pwc.com

Ollie McDowell
Treasury Analyst
T:+64 4 462 7316
E:ollie.a.mcdowell@nz.pwc.com

Tom North
Treasury Analyst
T: +64 9 355 8497
E: tom.o.north@nz.pwc.com