



African Commodities Outlook

2nd Quarter 2018

HIGHLIGHTS

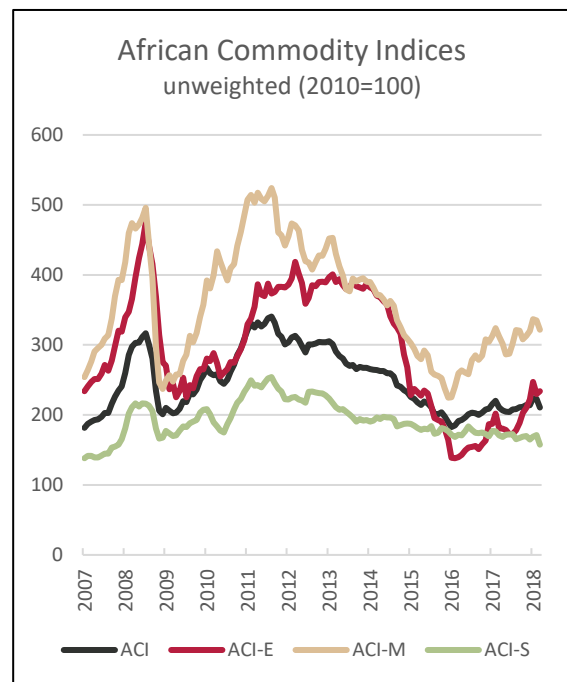
- The 1st quarter saw across-the-board increases in the price indices of all the major commodity groups. The energy and non-energy price indices each rose by 4%, while precious metals gained 4.3%.
- The majority of commodity prices are expected to **firm somewhat** in the coming three quarters, supported by stronger global economic growth. Downside risks include the possibility of US-led trade wars and lingering geopolitical tensions centred on North Korea and the Middle East.
- Brent **crude oil** prices have been relatively stable thus far in 2018, trading in a range between \$65-70/b. In the absence of shocks, Brent is expected to average around \$62/b in 2018 as growing demand is matched by expanding supply, especially from US tight oil producers.
- **Natural gas** prices increased substantially in Q1, with a rise of 7% in the US, 15% in Europe and 13% in Japan. Robust supply additions led by the US and Australia are being swallowed up by rapidly growing demand in Asia – particularly in China, which is switching from coal to gas in an effort to reduce air pollution.
- The prices of all three **precious metals** rose in Q1, as global demand picked up. Gold picked up by 4.2%, platinum increased by 6.1%, and silver inched up by 0.2%. Geopolitical risks could continue to support the gold price in 2018, while platinum demand is being eroded from the shift from diesel to electric cars.
- **Base metal** prices all increased in Q1 compared to the Q4 average. The best performer was nickel, which gained 14.5%, followed by iron ore with a 13.1% rise. Tin gained 7%, while zinc edged up by 5.7%. Copper (2%), aluminium (2.4%) and lead (1.1%) posted more modest gains. Stronger global growth should continue to support base metal prices in 2018, although iron ore is likely to soften on expanding supply.
- In 2018 **agricultural commodity** prices are not expected to increase much, as modest demand growth will likely be offset by productivity gains. As usual, however, extreme weather events pose a downside risk to supply for cereals and other crops.
- The prices of all four major **grains** rose substantially in Q1 on the back of strong demand. Maize gained 10%, rice and wheat both increased by 8%, and barley posted the strongest gains, rising 18%. However, grain stocks are expected to rise to record levels in 2018, curbing price gains.
- The three major **meat** prices all rose modestly in Q1, boosted by higher feed costs as well as strengthening demand. Beef edged up by 2%, mutton increased by 2.9%, and chicken gained 5.4%.
- There were mixed fortunes amongst **beverages** in Q1. Coffee prices continued their gradual downward drift, as Vietnam boosted production significantly. Arabica coffee fell by 2.1%, while Robusta shed 4%. A sharp upturn in the cocoa price (7%) followed problems with tree diseases in the two major West African producers. Tea prices plunged by 13% on expanded supply in Kenya and other producers.
- **Timber** prices saw their largest quarterly gains in more than a year, supported by demand growth as the global economy picked up speed. The prices of Cameroonian logs increased by 4.4%, sawnwood climbed by 4.8%, while plywood rose by 4.3%. The wood pulp price remained flat. As long the positive momentum in the global economy continues, timber prices are likely to continue their gradual upward trajectory.

African Commodity Indices

The African Commodity Index (ACI) provides a benchmark for the movements in key commodity prices that are relevant for investors on the African continent. The overall index (ACI) is composed of 15 of Africa's top hard and soft commodities, selected according to annual value of production. Because some of the fundamental drivers differ between energy, mineral and soft (agricultural) commodities, we disaggregate the overall index (ACI) into ACI-E, ACI-M and ACI-S sub-indices.

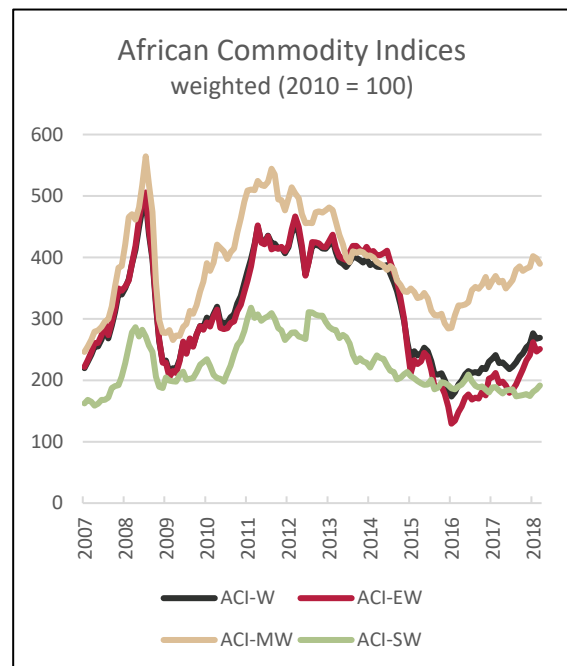
Unweighted indices

In March, the unweighted ACI declined by 1.4% on a quarter-on-quarter basis. The ACI-E gained 5.3%, while the ACI-M edged up 0.6% and the ACI-S declined by 4.3%. Year-on-year, the ACI inched up 0.2%, the ACI-E climbed an impressive 30%, the ACI-M gained 3.1% and the ACI-S fell by 7.7%.



Weighted indices

The four indices are also weighted according to the annual production value of the various constituent commodities. In March, the weighted ACI-W rose by 4% on a quarter-on-quarter basis. The ACI-EW gained 4.1%, while the ACI-MW crept up 1.4% and the ACI-SW climbed by 9.8%. Year-on-year, the ACI-W increased by 18.1%, the ACI-EW climbed 28.4%, the ACI-MW gained 8.4% and the ACI-SW shed 4.6%. The ACI-W is heavily influenced by the price of crude oil, which carries a 47% weighting in the index in 2018. The chart shows that soft commodities have been on a gradually declining trend since mid-2012, while the other two sub-indices have been rising since reaching a low point in January 2016.



GLOBAL DEMAND

The global economy appears to be growing more robustly, with a co-ordinated expansion across all major economies. In its March Interim Outlook, the OECD forecast that the world economy will grow by a brisk 3.9% this year and by the same rate in 2019.

Growth in the United States economy is forecast to accelerate to 2.9% in 2018, boosted by the Trump administration's tax cuts and fiscal expenditure stimulus. On the other hand, growth is projected to slow down by 0.2% in the Euro zone and Japan, to 2.3% and 1.5%, respectively. Following an unexpectedly rapid expansion of 6.9% in 2017, China's growth is projected at 6.7% this year, declining slightly to 6.4% in 2019. India is on track to recover from the problems of 2016/2017, with growth expected to pick up to 7.2% in 2018 and 7.5% next year.

Table 1: Economic growth forecasts

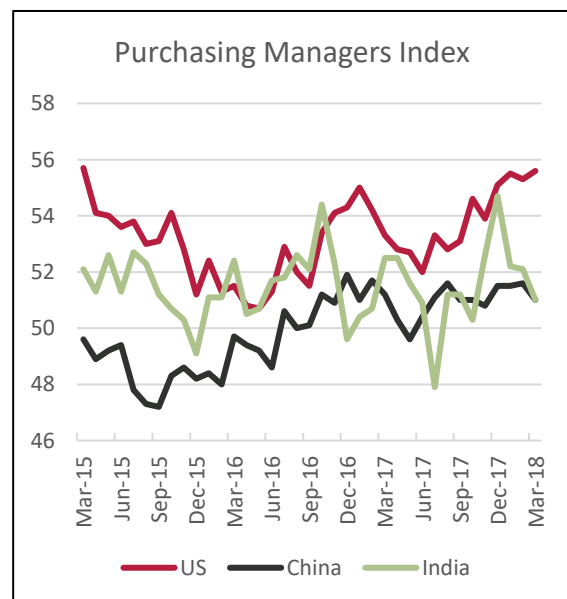
Region	2017	2018	2019
World	3.7	3.9	3.9
USA	2.3	2.9	2.8
Euro zone	2.5	2.3	2.1
Japan	1.7	1.5	1.1
China	6.9	6.7	6.4
India	6.6	7.2	7.5
Brazil	1.0	2.2	2.4

Source: OECD, *Interim Economic Outlook*, March 2018.

The positive momentum in the global economy and improved sentiment amongst consumers and investors should be broadly supportive of commodity prices in 2018. Nevertheless, the outlook is still clouded by various factors, most notably the Trump Administration's protectionist trade policies, and the risk of a broad trade war. At this stage the likely path of monetary policy tightening in the US and Eurozone does not pose a great risk, but by

gradually pushing up long-term interest rates it could dampen the cyclical upswing in advanced economies. The risk of a sharp correction in China appears muted at this point, especially after the consolidation of power by President Xi Jinping. The financial market instability experienced in January has not persisted, but could rear its head once again. Geopolitical tensions on the Korean peninsula have also abated in the past two months, but Kim Jong-un is unpredictable, as is Trump.

The manufacturing Purchasing Managers Index (PMI) for the US climbed to 55.6 in March, its highest level in three years. This indicates continued growth in output and new orders, and corroborates a rise in business confidence. By contrast, China's PMI dipped unexpectedly to 51.0 in March, from 51.6 the previous month, indicating sluggish demand for manufactured goods. India's PMI declined even more sharply in the quarter, from 54.7 in December to 51 in March. This indicated the weakest expansion in the manufacturing sector since last October. The locus of manufacturing activity seems to have shifted slightly to the US, perhaps indicative of Trump's protectionist trade policies.



Source: Bloomberg

OIL

Demand

The International Energy Agency (IEA) estimates that world oil demand grew by 1.5 mb/d in 2017, a 1.6% increase over 2016 – despite a 20% average increase in oil prices. In March the agency raised its demand growth forecast for 2018 to 1.5 mb/d. OECD demand growth was hiked by 240 kb/d, while non-OECD demand was adjusted downward by 150 kb/d as Iraq and Pakistan switch from oil to gas for power generation. Early data for 2018 has indicated robust demand in China and India, which together accounted for almost half of world demand growth last year. The cold winter in the Northern Hemisphere has raised demand for heating oil.

The US Energy Information Administration (EIA) projects that global oil demand will grow by 1.7 mb/d in 2018, up from the 1.6 mb/d rise in 2017. This is despite higher prices, and reflects stronger global economic growth.

OPEC has raised its forecast of world oil demand growth to 1.6 mb/d for 2018. OECD demand is expected to rise by 0.32 mb/d, while non-OECD growth is projected at 1.27 mb/d. This is on the back of its higher forecast of global economic growth of 3.8% for 2018. Demand in developing countries is expected to rise by 1.27 mb/d in 2018, led by China with a 0.42 mb/d increase and other Asia, including India, with a 0.38 mb/d rise. OECD demand is seen expanding by a modest 0.33 mb/d.

OPEC anticipates demand for its collective output will average 3.62 mb/d in 2018, up 0.2 mb/d over the estimated average in 2017. Demand for OPEC crude is forecast to rise to 33.5 mb/d in H2, but the cartel's production cap agreement (33.2 mb/d) lasts until the end of 2018.

China became the world's top importer of crude oil in 2017, with imports averaging 8.4 million barrels per day (b/d), compared to 7.9 million b/d for the US. Imports are being driven by a combination of falling domestic production, growing refinery capacity and additions to Beijing's strategic petroleum reserve. The top suppliers of crude to China are Russia (1.2 mb/d) and Saudi Arabia (1 mb/d). China's consumption of all liquid fuels grew to 13.2 mb/d in 2017, up 3% from the previous year.

There is considerable debate in energy circles about the future course of oil demand in the light of the electric vehicle revolution. Some foresee "peak oil demand" with a decade or so, while others point out that only about 20% of oil is burned in cars, while the bulk is used for heavier transport like shipping, aviation and trucks, which do not lend themselves to electrification. However, policy changes in countries like China could have a major impact.

Table 2: World oil demand forecasts (million barrels per day)

Agency	2017 average	2017 growth	2018 average	2018 growth
International Energy Agency ¹	97.80	1.50	99.30	1.50
U.S. Energy Information Administration ²	98.50	1.63	100.20	1.70
OPEC ³	97.04	1.62	98.63	1.60

Sources:

1. IEA Oil Market Report, March 2018.
2. EIA Short-Term Energy Outlook, March 2018.
3. OPEC Monthly Oil Market Report, March 2018.

Supply

According to the IEA, global oil supplies dipped slightly in February to 97.9 mb/d. This level was 0.7 mb/d higher than a year earlier, thanks to increased non-OPEC production. Non-OPEC supply is forecast to rise by 1.8 mb/d in 2018, mainly due to increased shale oil output in the US. Declining production in Venezuela and the UAE led to a slight reduction in OPEC output to 32.1 mb/d in February. OPEC's compliance with agreed production cuts was 147% in February, boosted by the sharp drop in Venezuelan output.

The EIA expects world liquids supply to increase by a robust 2.5 mb/d in 2018. All of the increase is anticipated to come from non-OPEC producers, much of it from the US where shale oil output is forecast to boost total supply by 1.4 mb/d. The other major increases will likely come from Canada, Brazil and Kazakhstan. OPEC output is expected to remain flat at 2017 levels.

OPEC forecasts that non-member producers will expand supply by a net 1.66 mb/d in 2018. The largest increases in production are projected for the US (1.46), Brazil (0.23), Canada (0.27), the UK (0.11) and Kazakhstan (0.08). These will be partially offset by reduced

output from countries such as Mexico, Russia, China, Norway and Colombia.

The major risks to supply concern Venezuela, where production slipped another 60 kb/d in February. Production by the PDVSA, the national oil company, has declined by more than 500 kb/d since December 2016. Given the continued economic and social implosion in Venezuela, oil output could continue to drop substantially. By contrast, Libya's output was up to 1.02 mb/d in February, and has been less prone to disruptions of late – but is still subject to considerable risk.

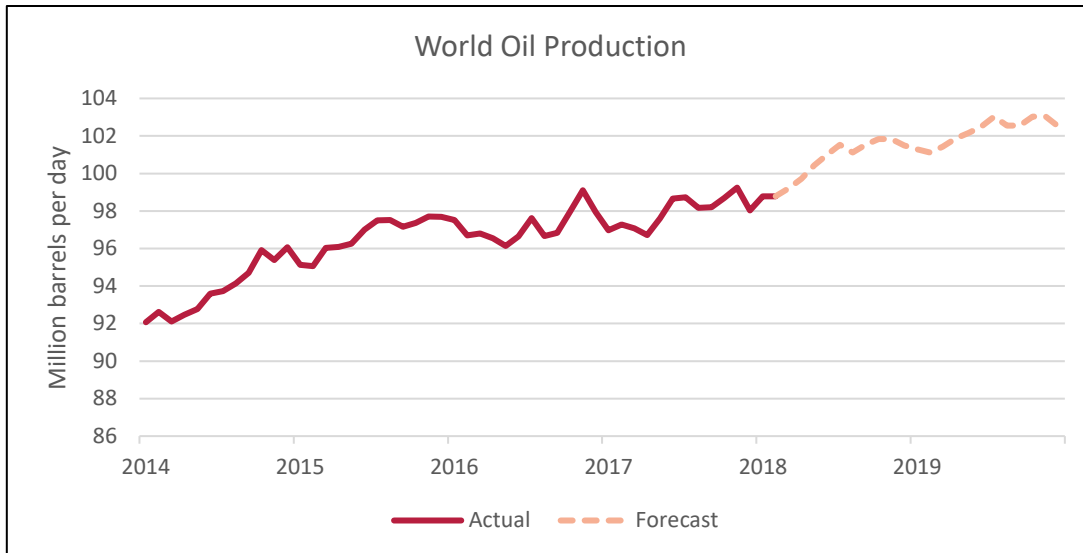
Looking towards the medium-term future, the downward trend in new oil discoveries suggests markets may tighten considerably in a few years' time. In 2017, discoveries of new oil fields plunged to a record low of just 4 billion barrels, compared to annual production of 36 billion barrels. The IEA anticipates that investment spending is likely to rise by only 6% in 2018 after hardly increasing last year. While rising production in non-OPEC countries should cater for growing demand until 2020, after that point there may be considerably greater demand for supply from OPEC, Russia and others currently limiting production.

Table 3: Forecasts of non-OPEC oil supply (million barrels per day)

Agency	2017 average	2017 growth	2018 average	2018 growth
International Energy Agency ¹	58.0	0.76	59.8	1.80
U.S. Energy Information Administration ²	58.7	0.85	61.2	2.50
OPEC ³	57.9	0.87	59.53	1.66

Sources:

1. IEA Oil Market Report, March 2018.
2. EIA Short-Term Energy Outlook, March 2018.
3. OPEC Monthly Oil Market Report, March 2018.

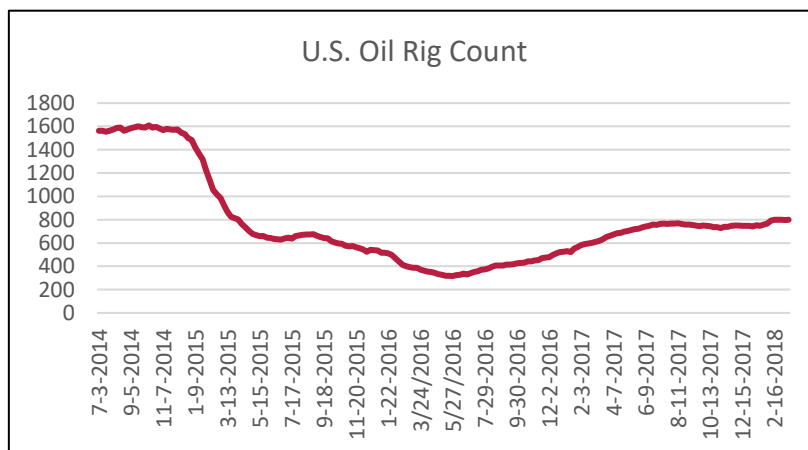


Source: U.S. EIA (2018)

The IEA predicts that US oil production will rise by 1.3 mb/d in 2018, accounting for 87% of the net global supply increase. This is almost completely due to rising tight oil production. The EIA estimates that US crude oil output rose to 10.3 mb/d in February, up from the 2017 average of 9.3 mb/d. The EIA estimates that US oil output will average a record 10.7 mb/d in 2018, as tight oil production is spurred on by higher prices. US crude production is forecast to rise further to 11.3 million b/d in 2019.

The active US oil rig count grew from 742 in early January to 797 by the end of March. This increase is smaller than some analysts had expected, given the sustained higher oil prices. This can be partly explained by advances in drilling techniques, which allow more extensive drilling per well pad.

Clearly, the EIA is extremely bullish about future tight oil production. However, a recent report by an independent consultant, who has analysed field-level data covering 80% of US tight oil production, casts doubt on this rosy outlook. The *Shale Reality Check* report, by David Hughes, points out that shale drillers have focused on 'sweet spots' in the past couple of years, and therefore average well productivity could decline as the rate of drilling rises in the coming years. Hughes's data shows that "production from individual wells falls 70–90% in the first three years, and field declines without new drilling typically range 20–40% per year." Output from older tight oil plays, like the Bakken and Eagle Ford, has fallen substantially from their peak levels.



Source: Baker Hughes (2018)

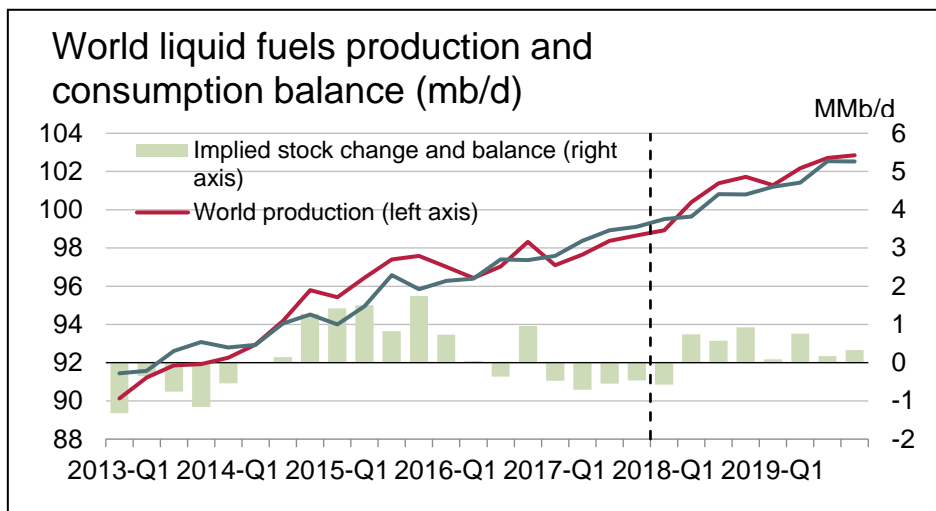
Market balance and inventories

The IEA reported that OECD commercial oil inventories increased in January for the first time in seven months, to reach a level of 2.871 billion barrels. The surplus over the 5-year average was down to 53 mb, providing evidence of the gradual rebalancing of the oil market. Stocks at the US's Cushing, Oklahoma hub have fallen to their lowest levels in three years, as the US has ramped up oil exports.

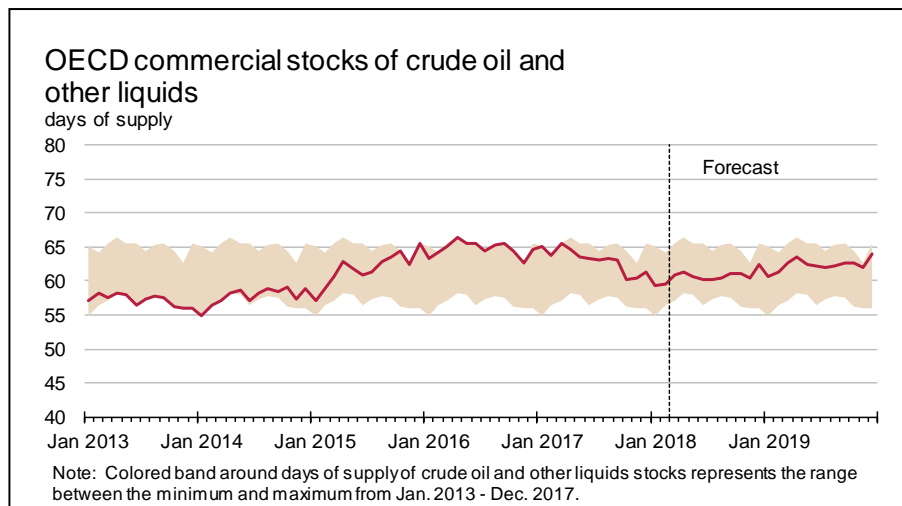
Assuming that OPEC sticks to its current production target for the remainder of 2018, the IEA foresees a slight inventory build-up in 2018Q1, followed by deficits in the remaining three quarters. Further reductions in Venezuelan output could tilt the balance further into negative territory.

The EIA, however, is more bullish and anticipates that global oil supply will outstrip demand by about 0.4 mb/d on average in 2018, resulting in an increase in global inventories. The agency foresees further inventory growth of 0.3 mb/d in 2019. This could put some downward pressure on oil prices.

OPEC spare production capacity is projected by the EIA to decline slightly from 2.1 mb/d in 2017 to 1.87 mb/d in 2018, and further to 1.34 in 2019. This slightly diminishes the buffer against unanticipated oil supply shocks, which could result from geopolitical or weather events.



Source: EIA Short-term Energy Outlook, March 2018



Prices

The price of Brent crude oil dipped from \$69/b in January to \$65.4/b in February after rising for seven straight months. Brent picked up marginally to \$66.4 in March. Thus far, prices have been relatively stable in 2018, especially considering the heightened volatility in equity markets earlier in the year, and an uncertain policy and geopolitical environment.

The continued gradual decline in global oil stocks has provided support to oil prices. The geopolitical risk premium is also still in play, considering Turkey's military intervention in northern Syria and the continued tensions between Saudi Arabia and Iran.

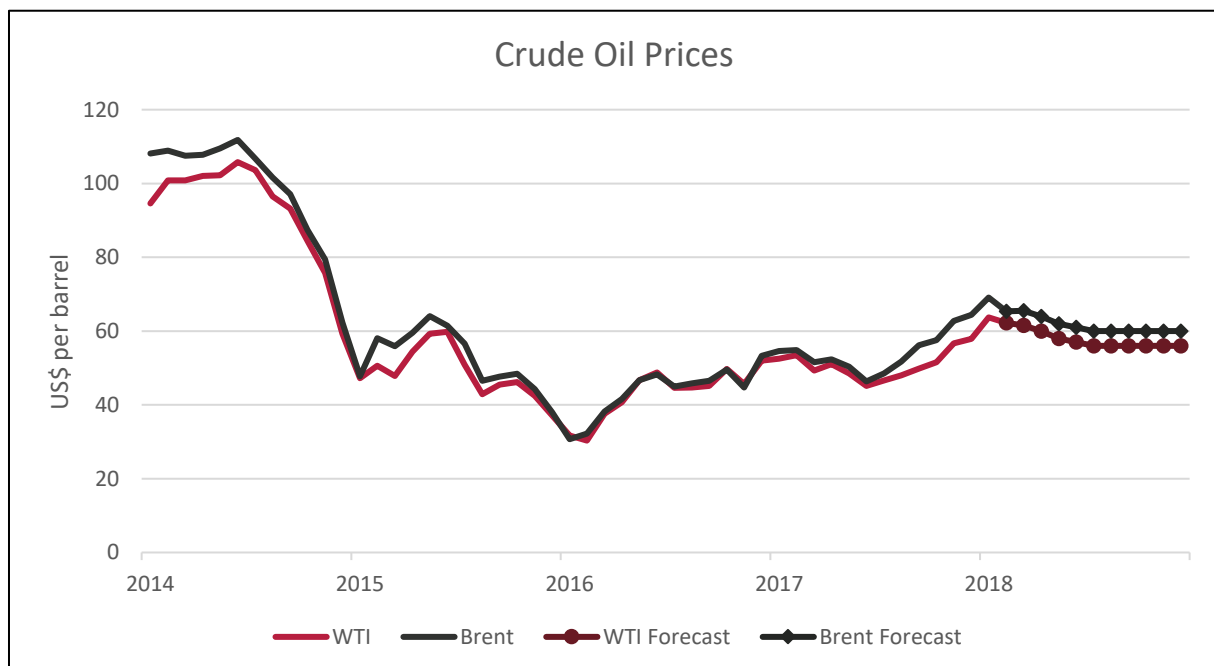
The value of the US dollar relative to other major currencies has an important impact on dollar-denominated oil prices. Earlier this year, the dollar index weakened notably, which contributed to the rise in oil prices. The US Federal Reserve indicated that it will likely maintain its projected 3 rate hikes this year, which may lend the dollar some support later in the year.

In its March *Short Term Energy Outlook*, the US EIA forecast that Brent crude will average

\$62/b in 2018, up slightly from its January forecast of \$60/b. Although the OPEC supply cuts have helped to reduce OECD oil stocks, increased non-OPEC production is anticipated to once again raise stocks during 2018, reducing pressure on prices. The EIA forecasts \$61.5/b for Brent in 2019.

The spread between Brent and West Texas Intermediate (WTI) spot prices narrowed to \$3/b in February. This is mainly due to the glut at the Cushing depot in Oklahoma having been eroded, with stocks at their lowest level in three years following increased US exports of light sweet crude to levels between 1.5 and 2 mb/d. WTI is expected to average about \$4/b lower than Brent in 2018.

With expectations of a more equal balance between demand and supply this year, there is not much pressure for significant price changes coming from fundamentals. However, there are upside risks from geopolitical factors that could affect supply and downside risks posed by threats to demand growth, notably growing trade protectionism.



Source: EIA (February 2018)

Oil developments in Africa

OPEC reports that top African producer **Nigeria's** crude oil output averaged 1.81 mb/d in February, a slight increase from the 2017Q4 average of 1.76 mb/d. The Niger Delta area has been relatively quiet lately. The government hopes that a much-delayed oil industry reform bill will be ready for signing by President Buhari by the end of March. The Petroleum Industry Governance Bill (PIGB), the first of a four-part Petroleum Industry Bill, is aimed at creating entities that would conduct bid rounds, award licenses and make recommendations to the oil minister on upstream licenses.¹ Meanwhile, a long-running domestic fuel shortage in Nigeria is continuing. With little local refining capacity, the government spends enormous amounts of money each year subsidising imported petroleum products in order to keep a lid on fuel prices.

Angola's crude oil production fell by 20 kb/d to 1.61 mb/d in February. This is marginally below the average level of 1.64 mb/d that Africa's second-ranked oil producer pumped in 2017. Italian oil major Eni and Angolan state-owned oil company Sonangol have started production from the deepwater Ochigufu offshore field, which is slated to boost the country's production by 25 kb/d. Eni said it expects its Vandumbu field to begin production early next year.²

Algeria's crude output was 1.03 mb/d in February, down slightly from the 1.14 mb/d average in 2017Q4. **Libya's** oil production averaged 996 kb/d in February, up from an average of 817 kb/d in 2017.

ExxonMobil has taken an 80% stake in a deepwater exploration block offshore of **Ghana**. With the TEN field coming online last year, Ghana now has three deepwater fields in operation. A fourth field, the Mahogany-Teak Akasa deepwater project, is expected to begin production this year.³

¹<http://www.oilreviewafrica.com/exploration/exploration/nigeria-hopes-to-pass-long-delayed-oil-industry-bill-by-end-of-march>

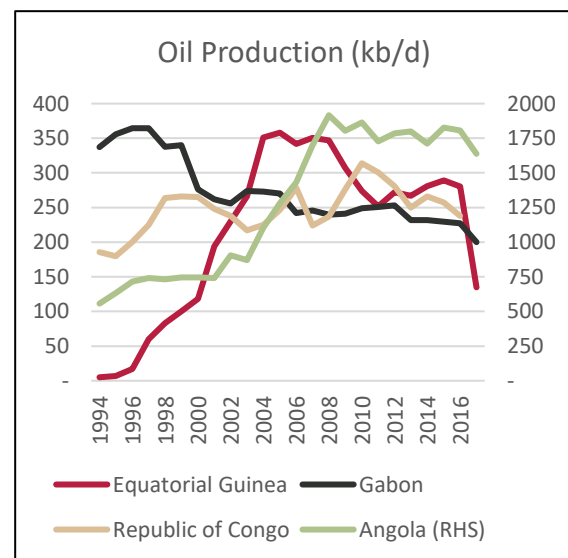
²<http://www.oilreviewafrica.com/exploration/exploration/eni-announces-start-of-production-from-deepwater-oilfield-offshore-angola>

Table 4: Oil production by Africa's OPEC members (kb/d)

Country	Average 2017	February 2018
Nigeria	1,658	1,806
Angola	1,638	1,613
Algeria	1,043	1,031
Libya	817	996
Gabon	200	191
Equatorial Guinea	135	130

Source: OPEC

The chart shows the annual production of oil in several west African neighbours. Output has been declining in all four countries for several years, most notably in Equatorial Guinea. All of these countries rely on offshore oil fields, whose production profiles tend to be steeper than onshore fields. Angola is in danger of following in Equatorial Guinea's footsteps if there are no major new discoveries soon. The IEA recently forecast that Angola's oil output could decline to 1.29 mb/d by 2023.⁴



Source: BP and OPEC

³<http://www.oilreviewafrica.com/exploration/exxonmobil-the-latest-big-name-to-invest-in-ghana-deepwater-oil-and-gas>

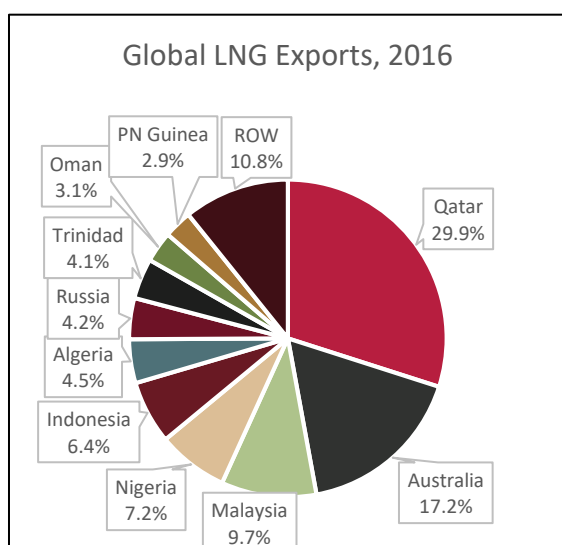
⁴<https://www.platts.com/latest-news/oil/london/angolas-oil-industry-close-to-tipping-point-26919333>

NATURAL GAS

Supply

In 2016, Qatar held 30% of the global LNG market, followed by Australia with 17% and Malaysia with 9.7%. The top 10 producers accounted for over 90% of supply, which totalled 258 million tonnes (mt). LNG supply rose by 12% to a record level of 290 mt in 2017, as the US and Australia together added 22 mt of capacity.⁵ Production also increased in Malaysia, Angola, Nigeria and Algeria, but slipped in Indonesia. The US has risen rapidly through the ranks to become the 7th largest LNG exporter in 2017, capitalising on the country's shale gas boom.

In 2018, global LNG production to set to exceed 300 mt, with the bulk of new supply coming from Australia and the US, which are encroaching on Qatar's historical dominance of the market. Australia is targeting the East Asian market, while the US looks to European customers wary of reliance on Russia. Qatar is looking to boost LNG production by 30% to 100 mt per annum, with exports to Pakistan and Bangladesh set to rise. Shell expects global LNG capacity to rise by over 40 mt per annum in both 2018 and 2019.



Source: International Gas Union (2017)

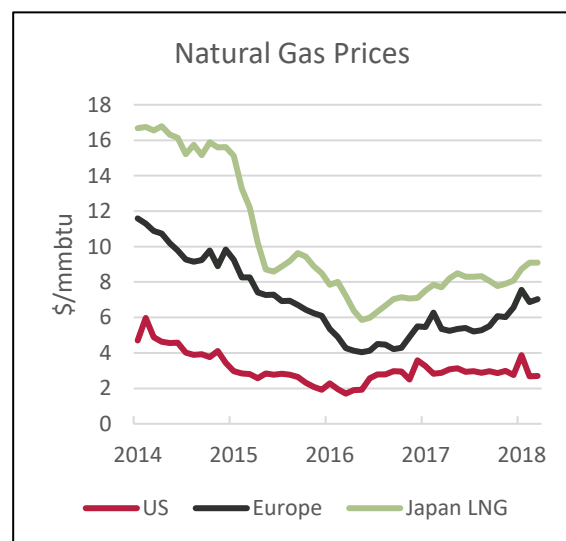
Demand

East Asia absorbed most of the increased LNG supply in 2017. China, Japan, South Korea and Taiwan together consumed nearly 61% of global LNG production. China accounted for 40% of the increase in world demand, becoming the second largest consumer after Japan. China's consumption rose by 12 mt to 28.4 mt. Chinese demand is being driven by Beijing's push for cleaner energy to reduce pollution levels in the major cities. As with so many other commodities, China may become the world's 'swing consumer' for LNG and have a major impact on the market.

South Korea, Turkey, Spain, Pakistan and Taiwan also increased their LNG imports considerably in 2017. Japan currently accounts for nearly a third of global LNG demand, but the government expects the country's imports to decline in the next few years as renewable energy supplies grow and nuclear power plants are brought back online. Shell predicts that LNG demand will grow by 4% per annum till 2035.

Prices

In Q1, gas prices rose by 7% in the US, 15% in Europe and 13% in Japan, compared to 17Q4.



Source: World Bank (2018)

⁵ <http://oilindustryinsight.com/oil-gas/insight-analysis/liquefied-natural-gas-lng/>

Natural gas developments in Africa

Natural gas is a booming industry in Africa, having lagged behind oil for decades. A number of countries are in the process of developing gas export capabilities, several of which are using new floating liquefied natural gas (FLNG) technology.

Golar LNG announced in March that it had commenced production at its FLNG platform in **Cameroon**. This is the world's second working example of the new technology pioneered by Golar, which converts old LNG tankers into liquefaction plants. This saves on costs of land-based LNG facilities, which have trebled in the past 15 years. The entire production of 1.2 million tonnes a year for the first eight years has been sold to the trading division of Russian energy giant Gazprom.⁶

Golar LNG is also working on a FLNG project in **Equatorial Guinea**, dubbed Fortuna, but a final investment decision has been delayed after three Chinese banks withdrew their financing last year. The project operator, Ophir Energy, is in talks with an unnamed Asian bank in the hopes of concluding a deal in the near future.⁷

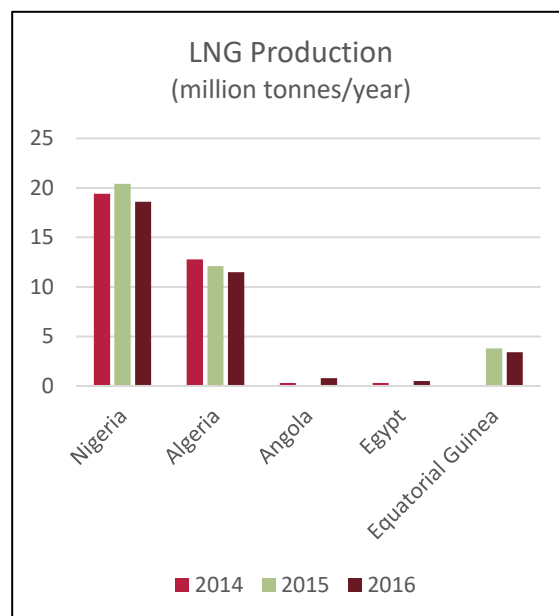
Senegal and **Mauritania** signed an agreement in February that will see the West African neighbours share production from a giant new offshore gas field that straddles their maritime border. The Greater Tortue Complex, under development by Kosmos Energy and BP, contains an estimated 25 trillion cubic feet of gas. First production is targeted for 2021, with the companies planning an LNG export terminal.⁸

The **Ethiopian** Ministry of Mines, Petroleum and Natural Gas has inked an agreement with a Chinese company named Poly GCL for the development of natural gas fields that were discovered in Somali Regional State in the

1980s. Ethiopia is planning to construct a pipeline to export the gas via Djibouti by 2020, and thereby generate US\$1bn per year in revenues. Some of the gas will be consumed domestically.⁹

In **Egypt**, British oil & gas major BP has begun producing gas from the offshore Atoll Phase One project, less than three years after discovery. The project is yielding gas seven months ahead of schedule and with costs a third less than originally estimated, according to BP. Gas output stands at 350 mmscfd, with an additional 10,000 bpd of condensate. The gas supply feeds into Egypt's national grid.¹⁰

Nigeria and Algeria are Africa's two giants when it comes to LNG production. However, output fell in both countries in 2016, as well as in 3rd ranked Equatorial Guinea. Angola and Egypt increased LNG production off low bases.



Source: International Gas Union (2017)

⁶<https://www.reuters.com/article/us-lng-cameroon/start-of-golars-floating-lng-in-cameroon-may-draw-more-africa-clients-idUSKCN1GO139>

⁷<https://www.offshore-mag.com/articles/2017/12/fortuna-flng-decision-deferred-to-early-2018.html>

⁸<https://www.reuters.com/article/senegal-mauritania-gas/senegal-mauritania-agree-to-cooperate-on-giant-offshore-gas-field-idUSL8N1PZ6OY>

⁹<http://www.oilreviewafrica.com/gas/gas/ethiopia-to-export-natural-gas-by-2020>

¹⁰<http://www.oilreviewafrica.com/gas/gas/bp-starts-production-from-egypt-s-atoll-gas-field>

MINERALS

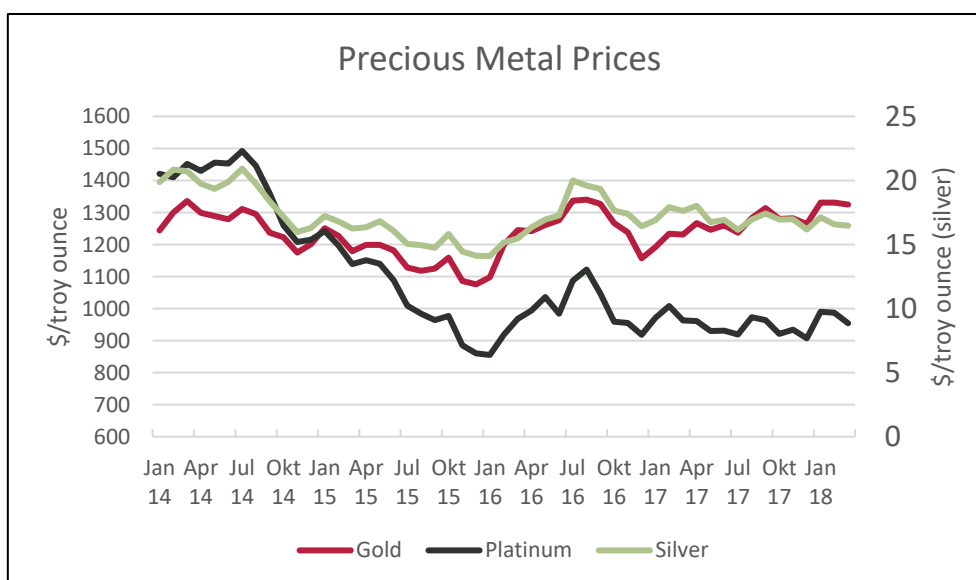
Precious metals

The prices of all three precious metals rose in the first quarter. Gold picked up by 4.2%, averaging \$1329/ounce. The price of platinum increased by 6.1% on a quarterly basis, averaging \$977/ounce in Q1. Silver inched up by 0.2%, averaging \$16.7/ounce.

Gold demand strengthened towards the end of 2017, rising 6% year-on-year (y-o-y) to 1,096 tonnes (t) in Q4. However, demand for the year as a whole declined by 7% to 4,071.7t. Jewellery demand rose 4%, led by China and India, but is languishing below historical averages. Gold ETF inflows were positive, but smaller than in 2016. Central banks augmented their gold reserves by 371.4t, which was 5% lower than net additions in 2016. Bar and coin demand slipped by 2% as US retail investment fell. Technology demand grew for the first time since 2010 on the back of wider applications in vehicles and smartphones.¹¹ Based on economic growth forecasts, these demand trends are likely to persist in 2018. Any escalation of tensions on the Korean Peninsula is likely to further boost the gold price.

Platinum markets were oversupplied in 2017, with supply of 8 million ounces (moz) exceeding demand of 7.7 moz. Inventories have consequently risen to about a year's worth of supply. The World Platinum Investment Council (WPIC) predicts no demand growth in 2018, following a 7% contraction in 2017, while mine output is forecast to fall 4%. The longer term prospects for platinum demand is under threat by the transition to electric vehicles, which don't require the catalytic converters that currently account for over 40% of platinum demand.¹²

The US Federal Reserve raised interest rates by 25 basis points in March, and signalled that a further two rate hikes are still on the cards for 2018, as indicated late last year. Since these rate hikes were already priced in by markets, there seems to be little prospect of rising interest rates leading to significant dollar strengthening this year, which could have softened dollar-denominated precious metal prices.



Source: World Bank (2018)

¹¹<https://www.gold.org/research/gold-demand-trends>

¹²<http://www.miningweekly.com/article/shrinking-platinum-sector-adds-to-ramaphosas-economy-challenge-2018-03-26>

Non-precious metals

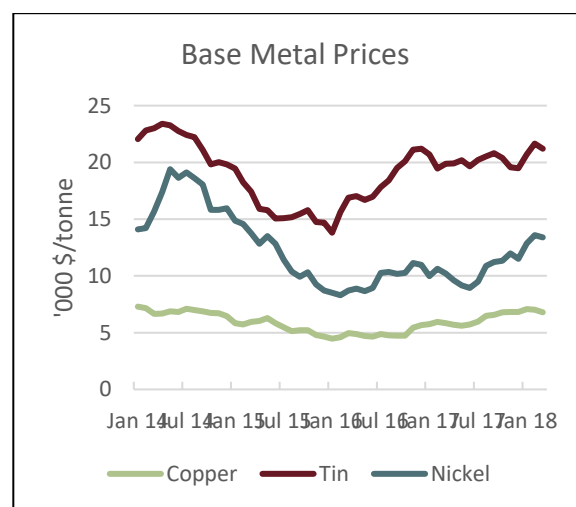
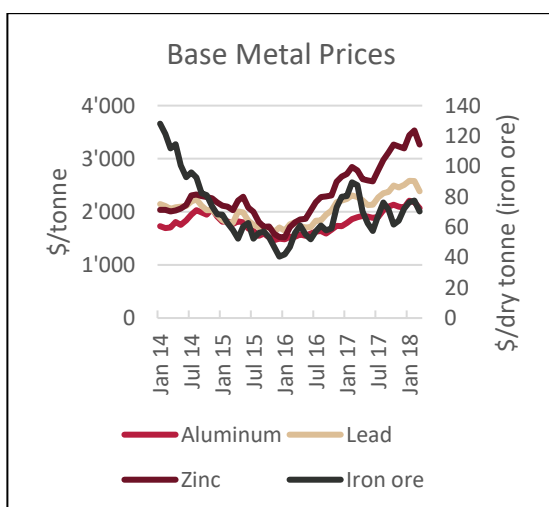
Base metal prices all increased in Q1 compared to the Q4 average. The best performer was nickel, which gained 14.5%, followed by iron ore with a 13.1% rise. Tin gained 7%, while zinc edged up by 5.7%. Copper (2%), aluminium (2.4%) and lead (1.1%) posted more modest gains. Iron ore dropped back to \$70.4/tonne in March after rising to \$77/t in February.

On a year-on-year basis, all of the base metal prices rose, with the exception of iron ore, which plunged by 20%. There were strong gains of around 31% for nickel, 18% for zinc and 17% for copper, a 9% rise for aluminium, 7% for tin and 5% for lead. Base metals have all trended upwards since the low point reached in January 2016, ranging between 40% and 60% for all except iron ore (which has risen 68%) and zinc, which has recorded an impressive 115% gain. Iron ore and nickel are still substantially below the price levels seen in mid-2014, whereas the others have more or less recovered.

The outlook for base metal prices in the remainder of 2018 is buoyed by the broad-based expansion in global economic activity. In particular, the surprising robustness of Chinese growth and India's return to above 7% growth are likely to support somewhat higher metal prices. However, China's economy is showing

signs of rebalancing towards consumption and away from investment, which probably implies slower growth in demand for metals. Nevertheless, the need for infrastructure spending in both developing and developed countries will likely support metals such as copper and aluminium. Additional impetus for metal prices is likely to come from supply constraints following several years of low investment in new mines, particularly in the case of lead, nickel and zinc, but also copper. The major exception is iron ore, as new projects are still coming on stream in Australia and Brazil, which are likely to depress prices by about 10-20%. Moreover, continued pollution crackdowns by the Chinese authorities could restrain iron ore demand.

Longer term trajectories of base metal prices will be influenced by fundamental technological changes. Chief among these will be the combination of the renewable energy and electric vehicle revolutions, which will boost demand for metals such as copper, nickel and aluminium. Surging demand for batteries is driving lithium and cobalt demand and prices to record highs. On the other hand, pollution concerns will likely see curbs on the consumption of coal, iron ore and steel.



Source: World Bank (2018)

Mineral developments in Africa

Democratic Republic of Congo's President Joseph Kabila signed a new mining code into law in March. The code allows for increased royalties, which can rise from 2% to 10% for strategic minerals, including cobalt. The move attracted vehement opposition from mining companies, who subsequently offered to pay higher royalties if certain provisions were relaxed, such as allowing 10-year exemptions to changes to the tax and customs rules for existing projects. This proposal was rejected by the Minister of Mining later in March. The DRC is Africa's top producer of cobalt and copper, both of which are key minerals in the renewable energy and electric vehicle revolutions.¹³

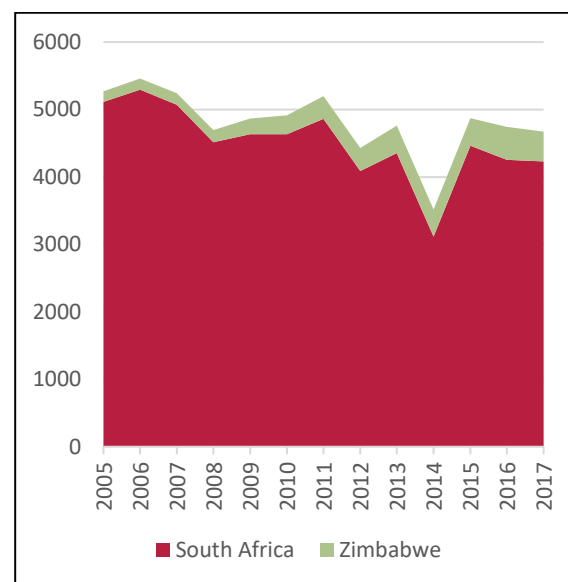
Zimbabwe's President Emmerson Mnangagwa touted a new investment in the platinum industry as evidence that country was "open for business". Cyprus-based Karo Resources inked a \$4.2 billion deal to develop a platinum mine and refinery. Construction of the mine is slated to begin in July, with first production planned for 2020, ramping up to 1.4 million ounces annually within three years. However, some commentators see the timeline as unrealistic and question the financing arrangements.¹⁴

South Africa's state-owned freight rail company Transnet has concluded an agreement with Australian-based mining company South32 to export 2.6 million tonnes of manganese per annum to Europe and China. South Africa is home to nearly three-quarters of the world's manganese reserves. Transnet is looking to conclude deals with eight other manganese producers, and is targeting a total volume of 12.5 million tonnes per year of manganese to be railed to export terminals.¹⁵

Shares in Canadian mining company First Quantum Minerals Ltd. fell 13% as the firm received a \$7.9 billion tax bill from the **Zambian** government.¹⁶ This is part of a trend of African countries demanding a higher share of revenues from their mineral output. Zambia raised its copper production figure for 2017 to 800,000 tonnes, and is confident of boosting output further to over 1 million tonnes this year.

Africa accounts for 96% of global platinum group metal reserves. The continent's two producers, South Africa and Zimbabwe, together produce 73% of the world's annual output of platinum. Production has been declining over the past decade due to labour disputes, rising costs, volatile platinum prices and uncertainty in South Africa's mining code. Demand for platinum's major use – in catalytic converters for diesel cars – is in decline as the motor industry shifts to cleaner electric cars.

Table 5: Platinum production ('000 tonnes)



Source: World Platinum Investment Council

¹³<http://www.mining.com/web/congo-rejects-mining-industry-proposal-soften-new-code/>

¹⁴<http://www.mining.com/web/zimbabwe-hopes-transform-mining-sector-4-2-blm-platinum-deal/>

¹⁵<https://af.reuters.com/article/investingNews/idAFKBN1GY21C-OZABS>

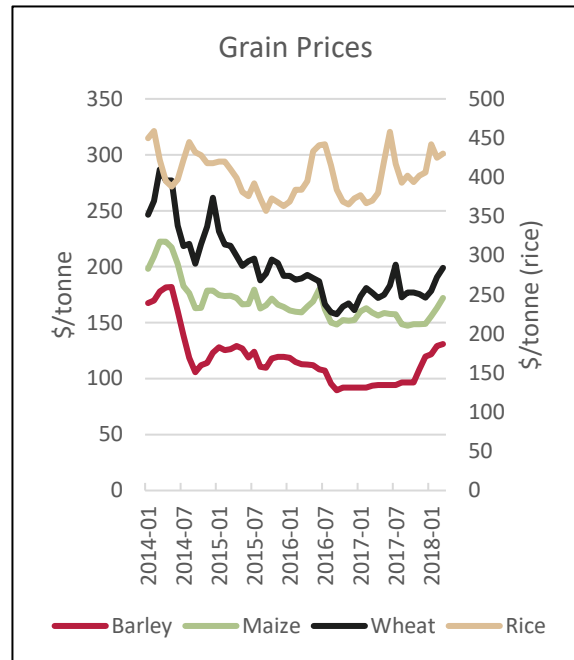
¹⁶<http://www.mining.com/web/first-quantum-confirms-7-9bn-zambian-tax-assessment/>

AGRICULTURAL COMMODITIES

Grains

The prices of all four major grains rose substantially in Q1 compared to the previous quarter's average prices. The price of maize rose by 10.1% in Q1, and in March was up 8.2% over 12 months. Rice gained 7.9% in the quarter, putting it 16.2% higher than the previous March. The wheat price increased by 8.1% in Q1, and the year-on-year increase was 12.6%. Barley posted the strongest gains, rising 17.5% in the quarter and 40% over 12 months to March.

The FAO expects world grain supplies to rise by 33 million tonnes (1.3%) to nearly 2,646 mt in the 2017/18 season, mainly due to expanding maize output. Rice production is forecast to be a record 503 mt, although wheat output is expected to decline somewhat. Cereal stocks are anticipated to rise for the fifth year in a row to an all-time high of 748 mt as consumption growth lags increased output.¹⁷ Prices are therefore unlikely to rise much in 2018.

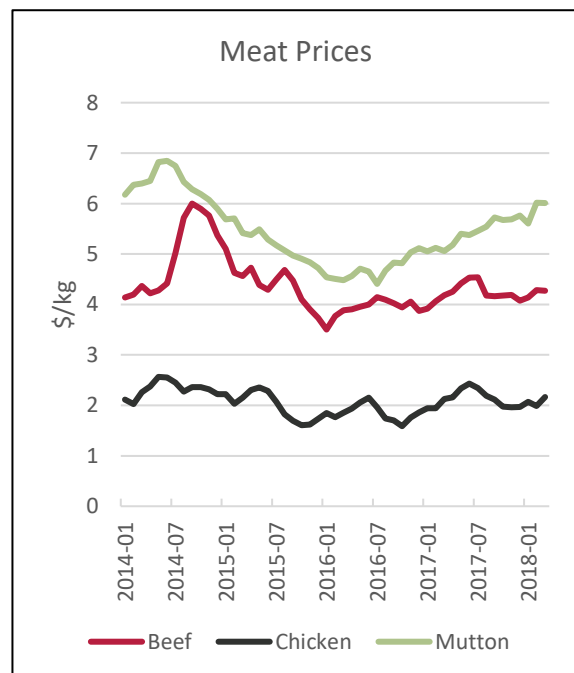


Source: World Bank (2018)

Meat

The prices of all three major categories of meat increased in Q1. The quarterly average price of beef rose by 2%, and by March the price was 2.1% higher than a year earlier. Mutton edged up by 2.9% in Q1, pushing up the annual gain to 18.7%. Chicken gained 5.4% in the quarter, and in March was up 1.9% year-on-year. Mutton has now climbed 32% since the low point reached in early 2016, while beef is up by 22% and chicken has risen by 17%.

The price rises across the meat categories are consistent with the upturn in demand resulting from accelerating global economic growth, as well as the rise in grain feed prices. Should incomes continue to rise robustly in the developing world and grain prices remain firm, we are likely to see somewhat firmer meat prices during the remainder of 2018.



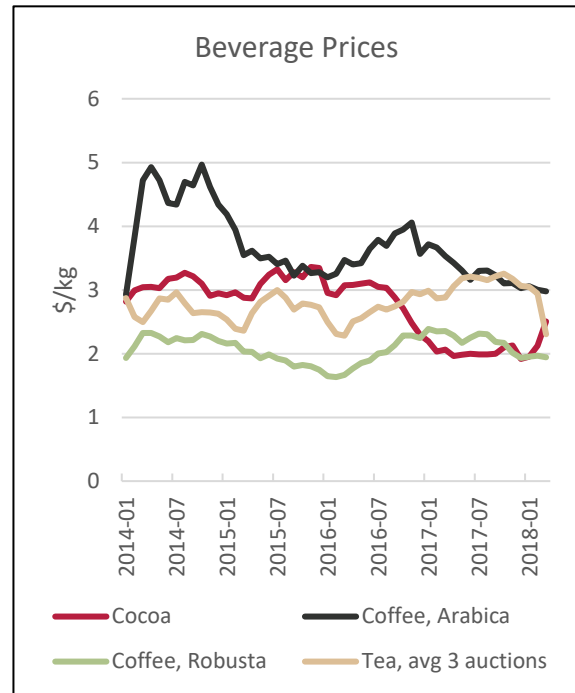
Source: World Bank (2018)

¹⁷ <http://www.fao.org/worldfoodsituation/csdb/en/>

Beverages

The 1st quarter saw a continuation in the gradual downward drift in coffee prices, but a sharp upturn in the cocoa price and an equally steep decline in tea. Arabica coffee fell by 2.1% in the quarter, while Robusta coffee shed 4%. Arabica has lost 16% in the year to March, and Robusta is 17% lower. Coffee production has increased significantly in Vietnam, which exported an estimated 3.29 million bags in January, nearly twice as much as a year earlier. The price of tea plunged by 13% in Q1, and by March was 20% lower than a year earlier.

The price of cocoa beans increased by 7% in Q1, averaging \$2.19/kg. This boosted the year-on-year increase in March to 21%. Excess rainfall in the key West African producers Ghana and Côte d'Ivoire has contributed to a spread of diseases such as brown rot and black pod disease. Authorities in these countries have embarked on programmes to replant up to a quarter of the trees, thereby stoking expectations of supply constraints next season.



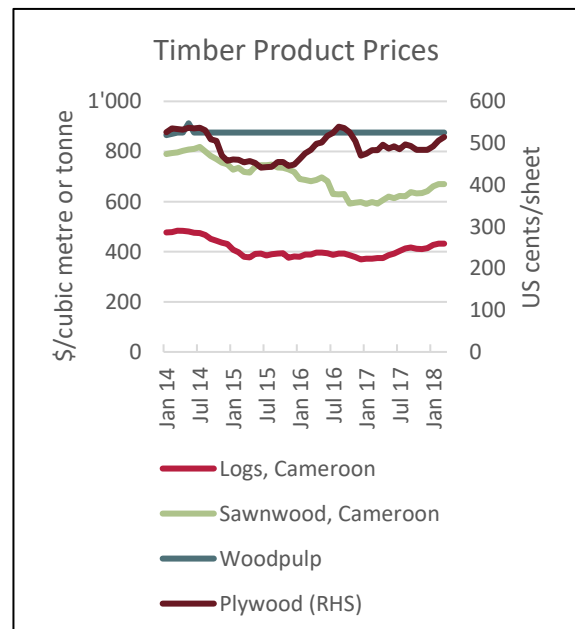
Source: World Bank (2018)

Timber

Timber prices saw their largest quarterly gains in more than a year. The price of Cameroonian logs increased by 4.2% in the 1st quarter compared to the 2017Q4 average, and the March price was up a solid 15.4% year-on-year. Sawnwood prices also grew by 4.2% in Q1, and were 13.2% higher over 12 months. Prices were supported by demand growth as the global economy has picked up speed.

The price of plywood rose by 6.5% in the quarter and by the same amount over 12 months. There has been no change in the price of wood pulp, which remains steady at \$875 per tonne.

If the positive momentum in the global economy continues as expected, timber prices are likely to continue their gradual upward trajectory.



Source: World Bank (2018)

Agricultural developments in Africa

The severe drought in the **Horn of Africa** refuses to relinquish its grip, with hotter and drier than usual conditions in January following an early end to seasonal rains in December. This is placing increasing strain in particular on pastoral and marginal agricultural areas of Somalia, Ethiopia and parts of northern Kenya. Food insecurity remains a huge challenge, with an estimated 7.4 million in Ethiopia, 6.2 million in Somalia and 3.4 million in Kenya needing food assistance in the first half of 2018.¹⁸

In **Nigeria**, January saw the completion of harvesting of the 2017 cereal crops, with national production estimated at an above-average 24.4 million tonnes (mt), thanks to well-timed and widely distributed rains in most states. The harvest included 11.1 mt of maize (15% above average), 6.3 mt of sorghum (about average) and 5.4 mt of rice (13% above average).¹⁹

South Africa's Crop Estimates Committee (CEC) forecast at the end of February that the national maize harvest for 2017/2018 would likely be 27% smaller than the previous year's record crop. This follows a dry period in western areas of the maize belt, as well as a smaller area planted. Production is estimated at 12.22 million tonnes, which should be sufficient to keep prices subdued.²⁰ The drought gripping the wine- and fruit-producing Western Cape Province is persisting. Cape Town's major dams were at just 23% of capacity in late March. Already, thousands of farm workers have lost their jobs.

In **Tanzania**, agricultural output has shown mixed results, with a below-average 2017/18 "vuli" harvest predicted in bi-modal rainfall areas following poor rains, while the expectation for 2018 "msimu" crops is positive. Total cereal production for 2017 is foreseen to be around the average, and maize prices have

fallen to low levels, after reaching record highs in April 2017.²¹

In **Sudan**, total cereal production for 2017 is estimated at 5.2 mt, 40% lower than 2016's bumper level, following unfavourable rains in northern provinces. Cereal prices have risen to record highs on the back of currency depreciation.

Table 6 shows Africa's top 15 producers of rice in 2016. Some 42 countries are recorded as having produced rice, although the top 15 producers accounted for 94% of total output. Egypt was the leading producer, accounting for 19% of the continent's rice output, followed closely by Nigeria. No African countries are net exporters of rice, and the vast majority are net importers.

Table 6: Africa's top 15 rice producers, 2016

Country	Tonnes	% of total
Egypt	6 300 000	19
Nigeria	6 070 813	19
Madagascar	3 815 849	12
Tanzania	2 985 581	9
Mali	2 780 905	9
Guinea	1 983 133	6
Côte d'Ivoire	1 768 121	5
Sierra Leone	1 560 363	5
Senegal	885284	3
Ghana	687 679	2
Cameroon	359 320	1
Burkina Faso	339 667	1
Liberia	309 144	1
DRC	306 190	1
Benin	281 428	1

Source: FAOSTAT (2018)

¹⁸ <https://reliefweb.int/report/somalia/horn-africa-drought-response-issue-no-08-31st-january-2018>

¹⁹ <http://www.fao.org/giews/countrybrief/country.jsp?code=NGA>

²⁰ <https://www.agriculture.com/markets/newswire/south-africas-2018-maize-harvest-expected-to-be-down-27-percent-cec>

²¹ <http://www.fao.org/giews/countrybrief/country.jsp?code=TZA>