

COMMODITIES OUTLOOK

Q4 / 2016

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OIL

Demand

Growth in world oil demand slowed notably in the 3rd quarter, with global consumption reaching 97 mb/d. Continued weakness in Chinese growth, accompanied by an apparent deceleration in India and continued stagnation in Europe and Japan, is constraining global demand growth. Oil has been around \$50/b for more than a year, so the positive demand response to low prices has largely run its course.

The International Energy Agency (IEA) in September projected that global oil demand will grow by 1.3 million barrels per day (mb/d) in 2016, down marginally from its 1.2 mb/d forecast from June, as global economic growth

continued to slow in the aftermath of Brexit. Growth of 1.3 mb/d is foreseen for 2017, amidst an uncertain economic outlook. As is usually the case, the U.S. Energy Information Administration (EIA) is somewhat more bullish in its consumption forecasts, projecting 1.5 mb/d growth this year and 1.4 mb/d in 2017. Most of the new demand will come from non-OECD countries, led by China and India, whose consumption is projected to rise by 300-400 kb/d each.

OPEC is anticipating world oil demand growth of 1.23 mb/d this year and 1.15 mb/d in 2017, driven mainly by growth in India, China and the US.

Table 1: World oil demand growth forecasts (million barrels per day)

Agency	2016	2017
International Energy Agency ¹	1.3	1.2
U.S. Energy Information Administration ²	1.5	1.4
OPEC ³	1.23	1.15

Sources:

1. IEA Oil Market Report, September 2016.
2. EIA Short-Term Energy Outlook, September 2016.
3. OPEC Monthly Oil Market Report, September 2016.

Supply

According to the IEA, global oil supplies fell by 0.3 mb/d in August, to 96.9 mb/d – down 0.3 mb/d from a year earlier. OPEC is producing near record amounts of crude (33.5 mb/d), with most of the Middle Eastern producers pumping at or near records. OPEC output is up 0.93 mb/d from a year ago, while non-OPEC production has contracted by nearly the same amount. Non-OPEC output has shrunk about 1.4 mb/d since the end of 2014, with the US accounting for more than half the decline as shale oil producers reacted to plunging prices.

The EIA expects non-OPEC production to decline by 0.4 mb/d in 2016 and by a further

0.2 million b/d in 2017. The major change will be in US light tight oil production (down 0.29 mb/d), which has short investment horizons and steep production decline curves, which makes it especially sensitive to prices in the short term. U.S. crude oil production is forecast by the EIA to average 8.8 million b/d in 2016 and to fall further to 8.5 million b/d in 2017.

OPEC predicts that non-OPEC oil supply will contract by 0.61 mb/d to average 56.3 mb/d in 2016. The group anticipates average demand for its oil products of 31.7 mb/d this year and 32.5 mb/d in 2017. The group's recent decision to cap output within the range 32.5 to 33 mb/d is discussed later.

Unanticipated supply disruptions amongst OPEC producers averaged 2.4 million b/d in August, mainly in Nigeria (0.7 mb/d), Libya (1 mb/d) and Venezuela. The group’s spare production capacity is expected by the EIA to average 1.3 mb/d in 2017, which is small by

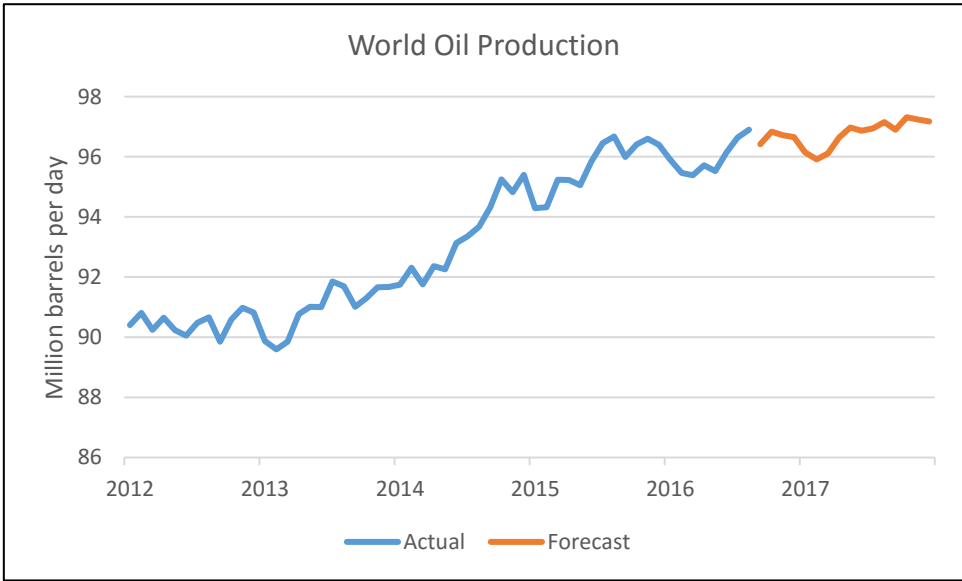
historical standards. This means that despite the current over-supply, a major unanticipated disruption to supply (say arising from geopolitical events) could have a large impact on prices once inventories have been drawn down.

Table 2: Non-OPEC oil supply change forecasts (million barrels per day)

Agency	2016	2017
International Energy Agency ¹	-0.90	0.20
U.S. Energy Information Administration ²	-0.70	-0.20
OPEC ³	-0.61	0.20

Sources:

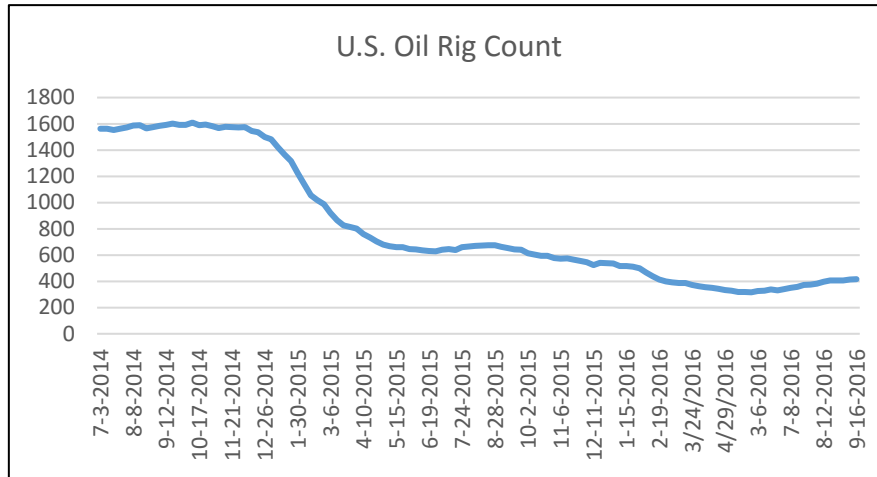
1. IEA Oil Market Report, September 2016.
2. EIA Short-Term Energy Outlook, September 2016.
3. OPEC Monthly Oil Market Report, September 2016.



Source: U.S. EIA (2016)

The active US oil rig count has grown each week since the end of June, reaching 416 units in mid-September from 330 three months earlier. This is still just over a quarter of the record

1600 rigs in action in June 2014, so shale oil production will remain muted for some time to come.

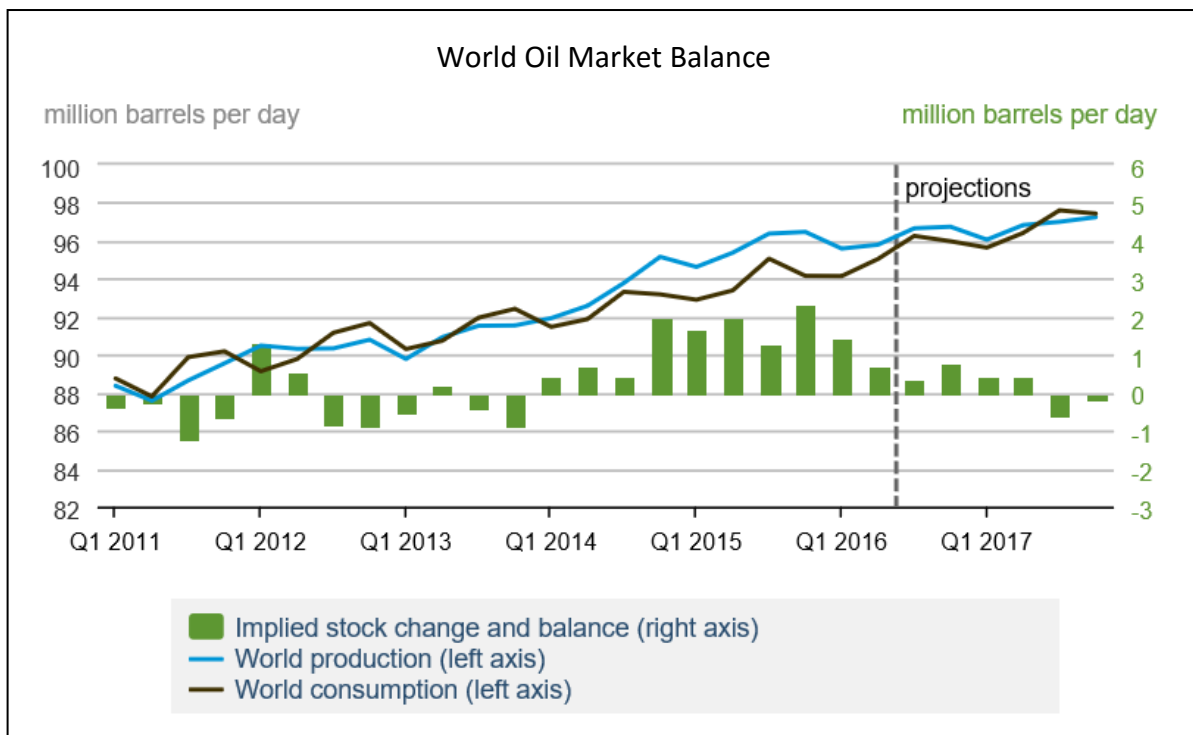


Source: Baker Hughes (2016)

Inventories

The OECD's oil inventories swelled by 32.5 mb in July to a new record of 3 111 mb. The IEA and EIA both expect that oil supply will continue to exceed demand through the first half of 2017,

resulting in further inventory accumulation. The demand/supply balance is likely to be restored only by the latter part of 2017, in the absence of major shocks – although the record stocks will provide a buffer in such an event.

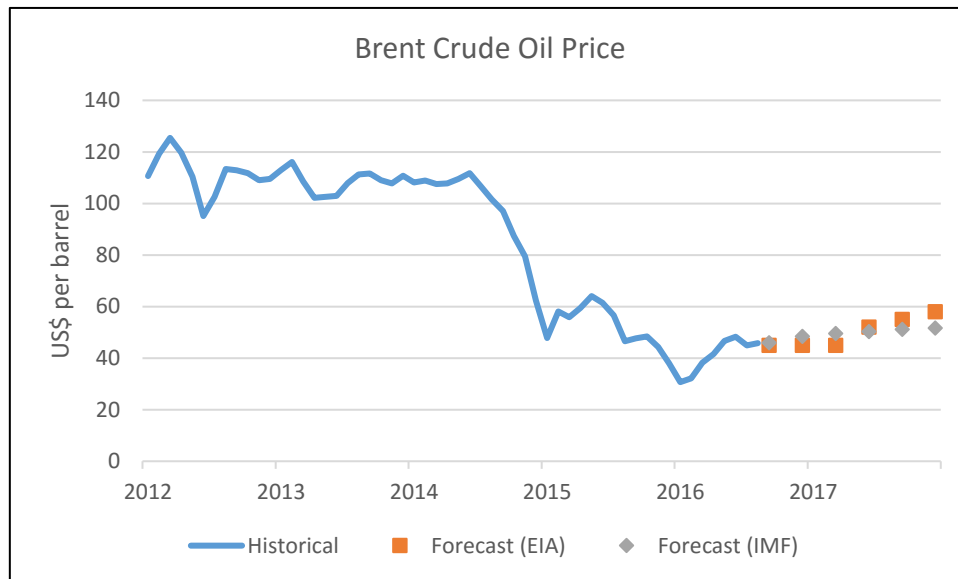


Source: U.S. EIA (2016)

Prices

Brent crude oil spot prices having been averaging between \$44/b and \$49/b for the past four months. The US EIA forecasts that Brent crude will average \$43/b in 2016 and \$52/b in 2017, unchanged from its June projections. As a result of growing draws on oil inventories in the latter part of 2017, the EIA

expects the price of Brent crude to rise to \$58/b in 2017Q4. The IMF's forecasts, which are likely influenced more by economic (demand side) considerations than by supply, are slightly higher for the coming two quarters but lower in the latter part of 2017 (\$52/b in Q4).



Source: U.S. EIA and IMF (2016)

Oil Market Analysis

Since the end of 2014, OPEC has tacitly or explicitly maintained a policy of targeting market share, rather than reducing output in an attempt to support oil prices as they did on previous occasions, such as in 2009. An attempt earlier this year to reach an agreement among OPEC members and key other exporters to freeze production levels failed to materialise. Surprisingly, OPEC announced after a meeting in Algiers on September 28 that the group had agreed to reduce their combined output to between 32.5 to 33 mb/d. However, OPEC did not provide details on the production quotas for individual countries, nor did they say when the agreement would come into effect. What is more, current OPEC output is reportedly 33.5 mb/d, so the proposed cut is very small. There is also the question of whether Nigeria and Libya would be allowed to

increase supply that is currently shut-in due to conflict. The Saudi Arabian oil minister commented that these countries, in addition to Iran, would be allowed to produce "at maximum levels that make sense". The details will apparently be ironed out at OPEC's next meeting at its Vienna headquarters on 30 November, when non-OPEC producers such as Russia will be invited to join the production cut agreement. But even if OPEC does manage to cut production, there is a possibility this would merely push up prices to a level that is attractive for increased shale oil production in the US, and thus global supply could rise again. There is also the perennial incentive for individual producers to cheat by pumping as much as they can in order to maximise oil revenues.

Geopolitical risks to oil supplies have not changed much in recent months. The Syrian conflagration shows no sign of abating despite the recent ceasefire attempt. Iraq's oil output has thus far been relatively unscathed by the fight against the so-called Islamic State. In Libya, where nearly 1 mb/d of export capacity has been shut in, there are tentative signs that exports may increase after military forces loyal to the eastern government faction gained control over four export terminals. Venezuela's oil output has not yet suffered much from the socio-economic collapse, but the risk of much lower production remains. In Nigeria, Exxon and Shell are apparently going to increase crude shipments of 500 kb/d after repairing oil infrastructure damaged by militants. The Niger Delta Avengers announced a ceasefire in late August, but other newly-formed militant groups did not. Experience suggests the ceasefire may not last long.

According to the IEA, the global energy industry is undergoing the longest period of **declining investment** in nearly half a century. The declines are in the fossil fuel industries, and are being driven by low prices of oil and gas (resulting in sharply reduced spending on exploration) as well as by climate-related policies promoting renewable energy and the declining costs of solar and wind power. It might, however, be several years before declining oil sector investment creates supply shortages, given the significant lag times between investment and production. Meanwhile, renewables like solar are still growing in leaps and bounds. Fossil fuels accounted for 55% of global energy investment in 2015, down from 61% in 2014.

In another interesting development, **China's oil production** – about the fifth highest in the world – appears to have peaked in 2015, with a downward trend evident since then. The government has abandoned its previous strategy of ordering old, high-cost fields to stay in production, opting rather for cheaper imports. If this production decline continues, China's oil imports will likely grow somewhat more strongly. It seems as though Beijing has slowed the pace at which it fills its strategic petroleum reserve. But further storage capacity additions are under construction and filling them will boost China's oil imports down the line, possibly giving some marginal support to oil prices.

Table 3 shows the world's top 10 producers of crude oil and condensate in the first quarter of 2016. Russia was slightly ahead of Saudi Arabia, while US oil output has fallen by about 1 mb/d since the price collapse as shale oil drillers cut back on production. Both Iraq and Iran have been climbing in the rankings this year.

Table 3: World's top 10 oil producers in 2016Q1

	Country	Mb/d
1	Russia	10.5
2	Saudi Arabia	10.0
3	United States	9.2
4	Iraq	4.3
5	China	4.1
6	Canada	3.8
7	Iran	3.5
8	United Arab Emirates	2.7
9	Kuwait	2.5
10	Venezuela	2.4

Source: EIA (2016)

Oil & Gas developments in Africa

West Africa is of the continent's long-established oil provinces, but within that region **Senegal** has thus far recorded very little oil exploration activity, especially in deep waters off-shore. However, this is changing as an Australian energy company, FAR Ltd, is conducting offshore exploration. Said. FAR says it has contingent resources of about 200 million barrels of oil in its SNE offshore field, which meets the minimum requirement to be considered commercial.

Leaders of several **East African** countries with recent hydrocarbon discoveries are pushing for quicker development of the resources.¹ In early September, **Tanzania's** President John Magufuli ordered that exploitation of natural gas begin as a matter of urgency. **Kenyan** President Uhuru Kenyatta stated that the government has fast-tracked oil production in order to enable significant exports by 2019. Tullow Oil, the Irish company that is the main finder and developer of Kenya's oil reserves, expects to deliver the first oil to the domestic market in March 2017.

In **Uganda**, where oil was first discovered more than 10 years ago, the government has recently awarded production licenses to Tullow Oil and France's Total.² The two companies need to make a final investment decision within the next year and a half, and the government hopes production will start in 2020 and ramp up to output of 200-230 kb/d. Uganda's oil fields are estimated by state geologists to hold about 6.5bn barrels worth of reserves. Uganda is looking for a private developer and operator to build a \$2.5 billion refinery so that the country can benefit from its own resources.

Mozambique's government has passed legislation stipulating local content

requirements for the petroleum sector.³ This includes job creation and training, entrepreneurship, opportunities for locals to take equity stakes, and a requirement that a quarter of the country's oil and gas be supplied to the domestic market. While the companies holding major stakes in the Rovuma offshore fields continue to explore LNG options, with a view to supplying markets in Asia, there are two competing proposals to build a pipeline across the length of Mozambique to South Africa's industrial heartland in Gauteng Province. A consortium proposing a 2,600 km "African Renaissance Pipeline" involves the Chinese firm Petroleum Pipeline Bureau, a subsidiary of the state-owned Chinese National Petroleum Corporation.

Table 4 shows the top 10 oil producers in Africa in 2015 (crude oil and condensate production). In recent months, Nigeria has slipped into second place behind Angola as a result of supply disruptions caused by militant action in the Niger Delta. Libya's production is also volatile as a result of the ongoing conflict.

Table 4: Top 10 oil producers in Africa, 2015

	Country	Kb/d
1	Nigeria	2 317
2	Angola	1 842
3	Algeria	1 317
4	Egypt	511
5	Libya	404
6	Congo	269
7	Sudan + South Sudan	259
8	Equatorial Guinea	250
9	Gabon	213
10	Chad	120

Source: EIA (2016)

¹ <http://www.oilreviewafrica.com/exploration/exploration/east-africa-nations-race-to-become-region-s-first-oil-exporter>

² <http://www.reuters.com/article/us-uganda-oil-idUSKCN115104>

³ <http://www.oilreviewafrica.com/gas/gas/national-content-focus-at-mozambique-gas-summit>

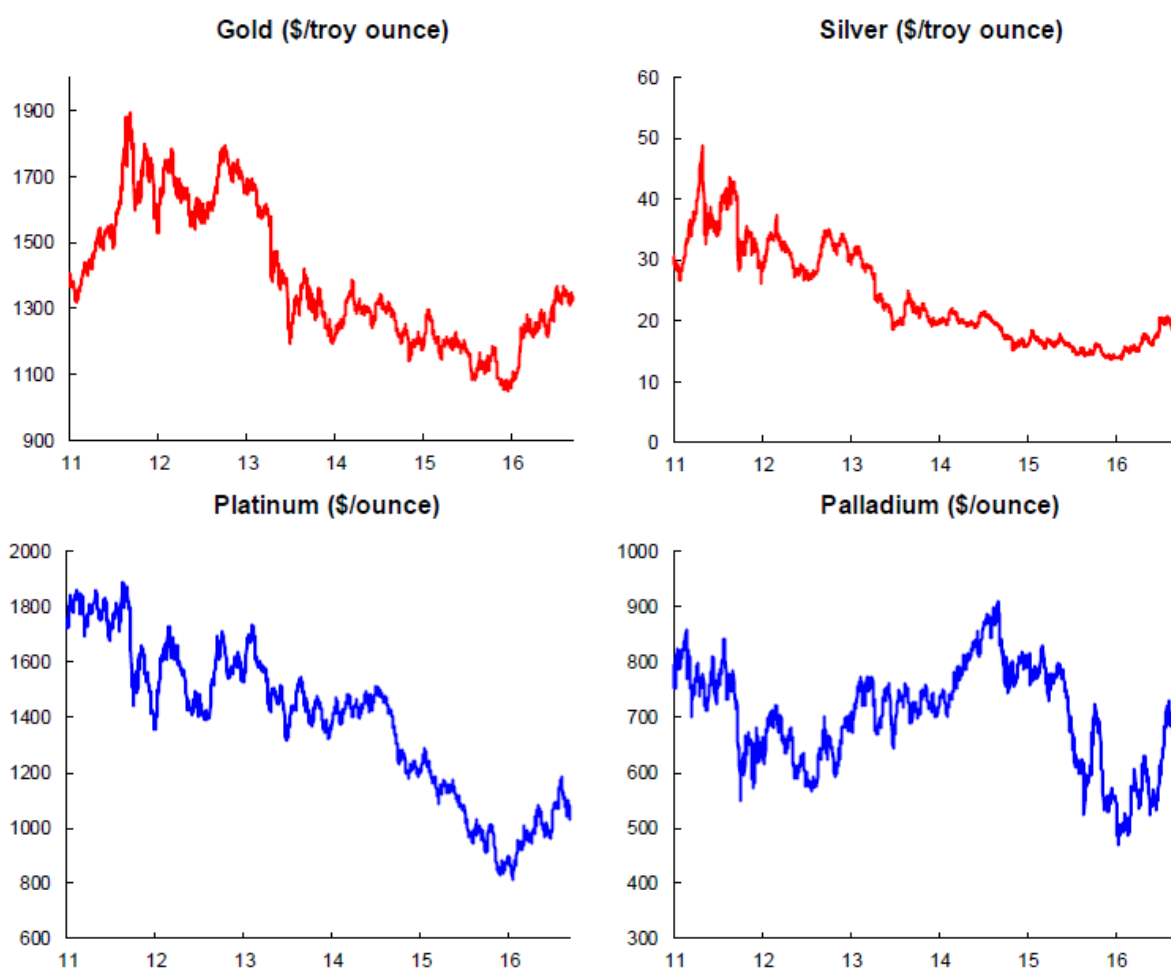
MINERALS

Precious metals

Precious metal prices have by and large continued their upward trend since bottoming out in January 2016. Gold prices in particular were given a fillip by the economic uncertainty generated by the UK's Brexit vote in June.

While the store-of-value attractiveness of precious metals remains on the upside going forward, weak global industrial activity and demand are likely to continue to act as a partial drag on these prices.

Precious Metal Prices

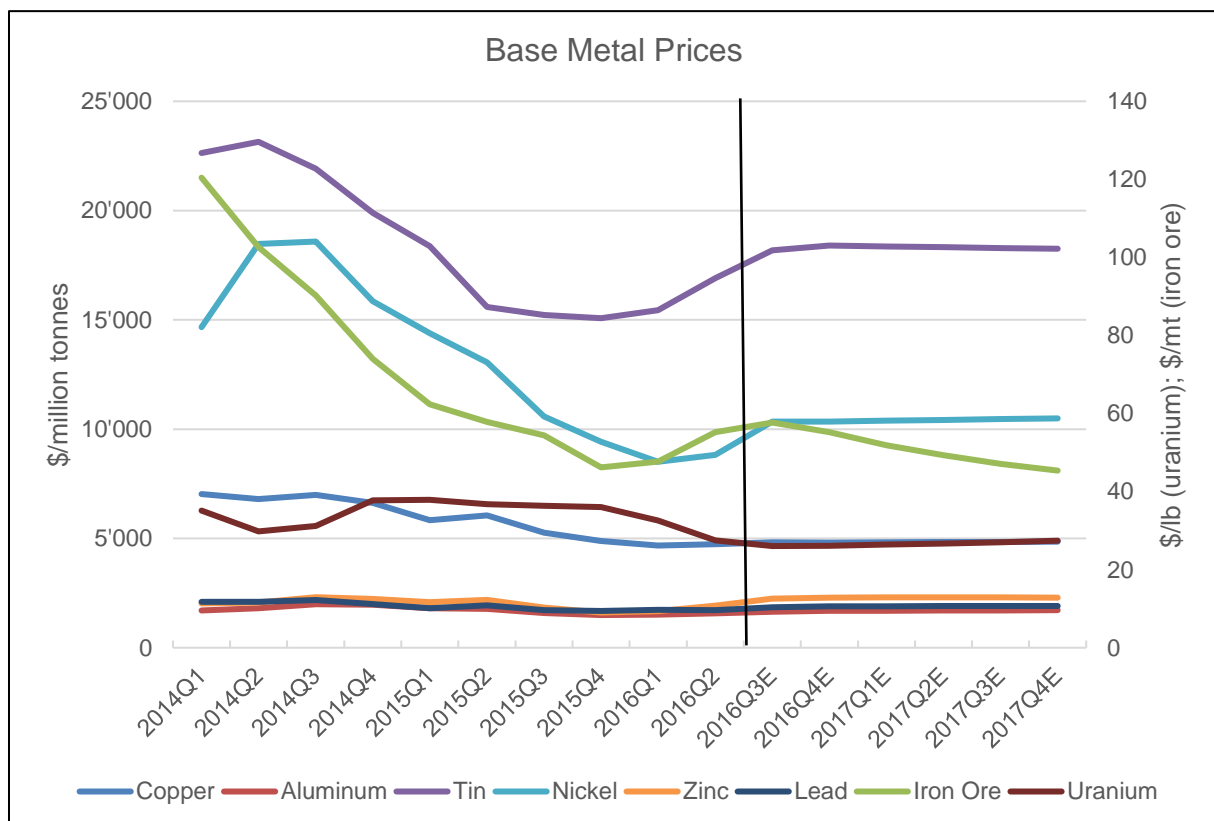


Source: IMF Commodity Market Monthly (September 2016)

Non-precious metals

There has been a pick-up in the prices of most non-precious metals in the past quarter, led by nickel and zinc (17% each), followed by lead (8%) and tin (7.6%). Smaller increases were recorded for copper (1.8%), iron ore (4.4%) and aluminium (5.1%). On the other hand, the price of uranium continued its decline, falling 5.3% in between June and September after plunging 16% in the previous quarter. The outlook is for little change in metal prices over the next five quarters, aside from a return to a declining trend in iron ore prices as demand remains soft in the face of continuing global overcapacity. New low-cost mines in Brazil and Australia are due to come on-stream in the near future, putting more downward pressure on prices and higher-cost producers.

Going forward, much will depend on the rate of growth in the Chinese economy, which accounts for about half of global demand for most base metals. In the medium term outlook, there is currently no expectation of a significant rebound in metal prices given the deceleration and structural rebalancing in China, pervasive economic problems in both OECD and major emerging market economies, and ample supply resulting from investments in capacity that were made when prices were high in the 2000s. Thus the mining industry will generally need to focus on efficiency improvements and avoid further capacity expansions for the foreseeable future.

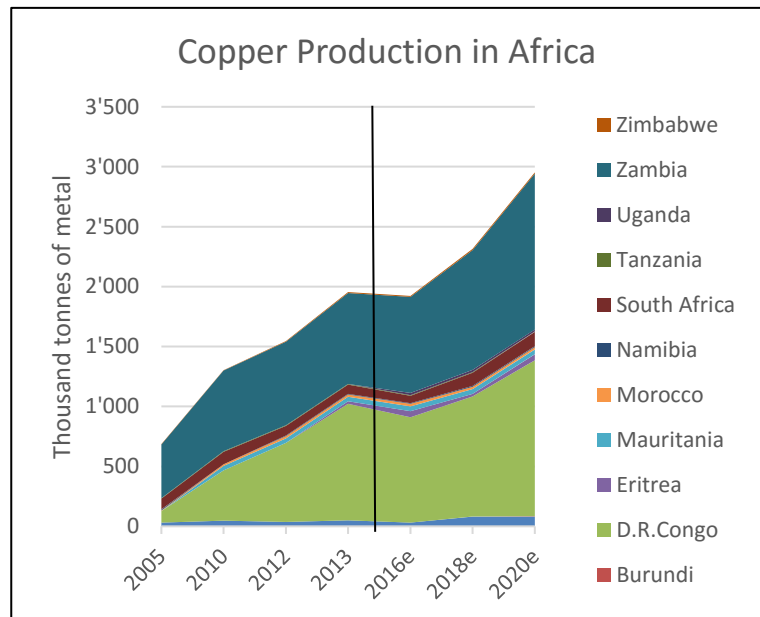


Source: IMF (2016)

Mineral developments in Africa

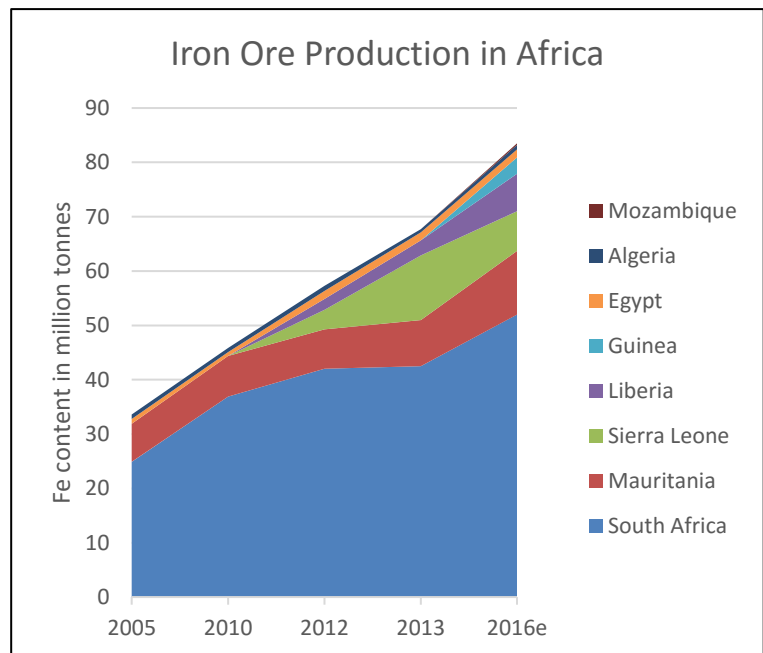
One third of metal companies that have existing investments in Africa are likely to curb their investments in the next few years. KPMG, "Global metals & mining outlook 2016".

Copper production in Africa is dominated by the Democratic Republic of Congo (estimated 46% in 2016) and Zambia (estimated 42%). Botswana, Eritrea and South Africa each account for about 3% of copper production in 2013. Copper output from the DRC is projected to grow from 880 kilotonnes (kt) in 2016 to 1300 kt in 2020, with a similar increase in Zambia from 800 to 1300 kt by 2020. Such increases will, of course, depend on global price developments and could contribute to weaker prices. In 2014, the DRC was the world's fifth largest copper producer (5.6% of world output), while Zambia was in eighth position (3.8% of the world total).



Source: U.S. Geological Survey (2016)

Iron ore production is concentrated in Southern Africa (especially South Africa) and West Africa. In 2016, South Africa is projected to account for 62% of total Fe output on the continent, with smaller contributions from Mauritania (14%), Sierra Leone (9%) and Liberia (8%). South Africa accounted for 2.4% of world iron ore output in 2015. Until recently, production in Guinea was expected to ramp up rapidly over the next few years to become the largest source of iron ore on the continent, but in July the mining major Rio Tinto announced that it was putting the Simandou mine on hold, as iron ore prices no longer justified the very large development costs.



Source: U.S. Geological Survey (2016)

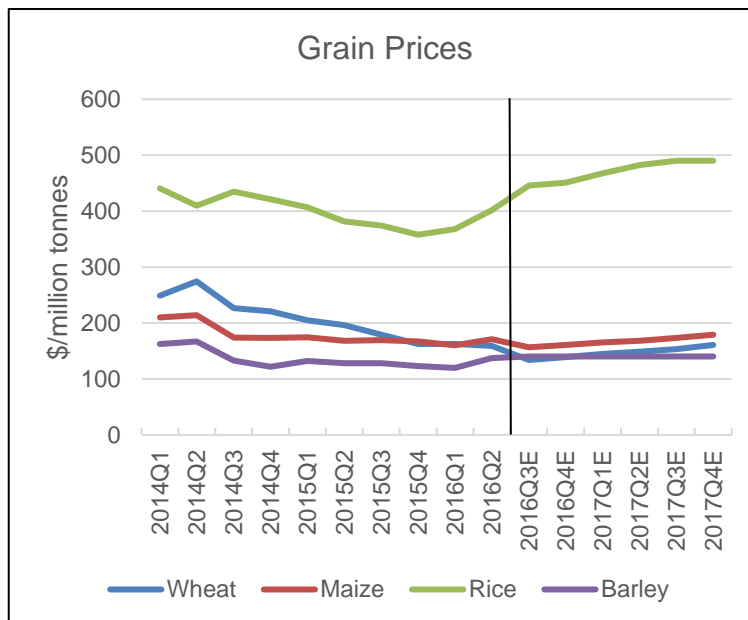
Guinea is also the continent's main source of **bauxite** (the raw material for aluminium), accounting for an estimated 93% of the total output in 2016. Output from Guinea is

projected to more than double by 2020 as new mines are developed. Guinea hold the world's largest bauxite reserves and is currently the sixth largest producer.

AGRICULTURAL COMMODITIES

Grains

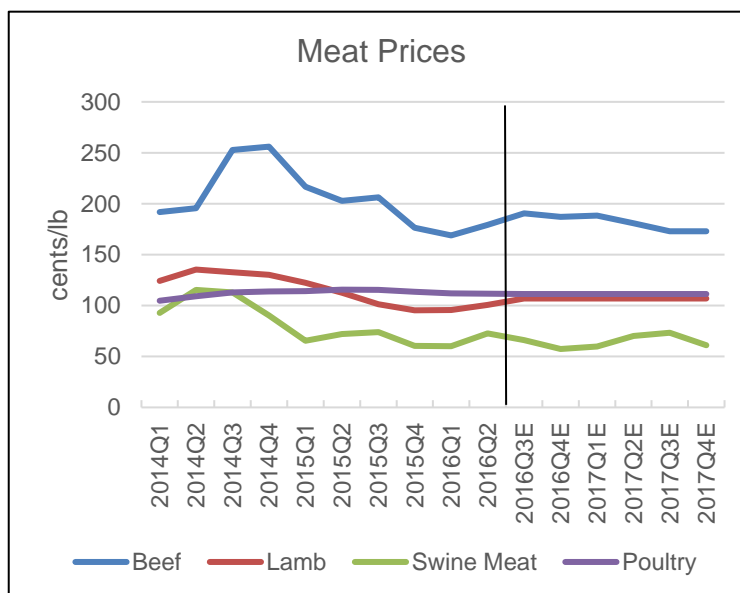
Wheat and maize prices look set to fall substantially in Q3 compared to Q2, with a 16% drop in the former and a 9% fall in the latter. This is due mainly to favourable weather conditions in the United States, building expectations of good yields. In contrast, the price of rice is expected to rise by a robust 11%, and barley by a modest 2%. Wheat, maize and rice prices are projected to strengthen modestly in the coming five quarters, at rates of between 1.5% to 5% per quarter. Weather conditions in key producing regions will continue to play an important role in price developments.



Source: IMF (2016)

Meat

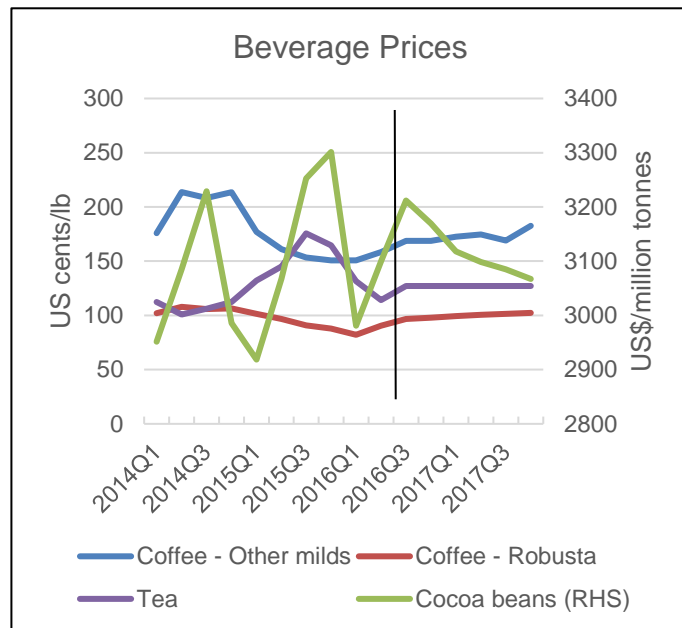
Beef and lamb prices are expected to rise by around 6% in the third quarter, after similar rises in the second quarter. Beef prices are projected to ease slightly over the coming year, while lamb remains steady. In contrast, after a 20.6% upward jump in Q2, the price of pork will likely fall by nearly 10% in Q3 following a recent recovery in output in the US. The volatility in pork prices is expected to continue over the coming year. Poultry has remained flat of late, with the horizontal trend projected to continue into 2017.



Source: IMF (2016)

Beverages

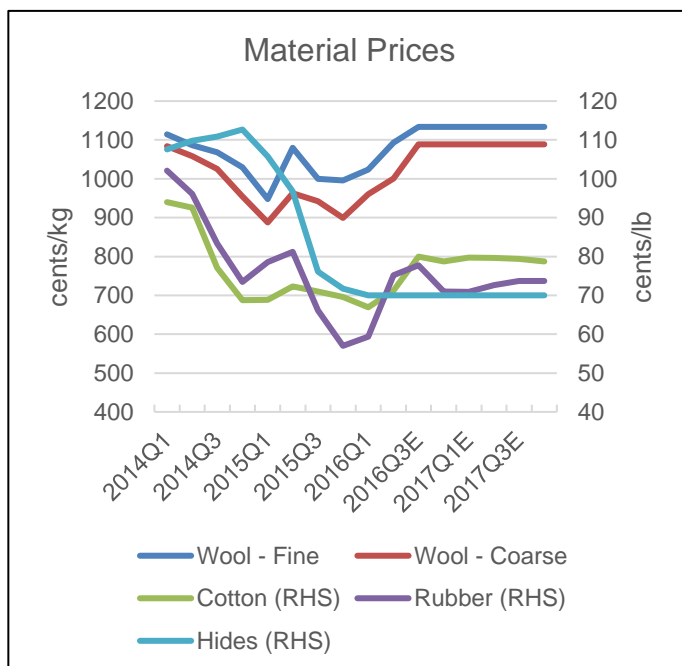
Prices of coffee, tea and cocoa beans all increased in the third quarter, with the biggest increase expected for tea (11%). Looking forward, the price of tea is expected to be stable while that of cocoa beans declines, mainly due to the usual seasonal factors. Coffee prices are anticipated to firm slightly over the coming year. Coffee and cocoa production from West African leaders Ghana and Cote d'Ivoire is being threatened by weather patterns. A study by the International Centre for Tropical Agriculture in 2012 warned of risks to output from rising temperatures associated with climate change.⁴ Coffee production in Vietnam, the world's number two producer, is being constrained by water shortages.



Source: IMF (2016)

Materials

International prices of agricultural materials generally rose in the past quarter, with the exception of hides. Fine wool prices increased by 3.8%, coarse wool by 8.8%, cotton by 12.3% and rubber by 3.3%. Wool prices have now recovered their losses in 2014 and 2015. Rubber prices have also rebounded somewhat, but are still more than 20% down from 2014Q1. The forecast is flat for wood and hide prices, but a dip is anticipated for rubber after strong growth in the first quarter.

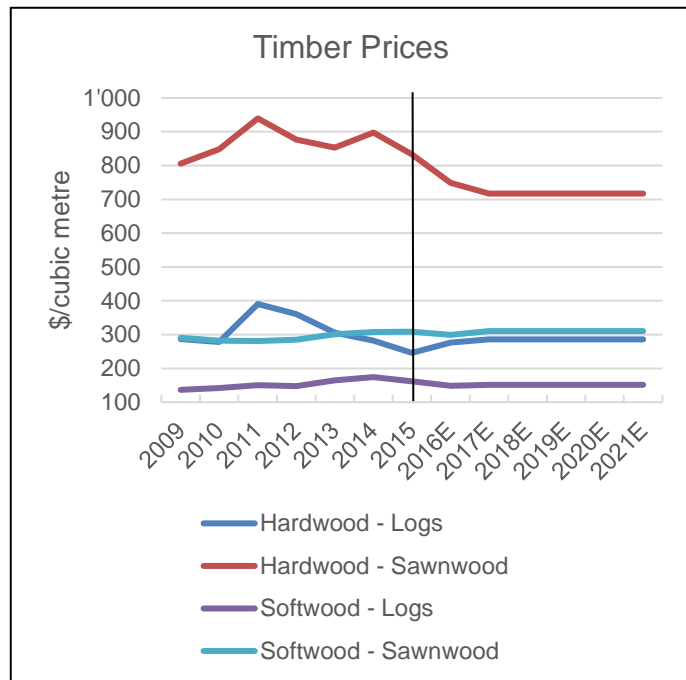


Source: IMF (2016)

⁴ <http://www.scientificamerican.com/article/africa-grows-too-hot-to-grow-chocolate/>

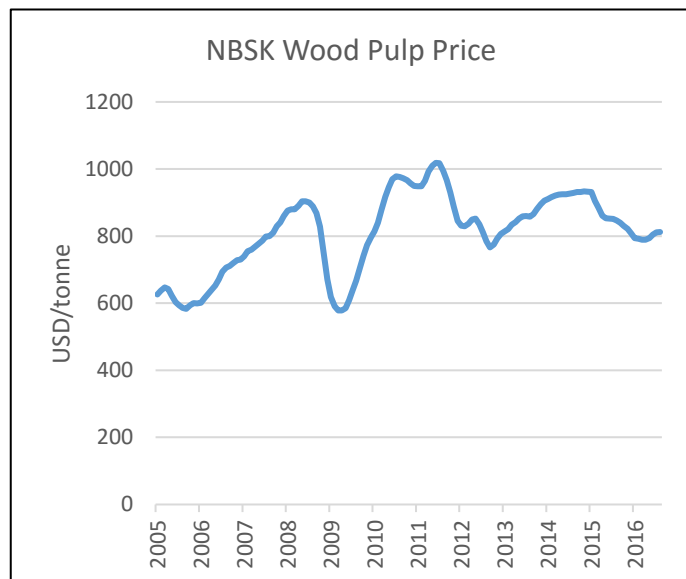
Timber

The price of hardwood logs rose by 3.7% in the third quarter, while sawn hardwood prices fell by 8.3%. The price of softwood logs dipped by 0.2% and the price sawn softwood inched up by 0.5% in September from June. In the outlook, the timber prices are expected to remain stable at current levels over the coming few years, with the exception of a modest increase in softwood log prices, which could rise a cumulative 10% by the end of 2017. Beyond that, the outlook is stable for all four timber categories over the next five years as gains in demand are expected to be matched by expanded supply.



Source: IMF (2016)

The price of wood pulp traded on the Chicago commodities exchange has increased only marginally this year, from US\$794 per tonne in January to US\$812 per tonne in August. This is still considerably lower than the recent high of US\$933 per tonne reached at the end of 2014.



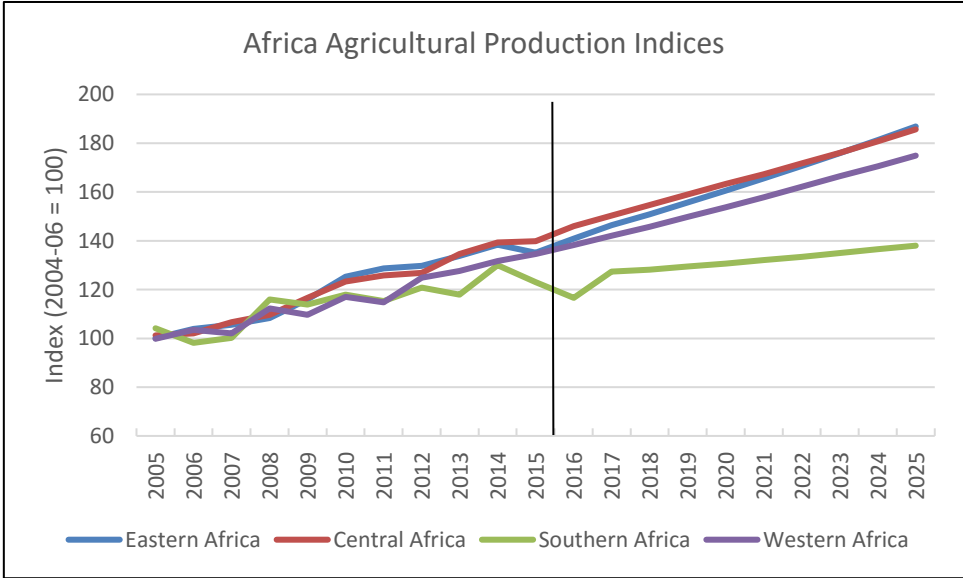
Source: National Institute of Statistics and Economic Studies (France)

Agricultural developments in Sub-Saharan Africa

The outlook for the agriculture sector in Sub-Saharan Africa (SSA) depends on many factors, including demand drivers (e.g. income growth, population expansion, urbanisation, a growing middle class, shifting dietary patterns) and supply-side factors (e.g. agro-ecological conditions, climate variability and change). Per capita GDP growth, a key driver of agricultural product consumption, is expected to average 2.3% over the coming decade in SSA.⁵ However, the average masks considerable variability across different regions and countries, and the fortunes of commodity-exporting countries are particularly susceptible to global demand/supply balances and prices. Climate models predict that rainfall patterns in SSA will likely become more erratic over the coming decade, which could negatively affect

output as it has in Southern African in 2015-16 (see the dip in the agricultural production index in the figure below).

In the coming decade, aggregate agricultural output is expected to expand in all four regions. Growth in production is expected to be markedly slower in Southern Africa, where the sector is already more highly developed with high yields particularly in South Africa, and growth in population and incomes is expected to be slower. Aside from climate risks, other major challenges to the agriculture sector include low incomes, unequal income distributions, slow productivity growth and limited infrastructure such as transportation, energy, irrigation systems and food storage facilities.⁶



Source: OECD-FAO (2016)

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⁵ OECD-FAO (2016), *Agriculture Outlook 2016-2024*. www.fao.org/3/a-i5778e.pdf

⁶ Ibid.