COMMODITIES UPDATE

Q1 2022

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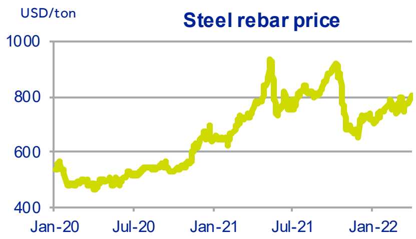
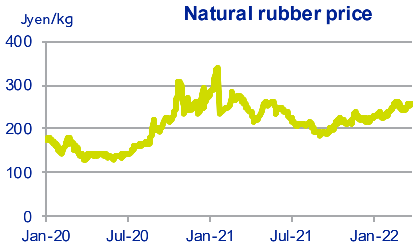
Most commodities seem to be on the uptrend as the global economy continues its recovery after 2 years of fallout from the pandemic. Although several countries have report a new COVID-19 waves, in general, the world is showing signs of higher demand for raw material. The Russia invasion in Ukraine has also contributed to the rise of some materials prices. Although Russia is not in the top 10 suppliers of some major commodities such a steel and coal, cuts in Russian supply forces many countries to urgently seek new sources of supply and pushes commodities prices in short term.



Steel rebar goes uptrend

The heavy industry production in China recovered after the government has managed to solve the coal price crisis, domestic production also returned to the normal level while major mining hubs has started mining after the rainy season at the end of 2021, making the steel demand to return and raise the steel price.

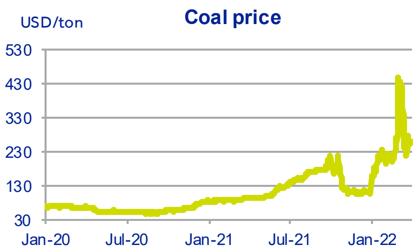
- The invasion of Russia in Ukraine also added to the uptrend of steel prices, although Russian steel accounts for only less than 5% of EU steel consumption, it did have an impact on the EU steel market as EU consumers had to seek for alternative sources of supply.
- With the CO_2 reduction plan, China is limiting BOF plants, while the EAF plants only account for 10% of total China steel production, we can expect China would import more steel from neighboring countries to meet their domestic demand.



Natural rubber prices increased 15% during the first quarter

Natural rubber prices gained 15% in Q1.2022 thanks in part to higher crude oil prices, which has shifted the total rubber demand slightly from synthetic rubber to natural rubber. The increasing demand from health care and automobile industries also aided to increase in rubber price.

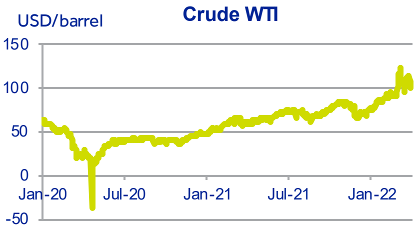
- Automobile industry is expected to recovered after the pandemic, with the growth in saving as well as low interest rate policy from many countries can push up the demand for many types of good – cars are also included.
- Countries have taken different approaches to manage COVID-19. But we believe the health care sector would still be growing in the near future, raising the demand for rubber in producing medical equipment.



Thermal coal market

Coal hit the 5-year record at 431 USD/ton when global market experienced a robust demand in a theme of tightening supply on the market. The invasion of Russia into Ukraine, following economics sanctions, along with rising natural gas has put top coal consumers in EU such as Germany, Poland, ... into a rush for alternative coal supplies to secure their energy production.

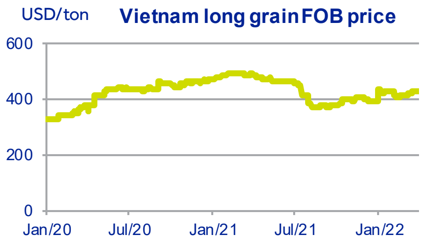
- The soaring natural gas prices in EU and Asia has initially occurred in late 2021, making countries shift to use more coal to generate electricity. Now, as coal supplies from Russia are limited due to sanctions, EU coal importers are put in a chaotic situation to find a replacement for Russian coal.
- Soon, the coal price hike has been eased by China's effort to push domestic production, the EU also found alternative supply sources from Africa and Australia. But the coal price is also showing a signs of an uptrend when the recovery of global economy would demand a lot of energy.



Oil

The invasion of Russia in Ukraine shocked the world oil market, pushing the oil price to a 5 years high. Russia accounts for a large potion in oil supply to EU and the lack of oil and gas supply to the market has push the oil price to a new high level.

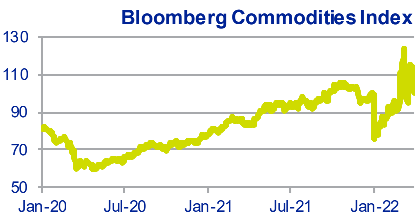
- OPEC, in an announcement at early April, stated that they will still stick with the modest monthly increase in oil production. It seems that OPEC doesn't want to put more barrels to the market to keep the oil price at current level.
- Although many countries have officially banned Russian oil from their buying list, there are still countries buying oil from Russia while they are not heavily under international pressures. More than 450 oil carriers were reported to make shipments from Russia in early April, when oil prices from Russia were quite attractive in theme of high global oil price.



Vietnam long grain rice FOB Ho Chi Minh is stable

Vietnamese rice prices in Q1.2022 were stable at around 410 USD/ton when supply and demand on global market didn't have a significant change in several months.

- The logistic problem with high container leasing cost has create a barrier for Vietnamese rice exporters.
- Good harvesting from most countries, according to the report from FAO at the end of March also aid to the stable low price of rice, while many countries do not tend to import more rice.



Bloomberg Commodities index

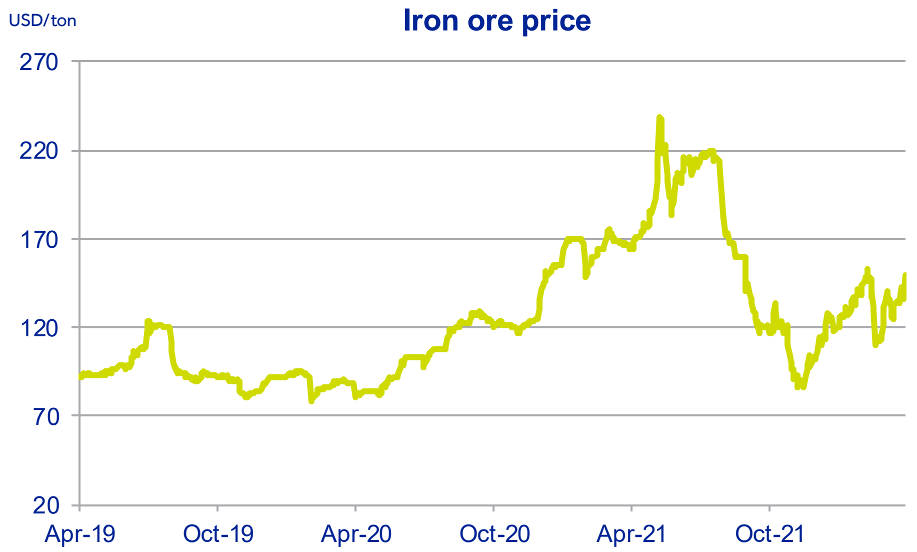
The Bloomberg commodities index is hovering around 107 points, 15.7% higher than the level at the end of 2021. The strong increase in commodities index in the middle of March was caused by the strong increase in oil price while this commodities account for a large potion in index calculation.

- Other commodities also posed an increase in price, showing an increasing demand to meet the recovery demand of world industry.
- The outlook of steady recovering global economic can keep the overall price of commodities market in an uptrend, as a result of most countries trying to stimulate their economy after 2 years suffering from the pandemic.

Steel insights

Steel Material Price

Iron ore prices were hovering around 145 USD/ton during March, this level is 35% higher than its price in the beginning of 2022. Iron prices hit the cellar when coronavirus case was rising in China, raising the fear of a new wave of outbreak in China which could harm the economic growth and steel demand of this country.



Source: Bloomberg

China's COVID-19 outbreaks, and associated lockdowns, are building up concerns about the disruptions it could have on the Chinese economy. Concerns about the effect of the new COVID wave on China's economy has created many uncertainties about steel consumption in Q2.2022 of the 2nd largest economy in the world, which means the global consumption of iron ore for Q2.2022 is being put under pressure.

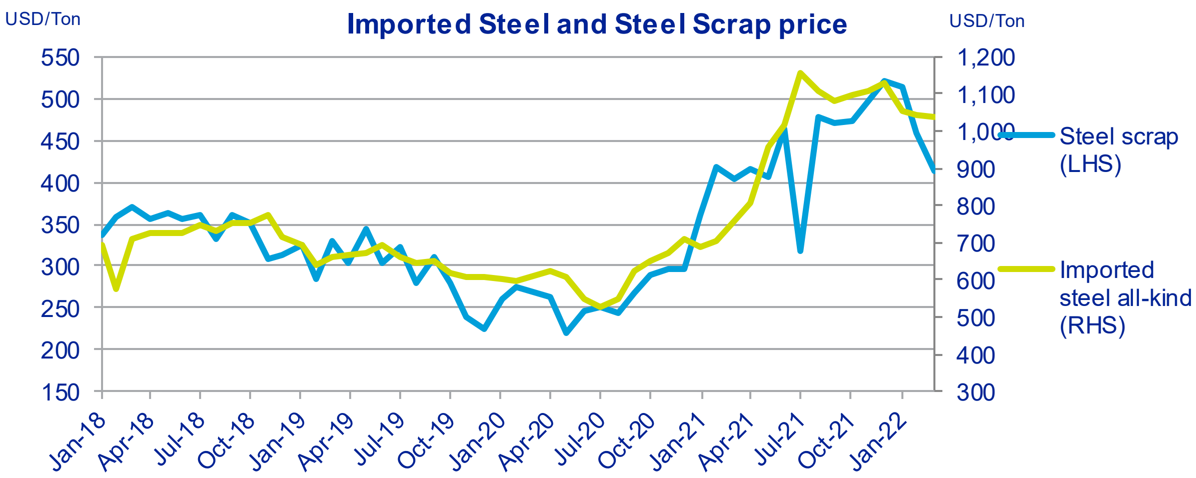
Tangshan steel hub, the largest steel producing city in China has recently been put in strict traffic control and anti-pandemic measures after COVID cases were reported to be rising in this industrial city.

The demand of construction steel in China can also be affected by lockdown methods from the government. In a report by CBRE at the end of February, the total sales for China real estate market is expected to grow at 5-6% in 2022. But the new wave of COVID has put the real estate market in China under pressure and has been creating uncertainty for the economic outlook. In our view, the growth for China real estate can be slightly lower than 5% in 2022, therefore, the expected growth of construction activities and demand for construction steel can also be limited.

After the credit crisis of one of China's largest real estate companies, Evergrande, the Chinese real estate market seems to be facing a period of uncertainty. In an announcement at the end of March, Chinese authorities said they have to postpone the pilot plan for a property tax program, which is aimed to target speculators on the real estate market. The delay of the property tax program can affect the target of stabilizing the real estate market and prices could continue to rise as speculators would not face taxes on non-primary residence properties. Although the delay of property tax program can aid in further increasing activities on the Chinese real estate market, the current mass lockdowns being imposed to prevent the spread of COVID-19 is our main concern about the growth outlook of both China real estate market and construction activities, while strict lockdown methods have created barriers to most economic activities.

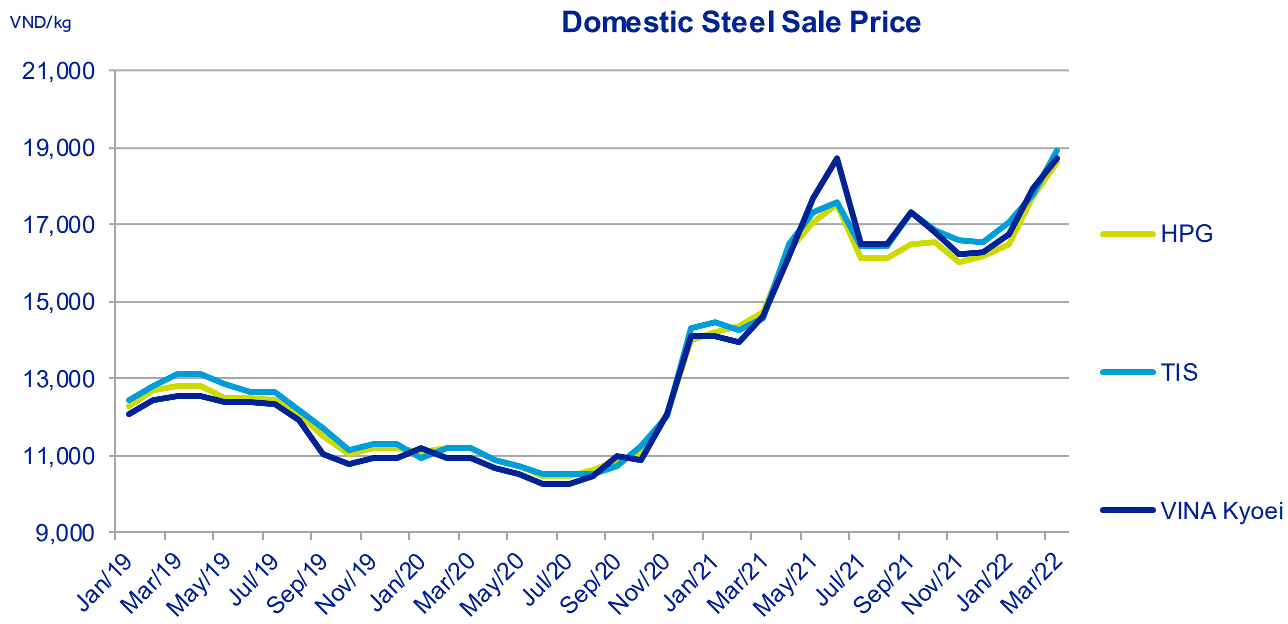
Source: Bloomberg

Being a product from thermal coal, coking coal price also had a similar movements to thermal coal. Coking coal reached its peak when the EU applied sanctions against Russian coal, making the short-term supply fall and consumers from EU had to urgently seek for other supply source to meet their production demand.



Source: Fiinpro, VN General Custom Department

The imported steel price to Vietnam has decreased a bit in Q1.2022, but still at a level at above 1,000 USD/ton, this level can be considered high and almost double from the beginning of 2020. Imported steel scrap price was down in Q1.2022, this can be caused by late orders which were settled at the end of 2021, when steel market went to a short downtrend while China suffered from coal crisis. Overall, the import prices for both steel scrap and general steel products are still maintained at a high level.



Source: Fiinpro, ACBS research

After keeping steel prices stable during few months, domestic steel producers have raised the steel price to near 19,000 VND/kg. The reason for steel sale price increase can come from the input side, while the 2 important materials for steel industry has increased strongly during Q1.2022.

Vietnam Steel Association, in a report at middle of April, has announced a positive double digit growth for Vietnam's steel consumption, the total steel consumption of all kinds reached 8.1 million ton (+11.9% yoy). Our view for Vietnam's construction steel consumption growth in 2022 could be about 12-13% yoy while new investment budget for infrastructure from the government in 2022 is expected to be 14% higher than 2021.

Analyst comment:

Our outlook for Chinese steel demand is still flat for 2022, while Chinese steel production could be also flat with the plan to reduce CO_2 emissions and real estate market is facing uncertainty in piloting plan for property tax policy. For Vietnam, the economic recovery plan can boost the construction activities with stimulation packages from the government and the pushing on public infrastructure projects. The 2022-2025 revised investment budget for infrastructure which focuses on South-North highway, 14% higher than initial plan is also a strong catalyst for construction material demand.

Construction steel price seems to be stable around 19,000VND/kg for recent months, but if the global material prices continue their uptrend, we can possibly see the domestic construction steel price to reach 20,000VND/kg in mid-late of 2022, when construction activities and construction material demand go into a high season of the year. Constructors such as Coteccons **(HSX: CTD)** or Hoa Binh **(HSX: HBC)** can possibly experience some increase in construction cost, therefore, slightly reduce the profit margin. On the other hand, we believe steel makers with BOF lines such as Hoa Phat **(HSX: HPG)** or Thai Nguyen Steel **(HSX: TIS)** can benefit from increasing domestic steel demand and the effect of demand increase can overcome the contraction of gross margin when input materials seem to be increasing in the future.

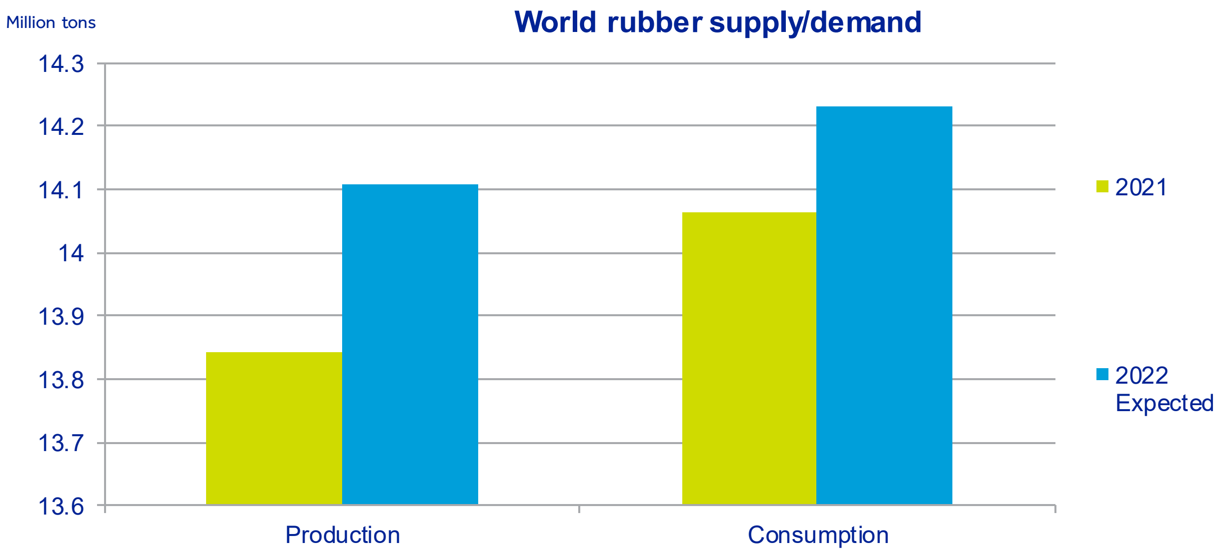
Rubber insights

Supply – Demand outlook

In the latest report in middle of April 2022, Association of Natural Rubber Producing Countries (ANRPC) released their outlook for 2022 natural rubber market with total production at 14.1 million tons (+1.9% yoy) and total consumption at 14.2 million tons (+1.2% yoy).

The forecast of ANRPC for natural rubber market, in our opinion, is quite tight as there are still several challenges for the market in 2022. The supply of natural rubber is facing unfavorable climate condition when the average temperature for upcoming months is expected to be higher than last year, labor shortage in major producing countries (Malaysia, Thailand, Vietnam due to low wages) could create negative effects on production.

The outlook of global rubber demand is lower than production in growth rate but the volume is still higher than production because of the theme recovering global economic in 2022, making the auto sale to have a positive growth, together with the view of strong demand from healthcare sector.



Source: ANRPC

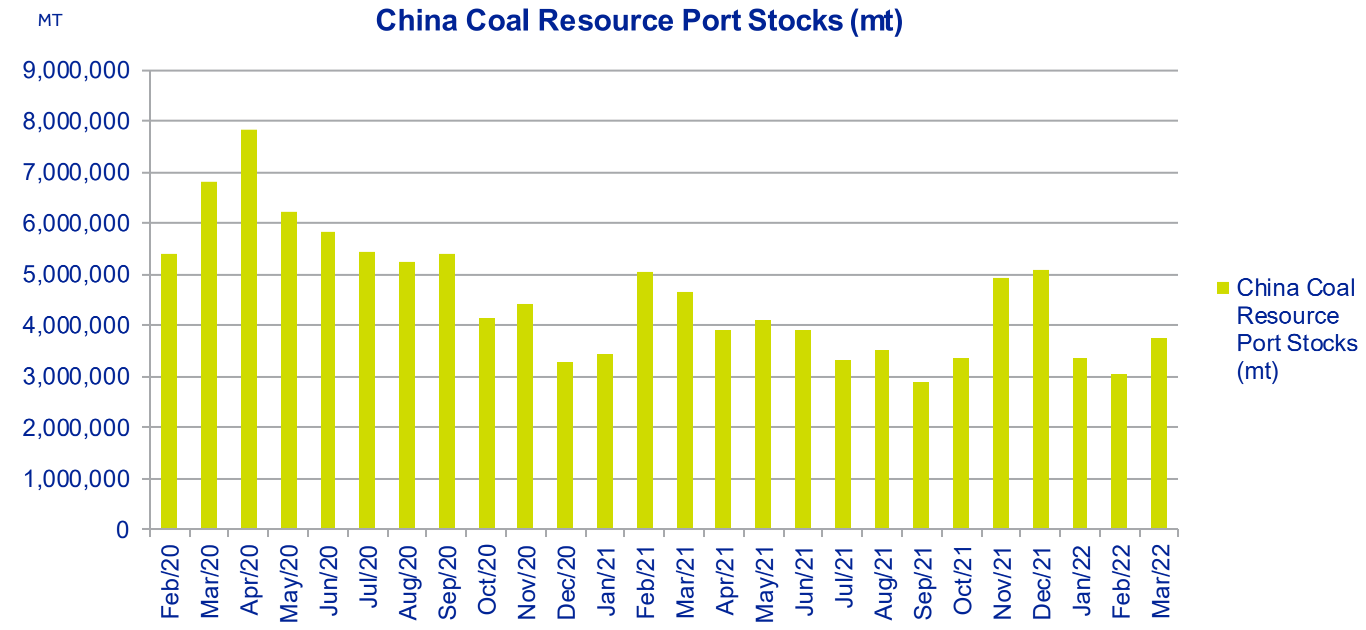
For Vietnam, the total export volume of natural rubber in Q1 2022 has risen 7.2% yoy, this can be a good start for Vietnam natural rubber in 2022. But when taking a deeper view on companies' visions, we can see they are having a mixed outlooks. Some rubber companies are aiming for higher results this year, but some are making more cautious outlooks, for the exchange risk from subsidiaries in Laos or Cambodia. For example, Phuoc Hoa rubber corp (HSX: PHR) aims for profit after tax at 744 Bil.VND (+56% yoy) while Đắk Lắk Rubber JSC (UpCOM: DRI) set the aftertax profit 9.5% lower than 2021 due to risk of exchange loss from Laos subsidiary, Tay Ninh rubber (HSX: TRC) also set the target net profit for 2022 at -41% yoy while its subsidiary in Cambodia could run at a loss in 2022. Overall, we can see the rubber companies with large domestic plantation area are optimistic about 2022 while the companies which have subsidiaries in Laos or Cambodia are facing exchange loss risks.

Analyst comment:

With the high base of oil prices, as well as the outlook for demand surplus on natural rubber market, we expect that the rubber price can continues its uptrend, especially when major rubber areas will go into low tapping season in the early of Q3 2022. Vietnamese rubber producers can also benefit from increased rubber prices, listed natural rubber producers such as Dong Phu Rubber **(HSX: DPR)**, Vietnam Rubber Group **(HSX: GVR)** or Phuoc Hoa Rubber (**HSX: PHR)** have been known for good plantation areas. On the other hand, the recovery of Vietnam's economy after the pandemic can aid for the demand of tire, although the input cost for rubber material can be higher than 2021, we can expect Vietnamese tire makers such as Da Nang Rubber **(HSX: DRC)** or Casumina **(HSX: CSM)** to have an operating result not lower than 2021.

Thermal Coal

After dealing with coal supplies and price crisis in late 2021, China domestic supplies have return to pre-crisis level while the heavy rain season has gone, the largest mining hub in northern of China was reported to operate at its full production.



Source: Bloomberg

Although having a strong domestic supply, Chinese authorities reported that they have failed to reach the target for minimum coal inventory, which was set at 5 million tons. The lower-than-target coal inventory of China was a result of high demand for coal in theme of high oil prices. China's electricity generation had to shift from gas power to coal fire power to keep a moderate electricity price.

In the early April, China's government has set a plan to increased their domestic coal production. China will aim for another 300 million tons increase in monthly production, which is 15% yoy higher. The increase in coal production is hoped to fill up their inventory, meeting the demand for thermal power plant and also compensate for the loss amount of Russian coal while China has refused to buy coal from Russia since February.

Of the three targets to be achieved with China rising domestic coal production, we consider the inventory replenishment is the main catalyst for China's new coal production plan. China is slowly recovering from the pandemic and another coal crisis as the end of 2021 can have a strong negative effect on their economy.

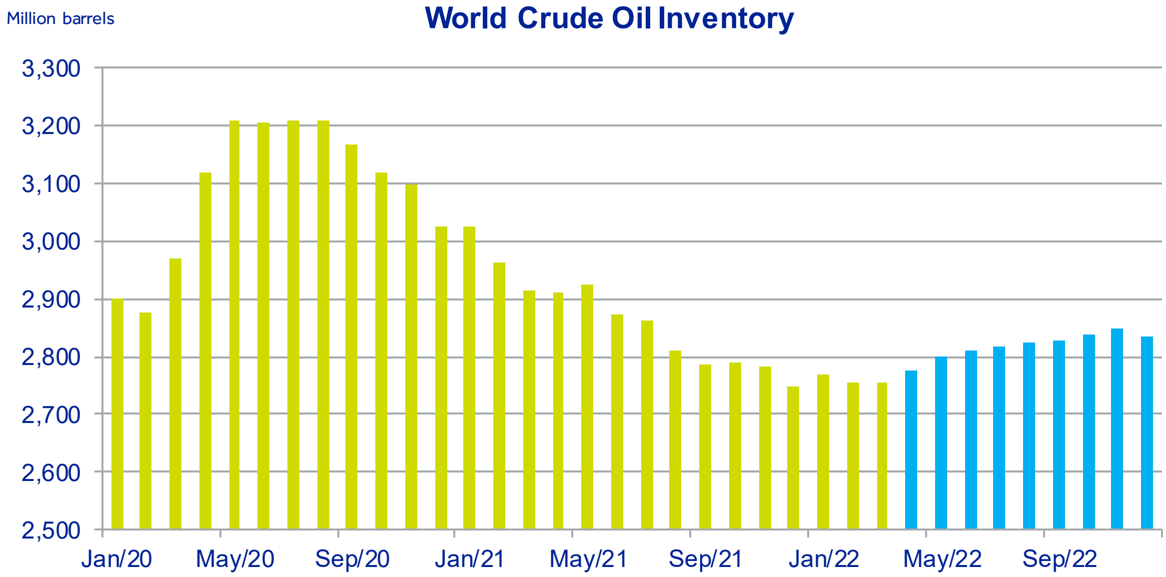
Analyst comment:

The coal price, although having a strong drop from the peak, is going into a new uptrend, while oil price is still high and the global power demand is also expected to growth in the future. In our view, the continuing uptrend of coal price can bring this material to the level of 270 USD/ton at the end of 2022.

Over 35% of Vietnam's electricity comes from coal fire power plants, meaning coal prices still have a big effect on Vietnam's electricity price. Higher coal price can make the cost of thermal coal power to be less competitive than hydro power on competitive electric market. The increasing coal price can narrow the gross margin for coal fire power plant, listed coal fire power plants such as Pha Lai **(HSX: PPC)** or Quang Ninh PC **(UpCOM: QTP)** can experience the negative effect of increasing coal price.

Oil and Gas

Oil prices remain high compared to the level at beginning of 2021, showing signs of a warmer global economic outlook. Although the omicron and potential new variants pose a threat on many countries' recoveries after the pandemic, higher energy demand is a sign that the global economy is slowly absorbing stimulus packages and starting to recover.



Source: International Energy Agency (IEA)

The forecast for global crude oil inventories from IEA remains unchanged since our previous report, showing that the outlook for oil price can remain at current level for the year 2022. Although many sides have encouraged OPEC+ to increase daily capacity, there have not been signs that increased capacity is imminent.

The chance of OPEC to put more production into the global oil market is still low, while in a meeting in middle of April, the revised target production that OPEC group can add to the market is 430,000 barrels/day for May, slightly up from the original plan of 400,000 barrels/day additional production.

The oil market is still facing the problem of uncertain outlook screen for oil supply, while major countries have refused to buy oil from Russia. The US has decided to use their national reserve inventory to help with the oil supply, but the world production also need to raise the production or we can experience another wave of strong oil price increase.

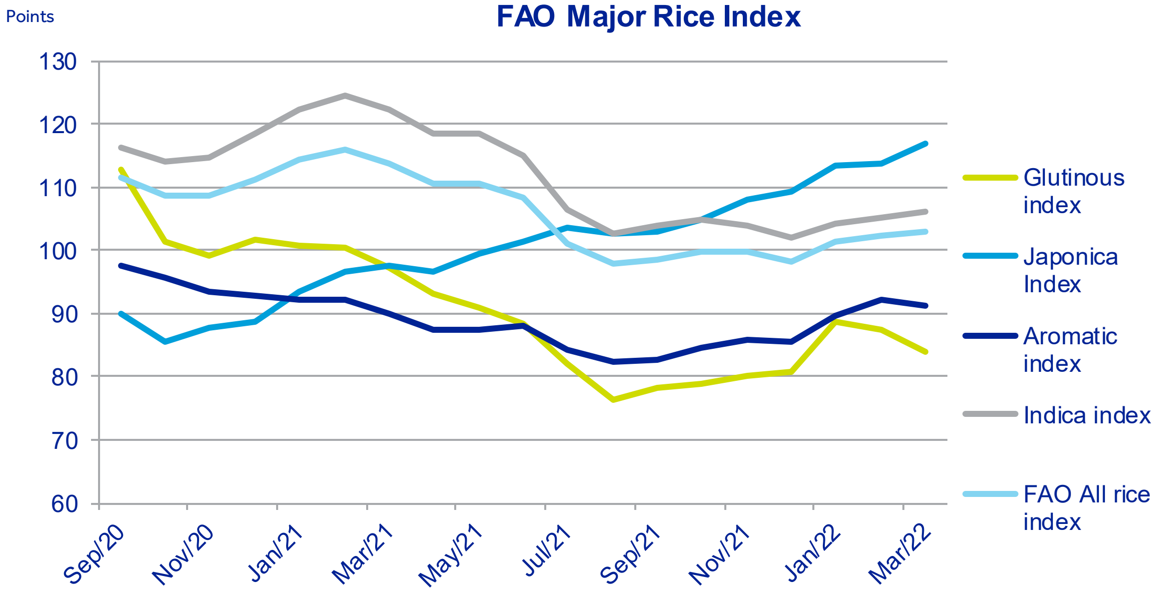
Analyst comment:

The low target production of OPEC can be the key driver for global oil market, while the world economy would need a stable supply of oil for economic activities. The recovery of global economy needs a sufficient amount of energy and oil takes an important role in global energy supply.

According our research, the breakeven point of Vietnamese oil companies stays between 36 – 45 USD/barrel. If the oil price can maintain the level above 105USD/bbl, oil producers operating in Vietnam will have motivation to boost their capacity, therefore, increasing exploration activities and new oil wells establishment which can benefit upstream companies like Petro Vietnam Technical Services **(HSX: PVS)** or Petro Vietnam Drilling **(HSX: PVD)**. The midstream companies such as Petro Gas South **(HSX: PGS)** or PV GAS **(HSX: GAS)** also benefit from increased oil price while their selling prices are also linked to oil price.

Rice

The FAO all rice index was stable during the Q4.2021 as trading activities were slow in Asian market. Coming to Q1 2022, the FAO all rice index showed a slight uptrend of +4.5% MoM while some major kinds of rice experience strong demand, thus raising the overall price a bit. The rice market also shows contrasting trends across variable segments. Indica rice went up 0.9% in March, while the concern for water supplies for plating in California has raised the quotation for Japonica rice by 2.6%. On the other side, aromatic rice index from Vietnam dropped by 1% and low demand from China drag the glutinous rice index to decline 3.8%.



Source: Food and Agriculture Organization (FAO)

The price for fully broken rice were reported to be up among major exporters, caused by high international demand for feed sector. The report in early April of Ministry of Agriculture (MoA) also showed an optimistic view about Vietnam rice price, thanks to upcoming increase in demand in the following month, the MoA report also raise the outlook for Vietnam rice to 420 USD/ton, 5% higher than beginning of 2022.

The export volume of Vietnamese rice in Q1.2022 was also reported to be 13% higher yoy, showing a good sign for rice export. Although the export price was down a bit in March, the outlook for increasing export volume can help raising Vietnam rice export total value.

Analyst comments

The high freight costs are still creating a barrier for not only rice exporting, but other exporting activities of Vietnam. Although the rice production of Vietnam is expected to increase in the report of MoA, the high logistic costs are preventing Vietnamese rice to have a higher sale price.

The slight increase outlook for Vietnamese rice shows a positive demand view about global rice market. The increase outlook for total value of Vietnamese rice export can help rice exporters, such as Loc Troi Group **(UpCOM: LTG)** can benefit from their rice export activity.

Appendix:

Commodities Monthly Average Prices and Changes

	Average price									% change	
	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	1 Year	YTD
Steel rebar (USD/ton)	802.3	812.5	853.5	833.3	682.5	722.7	731.8	763.1	778.1	8.14%	12.8%
Natural rubber (JPY/kg)	257.5	207.1	191.4	211.3	218.8	222.2	229.5	244.7	250.9	6.7%	15.4%
Thermal coal (USD/ton)	125.3	167.2	184.1	170.3	113.2	109.5	197.9	219.8	314.1	169.1%	145.3%
Crude WTI (USD/bbl)	65.1	67.1	71.5	81.2	78.7	71.7	82.9	91.6	108.2	69.5%	33.3%
Bloomberg commodities index	94.6	94.5	97.9	103.6	102.2	97.2	82.9	91.6	108.3	20.2%	1.1%

Source: Bloomberg

Bloomberg Commodity Index* Top 20 Weight

Ticker	Commodity	Exchange	Weight (%)
GCM1	Gold 100 Oz	Commodity Exchange, Inc.	12.6%
CON1	Brent crude	ICE Futures Europe Commodities Exchange	7.6%
CLK1	WTI crude	New York Mercantile Exchange	5.5%
NGK21	Natural gas	New York Mercantile Exchange	4.4%
LCM1	Live cattle	Chicago Mercantile Exchange	3.9%
CK1	Corn	Chicago Board of Trade	3.7%
CLN1	WTI crude	New York Mercantile Exchange	3.7%
SK1	Soybean	Chicago Board of Trade	3.4%
HGK1	Copper	Commodity Exchange, Inc.	3.4%
NGN21	Natural gas	New York Mercantile Exchange	3.1%
LAK21	LME Aluminium	London Metal Exchange	2.7%
LHM1	Lean hogs	Chicago Mercantile Exchange	2.5%
CN1	Corn	Chicago Board of Trade	2.4%
STK1	Silver	Commodity Exchange, Inc.	2.3%
SN1	Soybean	Chicago Board of Trade	2.3%
HGN1	Copper	Commodity Exchange, Inc.	2.2%
BOK1	Soybean oil	Chicago Board of Trade	2.2%
SMK1	Soybean meal	Chicago Board of Trade	1.9%
LAN21	LME Aluminium	London Metal Exchange	1.8%
LXK1	LME Zinc	London Metal Exchange	1.8%
QSK1	Low Sulphur Gasoil	ICE Futures Europe Commodities Exchange	1.8%
Total			**74.9%**

**Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. Roll period typically occurs from 6th-10th business day based on the roll schedule. – Bloomberg.*

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