COMMODITIES UPDATE
Feb 2022

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Analyst

HIGHLIGHTS

- **Steel prices recovered to the highest level since July 2022** with positive expectation about the recovery of Chinese property sector.
- **Rubber demand from China is still weak due to effects of prolonged lockdown methods** and this would take a long time for the demand to recover.
- **Thermal coal prices dropped strongly** while warmer-than-expected weather affected demand amid concerns about supply disruption from Australia.
- **WTI Oil prices dropped to 76 USD/barrel** with concerns of another FED rate hike while US oil inventory continues to stock up.
- **Vietnam rice posed a good prospect for next several months** with increasing export prices and limited supply outlook from export restrictions which Indian authorities set on their rice.

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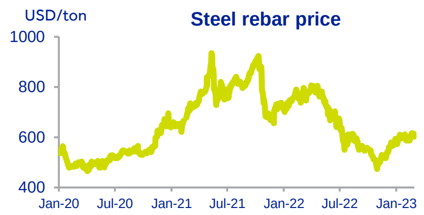
COMMODITIES MARKET OVERVIEW

Commodities market experiences a recovery as the economy of China is slowly reopening after prolonged restriction. However, demand on the commodities market has not been robust as large economies are still facing high inflation and concerns about further interest rate hikes from FED.

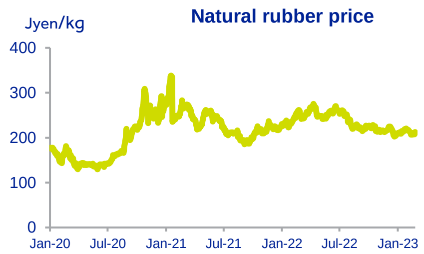
Steel market



Steel rebar prices bounced to 603 USD/ton, the highest level since July 2022, supported by slowly reopening of China and some stimulus measures.

- The stimulus policies of China focus on heating up the frozen real estate market, which help to support property demand. Thanks to stable property prices after 16 consecutive months of decline in China, developers can extend their activities and increase demand for construction materials.
- Although increasing interest rates in major economies such as the US and EU reduced real estate demand as increased mortgage rates have undermined buyers' purchasing power, the recovery of China - the largest steel consumer, can help to extend the current trend of steel prices.

Natural rubber market

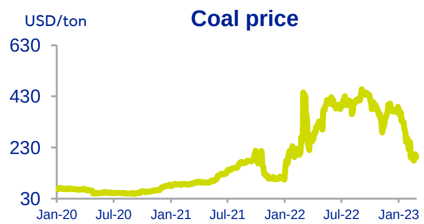


Rubber futures were trading around 139 USD cents /kg, below the five-month peak of 146.4 USD cents/kg touched on January 26th, amid uncertainty about China's recovery and recession fears driven by further interest rate hikes.

- Although China has lifted its strict COVID measures since the end of 2022, rubber demand from this country has not rebounded as expected.
- The shortage of semiconductors put pressures on production of automobile vehicles, thus decreasing demand for rubber in tires making.
- The increased lending rates in major countries weaken the buyers' affordability and demand for cars in 2023.

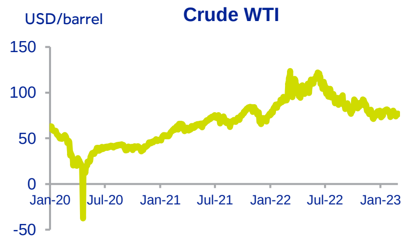
Thermal coal market

Coal prices lost nearly a half since the beginning of 2023 while sluggish demand offset concerns about supply disruption in Australia.



- Warm weather in the EU, US and lower natural gas prices help these regions reduce reliance on coal for power generation. Coal import to EU in January reduced by 23% from December 2022.
- Uncertainty about the reopening of China put pressures on demand for commodities. Although this country is still putting efforts in restoring pre-pandemic activities, it may take time as its economic activities have been staggered for long time.

Oil market



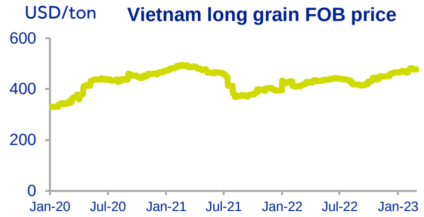
Oil prices returned to early 2022 level at around 76 USD/ barrel. The economic data from the US raise concerns about another rate rise from FED, which would put pressure on energy demand while US oil inventory continues to rise.

- In the second week of February, US oil inventory reached 850.6 million barrels, the highest level since September 2022.
- The floor for oil prices has been maintained with Russia's plan to cut oil export up to 25% and increase import from China while refineries from this country are coming online.

Vietnam long grain rice FOB Ho Chi Minh

Vietnamese rice selling prices returned to their two-year peak at 478 USD/ton. These favorable prices come from increasing orders from the EU and China in recent months. The reopening of China had positive impacts on Vietnam rice export and food and grain market.

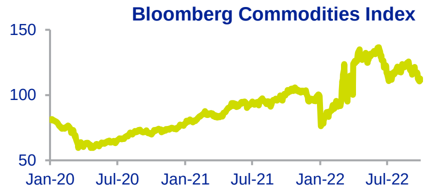
- The increased strength of baht - the currency of Thailand - contributed to the positive trend of Vietnamese rice prices as Vietnamese rice became cheaper and more competitive to Thai rice.
- FAO rice index had 6 months on consecutive increase, indicating a positive outlook for the rice market.



Bloomberg Commodities index

Bloomberg Commodities index continued to reduce as global economic activities slowed down. This was mostly caused by the decrease in oil and gold prices.

- The strengthened US Dollar due to increased FED rates help reduce commodities prices as most of raw commodities are exported from developing countries, which saw their currencies depreciating compared to US Dollar.
- Biggest contributors to the decline of the commodities index are valuable metal commodities and oil, as this group posed a reduction from 15 to 20% and accounted for a large weight of over 30% in the basket of Bloomberg Commodities index.



Steel insights

Global Steel Material Prices

Iron ore prices increased strongly and this recovery rate is higher than steel selling prices.

The iron ore prices recovered strongly from the bottom since November 2022. The recovery trend of iron ore price is supported by optimism around higher steel demand from China after the country reopened. The iron ore price trend is also supported by weak output outlook from Brazil and Australia.

Source: Bloomberg

The expectation for recovery of China real estate sector created a hope for steel consumption

China's reopening includes supporting policies for the country's real estate market, which has stopped the declining trend of house selling prices after 16 months of consecutive falling. The stability in Chinese house prices helps developers to keep conducting projects, which supports the construction materials' outlook in the largest steel consuming country and brings back demand for the global steel market.

Real estate development in China is still operating in a slow pace while this country has just reopened its border since the beginning of 2023. The Chinese authorities have rolled out several measures to ease the real estate market, including several cuts for lending rates and easing liquidity crisis for developers, which help the developers to resume stalled projects and deliver pre-sold houses to buyers as soon as possible.

According to China Times, the mortgage boycott has led to bankruptcies of increasing number of real estate developers. The collapse of the Evergrande group has even left behind 1.3 million incomplete houses, which buyers had used their saving to make the down payment. The problem is spreading to other developers as land sales have plummeted 30% in early 2023, houses sales also dropped 26% YoY in the last month. The drop in new house sales has a huge effect on real estate developers as pre-sales are an important source of funding for developers.

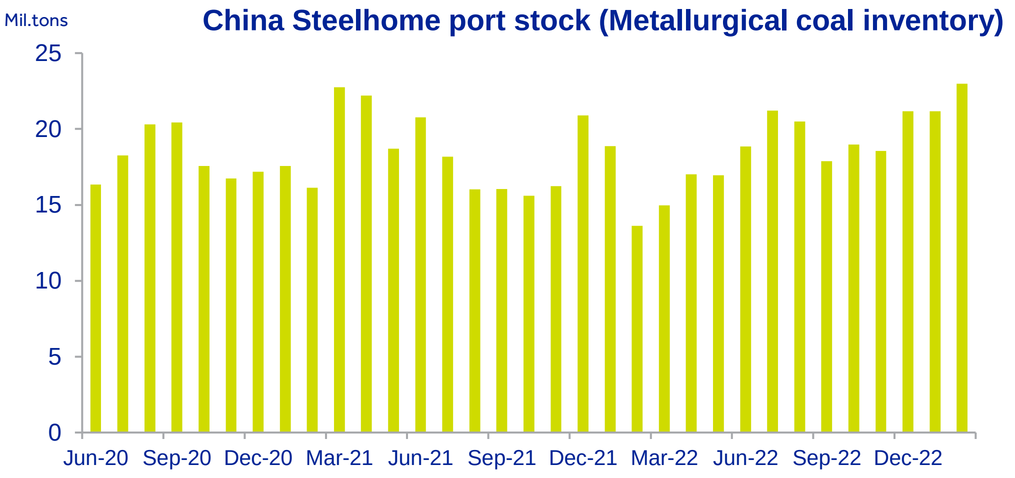
Global construction activities appear to slow as inflation concerns and rising interest rates start to bite

Global construction activities have also been slowing down as increasing energy costs and other inflationary pressures, combined with rising interest and mortgage rates has dampened the outlook for real estate and construction activities.

Source: Bloomberg

Coking coal price had a strong fluctuation in terms of supply concern

Coking coal prices posed a strong volatility as the thermal coal market has been struggling with supply, which affected the raw material supply for making coking coal. Moreover, the flooding weather in Australia, which affects the coal supply for China and expectation for the recovery of China steel sector has keep the floor for coking coal price over 300 USD/ton.



Source: Bloomberg

Steel inventories are stocking up when steel furnaces are coming back online.

The ramping up trend of metallurgical coal inventories at major port hubs in China has returned. Current level of port stocks in February as of 22 mil tons (25% higher than the average level) is reflecting the situation of over-supply in steel material while the domestic economy demand cannot absorb the abundant return in activities of steel blast furnaces.

In our view, the recovery of metallurgical activities in China would be slow in the first half of 2023. The data from Chinese real estate market does not show a strong recovery after such a long and hard time, facing with strict lockdown during COVID and wave of credit crisis from large developers. With the data of negative growth in Chinese new house sales as mentioned above, combined with increased unemployment rate in the first months of 2023, the affordability and demand for new houses in China is still relatively low.

Vietnamese Steel Market

Steel scrap and imported steel prices fell strongly with a lagging time frame alongside with global steel price.

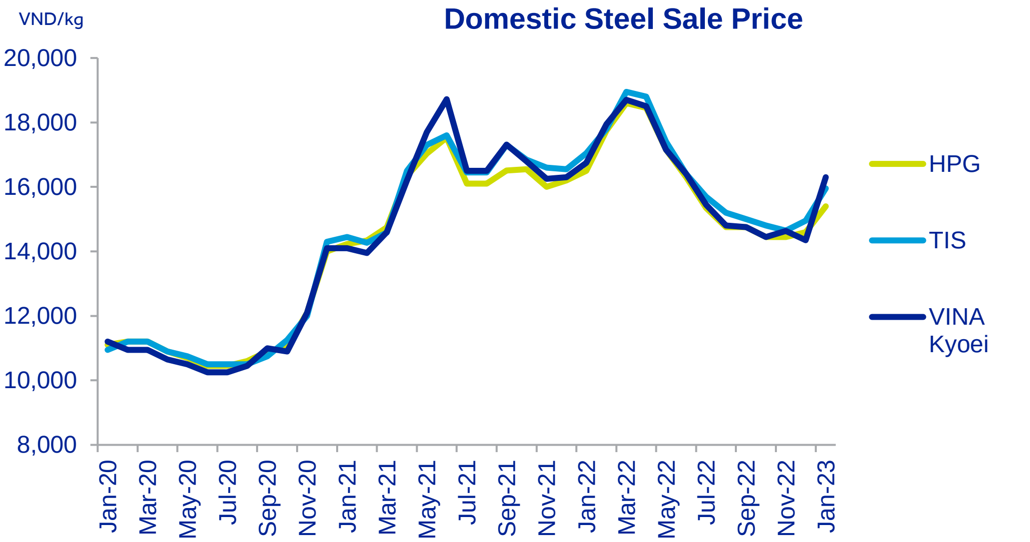
Steel scraps and imported steel still experienced downtrend since final months of 2022 while steel sale prices have started to increase since October 2022. It is because of the lagging between pre-settled prices of the import contract with the market. However, with the rebounce of steel sale prices, the downtrend of steel scrap could end soon in the following months.

Source: Fiinpro, VN General Custom Department

Demand for steel in Vietnam domestic construction activities is still at a low level as credit condition is still tight with almost zero credit room left for real estate activities. Low real estate activities have led to the current low steel demand despite increasing input materials prices, this would put a high pressure on gross margin of steel makers.

Domestic steel price increased strongly in theme of higher material prices

Domestic steel sale prices have increased to the highest level since September 2022, which mostly caused by increased material prices. Currently, domestic steel sale prices are higher than in China, about 3%, which makes Vietnamese steel product to be less competitive to Chinese steel.



Source: Fiinpro, ACBS research

Domestic steel sale prices have been increased strongly, by roughly 15-20% in the first months of 2023. The increase in steel selling prices is mostly caused by the increase in iron ore prices, which has increased by 30% in the beginning of 2023 when China reopened their economic activities and borders. The reopening of China economy and resuming large steel furnaces in this country brings positive expectations about the recovery of Chinese heavy industry and construction activities, which is believed to drive global steel demand in the future.

Nevertheless, domestic real estate and construction activities are still considered low in terms of tighten credit condition and increased interest rate, which made it hard for real estate to develop new projects and house buyers are also less eager to buy houses with loans.

Analyst comment:

Global steel demand outlook remains weak

We maintain our conservative view for global steel demand in next few months, as global demand outlook remains uncertain as impacts of stimulus policies from China could be offset by weak economic conditions in major countries in the world. As high interest rates and inflation are large barriers for the growth of real estate demand, construction activities of new real estate projects would be slowed down until the global macro conditions are improved.

For domestic steel market, the limitation in credit for real estates and increased interest rates have made it hard for the domestic real estate market to recover quickly. The limited credit rooms made the developers to struggle in budgeting new projects. Also, the recent increase in lending interest rate levels has made house buyers to be less eager to fund their houses through debt. Contracted activities in both demand and supply sides of the domestic real estate market have put negative effects on construction materials demand. Moreover, the outlook for construction materials in near future remains conservative as both global and domestic markets have not showed strong positive signals yet.

Vietnamese steelmakers could have a turnaround in Q1 operation results.

After a strong increase, we expect the steel prices to continue the increase trend but not strong as in January and February, the key driver remains the increase in iron ore prices as larges iron ores miners put out a tight outlook for their production in 2023. We are expecting a turnaround in operation result from the loss of major domestic steel makes such as **Hoa Phat (HSX: HPG), Nam Kim (HSX: NKG)** or **Hoa Sen Group (HSX: HSG)** when they can account the lower inventories acquired in late 2022 in their cost of goods sold.

Rubber insights

Supply – Demand outlook

Global rubber market still faces supply-surplus.

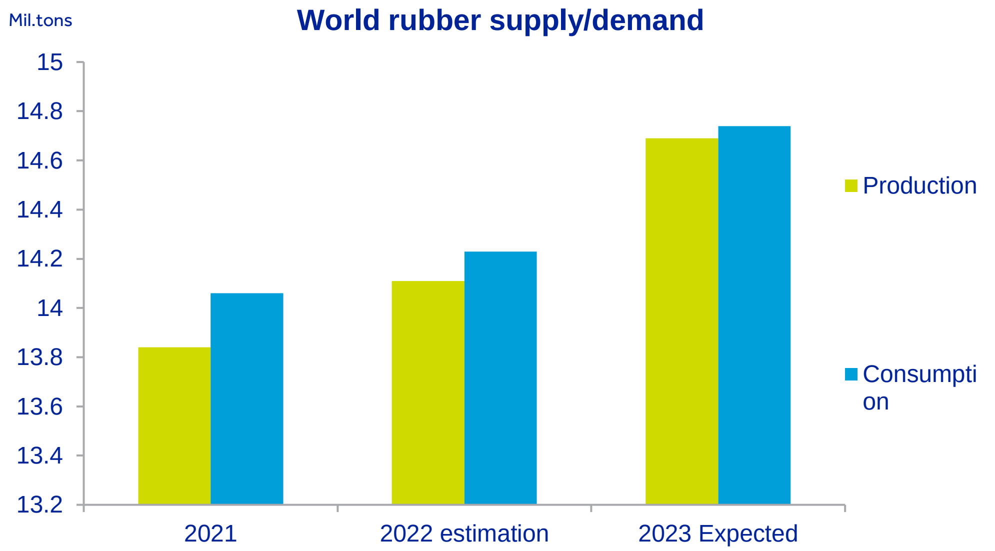
In the latest release, the ANRPC estimated that the world production of natural rubber (NR) registered 0.1% growth to 1.397 million tons during December 2022, the slowest growth in production of the year. Conversely, the world demand for NR grew at a faster pace at 2.5% to 1.311 million tons during the same reference period. However, we can still see the deficit in rubber demand on rubber market. The deficit in rubber was mostly caused by the global economic slowdown which can be observed in most major economies. Moreover, many economists are sharing their views of a more challenging 2023 in terms of the world economy and trade due to the tightening of monetary policy by most central banks, rising cost of living and debt distress, disruptions caused by geopolitical conflicts, and a potential risk of another rate hike from FED.

Negative growth in global car sale continues to pressure tires demand.

Global car sale hit 66.1 million units in 2022, a slight decrease from 66.7 units in 2021. The sector experienced a downward trend on the back of a slowing global economy, while COVID-19 and the Russian war on Ukraine contributed to shortages in the automotive semiconductor industry and further supply chain disruptions. The decrease in automobile sale does affect the tire and rubber consumption. And with the challenging theme for global economy in 2023, the rubber demand could face a big pressure.

Major central banks over the world have ramped up interest rates to fight against the inflation. The hiking interest rates would affect credit market, in which car sale loan take a major proportion. The increase in interest rates would have a negative effect on affordability of car buyer and reduce the car demand as well.

Moreover, the medical equipment demand, which was pushed to a higher level during the COVID pandemic, should decrease when many countries have reached herd immunity goal. The demand for medical gloves, which was extremely high during the pandemic could return to pre-pandemic level. Especially when China has re-opened its border after claiming to have control over the 2nd wave of COVID in this country.



Source: ANRPC

ANRPC has released their outlook for 2023 rubber market with anticipated production to reach 14.69 million tons while consumption is projected at 14.74 million tons. The projection of ANRPC shows a positive view about the soft recovery of global rubber market. We also note that the pressure from external factors such as inflation and oil prices will also have effects on rubber market as synthetic rubber is an alternative product.

Vietnamese Rubber Outlook

Vietnam rubber export is affected strongly by low demand.

In January 2023, rubber export of Vietnam to the US has reduced by 45.4% YoY in volume and by 60.1% YoY in value. The reduction of Vietnam rubber export to the US shows a sight of weaker rubber demand in the beginning of 2023. Moreover, Vietnam rubber product is facing high competition from Thailand and Indonesia when production of these countries is recovering after the pandemic of leaf falling since late 2021.

In our opinion, the beginning months of 2023 are still a challenge quarter for the rubber industry when China, the largest rubber buyer of Vietnam, is still struggling with post-pandemic policies. The economy of China will take another few months to completely enter the re-opening phase. We also expect rubber prices would start to recover in the second half of 2023.

With current price level of rubber, 20% lower than same period of 2022, we can expect a lower operating result from rubber companies. The rubber prices are lower than last year but related costs are in high level, such as labor costs and fertilizer costs, which should remain the same as last year. Lower sale prices but same costs can put pressure on gross margin of rubber companies. Rubber companies can experience a reduction of 15-20% in operating income of rubber business.

Analyst comment:

Vietnam rubber companies can experience a low Q1.

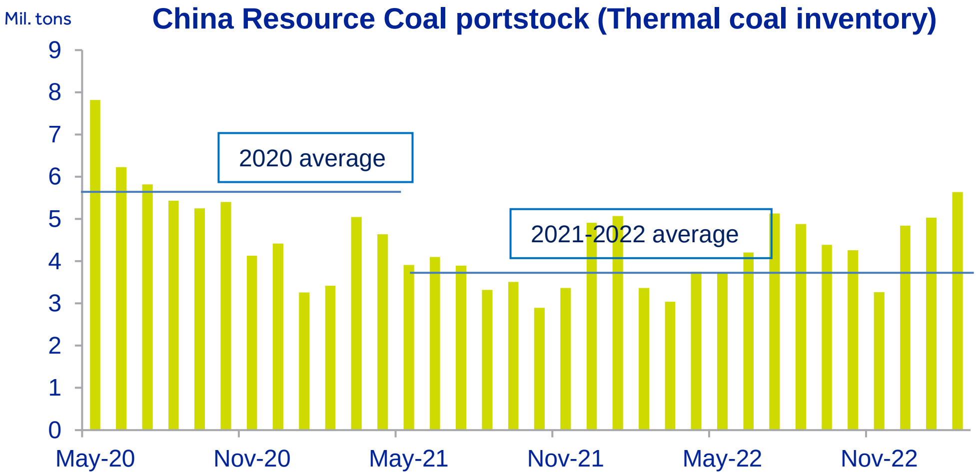
Global natural rubber trading depends heavily on Chinese demand, which accounts for c. 70% of global rubber imports. While China is still struggling to be completely reopened since the pandemic, trading flows are being affected strongly and has led to the reduction in Chinese rubber demand. We can expect a lower operating result in rubber businesses.

Currently, some rubber companies are transforming their rubber planting areas to industrial parks and moving their plating areas out of the border. In our opinion, rubber companies who have invested in industrial parks can take advantage of manufacturing repositioning from China but can still maintain their rubber production. Among those companies we are having intention on **Vietnam Rubber Group (HSX: GVR), Dong Phu Rubber (HSX: DPR)** or **Phuoc Hoa Rubber (HSX: PHR**) which have been known for rubber production and also their investments on industrial park in provinces near Ho Chi Minh city.

Thermal Coal

Chinese coal mines are running at over capacity

China has produced a record amount of coal, pushing its total coal production by 9%, up to 4.5 billion tons in 2022 after the national power shortage which led to the hiking in domestic coal price in 2021. Soaring coal prices after the invasion of Russia to Ukraine also put mines in China to run in excess capacity.



Source: Bloomberg

Recent events could affect the coal supply for China

The resource coal portstock in China has increased in several months, as a result of the government efforts to increase domestic production. Although having run at over capacity for months, the domestic coal mining industry in China is facing some hardship to maintain sustainable coal supply.

Recently, a deadly collapse accident at coal mine in Inner Mongolia could put a challenge on the China's ability to supply the coal demand of this country. The coal mines in China has been running at excess capacity after this country put out a plan to increase domestic production in theme of global supply shortage since middle of 2022. The power consumption of China has also been reported to increase by 15% after a long Lunar new year break.

Considering the safety of China's coal mine, this country is facing a challenge in maintaining power security to support a recovering economy while coal mining industry in this country is already running at a record high level.

On the other side, floods in eastern Australia, affecting the states of New South Wales and Queensland, have impacted operations at coal mines in the region. The flood also had negative effects on railway transportation, port scheduling and break the coal supply chain to the port in this country.

The flooding situation in eastern Australia happened just right after when China lift their unofficial ban on Australian coal. Australia used to be the second largest coal supplier to China before the ban in 2020. The disruption in Australia coal supply would harm the plan of China to maintain domestic coal inventories for energy security.

The warm weather in Europe and softened natural gas prices has eased coal price strongly. But compare to the level of 2020, current coal prices are still double. High energy prices are big barriers for the global economy recovery as coal account for over 30% of world energy consumption.

Chinese steel makers are also re-opening their furnaces after the restriction was lifted and property sector got a support from the government. China used to import over 30 million tons of coking coal and 50 million tons of thermal coal per year from Australia. The shortage of coal from Australia due to recent flood would also put pressure on the steel industry of China.

Analyst comment:

Although reduced strongly since its peak, high coal prices level still put a pressure on Vietnam coal fire power plants gross margin.

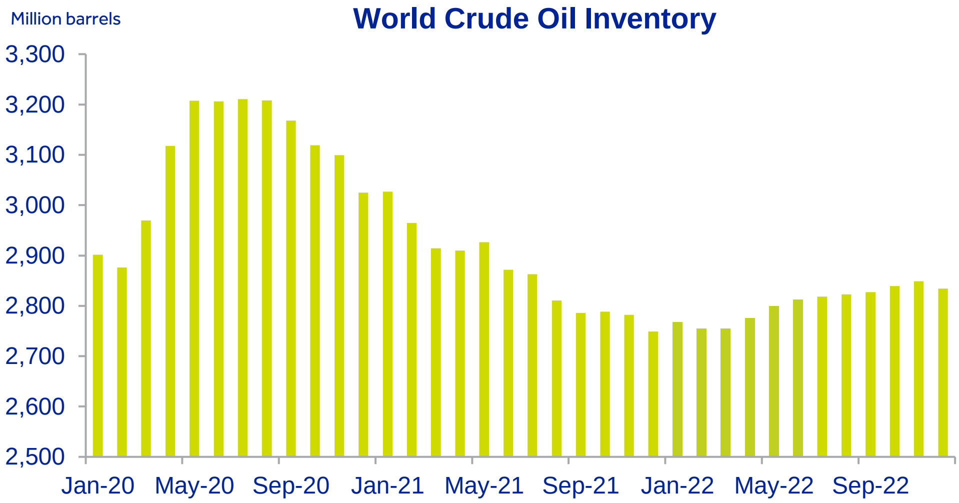
Currently, China has tried to put out more domestic coal production to deal with global coal shortage problem and made coal price level to reduce a little. We still believe that global coal price would not have a deep fall back to the level of beginning of 2022, especially as the ban of EU on Russian coal has gradually taken effect which reduced the proportion of Russian coal importing to EU from over 75% to under 25% in terms of upcoming winter season.

Currently, over 35% of Vietnam electricity comes from coal fire power plants, meaning coal prices still have a big effect on Vietnam's electricity price. Higher coal prices can make the cost of thermal coal power to be less competitive than hydro power on the competitive electric market. Although coal prices have reduced strongly in recent weeks, current high coal prices are still considered high and can put a negative effect on gross margin for coal power plant such as Pha Lai **(HSX: PPC)** or Quang Ninh PC **(UpCOM: QTP)** as Vietnam power plants still depend on imported coal

Oil and Gas

Demand – Supply outlook for oil still remains tight

The outlook for global oil consumption is still blurring as high inflation and interest rates are putting pressures on energy demand. The previous high prices of oil and gas has kept demand down, while the warm winter in Europe and US has helped to keep the storage level elevated. The trend of shifting from fossil fuel to renewable energy also contributes to the recent downward of oil price recently. The strong investment plan of the US to their LNG pipelines project would make major western countries to be less dependent on the gas supply from Russia in the future.



Source: International Energy Agency (IEA)

Outlook for oil and gas supply for EU remain tight

The Russia has halted its oil supply through Russia-Poland pipeline, which could affect oil supply to Poland, Germany, Czech republic, Hungary and Slovakia. The Druzhba pipeline, which supplies oil to Russia to Poland and countries with limited option for oil delivery has been excluded from the sanction. Now after NATO nation delivered tanks to Ukraine, Russia decided to cut off the crude oil supply through Druzhba system. This cutting of Russia would affect 5% crude oil supply for Eastern EU countries.

Although Russia oil has been banned in most Europe countries, they are making a huge sale volume thanks to big discount on crude oil. Russia has become the third largest country to export oil to India in 2022, making it from 17th position in 2021 with 1.25 mil. barrels per day. It seems like there have been many countries benefiting from the discount of Russian oil, including China.

OPEC also revised their forecasts for global oil market to be positive in 2023, which could be 2.3% growth to 2.32 mil. barrels per day. The key of positive forecast of OPEC is the relaxation of China restriction due to COVID-19. The production of OPEC also fell by 49,000 barrels per day because of weak demand in the beginning of 2023.

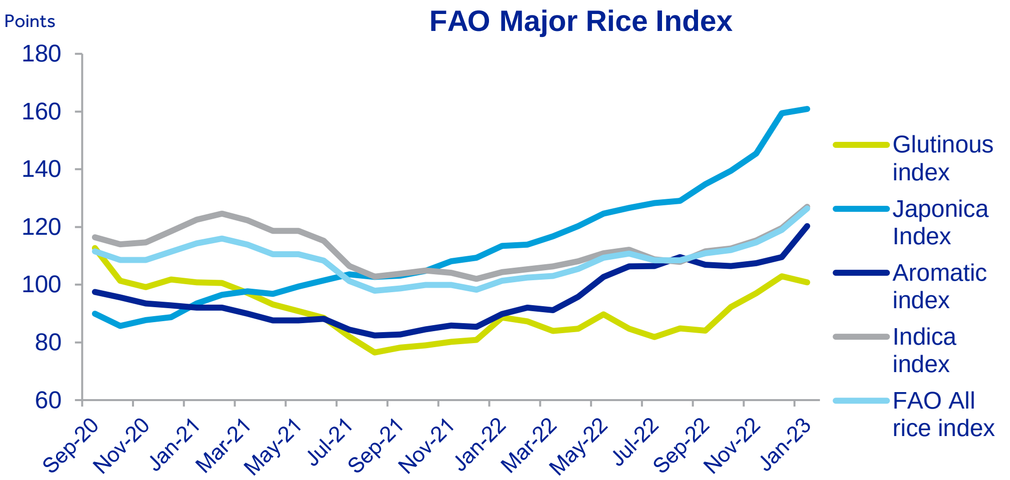
Analyst comment:

With current sanctions of EU against Russian oil, we think that the shortage in Russian oil on global market can extend further. However, the shortage of oil supply could be offset by weak global economy condition. Although the recovery of China could be a catalyst for oil prices but the current purchasing power of China is still weak and this country can also buy crude oil from Russia with cheaper price. We also think that the limitation in global crude oil supply could keep the floor of oil prices and the recovery of China, which put a catalyst on crude oil demand could help to increase oil prices in the middle of 2023. Vietnam oil companies such as **GAS, PVD and PVS** can maintain the stability in their operation if the WTI oil prices continue to be kept at over 75 USD/barrel.

Rice

Rice prices increased strongly

FAO All Rice Index reached the highest level since 2020, when prices of most kinds of major rice have increased strongly in the beginning of 2023.



Source: Food and Agriculture Organization (FAO)

The increasing trend of non-basmati rice prices could continue in the future as India has banned export of broken rice and put a 20% export tax on non-basmati rice since the end of September 2022. India is known as the world's largest rice exporter which accounts for about 40% of global rice trade. Currently, India authorities have no intention of lifting the restriction for rice export of this country.

Vietnam rice exporting is benefiting from the increased rice prices

According to Vietnam Food Association (VFA), Vietnam has export about 6 million tons of rice, which reached 94% the 2022 plan. VFA also made an estimation of about 250,000 tons/month of rice export for November and December, which could help Vietnam to surpass the original export target and reach 6.5 million tons of rice. Vietnam rice also record an increase in price during January while baht appreciated against USD. Long grain 5% FOB price increased to about 470 USD/ton at the end of February.

According to various associations' estimations, Vietnam rice export in 2022 reached 7.1 mil.tons (+13.8% YoY) and 3.4 bil. USD in value. The tightened supply of Indian rice could make importers to seek for alternative suppliers such as ASEAN countries like Vietnam or Thailand. In January 2023, Vietnam rice export reached 369.000 tons. Although we experienced a year-on-year decline in rice export volume for January due to Tet holiday, the export value still grew by 6.8% YoY thanks to high rice prices.

Although the outlook for global economy is still conservative in 2023, rice is still a staple grain and we believe that global rice demand will be less affected by the outlook of global economy.

Better prices for Vietnamese rice, supported by India restriction on rice export and unfavorable weather in some countries

The unfavorable weather in some countries such as Pakistan, China and the restriction which Indian authorities put on their rice exporting have supported the rice exporting of ASEAN countries including Vietnam.

We believe that the rice prices would increase slightly in the future as the supply was tightened and global theme of inflation could contribute to the increase in cereal prices also.

The acquisition prices of raw domestic rice also witnessed an increaseof 2-5%. The increase in of export prices is also a good support for domestic rice prices as exporters can buy raw rice with higher prices while still maintain their desired margins.

Analyst comment:

Good prospect for Vietnam rice which can support operation of rice exporting companies

Unfavorable weather conditions in China and Pakistan and expected rising demand from Philippine could be positive factors for Vietnamese rice producers. The shipping freight costs are also much lower than those in 2022 as global trading activities are slowing down, supporting Vietnam rice exporting activity. While we do not expect much upside in rice prices, increased demand and expected good crops can create positive effects on Vietnamese rice export companies such as **Loc Troi Group (UpCOM: LTG),** making the company to benefit from export volume hike and a small increase in price.

Appendix:

Commodities Monthly Average Prices and Changes

	Average price									% change	
	Jul-22	Aug-22	Sep-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	1 Year	YTD
Steel rebar (USD/ton)	594.8	595.8	556.0	556.0	517.0	511.0	562.9	596.7	600.3	-19.3%	1.6%
Natural rubber (JPY/kg)	254.8	229.6	221.2	221.2	223.6	214.7	215.6	213.2	212.4	-18.0%	3.20%
Thermal coal (USD/ton)	408.4	404.9	439.4	439.4	392.4	342.2	379.4	318.0	207.5	-29.7%	-50.5%
Crude WTI (USD/bbl)	99.4	91.5	83.8	83.8	87.0	84.4	76.5	78.2	76.9	-19.5%	-4.0%
Bloomberg commodities index	116.0	121.5	116.2	116.2	113.8	115.8	112.5	110.7	107.4	2.6%	-5.9%

Source: Bloomberg

Bloomberg Commodity Index* Top 20 Weight

Ticker	Commodity	Exchange	Weight (%)
NGF23	NYMEX Henry Hub Natural Gas F	Commodity Exchange, Inc.	13.51
GCZ2	COMEX Gold 100 Troy Ounces	New York Mercantile Exchange	10.42
CLF3	NYMEX Light Sweet Crude Oil	New York Mercantile Exchange	9.37
COF3	ICE Brent Crude Oil	ICE Futures Europe Commodities	8.26
C Z2	CBOT Corn	Chicago Board of Trade	5.42
S F3	CBOT Soybean	Chicago Board of Trade	5.19
HGZ2	COMEX Copper	Commodity Exchange, Inc.	4.1
SIZ2	COMEX Silver	Commodity Exchange, Inc.	3.88
BOF3	CBOT Soybean Oil	ICE Futures Europe Commodities	3.7
LCZ2	CME Live Cattle	London Metal Exchange	3.17
QSF3	ICE Gas Oil	Chicago Board of Trade	3.11
SMF3	CBOT Soybean Meal	Chicago Board of Trade	3.09
LAF23	LME Primary Aluminum	Chicago Mercantile Exchange	3.08
W Z2	CBOT Wheat	Chicago Board of Trade	3.01
LNF3	LME Nickel	New York Mercantile Exchange	2.85
HOF3	NYMEX NY Harbor ULSD F	New York Mercantile Exchange	2.81
SBH3	NYBOT CSC Number 11 World Sugar	London Metal Exchange	2.69
LXF3	LME Zinc	ICE Futures US Softs	2.53
XBF3	NYMEX Reformulated Gasoline Blendstock for Oxygen Blending RBOB F	London Metal Exchange	2.47
KCZ2	NYBOT CSC C Coffee	ICE Futures US Softs	2.42
Total			**95.08%**

**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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