# Creative Global Investments

## Commodities Strategy & bi-weekly charts

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Objectivity

Integrity

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## Macro & geo-political

The Organization for Economic Cooperation and Development forecasts global GDP to accelerate from 3.4% last year to 3.6% in 2018. Over the past couple of quarters global GDP has been growing even faster than this, at an annualized rate of over 4%. For the first time in 10 years, the pace of growth is such that none of the major world economies is in a recession, pushing oil demand highest in the past decade and why we have seen US oil supply drain at a record pace and why floating oil storage has halted since the beginning of the year. Inventories of oil in the OECD stockpiles have halved and may fall below average in the coming weeks and months.

The OECD warns that growth is lopsided and wages aren't keeping pace with the economy. Another concern is that household debts are rising and "danger signs are flashing" for some real estate markets. For next year, we continue to see developing economies to lead global growth as higher commodity prices and improving fiscal positions will accelerate their growth. In particular, the consolidation of the economic recoveries in Brazil and Russia will shore up economic activity in their regions.

Economic sentiment in the Eurozone jumped in December, recording the best result in over 17 years, according to the European Commission (EC). The economic sentiment index (ESI) increased from October's 114.1 to 114.6, matching market analysts' expectations. Confidence in the Eurozone has surged in the past year, and is still climbing despite several political temporary obstacles like the unresolved German coalition talks, a continued independence push by Catalonia in Spain and a lack of progress on Brexit negotiations.

The final release for the Eurozone's December Composite PMI rose to 58.1 from 57.5 in November.

Higher consumer confidence pushed up economic sentiment in November, as households assessed future unemployment and savings expectations more positively than in the previous month. Confidence in the construction sector also improved, while sentiment in the manufacturing sector was broadly unchanged. Employment plans improved notably in the retail trade and industrial sectors, both recording the best readings in 10 years, which is a good sign for the region's labor market.

At a country level, economic sentiment rose strongly in Belgium, France and Malta. Major-players Italy and Spain also saw higher sentiment in November. Germany, however, saw sentiment wane slightly from October's reading, mostly due to the still unresolved political situation of government coalition building.

Consensus forecast for private consumption to grow is 1.7% in 2018 (up 0.1% m-o-m). For 2019, consensus forecasts are for consumption to expand 1.5%, and for investment to grow 3.5% in 2018 (+0.3% m-o-m) and forecasts for investment to increase in 2019 by 2.7%.

We are expecting stronger global growth and higher commodity prices to drive global inflation a bit higher in 2018 to levels last seen nearly two decades ago. Hyperinflation in Venezuela will represent a big share of the expected reading for next year. We are projecting for global inflation to rise to 5.0% in 2018, up 0.4% m-o-m. However, for 2019, we see global inflation moderating to 4.3% mostly due to improving macro-economic imbalances in emerging-market nations.

**We maintain our global GDP forecasts for 2018 of 3.8%, and hence why we see the price dynamics for commodities in general, but particularly for the oil and energy markets to remain very bullish.**

For our general commodities price forecasting, besides global consensus macro data, we use ISM/PMI data, and also the Baltic Dry Index (BDI) as leading indicators, which we found most accurate for the short-to medium-term forecasting.

For most of the G-20 nations, the PMI composite data is still showing solid expansion throughout December 2017, and our forecasts for 2018 are for PMI to continue to expand at a steady rate from current levels.

| Country | Last | | Previous | Highest | Lowest |
|---|---|---|---|---|---|
| Brazil | 48.80 | Dec/17 | 48.9 | 55.5 | 38.3 |
| China | 53.00 | Dec/17 | 51.6 | 53.5 | 48 |
| Euro Area | 58.10 | Dec/17 | 57.5 | 58.1 | 45.7 |
| France | 59.60 | Dec/17 | 60.3 | 60.3 | 41.9 |
| Germany | 58.90 | Dec/17 | 57.3 | 58.9 | 50.2 |
| India | 50.30 | Nov/17 | 51.3 | 55.4 | 46 |
| Italy | 56.00 | Nov/17 | 53.9 | 56.8 | 48.8 |
| Japan | 52.20 | Nov/17 | 53.4 | 54.1 | 46.3 |
| Russia | 56.00 | Dec/17 | 56.3 | 58.3 | 44.7 |
| United Kingdom | 54.90 | Nov/17 | 55.8 | 61.8 | 47.4 |
| United States | 54.10 | Dec/17 | 54.5 | 61 | 50 |

The Baltic Dry Index ($BDI) chart shows, the $BDI fell below the 14 and the 50- dayMVA's, currently at critical 200-dayMVA support level, however RSI and MACD are looking like very oversold.

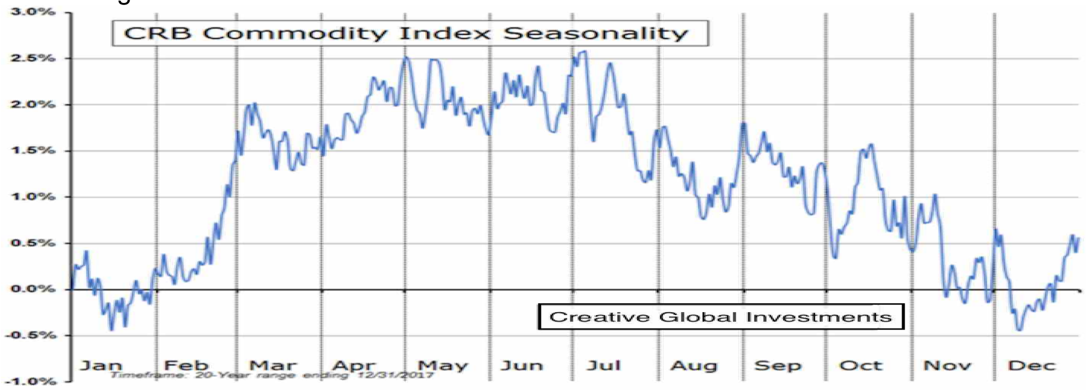

As we were forecasting in our 2017 Global Outlook & Investment Strategy, commodity prices represented by the CRB ($CRB) have been breaking out to the upside. The $CRB has moved from its June lows of 166 to a stunning 2H high of 193.

Given the 2018 macro economic outlook being so positive for the global GDP, and given the inventory adjustments of many of the long cycle commodities, and related capacity reductions, we see a healthy demand cycle continuing to propel prices of most commodities for the foreseeable future into 2019.

Commodities tend to perform well in Q1 from a seasonality performance aspect, the $CRB performs best in Q1, according to the past 20 years of data, an this despite a historical seasonal uptick in the USD.

However, **for 2018, we continue to see downside pressures for the USD and are forecasting for the USD likely to weaken in Q1 from the current 92 levels to retest the 90 levels, and with risks to drop to 88. Our 2018 USD Index low price target is 85**. As for the past 3 years, currency forecasters are notoriously wrong and behind the curve, as the following consensus forecast chart shows.


Given our bearishness on the USD, this scenario could give the $CRB significant tailwind in the coming weeks.




The CRB index broke above resistance around 193 last week, maintaining an intermediate trend of higher-highs and higher-lows. A longer-term bottoming pattern would be confirmed with a breakout above 196. **The $CRB is being supported by its 200-day moving average, conducive to enticing longer-term buyers back to this depressed asset class.**

**From a chart technical perspective, one can see from the 5-year chart, that the CRB has been building a substantial bottom. Whilst range bound in this lower levels for the past 2 years, we can see growing technical evidence for a significant breakout likely over the next 1 - 6 months, whereas we see the $CRB could reach 230 levels.**

**Chart technical history has shown that "Big bases make for big breakouts".**


Looking at the 5 year performance of the $CRB relative to the $SPX, the following chart shows one of the most oversold scenarios in our 35 years of professional experience in the financial markets.

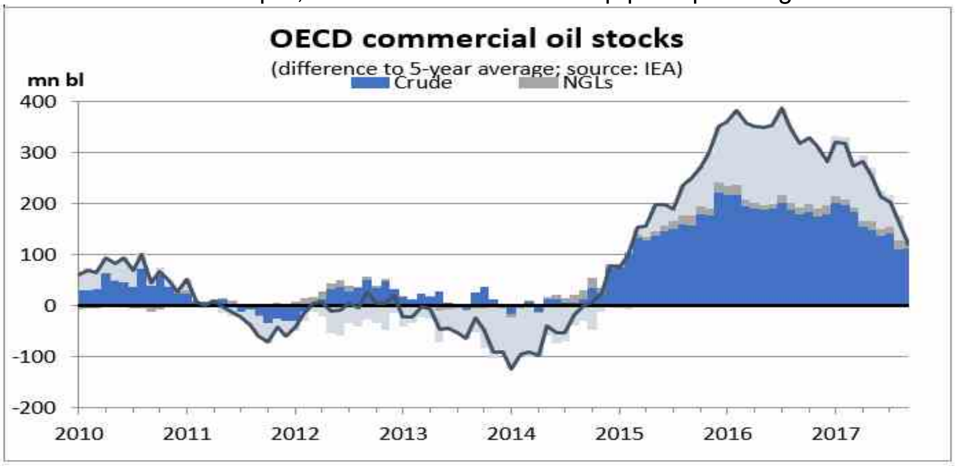
# Oil & Energy

OPEC predicted that global oil markets wouldn't rebalance until late 2018 after boosting forecasts for supplies from the US and other rivals in their monthly report. OPEC raised its outlook for non-OPEC supplies in 2018 by 300,000 barrels a day, as its projections for American output caught up with those of the US government. As a result, an initiative by OPEC and Russia to clear a global oil glut by cutting output, previously seen succeeding in Q3 of 2018 will take effect more slowly.

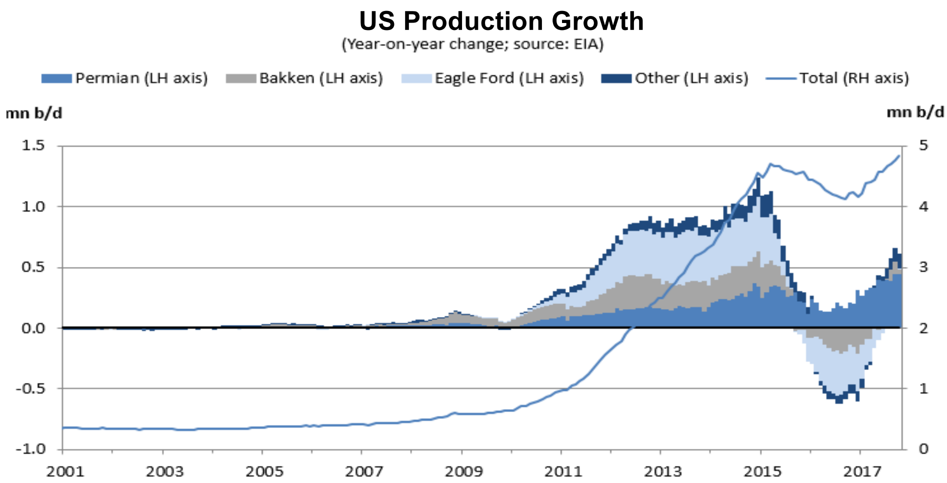
Brent Oil prices climbed to a 2-year high above $65/brl in London last week in 2017, supported by a temporary pipeline halt in the UK and the Nov. 30 decision by OPEC and Russia to extend the agreed supply curbs until the end of next year. Kuwait and the UAE would consider winding down its efforts in mid-2018 if the market is back in balance.

Continued efforts by OPEC and non-OPEC to support oil market stability" should "lead to a further reduction in excess global inventories, arriving at a balanced market by 1H 2018.

- As we were highlighting in the past 6 months, the "skewed" inventory count is normalizing, and recent US Energy Department's inventory releases show multiple weeks of strong inventory draws in the domestic crude stockpiles pointing to a slowdown in shale output, which will continue to help push price higher




- As expected, latest data continues to point towards the fact that US shale producers are slowing down, and for obvious year end reasons reassessing production. At current prices for Crude, the shale production is very viable, and we are expecting for the number of wells and production volume to grow into 2018/2019.




- In the short term however, in spite of US exports having grown substantially, we see global supply hindered in the short term due to negative geo-political affects