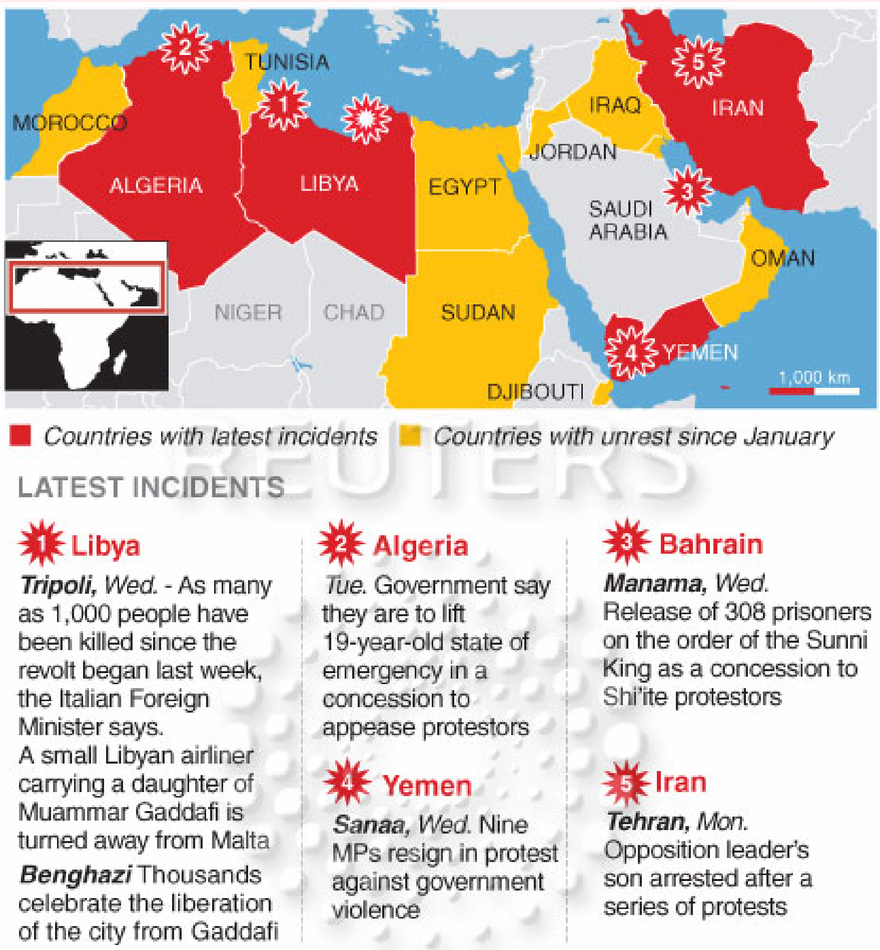
Commodities Comment: Oil's Turmoil

Last week (TRIM Commodities Comments: , we wrote about global oil price which we expect might further rise, looking at an intensified violence in Libya, the 8th largest oil producers among OPEC members with 1.5mn barrels/day of production. WTI Crude has increased 13.6% since then to reach USD97.9/brl on Friday, while Brent Crude rose 11.0% at USD112.5/brl. This bring us to another interesting story, considering that the price gap between Brent and WTI has widen since Jan'11, which we will discuss today.

First, on the issue of oil price, we still expect the oil price to be volatile with a tendency to stay above USD90/brl going forward, mostly driven by sentiment and investors concern as the political unrest in the Middle East may continue spreading. The latest country to be involved in the Middle East political turmoil is Oman. Hundreds of Omanis, many of which unemployed, gathered for a second day in the city of Sohar, refusing to go home after a pledge by the nation's ruler to provide jobs. Oman produces 885,600 barrels of oil a day in Jan'11.

Middle East Political Unrest



Source: Reuters

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However, we don't see any serious supply disruptions even though more than half of Libya's production has been shut down. Saudi Arabia and other OPEC countries reported that they are preparing to offset Libya's production decline. Inventory also stayed at the "fair" level, indicating that global oil markets have been met by sufficient supplies. We expect these issues to curb the oil escalation.

Several updates from IEA report on 25th Feb'11 regarding to Libya issue:

- Foreign oil company reports suggest that production has been further curtailed, from an estimated 500k-750k brl/day shut-ins of 24 February, to nearer 850k brl/day today. Moreover, at present, reports indicate that the vast majority of Libyan ports remain closed due to a combination of bad weather, staff shortages or a cutback in crude flows to the terminals.
- OECD commercial stock looks comfortable, with forward demand cover at end-December at 57.5 days, above the five-year average of 54.6 days. A further 1.6bn brl of public stocks, or 34 days forward demand, are also in place.
- Saudi Arabia has been actively offering extra crude supplies to offset the lost Libyan barrels, with several buyers expressing interest. However, with many European refiners now in turnaround, most are not looking for immediate supplies.

Crude Oil Imported from Libya (kb/day)

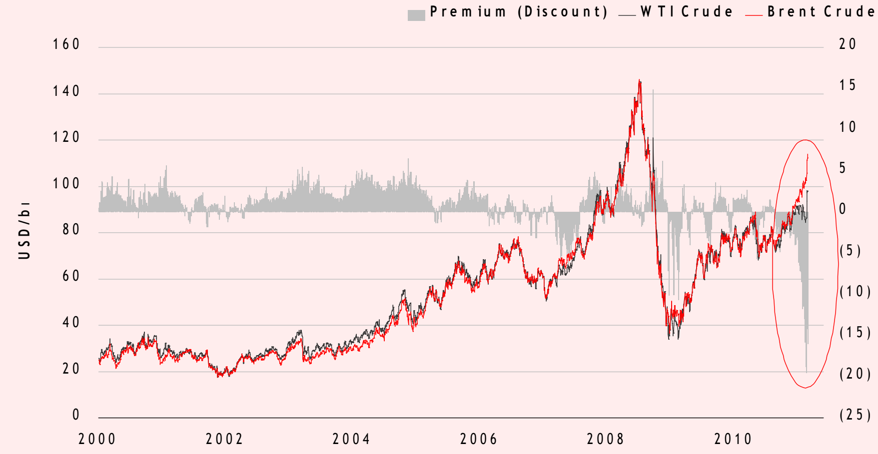
Country	2007	2008	2009	2010	% of Import
Australia	-	-	1	11	2.3
Austria	35	17	23	31	21.2
France	105	141	131	205	15.7
Germany	220	210	167	144	7.7
Greece	49	63	47	63	14.6
Ireland	3	9	10	14	23.3
Italy	538	504	423	376	22.0
Netherlands	43	40	27	31	2.3
Portugal	36	29	19	27	11.1
Spain	99	120	102	136	12.1
Switzerland	52	72	28	17	18.7
United Kingdom	51	81	71	95	8.5
United States	122	105	78	51	0.5
Total OECD	1,376	1,396	1,137	1,205	5.1

Source: International Energy Agency

Oil: Why the Spread Between Brent and WTI Crude Widen?

WTI Crude and Brent Crude has historically moved inline with a correlation as high as 99.84% in the past 21 yrs; although WTI has always command a little premium on Brent (around USD1-3/barrel) due to less processing required. However, the gap between both benchmark prices has widened since 4th Jan'11 with Brent's premium widening to as much as USD19/brl over WTI on 21st Feb'11. Some factors that has explained this widening premium is (1) relative geographical proximity of supply to the Middle East. Brent crude supplies is considered to be more affected by the uncertainty in the Middle East than WTI as it originates from the North Sea, and as such is mostly exported to Europe and Asia regions and is the benchmark representing 50%-60% of total world crude. On the other hand, WTI is based in Texas and southern Oklahoma, with its price widely used as the proxy for the North America crude oil market. However if this hypothesis is correct, then why is it that historical correlation between the two crude oil standards is still so strong despite the countless historical crisis in the Middle East in the past decades?

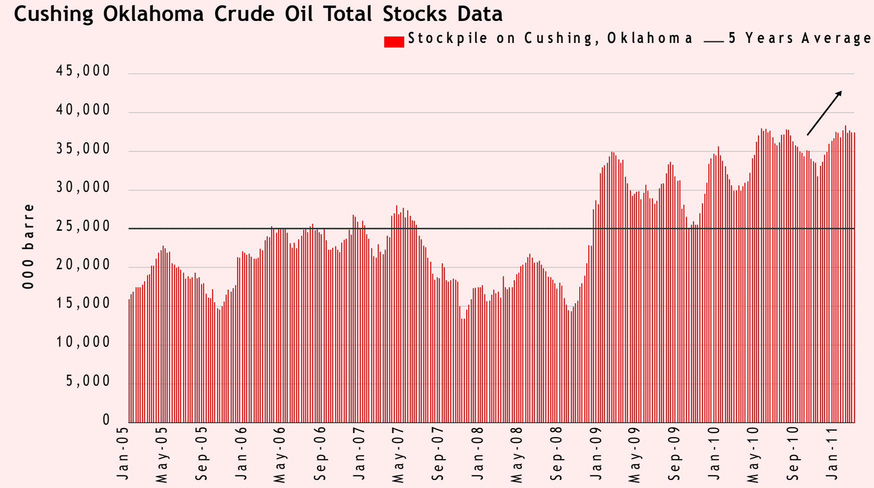
WTI vs. Brent Crude Movement



Source: Bloomberg, TRIM Research

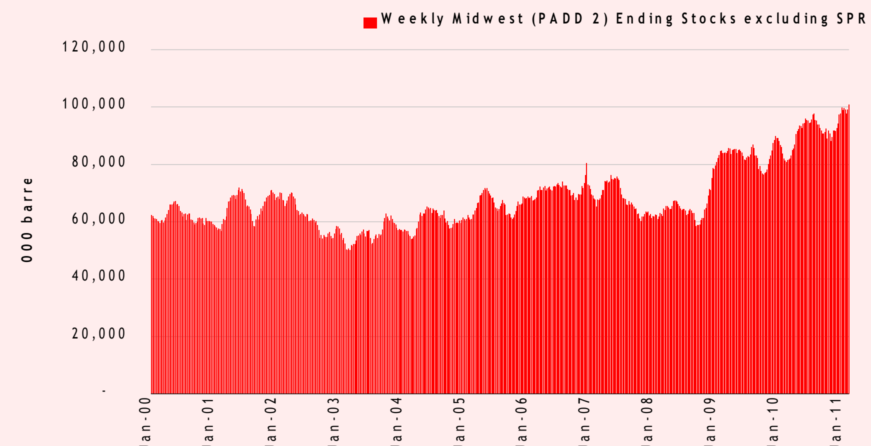
The other explanation for the premium, in our view, is fundamental supply demand driven. Our channel check with an oil trader in Singapore suggests that there maybe an oversupply situation in the Midwest US - a meeting point for Canadian and inland US crude productions before being shipped offshore. Crude from Canada's oil sands and the North Dakota-Saskatchewan-Montana Bakken Shale are filling pipelines and taking lots of oil into Cushing (because they are no other options). 2 new pipelines, Enbridge's Alberta Clipper Line and Trans Canada's Keystone Pipeline has been opened for linking on Apr'10 and Feb'11 respectively, giving more oil to the Midwest.

Cushing Oklahoma Crude Oil Total Stocks Data



Source: EIA, Bloomberg, TRIM Research

Weekly Midwest (PADD 2) Ending Stocks excluding SPR

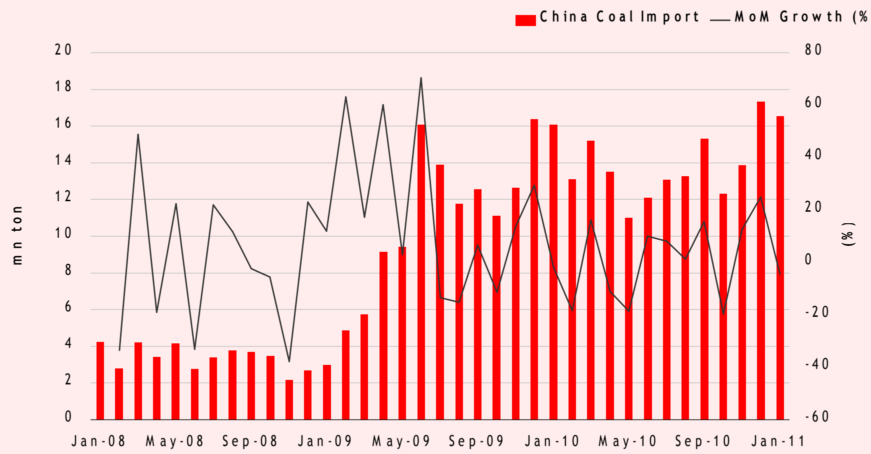


Source: EIA, Bloomberg, TRIM Research

Coal: China Import Slide 4.0% MoM in Jan'11

In line with our view last month (TRIM Commodities Comments 2011 01 24, Hot Coal Outside, Colder Inside), we expect China coal imports to drop after hitting its highest record of 17.4mn tons in Dec'10 due to abated winter season and a lack of arbitrage opportunities. Jan'11 imports were 16.6mn tons based on report released by General Administration of Customs. Indonesia becomes the nation's biggest supplier, accounting for 35% share, followed by Australia in the second place.

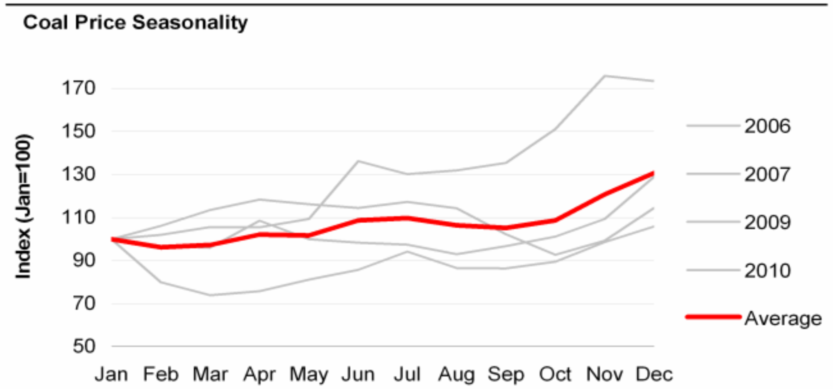
China Coal Import



Source: General Administration of Customs, Bloomberg, TRIM Research

Energy

1-Mar-11



Source: Blomberg, Trimegah Research

Catalyst:

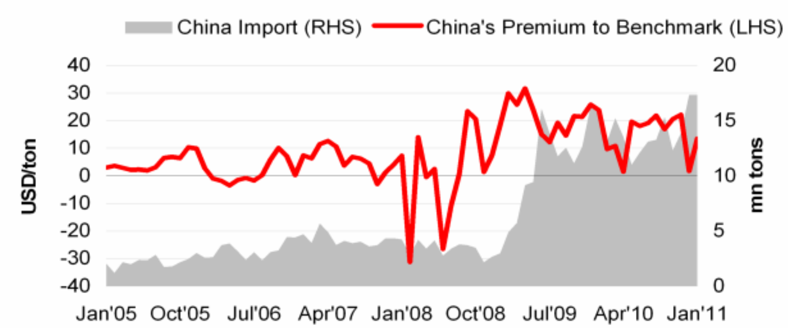
MT to LT Indian 11th policy plan and Indonesian fast track of 1st 10,000 MW power plant projects will come online going until 2014 with coal as a dominant fuel, creating a regional hunger for coal. It is estimated that 5,000-6,000MW of coal fired power plants scheduled to come online in 2011 in Indonesia. PLN coal demand will jumped 75% to reach 70mn tons in 2014 compared to current level of 40mn tons. 2nd 10,000MW programme is already beginning in Indonesia, again with coal taking the chunk of power source for the programme. India will continue to feed its domestic demand from seaborne market due to structural problem of its supply side. LT emerging market growth will continue to provide a good floor for coal prices, with robust demand coming from China, India and Indonesia.

ST peaking weather adversity, and continued strong demand side from Asia, we are confident that coal contracts for Japanese FY11 done in Mar'11 will be result in little deviation from our new USD125/ton assumptions for 2011.

Risk:

ST macro risk is the biggest risk, followed by regulatory risk as increase of local demand may urge Indonesian government to implement stricter DMO and price control. Government also state that it might ban the export of low rank coal in 2014 to increase state's export revenue.

Price Movement	Last	WoW (%)	MoM (%)	YoY (%)	Ytd (%)	Average Price 1 Mth	3 Mth	6 Mth	Ytd
Oil and Gas									
Crude Oil	97.0	3.6	6.8	23.2	6.1	90	90	85	90
Natural Gas	4	4.4	(7.1)	(13.7)	(8.4)	4	4	4	4
Coal									
Newcastle 6,700kc GAD	130	4.3	3.6	37.2	2.9	125	124	112	128
Qinhuangdao 6,000kc GAD	138	(0.6)	(0.6)	32.4	7.9	139	134	126	136
Richard Bay 6,000kc NAR	119	1.6	2.0	41.3	(8.5)	118	119	106	121
Coal (Daily)	120	1.0	2.1	54.7	(8.6)	118	120	110	119
Other									
Baltic Dry Index	1,251	(2.2)	15.4	(54.7)	(29.4)	1,184	1,534	2,050	1,311



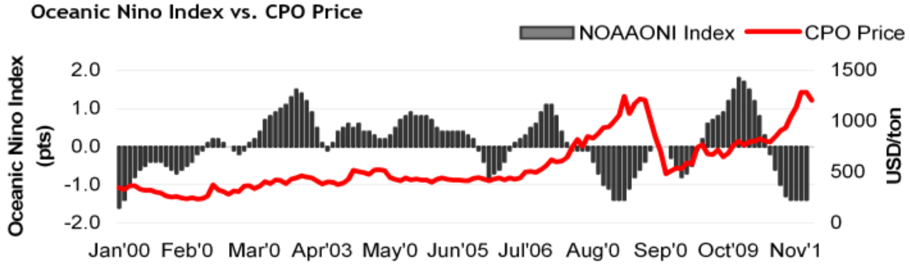
Source: Blomberg, Trimegah Research

Relative Companies	Ticker	Trim TP (Rp/shr)	Last Px (Rp/shr)	M. Cap (Rptr)	YTD (%)	Bloomberg TP Avg	High	Low	P/E (x) 2011	2012	P/BV (x) 2011	2012	ROE (%) 2011	2012	EPSg (x) 2011	2012	Div. Y (%) 2011	2012
Adaro Energy	ADRO	3,050	2,450	78.4	(3.9)	3,118	4,200	2,600	14.2	10.9	3.4	2.8	23.9	25.7	103.4	31.1	1.7	2.7
Bumi Resources	BUMI	-	3,000	62.3	(0.8)	3,569	4,500	2,500	13.1	10.0	3.0	2.4	22.6	23.8	100.0	30.8	1.5	2.6
Borneo Lumbung Energy	BORN	-	1,500	26.5	11.9	2,033	2,200	2,050	13.4	9.3	3.0	2.4	22.8	25.9	21.8	44.5	1.3	2.6
Harum Energy	HRUM	-	8,250	22.3	(8.3)	10,500	11,900	8,500	13.0	9.4	6.9	4.5	53.1	48.3	104.9	38.5	2.4	3.6
Indika Energy	INDY	-	3,800	19.8	(19.6)	5,721	6,600	4,825	9.7	8.1	2.6	2.1	26.8	26.3	79.7	20.1	2.8	4.4
Indo Tambangraya Megah	ITMG	52,400	45,700	51.6	(10.0)	58,495	75,200	45,896	9.3	8.1	4.2	3.4	44.8	42.7	19.6	15.5	5.9	7.8
Tambang Batubara Bukit Asam	PTBA	26,700	20,050	46.2	(12.6)	26,647	37,400	19,000	13.1	11.0	5.2	4.1	40.0	37.4	72.3	18.9	2.7	4.2
Regional Average									**11.5**	**9.6**	**2.8**	**2.0**	**24.0**	**21.3**	**37.9**	**15.0**	**2.5**	**2.6**

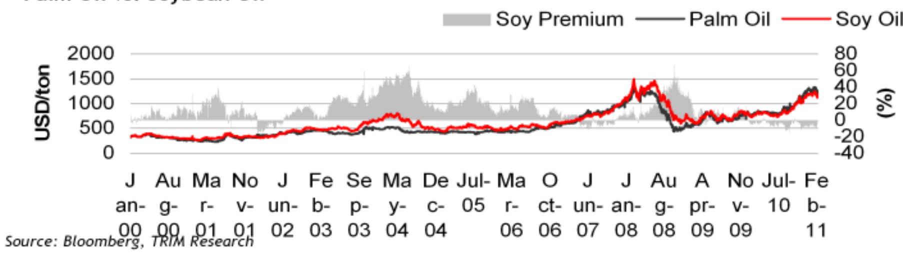
Soft Commodities

1-Mar-11

Oceanic Nino Index vs. CPO Price



Palm Oil vs. Soybean Oil



Source: Bloomberg, TRIM Research

Catalyst:

LT Oil Consumption per capital in emerging markets (China 14kg, India 8kg, Brazil 18kg, and Indonesia 17kg) are still half of developed nations (30kg). This will support CPO prices in the long term as CPO prices will need to remain above cost + margin model to support volume growth. Structural oil supply problems combined with USD debasement story will support bio-diesel commercial viability in the LT.

MT A drier period followed after La Nina will boost CPO production and make the supply and demand balanced. Price will be normalize but it will be floored in our view, as human consumption of edible oil will grow steadily at 4.0%-5.0% CAGR mainly contributed by Chindia and bio diesel mandatory in several edible oil producer countries. Moratorium in Indonesia also expected to hamper CPO production, driving a positive outlook on CPO price in medium term.

ST La Nina phenomena (wet in the Eastern and dry in the Western) expected to continue until the end of 1Q11 with strong La Nina occur during Oct'10- Feb'11 period, creating a supply shortage for most of soft commodities counters.

Risk:

We also see moratorium along with unclear forest spatial regulation as a serious obstacle for Indonesia planters to expand, hampering the growth opportunity. Association expects our planters will "only" add 200k ha - 250k ha in 2011 vs. 500k ha 3-4 years ago.

Price Movement	Last	WoW (%)	MoM (%)	YoY (%)	Ytd (%)	Average Price 1 Mth	3 Mth	6 Mth	YTD
CPO Malaysia	3,550	(5.0)	(7.6)	34.6	(6.9)	3,801	3,751	3,367	3,790
CPO Rotterdam	1,205	(4.0)	(6.0)	47.4	(6.2)	1,277	1,256	1,134	1,271
Soybean Meal	1,357	4.6	(5.6)	41.0	(2.6)	1,393	1,368	1,267	1,395
Soybean Oil	57	5.1	(3.3)	42.3	(1.7)	58	57	52	57
Rubber	496	(5.2)	3.1	70.8	22.1	514	450	387	482
Corn	723	6.3	8.5	89.3	14.9	694	641	585	664
Wheat	783	2.7	(6.4)	55.1	(1.5)	830	802	749	815
Sugar	33	5.0	(4.3)	46.0	1.2	32	32	29	32

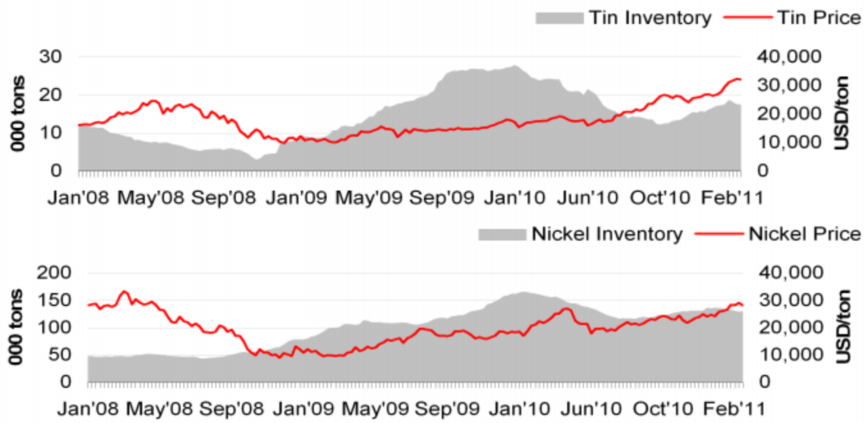
Malaysia Palm Oil	Last	MoM (%)	YoY (%)	Cummulative	YoY (%)
Production					
Crude Palm Oil	1,058	0.0	(8.5)	1,058	(19.9)
Palm Kernel	266	0.0	(10.3)	266	(22.4)
Palm Kernel Oil	127	0.0	(5.4)	127	(26.5)
Export					
Ex-Palm Oil	1,211	0.0	(6.5)	1,211	(17.2)
Ex-Palm Kernel Oil	64	0.0	(34.8)	64	(38.3)
Inventory					
Palm Oil	1,419	0.0	(20.7)		

Relative Companies	Ticker	Trim TP (Rp/shr)	Last Px (Rp/shr)	M. Cap (Rptr)	YTD (%)	Bloomberg TP Avg	High	Low	P/E (x) 2011	2012	P/BV (x) 2011	2012	ROE (%) 2011	2012	EPSg (x) 2011	2012	Div. Y (%) 2011	2012
Astra Agro Lestari	AALI	26,600	21,850	34.4	(16.6)	27,173	32,500	20,000	12.4	11.7	3.4	3.1	27.6	27.0	5.2	6.1	4.4	5.2
BW Plantation	BWPT	-	1,040	4.2	(19.4)	1,429	1,950	1,200	13.6	11.9	3.0	2.4	22.3	20.2	0.0	14.1	1.0	1.2
Gozco Plantation	GZCO	-	375	1.9	(12.8)	500	520	480	9.4	8.6	1.4	1.2	14.8	14.2	32.7	9.6	1.5	1.7
London Sumatra Indones	LSIP	14,600	2,150	14.7	(16.3)	4,152	13,500	560	10.4	9.1	2.3	1.9	21.8	21.1	6.5	14.2	3.0	2.9
Sampoerna Agro	SGRO	4,050	2,600	4.9	(18.1)	3,748	4,625	2,875	10.7	10.0	2.1	1.8	19.4	18.4	20.6	7.3	2.6	3.0
Bisi International	BISI	-	1,230	3.7	(34.2)	-	-	-	14.1	10.6	2.6	2.2	18.7	20.9	43.4	32.6	0.9	1.4
Regional Average									**14.5**	**13.3**	**2.5**	**2.3**	**17.3**	**17.2**	**6.9**	**11.6**	**0.0**	**0.0**

Metals

1-Mar-11

Nickel & Tin Price vs Inventories



Source: Bloomberg, TRIM Research

Catalyst:

LT Growth from global emerging markets will continue to provide a floor for base metal prices. Aggressive money printing and fiscal stimuli will eventually lead on to inflation, favoring hard asset prices in the future. Supply side issues coming from both China and Indonesia, who both are world's largest tin supplier, will be supportive of tin's prices long term

MT The Q.E 2.0 US stimulus is very commodity intensive, and will be supportive of based metal prices. Based on cost + margin model, the fair nickel price is estimated to be USD16k/ton - USD20k/ton. However, demand is needed to bring its inventory down from historic levels, before nickel price can resume its ascend. We would expect tin to outperform nickel in the medium term on lower inventory glut and structural supply issues.

ST Demand growth for nickel is expected to slow mainly cause by lower demand for stainless steels in China and EU. In the other hands, production will speed up supported by new projects coming and continued restart of idled capacity. ABARE expects world demand for nickel to "only" grow by 6.0% in 2011 compared to 9.0% of supply. Moreover, at higher price large scale nickel pig iron production would be expected to contribute a supply expansion, giving the pressure on nickel prices.

Risk:

EU faster recovery than estimated and improving Chinese demand will become the upside risk for our short term nickel view.

Price Movement	Last	WoW (%)	MoM (%)	YoY (%)	Ytd (%)	Average Price 1 Mth	3 Mth	6 Mth	Ytd
Non ferrous Metal									
Aluminum	2,531	(1.0)	2.6	20.1	2.9	2,519	2,440	2,366	2,484
Copper	9,779	(0.4)	2.6	35.9	1.8	9,862	9,489	8,827	9,691
Nickel	28,400	(3.2)	6.6	34.0	14.6	28,334	25,974	24,561	26,932
Zinc	2,489	(4.2)	5.7	13.3	1.4	2,491	2,392	2,342	2,445
Lead	2,509	(6.2)	3.0	15.9	(1.6)	2,567	2,510	2,426	2,559
Tin	31,985	(1.1)	7.9	86.8	18.9	31,565	28,302	26,552	29,446
Precious Metal									
Gold	1,409	1.5	5.1	26.0	(0.9)	1,373	1,377	1,353	1,369
Silver	33	1.9	17.8	99.4	6.4	31	30	27	30
Platinum	1,811	(2.3)	0.7	17.3	2.2	1,823	1,774	1,718	1,806
Palladium	791	(7.8)	(3.0)	83.1	(1.3)	819	790	699	807
LMEX	4,370	(1.3)	3.5	31.9	3.7	4,388	4,195	3,961	4,292

Inventory Level	Last	WoW (%)	MoM (%)	YoY (%)	Early Year	Ytd (%)
Non ferrous Metal						
Aluminum	4,611,475	-0.2	1.9	0.8	4,277,050	7.8
Copper	421,000	2.3	5.8	(23.4)	377,550	11.5
Nickel	130,080	0.7	(3.1)	(20.0)	135,672	-4.1
Zinc	708,300	-0.1	(0.4)	30.7	701,425	1.0
Lead	294,125	-0.9	5.4	78.2	208,275	41.2
Tin	17,675	0.8	0.2	(28.5)	16,275	8.6
Precious Metal						
Gold	11,076,579	(1.2)	(4.4)	11.1	11,591,781	-4.4
Silver	102,929	0.5	(1.7)	(5.5)	104,849	-1.8

Relative Companies	Ticker	Trim TP (Rp/shr)	Last Px (Rp/shr)	M. Cap (Rptr)	YTD (%)	Bloomberg TP Avg	High	Low	P/E (x) 2011	2012	P/BV (x) 2011	2012	ROE (%) 2011	2012	EPSg (x) 2011	2012	Div. Y (%) 2011	2012
Aneka Tambang	ANTM	-	2,200	21.0	(10.2)	2,674	3,000	2,000	11.8	11.6	1.5	1.4	13.1	11.8	20.8	1.8	3.3	3.9
International Nickel	INCO	-	5,050	50.2	3.6	5,427	6,000	4,150	13.3	8.2	2.7	2.2	19.9	26.9	9.3	48.9	4.9	7.0
Timah	TINS	-	2,700	13.6	(1.8)	2,975	3,575	2,300	17.3	10.4	2.8	2.4	16.1	23.2	49.2	11.9	3.5	5.1
Regional Average									**18.7**	**22.7**	**2.3**	**2.5**	**12.5**	**11.1**	**(6.8)**	**(19.9)**	**0.0**	**0.0**

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