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Commodities

**Bank of America
Merrill Lynch** 

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Global Energy Outlook

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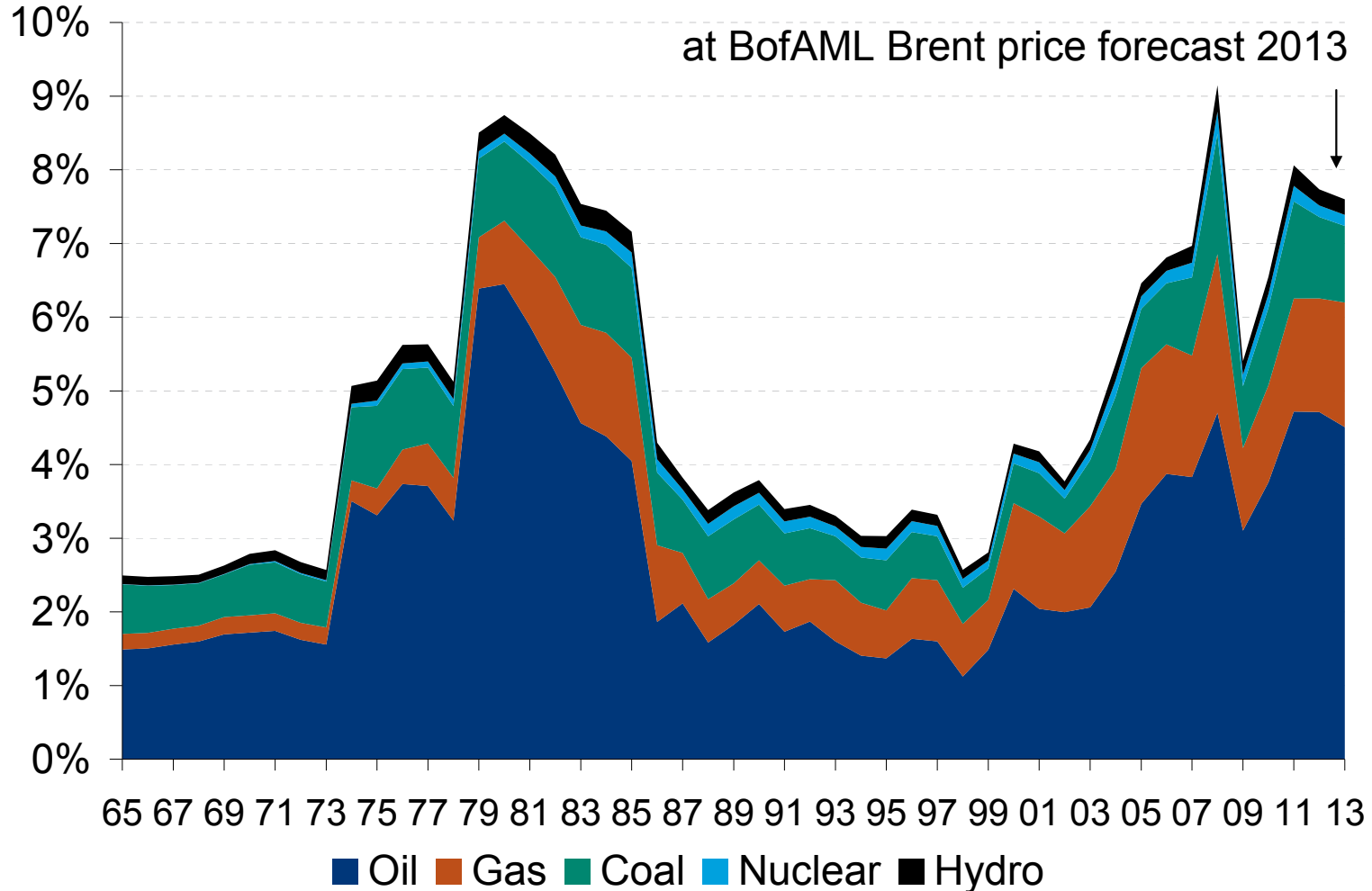
Overview: Global Commodity Outlook

- For 2013, we see a sluggish US economy, a recession in Europe and slowing EM growth, coupled with some geopolitical risk and large-scale monetary easing from the Fed.
- Commodities are the tug of war in a two-tiered global economy: DMs struggle with high debt and disinflation, as EMs experience faster economic growth and some inflation. With DMs outperforming EMs, commodity markets have underperformed.
- We expect Brent to average \$105/bbl in 2013. We believe that oil prices will also fail to push much higher next year, and expect Brent to average \$105/bbl in 2014.
- We estimate the global economy is able to sustain a maximum average Brent crude oil price of \$140/bbl in 2013, up from \$115/bbl in 2011, before relapsing into recession.
- We now see a growing chance that Brent will move down structurally to a \$90-100/bbl band after 2014, on less of a structural oil market deficit, due to softer EM activity and the rise in non-conventional oil supplies.
- We see US nat gas prices averaging \$3.90 in 2013 and \$4.20/MMBtu 2014. Despite reduced need for coal displacement, we see prices trading within a tight range through next year.
- Copper prices should push higher in 2H13 if global economic activity improves, although a deterioration in Chinese economic growth is a key risk to metals markets.
- We see a lack of technical and fundamental support for gold in coming months and are concerned about additional near-term downside risks to the price as rates rise.

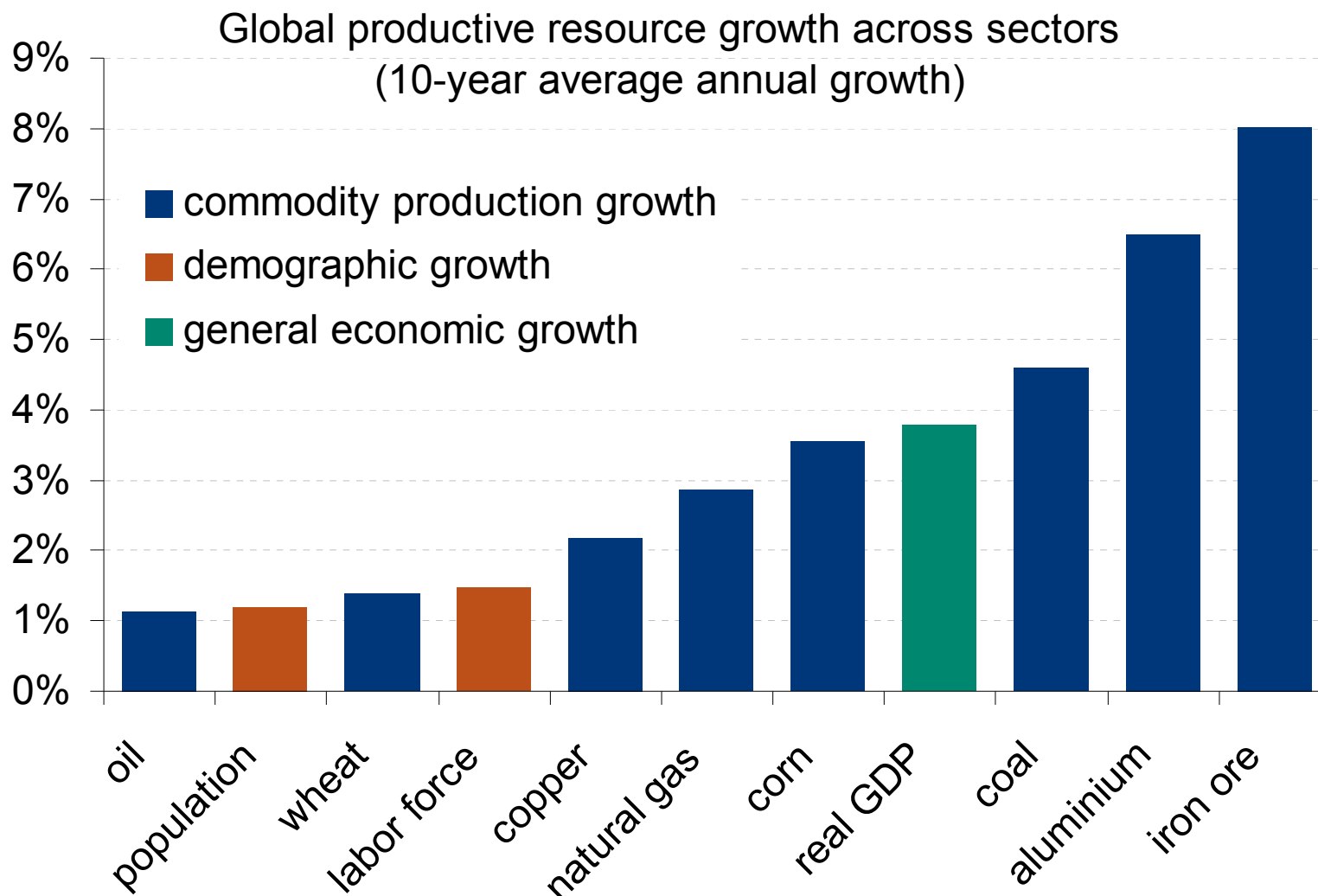
Oil prices as a % of GDP are already very high, suggesting upside is somewhat capped

Primary energy to nominal GDP ratio - World

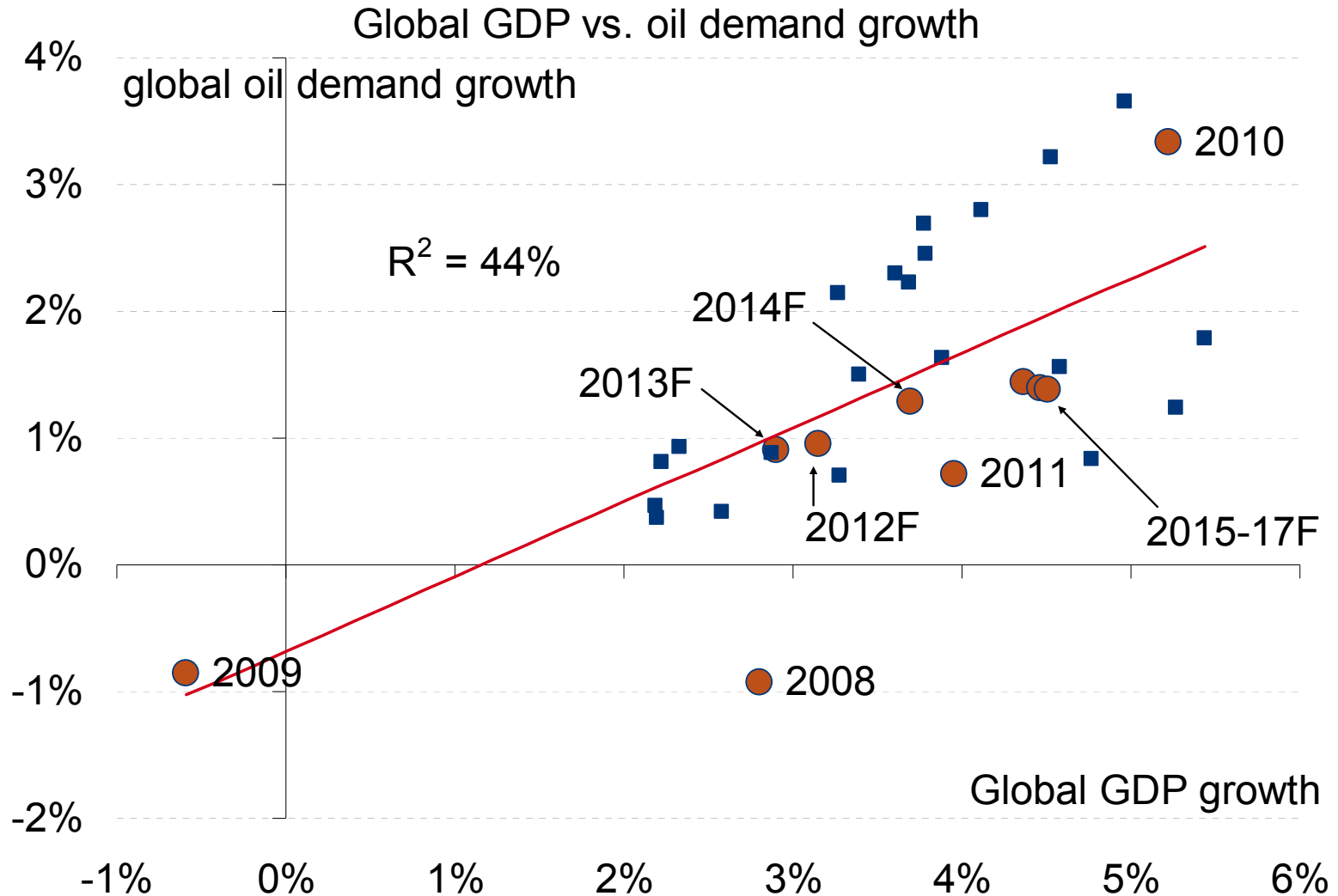
at BofAML Brent price forecast 2013



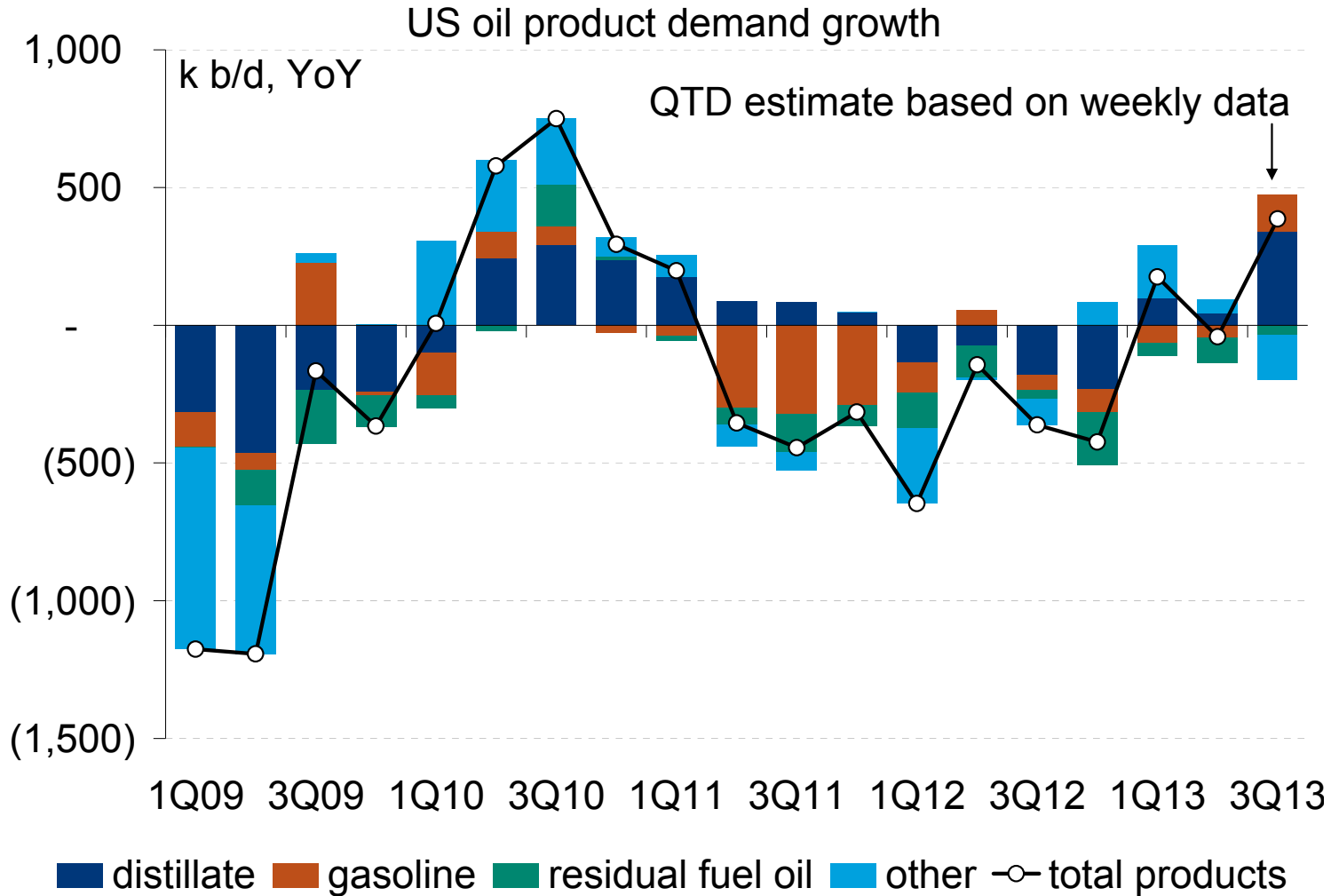
Oil supply growth will remain 1% p.a. over the medium term, lending support to prices



We see global GDP growth averaging 2.9% in 2013, supporting energy demand



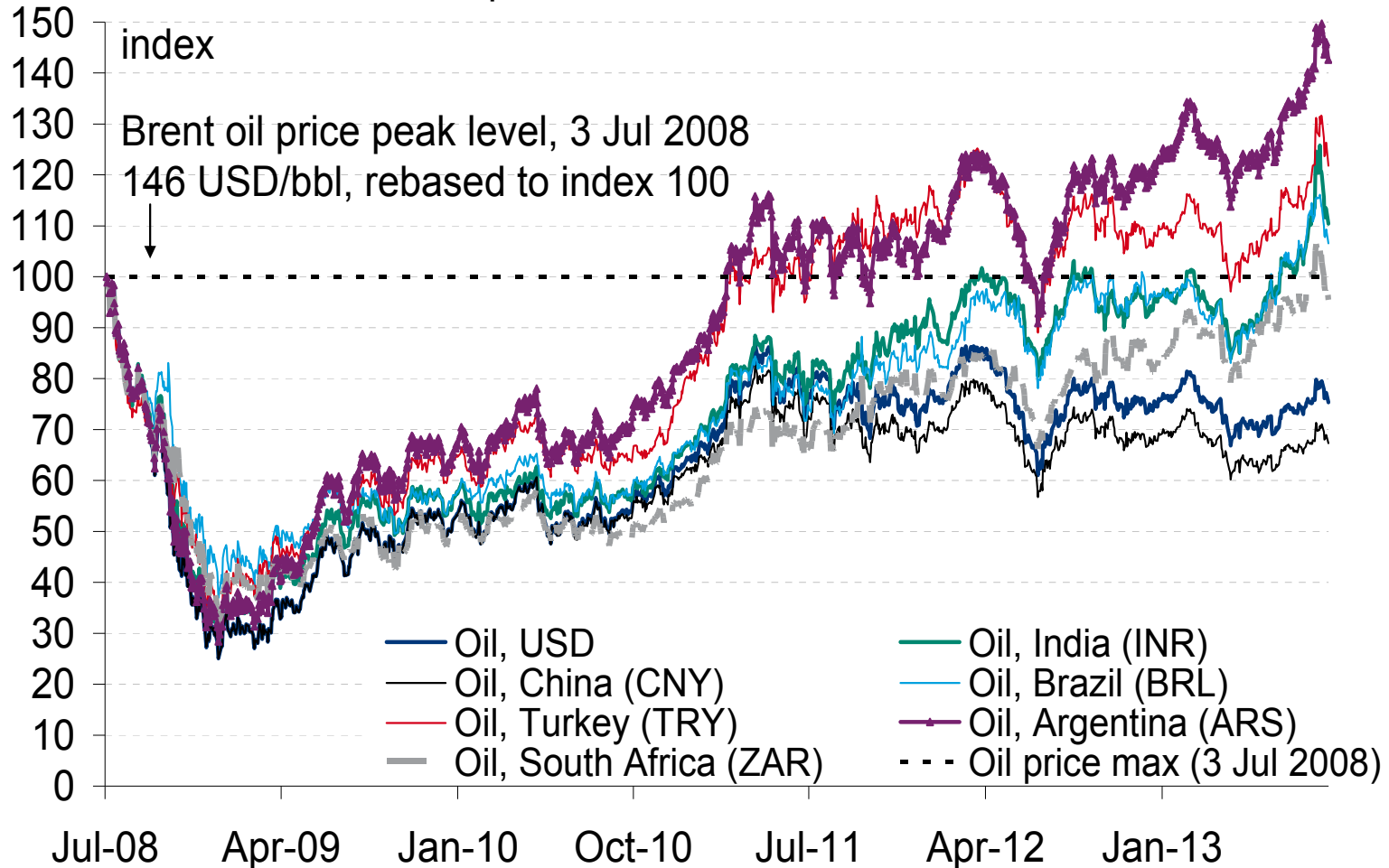
Diesel demand in developed markets undoubtedly has momentum



Source: EIA, BofA Merrill Lynch Global Commodities Research

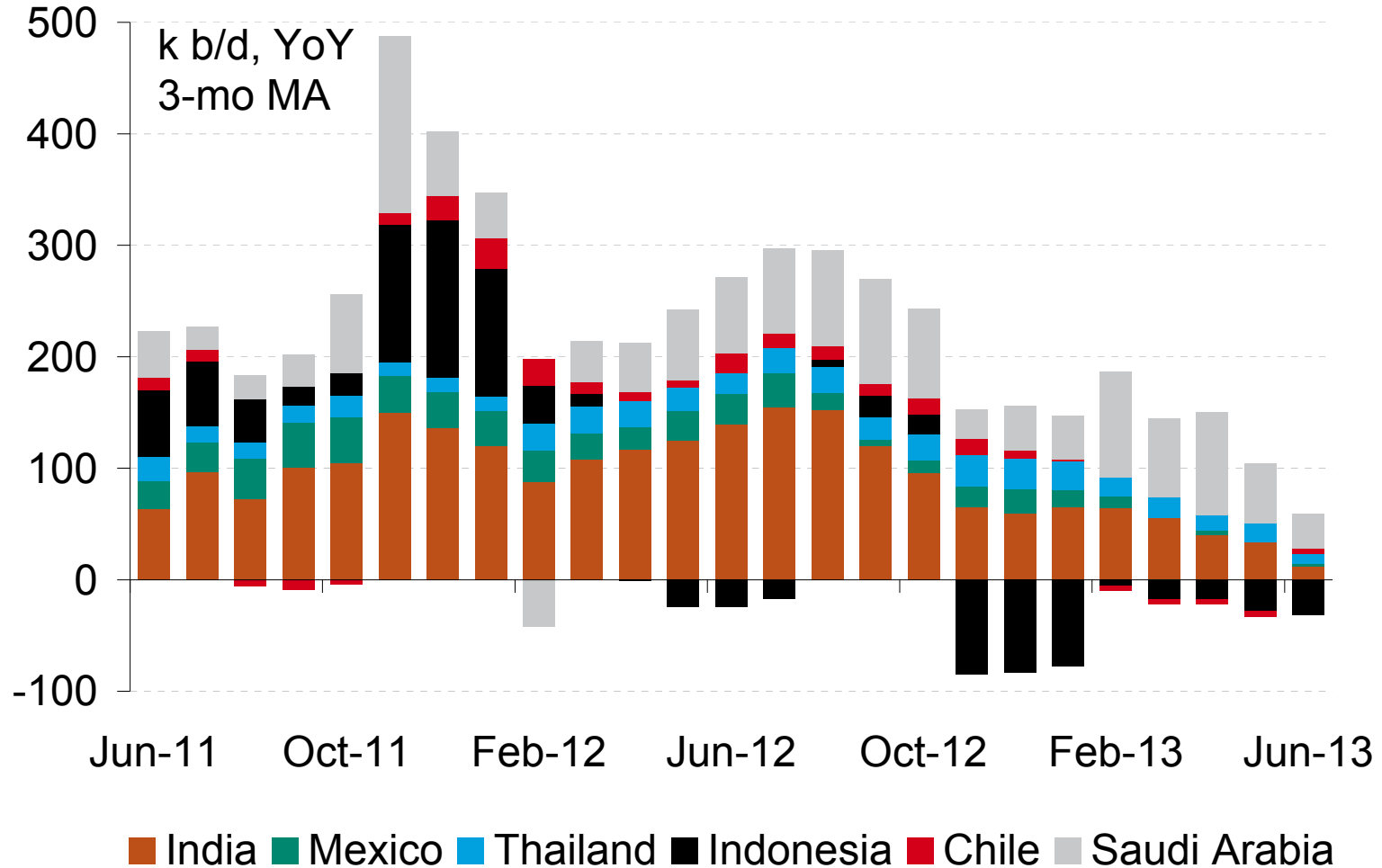
FX deterioration in some EMs has sent oil prices in local currencies soaring

Brent crude oil prices in different currencies, rebased



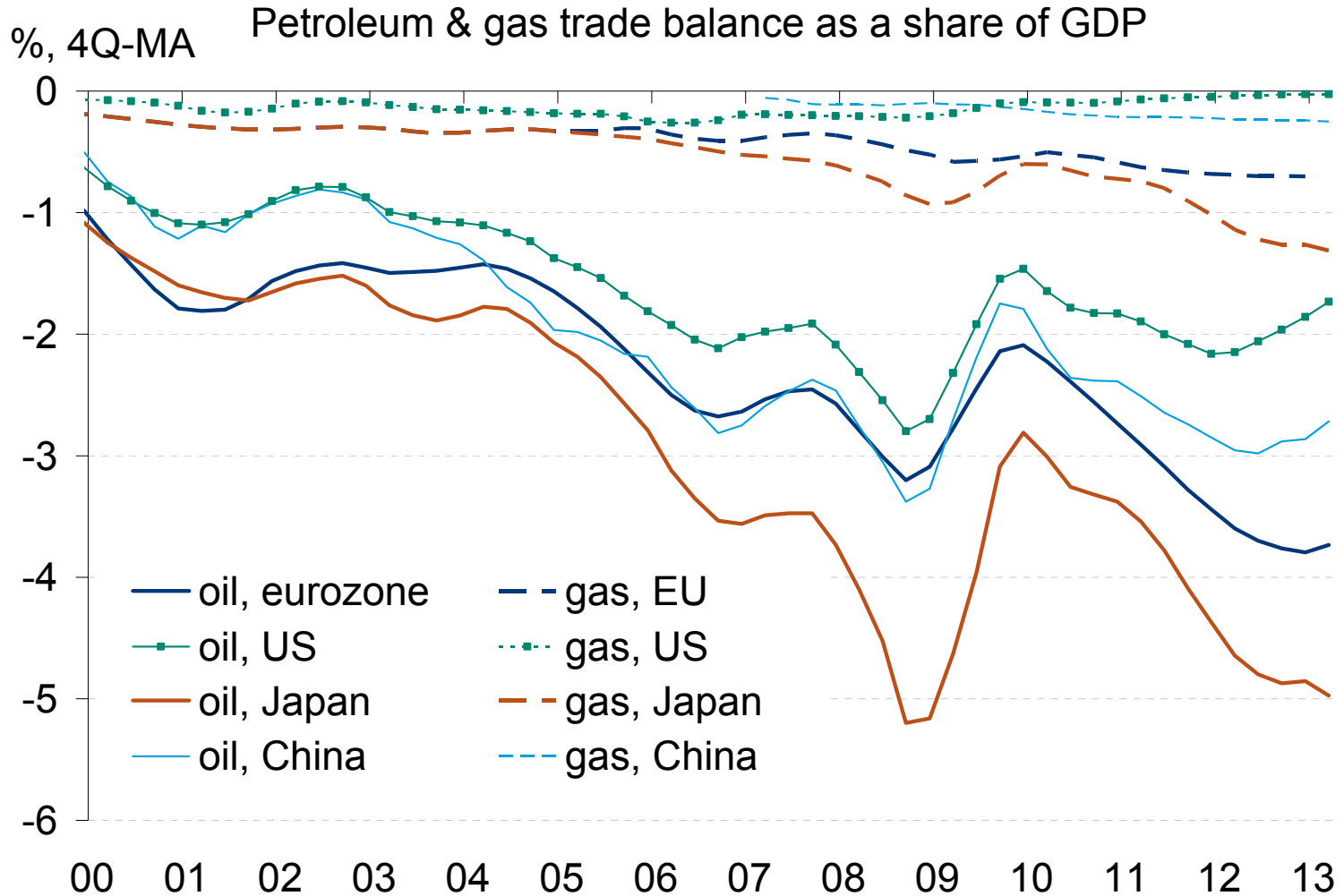
Emerging Markets are the weakest link in a spike in oil

Gasoil demand growth for select EM countries



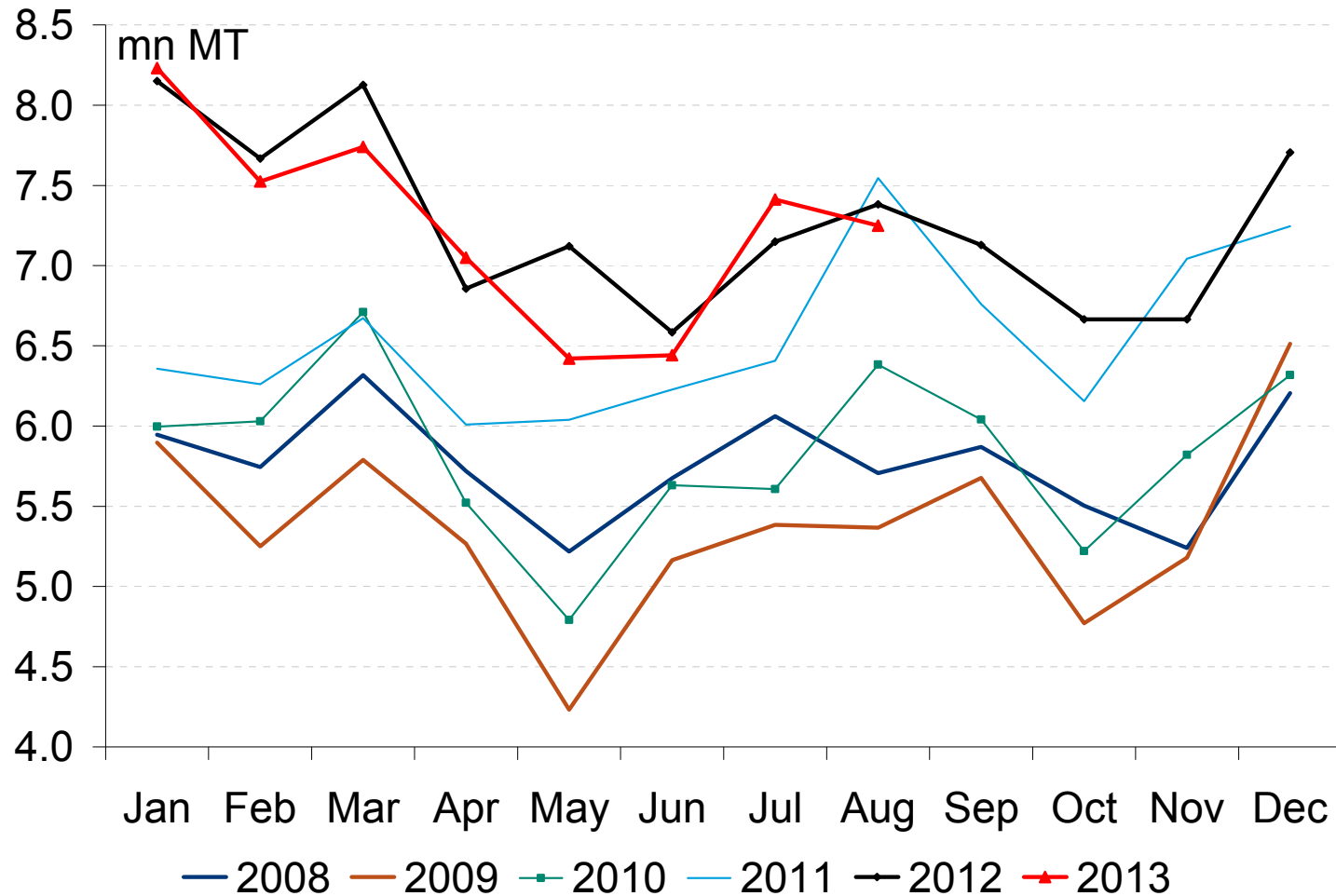
Source: IEA, BofA Merrill Lynch Global Commodities Research

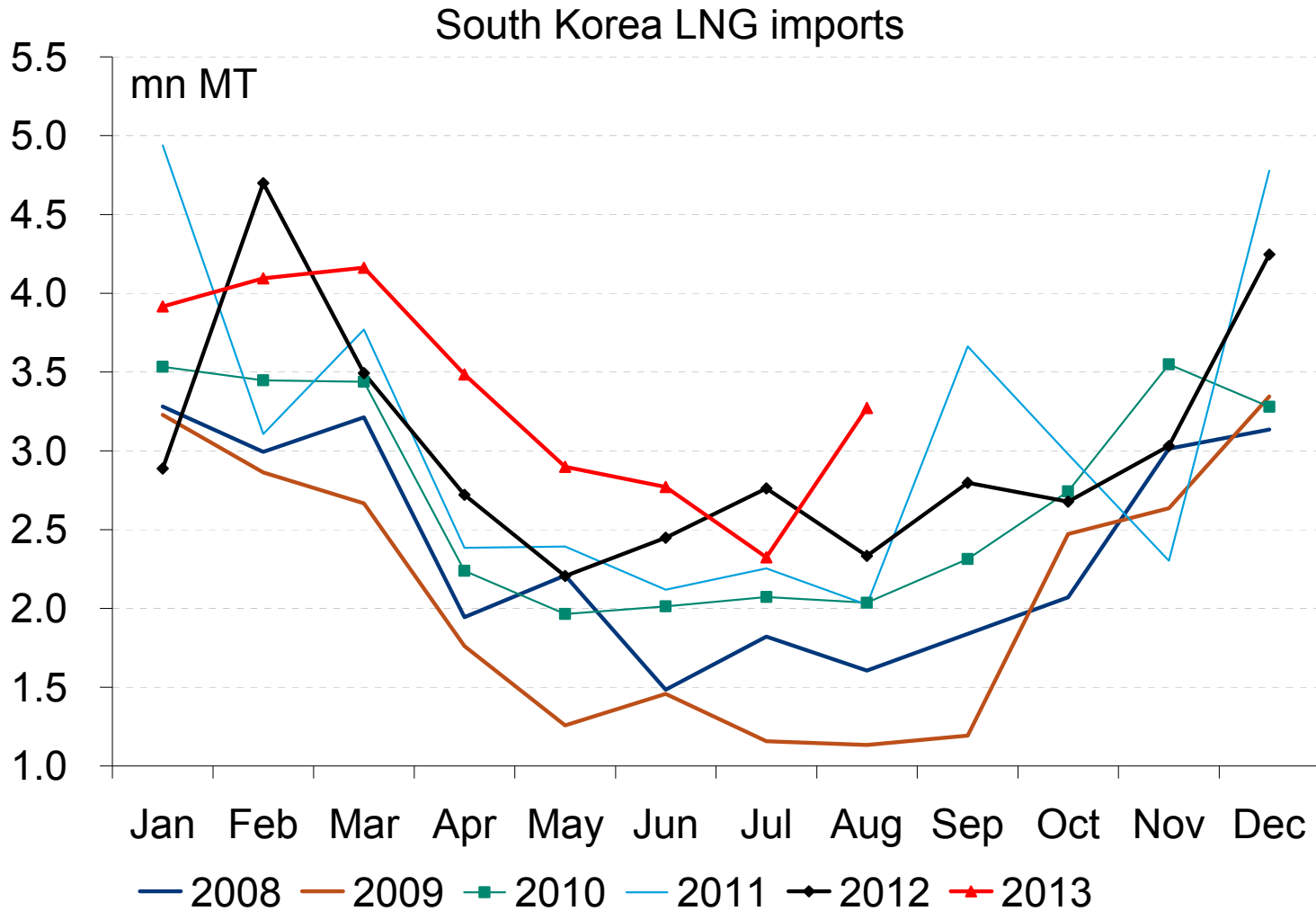
The improvement in America's energy balances explains several % points of GDP



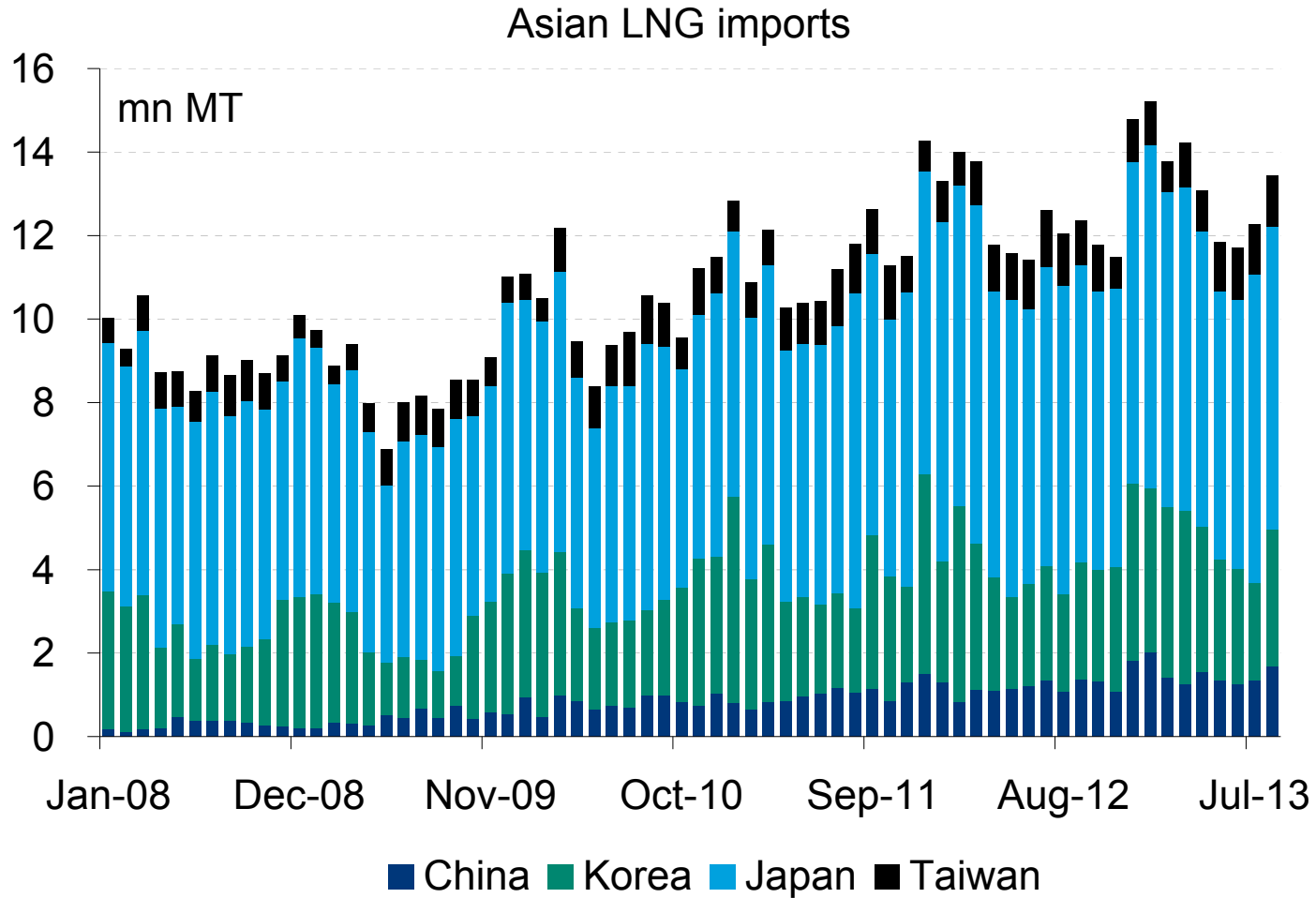
A lack nuclear power in Asia...

Japan LNG imports



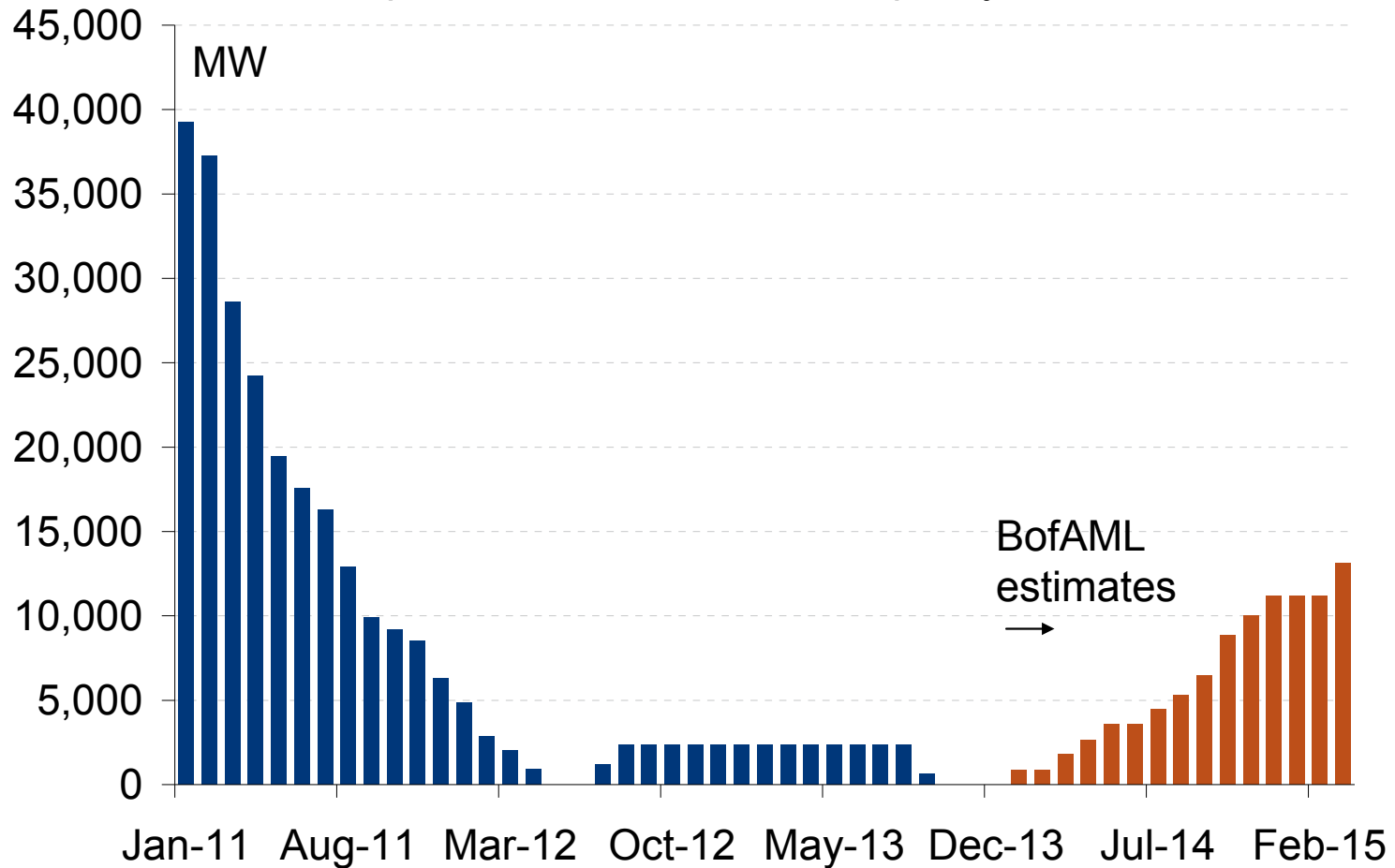


LNG imports into Asia Pacific are up 5% or 3.1 million mt YoY



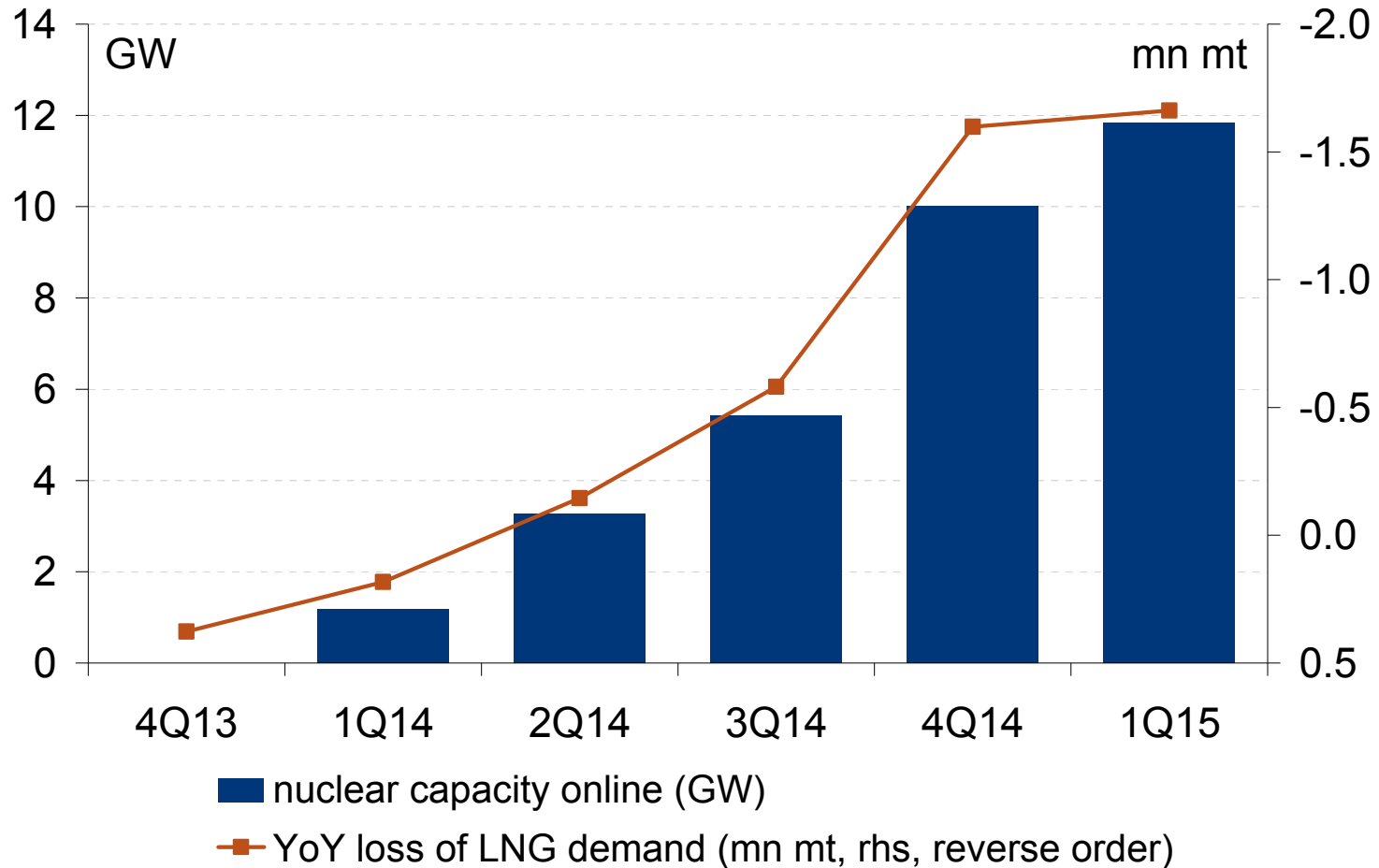
Expect a very slow return of nuclear capacity in Japan...

Japan schedule of nuclear capacity online

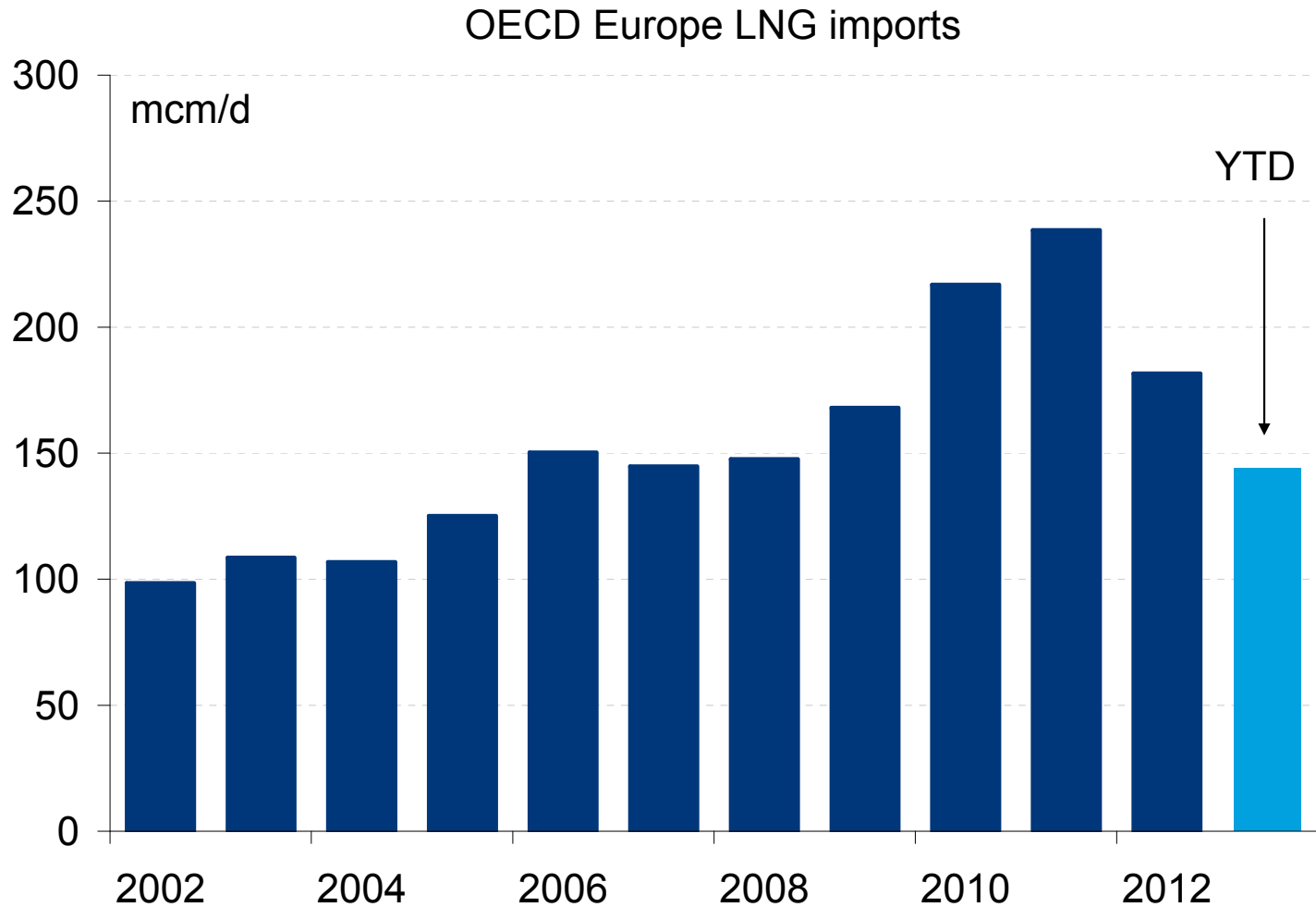


...but Japan's LNG demand will continue to increase in 2014

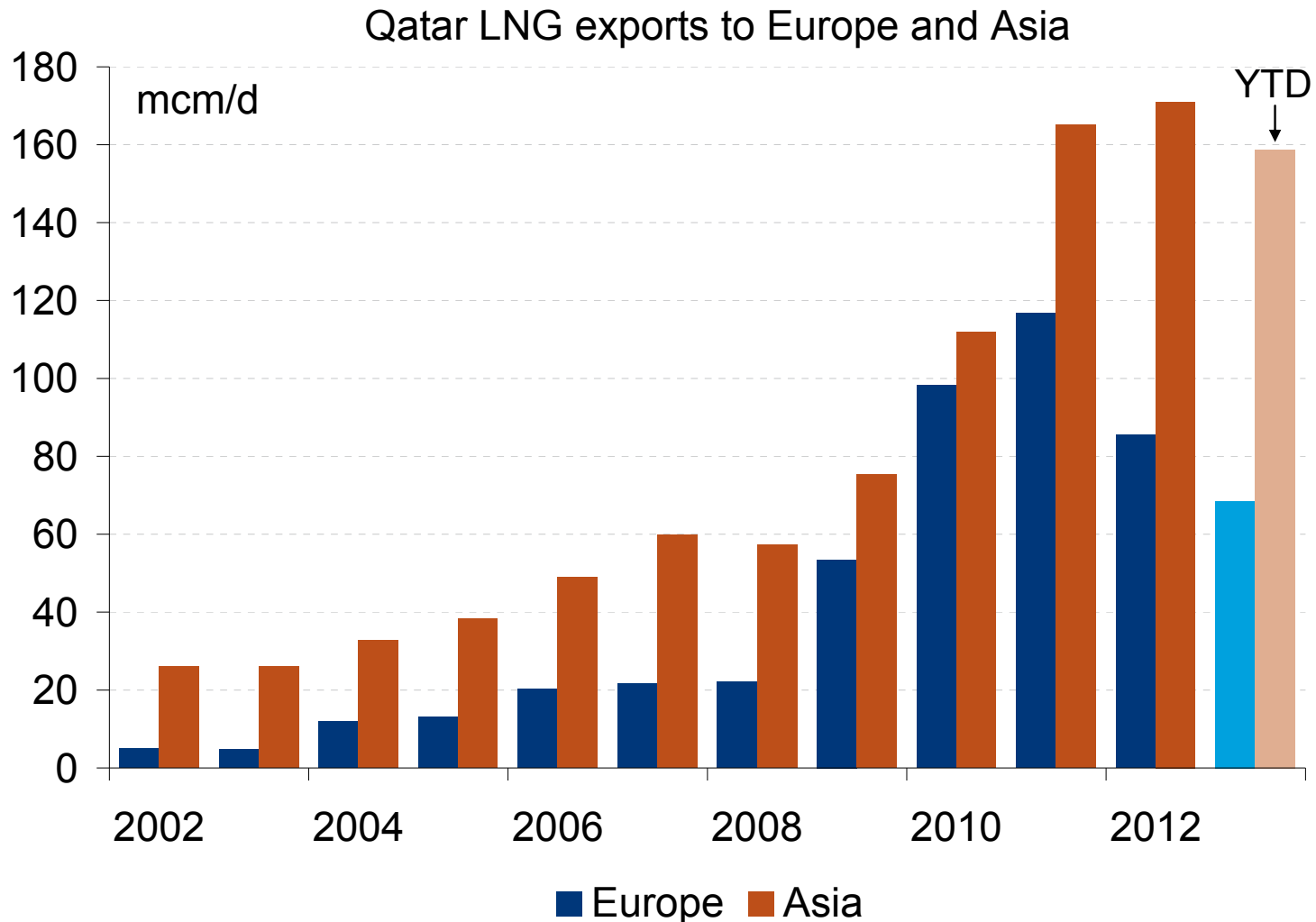
Japanese nuclear capacity and LNG demand translation



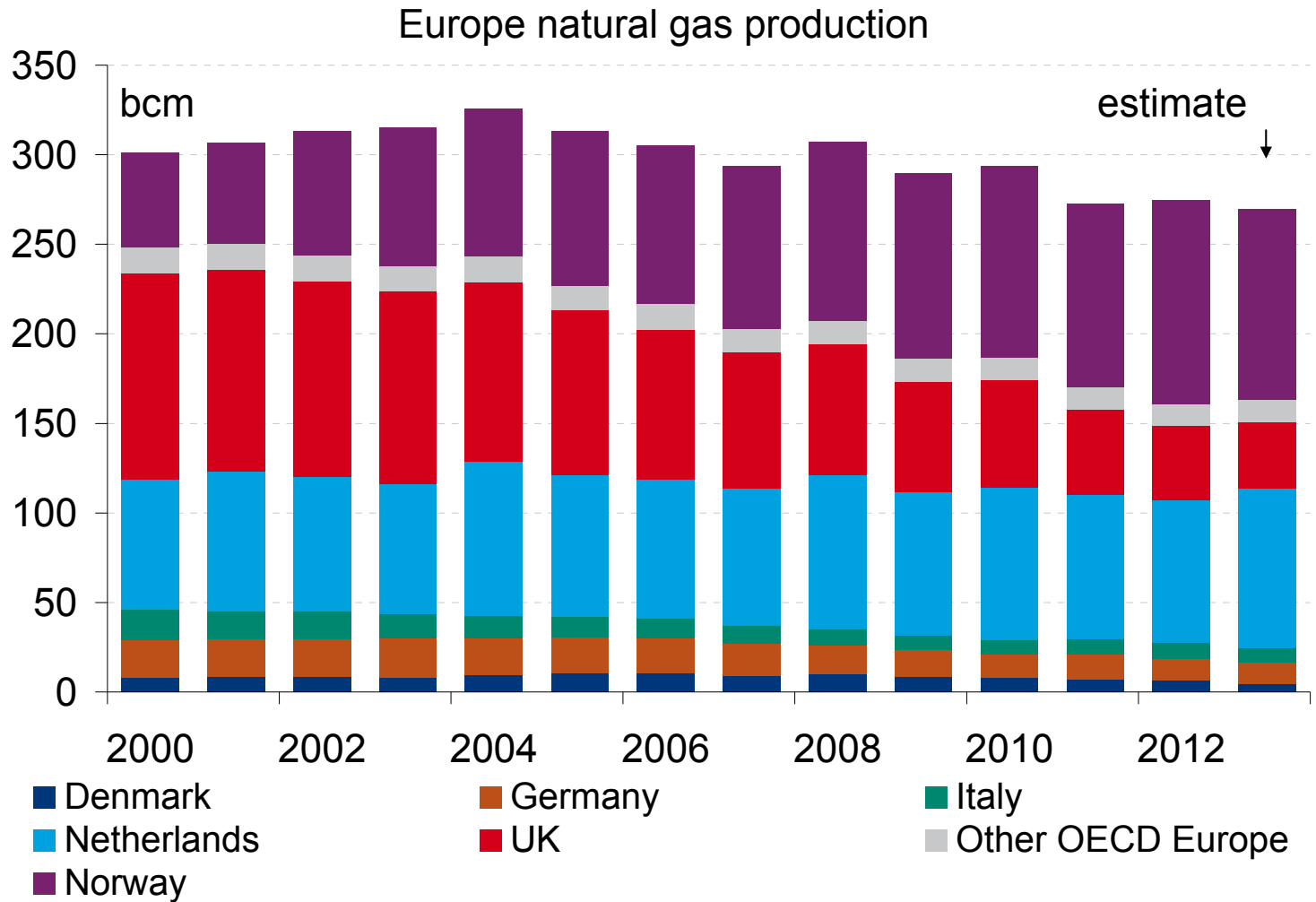
That leaves limited LNG supplies for Europe



LNG supplies continue to be diverted to Asia

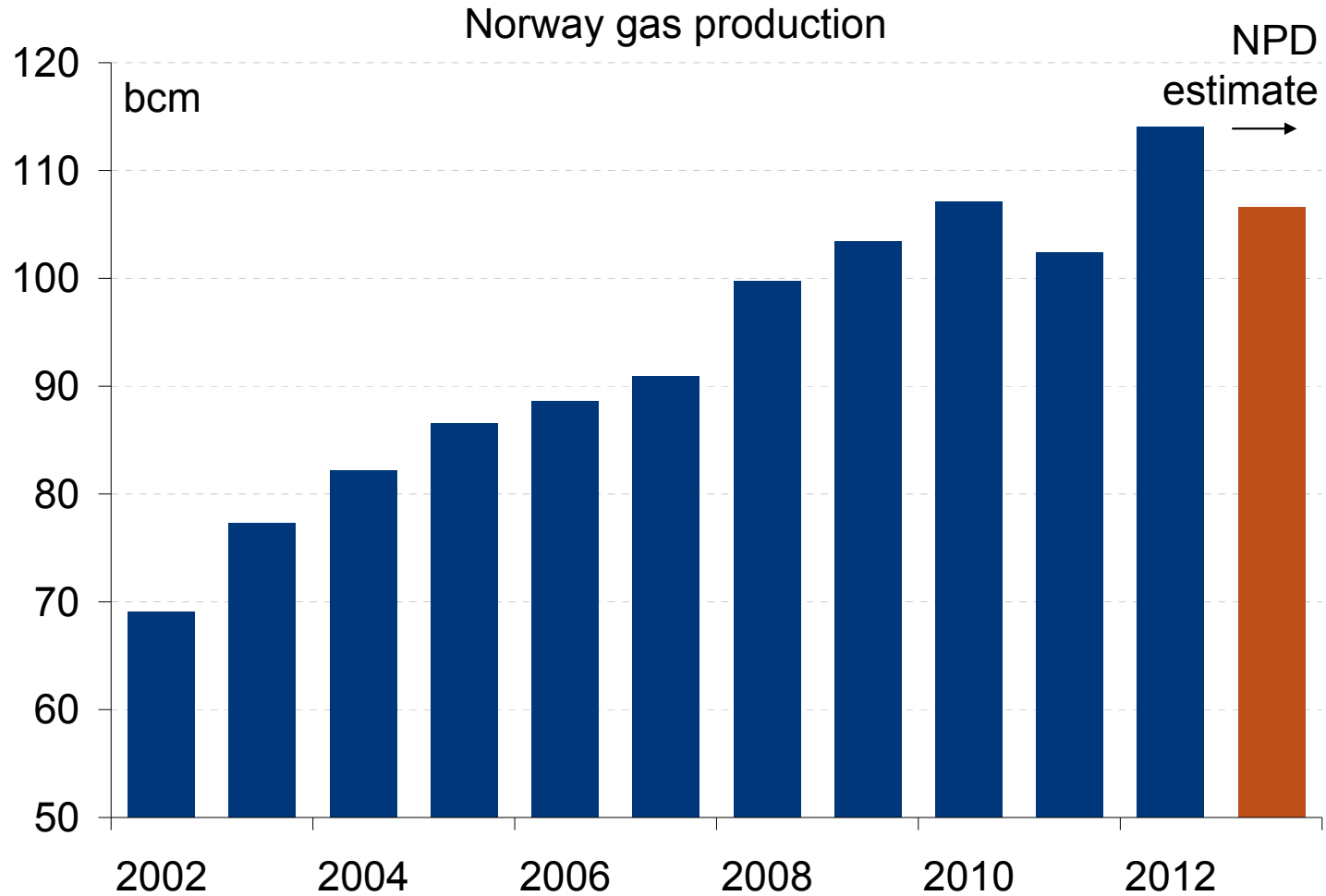


Pipeline imports from the North have fallen sharply

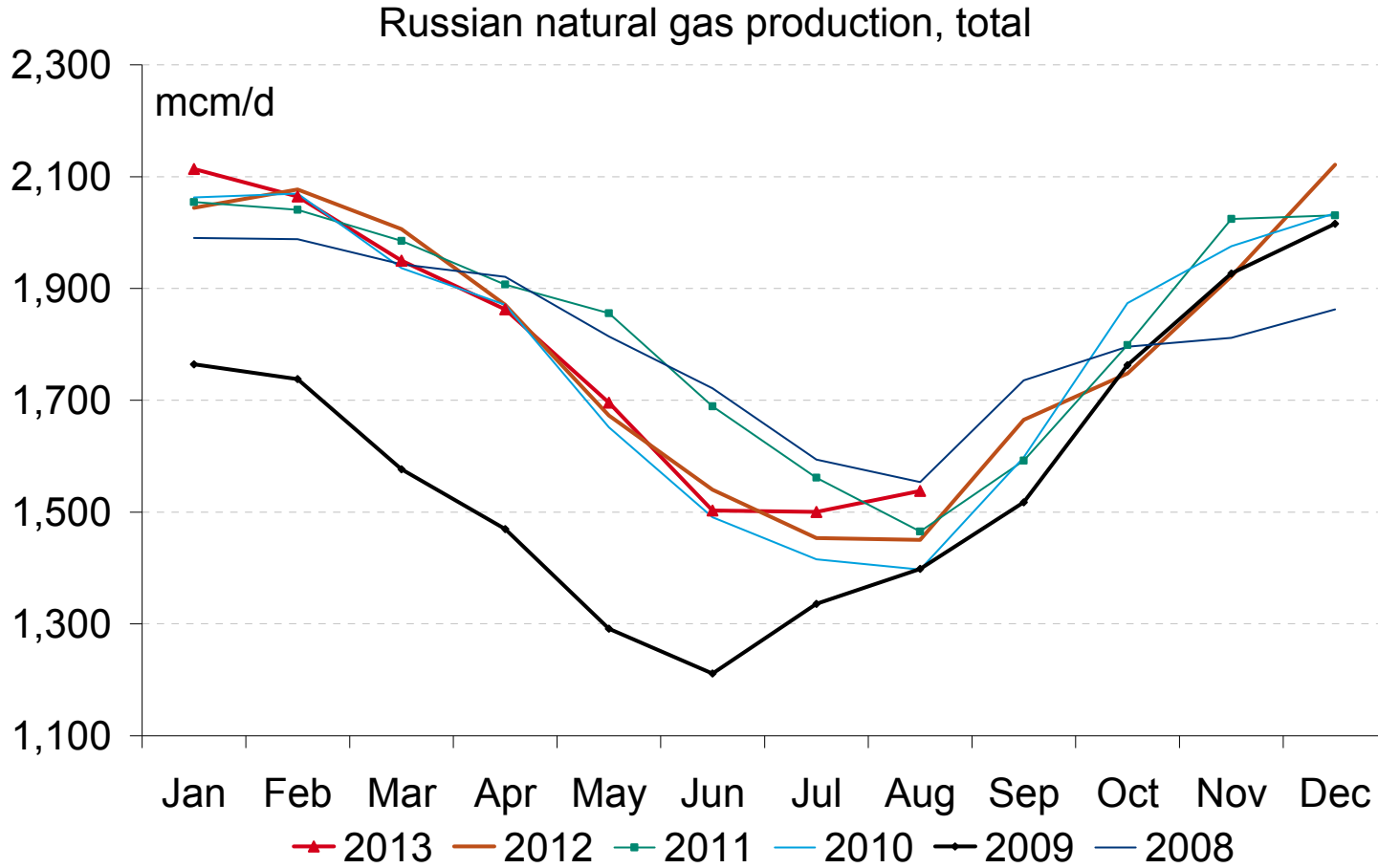


Source: IEA, BofA Merrill Lynch Global Commodities Research

Norway's gas production is declining considerably this year

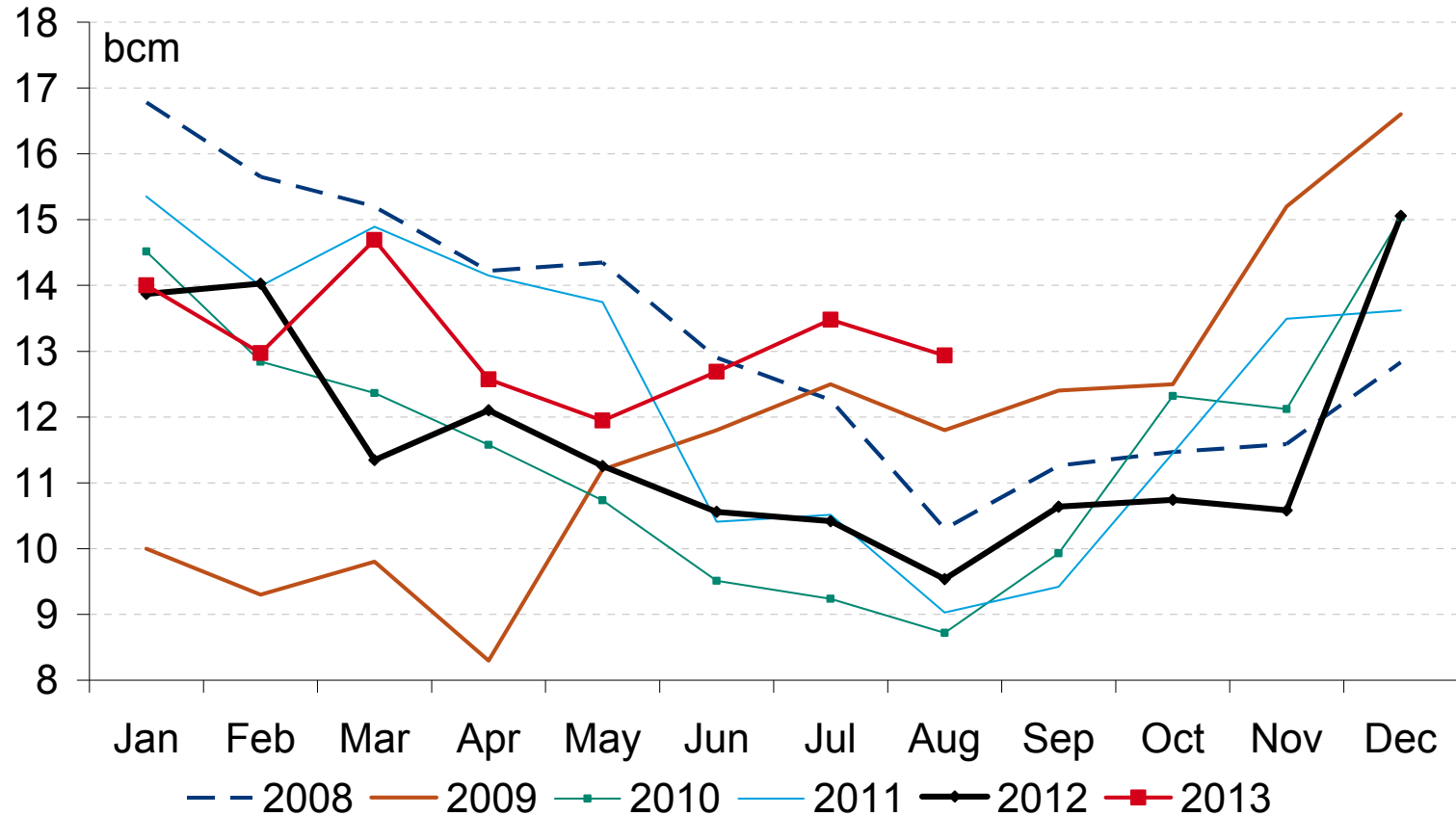


Russia has come to Europe's rescue...

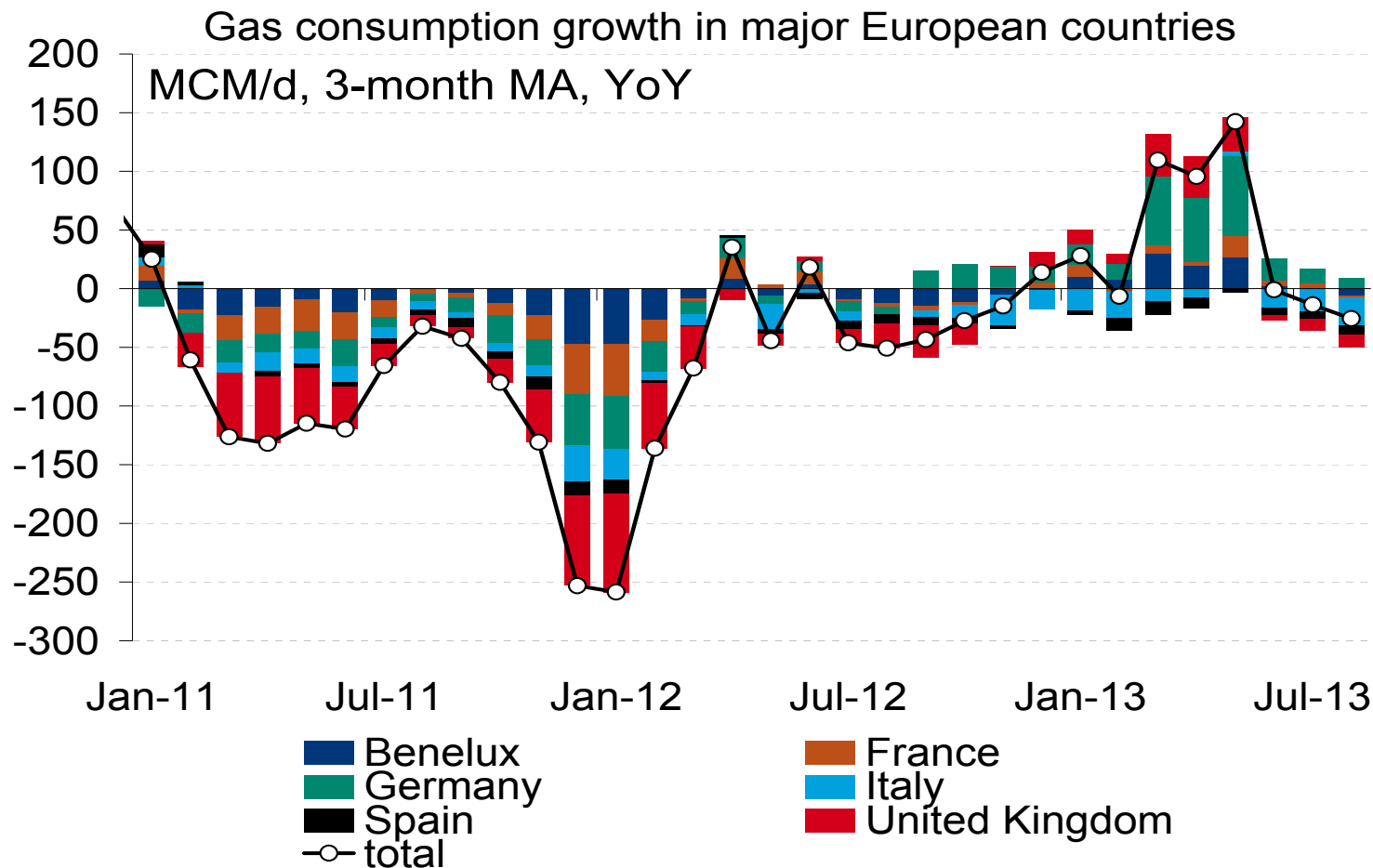


Russian gas exports to Western Europe are up almost 30% this summer!

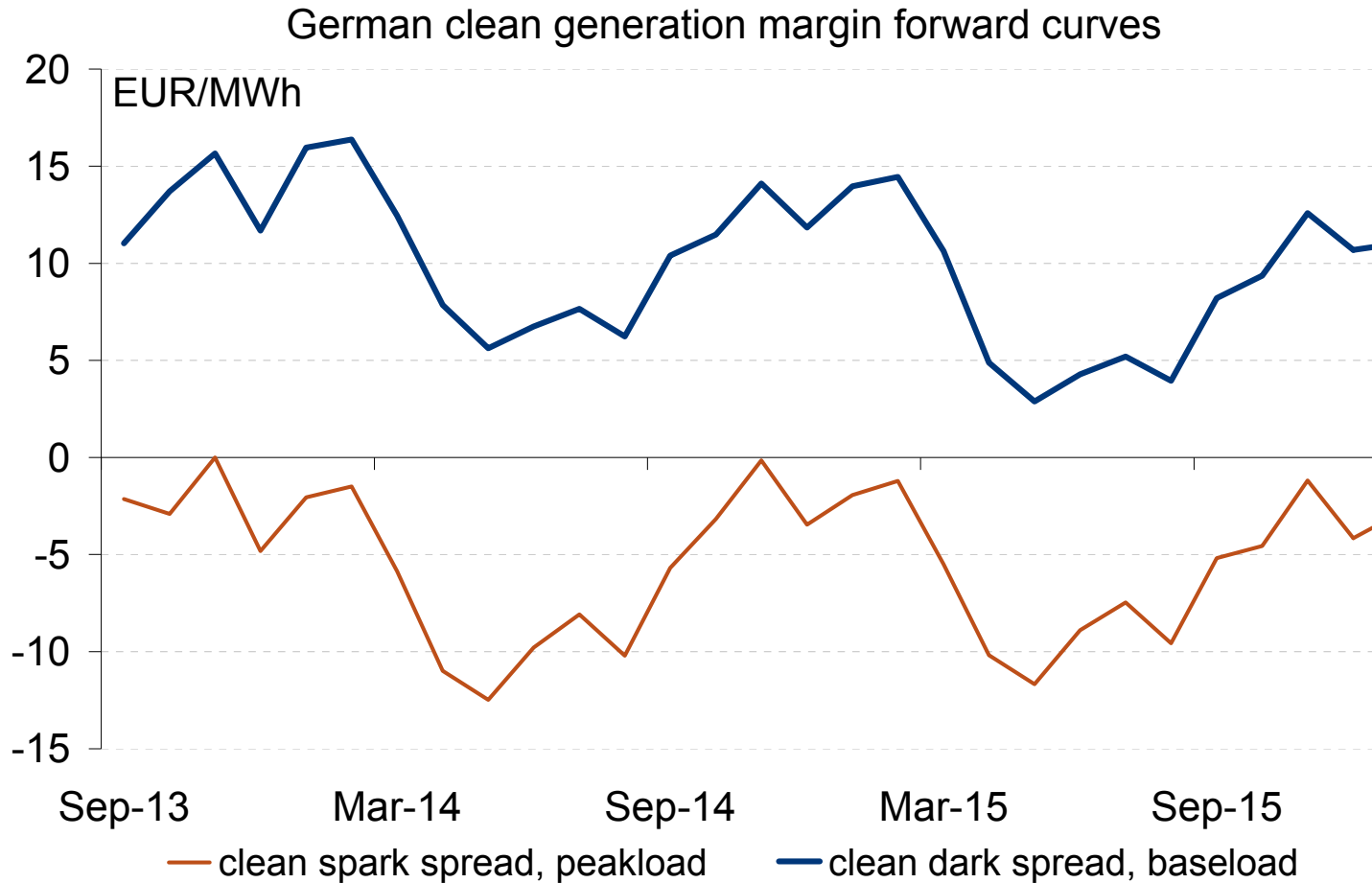
Russian (Gazprom) natural gas exports to Western Europe



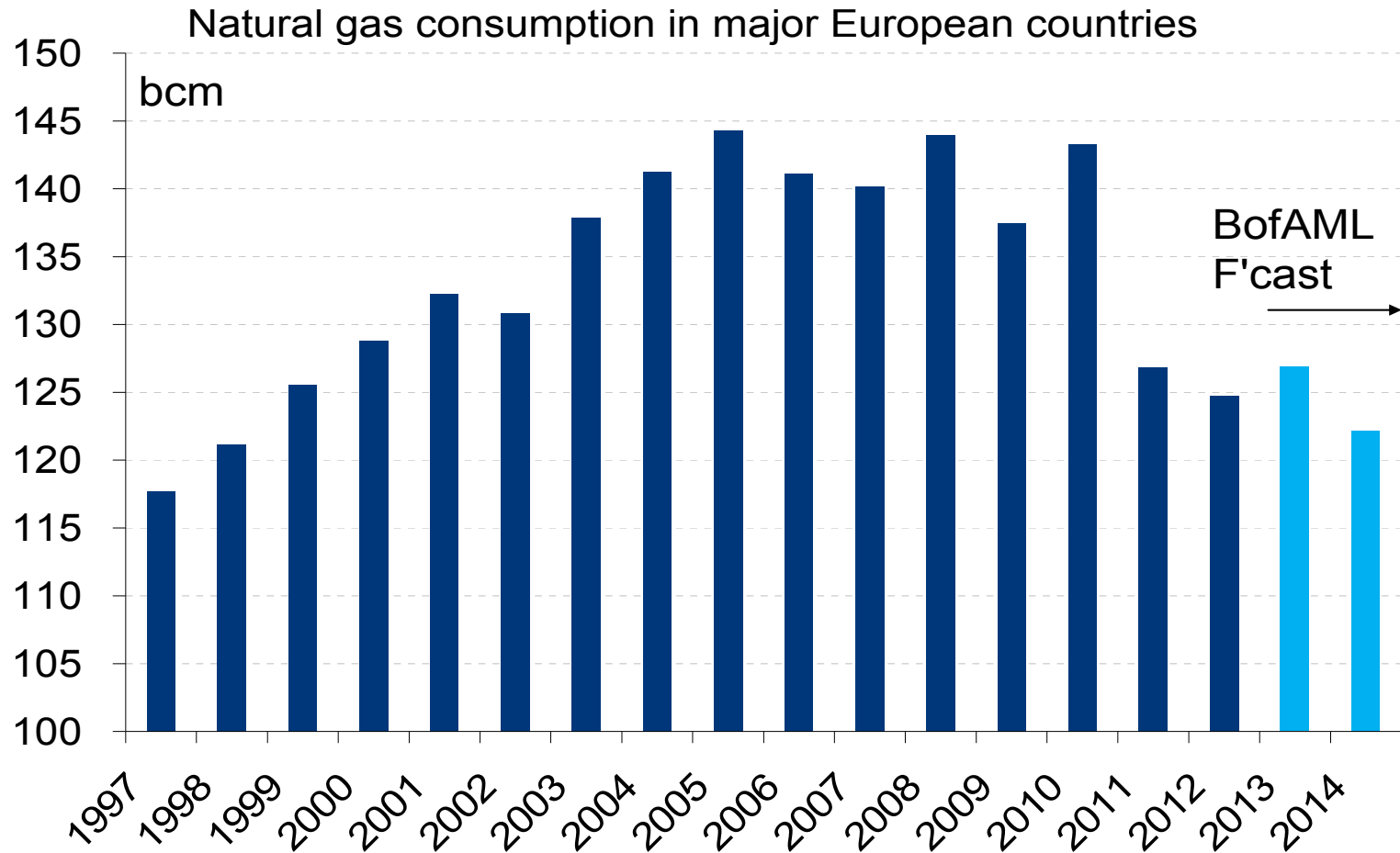
EU gas demand has rebounded this year but not on a weather-adjusted basis



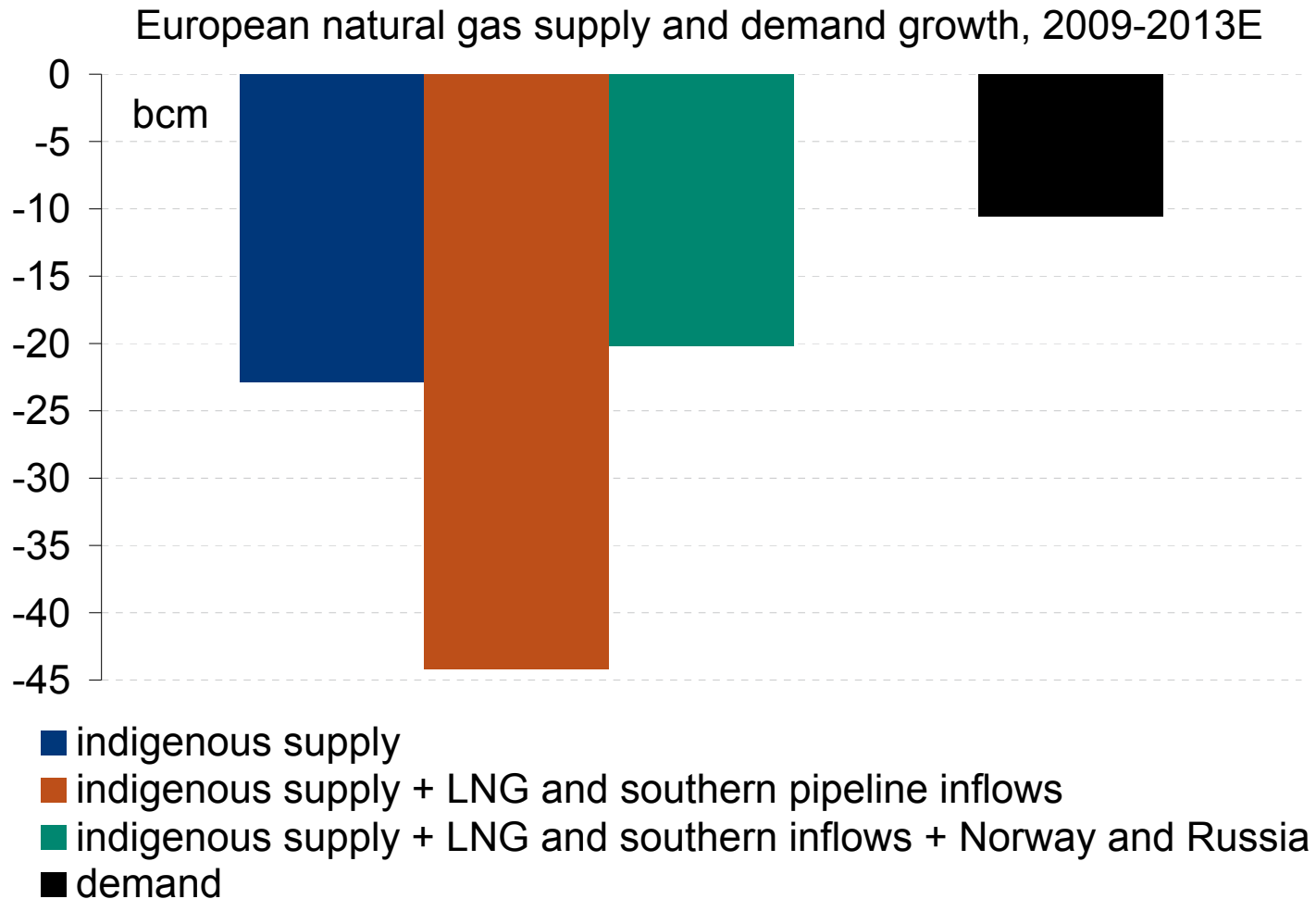
Spark spreads are negative in Germany through 2015



Little structural upside to EU gas demand



Indigenous supply is falling even faster than demand

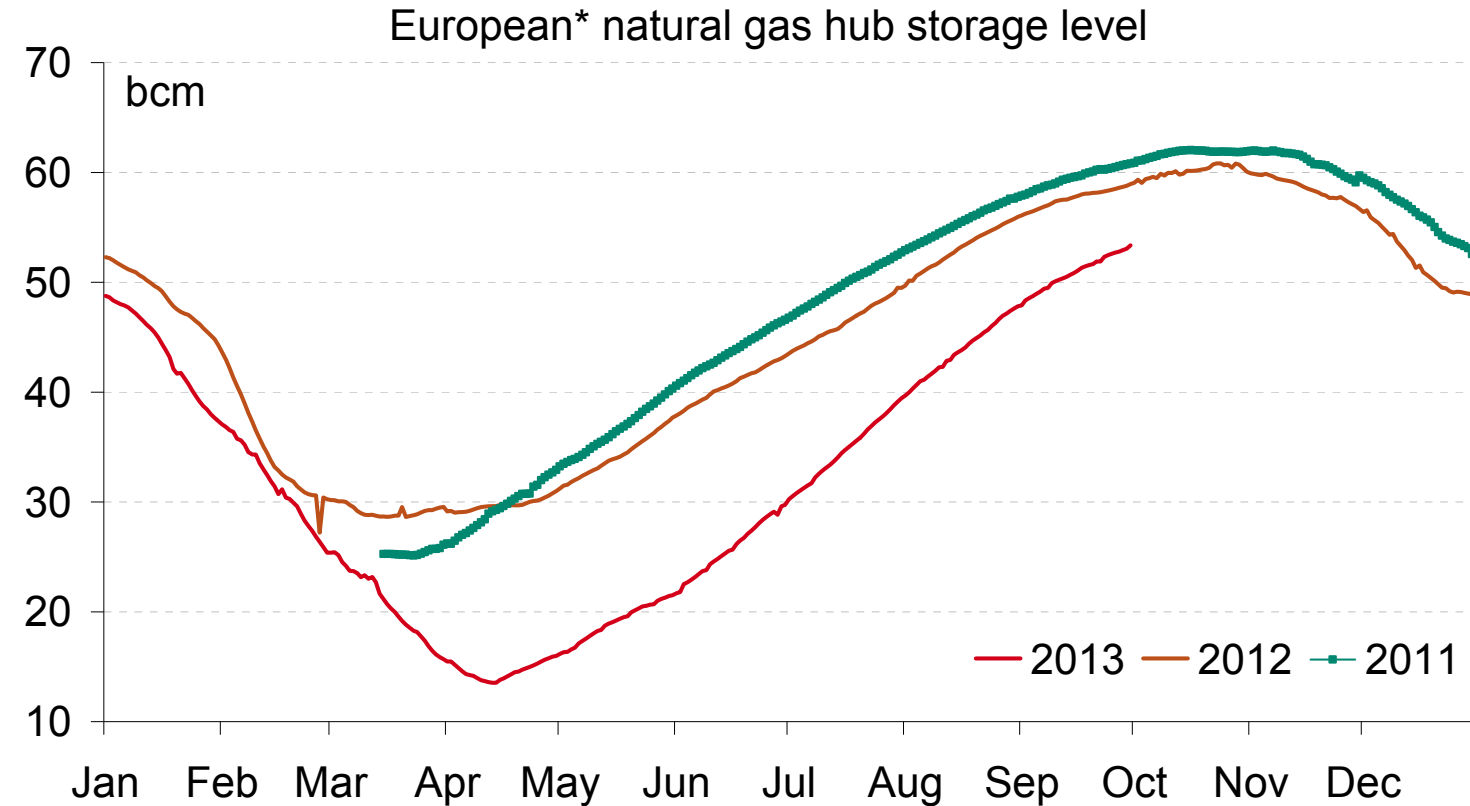


Europe has grown more dependent on Norway and Russia

Share of Norway and Russia in total Europe natural gas supply

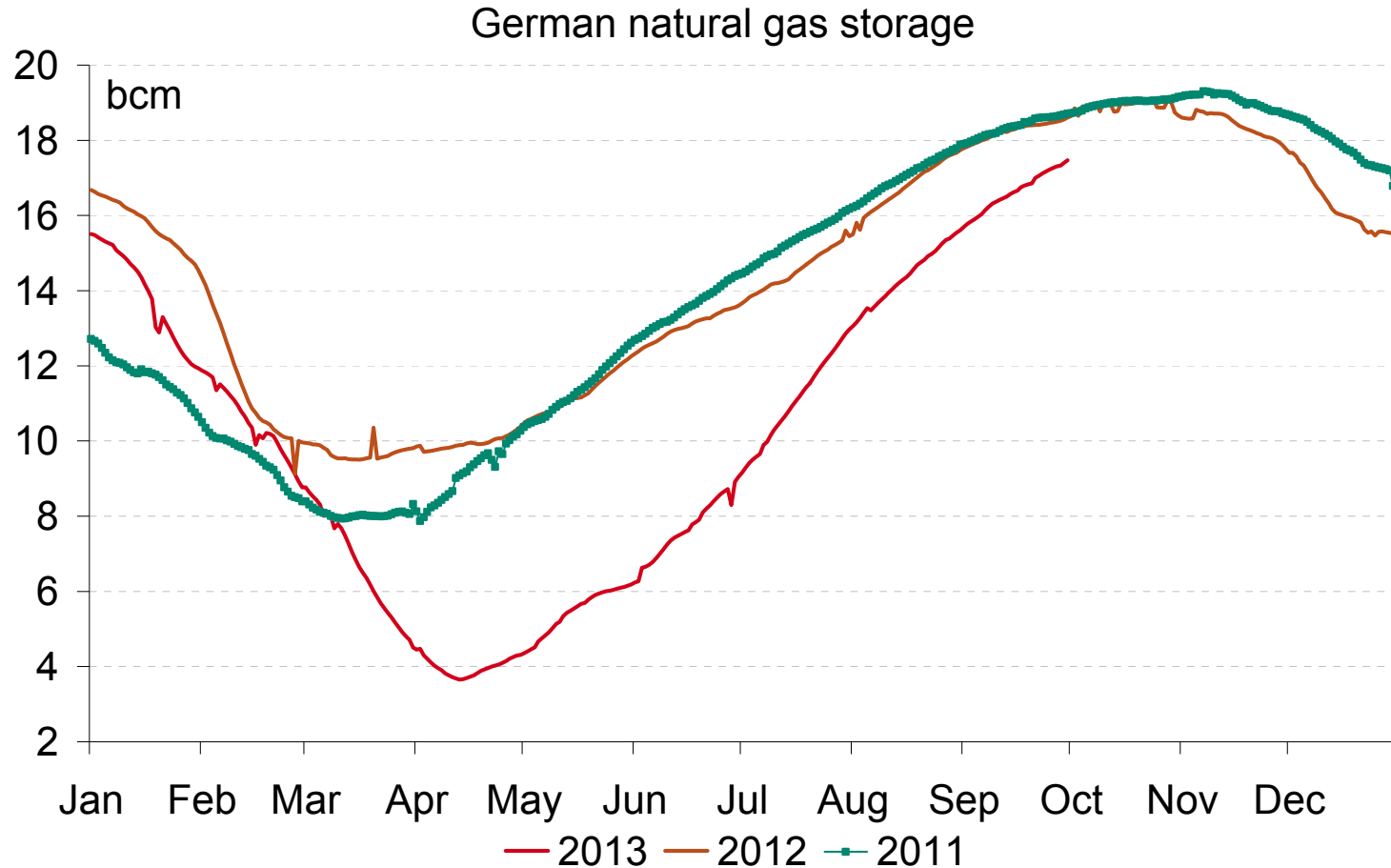


Inventories rebuilt swiftly this year...



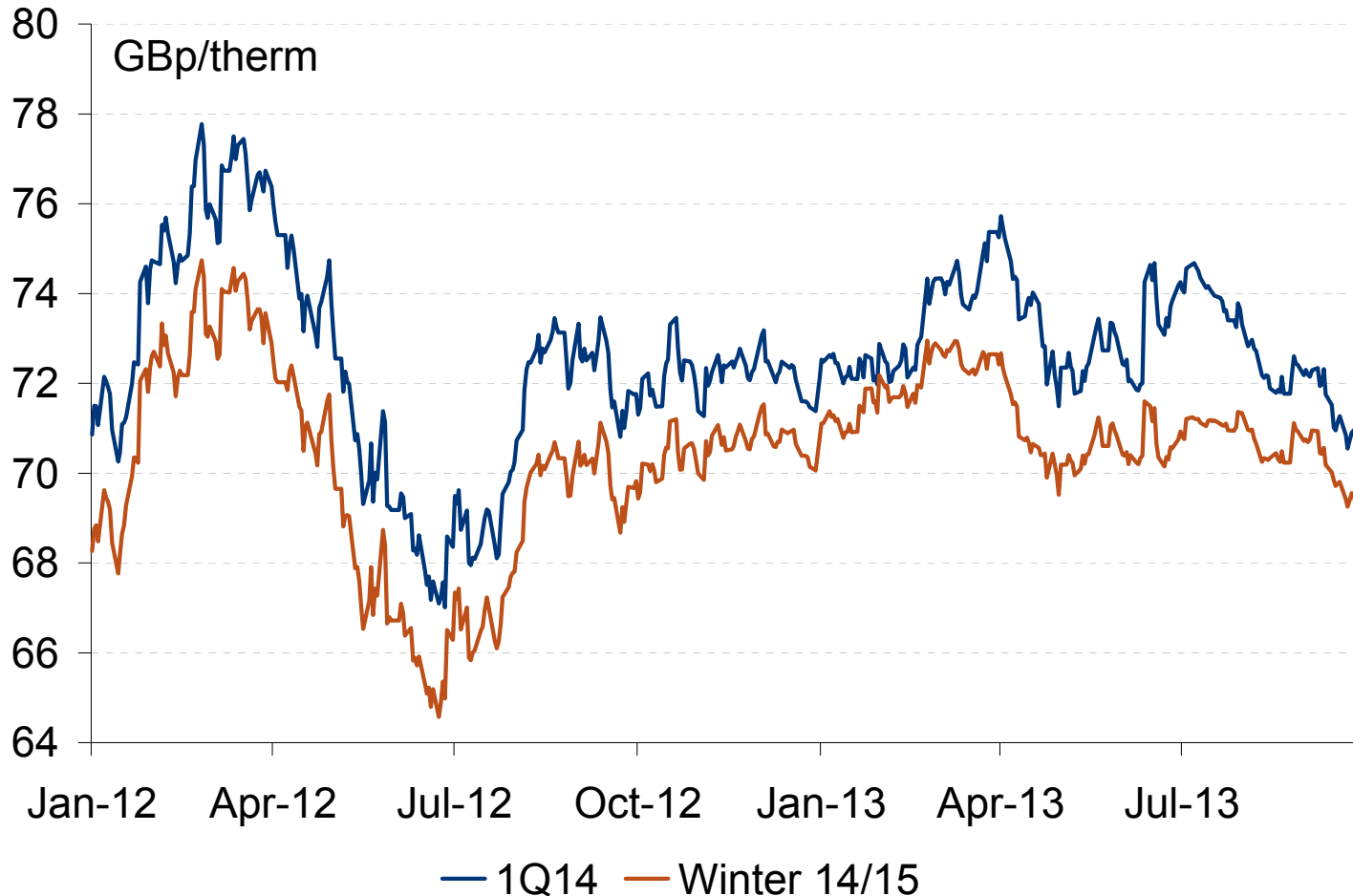
*includes NPB (UK), Germany, PSV (Italy), PEG North (France), Baumgarten (Austria etc.), TTF (Netherlands)

...but remain well below levels typical for this time of the year

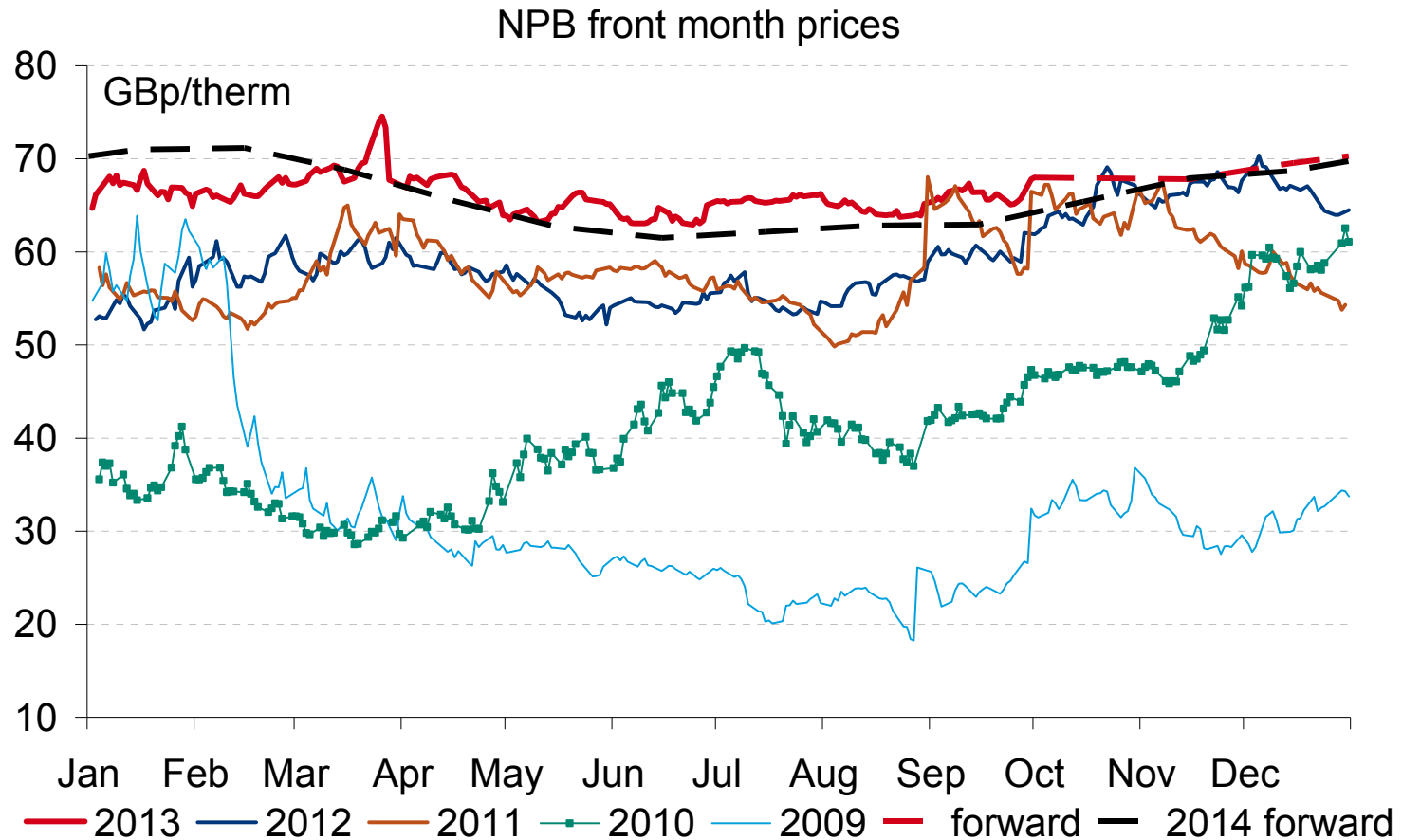


Downside to Winter NBP gas prices is capped, in our view

UK natural gas prices for 1Q14 and Winter 14/15



A higher dependence on Russia means higher prices



Don't discard the link to oil

Ratio of TTF gas to oil linked contract formula gas prices



BofAML Commodity price forecasts

BofA Merrill Lynch Commodity Price Forecasts (period averages)

	units	3Q13F	4Q13F	2013F	1Q14F	2Q14F	3Q14F	4Q14F	2014F
WTI Crude Oil	(\$/bbl)	101.00	99.00	97.00	90.00	90.00	94.00	94.00	92.00
Brent Crude Oil	(\$/bbl)	104.00	102.00	105.00	101.00	103.00	107.00	109.00	105.00
US NY Harbor ULSD (HO) Cracks to Brent Crude Oil	(\$/bbl)	17.82	19.00	17.64	16.00	14.00	17.00	18.00	16.25
US RBOB Cracks to Brent Crude Oil	(\$/bbl)	11.32	1.00	10.51	5.00	9.00	8.00	2.00	6.00
USGC 1% Residual Cracks to Brent Crude Oil	(\$/bbl)	(17.28)	(14.00)	(14.45)	(11.00)	(9.00)	(8.00)	(7.00)	(8.75)
NWE 0.2% Gasoil Cracks to Brent Crude Oil	(\$/bbl)	14.52	17.00	14.97	18.00	13.00	12.00	14.00	14.25
NWE Eurobob Cracks to Brent Crude Oil	(\$/bbl)	10.09	0.50	7.92	3.00	5.00	7.00	1.00	4.00
NWE 1% Residual Cracks to Brent Crude Oil	(\$/bbl)	(15.66)	(16.00)	(13.84)	(14.00)	(12.00)	(12.00)	(10.00)	(12.00)
US Natural Gas	(\$/MMBtu)	3.80	4.30	3.90	4.30	4.10	4.00	4.40	4.20
Thermal coal, Newcastle FOB	(\$/t)	76	74	83	77	79	85	87	82
	units	3Q13F	4Q13F	2013F	1Q14F	2Q14F	3Q14F	4Q14F	2014F
Aluminium	\$/t	1,850	1,750	1,863	1,650	1,750	1,800	1,900	1,775
Copper	\$/t	7,350	7,250	7,446	7,250	6,750	7,000	7,250	7,063
Lead	\$/t	2,100	2,250	2,178	2,500	2,300	2,500	2,750	2,513
Nickel	\$/t	14,750	16,500	15,883	16,500	16,500	16,500	16,500	16,500
Zinc	\$/t	1,900	2,000	1,944	2,000	2,500	2,000	2,500	2,250
Gold	\$/oz	1,400	1,495	1,478	1,500	1,500	1,600	1,650	1,563
Silver	\$/oz	20.00	25.00	24.35	25.00	27.50	30.00	28.00	27.63
Platinum	\$/oz	1,500	1,700	1,575	1,850	1,850	1,850	1,850	1,850
Palladium	\$/oz	750	800	751	800	800	800	800	800
Iron ore, spot fines	(\$/t, CIF)	125	125	131	120	115	105	100	110

Source: BofA Merrill Lynch Global Commodity Research estimates

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