

Base Metals Outlook

Metal headlines are again dominated by plunging oil prices



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Overview

Stronger USD and weak oil prices remarkably put all metals under pressure. The bad news is prices have reached multiyear lows but good news is once oil reaches 30USD the bottoming is over then.

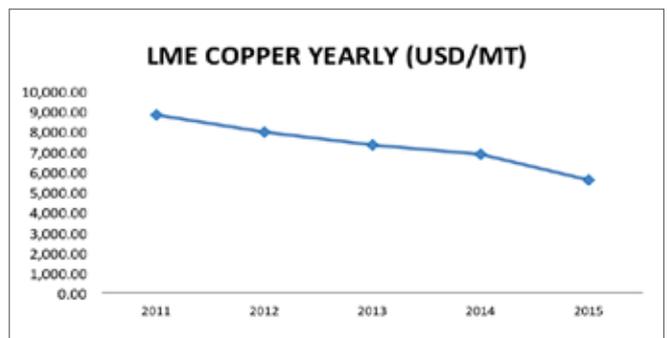
Non-ferrous metals will be under pressure as China continues to give disappointing figures. Only permanent cuts could stabilise the prices. Time and again cut news are announced but it is perceived by investors as too little and transitory in nature. Those smelters operating in continued loss should stop operating to decrease the demand. Similarly mines should stop operating below loss. In particular, this situation is alarming in case of primary aluminium and secondary lead production as neither demand nor supply wants to balance.

Middle East scrap exporters are heavily dependent on India and China markets which are at continued recession stage. Traders are now operating at intense competition by lowering their margins and reducing their volumes which are healthy for the scrap industry in the long run. Overall GCC region cannot be immune to lowering oil prices which is expected to hit 30USD anytime soon. The introduction of VAT in GCC would add a new chapter in consumer spending and business economics.

Copper

Copper saw sideways drift that was variable of two components, first the USD which we can see; Fed will most probably increase the rates by mid-December. The second factor is the overall weak macro numbers generating out of China.

Our forecast sadly predicts copper will struggle in 2016 despite positive recent improvement of fundamentals. LME stocks have been significantly dropping and creating an open arbitrage for Shanghai inventories. Though on supply side, cuts have been made by Chilean and alike, the prices will largely be focussed on erosion of Chinese demand. Prices to trade on a year of USD5450 in 2016 as per Reuters.

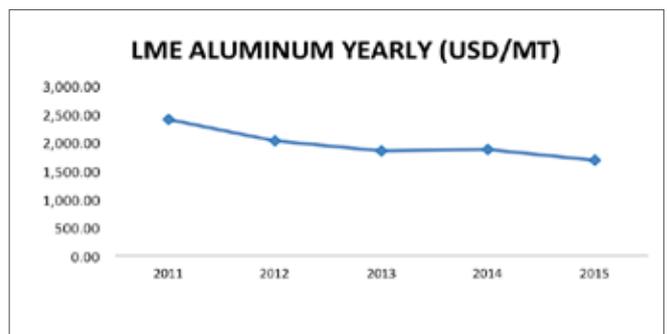


Aluminium

Aluminium performed the worst by sinking to USD1460 at one stage. Aluminium market is in excess supply and suppliers are not in the mood to logically reduce it.

Despite 90% of China's aluminium smelters operating at a loss, the government is keenly supporting them by giving subsidies. The Chinese dumping of aluminium is finally getting noticed as US Aluminium Extruders Council filed a trade complaint against China's Zhongwang Group. Aluminium Association took action against Chinese mislabeling products and similarly several EU associations have filed complaints.

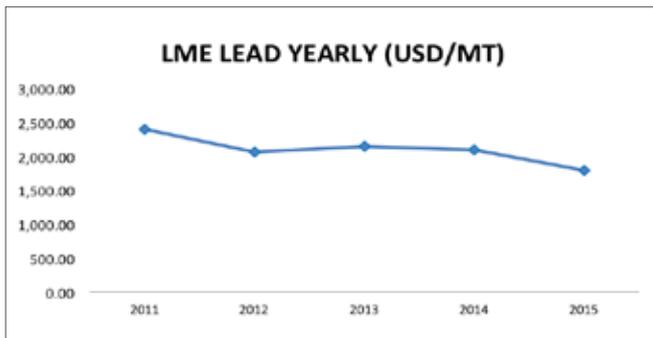
Reuters has polled for 2016 Aluminium prices to trade between USD1490-USD1900.



Lead

Lead prices kept sinking until Glencore's announced its 100,000MT supply cuts as a result of its Zinc cuts. Besides, Ivernia's Paroo Station and Penoles' Naica, MMG's Century and Vedanta's Lisheen have reduced a total of at least 200,000MT for 2016.

Meanwhile there isn't a cut in secondary production and soon we could expect some news on this. Though ILZSG predicts a surplus of 97,000MT in 2016, we still see the market will be balanced instead. Reuters expects a price range of 1580USD-2078 for 2016.



Zinc

Zinc price was rescued by Glencore's announcement of reducing around 500,000MT production which accounts for 4% of global supply. Though zinc is in surplus by 88,000MT this year, ILZSG sees a deficit of 152,000MT for 2016.

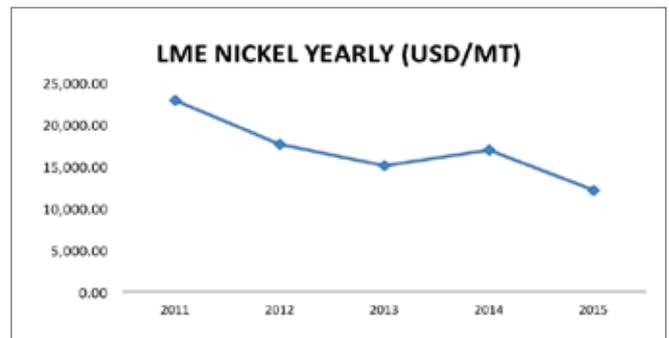
Zinc forecasts usually trick the investors as closures of these several mines could ramp up as soon as prices start to climb up. Reuters predicts zinc to trade between 15870USD-2314USD.



Nickel

Nickel trifled around 10,000USD figure, though it is quite a month with no new news. Nickel demand from China is disappointing as YOY production will continue to lower. China has lost its appeal in WTO anti-dumping stainless steel tubes dispute with EU and Japan.

Reuters poll has suggested a price range between 8,700USD-16,500USD. 🔄



* Source : LME, Bloomberg, Reuters, FCStone and Sayed Metal Commodity Risk Analysis

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