

# Economic headwinds intensify while base metals prices slide

## Overview

Slowing factory activity in China, Europe and USA have underpinned the investors' concern for global slowdown. September was a little relief for base metals by finishing flat, though strangely ignoring economic numbers from China. Zinc slid partly due to rumours about Glencore liquidating its zinc stocks.

Base metals could face more pressure if Chinese keep giving out disappointing macro data. By now many investors have discounted in the global slowdown. Ferrous metals either wouldn't recover prices in the short term. October and November is a month of wait-and-watch as macro data from USA will give a clear picture of the market. The market could turn gloomy should the US economy also slow down as it will give an aggressive message to market with two largest economies losing pace at the same time.

Elsewhere in the Middle East, suppliers have slowed down exports as factories have set back delivery dates of contracts. Suppliers are continuously facing challenges from internal and external governments' frequently changing policies which are a major setback for the industry. First, the pre-inspection rules of Indian customs has somewhat finalised, but is further subject to change without any prior notice. Damman customs are now rejecting export cargoes that aren't palletized, a rule that wasn't officially announced, thereby disrupting operations and shipment deliveries. Sharjah's plan to shift its scrap industrial area is in its initial stage of implementation and is expected to be completed in a couple of years. Similarly, Bahrain's plan to shift its scrap industrial area is on hold at the moment.

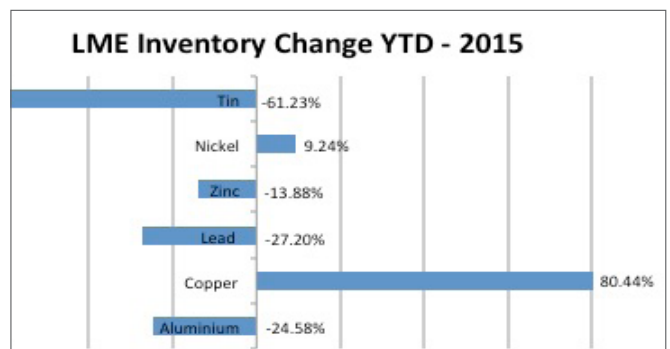
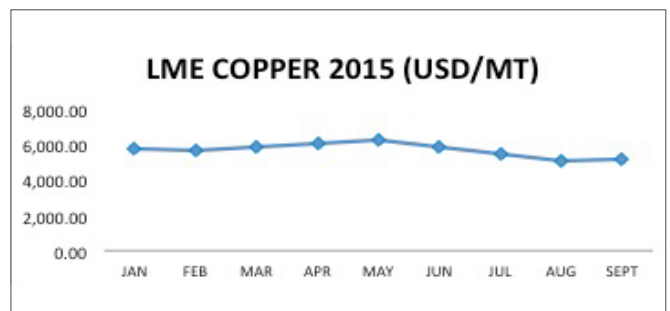


Dr. Sayed J. Hussain, CEO, Sayed Metal

## Copper

Copper had solid support in September due to various supply side factors. For instance, Kamoto (DRC) and Mopani (Zambia) operations of Glencore got suspended for 18 months due to low copper prices. Among major suppliers, none of the Chilean miners are ready to cut their production meaningfully except El Abra. Collahuasi is expected to cut back by 30,000MT next year. On the other hand, several mines have announced their expansion plans; thereby we can expect Chilean output to increase, though not significantly. MMG's Peru project, Las Bambas is scheduled to reach 200,000MT capacity by 2016. Cerro Verde (Peru) of Freeport-McMoRan is announced to expand by 270,000MT annually.

Copper premiums remained unchanged as demand for the metal is still lacking. Copper prices are expected to trade in between USD4900-USD5500 for the October-November period.

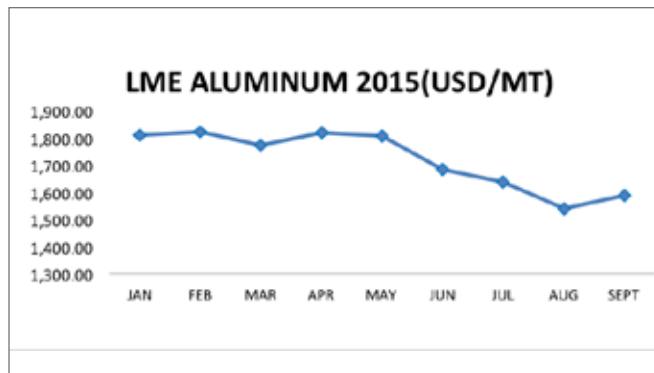


## Aluminium

Despite the negative fundamentals, Aluminium managed to finish flat for September. Because of low demand, the arbitrage between London and Shanghai also narrowed. Aluminium also suffers from no meaningful supply reduction. IAI reported that global output rose over 10% YOY in August.

Alcoa announced to trim 887,000MT capacity at its Suralco by November end. Century similarly is reported to operate at 40% of its Hawesville and Kentucky plants.

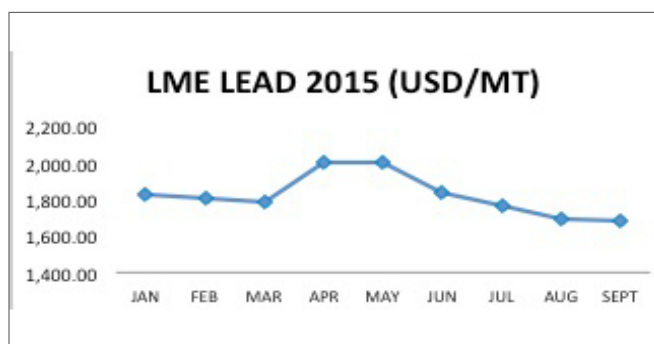
The fundamentals are expected to normalise in the next five years. Premiums also reduced in Asia by USD10/MT revealing less demand. October-November will see prices trading in between USD 1500-USD 1700.



## Lead

Lead performed well among the base metals complex due to tight supply/demand fundamentals. Closure of MMG's Century mine and Vedanta's Lisheen mine supported the lead price previous month. Ironically lead suffers from the demand side, for instance, China's auto market continues to decline YOY by 3% in August.

ILZSG has reported a 3% decline in lead demand for 2015 H1. October-November period could see lead prices range bounding between USD 1600-USD 1800.



## Zinc

Zinc prices kept declining and one stage touched USD1601 in September. Much of the speculation was surrounded by Glencore's series of announcements regarding its net debt and reducing the inventory stockpile worth around USD24 Billion.

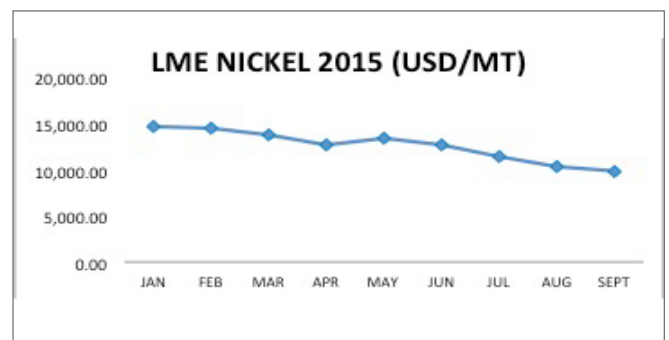
Investors were depressed by ILZSG's report stating that market was in surplus by 150,000MT during January-July period in contract to 259,000 deficits during the same period last year. Pre-orders for Q4 are not expected to recover either. Thus, during October-November we can expect price trading at USD 1650-USD 1900 level.



## Nickel

Nickel hit a recent high of USD10,595 but average for September remained mostly flat. Indonesian ban on nickel ore is yet to impact the market as there are sufficient LME and Chinese stockpiles and investors are not worried now.

Among the major suppliers, only Norilsk has announced to hold projects worth USD500 million citing weak prices. Norilsk's holding rather than cancelling them is not a meaningful reduction. INSG reported nickel with a surplus of 39,200MT during January-July period. Nickel prices are projected to trade between USD 9600 - USD 11,000 over the coming two months. 📈



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

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