Base Metals Outlook

Demand still slow with less promising upside

Overview

Though metals drew little comfort from Chinese policy action, apart from aluminium and nickel other base metals resumed divergence. Aluminium and nickel are most exposed to harsh sanctions on Russia is more chance than cause. Fundamentally, LME stock inventories have decreased across the board with exception of nickel. Ironically the major metal prices have seeped too. Aluminium is gradually tightening up with producers going through stressful industry restructuring. Copper prices remain at 10 month low and are heading for bearish Q2, with less signs of improvement. Zinc and Lead are second and third worst performers among the base metals this year. Nickel on other hand has steady demand backed by rising cost has pushed prices up around 25% FYTD making the best buy metal this year.

Dr. Sayed J. Hussain
CEO, Sayed Metal

Aluminium

Aluminium continues to rise primarily due to inventory overhand and how the material is stored. With substantial demand and lowering inventory, the widely used metal has promising market support. With Rusal taking the LME to court and winning, the warehouse queues and logistics barriers ultimately has supported the aluminium price to appreciate about 6% this year.

LME queue model is debateable and will be under attack throughout the year. Aluminium is held in a traditional rent-deal model where metal is stocked as collateral for financing purpose. In a low interest scenario like now, it hardly matters whether it is queue model or a rent-deal model. However in long term from a premium point of view, queue model derails the future contracts, should the interest rates changes over the period of time.

With stocks depleting, the producers are apparently going through a difficult restructuring of the industry. Rusal has halted its 750kt/y troubled Taishet smelter project. This year analysts expect further deficit until the demand supply balances by 2016.

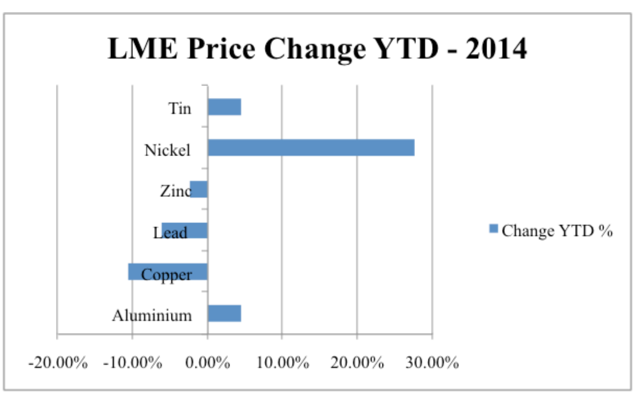
Copper

With fears over gloomy world economy, combined with concerns of China's first mainland corporate default saw its domino effect in march copper prices. There was heavy sell off which reduced the LME stock by 35% from year start. The metal price dropped significantly by 11% during the same time clearly exhibiting the bearish view of the world economy. Though the prices have stabilised after Chinese government's reassurance growth target and low interest rate announcement from EU and USA.

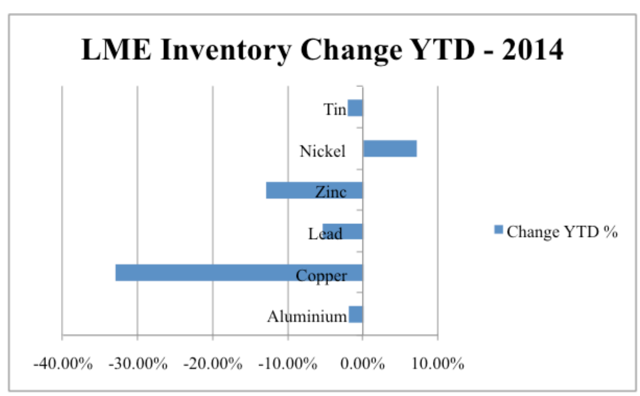
Investors are bearish about copper market keeping in view that on supply side there is surge in mine supply which will feed in the market through refined market and slowing China demand which accounts for 40% of world consumption. This surplus speculation has left large unreported stock in bonded warehouse in China which is expected to increase for several months ahead.

The only optimistic aspect of copper market is narrowing of arbitrage in SHFE-LME which began when prices dropped around 600USD in March. Premium in domestic Chinese market is now CNY350 compared to CNY300 two months ago. With high TC/RCs and copper trading below USD6000 level could trigger cracks in supply-side anecdote. Any mining disruptions could give easily give copper quick price rise in short term.

Though there is going to be a strong seasonal demand for the fact that the market is perceived generally as over supplied, the Q2 is going to be lacklustre with prices averaging USD6800.



* Source: LME



* Source: LME

Lead & Zinc

Across the board, lead by far has the far tighter demand/supply fundamental which means prices in Q2 will be almost same as Q1. As projected the zinc's fundamental will start tightening from 2015, therefore the premium between lead and zinc will consistently narrow down. Lead prices are down around 6% from year start while zinc is around 2.5% which is primarily due to its apathy to copper market price, though situation will improve by Q3 onwards. The lead smelters around the globe have reported a low demand from manufacturers citing sluggish demand and no shortage of the material. Though the prices of both the metals are expected to rebound in Q3 as physical interest would pick up and possible rally by next year.

Nickel

Thanks to the belated Indonesia's export ban this year, nickel prices are rallied about 25% since the beginning of the year. However much is contributed by speculative bulls in the market and not by inventory which increased by 7% this year so far. The interesting point however is if short position of at least 90,000 contracts is in any way related to physical market or not can be known by June.

The market has already priced in the potential future ban of nickel production in China and its domino effect adds to the interesting Q2 sharp price rise of the metal. Amazingly the trading volumes (LME Select daily) have risen by 50% which drives the rally story of tempting short covering and technical traders. The trading has been now at its historical peak which currently is at 4600 lots/day.

Base Metals Price Forecast

	2013 (Actual)	2014 Q1 (Actual)	2014 Q2 (Forecast)	2014 Q3 (Forecast)
Aluminium	1,845	1,708	1,750	1,825
Copper	7,322	7,041	6,800	6,700
Lead	2,141	2,106	2,100	2,200
Zinc	1,909	2,029	2,050	2,100
Nickel	15,003	14,643	16,000	16,900
Tin	22,304	22,648	24,000	25,200

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

[Disclaimer: This commentary does not purport to be an exhaustive analysis and maybe subject to conflict. This report does not constitute a recommendation or take into account the particular investment objectives, financial conditions, or need of individual investor/trader. Issue date 14 March 2014.]

Performance of Plastic

March - April Report

Surendra Borad, Chairman, Plastics Committee, BIR and Gemini Corporation NV, Belgium

European prime plastic market continued stable with weak demand throughout the month of March. Producers tried to pull the prices up by reducing production but they could not succeed. Crude oil prices started moving down in the beginning of March and fall around 4% from a level of around 103 to around 98 per bbl. A lot of customers were approaching secondary plastics such as regrind and reprocessed to use in small percentages with virgin material to cut down the cost of the final product.

At the same time Asian prime plastic market was also moving downwards. Demand of prime material was weak. Heading to the end of the month where oil prices took a reverse trend of going up, producers aimed of increase in demand and subsequently prices of prime plastic.

European plastic scrap market was moving stable with good demand. Availability of plastic scrap is reducing, hence regardless of weak oil and prime plastic prices, plastic scrap was in trade with high demand. More and more high grade plastic scraps, where not much manual selection/process is required, are being processed within Europe. Asian customers have complaints about less availability of good quality scrap in Europe for the Asian Market. Towards the end of the month Chinese recyclers started reducing the prices on grounds of increase in their import taxes. The high cost of import of plastic scrap and lower prime prices, reduced the price gap between prime plastic and reprocessed plastic, hence recyclers were asking for price reduction to be competitive in the market.

Since the beginning of April the market has been moving in two different directions – prime plastic producers are anticipating increase in prices, whereas the Asian recyclers are aiming for reduction in prices of plastic scrap. So the market is not clear in which direction it will flow. Oil prices have almost gone back to the level in the beginning of March that is $103 per bbl, which is a good sign to support good demand at current prices and subsequently may be up in prices.

The sea freight to Asia from European main ports has been rapidly increasing over the last two months. For a lot of ports in Asia the freight levels have gone up by almost 50% in comparison to the January level. For the past two months Shipping lines have succeeded to put GRI of $100-150 per month on ground of no space on vessels. Shipping lines have reduced the availability of vessels to almost half of the capacity available earlier. For April and May, they are again trying to increase the freight. This is giving a hard time to exporters to meet their contracts in time as either they don't get space on the vessel or they are not capable of paying the freight in order to make the business possible.