Base Metals Outlook

THE REAL PAIN IS DUE IN 2017

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Overview

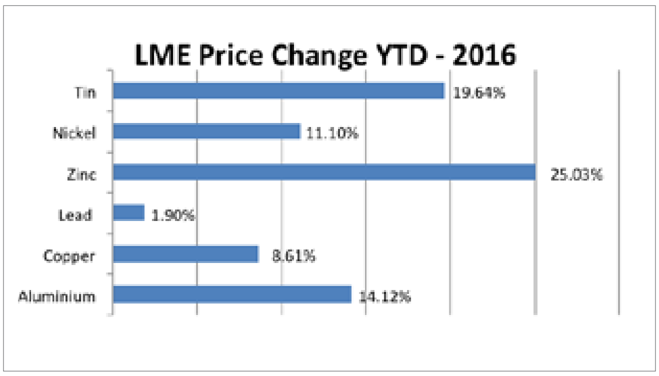
Base metals in Q2 is expected to retract after a momentum in Q1. In both the quarters fundamentals remain the same while dollar fluctuations and investors' appetite in the Chinese economy rallies or slopes the base metal prices. Generally, across the board, fundamentals are irrelevant in commodity market. This could, however, have serious repercussion on producers as much needed production cut becomes meaningless. Figures coming out of China have shown a return to normal export production which supports this assumption. Having said that, all major deficit 2016 projection could go wrong as we find there are not serious cuts in the production while currency fluctuation and investor appetite would decide the price levels.

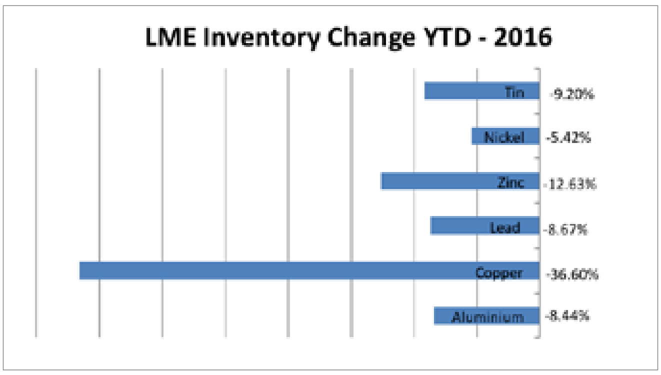
Middle East is approaching a decelerating business session due to hot summer vacations and Ramadan, which is a month of worship and spiritual enlightenment. The activities in the Middle East are slowing down due to cuts in major government spending which is the result of low earning from sales of oil. Strong USD keeps appreciating the GCC currencies as most of it is pegged to the USD. India, which is a major export market of GCC scrap is projected to slow down as well. Q2 is seeing a rally in oil prices, which indicates infrastructure projects would resume in H2. All GCC governments have introduced various new sources of revenues and diversified further to decrease the risk of dependency on oil prices.

Copper

Except the fundamentals, all other reasons are responsible for the recovery and recent decline of copper prices. Chinese imports of mined copper have resumed and have increased by 35% from last year. Various reports have forecast surplus copper in 2016.

Shanghai inventories remain high and see no connection between imports and production, thus making us assume that stored copper is for financing purpose. Q2 prices are to be traded between USD4700 and USD5300.





Aluminium

Aluminium rose in April once again due to weaker USD and investor appetite, while leaving the fundamentals unchanged. World production of aluminium has started to rise from month to month in 2016. Higher prices means no production cut for the producers which could have severe effect on prices in H2. Various smelters including Alcoa, Hongqiao have announced the resumption of its capacity. Towards the end of Q2 prices are expected to trade lower than Q1.

Lead

Along with other metals, lead prices performed worse throughout May. The premium of refined lead too dropped from USD170/MT in January to USD150/MT in May, but was not as bad as that of zinc. Due to milder winters, lead product manufacturers are operating under capacity due to lesser orders. ILZSG has forecasted a surplus of 76,000MT this year. It also expects the overall demand of lead to increase by 2% this year. Prices will dip as low as USD1630 this quarter.

Zinc

Zinc performed well during April although the premiums declined sharply in May. April was generally a better month for base metals due to currency fluctuation. The TC for concentrates also declined in May. ILZSG has forecasted a 352,000MT deficit of zinc this year. LME inventories of zinc stand at seven year lows further indicating a price rally in H2. Construction activities in China have gained momentum due to more new homes in China's biggest cities. Zinc prices are expected to touch USD2050 by the end of Q2.

Nickel

Nickel is bulls favourite at peak to USD 9600/MT in April due to falling stocks at LME. Despite China's SRB purchase of 60,000MT nickel recently, global stocks on a whole stand high. Stainless world production too is lackluster which shall keep prices of nickel low for months ahead. Majority of nickel producers operate at minus which has resulted in cuts of around 90,000MT according to CRU report. Nickel is also used for financing purposes like copper by the Chinese investors.

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

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