BASE METALS OUTLOOK

AN ERA OF UNCERTAINTY: VOLATILITY IN THE BASE METAL MARKET

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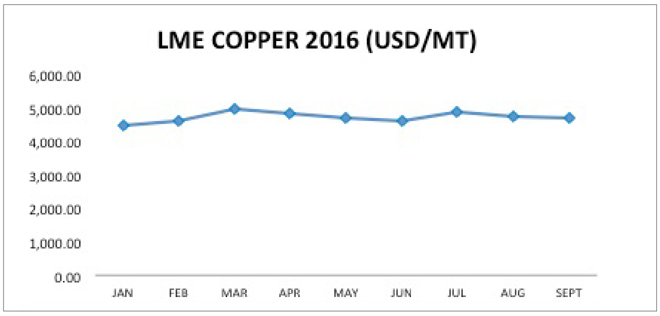
Overview

Base metal prices settled at mixed levels during LME trading, with the overall trend a reflection of wider global market uncertainties and current sluggish sentiment; copper, aluminum and nickel struggles, carrying over poor performance. Nickel could rise, but lags with consolidation overdue. Ongoing mine shortages in Zinc are not feeding through the refined side as indicated by dull premiums and rising stock levels. On the other hand, lead will see higher trading ranges in Q4.

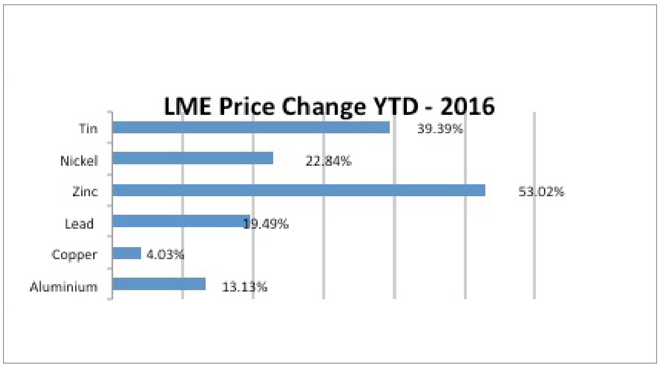
ECB and the Bank of England changing policy is uncertain in which forecasted to affect trading. The ECB should tell markets if it expands its asset-buying programme next 2017. ECB and BoE inaction could strengthen the US dollar. On the other hand, Bank of Japan is not expected to initiate attempts at stimulus that could possibly somewhat weaken the yen.

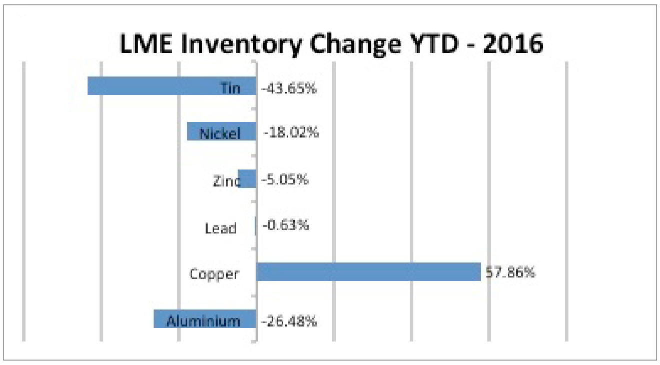
Copper

Copper performed the worst in the base metals complex, trading from USD4700 –USD4800, hitting two-month lows. Several reports show supply/demand balance tightening, including deficit projections from WBMS and ICGS through half of 2016. Nevertheless, investors do not seem alarmed by these shortfalls, mainly because they expect surpluses to emerge over the balance of the year.



Moreover, despite projected WBMS/ICGS deficits, LME is not showing any sign of stress. LME stocks increased 84,000 tons, to almost a one-year high, at some point in Q3. Shanghai holdings are not catching up with the LME increases, Chinese exports of refined copper may actually be adding to the LME stock builds. Copper is expected to trade above $5000 in October.

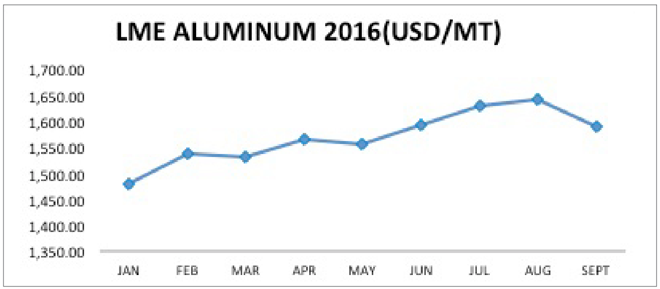




Aluminium

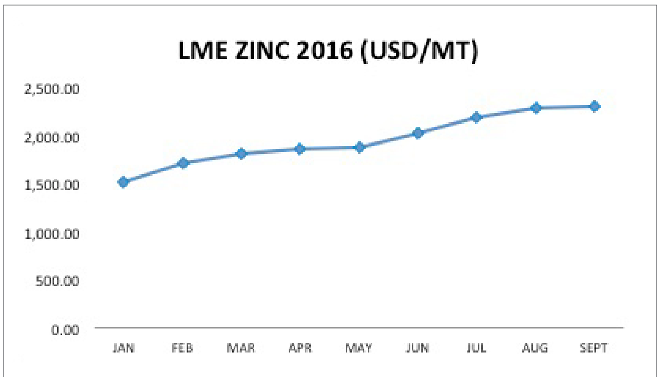
Aluminium rallied through August, however turned around breaking below $1600 in September. It scarcely fell by 1.2% to 33.12 million tons through Q2. More disturbing that stronger Chinese smelters trigger talks of smelter restart which CRU expects to be somewhere around 1.4 million tons when it hits the market by December. For now, Chinese exports of semis have been running down at 7%, at about 2.37 million tons through July from last year. Regardless of decline, sizeable quantities are still shipped which shows surplus in Chinese supply/demand balance.

In terms of supply/demand balance, although reports reveal shortfalls in numbers for 2016 followed through 2017, they hardly make an impression in global stock holdings thus more cutbacks are needed if prices are to move much higher. Prices are seen trading between USD1560 - USD1700 in October.



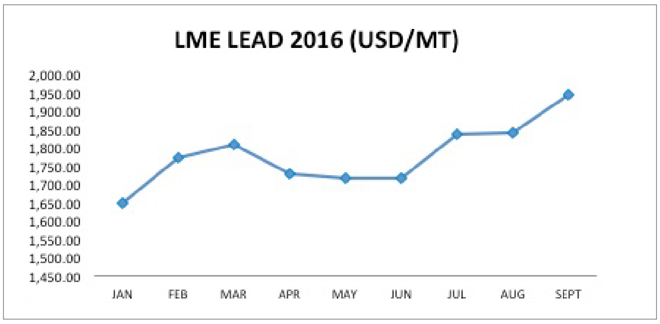
Zinc

Zinc remains fundamentally unchanged from where left last month. Mining sector projected shortfalls this year which relates to major cutbacks that have taken place, however refined market has not seen yet much of these. Antaike sees a 2016 deficit in Chinese market of 20,000 tons against a 2015 surplus of 90,000 tons, while refined output is expected to be insubstantially 1% down year on year. Significant shift in LME or Shanghai inventories is not seen, holdings have collectively increased by about 40,000 tons since June on both exchanges. Refined premiums are stable and not indicating any impending tightness. Prices are seen trading between USD2390 - USD2500 in Q4.



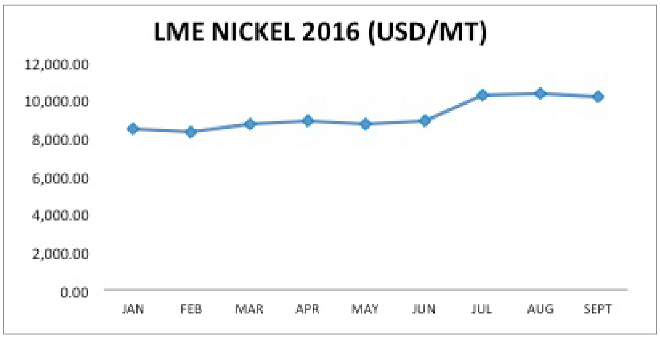
Lead

Lead has picked up mainly after the recent resurgence of zinc, however it continues to be weighed down by soft demand, especially from Chinese battery manufacturers still holding relatively large inventories. Nevertheless, the global lead market has seen a surplus of 37,000 tons through the first half of this year. Global refined lead production fell 2.4% year on year in the first half of 2016, at the same time lead mine supply recorded 6.8% cut. LME stocks have not come off much and just flat lining at under 190,000 tons since May. Markets expect that it might further tighten when participants start to restock ahead of battery demand peak season. Lead is seen trading above $2000 in October.



Nickel

Nickel performed poorly at the end of Q3 as fund length exited, apparently unimpressed by nickel's inability to build on recent gains. Things seem to be getting more uncertain in terms of metal flow out of Philippines. The Philippine Mining Ministry said it could add more names, 10 mines already listed that will be prohibited from shipping out metal. Furthermore, one of the country's parliamentarians proposed legislation that would sanction a nation-wide ban on ore exports. Consequently, nickel prices continued to decline. INSG reported 11,800 ton deficit in June, implying the market is not as tight. LME stocks remain at a relatively high 370,000 tons that somewhat keeps nickel trading steady in the market. Nickel is seen trading at the range of USD 10,500 in October.



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

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