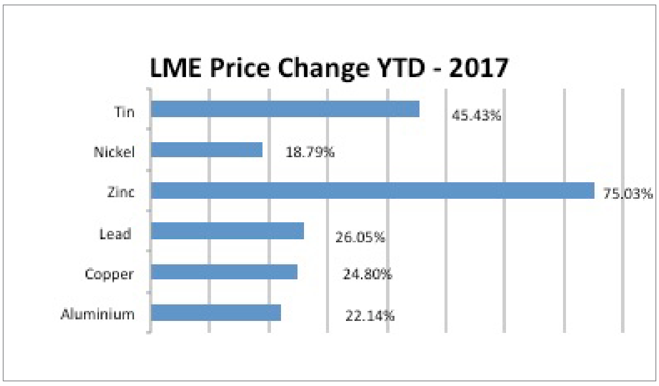
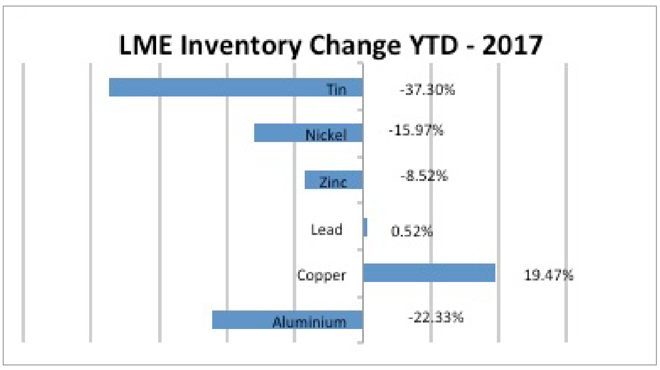
BASE METALS OUTLOOK

Dr. Sayed J. Hussain
CEO, Sayed Metal

OVERVIEW

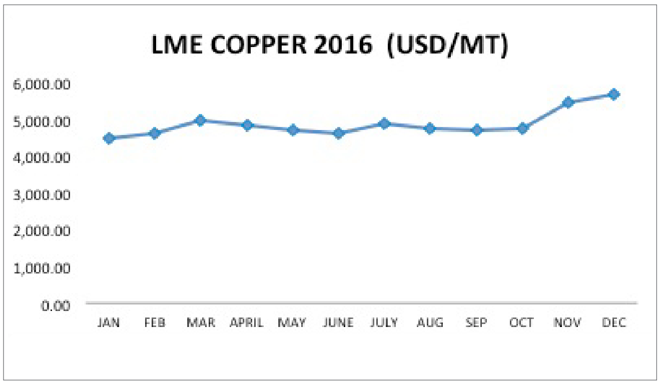
The year 2016 ended with surging prices seemingly brought forth by political uncertainties as supply/ demand balances, currency movements and interest rates could not be linked to this upward trend. However, there are doubts about sustainability this year as higher prices could steer the increase of supply. Global growth has by far improved; however, the worldwide geopolitical condition is more disconcerted largely on account of two unforeseen events. One of which was the UK vote to leave EU, which will make financial markets more sensitive to the vulnerabilities of the euro zone. Second was the election of Donald Trump to presidency, the fervour brings to mind the assumption of the investors that he would lead a more business friendly environment.

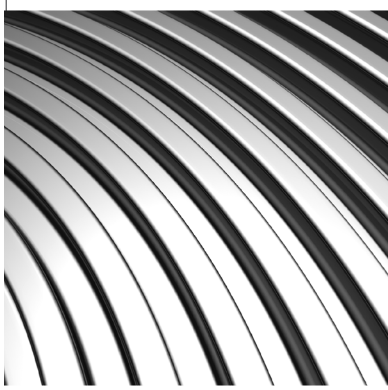




COPPER

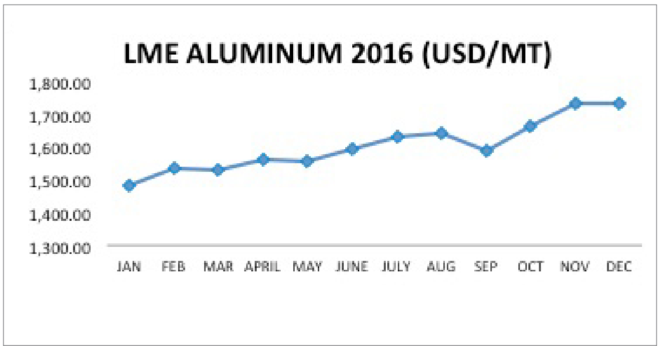
In November 2016, copper had gone ballistic for its huge monthly improvement in years, which is baffling as there is little new fundamental information that could substantiate its extreme upsurge. In 2016, Prices were fluctuating between $4918 and $5130; however rose to about 18% in Q4 hitting beyond $6100. The US election heightened the anticipation of more infrastructure spending, though the buying fervour started to somehow decline as investors in US could have started to realise that Trump's impressive plans are subject to change and uncertain. On the other side, metal-intensive Chinese real estate boom may decelerate. However it is expected to remain firm until Q2. China's local refined production is rising while refined import is seen to continue to decline, to about 23% year on year while in Q1, prices should trade around $ 5443.25 - $5500.





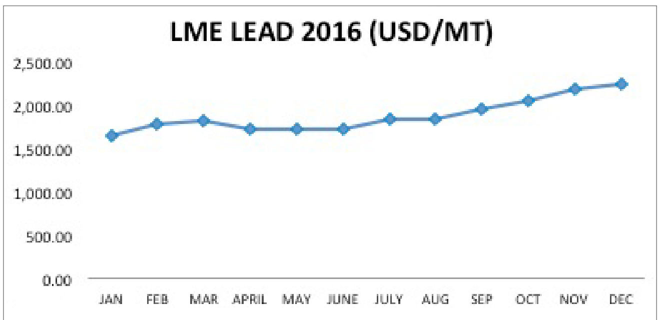
ALUMINIUM

Aluminium performed lethargic most of the year, but closed the year 2016 with 12% gains. There was a fairly strong increase in demand from Chinese and global market, to about 7% and 5% respectively. Chinese official source presented aluminium output has remained roughly flat for much of 2016. Chinese production cut has not been extensive as what was indicated; nevertheless these cutbacks seem made up of new capacity. Through November of 2016, China's export of aluminum products is down to about 3.6% from previous year. Inventories were reported to have decreased by 1.4 million to 4.9 million tons through end of 2016. However, CRU pointed out that unreported inventories are actually increasing, now at slightly above 7 million tons, which represents 61% of global inventories. We see prices trading around $1735.30 -$1800 in Q1.



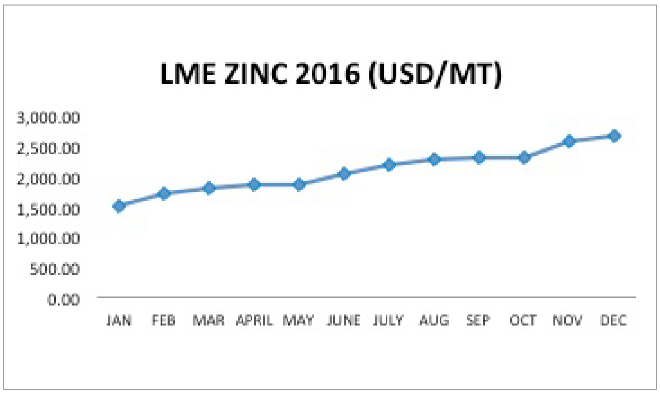
LEAD

Lead traded between $1600 - $1900 per ton during Q1 and Q2 of 2016, however rocketed to a five year high of $2576 per ton in November. Lead rally was short lived and cut back most of Q4 gains, ending only 12% higher in 2016. Slack demand for Lead accounted for the surplus. Moreover, ILZSG sees the global refined market in a 35,000 ton surplus through October of 2016. Further, Chinese battery manufacturers still have inventories to run through. CRU recently pointed out that lead concentrate shortages in China starts to get serious, but reported there has no significant impact on refined production in November, which remained somewhat stable. Lead should trade around $2178.84 - $2200 in Q1.



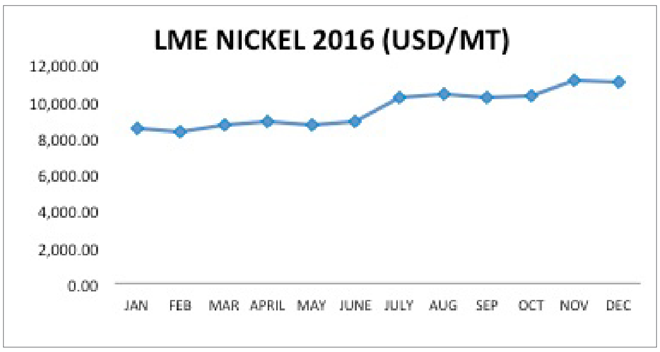
ZINC

Zinc was the star performer, ending a gain of about 60% in 2016. For most, the account of declining mine supply and solid demand were the main trigger that brought funds into zinc. ILZSG reported 277,000 ton shortfall in the market through October of 2016, which is fairly insignificant in a 13.5 million ton market. In US, anticipation of infrastructure spending, proposed by Trump should somehow rally round demand. However, Steel and property market lose pace in China, producers may not restrain from restarting production. Zinc is expected to trade around $2568.84 - $2600 in Q1.



NICKEL

Nickel spiralled during the second half of 2016 ending with about 14% gain. The INSG indicated 58,000 tons deficit in Nickel market through early Q4 of 2016 and expects shortfall in 2017 of about 66,000 tons. Indonesian government is expected to alleviate some export restriction in 2017 which could make up for the declines seen out of Philippines. Nickel supply to some extent looks comfortable even with fair optimistic stainless demand. Nickel is expected trade around $11142.95 - $11200 in Q1



* Source: LME, Bloomberg, Reuters, FCStone and 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 15 January 2017.