Base Metals Outlook

Time to think beyond oil?

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Overview

Metals prices will remain depressed in 2016. Persevering oversupply of metals and uncertain demand in China will keep prices in 2016 under pressure. Despite declining prices, miners add to the volumes of supply and are still not ready to reduce their market share.

2015 has seen some postponement of cutbacks from the supply side, however a significant reduction has not been seen by the market until now. Partly, the supply issue is not related to income statement, but rather Chinese socioeconomic policies including employment generation, tax revenues, maintaining market share, government kick-backs, etc.

Major metal consuming nations are in a declining growth phase thus affecting negatively the sentiments of the investors. Among the base metals, lead and tin prices will perform the best this year due to its strong fundamentals.

January has seen a bumpy start but prices are expected to peak by February due to low metal market activities as Asian nations prepare for lunar new year and weakening of dollar.

Oil has now reached an 11-year low at USD27 and is expected to continue its free-fall as it hasn't bottomed yet. Oil exporting countries have booked trillions of USD deficits in 2015 and GCC nations are gearing towards non-oil based economic policies like VAT and reducing the subsidies on utilities yet trying to remain competitive to investors.

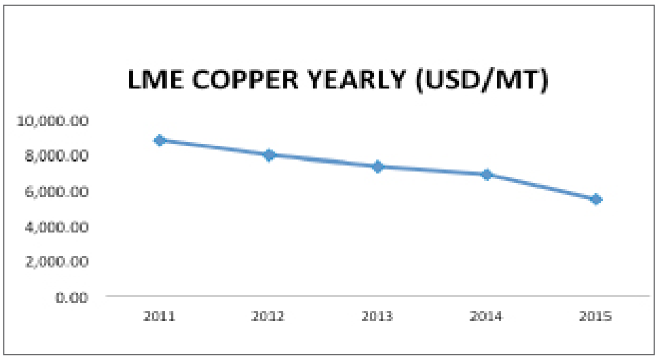
2016 is a good year for improving on market efficiencies and metal prices to be linked more to fundamentals rather than speculation. The bulls and bears has less prospective and may briefly rally or dip the prices where they find the opportunity.

The trade shows and metal conferences have seen fewer participants due to decreasing margins in the industry.

Similarly, bankers have tightened liquidity to metal traders and stocks are revaluated timely as highly leveraged companies are on the verge of bankruptcy.

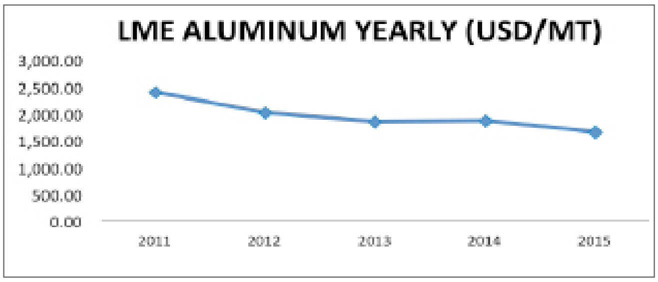
Copper

Copper prices have significantly lost ground and are expected to stabilise February due to weakening of USD. Copper prices are expected to hit USD3,500MT this year. While Chinese demand has fallen in copper scrap, there has been higher demand from India, Europe and Americas. Due to the proximity of India, we see more potential volume growth this year from GCC.



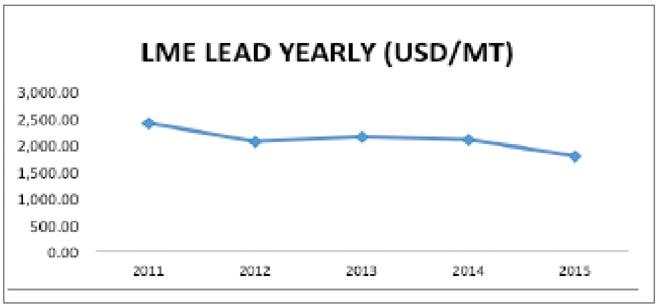
Aluminium

Aluminium also closed down in negative territory but the landing was milder than other metal complex. Despite low prices, we do not see any major cuts on the supply side, especially from China due to their socialistic economic policies. On the contrary, China's SRB is proposing to buy 1 million MT of aluminium for national reserve which it does not need to store. Such Chinese policies can only postpone the bankruptcy of inefficient smelters.



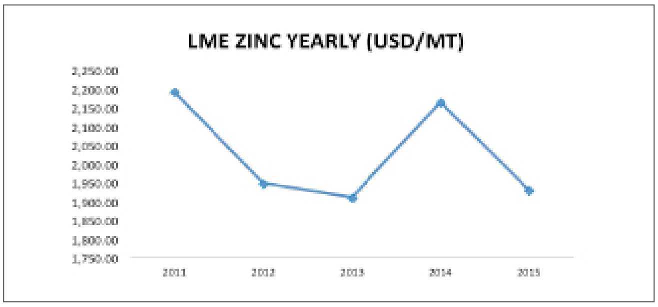
Lead

The performance of lead was worse too, but not as bad as Zinc. Though it is restocking peak season for lead consuming factories, lacklustre demand has made the buying activity depressing. Due to high TC, smelters are operating at full capacities and we see no deficit this year from supply side and accordingly ILZSG forecasts lead market will be in surplus of 13,000MT this September.



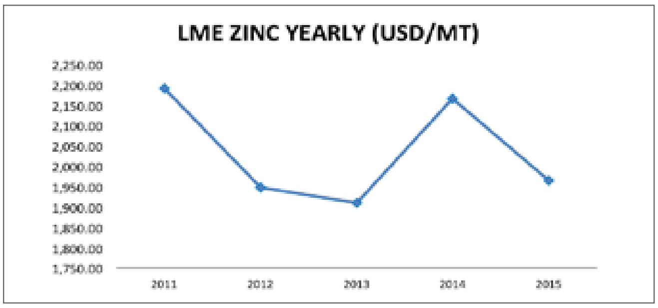
Zinc

Zinc prices crashed and plunged to a six-year low before it could recover some ground this year. Though various mines have announced cuts, investors are not confident that these cuts will materialise in 2016. ILZSG sees a surplus of 188,000 MT by this September.



Nickel

Nickel was the worst performer by tumbling around 40% in 2015. The metal has high inventory levels and a very gloomy demand worldwide. In an attempt to stabilise the prices Chinese producers have announced cuts for 2016. However, there is substantial decline in consumption so we do not see much tightening of the market in the near future. Also non-Chinese producers have announced plans to expand their production to retain market share in the industry. According to CRU, 65% of global nickel activity is losing money.



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

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