BASE METALS OUTLOOK

METALS DIP ON COCKTAIL OF WORRIES

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Overview

Base metal prices fell during premarket trading, matching investor profit-taking trends in wider financial and equity markets, which primarily affect Western central banks. However, Chinese authorities are concerned about possible slowing in EU economic growth.

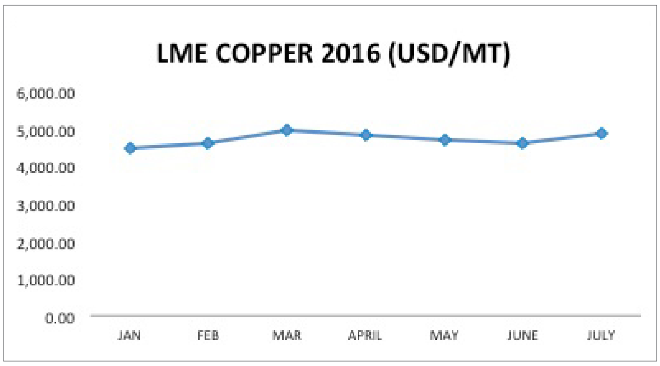
Investors may have already started to discount some increased accommodation by the Chinese central bank due to the greater influence the EU has on the overall market, which is why such impressive advances in both ferrous and nonferrous metals has occurred, a trend expected to continue through Q3. Higher prices limits further production cutbacks, and may encourage some capability restoration.

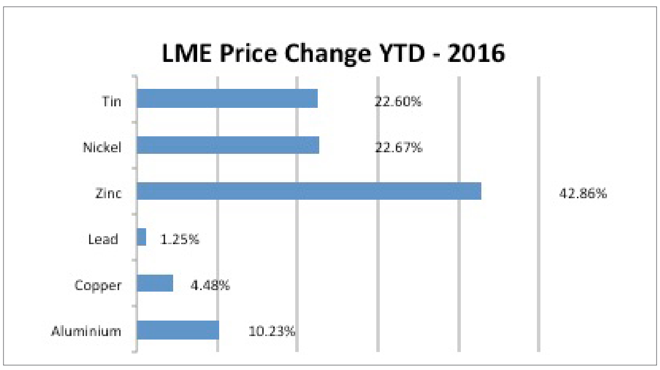
Here in the Middle East an upturn in oil prices along with higher trading volumes with Iran could set off a recovery for the UAE in the near term. Added to this, sustained public and private sector activity in Dubai ahead of Expo 2020 should keep the momentum going, says the latest outlook on the UAE economy from Meed.

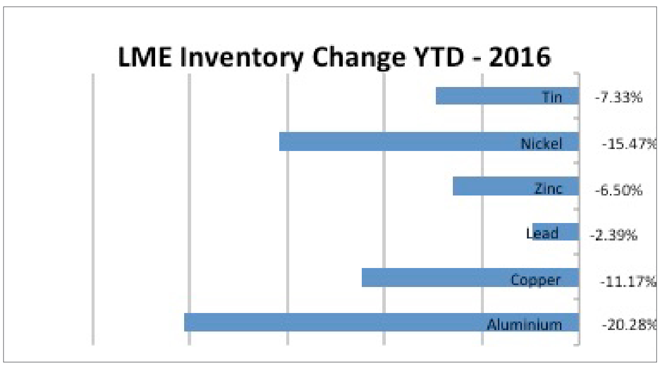
Copper

Copper rallied in late June after the Brexit vote and ended the month up 3.8%. China's refined copper imports rose 16% YOY to 319,000 tons in May. However, overall demand growth remains in the low single digits, which suggests imports are either being stockpiled, arbitraged or financed.

The ICGS reports the market had a 40,000 ton deficit in March, although for the year it has a 40,000 ton surplus. Further global easing, and a possible strike at Anglo American's El Soldado copper mine, could increase copper prices in Q3 to USD4800 - USD5100.





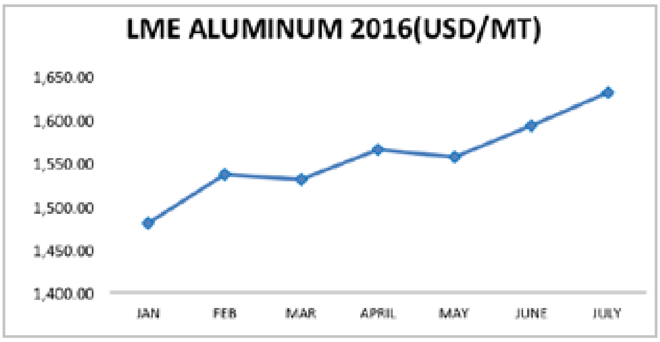


Aluminium

The market has rebounded some since the Harbour Conference in Chicago in mid-June. Following a brief Brexit downturn, prices now approach the early-May high of USD1684 and traded above USD1600 during much of the last few weeks.

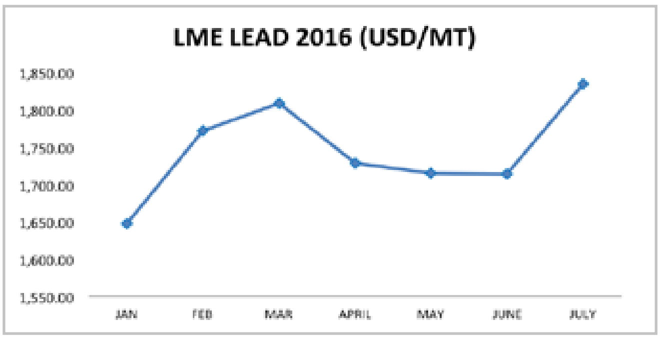
Chi¬nese authorities said they will eliminate subsidies on some materials and metals, raising expectations of a slowdown in the flow of semi-fabricated aluminium products. Consultancy firm AZ China projects 3 million tons of new Chinese capacity coming online this year of which one-third is already operational.

Recent International Aluminium Institute (IAI) numbers indicate production is rising, with Chinese production increasing 4.1% month-on-month to 2.68 min tons in May. Sell-side hedging between USD1675 - USD1730 that's possibly achievable soon, followed by scaling-up is recommended; on the down side support is seen at USD1575.



Lead

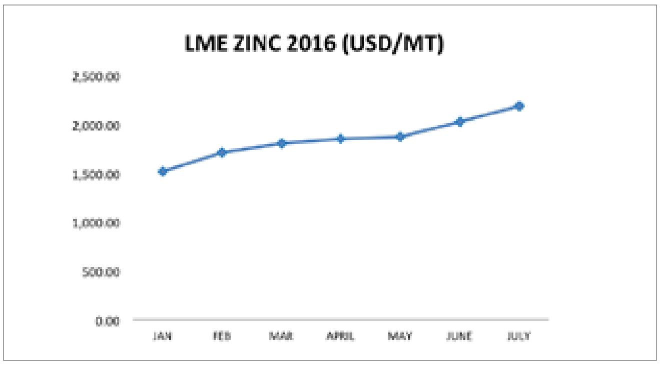
Lead rose ending 5.2% in June, due to market deficit expectations resulting from the closures of two large zinc-lead mines late last year. Rising car sales in China from very depressed levels late last year and an increased demand for industrial batteries could provide a counterbalance. Having said that, production will still exceed demand, the ILZSG believes the market has a surplus of 76,000 tons. LME inventories were flat at 185,000 tons. Q3 expect prices to trade between USD1730-USD1990/ton.



Zinc

Zinc has been the top LME group performer this year, up 31%. Prices moved higher on expectations of tighter mining markets. However, cutbacks did filter into the refined market or adversely impacted stocks.

The ILZSG saw the refined market deficit at only 2,500 tons in April and sees zinc with a 24,000 ton surplus year to date through April, although down from 185,000 ton surplus in the same period last year. The ILZSG reported China's zinc mine output, sparked by rising prices rose 5% in April. During Q3 prices should trade between USD2000-USD2250.



Nickel

Nickel rallied in June to close just below USD10,000 an eight-month high, due to possible mine closures in the Philippines, rumoured after the country's new mining minister said he would review all mining operations to determine the industry's environmental impact on the country. The Philippines has become China's leading ore supplier.

LME stocks are down 70,000 tons since March, but still rather high at 380,000 tons. Based on all of this, nickel should trade between USD9,600 - USD10,900 through Q3.

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

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