Base Metals Outlook

LME down as investors sentiment weighs on prices

Dr. Sayed J. Hussain, CEO, Sayed Metal

Overview

Nonferrous seems more exposed to USD and broader negative market sentiment. Copper demand has slowed down significantly YOY while production at Chilean still maintains a healthy output.

Aluminium is being produced at record high by the Chinese while LME inventories remain soaked into the physical market keeping premium lower month on month.

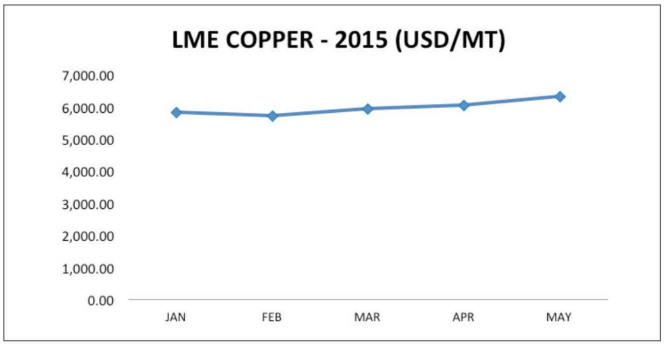
There is narrowing Zinc deficit due to sluggish Chinese demand which is at five year lows. Due to this, China is now increasingly a net exporter of primary Zinc products.

The Nickel price got support from increasing LME inventories while stainless steel demand is sluggish due to poor figures coming out from China. Tin is finding it difficult to maintain prices and Indonesian production control simply did not have enough impact on supply side.

Copper

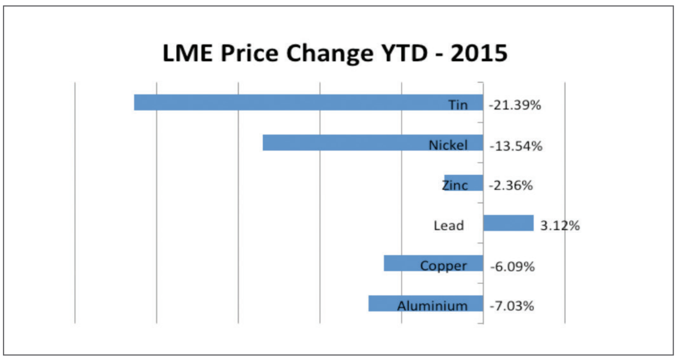
After a peak of USD 6500 in late April, the copper prices lost momentum and started to sell off during May. Further price fall to 5800 level is expected in June. From February lows of USD5300 to May highs of USD6500 was too fast and too much to sustain the momentum for long. Chinese demand remains weak and poor figures are still coming out from the rest of the BRIC nations. On the supply side, we see Chile mines showing around 35% decline in exports YOY. Though the production of Collahuasi and BHP's Escondida has not decreased its production there is hype in the market that stockists are actively hoarding the commodity.

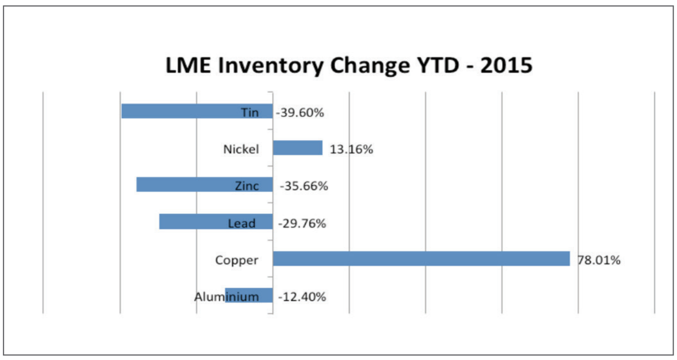
ICSG report a surplus of 153,000MT YOY in the market and copper prices would range between USD 5700 - USD 6300 during June - July period.



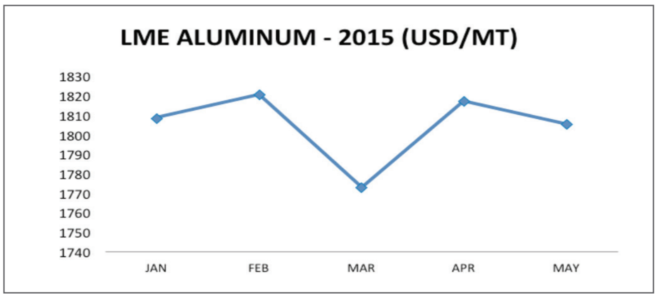
Aluminium

Entire gains during April were lost during May as aluminium prices were able to sustain the bearish sediment which has affected with LME group complex.

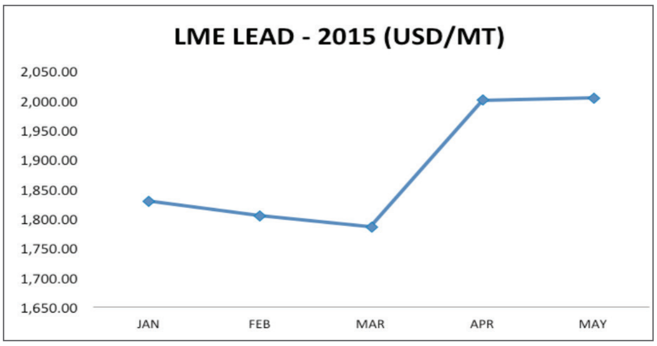




At one time it crashed to a one-year intraday low of USD1731. Aluminium is suffering from a record supply while Western demand is in its lowest pace.
On the other hand, Chinese production has increased enormously by 46% YOY. Unless the supply is not controlled we see a further plunge in both prices and premiums. Price range of USD1600-USD1835 is seen in June-July period.



Lead



After a nice start in May, lead prices plunged from USD2160 to USD1900 by May end. Though the fundamental remains strong, the general sell-off is to be suspected for this decline in prices. The bulls failed despite 65,000MT shoved off from LME inventory during April and 12,000MT during May.

Further to speculation, Bloomberg reported Chinese E-bikes sales growth will decrease to 2.4% which gave signification to market sentiment. E-bike makes up 15% of total Chinese demand. There is a significant shift from lead to lithium batteries in the production thus decreasing the prospect of lead demand.

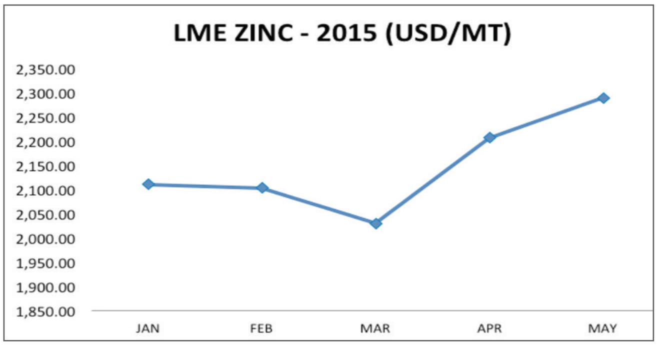
ILZSG report a surplus of 8,500MT during Q1, thus projecting lead deficit for 2015 seems unachievable. June - July period would see a price range from USD1800 - USD2050.

Zinc

April was a downfall for Zinc but recovered to almost USD2200 in May, which was mainly due to strong fundamentals. The warrant increase due to Johor, Malaysia which temporarily decreased the tightness in the spreads. On the other hand, SHFE stock piles have increased in three folds this year.

On the supply side, Chinese production kept increasing by almost 15% through April. While demand side, construction activities are slowing down as reports from China show a slowdown yet Citibank ran a story that galvanized activity increased 6.4% in Q1.

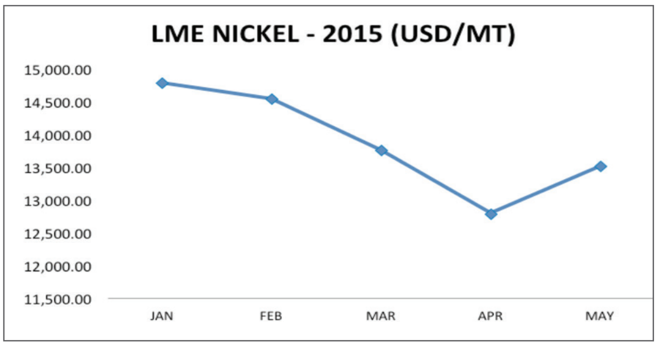
ILZSG reported a 140,000MT surplus in Q1 and once again a projection of surplus in 2015 by several analysts seems difficult to materialise. There is expansion of mining production arising from Australia and India, which has offset the closure of Century and Lisheen. Prices are bound to range from USD2000-USD2300 during June-July period.



Nickel

Nickel gained around 2000/MT during past two months and thereafter lost the same during the last week of May. The fundamental kept getting weak which was mainly responsible for this decline.

Chinese ore stocks are now falling and pre-ban Indonesian production seems vague at the moment. Myanmar has surprisingly substituted enough ore supply that diminished the concerns of supply shortage. During June - July period, we see prices ranging from USD11000 - USD14000.



* 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 31 May 2015.