

BASE METALS OUTLOOK

METALS START ON WEAK FOOTING, LOOKING VULNERABLE AGAIN



*Dr. Sayed J. Hussain
CEO, Sayed Metal*

OVERVIEW

Base metals are expected to rally as the dollar remains at its lowest since Q4 of last year. However, almost everyone is waiting for what comes out of OPEC decisions, investors are being cautious ahead as higher oil means increased costs for miners.

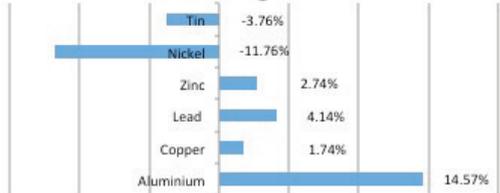
In the Middle East, during the Holy Month of Ramadan it is certain that volumes in and outside of GCC will be affected. Volumes in GCC area would be most likely reduced by 35% to 50% due to shorter working hours as devoted Muslims are on their spiritual endeavor at this time of the year.

ALUMINIUM

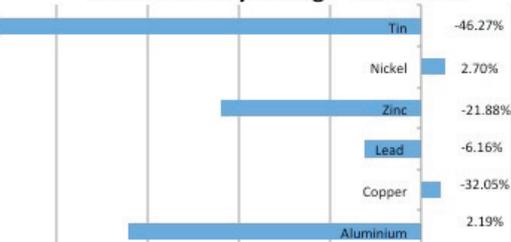
Asian secondary aluminium scrap import prices fell early Q2 on weaker demand and increased supply. A cutback of 1.5% in LME future prices contributed to the weakness. As indicated by China's customs data, China's export of aluminium was at its highest since November 2015. At the same time, sufficient supply of raw material is available, demand for secondary ingots remained weak keeping production subdued. Most Asian regions were impacted by consumers holding high inventories of scrap raw material, forcing them to cut prices.

Traders account limited or no sales over Q2, without the anticipation of rise in demand at this point. However, some smelters intend to keep offer prices firm as they have by now committed significant amounts of future sales and are not in a hurry to compete for spot trading. Still, scrap offers are expected to weaken as supply rises and more in anticipation of going into the summer months. We see prices trading between \$1850 - \$1970 in June.

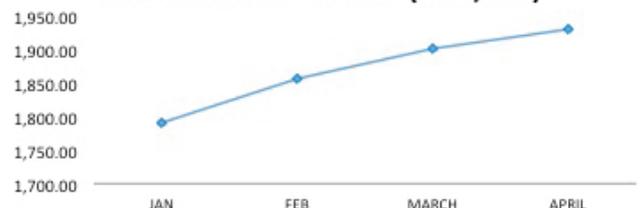
LME Price Change YTD - 2017



LME Inventory Change YTD - 2017



LME ALUMINIUM 2017(USD/MT)



COPPER

Scrap demand is weak and in some situations supply is worse. Spreads for all copper scrap to Asian ports bolstered at some point in Q2 as scrap availability tightened. The tighter scrap may also be due to sluggish production, which would generate less material and stronger spreads. Copper cathode dealers at the same time may have perceived that copper scrap availability has tightened; however, they have not gotten much in the way of spot business or stronger premiums. China's copper demand accounts for about 50% of the total global copper demand, thus copper may have received a boost from assumptions that China's central bank may enhance medium term lending, which would improve metal trading. We see prices trading between \$5400 - \$5700 in June.



LEAD

Lead output climbs as ILZSG figures show. Lead mine output stood at 864,000 tons in January-February, leading by 22.3% as compared to last year, while refined lead production increased by 11.7% to 1.93 million ton. Global demand rose by 12% over the period to around 1.9 million tons. On the other hand, demand for lead acid battery amplified due China's swift progress in electric bike production. The sector accounted for around 25% to 30% of domestic lead consumption last year. The NBS data indicated that China's electric bike production increased by 14% year on year to 2.83 million units in March. We see prices trading between \$2050 - \$2300 in June.



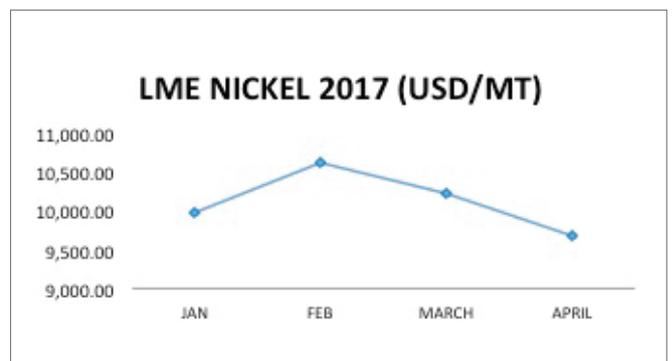
ZINC

Global zinc production increased in Q1 year on year, as China opened new mines and add in more volume inflow. On the other hand, as prices recovered second half of last year, mining companies have restarted expanding projects aiding global output to increase by 14% in Q1 of this year. Chinese growing demand settles mining cuts implemented by western miners in 2015. Chinese zinc production had risen by 504,000MT in March from 502,000MT during the same month in 2016. NBS indicated that quarterly output improved by 3% in the first quarter as compared to Q1 2016. We see prices trading between 2400 - \$2670 in June.



NICKEL

The Indonesian government had lifted its ore export ban in March permitting nickel plants in the country to ship ore in the next five years. It is yet uncertain how much material will be exported from the country, even so this is already cutting prices. However, global nickel market revealed a supply shortfall of 5,500 tons in Q1 of this year as compared to same period last year that was in excess of 9,400 tons. Year on year, demand grew more sharply than supply. We see prices trading between \$8900 - \$9600 in June.



* 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 May 2017.