BASE METALS OUTLOOK

Storm on the horizon: Uncertainty and competition drive blowing erratic

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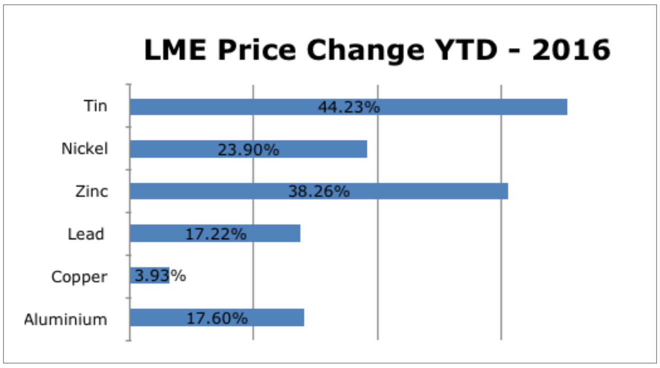
OVERVIEW

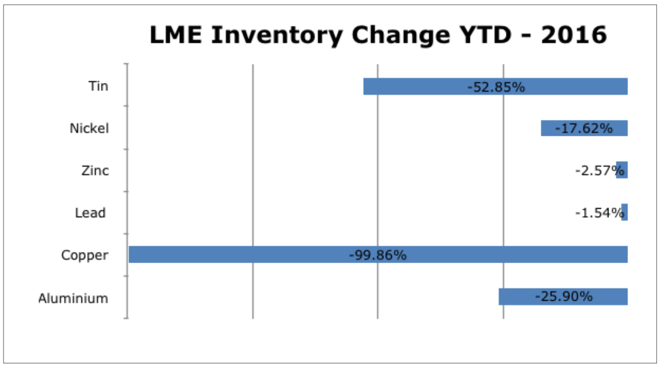
The victory of Donald Trump shocked the global market and caused disarray as predicted by analysts. Commodities had lost their gains however rose up to an exaggerated rally. Dollar strength weakened and gold broke below its former resistance at $1270. However, there are indications that this submission is transitory. It is anticipated that the President-elect Donald Trump will likely execute policies that could bring about higher inflation and growth, as well as back interest rate increase by Feds which could boost the dollar. Commodity prices have been going on a spree, particularly copper, in view that Trump administration will allocate billions toward infrastructure spending programme that is not likely to happen until 2018, considering lag time between policy formulation and implementation. However, analysts predict such rally will not maintain its level as the US metal consumption is not sizeable compared to China. Liberum Capital analyst Alexandre Schmidt reported, the U.S. accounted for about 8% of global copper demand last year while China accounted for 50%. In other words a 10% rise in U.S. copper demand could be easily offset by a 1.5% contraction in Chinese copper demand.

Meanwhile, manufactures and suppliers alike all over the globe are still in dilemma of Hanjin Shipping's bankruptcy. Thousands of cargos transported by Hanjin Shipping are kept stranded, millions of dollars' worth of goods is held back at ports. Suppliers are left burdened with additional cost of finding alternatives to deliver the cargos to their final destination. On the other hand, factories are compelled to bear additional cost in re-ordering and expediting deliveries. The Hanjin ordeal significantly impacted the global supply chain. Furthermore, the Gulf Cooperation Council (GCC) has announced to implement Value Added Tax, at a standard rate of 5% as part of its income source diversification. The region is negatively affected by reduced income from oil, prices slid from mid-2014 highs of around $115 a barrel to January 2016 lows below $30. VAT is viewed as an effective tool to aid the governments in achieving their objectives. Though tax rate is likely to be low, business will be faced with additional burden in terms of administration and compliance with the new legislation. The UAE will implement VAT on January 1, 2018, while other GCC countries are expected to implement the following year.

COPPER

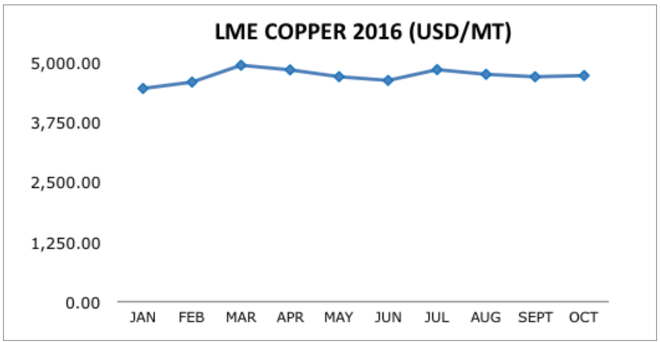
There has not been much change in copper's story in Q3, the market is said to be in deficit of about 227,000 tons through the first half of 2016, however 2016 is suspected to end with modest surplus. Despite the drop in prices, producers were still breaking even profits, most likely due to continuous fall of production and operation cost, additionally stronger dollar is helping.





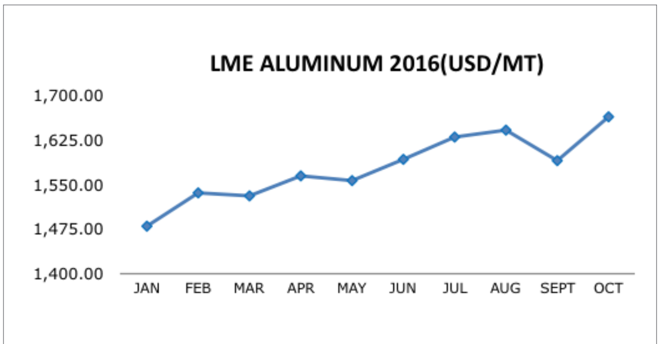
Meanwhile, China's import of concentrates have risen vastly at 34% so far through August this year, displacing scrap consumption by 8% year to date. Chinese year to date refined production has moved up higher by 8.7% due to smelter's huge demand and inflow of concentrates, resulting in export of excess units, about 335,000 tons through Q3.

Generally, there is a comfortable supply of concentrate and rising stock on LME/Shanghai exchanges cumulatively that should prevent rage in price increase. Copper is seen trading at $5650-$6200 in December.



ALUMINIUM

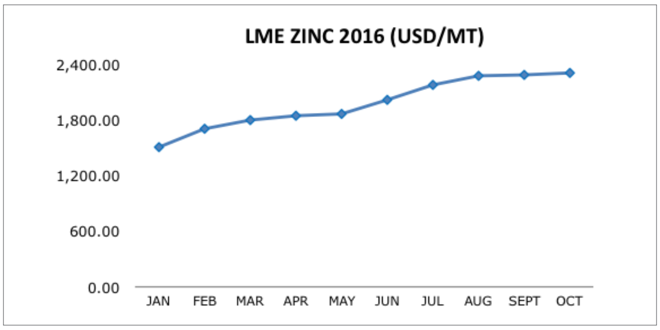
Aluminium dropped sharply at one point in Q3, to a three month low, however recovered on addition $100/MT. The rally was suspected to be affected by the continuing demand and fall in LME stocks. However this occurrence could not solely reverse the long term dull fundamentals. Production cuts are seen not enough in getting the market balance and help lessen huge stock piles.



Though Chinese output is down by 2.7% through August year-over-year, there are speculations that smelters are in the process of restarting production over the next 3 – 6 months. It is depicted that exports of semis is down by 16% from a year ago. Analysts see modest surpluses of aluminum next year that would however increase global stock, estimated to be around 13.5 million tons. However, this seems not the focus of traders but on the more constant weakening LME and Shanghai inventories. Both will likely decline and keep spreads tight and premiums under pressure. Prices are seen ttrading between $1780 - $1900 in December.

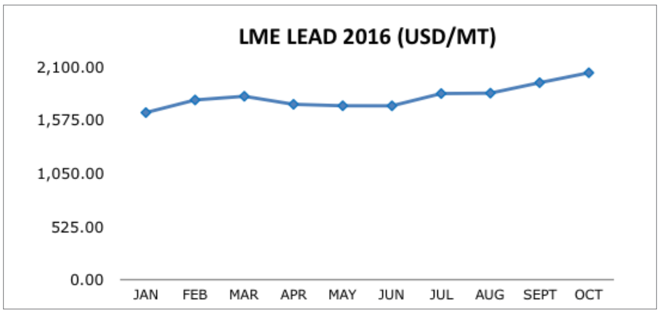
ZINC

Zinc's bullish performance may be tempting for some to start production. This speculation is centered on Glencore, who single handedly took out 500,000 tons off the market late last year, and assumed will control the current output. ILZSG suggests that some Chinese producers have started increasing their output during the first half of the year, up to 6%. However, there is a misperception of Chinese real output as some small-scale mines do not report figures and various statistical agencies based their estimate on obvious production. Reuter has pointed out that estimates of ILZSG Chinese zinc mine is higher than other statistics. For now ILZSG has reported zinc to be in deficit of 174,000 tons through July this year, given the shortfall on the mining side. Some of the recent gains rolled back. Prices are seen trading between $2700-$3000 in December.



LEAD

Lead had streamed to $2160 at one point in Q3, which was speculated due to zinc upsurge. At the same time, the power outage in Australia that halted the 185,000 ton per year Port Pirie lead smelter could be one triggering factor. Lead as expected would be in demand in Q4. As obliged by the season, battery sector is expected to liven up. ILZSG has reported a surplus of 43,000 tons through the first half of 2016 while a deficit of 40,000 tons was seen in the first seven months of the previous year. Keeping this in view, lead does not follow zinc's bullish review. There was not much stock movement in previous months and we see prices trading between $2250 - $2400 in December.



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

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