

BASE METALS OUTLOOK

BASE METALS TO STRENGTHEN BY YEAR END

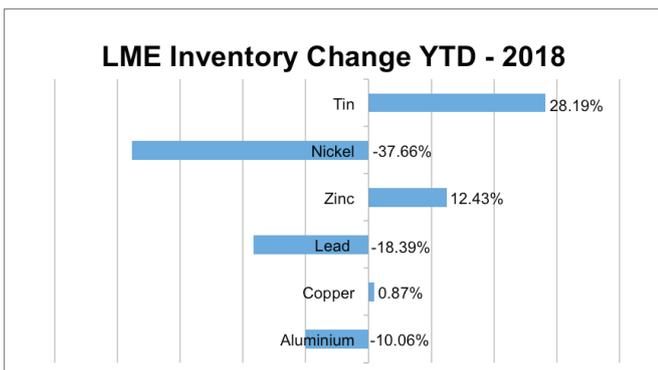
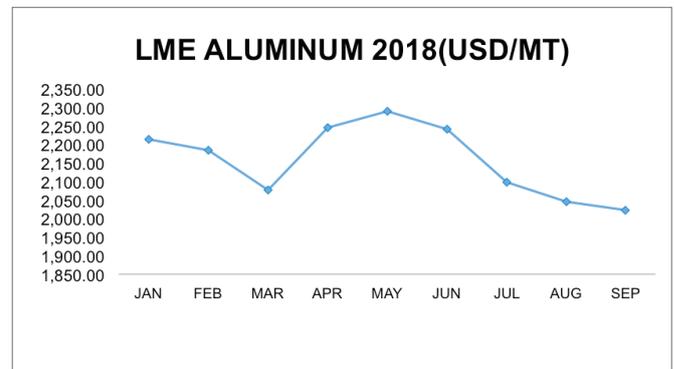
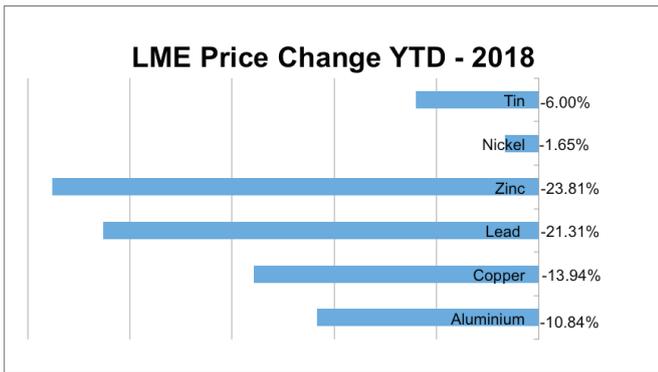


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The recent announcement of China, pledging to increase investment in domestic infrastructure projects to stabilise national economic development would step up most of the base metals. China being the world’s largest metal consumer would boost base metal demand on its huge infrastructure projects. The spending announcement offset the adverse effect of the retaliatory tariffs between China and the US. The US will implement the tariffs on \$200 billion worth of Chinese imports from September 24, with an initial tariff of 10 percent. At the same time, China will impose a 10 percent tariff on 3,571 items and 5 percent on 1,636 items. The tariff list includes hundreds of base metals, minor metals, rare earths and ferro-alloys.

ALUMINUM

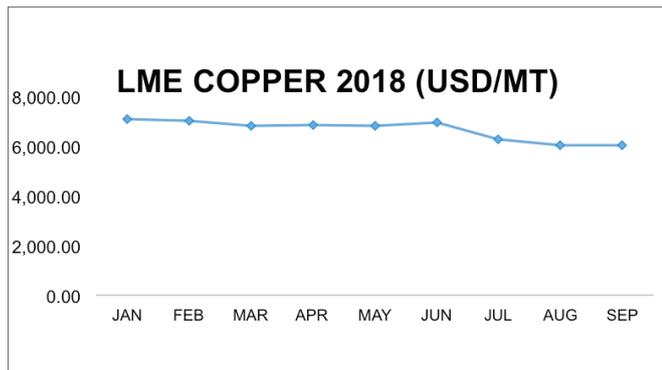
Global aluminum production reached 20-month high in August, at 5.34 million tons, excluding unreported production about 150,000 tons, as indicated by International Aluminum Institute. Supply upsurge dragged aluminum prices lower. China’s Environment Ministry’s declaration to restrict non-ferrous and steel industries for autumn-winter heating season may limit base metal output in Q4 to Q1 next year. However, aluminum production will be exempted and output will not be affected from restriction as the industry meets the emission standards set by the government. Output in Asian countries not including China was in line with previous month however considerably higher year on year while output in South and North America set at a lower level than previous year. China steered higher production, increasing output by 5.8 percent year on year to 3.12 million tons, as IAI figures show.



COPPER

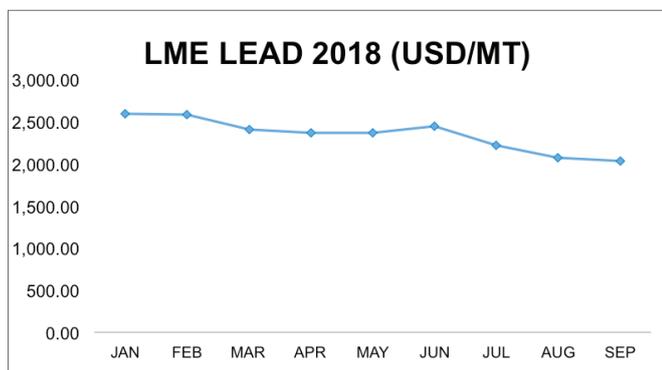
Copper rallied after China’s announcement of heightened infrastructure spending to counteract the new US tariffs. Low global inventory of copper at exchange warehouses indicate good demand for the red metal. Rigid restrictions on purity brought decline in copper scrap imports to China by 36 percent in

August this year, indicated by custom data. China's basic demand for refined copper remained strong, impelling the global copper demand. However, ongoing concerns over retaliation between China and the US may decrease demand for the red metal. Business may slow down, consumers would tend to buy trifling volume, monitoring their inventory closely, seeing the risk. Some consumers may even stay off the market until the end of this year.



LEAD

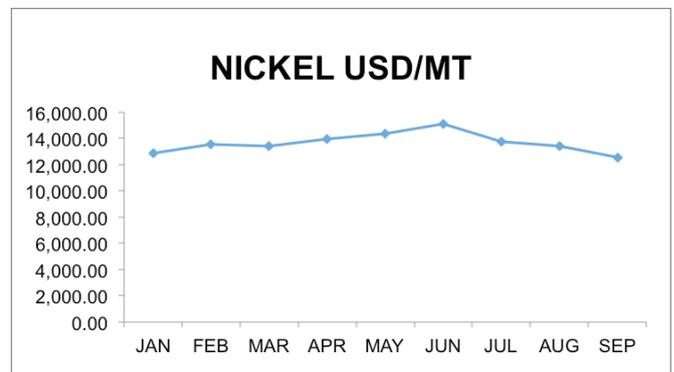
Lead price rally on concerns of tightening supply due to China's environment crackdown which will limit output in Q4 till Q1 of 2019. China accounts for about 40 percent of global lead demand. Lead supply have come under pressure due to maintenance closure of 60 percent of local lead – zinc mines after the start of environmental inspection in Sichuan province. As the global lead ore resource dwindles, China's lead consumption will be reinforced by the use of secondary lead. Further, the increasing demand of lead acid batteries, especially from transportation, aviation, communications, etc. will progress the secondary lead market.



NICKEL

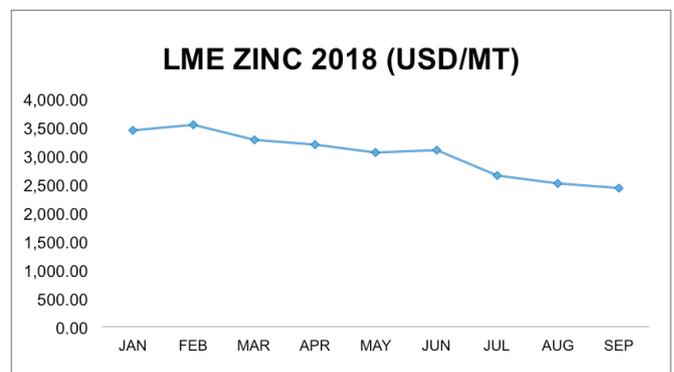
Nickel may remain strong over the period. The increasing demand for nickel from battery sector may bring deficit in 2019 and support prices. While nickel consumption in battery sector is only at around 20% of global output, it has a substantial effect on market position. Green Eco-Manufacture (Gem), Chinese battery

material manufacturer will collaborate with Tsingshan stainless steel maker to produce ternary cathode materials for lithium-ion batteries. Both companies will put in up to 1.85 billion yuan in the project. Depending on the market situation, the project may increase production further. The target is to start with 50,000 tons production per year of ternary precursor and 20,000 tons per year of nickel-cobalt-manganese (NCM) cathode material. NCM batteries are projected to be the major power source for new energy vehicles (NEVs) in the next 20 years, which most likely to continuously increase nickel demand.



ZINC

LME zinc stockpiles may continue to recede that will help in price gain; however Premiums on US high-grade zinc may remain unchanged. Majority of dealers will perhaps wait to see the outcome of trade tension between the China and US on prices and premiums. The US applied tariffs on an additional \$200 billion of Chinese goods with an initial 10 percent tariff and will increase to 25 percent on January 1, 2019. China retaliated with 5 to 10 percent tariffs on \$60 billion per year of imports from the US. Consumers may think likely of lower premiums beginning of next year and may not put a lot on contracts for 2019. However, premiums may increase if stock continues to decline.



*Source: LME, Bloomberg, Reuters, Sayed Metal 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 September 30, 2018.