BASE METALS OUTLOOK

BASE METALS PROGRESS ON TRADE OPTIMISM

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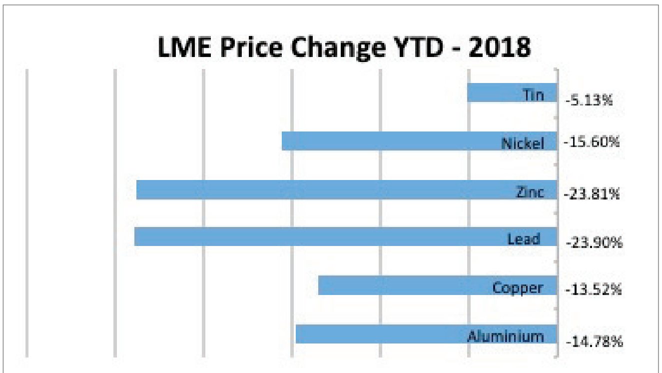
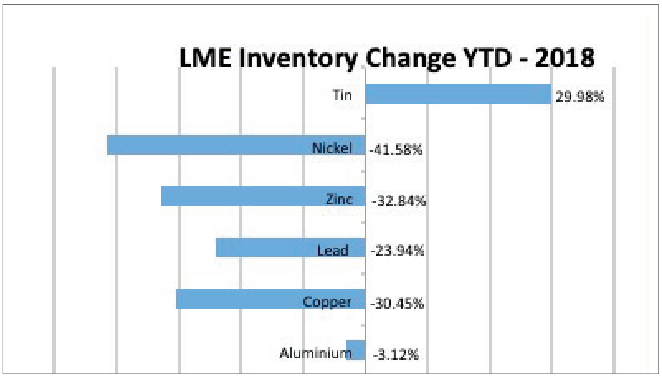
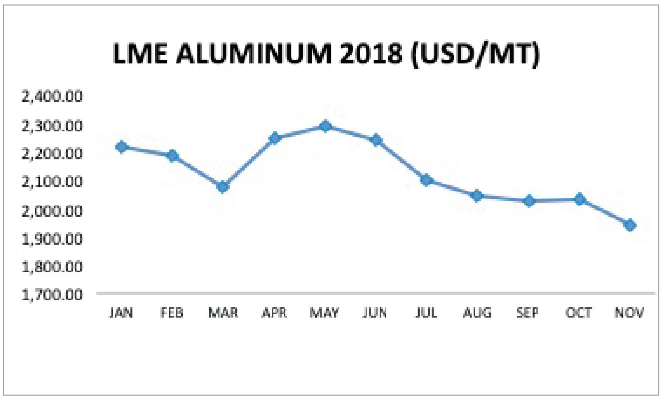
Not so positive trade talks out of Washington and Beijing to sort out the ongoing trade war most likely will harm base metals. Further, there is a shortfall in the supply of all base metals and is expected to continue for the most part of next year. Chinese infrastructure spending rose by about 3.3 per cent year on year in the first 10 months of 2018; however, market outlook is dulled by lower consumption in China, the world's largest metal consumer. Even so, base metal prices remain decent as investors are relying on consequent trade resolution with the US at the same time counting on more stimulus spending of Chinese authorities to contest internal instability.





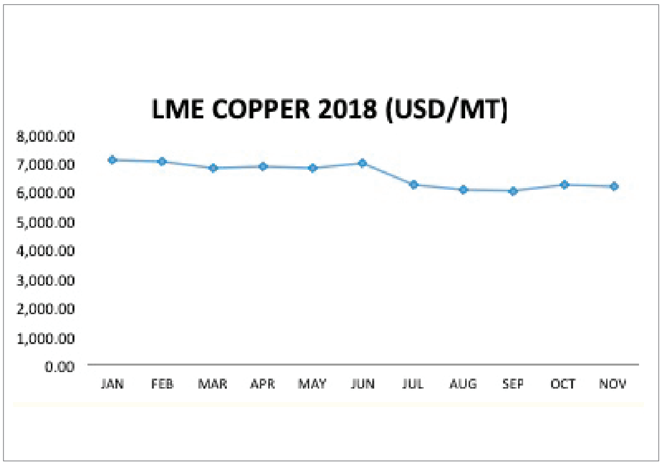
ALUMINUM

Output rose for the most part in October setting premiums lower, reaching to about eight-month low. The step up in production was output from Asia and the Middle East. In October of this year, primary aluminum output rose at 5.1% from Gulf Cooperation Council states while 7.1% rise was seen in Asia, excluding China. Further, output out of China kept on despite suggestions to slash production. IAI indicated an increase by 6.8% Chinese output, including estimated unreported output, this year in October. Moreover, Primary Aluminum premiums dropped to just about eight-month low.



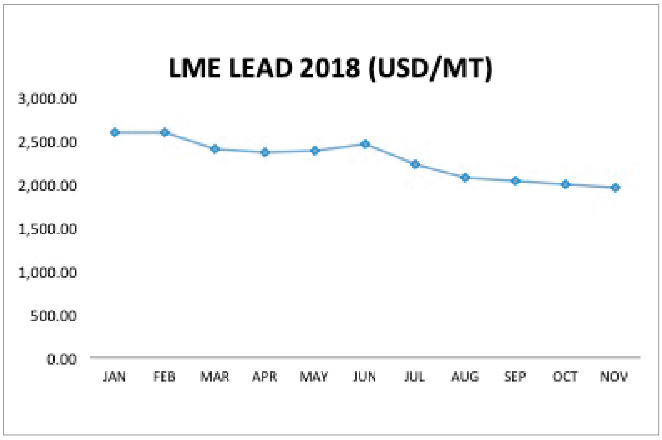
COPPER

Copper escalated in anticipation of possible improvement in US-China trade relations; additionally LME copper stockpiles declined reaching its lowest level since July of 2008. Supply of high grade copper continues to tighten making the spread stronger. As the year is about to end, negotiations for annual contracts are in progress however premiums between buyers and sellers are seen far apart. Meanwhile, there is an increase in spot business that may have driven premiums higher



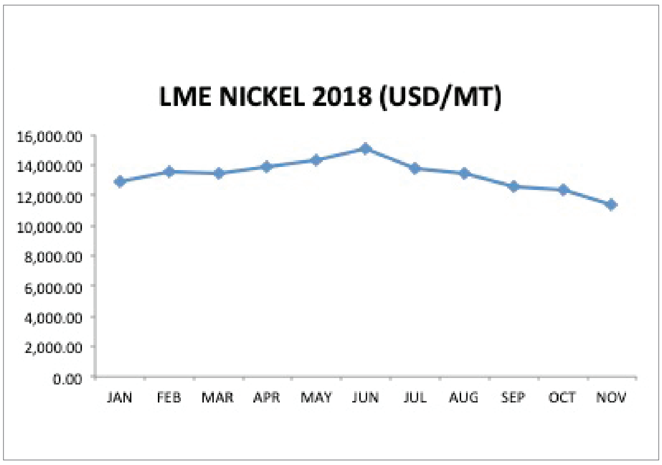
LEAD

A huge short fall is seen in the market, LME stock has dipped lowest since 2009. As per the Reuter's poll there is about 72,000 tons deficit this year and indicates a 32,500 tons shortfall for 2019. ILZSG indicated that short supply in 2018 has narrowed compared with 166,000 tons during the same period in 2017. Environmental crackdown in China may have impacted supply; zinc mine supply limitations have bolstered the shortfall of the refined metal part of lead supply. Secondary lead supply might aid the shortfall, however may not be consistent as the source is determined by the availabilities of lead-acid-batteries.



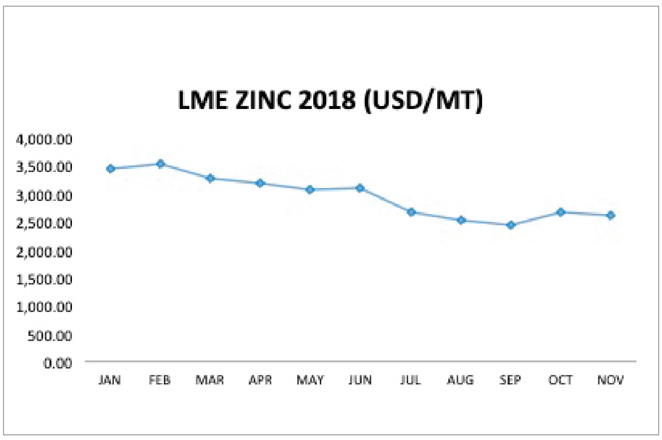
NICKEL

The swift development in electric vehicle and expanding production of high-nickel-content battery is seen to heighten the nickel demand in the long term. Nickel demand from power battery producers is on the rise where consumption is expected to increase to 370,000 tons per year in 2025 compared to 34,000 tons in 2017. In China, 897,000 EVs were produced during the first 10 months of this year. However, supply is still under constraint due to closure or suspension of 26 mines as ordered by the Philippine government. Environment Secretary Roy Cimatu mentioned on Nov 16 that six nickel mines could restart operations if they could comply with the environmental regulations. The Philippines is the world's second largest nickel ore producer and the successful reopening of these mines could boost global supply.



ZINC

Global refined zinc is in deficit this year and supply shortage is seen to progress in 2019. ILZSG states, demand exceeded supply by 305,000 over the first nine months of this year. Output coming out of China from January to October this year has declined by 3.1 percent. Production has been critically affected by China's anti-pollution drive which leads to permanent closure of smelters. Further, secondary zinc supply is seen to likely fall in 2019. Market is currently focused on long term contract closures where some contracts done below 2018 level thus weighing on spot business premium.



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