

Price Performance Base Metals



Base metals have witnessed a lot of ups and downs in 2014 as dynamics of geopolitical tensions in Russia and Ukraine dominated the global picture in the first half followed by faltering growth in China amid financing and construction sector probe in the latter part.

In addition to this, Euro Zone possibly slipping into a third recession since the financial crisis has been a matter of concern. The only saving grace for the industrial metals this year has been strong rebound in the US economy which has supported demand and provided some respite to base metal prices.

In this article, let us assess the specific fundamentals of Copper, Aluminium and Zinc, their performance in 2014 and the outlook for 2015.

only this, the aluminium market is expected to tighten significantly next year to show a 102,500 tonne deficit, from an earlier prediction of a 4,444 tonne deficit and will also be supportive of the metal prices.

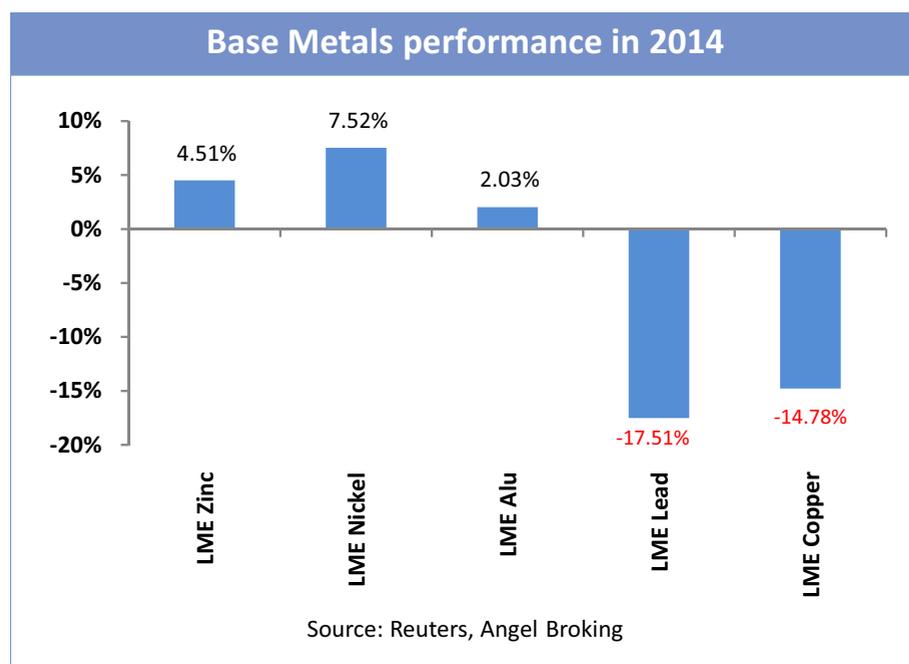
In 2015, Aluminium prices (CMP: \$1817.5) in the international markets might surge higher towards \$2300/tonne, while MCX Aluminium (CMP: Rs.113.3) prices can possibly head towards Rs.140/kg.

Zinc

Zinc prices soared to three-year highs in 2014 and ended the year 5.5 percent higher as intensifying deficit in the global market as one of the biggest mines, Century open pit in Australia is due for closure next year and the delayed start-up of its Dugald River project boosted prices. Several large, aging mines are scheduled to close next year, and miners need higher prices to justify the cost of finding and developing new sources of metal. Miners may not produce enough zinc to meet the needs of steel companies and coin makers until 2018.

Owing to this, zinc production is expected to fall short of demand for the second consecutive year in 2014. Moreover, zinc stored in the London Metal Exchange's warehouses is down 26% since the start of 2014, equivalent to only about 20 days of global production. The International Lead and Zinc Study Group further stated that refined zinc demand is expected to exceed supply by 403,000 tonnes in 2014 and 366,000 tonnes in 2015. Also, global zinc consumption is growing 7% a year, catalyzed by an automobile industry that requires zinc to protect steel components from rust and corrosion. Supply constraints could propel the metal even higher over the coming years.

For the coming year, zinc prices will



Aluminium

Aluminium has been amongst the gainers with modest gains of 3 percent in 2014 as global aluminium supplies finally appear to be turning to deficit after years of structural surplus on back of accumulating capacity closures.

In 2014, the world's biggest aluminium producers have announced production cuts. Russia's Rusal cut its production by 8% in 2013 and by a further 12% y-o-y in Q1 2014 to the annual capacity of 883,000 tonnes. Alcoa, another major producer, cut its production to 551,000 tonnes in 2014 and has permanently closed about 30% of its global aluminium smelting capacity over the last five years. On the flip side, consumption rose 6 percent to 27 million tonnes in the first half of the year, and is expected to grow over the next four years as auto makers like BMW, Ford and Mercedes use more aluminium in cars and strive to design a new generation of lighter, more fuel-efficient vehicles with reduced life-cycle emissions.

Chinese producers were very dependent on Indonesian bauxite, of which there is a lack as of now, and next year this will become a serious concern as smelters become short of bauxite. Not



Group (ICSG) forecast a lower deficit of 270,000 tonnes before swinging into surplus the next year.

On the other hand, US has ended its Quantitative Easing (QE) program owing to strong recovery in their economy while keeping its “considerable time” stance for interest rates unchanged. Also, certain significant Copper mines in Peru and Indonesia have been shut due to strikes, putting a cap on rising supply and providing a temporary respite to prices.

On the stockpiling front, China's State Reserves Bureau (SRB) continues to place orders for 150,000 to 200,000 tonnes of copper cathode after buying 200,000 tonnes of copper in March and April 2014, when copper was at its weakest price point in years.

Going forward, the red metal is likely to trend lower in 2015 as copper market is expected to show a production surplus after five years in a row of deficit. Although it was revised downwards to 390,000 tonnes in October from April's estimate of 595,000 tonnes

continue to climb as some of the world's largest zinc mines run dry amidst spurt in demand coupled with expectations of a sharp deficit. Moreover, MMG Ltd, which owns Century, planned to open a new mine in Australia next year, but it's being delayed back to late 2016 due to technical issues, thereby fuelling supply concerns further.

In 2015, Zinc prices (CMP: \$2160) in the international markets might surge higher towards \$2600/tonne, while MCX Zinc (CMP: Rs.133.8) prices can possibly head towards Rs.170/kg.

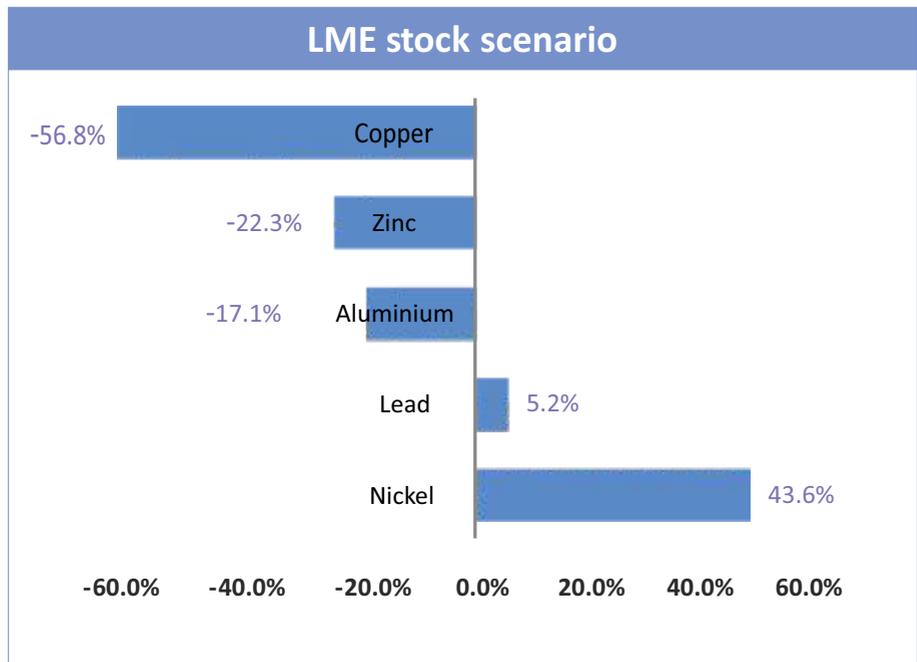
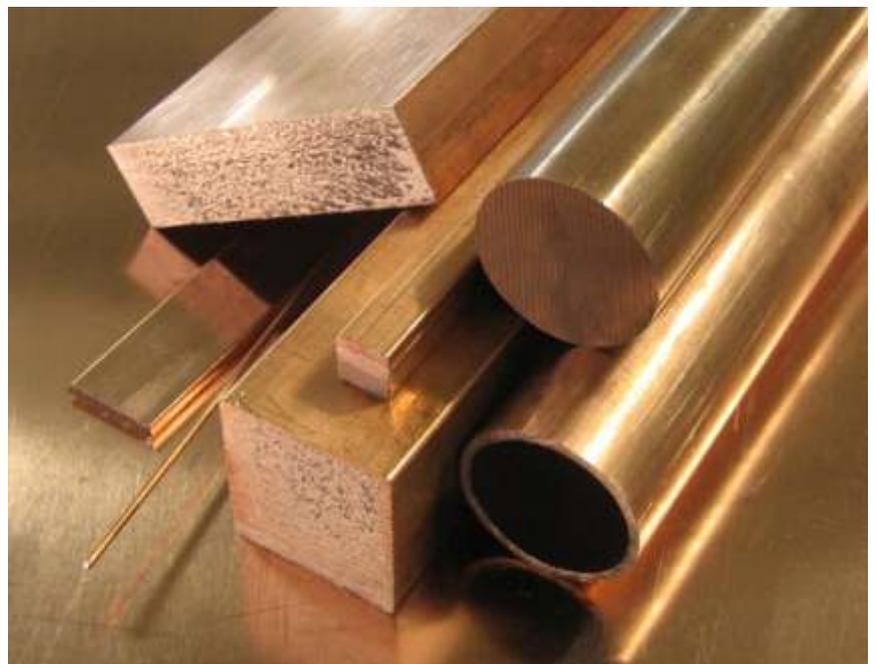
The year 2015 will be a crucial year for base metals as Chinese economy will be carefully watched over for long pending stimulus measures after it falls short of its 7.5 percent growth target for 2014. While some base metals do have an advantage of supply crunch, it will be interesting to see whether Chinese demand concerns will be a dominant factor for prices.

As of now, indication in the last FOMC meeting minutes that Federal Reserve officials are in broad agreement that US interest rates are unlikely to rise until at least April will be supportive for prices.

Copper

Copper, an indicator of the strength of the global economy, has been amongst the worst performer in the base metals space with prices declining by around 14.8 percent in 2014. Till date in this calendar year, prices tumbled after weak economic data from EU and China alongside slew of scams from China resulted in a threatening demand outlook from the biggest consumers.

Moreover, Newmont and Freeport mines which account for 97 percent of Indonesia's copper output have resumed copper concentrate exports after both the mining giants agreed to pay a revised duty of 7.5% on its exports, thereby adding to supply. Amidst these concerns, the International Copper Study



after a number of strikes in Peru and Indonesia, still supply exceeding demand will be a matter of concern. Chinese economy in absence of any major monetary policy breakthrough will further be a drag on prices. Chinese demand is expected to rise just 4.5 percent next year to 11.2 million mt compared with growth of 9% this year, citing a tight scrap market and the drop in the use of copper as loan collateral post warehousing scams.

In 2015, Copper prices (CMP: \$6104.5) in the international markets might correct lower towards \$5200/tonne, while MCX Copper prices (CMP: Rs. 382.2) can possibly head lower towards Rs. 320/kg.



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