

# Price Performance

## Base Metals



In Sep'16, base metals on the LME traded on a positive note as recent economic data sets like Industrial profits, Industrial production, retail sales and manufacturing numbers from China have shown signs of improvement.

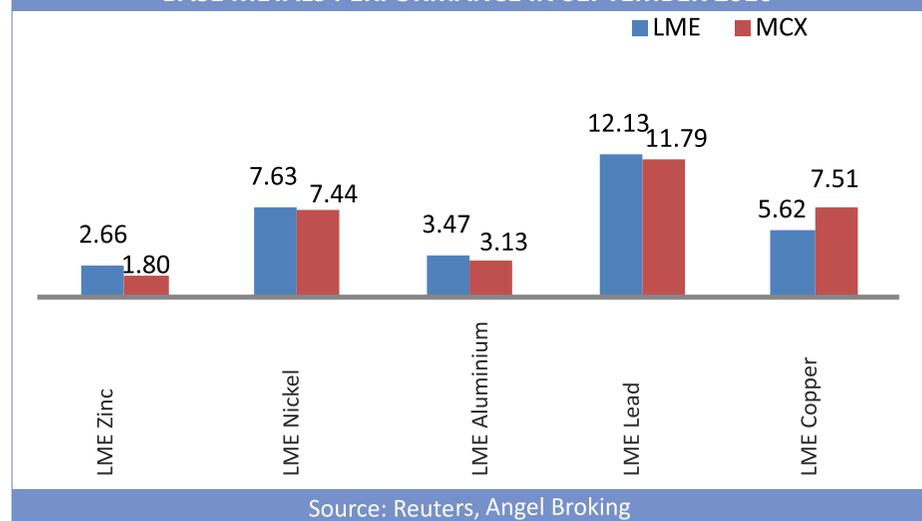
Also, a divided Federal Reserve left its policy interest rate unchanged and indicated that the committee will look into more data before taking the call. The Fed also projected a less aggressive rise in rates next year and in 2018, fanning expectations that bond yields will stay low in the foreseeable future.

Earlier in the month, the metals remained under pressure ahead of the key central bank meetings in the US, EU and Japan. Also, OPEC's informal meeting on the sidelines of IEA meeting was keenly awaited by investors across the globe for

output cuts by key members to stabilize the flagging oil prices.

In September, Aluminium stocks at the LME declined the most by 3.6 percent whereas Copper inventories gained the most by a whopping 22 percent. Sharp withdrawals of 80875 tonnes of Aluminium stocks at Vlissingen in Netherlands helped the light metal while more than 40000 tonnes Copper was hoarded at LME's South East Asian warehouses. MCX base metals trended higher in line with international markets.

BASE METALS PERFORMANCE IN SEPTEMBER 2016



### Copper



LME Copper prices surged by 6 percent in September 2016 as China, which accounts for around 40 percent of the global metal demand, showed signs of improvement. The mainland nation's industrial output, industrial profits and retail sales both showed better than expected performance in August with growth of 6.3, 19.5 and 10.6 percent respectively in August 2016.

Demand scenario too seemed bright as China's copper ore and concentrate imports were 1.45 million tons in August, the biggest in

six months and 26 percent higher year on year. The purchases included 407,451 tons from Peru and 366,772 tons from Chile, compared with 223,209 tons and 392,723 tons respectively a year earlier. China's copper smelting and refining capacity has expanded at a fast pace in the last decade as a result of which overseas purchases of concentrate and ore surged 34 percent this year.

Also, Chile's refined copper production fell by 5.2% year-over-year in the first seven months of 2016 compared to the same period last year impaired by a range of issues from floods to labor problems.

On the other hand, refined metal imports fell to the lowest level in 18 months in August to 232,066 metric tons from 251,235 tons in July as Chinese smelters ramped up production to the highest level in at least six months in August. This pushed refined-metal exports to jump more than four-fold from a year earlier. Purchases of refined metal were still 16 percent higher in the first eight months from a year

earlier. Outbound refined cargoes were 57,260 tons last month from 75,007 tons in July and 12,890 tons a year earlier, and they more than doubled in the first eight months to 335,317 tons.

Recent data published by the Peru's Energy and Mines Ministry showed country's copper output jumped to 207,867 mt in July of 2016, an almost 30% growth from last year's production of 155,313 million tonnes. Major contributor to this uptick is increased activity at Antamina, Freeport-McMoRan's Cerro Verde mine, Glencore's Antapaccay, Chinalco's Toromocho, Hudbay Minerals' Constancia deposit, and China Minmetals' Las Bambas mines.

The Las Bambas mine, which started commercial operation this year, is set to deliver 400,000 tonnes of copper per year during the first five years of production, placing it within the top three copper mines globally. The Chinese giant this year alone is expected to produce between 250,000 and 500,000 mt.

**Technical Levels (30 Days)**

Commodity	Support 1	Support 2	CMP	Resistance 1	Resistance 2
LME Copper (\$/tonne)	4480	4675	4752	4980	5085
MCX Copper (Rs./kg)	305	316	319.9	335	344
LME Aluminium (\$/tonne)	1520	1595	1678	1710	1740
MCX Aluminium (Rs./kg)	103	107	111.6	114	119
LME Nickel (\$/tonne)	9100	9800	10230	11100	11600
LME Nickel (Rs./kg)	620	660	684.1	735	755
LME Lead (\$/tonne)	1760	1945	2060.5	2235	2345
MCX Lead (Rs./kg)	119	130	137.9	148	155
LME Zinc (\$/tonne)	2130	2250	2324	2445	2520
MCX Zinc (Rs./kg)	144	151	154.9	163	168

Currently, stock scenario is very vague as inventories at the LME are at the highest since December 2013 near 370000 tonnes whereas Shanghai stocks are the lowest since July 2015 around 100000 tonnes.

All in all, Copper which is commonly called a barometer of the global economic health, benefited from recovery in Chinese economy and falling Shanghai stocks in September.

**Aluminium**

After witnessing negative performance for 2 months in a row, Aluminium prices turned positive in September and gained by around 3.5 percent on the LME and 3.1 percent on the MCX.

The major contributor for the price rise was crude oil, which accounts for 30 percent of input costs for Aluminium. Crude oil prices in September surged by as much as 12 percent as the Organization of the Petroleum Exporting Countries agreed to cut output by 0.7 million barrels per day (bpd) in its first planned output cut in eight years supported the rise in Aluminium.

Besides, China exported 390,000 metric tons of unwrought aluminum in July'16, down 9.3% from July of last year. This was a result of

decline in China's aluminum production by 2.4% in July compared to the same month last year. Both Chinese aluminum exports and production fell 7 percent and 3 percent for the first seven months of 2016.

In addition, data from the International Aluminium Institute (IAI) showed Chinese output at 20.472 million tonnes in the eight months to August, down 2.8 percent from the same period a year ago. Also, daily average primary aluminium output excluding China fell to 69,100 tonnes in August, from 69,300 tonnes in July.

Stock withdrawals too, have been gigantic as Aluminium stocks plunged by a whopping 126 percent on the Shanghai metal exchange and 25 percent on the LME so far this year. On a monthly basis, Shanghai and LME stocks are down by 34 and 3 percent respectively.

Situation in Japan is no different as Aluminium stocks at three major ports fell to 304,200 tonnes by end-August from a record high of 502,200 tonnes in May 2015, but they are still higher than the 230,000 tonnes to 270,000 tonnes held in early 2014. Despite this, Chinese markets are well stocked as bauxite imports rose five percent year-on-year to 33 million tonnes in the first seven months of the year while domestic alumina output is stable at year-ago levels of 2.2 million tonnes.

Overall, declining stocks and output buoyed the metal to sail smooth in September; still supply glut remains a major cause of concern.

**Outlook**

For October, we expect base metal prices to trade lower as 55 percent probability of US rate hike in December as indicated by CME

Group fed funds futures will continue to pressurize dollar denominated commodities. Also, absence of China from the global markets for the first 10 days will reduce volumes sharply for the month.

Copper prices will likely trade lower as risk appetite will be under pressure citing rising US rate hike bets. Also, Copper output in Peru, which is expected to become second biggest Copper producer, jumped 32 percent to 207497 tonnes in August compared with the same month in 2015 spurred by new mines. Besides, contrasting stock scenario at LME and Shanghai warehouses will continue to bother investors.

We expect Aluminium prices to trade higher from a month perspective as a 12.2 percent surge in the China's new construction starts in the first eight months of 2016 will be a boon for the metal since real estate accounts for about a third of demand for primary aluminum. China's construction boom fuelled by government infrastructure spending and a housing market rally will act as a positive factor.

Chinese supply glut fears still bother the global investors. As a result, Alcoa reduced its deficit projection for aluminum markets to 775,000 metric tons from the previous guidance of 1.1 million metric tons. Besides, Norsk Hydro and Century Aluminum expressed apprehension about the growing Chinese supply in 2H16. Owing to this, Japanese aluminium buyers agreed to a premium of \$75 a tonne for metal to be shipped over October-December, down 17-19 percent from \$82 in the prior quarter, on softer spot premiums amid a supply glut.