

Price Performance

Base Metals



In Nov'16, base metals on the LME gained momentum owing to assurance by the President elect Donald Trump in his victory speech that he would cut taxes and invest more than \$500 billion in infrastructure, the core demand area for base metals.

Adding to the positive news was

China's National Development and Reform Commission, which on 11th Nov'16 said it has approved a total of 85.6 billion Yuan (\$12.59 billion) for three railway projects.

Further supporting the prices was string of favorable data releases from the US and China, major demand driving nations for base metals. Chinese Yuan too played a crucial role in the unprecedented rally in base metals last month, as it plunged to the lowest level since June 2008.

Temporary downside was however seen after Shanghai Futures Exchange (ShFE) said it would raise margins and trading limits on futures contracts including copper, aluminium, zinc, lead, nickel and tin in an effort to ease sharp movement.

In November, Copper stocks at the LME declined the most by 15.2 percent whereas Nickel gained a marginal 1 percent. MCX base metals trended higher in line with international markets.

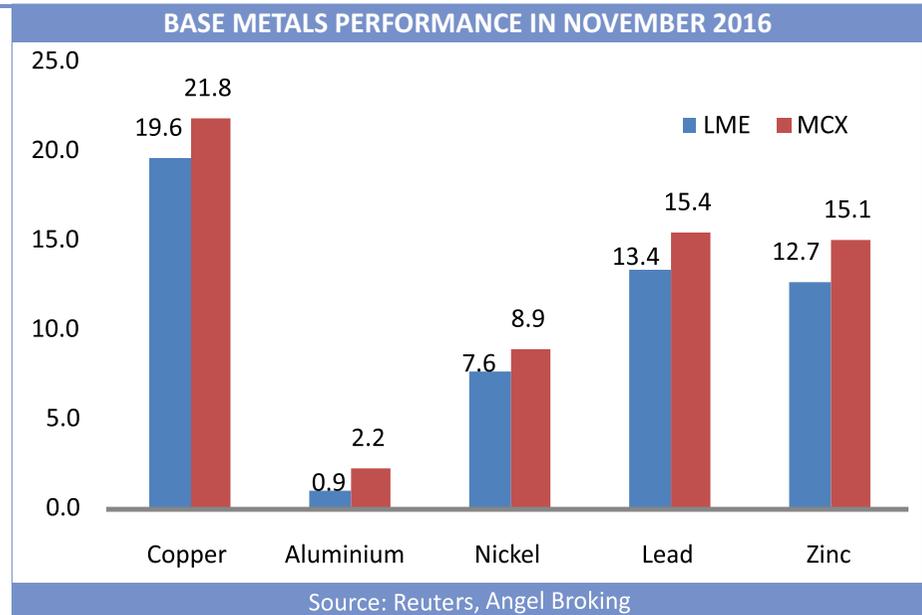
Copper



Copper prices on the LME jumped to 17-month highs and crossed the crucial \$6000/t mark before closing at \$5795/t in Nov'16 on anticipation of increased infrastructure spending in view of US President elect Trump's plan to fix inner cities and rebuild highways. In his victory speech, he pledged to at least double Hilary Clinton's estimated \$275 billion, five-year plan for roads, airports and bridges.

Also, manufacturing activity in the main consumer nations i.e. the US and China showed robust improvement. US Manufacturing PMI print for the month of November was 53.2, higher from October's 51.9 while Chinese PMI came in at 51.7 in November, the highest since the 53.3 hit in April 2012.

Other data sets too showed stabilization in



the Chinese economy, thereby boosting the metal. China's annual fixed-asset investment, a proxy for long-term spending, increased 8.3% in the January-October period although industrial production and retail sales grew less than expected in October. Official data showed foreign direct investment (FDI) into the Chinese mainland rose 4.2 percent year on year to reach 666.3 billion Yuan (around 98 billion U.S. dollars) in the first ten months of this year.

However, wild upward swings in the Copper prices temporarily halted as dollar rallied to 14-year highs after Fed Chair Janet Yellen affirmed in her testimony that Trump's victory in the Presidential elections will not

change anything. She will stay in office until her term expires in January 2018 and reiterated that the Federal Reserve remains on course of raising interest rates.

Another hit came from customs data showed refined copper imports fell 45% year-over-year and 22% month-over-month to the lowest level in over three years. Further, Chinalco reached a deal with the Peruvian government for a major expansion of Toromocho, one of Peru's biggest copper mines. Also, Peru's National Institute of Statistics said that national copper production in Sep'16 grew 35.9% as compared to the same month of 2015.

Technical Levels (30 Days)

Commodity	Support 1	Support 2	CMP	Resistance 1	Resistance 2
LME Copper (\$/tonne)	4800	5530	5921	6550	7420
MCX Copper (Rs./kg)	330	380	403.4	450	510
LME Aluminium (\$/tonne)	1620	1670	1729.5	1790	1850
MCX Aluminium (Rs./kg)	110	114	117.1	123	127
LME Nickel (\$/tonne)	9400	10300	11685	12100	13000
LME Nickel (Rs./kg)	680	740	789.5	840	890
LME Lead (\$/tonne)	1790	2060	2386.5	2595	2850
MCX Lead (Rs./kg)	120	139	161.4	180	195
LME Zinc (\$/tonne)	2130	2410	2846	2980	3260
MCX Zinc (Rs./kg)	142	165	191.7	205	225

Also, preliminary data released by the International Copper Study Group showed the global refined copper market showed an apparent production surplus of around 154,000 mt in August, mainly due to weaker Chinese demand and seasonally weak usage in other regions. For the January-August period, indications suggest a production deficit of around 91,000 mt, and a seasonally adjusted deficit of about 93,000 mt.

Despite falling from record high levels, the metal still managed to gain 20 percent on the LME and 21 percent on the MCX.

Aluminium

LME Aluminium prices have declined marginally (-0.3%) in Nov'16 to \$1731 per tonne, after two consecutive monthly gains while on the MCX, it prices gained by 2 percent to Rs.117.45/kg as rupee weakness supported the rise.

The light metal witnessed a paltry downside in Nov'16, largely on account of

weakness in the crude oil prices in the first half of the month just before the contentious OPEC meeting which was scheduled on Nov.30, 2016. The uncertainty spurred by shaky prospect of major producers being able to agree on output cuts weighed on Aluminum prices, since crude oil accounts for around 30 percent of input costs for the metal.

On the supply front, International Aluminium Institute data showed total Chinese output slipped from the highest in fifteen months of 2.75 million tonnes in Sept'16, to 2.727 million tonnes in Oct'16. Daily average output fell to 88,000 tonnes in Oct'16 against 91,700 tonnes in the Sept'16.

Excluding China, Global production for Oct'16 rose to 2.169 million tonnes, from 2.096 million tonnes recorded in Sep'16 while daily average primary aluminium output excluding China rose to 70,000 tonnes in Oct'16, from 69,900 tonnes in the previous month.

Demand scenario too looks good as Aluminum imports into the United States excluding those from Canada totaled 179,521 tonnes in September, up from the previous month's total of 160,450 tonnes. This is the third-highest monthly total of imports for the year, exceeded only by 193,345 tonnes in March and 212,797 tonnes in June.

Besides, LME inventories are down by more than 26 percent this year whereas stocks at the Shanghai exchange warehouses are at the lowest level since 2007. Aluminium stocks at three major Japanese ports stood at 278,200 tonnes at the end of October, down 2.9 percent from the previous month.

Overall, crude oil was the only spoiler for Aluminium in Nov'16 while demand-supply

balance and stocks favored the metal.

Outlook

For Dec'16, we expect base metal prices to trade higher as the Organization of Petroleum Exporting Countries finalized a deal to cut production by 1.2 million barrels a day starting in January 2017, its first reduction since 2008. Since crude oil is a crucial component of input cost for metals, the upside in oil prices will reflect in metals as well. However, potential US rate hike on 15th Dec'16 for the first time in nearly a decade would be keenly watched by global investors.

Copper prices will likely trade higher this month as lofty infrastructure spending in China is likely to keep demand robust for the metal. China has already splurged \$1.4 trillion on roads, railways, bridges, telecom networks and other infrastructure in the ten months through October. However, cautious stance ahead of crucial FOMC statement and persistently falling Chinese forex reserves to \$3.051tn in November to defend the Yuan will limit upside.

Aluminium prices are likely to trade higher in Dec'16 as positive momentum in crude oil prices would be a reason to cheer for Aluminium. Another favorable factor would be indications that the Aluminium market would be tight going forward as seen as some big aluminium producers seek a premium of \$95-\$110 per ton from Japanese buyers for primary metal shipments in the January to March period, up 27-47 percent from \$75 per ton in the previous quarter. However, restricted upside would be seen as global aluminum production expanded to a record high of 4.986 million tons in October, despite fall in Chinese production.