

Price Performance

Base Metals

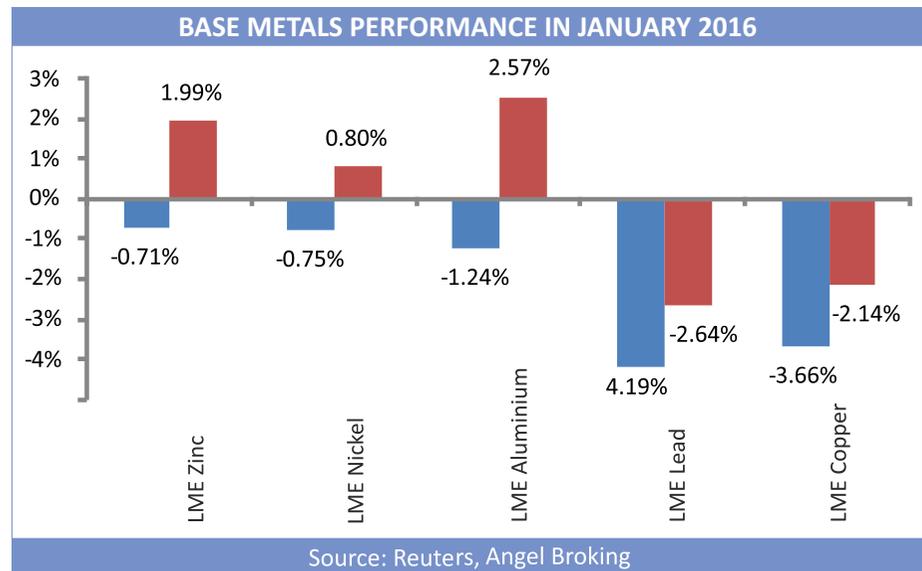


LME base metals traded lower in Jan'16 as string of weak data from the major consumer, China hurt demand. China's services sector expanded at its slowest pace in 17 months in December, while Factory activity in the world's second-largest economy shrank in December for the tenth month in a row. Also, data showed the country's forex reserves dropped by nearly \$108 billion in December, the biggest decline on record bringing total holdings to \$3.3 trillion, lowest level in three years.

Also, Fed in its latest FOMC statement said the Federal Open Market Committee is "closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook. But reiterated the interest-rate outlook from the December statement and added that it "expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate."

China's economy expanded by 6.9% in 2015, the weakest annual pace of growth in

a quarter century, sparking hopes of fresh stimulus from the biggest consumer. To support the flagging economy, the People's Bank of China said it will start implementing a reserve requirement ratio (RRR) on offshore banks' domestic deposits to restrict speculation on further depreciation of the Yuan. The central bank didn't specify a ratio, but the official reserve requirement ratio for most large Chinese banks stands at 17.5%. Also, People's Bank of China added 100 billion Yuan (\$15 billion) via reverse-repurchase agreements Friday, taking this week's injection to a record 690 billion Yuan. The authority will conduct the operations daily between Jan. 29 and Feb. 19. Further, ECB President Mario Draghi took notice of economic risks and hinted towards additional monetary stimulus as early as March. On the inventory front, Aluminium declined the most by 3.4 percent whereas Zinc stocks gained the most by 1.7 percent in January. On the MCX, base metals traded mixed in January in line with international trends.



Copper



In Jan'16, LME Copper was the worst performer second only to Lead with prices declining by 3.7 percent as the International Copper Study Group said that copper production capacity will grow 5% annually in the next four years at a time of weak demand from China, which is currently

doomed by stock markets crash and disappointing data. Latest International Copper Study Group (ICSG) data showed Copper market balance in 60,000-tonne surplus for the first ten months of 2015 compared with a deficit of around 485,000 tonnes in the first ten months of 2014.

Moreover, Copper production in Peru, the world's third-largest supplier, surged 63.5 percent to 186,450 tonnes in December than in the same month of 2014 and is poised to become the world's second-biggest copper producer this year. Latest figures from the country's mining and energy ministry, MEM showed Peru reported record copper production of 1.7 million tonnes of in 2015, boosted by the full operation of new projects and the recovery at the country's largest mine, Antamina. Adding to supplies, MMG Ltd, the

Melbourne-based arm of China's state-owned Minmetals Corp, has made a first shipment of 10,000 tonnes of copper concentrate from its Peru-based Las Bambas mine, one of the world's largest producers of the metal, to China. The mine is expected to churn out over 200,000 tonnes of copper this year, and close to 400,000 tonnes in 2017. MMG said it expected to produce 250,000 to 300,000 tonnes of copper in concentrate at the Las Bambas mine in 2016 up from 207,528 tonnes of copper in 2015 from its mines in Australia, Laos and the Democratic Republic of Congo.

However, State Reserve Bureau, which is in charge of building the country's strategic reserves of commodities from oil to rare earth minerals, took notice of falling metal prices and is likely to buy up to 150,000 tonnes of copper to boost the same.

Technical Levels (30 Days)

Commodity	Support 1	Support 2	CMP	Resistance 1	Resistance 2
LME Copper (\$/tonne)	4330	4100	4630	4710	4860
MCX Copper (Rs./kg)	296	280	316	322	332
LME Aluminium (\$/tonne)	1448	1375	1503	1550	1609
MCX Aluminium (Rs./kg)	99	94	102	106	110
LME Nickel (\$/tonne)	8127	7614	8115	8932	9298
LME Nickel (Rs./kg)	555	520	556	610	635
LME Lead (\$/tonne)	1606	1481	1766	1774	1862
MCX Lead (Rs./kg)	109.5	101	121	121	127
LME Zinc (\$/tonne)	1484	1352	1668	1690	1778
MCX Zinc (Rs./kg)	101	92	114	115	121

Also, rising demand from the major consumer restricted sharp plunge as Chinese customs data showed purchases of unwrought copper and copper products in China, the world's biggest consumer, were the second highest on record in December, reaching 530,000 metric tons. China's purchases of copper increased 34 percent from a year earlier to 423,181 tons, the most since at least 2008.

Besides, the metal found support in supply disruption concerns sparked after investors anticipated possible supply issues for copper after news that the Indonesian government is demanding a \$530 million deposit for a new smelter from Freeport McMoRan Inc before renewing the US company's export permit for copper concentrate. Overall, supply glut concerns along with faltering Chinese economy took a toll on prices.

Aluminium

For the first time in nine months, LME Aluminium prices turned higher in Jan'16 and also ended up being the best performer in the base metals space. Primary reason for the gains being supply cuts by major producers following sharp drop in prices in 2015 and anticipation of Aluminium market balance shifting to surplus in 2016.

As a part of the broader initiative to restrict further fall in Aluminium prices, Alcoa, the biggest U.S. aluminum producer, plans to close its 269,000 tonne-per-year Warrick smelter, thereby pushing U.S. aluminum output to its

lowest level in more than 65 years amid rising trade tensions with China.

Warrick is the largest currently-operating smelter in the United States and hence likely to provide the light metal the much needed boost. Post its closure; only five U.S. smelters will operate compared with eight at the beginning of 2015 and 23 in 2000.

Besides, Alcoa will only be left with one active smelter, the 130,000 tonne-per-year Massena West plant, after Evansville, Indiana plant's closure, which will take place by the end of the first quarter. According to the U.S. Geological Survey, these closures will bring down annual U.S. production of aluminum to around 720,000 tonnes, the lowest level since at least 1950.

Further, Brazil, which is the world's sixth largest producer of primary aluminum, witnessed decline of 19.7 percent in primary aluminium production to 772,200 tonnes in 2015 according to figures from the country's aluminium association, Abal. These falling numbers are an evidence of recent capacity cuts in the country amid high costs, weak domestic demand and a tougher global environment for the industry.

Inventory situation was also supportive as Aluminium stocks held at three major Japanese ports stood at 393,600 tonnes at the end of December, down 1.8 percent from a month earlier. LME stocks too showed a negative momentum with decline of 3 percent in January 2016.

In line with the same, aluminium premiums rose in Asia following settlement of the Main Japanese Port (MJP) first quarter premium at \$110 per tonne, \$20 higher than the preceding quarter's premium.

Still, Rusal increased its forecast for a market surplus in 2016 to 373,000 tonnes from 277,000 tonnes previously as Chinese smelters continues to produce despite drop in prices

thanks to lower coal and cuts to power prices. The Russian Aluminium giant added China had closed 2.5m tonnes of capacity year-to-date but 3m tonnes of new capacity had been commissioned.

Outlook

For Feb'16, we expect base metal prices to trade mixed as low volatility during the Lunar New Year holiday in China will be supportive. Adding further optimism is comments from Federal Reserve Bank of New York President William Dudley that tighter financial conditions would be taken into account at the next policy meeting in March sparked hopes that the Fed might keep away from hiking rates in 2016. However, uncertainty over agreement between OPEC and non OPEC oil producers over output cuts will hurt the risk appetite.

Copper prices will likely trade lower as news that Freeport-McMoRan Inc. is seeking to postpone the payment on a new copper smelter in Indonesia as talks to extend an export permit near completion has somewhat eased supply disruption concerns. However, China said it would reduce the minimum down payment required for first- and second-time home buyers in most cities, a move aimed at clearing a housing glut, will provide some cushion for Copper.

We expect Aluminium prices to trade higher as short covering ahead of the China's Lunar Year holiday and less volatility during the same will restrict any sharp movement. Besides, recent announcement of output cuts by Alcoa and Brazil will be supportive.

However, falling crude oil prices after OPEC biggest producer Saudi Arabia rebuffed any talks regarding output cuts will hurt the light metal. Since energy accounts for about 30 per cent of output costs and falling oil prices may have a deflationary impact, although crude is not the primary source of energy for the aluminium producers.