Price Performance

Base Metals

In the first half of 2016, base metals on the LME traded higher as major selloff in Chinese equities in January, leading to global markets plunge, prompted the PBoC and the Chinese government to act swiftly. As a result, Chinese banks armed with fresh lending quotas extended a record 2.51 trillion Yuan of new loans in January, indicating Beijing is keeping monetary policy loose to counter an extended economic slowdown.

Although rising anticipation of rate hike in the US kept investors wary throughout, comments by the Federal Reserve mostly signaled delay or fewer rate hikes owing to weak macroeconomic scenario, prospects of the EU referendum and doubts over sustainability of favorable labor market and inflation.

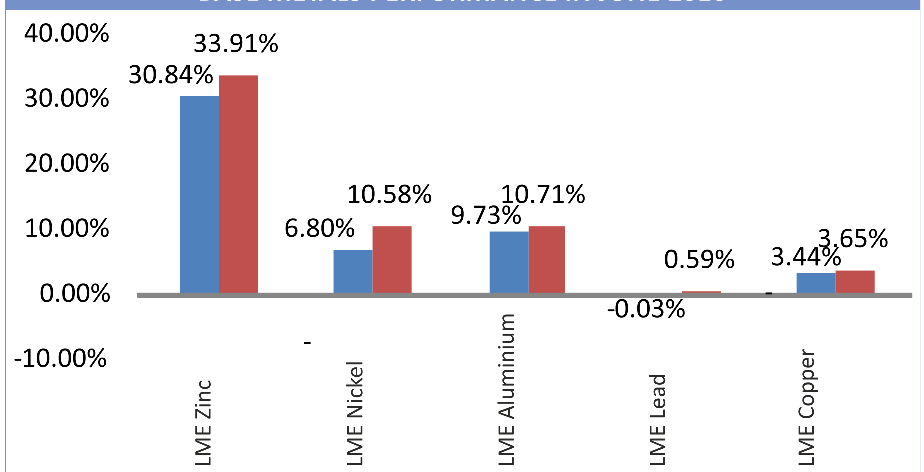
Easy money from the developed nations was a shot in the arm for metals as the European Central Bank (ECB) announced its stimulus package and cut its benchmark rate to zero, lowered its already negative deposit rate further and said it would extend its monthly asset-buying program by EUR 20 billion ($22.17 billion) to EUR 80 billion. But, suggested it was running out of room to cut interest rates, even if other stimulus options remained.

Post EU referendum on Brexit (24th June), metals got a boost ironically, supported by rising risk appetite in the global arena on hopes of easing policy measures by the major central bankers post the unexpected Brexit.

On the LME, Copper stocks declined the most by 19.8 percent whereas Lead fell the least by 3.4 percent.

MCX base metals trended higher in line with international markets.

BASE METALS PERFORMANCE IN JUNE 2016



Source: Reuters, Angel Broking

Copper

Copper, which is often considered a barometer of economic health, witnessed decent performance in the first half of 2016 after a gruesome performance last year. Prices gained more than 5 percent on a year to date basis, touched a high of $5131/tonne in Mar'16, and are currently trading around $4800/tonne.

The earlier part of 2016 was unfavorable for Copper as Chinese stocks markets plunged right in the first week, triggering circuit breaker twice and resulting in calling off the newly introduced mechanism.

Besides, Chinese forex reserves too witnessed a negative trend, and stood at $3.192 billion in May'16, indicating prolonged weakness in the economy.

Talking about Chinese growth, the numbers were stable in Q12016 at 6.7 percent from 6.8 percent in Q42015 but it gives little reason to cheer given the massive monetary easing amidst large debt bubble. China's total debt outstanding currently close to 240% of GDP is among the highest in the world and mostly went to the inefficient State Owned Enterprises (SOE). Meanwhile, Q22016 GDP is widely expected to remain stable at 6.7 percent or weaken further indicated by recent weak economic data. Manufacturing activity is reluctant to pick up and plunged to four month lows in June'16 despite Beijing's announcement of a cut in production capacity in the steel and coal industries by about 10% over the next several years.

Adding to woes, Chinese trade data showed copper exports in May surged by 256 percent to 84,959 tonnes, overshadowing a 15.9 percent rise in imports. Supply was abundant in the first four months as well as Chile exported 506,800 mt of copper cathode to China during the first four months of the year, up 30% from the same period a year ago. The Chilean Copper Commission, or Cochilco, said in its monthly report as Chile's total cathode exports rose 4.3% to 906,600 mt.

While the entire financial asset community was reeling under the pressure of Brexit, Copper prices have gained more than 3 percent post referendum, compared to the SAFE HAVEN Gold with a mere 0.5 percent upside.

Technical Levels (30 Days)

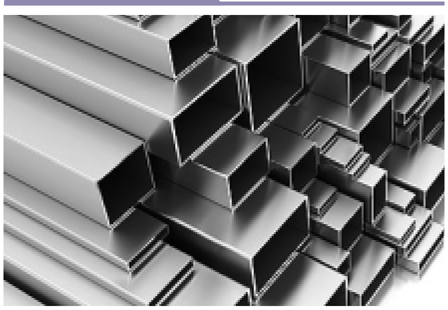
Commodity	Support 1	Support 2	CMP	Resistance 1	Resistance 2
LME Copper ($/tonne)	4562	4284	4937	4988	5149
MCX Copper (Rs./kg)	311	292	334.3	340	351
LME Aluminium ($/tonne)	1576	1480	1672	1687	1746
MCX Aluminium (Rs./kg)	106.50	100	111.6	114	118
LME Nickel ($/tonne)	8730	8040	10365	9880	10200
LME Nickel (Rs./kg)	592	545	688.9	670	693
LME Lead ($/tonne)	1694	1621	1865	1812	1871
MCX Lead (Rs./kg)	115	110	126.2	123	127
LME Zinc ($/tonne)	1955	1821	2181	2177	2251
MCX Zinc (Rs./kg)	132	123	145.8	147	152

This can be attributed to the importance the metal attaches to China, which accounts for 45 percent of Copper demand.

The sheer expectation that China will act swiftly either by cutting bank's reserve requirement ratio (RRR) several times or lowering interest rates after the much unexpected Brexit vote pulled Copper off the lows.

Overall, second half of 2016 does not look too favorable for China and this does not bode well for Copper too.

Aluminium



LME Aluminium was the best performer second only to Zinc, gaining around 10 percent in the first six months of 2016.The light metal started the year at $1510/t and touched levels as high as $1686/t during Jan – June'16 before closing at $1647/t.

The metal gained primarily as a result of surge in crude oil prices, which account for more than 30 percent of the input costs. Crude oil prices, gained 30 percent on both NYMEX and ICE, were the beneficiary of supply disruptions across Canada, Venezuela and Nigeria. Meanwhile, outages in Iraq and Libya helped limit OPEC production from hitting fresh record-highs, providing another support.

Providing further momentum to the gains was an announcement in the China's Nonferrous Metals Industry Association (CNIA) meeting in June'16 that six of the People's Republic of China's major smelters agreed to cut production in the event that aluminium prices drop below US$1,717 per metric ton.

Further, Russian aluminum giant UC Rusal said in late June that it would cut production by 200,000 tons if international prices fall below $1,500 per ton.

Inventory situation is also comfortable as stock levels fell to 2.38 million tons as of 1st July'16, down 30% on the year and the lowest in seven and a half years. Buying, too, remains robust as funds' net long positions on the LME increased to 125,600 contracts as of June 24, up 70% from the start of the year.

Besides, Aluminium stocks at three major Japanese ports - Yokohama, Nagoya and Osaka climbed for the first time in nine months in May due to an increase in imports amid softer demand at home.

But the picture was not all that rosy in Mar'16 when, China Hongqiao, the world's largest producer of aluminium, aims to raise the annual capacity of the lightweight industrial metal by around 15 per cent this year if the market recovery continues.

The company aims just over 6 million tonnes of annual aluminium capacity by the year-end, from 5.19 million tonnes in 2015 and is on track to expand its production capacity by 1 million tonnes to around 6.2 million tonnes this year. Hongqiao stands firm and is making a profit even in today's depressed aluminum market unlike Alcoa and UC Rusal.

As a result, Chinese production and exports of semi-finished products (semis) hit six-month highs in May, after decade-low prices had caused widespread curtailments in December. China's exports of aluminium semis fell in the period of January through April by 10.7% year-on-year to 1,305,000 metric tons, down from 1,450,000 metric tons in 2015.

Overall, rocky road lies ahead for the light metal as rising supply from world's largest producer will continue to be major roadblock despite falling inventories.

Outlook

For July'16, we expect base metal prices to trade lower as investors will be cautiously awaiting the ECB and Federal Reserve upcoming meetings for their actions on the monetary policy front. Along with this, crude oil prices, which form a major component of input costs for base metals will exert pressure.

Copper prices will likely trade lower as stocks of copper in LME-approved warehouses rose by a sizable 23,625 tonnes to 222,550 tonnes, the highest since February and has surged 58 percent from early April.

We expect Aluminium prices to trade lower in July'16 and could fall to 102/100 levels as anticipation of rising production in China after signs it was curbing aluminum output late last year will be a drag on prices. In line with this, Some Japanese aluminum buyers have agreed to pay producers a premium of $90 per ton for metal to be shipped in the July-September quarter, 22-23 percent down from a $115-$117 per ton premium in the previous quarter.

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