

Price Performance



Base Metals

January-April period, down from the first quarter's 10.7 per cent. Fixed investment by private firms continued to slow and rose 5.2 per cent year-on-year in January-April, down from 5.7 per cent growth in the first quarter.

To support the economy from further downward pressure, the Ministry of Finance said China's local governments must quicken spending to help reduce the size of unspent budget funds and support an economy facing downward pressure.

Besides, report by the People's Bank of China monetary policy analysis team cited the central bank will keep policy slightly loose to support the economy, which still faces downward pressure.

On the LME, Zinc stocks declined the most by 5.3 percent whereas Lead gained the most by 6.3 percent. Shanghai copper inventories plunged the most by 29 percent and Lead on the ShFE too was the biggest gainer with 29 percent.

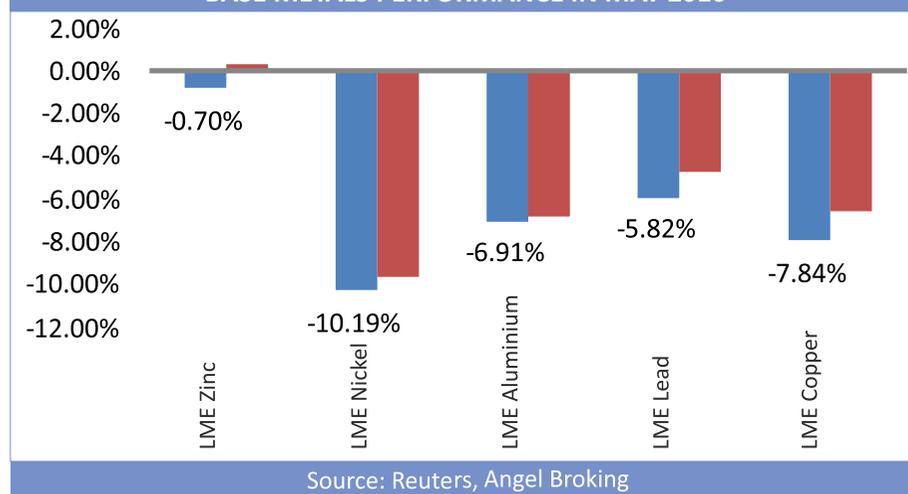
MCX base metals trended lower in line with international markets. Rupee depreciation could not do much to support the ailing metals.

LME base metals traded lower in May'16 as dollar gained momentum spurred by hawkish comments from various fed officials. The FOMC April minutes showed the central bank was likely to raise rates in June if economic data pointed to stronger second-quarter growth and firmer inflation and employment.

Latest comments from Federal Reserve Bank of St. Louis President James Bullard state that more factors favored a gradual rate increase versus keeping them steady. Also, Federal Reserve Bank of San Francisco President John Williams said he still sees the central bank raising interest rates two to three times this year.

China's investment, factory output and retail sales all grew more slowly than expected in April, adding to doubts about whether the world's second-largest economy is stabilising. The National Bureau of Statistics said growth in factory output cooled to six per cent in April after an increase of 6.8 per cent the prior month. China's fixed-asset investment growth eased to 10.5 per cent year-on-year in the

BASE METALS PERFORMANCE IN MAY 2016



Copper



In May'16, LME Copper prices plunged around 8 percent as string of weak economic data releases from China indicated underlying weakness in the economy, suggesting that stimulus measures

have not provided enough boost. Yuan depreciation too has had a cascading effect on metal imports, which fell for the 18th month in April'16 in domestic terms. Data from the Chinese custom showed China's imports of unwrought copper and copper products totalled 450,000 tonnes in April, down 21.8 percent from March's record high of 575,650 tonnes, after swelling stockpiles in the top user discouraged purchases.

Amidst all this, World's largest miner BHP Billiton is holding a contrarian view and it's starting by finding a way to boost output for the red metal from its Olympic Dam, Australia's biggest underground mine, even before a proposed and long-awaited mega-expansion of the operation takes place.

Besides, Copper output in world No. 1 producer Chile fell in April as some mines in the central part of the country were hit by heavy rains and ore grades continued to decline. The INE statistics agency said Copper mines in Chile produced 432,277 tonnes of copper in April, an 8.2 percent decrease from the previous year. From January through April, Chilean mines produced 1.83 million tonnes of copper, a 4.7 percent decrease from a year earlier.

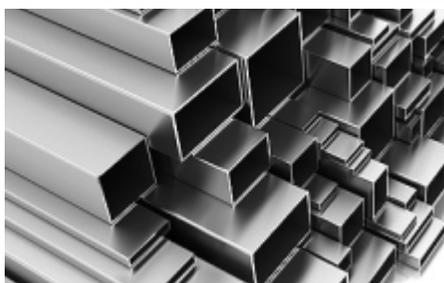
China's copper inventory surged earlier this year as the country imported record amounts of copper and as a result, stocks registered with the Shanghai Futures Exchange (ShFE) more than doubled to 386,000 tonnes over the first quarter. In May'16, Shanghai

Technical Levels (30 Days)

Commodity	Support 1	Support 2	CMP	Resistance 1	Resistance 2
LME Copper (\$/tonne)	4440	4245	4685.5	4765	4960
MCX Copper (Rs./kg)	298	285	313.10	320	333
LME Aluminium (\$/tonne)	1500	1450	1550	1640	1730
MCX Aluminium (Rs./kg)	101	97.5	103.50	110	115.8
LME Nickel (\$/tonne)	7990	7480	8670	9260	10070
LME Nickel (Rs./kg)	540	505	580.30	625	680
LME Lead (\$/tonne)	1630	1550	1730	1780	1860
MCX Lead (Rs./kg)	110	105	116.75	120	126
LME Zinc (\$/tonne)	1900	1830	2027	2050	2150
MCX Zinc (Rs./kg)	125	120	134.95	135	141

stocks have been on a downtrend, falling by a whopping 29 percent to around 221,000 tonnes. LME stock movement has been favorable with canceled warrants rising and stocks declining by 1.9 percent. Sharp fall in LME stocks was restricted owing to inflows at Singapore, two South Korean ports of Busan and Gwangyang and Kaoshiung in Taiwan.

In view of this mixed scenario, the International Copper Study Group and International Wrought Copper Council (IWCC) in their respective forecast of copper market has stated that global refined copper market is likely to remain broadly balanced in 2016/2017.

Aluminium

LME Aluminium prices turned red in May'16 and declined by around 7 percent. The light metal started the month at \$1673/t and touched levels as low as \$1531/t during the course of the month before recovering to close the month at \$1556.5/t.

Prime reason for the decline being minutes from the FOMC April policy meeting wherein Fed officials signaled the U.S. economy could be ready for another interest rate increase in June. The central bank indicated an early tightening if economic data pointed to stronger second-quarter growth and firmer inflation and

employment. Also, the World Bureau of Metal Statistics (WBMS) Report for the first quarter of the current year showed the global primary aluminum market remained almost balanced with slight surplus of 48,000 tons during Jan-Mar '16 in comparison with the deficit of 308,000 reported during entire year 2015.

Besides, numbers recently released by the International Aluminium Institute (IAI) showed worldwide aluminium production for the first four months of 2016 fell by 1.5% year-on-year, totaling a global production of 18.1 million metric tons. IAI indicates that the reason for the global decline is largely due to production cuts continued by the People's Republic of China, following up on their pledge made in December to cut capacity.

China's output for the quarter fell 7.6% to 9.74 million metric tons following an output drop of 461,000 metric tons year-on-year in the months between December and February, inclusive. Aluminum Corporation of China Ltd (Chalco) President Ao Hong too said the giant has no plans to restart two smelters with a combined capacity of about 500,000 to 600,000 tonnes that it shut last year. The firm will maintain an aluminium output target of below 3.3 million tonnes this year. Lower Chinese aluminum production is reflecting in the country's aluminum exports as well which fell more than 10% in the first four months of 2016.

Further, Aluminium stocks at three major Japanese ports - Yokohama, Nagoya and Osaka fell 6 percent from a month earlier to 324,800 tonnes at the end of April.

Even surge in crude oil prices, which accounts for more than 30 percent of input costs, could not do any good to the metal. The US rate hike factor was so dominant that other

supporting aspects were completely overlooked in the price determination.

Outlook

For June'16, we expect base metal prices to trade lower as China's foreign exchange reserves, which is the only savior for the ailing economy, fell in May to \$3.19 trillion, the lowest since December 2011, likely due to the impact of a stronger dollar.

Also, US rate hike although unlikely to be announced in June'16, still holds higher probability for July'16 amidst a generally upbeat assessment of economic conditions by Janet Yellen.

Copper prices will likely trade lower as Chile's Codelco, the world's largest copper producer, said in a report its copper output increased 11% year-on-year to 437,000 tonnes in the first quarter of 2016, and costs decreased. Also, rebalancing of stocks from Shanghai to LME indicates Chinese copper smelters continue to deliver metal into LME warehouses in Asia because of attractive warehouse incentives.

We expect Aluminium prices to trade sideways in June'16 as no decision over the production ceiling on oil prices in the OPEC summit held on June 2 will hurt oil prices, in turn exerting pressure on the metal. In line with this, a major aluminium producer has offered Japanese buyers a premium of \$110 per tonne for July-September primary metal shipments, down 4-6 percent from \$115-117 a tonne in the previous quarter.

However, US Aluminium giant Alcoa (AA) foresees a record aluminum deficit this year and says aluminum production will fall short of demand by 1.2 million metric tons.