Price Performance Base Metals

In Oct'16, base metals on the LME traded mostly lower as China's government said it would strictly control the expansion of its non-ferrous metals industry, encourage consolidation and boost proven ore reserves as part of its five-year development plan for the industry, in a major blow to the metals demand outlook.

Alongside, China's Ministry of Industry and Information Technology (MIIT) said in the latest update of its five-year industry plan that the country's apparent consumption of major base metals is set to slow over 2016-2020.

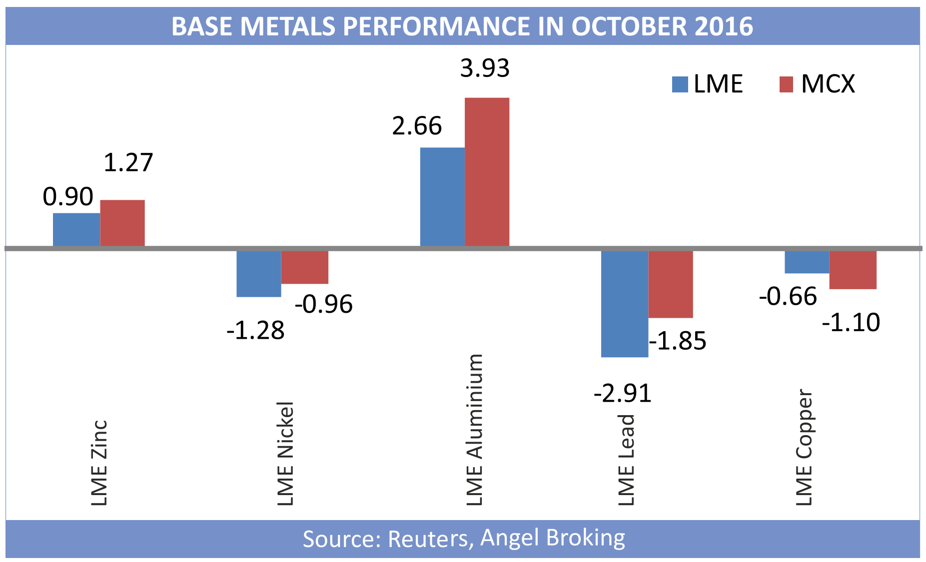
Also, China's trade balance showed a surplus of $41.99 billion in September '16, far narrower than the expected $53.00 billion. This could be mainly attributed to dent in China's exports which unexpectedly fell to seven-month low, on the back of softer overseas demand and slowing internal growth. Besides, government data showed China's foreign exchange reserves dropped around US$19 billion in September to a five-year low, with the central bank spending heavily to defend the Yuan against capital outflows.

Another jolt came from latest FOMC meeting minutes wherein several policymakers felt a rate rise was warranted "relatively soon" if the US economy continued to strengthen. Also, Yellen suggested Fed may need to run a "high-pressure economy" to reverse damage from the 2008-2009 crisis.

Dollar gained further momentum after the European Central Bank (ECB) kept its asset-purchase program at 80 billion Euros but signaled the program is likely to run past the currently scheduled end-date of March 2017. In his press conference, ECB president Mario Draghi said the bank hasn't discussed tapering and didn't provide a timeline for any potential changes.

In October, Copper stocks at the LME declined the most by 15.2 percent whereas Zinc inventories gained the most by around 3 percent.

MCX base metals trended lower in line with international markets.



Copper

LME Copper prices marginally fell by 0.7 percent in October 2016 as China's construction sector which accounts for around 15 percent of nation's copper demand, was hurt by efforts by the China Securities Regulatory Commission and the National Development and Reform Commission to head off a housing bubble. In line with the efforts, local governments in China announced new property market cooling measures, as fears of real estate bubble intensified after more cities reported big jumps in home prices in Sep'16. In response, four Chinese cities starting with capital city Beijing, tightened rules for home purchases, which increased the down payment required on real estate purchases. More than 20 cities adopted restrictive measures aiming to tame fast-rising prices, although 15 cities implemented them in the first week of October following a summer of unusually high house price growth.

China, which accounts for around 40 percent of the global Copper demand, showed signs of weakness as Industrial production fell to 6.1 per cent year-on-year in September, the slowest pace since May. Also, growth at 6.7 percent in the third quarter although met expectations, was expected to be pulled down in the next quarter citing impending slowdown in real estate owing to restrictions by the government to cool the overheated property market. Also, customs data showed China's Copper imports dropped by 26 percent from a year ago and 2.9 percent from month ago. The mainland nation imported 340,000 metric tons of unwrought copper and copper products, a yearly fall of more than 25%. Imports also fell on a monthly basis for the sixth consecutive month in September and were at their lowest since February 2015.

Despite falling demand, China's refined metal production continued to surge and rose 7.2 percent in September from a year ago. Overall output is up by 8.4 per cent this year at 6.223 million tonnes.

Technical Levels (30 Days)

Commodity	Support 1	Support 2	CMP	Resistance 1	Resistance 2
LME Copper ($/tonne)	4700	4540	4964	4690	5550
MCX Copper (Rs./kg)	314	303	332.5	333	340
LME Aluminium ($/tonne)	1651	1565	1724.5	1780	1823
MCX Aluminium (Rs./kg)	111	105	115.2	119	121
LME Nickel ($/tonne)	10030	9643	10460	10723	11028
LME Nickel (Rs./kg)	672	648	698.9	718	740
LME Lead ($/tonne)	1970	1880	2090.5	2148	2234
MCX Lead (Rs./kg)	130	126	139.8	144	150
LME Zinc ($/tonne)	2268	2105	2461.5	2536	2642
MCX Zinc (Rs./kg)	153	142	164.3	170	176

However, sharp decline of 15 percent in LME stocks over the month held the metals from falling sharply. Stock withdrawals at the Gwangyang, Busan (South Korea), Klang (Malaysia) and Singapore accounted for more than 60 percent of the total draw downs at LME warehouses. On the contrary, 15 percent stocks addition was seen at the Shanghai warehouses.

All in all, Copper was hurt from new restrictions in the Chinese property market, but was cushioned from falling LME stocks in October.

Aluminium

Aluminium prices gained momentum for the second consecutive month in October 2016 and gained by around 3.8 percent on the LME and 3.7 percent on the MCX.

Brighter demand prospects by the major producer companies spurred buying in the light metal. Novelis Inc, the world's largest maker of rolled aluminum products, sees demand for the metal growing 4-5 percent in 2017, boosted by sales to carmakers and can manufacturers. Asia would be the leader in both automobiles and cans demand growth due to population growth and increasing environmental awareness.

Another producer giant, Norsk Hydro, affirmed their global aluminum demand growth by 4-5 percent in 2016 with the CEO indicating that actually it is more likely to be in the higher end of this range.

Besides, Aluminum stocks in China's five major markets fell for three consecutive weeks ending October 31 and are likely to remain near multi-year low for the foreseeable future citing low shipments from northwest China.

Scenario at Shanghai and LME warehouses is no different. Over the year, Shanghai aluminium stocks have plunged by a whopping 124 percent to near 85,000 tonnes whereas LME stocks declined 30 percent towards 214,000 tonnes.

But all is not well in the Aluminium market as rising Chinese production has become a cause of concern for other producing countries. Data from the International Aluminium Institute (IAI) showed World Aluminium production in Sep'16 was 4.9 million tonnes, of which China produced at least 2.8 million tonnes.

The next largest producing region was the Gulf Cooperation Council (GCC), with output of 426,000 tonnes, 70 to 80 per cent of which must find a market outside the region. GCC is political and economic alliance of six Middle Eastern countries namely Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman. Emirates Global Aluminium, a member of GCC and one of the world's top 10 aluminium producers, openly expressed distress regarding the chronic oversupply from China and added that they don't expect good prices for the next couple of years.

These apprehensions are not unfounded, especially looking at the recent numbers from the IAI. Daily average primary aluminum output hit a record high in September, to 164,600 tonnes from 159,800 in the prior month. Primary reason being, surge in total Chinese output for the month to 2.75 million, the highest in 15 months. In line with the same, total global primary aluminum production increased to 4.937 million tonnes, up 1.2 percent from the same month last year, but North American output fell 11 percent to 325,000 tonnes.

Rising Chinese production in turn has given way to more exports. China exported 390,000 metric tons of unwrought aluminum, rising by 10.6 percent on year-on-year basis in Sep '16. This was preceded by yearly rises of 20.4% and 9.3%, respectively, in August and July. Overall, declining stocks kept afloat the light metal in Oct'16 while rising Chinese supply bothers global investors.

Outlook

For Nov'16, we expect base metal prices to trade lower as investors will be highly cautious in the earlier part of the month given the upcoming Presidential elections in the US. However, latest Chinese annual growth, manufacturing activity and services activity all have shown signs of stabilization, thereby providing a cushion to prices.

Copper prices will likely trade lower as new restrictions in the property market to avert a bubble is likely to hurt Chinese growth since it accounts for around 15% of gross domestic product.

Aluminium prices are likely to trade higher in Nov'16 as China Hongqiao, the world's largest aluminium producer, has been ordered by the nation's environmental regulator to shutter more than half of its capacity. However, Alcoa reduced its deficit projection for aluminum markets further to 615,000 metric tons from the previous guidance of 775,000 million metric tons

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