

Price Performance

Base Metals



Base metals traded higher in Aug'17 as China's commitment to environmental regulations is seen as a positive since it will cut supplies against bright demand prospects.

Also, persistent rally in Steel and its key raw materials citing upcoming winter output cuts had a spillover effect, leading to upside in the nonferrous metals space.

Further, ongoing tensions between the US and North Korea over the latter's Inter Continental Ballistic Missile (ICBM) program pushed DX to 91.55, lowest since January 2015, spurring the rally in dollar denominated commodities.

Copper



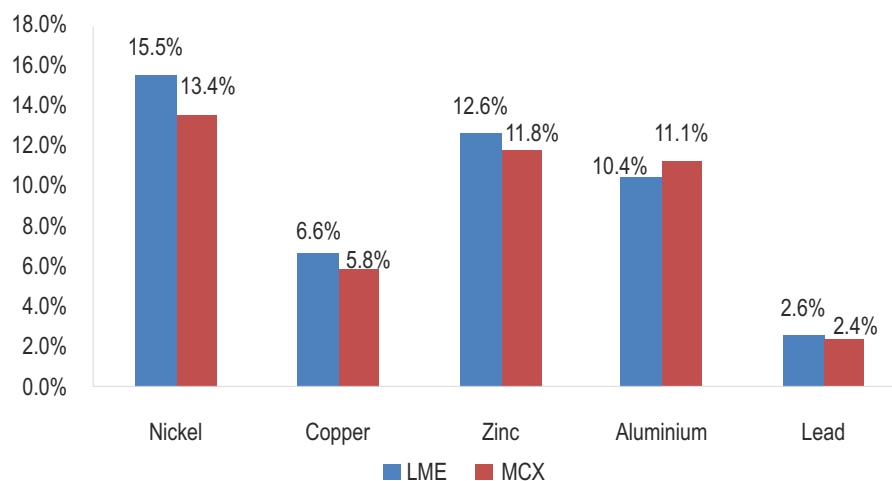
In Aug'17, LME Copper prices surged 6.6 percent to \$6788 per tonne, similarly on the MCX, prices jumped around 6 percent to Rs. 434.5/kg.

Supply disruption woes boosted upside in the leader metal. Labour problems at Grasberg, world's second biggest Copper mine in Indonesia, escalated to violence as former mine workers clashed with security forces, providing Copper another boost. This pushed average LME Copper prices to \$6514/t in Aug'17, highest since November 2014. Similarly on the MCX, prices jumped to an average of Rs. 418.29/kg in Aug'17,

Talking about inventories, Copper stocks at the LME plunged the most by around 25 percent while Nickel stocks gained the most by 4.3 percent. At Shanghai exchange, Lead stocks slipped by a whopping 34 percent in Aug'17.

Overall, Chinese output cuts and Steel rally coupled with a weaker DX boosted the base metals in Aug'17.

BASE METALS PERFORMANCE IN AUGUST 2017



Source: Reuters, Angel Broking

highest since September 2014.

Besides, unprecedented surge in Steel prices citing output cuts in China to restrict air pollution added to the upside. In another move towards this initiative, Chinese government showed its seriousness regarding environmental regulations after Shandong Development and Reform Commission (SDRC) ordered closure of illegal Aluminium capacity that was built without permits.

Further, Copper supply dynamics continue to provide a cushion after a notice by China Nonferrous Metals Industry Association to its recycling branch that imports of scrap metal including Copper in wire, motors and bulk scrap metal form will be prohibited from the end of 2018. This boosted refined metal demand prospects in the world's biggest consumer whose imports have plunged by 22 percent in Jan-July'17 compared to 16 percent increase in scrap imports.

As per the latest report from the

International Copper Study Group (ICSG), the global refined copper market balance witnessed a surplus of 15,000mt was seen in the first five months of 2017. World mine production is estimated to have declined by around 3% in the first five months of 2017, hurt by a 10% decline in production from Chile and 20% and 21% decline in Canada and Mongolia's concentrate output while global refined production is estimated to have remained essentially unchanged. Copper stocks held at the major metal exchanges (LME, COMEX, SHFE) totalled 630,262 t, an increase of 91,189 t, or 17%, compared with stocks held at the end of December 2016. Compared with the December 2016 levels, stocks were down at the LME (-5%) and up at SHFE (22%) and COMEX (93%).

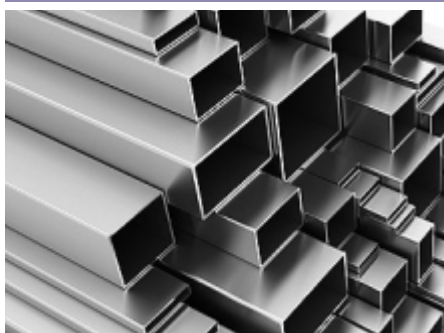
Talking about the stock scenario, Copper stocks at the LME warehouses plunged by 24.7 percent with most outflows at the Kaohsiung city in Taiwan and Singapore.

Technical Levels (30 Days)

Commodity	Support 1	Support 2	CMP	Resistance 1	Resistance 2
LME Copper (\$/tonne)	6760	6720	6886	6900	6920
MCX Copper (Rs./kg)	420	395	447	454	470
LME Aluminium (\$/tonne)	1950	1800	2088	2250	2400
MCX Aluminium (Rs./kg)	128	122	133	142	150
LME Nickel (\$/tonne)	10600	9500	11960	12300	13200
LME Nickel (Rs./kg)	710	640	769	790	840
LME Lead (\$/tonne)	2290	2180	2349	2540	2670
MCX Lead (Rs./kg)	146	139	150	160	168
LME Zinc (\$/tonne)	2900	2600	3087	3300	3600
MCX Zinc (Rs./kg)	188	170	198	214	238

While on the other hand, Shanghai copper stocks fell by a marginal 4 percent in Aug'17.

Overall, output cuts in China along with supply disruption concerns pushed the metal higher in Aug'17.

Aluminium

In Aug'17, LME Aluminium prices gained momentum after a sluggish performance in July'17 and surged 10.4 percent to close at \$2117 per tonne, while on the MCX, the metal traded higher by 11 percent at Rs.135.2/kg.

Aluminium surged to the highest since September 2014 thanks to news of more than expected Aluminium output cuts from China. In a statement released by Shandong Development and Reform Commission (SDRC) as on 8th Aug'17, the province ordered closure of 3.21 million tonnes of illegal capacity that was built without permits. This is highly significant since Shandong province has Aluminium capacity of 10-12 million tonnes, accounting for a quarter of China's total capacity.

In the statement, world's biggest

Aluminium supplier Hongqiao was ordered to shut 2.68 million tonnes per year of capacity whereas Xinfu Group, was told to close 530,000 tonnes by the end of July. Hongqiao said earlier that it would cut more than 2 million tonnes per year of "outdated capacity", but no timeline was given for the same but clarified later that it has shut down 2.68 million tonnes of production capacity, representing 29 percent of the group's total aluminium product capacity as on 15th Aug'17.

Besides, unprecedented rally in Steel and iron ore prices gave way to sharp gains in the light metal. Shanghai Steel Rebar futures are already up around 50 percent on a year to date basis, all thanks to upcoming winter output cuts in China, the spill over effect of which could be seen in the industrial metals space.

Data from the International Aluminium Institute (IAI) showed daily average output in China, the world's largest aluminium producer, fell to 86,600 tonnes in July against a record 97,700 tonnes in June. Daily average primary aluminium output excluding China remained unchanged at 70,100 tonnes in July, from 70,100 tonnes in June. Global production for June, excluding China, was 2.173 million tonnes, up from 2.102 million tonnes recorded in June while Chinese production in June fell to 2.686 million tonnes in July from 2.931 million tonnes in June.

However, it is not all rosy for Aluminium as primary metal imports to China have been declining sharply. Chinese primary Aluminium imports fell by 60 percent in July'17 to 7602

tonnes while it surged 44.5 percent to 77,730 tonnes in the first seven months of 2017. Chinese Alumina imports however, gained traction and rose 29 percent in July'17 but are still down by 12 percent on a year to date basis.

Also, latest figures released by the World Bureau of Metal statistics (WBMS) showed that primary aluminium market balance for January to June 2017 witnessed a deficit of 1074 kt, following a shortfall of 1097 kt for whole 2016.

Prospects of more supply cuts from China along with rally in ferrous metals boosted upside in Aluminium in August'17.

Outlook

Copper prices are likely to trade higher in Sep'17 thanks to bright infrastructure demand prospects while major supply concerns have eased for now after Freeport agreed to give up its majority stake in the Grasberg mine to the Indonesian government. Also, Chinese factory activity continues to be in the expansion phase, dismissing tighter credit and slowing property market induced growth concerns.

We expect Aluminium prices to trend higher in Sep'17 as unexpectedly strong industrial activity in China dismissed fears of a tighter credit and cooling property market induced slowdown, thereby brightening demand prospects. Besides, latest statement from China's environment ministry that the mainland nation plans to conduct 15 rounds of inspections during its new campaign to curb smog during winter starting September 1, 2017 and continue until the end of March 2018, will be supportive.