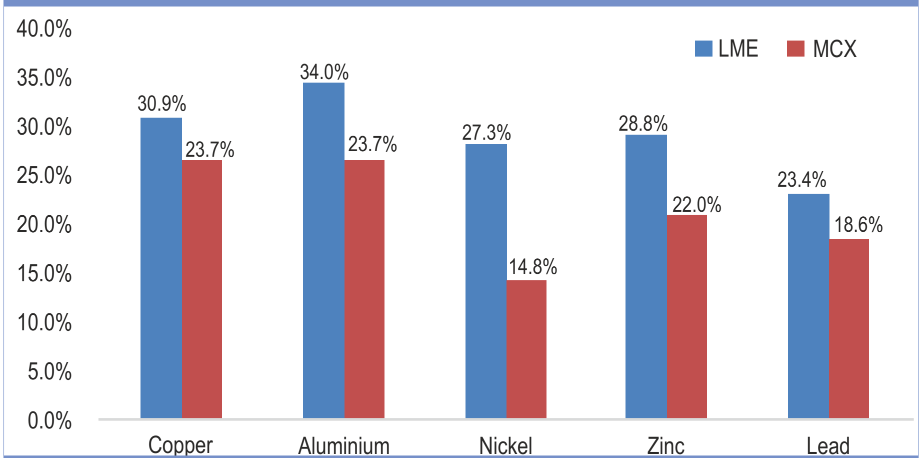
Price Performance Base Metals

Base metals traded higher in 2017 as Chinese economy outperformed estimates and is likely to grow at a stable 6.7 percent in 2017 as robust Services activity coupled with rising real estate prices despite strict curbs buoyed the mainland nation. This turnaround can be explained by the fact that Service sector represented 56 percent of total Chinese GDP in the first quarter of 2017 compared to just 42 percent back in 2006.

Talking about inventories, Zinc stocks at the LME warehouses plunged the most by a whopping 58 percent. At Shanghai exchange, Aluminium stocks jumped by 609 percent while Zinc stocks plunged by the most55 percent in 2017.

Overall, stable Chinese economy along with improvement in global demand prospectsboosted the metals complex in 2017.

BASE METALS PERFORMANCE IN 2017



Source : Reuters, Angel Commodity Research

Copper

In 2017, Copper turned out to be the second best performer amongst non agri commodities and pricessurged by a spectacular 31 percent upside on the LME and 24 percent on the MCX.

The red metal started the year with an impressive performance in Jan'17 after supply disruption concerns from world's largest producers came to the fore. BHP, the world's largest miner by market value, said it is likely to produce less copper than previously anticipated in 2017 following a sharp fall in first-half output citing strike at the Escondida mine in Chile following failed negotiations over bonus and salary. However, concerns died down soon in March as workers returned to work after an agreement with the company.

Fortunately, second quarter turned out to be a relief as the nonferrous metals space was buoyed by unprecedented rally in Steel prices, citing capacity cuts in China. The mainland nation pledged output cuts in early 2016 to cut 150 million tonnes of excess capacity by 2020 in a crackdown on polluting industries and reached 84 percent target in the first half itself.

The upside refused to die down as Copper got another reason to cheer following a notice by China Non Ferrous 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, in turn boosted refined metal shipment inflows which surged 30 percent in Aug-Nov'17 after falling by 22 percent in Jan-July'17 although the overall 4.24 million tonnes still lacks way below record 4.94 million tonnes in 2016.

Output from the biggest producing nations – Chile and Peru has also seen an upside in 2017 although the numbers were predictably lesser than expected citing strikes at major mines. World's top producer Chile produced 4.54 million tonnes in the first ten months of 2017 while Peru is likely to miss government's output estimates of 2.60 million tonnes in 2017 citing lower output at Cerro Verde, Las Bambas, Antamina and Antapaccay mines.

LME stocks were in a stable declining trend throughout 2017 ending the year 35 percent lower after a 32 percent surge in 2016. Shanghai stocks too, registered an 18 percent decline in 2017, adding further to fears of market tightness.

Overall, favorable economic data in China coupled with sharp stock outflows at both LME and Shanghai warehousesadded spark to the leader metal in 2017.

Aluminium

Technical Levels (30 Days)

Commodity	Support 1	Support 2	CMP	Resistance 1	Resistance 2
LME Copper ($/tonne)	6500	5700	7247	7900	8600
MCX Copper (Rs./kg)	410	360	465	510	555
LME Aluminium ($/tonne)	1850	1500	2280	2630	2950
MCX Aluminium (Rs./kg)	128	112	145	157	170
LME Nickel ($/tonne)	11100	9400	12645	14200	15700
LME Nickel (Rs./kg)	660	480	809	945	1090
LME Lead ($/tonne)	2150	1750	2498	2780	3040
MCX Lead (Rs./kg)	138	115	160	178	197
LME Zinc ($/tonne)	2750	2200	3316	3660	4000
MCX Zinc (Rs./kg)	175	140	212	235	265

Aluminium claimed the no.1 position across non agri commodities in 2017 and gained by a whopping 34 percent on the LME and 24 percent on the MCX.

This spectacular rally can be singlehandedly attributed to supply disruption woes that started in Jan'17 after news that the Chinese Ministry of Environmental Protection (MEP) is consulting the Chinese aluminium industry on a proposed winter shutdown of 30% of aluminium smelting and 50% of alumina refining capacity in Shandong, Shanxi, Hebei and Henan from November to March to fight air pollution. It was a big positive for the Aluminium market balance since these provinces account for seventy percent of China's total aluminium production.

The rally however, started losing steam in April'17 hurt by weakness in Coal and crude oil prices weighed on the light metal since it is highly energy intensive. While Crude oil prices plunged to nine-month lows hit by a double whammy of recovery in OPEC output in May'17 coupled with rising US production, coking coal prices fell to near one year lows in China despite rising imports from China.

It took news of more than expected Aluminium output cuts from China, to get the metal back on track. 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 was highly significant since Shandong province has Aluminium capacity of 10-12 million tonnes, accounting for a quarter of China's total capacity. News of output cuts in advance by Chinalco, China's largest state-run aluminium producer boosted Shanghai Aluminium prices to 17055 yuan per tonne, highest since 2011 while LME prices touched $2215/t, highest since March 2012 while MCX prices hit nine year highs of Rs.142.6/kg.

This shortfall reflects in the latest figures released by the World Bureau of Metal Statistics (WBMS), which shows the calculated primary aluminium market balance for Jan-Oct'17 showed a deficit of 1434 kt following a shortfall of 770 kt for entire 2016. Demand for primary aluminium for Jan-Oct'17 was 50.22 million tonnes while production rose by 1130 kt compared to 2016. Total stocks held in four major exchanges were 1848 kt at the end of October 2017, lower by 477 kt than December 2016 total.

The only negative in the Aluminium bullish story is the burgeoning Chinese output. China total Aluminium production for the first eleven months of 2017 stands currently at 29.53 million tonnes, still 2 percent higher compared to same period in 2016 despite massive illegal capacity closures in the mainland nation. Shanghai stocks at 741,324 tonnes is another matter of concern since it indicates that the output cuts are not as sharp as earlier anticipated.

News of output cuts from China coupled with rally in Steel pricespushed metal to the top in 2017.

Outlook

Copper prices are likely to continue its positive momentum in 2018 as a number of labor contracts are due for expiry in 2018, thereby giving way to heated discussions and negotiations and escalating chances of strikes at the major mines. The most significant one being Escondida mine whose extended contract will expire in June'18. Affirming its tighter status, latest forecast by International Copper Study Group (ICSG) indicates that global Copper market balance is likely to register a shortfall of 105,000 tonnes in 2018 after a likely 200,00tonnes shortfall in 2017.

Aluminium prices to trend higher in 2-018 as well as world's second biggest Aluminium producer, Rusal expects a global aluminium deficit as large as 1.8 million metric tons in 2018 following a shortfall of 1.3 million metric tons in 2017. Further, broad market tightness is reflecting in premiums as well. Japan's aluminium premium for shipments during January to March 2018 has been set at $103 per tonne, up 10 percent from $94 a tonne premium in the previous quarter, the first increase in the last three quarters.

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