

Price Performance



Base Metals

Base metals traded mostly lower in May'17 as string of disappointing economic data releases from China raised demand concerns from the world's biggest consumer. Industrial production expanded by an annual 6.5 percent in April, dropping from 7.6 percent in March while fixed asset investment data suggested a slowdown to 8.9 percent in April from 9.2 percent the previous month. Also, inflation numbers, both CPI and PPI remained below par at 1.2 and 6.4 percent respectively.

Adding fuel to the woes, credit ratings agency Moody's downgraded Chinese sovereign debt from Aa3 to A1 at a time when the mainland nation is trying to heal the economy.

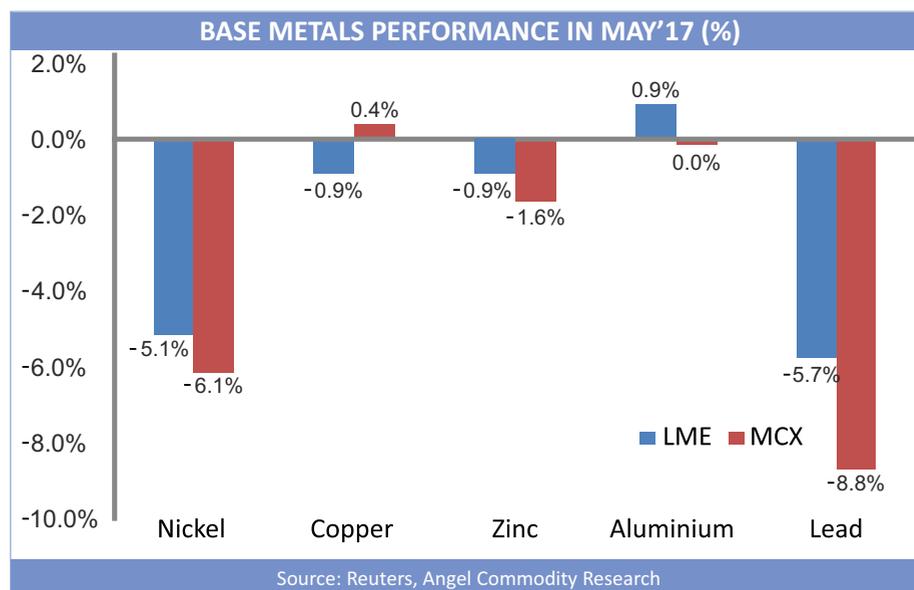
Besides, global investors waited with a bated breath for OPEC's decision on output cuts. Since the oil cartel decided to continue output cuts through Mar'18 in line with broader market expectations, prices of crude oil crashed in turn hurting the base metals.

Talking about inventories, Aluminium stocks at the LME plunged the most by around 11 percent while Copper stocks gained the most around 19 percent. At Shanghai exchange, Zinc stocks declined by a whopping 37 percent in May'17, for the second month in a row.

However, much needed optimism came

after Chinese President Xi Jinping pledged \$124 billion on Sunday for his new Silk Road plan for projects that are part of the ambitious venture linking the country to much of Asia, Europe and Africa.

Overall, unfavorable data releases from China along with Moody's downgrade of Chinese sovereign debt hurt the base metals pace in May'17.



Copper



In May'17, LME Copper prices declined by 0.9 percent to \$5682 per tonne, while on the MCX, prices gained 0.4 percent to Rs.368.75/kg buoyed by Rupee depreciation.

Copper prices touched a four-month low of \$5462.5/t in May'17 as disappointing economic data releases from China weighed on the demand prospects. Chinese Industrial production expanded by an annual 6.5 percent in April, dropping from 7.6 percent in March while fixed asset investment data suggested a slowdown to 8.9 percent in April from 9.2 percent the previous month. Consumer price index (CPI) rose 1.2 percent year on year in April, well below the government's annual target of around 3 percent set for 2017. Besides, Producer price index (PPI) rose

6.4 percent year on year in April, down from 7.6 percent in March, in the first month-on-month decline since July'16.

Moreover, Chinese refined Copper imports fell to 202,645 tonnes in April'17, down by 41 percent on a monthly basis and 31 percent lower on a year-to-date basis. This is the lowest since Feb'17 and can be attributed to tighter credit post China raised its short-term interest rates in Mar'17.

The effect of the same can be seen in 3 percent fall in world apparent refined consumption, especially due to a significant 9.5% decline in China. As a result, the global refined copper market posted a 150,000-tonne surplus during the first two months of 2017 as per the International Copper Study Group (ICSG).

Not only this, Moody's on 24th May, 2017 downgraded China's long-term local currency and foreign currency issuer ratings to A1 from Aa3 and changed the outlook to stable from negative. This step was taken on expectation that China's financial strength will erode somewhat over the coming years, with rising economy-wide debt being the major concern.

Talking about the stock scenario, Copper stocks at the LME warehouses jumped by a whopping 20 percent with most inflows at the Kaohsiung port city in southern Taiwan and Rotterdam warehouse in Netherlands. While on the other hand, Shanghai copper stocks fell by a marginal 3.2 percent in May'17.

Amidst such gloom, Chinese President Xi Jinping pledged \$124 billion for his ambitious new Silk Road plan, as a new way to boost development and expand links between Asia, Africa, Europe and beyond underpinned by billions of dollars in infrastructure investment. Also, latest data from the National Bureau of Statistics (NBS) showed real estate investment in China rose 9.3 percent in the first four months of 2017 from a year earlier.

Besides, the union at Freeport-McMoRan Inc's operations in Indonesia extended a strike beyond May 30 to protest layoffs and furloughs at the world's second-biggest copper mine. About 10,000 workers, including those employed by contractors, are on strike from about 30,000 workers at the mine.

Chile produced 429,241 mt of copper in April, down 1.8% from a year earlier but up 13.5% on the

Technical Levels (30 Days)

Commodity	Support 2	Support 1	CMP	Resistance 1	Resistance 2
LME Copper (\$/tonne)	5300	5490	5629	5860	6050
MCX Copper (Rs./kg)	335	350	363	385	400
LME Aluminium (\$/tonne)	1820	1870	1922	1980	2030
MCX Aluminium (Rs./kg)	123	125	123	127	128
LME Nickel (\$/tonne)	8373	8663	8895	9408	9863
MCX Nickel (Rs./kg)	540	560	573	612	645
LME Lead (\$/tonne)	1900	2020	2095	2250	2380
MCX Lead (Rs./kg)	125	131	135	144	152
LME Zinc (\$/tonne)	2350	2470	2502	2720	2830
MCX Zinc (Rs./kg)	154	161	160	174	180

month as output began to recover from a prolonged strike at the giant Escondida copper mine that halted production for most of February and March. Also,

Production during the first four months of the 2017 totaled 1.637 million mt, down 11.3% from the same period last year.

Overall, Chinese economic weakness reflected in the global barometer in May'17.

Aluminium

In May'17, LME Aluminium prices rose 0.9 percent to \$1928 per tonne, while on the MCX, prices traded flat at Rs. 123.3/kg.

The light metal returned to the positive territory in May'17 following reassurance of output cuts by China's largest aluminum maker, Chalco. At the very onset of this month, Lu Dongliang, a senior vice president at Chalco, said that the Chinese government is serious about forcing aluminium producers in 28 cities to cut output during winter, potentially cutting annual total production by 3-4 percent or 1-1.5 million tonnes.

Tightening is expected in the coming months as a result of tighter environmental regulations in China however currently the Aluminium markets there are well supplied. Latest figures released by the National Bureau of Statistics showed China's primary aluminum production jumped 7.6 per cent to 2.766 million tons in April, compared to the same month last year. During the first four months of 2017, the country's primary aluminum production reached 10.973 million tons, a rise of 10.1 per cent compared to the corresponding period of last year.

Data from the International Aluminium Institute (IAI) confirmed the same as daily average output rose to 92,200 tonnes in April'17 compared to 87,300 tonnes in Mar'17 while total Chinese production in April'17 jumped to 2.766 million tonnes from 2.707

million tonnes in Mar'17.

China's alumina production was not behind either as it increased by 24.8 percent to 6.403 million tons in April, compared to the same month last year. During the first four months of 2017, the country's alumina production reached 24.459 million tons, a rise of 21.1 percent compared to the corresponding period of last year.

On the contrary, Daily average primary aluminium output excluding China fell to 70,300 tonnes in April, from 70,500 tonnes in March and Global production for April, excluding China, was down to 2.11 million tonnes, from 2.185 million tonnes in March as per the IAI.

Moving onto demand scenario, Primary Aluminium imports from China jumped 56.3 percent in April'17 to 7648 tonnes and surged by a whopping 170 percent to 51,509 tonnes in the first four months of 2017. Chinese Alumina imports jumped by 146 percent month on month in April'17 but are still down by 12.5 percent on a year to date basis.

The optimism goes even further as Russian aluminium giant Rusal stated that global demand for aluminium continued to grow in the first quarter of 2017 buoyed by the transportation sector, wherein the focus has shifted to light-weight vehicles with reduced emissions in transport. The company estimated Aluminium demand grew 5.5 percent year on year in the first quarter to 15 million tonnes while global supply grew 7.8 percent to 14.9 mln tonnes, leading to a balanced market.

As per the World Bureau of Metal Statistics (WBMS), primary aluminium market balance for January to March 2017 witnessed a deficit of 356 kt following shortfall of 1120 kt for the whole of 2016. Total stocks held in the four exchanges in London, Shanghai, USA and Tokyo were 2238 kt at the end of March 2017, 87 kt below the December 2016 total.

Stocks at the LME warehouses have also been supportive of the metal. LME Aluminium stocks currently, at 1.4 million tonnes are down by 36 percent so far in 2017 and 10 percent lower in May'17.

Crude oil prices, though restricted the optimism in Aluminum, as they plunged more than 2 percent in May'17, after OPEC output cuts extension through March 2018 disappointed global investors

Overall, Aluminum prices this year have been buoyed largely by upcoming output cuts in China although falling oil prices played a spoiler in May'17.

Outlook

Copper prices are likely to trade lower in June'17 as global economic uncertainty refuses to slow down with another set of important economic events lined up this month. In the very first week, investors will cautiously watch Britain's Parliamentary elections scheduled on 8th June'17. Further, FOMC statement in the subsequent week on 14th June'17 will keep the risk appetite under control.

We expect Aluminium prices to trend lower in June'17 as weakness in Crude oil, an input cost constituent, owing to rising U.S. production and glut fears post President Trump's withdrawal from the Paris Climate Accord will weigh on prices. Besides, Japan's aluminium premium for July-September primary metal shipments has been set at \$123 per tonne, down 4 percent than the \$128 per tonne premium in the previous quarter.

Further, Macroeconomic uncertainty in the global arena in June'17 ahead of Britain's elections and FOMC statements is likely to hurt risk appetite.

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