



**SPECIAL MONTHLY
REPORT ON**

**BASE
METALS**

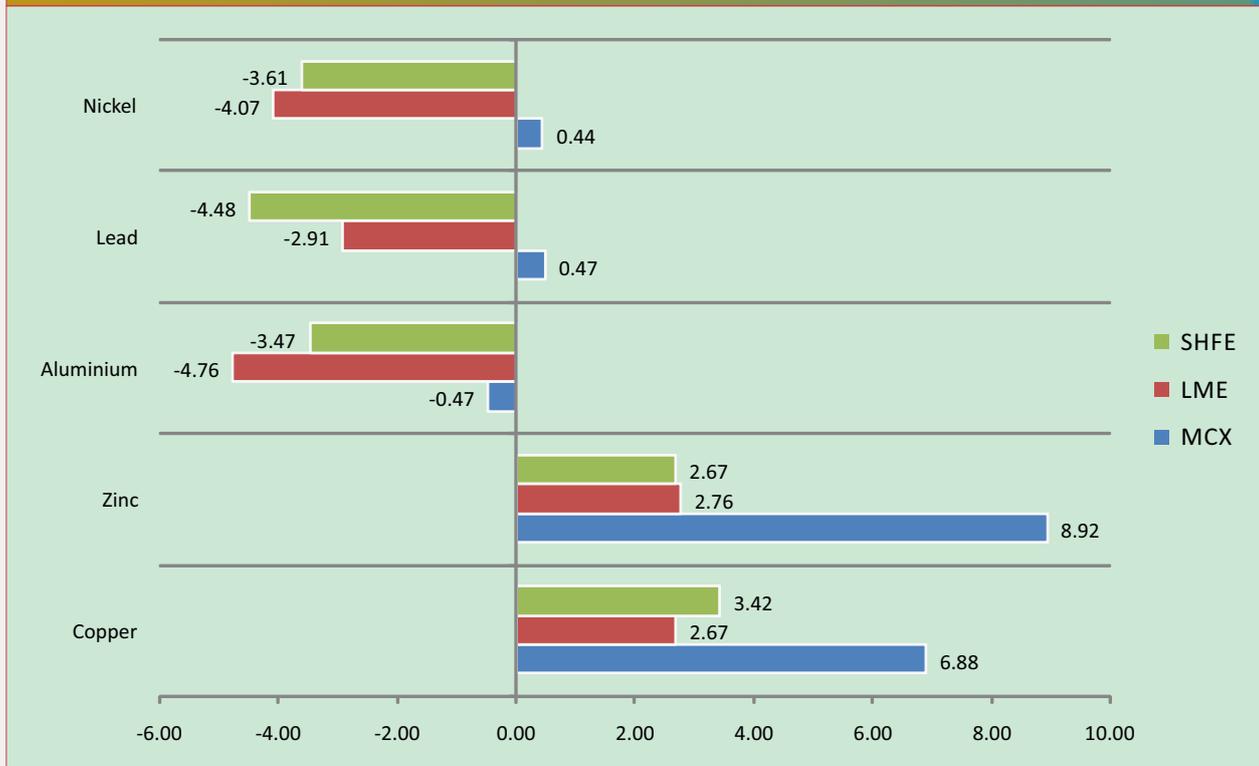
OCTOBER 2018



Moneywise. Be wise.

COPPER • NICKEL • LEAD • ZINC • ALIUMINUM

BASE METALS PERFORMANCE (September 2018) (% change)



BASE METALS PERFORMANCE (January - September 2018) (% change)



COPPER

Overview and outlook

Copper ended in green in the month of Sep as drop in stockpiles and supply constraints supported the prices higher. Copper traded in range of 414.30-463.25.

Global miner BHP Billiton Ltd stated that a fire at its Spence copper mine in Chile had forced it to partially shut down operations. Spence produced 198,600 tonnes of copper in 2017. Meanwhile, strong demand from China tracing the Copper import premiums of \$107.5 per tonne since October, 2015 brings in strong support for the rise in prices.

US and China countries are keeping sentiments downbeat but good demand and supply issues can keep the prices well supported. Growth in China's manufacturing sector sputtered in September as both external and domestic demand raising the pressure on policymakers as U.S. tariffs appear to be inflicting a heavier toll on the Chinese economy.

Copper can trade on sideways to upside bias as it can take support near 425 while upside will be capped near 475.

Key news

Falling LME stocks supportive for Copper

LME stocks have been on a downtrend for some time, falling below 200,000 tonnes. Copper inventories in LME warehouses at 199,125 tonnes have nearly halved since late March and are at their lowest since December last year. Cancelled warrants - material earmarked for delivery - at more than 50% of total LME stock and a large holding of copper warrants at between 50 and



79% are also worrying for users of the exchange.

China increased RRR to support its economy

PBoC, where it moved to support the economy by slashing the level of cash that banks must hold as reserves, injecting a net 750 billion Yuan (\$109 billion) into the financial system. Reserve requirement ratios (RRR) currently are at 15.5% for large commercial lenders and 13.5% for smaller banks - would be cut by 100bps effective Oct. 15.

Growing demand from China to support Copper

Copper demand is being driven by China, which is trying to move away from investment-led growth to more consumer-led growth. Demand from most end-use sectors in China is expected to remain firm, resulting in copper demand growth of about 3.5% next year. Tightness in copper scrap supply is also expected to boost Chinese demand for refined copper next year. China severely restricted the flow of copper scrap imports this year after implementing import bans on "Category 7" waste material early in the year. Copper prices are also likely to be supported by declining mine output. Global mine output is expected to grow only 1.2% next year compared with about 1.8% this year.



Source Kitco metals

Nickel

Overview and outlook

Nickel traded on flat note last month as falling stockpiles supported the prices but trade war concerns capped the upside. Nickel moved in range of 879.60-956.90 in MCX.

Nickel can trade with mixed bias as it can take support near 900 and can face resistance near 980 in the month of Oct 2018.

Key news

China battery firms set up \$700 mln nickel joint venture in Indonesia

Chinese battery firm GEM Co Ltd on stated that it was teaming up with four companies to invest a total of \$700 million in a project to produce battery-grade nickel chemicals in Indonesia.

Electric car bets boosting nickel demand

Expectations of a boom in demand for electric vehicles are leading investors and battery makers to stockpile nickel and helping to fuel a spike in global prices of the metal, Russian mining company Norilsk Nickel stated recently. Nornickel, the world's second-largest nickel producer, said demand for the metal from the battery sector leapt 38 percent in the first half of this year versus the same period last year.



Source Kitco metals

Lead

Overview and outlook

The battery metal lead traded on sideways path last month as fear of escalation of trade war between US and China kept the prices under pressure but bounce back in demand and stringent environment restrictions gave underlying support.

Lead prices moved in range of 142-151.65 in the month of September. Although the forward curve of the lead market is presently in contango, expect the continued strengthening of the fundamentals to tighten time-spreads, which should therefore result in a positive roll yield, on top of the appreciation in spot lead prices.

In the month of Oct battery metal can trade on sideways path as it has support near 135 while it has resistance near 154 in MCX.

Key News

Global Lead acid battery Market

The global Lead Acid battery market size was valued at USD 46.6 billion in 2015 and is expected to reach USD 84.46 billion by 2025, according to a new report by Grand View Research, Inc. Expansion of the automotive industry in China, India, Brazil, Mexico, South Africa, Indonesia, and Germany is anticipated to drive industry growth. Furthermore, increasing utilization of energy storage systems and UPS in industries including mining, oil and gas, nuclear power, electricity generation, gas turbine, construction, hospitality, banking, manufacturing, and off-grid renewable is anticipated to drive Lead Acid battery demand over the forecast period.

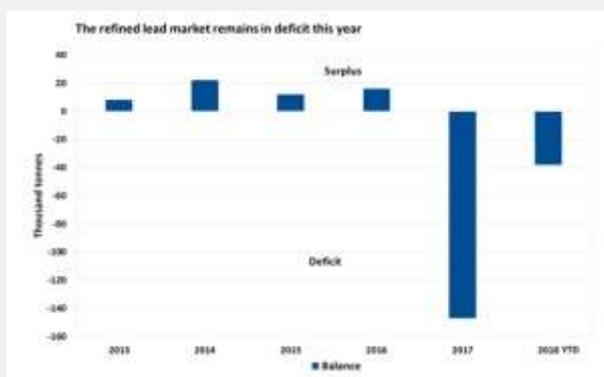
Lead demand to increase in winter season

Battery season has started since the start of September with Lead Acid Batteries (LAB) manufacturers boosting their lead offtake ahead of

the large wave of battery replacements in the winter in the Northern Hemisphere.

World Refined Lead Metal Balance-ILZSG

ILZSG Group anticipates that global Lead metal output will be constrained by tightness in the availability of lead concentrates and that demand for refined lead metal will exceed supply by 123kt in 2018. This represents a change to the previous prediction of a 17kt deficit in the global lead market with the main reasons for the revision being lower than expected lead metal output in Australia and China. In 2019, a surplus of 50kt is expected.



Source Kitco metals

Zinc

Overview and outlook

Zinc prices jumped higher last month as its prices appreciated by more than 8 per cent on domestic market on supply concerns. Overall zinc traded in range of 163.80-185.10.

With regard to the global refined zinc metal market balance, in 2018 the Group anticipates that global demand for refined zinc metal will exceed supply by 322kt resulting in a further draw down of both reported and unreported stocks. In 2019, the market is expected to remain in deficit with the extent of the shortage forecast at 72kt.

In the month of Oct, Zinc can trade with upside bias as can take support near 185 and can face resistance near 215.

Key News

Falling stockpiles supporting Zinc

Zinc hit its highest in nearly two months on falling stockpiles and rising Chinese premiums, but gains were capped by signs that growth in China is cooling. Zinc inventories in ShFE warehouses are at more than decade lows and premiums - or surcharges for physical metal - in Shanghai of above \$345 a tonne have hit their highest since November 2013. Chinese zinc spreads are screamingly bullish - running at around their most backwardated level in a decade... likely driven by a combination of Chinese smelter output cuts and consumer stocking.

China Hebei sets strict new emissions standards for steel mills

China's Hebei province, the country's biggest steel producer, will force all its mills to comply with strict new emissions standards by 2020 as part of its campaign against air pollution, according to newly published industry guidelines. In a policy document,

the provincial environmental protection agency said newly built steel producers will be forced to comply with "ultra-low" emissions restrictions starting from 2019, while existing firms will be given until October 2020 to meet the new standards.

ILZSG estimates

Zinc demand

World demand for refined zinc metal is forecast to increase by 0.4% to 13.74 million tonnes in 2018 and then by 1.1% to 13.88 million tonnes in 2019.

In China, the latest official reported figures indicate that a slowdown in refined zinc metal production will not be fully compensated for by an increase in net imports and therefore apparent demand is expected to fall by 0.5% in 2018. Activity in the galvanizing industry, notably regarding smaller-sized plants, has been adversely affected by closures or production cutbacks due to the enforcement of environmental rules. In 2019, Chinese demand is expected to rise by a modest 0.8%.

Apparent usage in the United States is forecast to increase by 2.1% this year with a 0.9% rise anticipated for 2019. European demand is predicted to grow by 1.6% in 2018 with rises in Belgium, France, Italy and Norway being partially offset by a reduction in Germany. A rise of 1% is expected in Europe in 2019.

Elsewhere, apparent usage is anticipated to rise in India and to remain stable both in Japan and the Republic of Korea in 2018 and 2019.

Zinc supply

World zinc mine production is forecast to increase by 2% to 13.03 million tonnes in 2018 and by a further 6.4% to 13.87 million tonnes in 2019.

A rise in Australia this year will be influenced by an increased contribution from MMG's Dugald River mine which opened in late 2017 and the commissioning of the New Century Resource's and Hellyer tailings

projects. In 2019, a further significant expansion at New Century Resources' 264kt per year capacity operation is forecast. In addition, Heron Resources' new Woodland mine is scheduled to open during the first quarter.

The notable increase in Australia's mine production in 2018 will be partially offset by a 2.5% fall in Chinese zinc concentrates supply. Output is also expected to be lower in Canada, India and Mexico but to rise in Cuba, Kazakhstan, Peru, South Africa, Turkey, and the United States.



Source Kitco metals

Lead and zinc Spread



Source: Reuters

Analysis: Lead and Zinc spread widened drastically recently as zinc outperformed lead by wide margin on supply concerns. This spread can move in range of -64 to -45 in the month of Oct 2018.

Aluminum

Overview and outlook

Aluminum ended on negative note as it moved in range of 143.95-151.60. Unionised workers at aluminium producer Alcoa's Western Australian operations agreed to end a strike that lasted more than six weeks after securing better job security provisions in a new wage agreement.

Aluminium prices can trade on sideways path as some short covering can be seen at lower levels. It can take support near 138 and resistance near 165 in MCX.

Aluminium prices have been supportive as stocks in LME warehouses fell below a million tonnes for the first time since March 2008 last week at 999,925 tonnes. But China decided not imposes blanket cuts on industrial output in 28 northern cities this winter.

Key News

Norsk Hydro halted operations supporting Aluminium

Norsk Hydro halted operations at Alunorte, last month and asked for a report explaining the decision. Aluminium later corrected sharply, giving up all the gains which hit had garnered on back of alumina shortage expectation of Norsk Hydro, Brazil announced closure of plant.

Drop in stockpiles also supported Aluminium prices

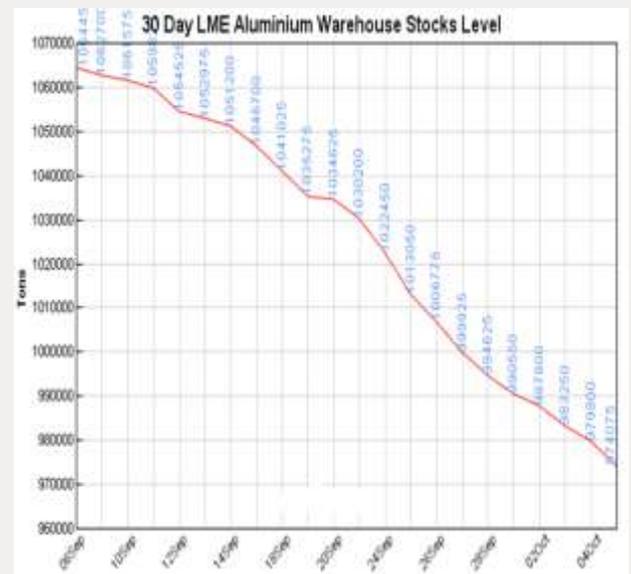
Aluminium market was also concerned about aluminium stocks on the LME market, which at 987,800 tonnes have more than halved since January last year and are at their lowest since early 2008.

Japan Q4 aluminium premiums set 22 percent lower than Q3

Premiums for Japanese aluminium shipments for the October to December quarter were set at \$103 per tonne, down 22 percent from the previous quarter, as Asian spot premiums fell amid ample supply, four sources directly involved in the pricing talks said. The new premium compares with the \$132 per tonne premium in the July to September quarter and follows three quarters of rising premiums.

India's aluminium makers win Japan sales in market shake-up

Indian aluminium makers including Hindalco Industries and Vedanta Ltd are boosting sales to Japan as U.S. sanctions against Russia's Rusal and import tariffs shake up traditional supply routes.



Source Kitco metals

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