

Base Metals Update

Emirates NBD Research

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December 2017

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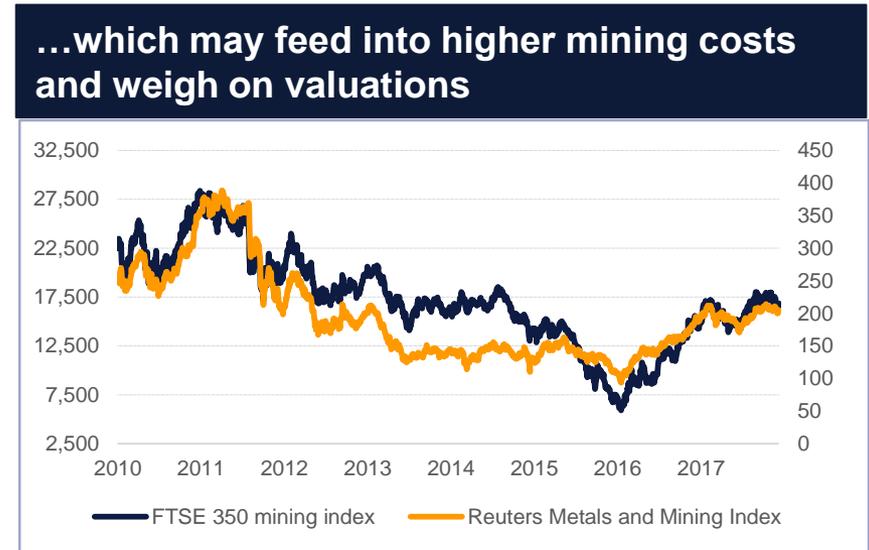
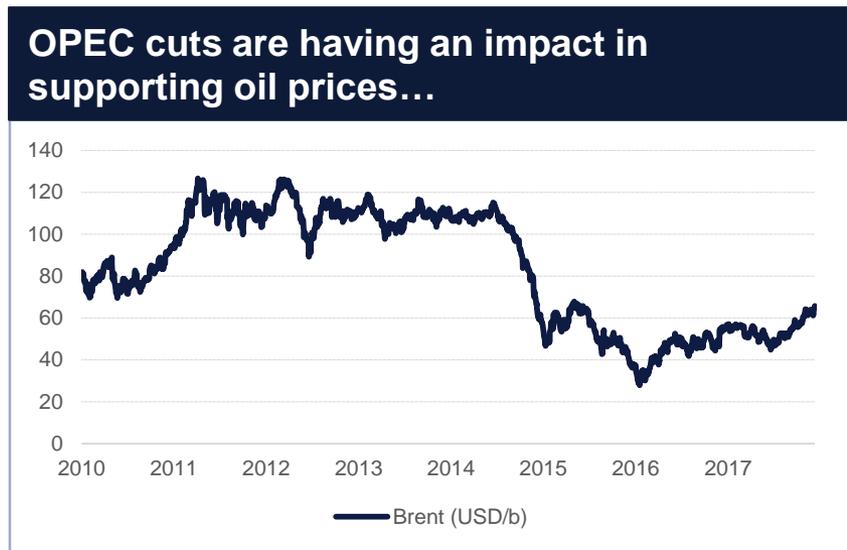
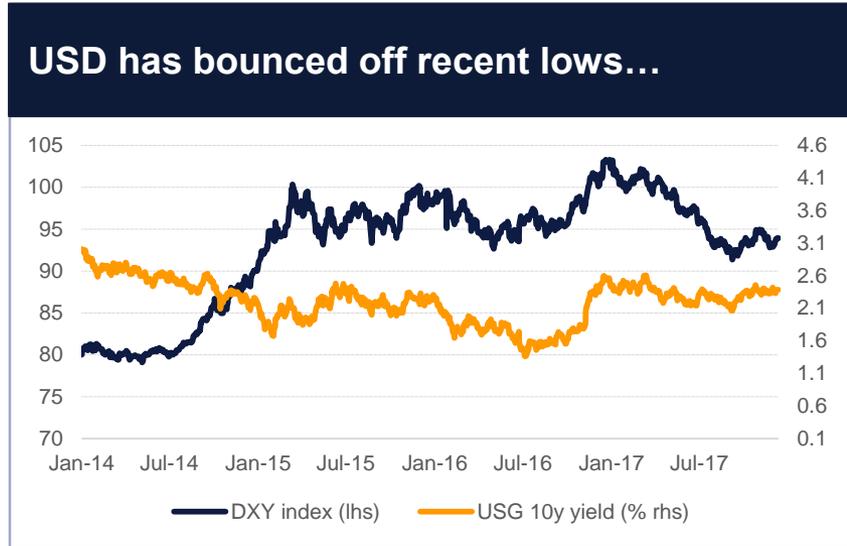
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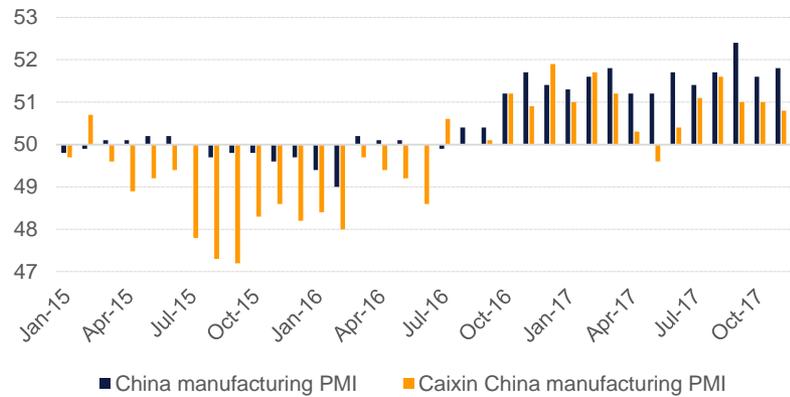
Benign economic conditions looks set to persist into 2018—barring a correction in equity markets



Source: EIKON, Emirates NBD Research.

China will end 2017 with strong momentum, particularly in heavy industry sectors

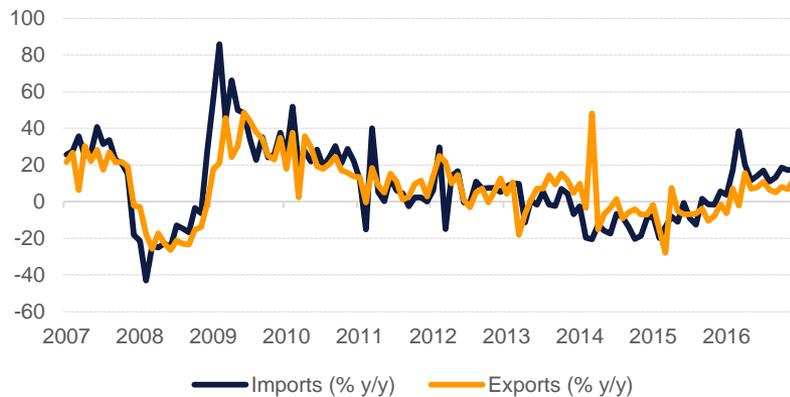
Growth in manufacturing on a solid footing...



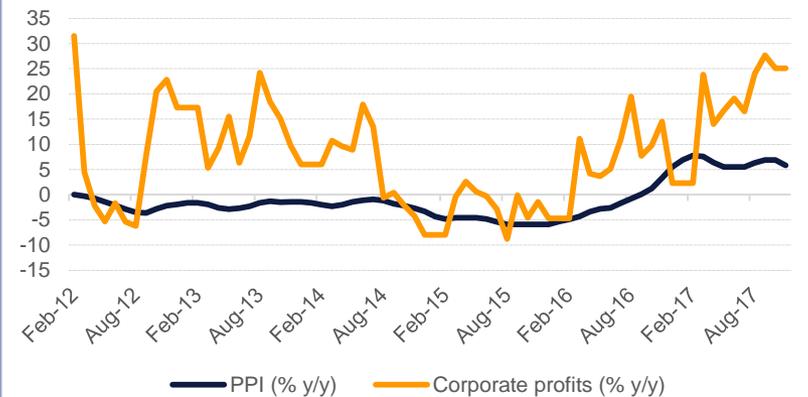
...and construction spending looks to have stabilized at new higher levels



Improving global economic conditions help trade sector in China...



...while higher metals prices are benefitting Chinese companies



Outlook for oil in 2018 remains bounded by challenges

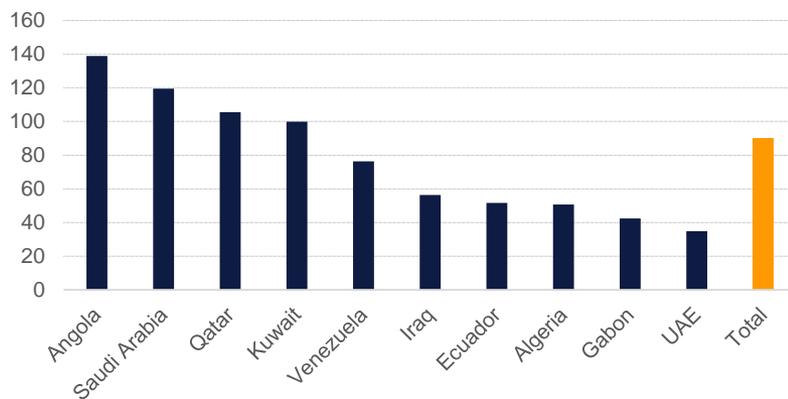
Highlights

- Emirates NBD Research expects Brent futures to average USD 56/b in 2018, meaning prices will correct downward from current levels
- OPEC deal compliance has been high (89% on average for total OPEC production in Jan-Oct) but needs to be spread out and cuts to be enforced for all of 2018 for impact to stick
- Increase in non-OPEC supply and slower demand growth pose a major challenge for OPEC to stick to its cuts or risk inventories tracking higher again

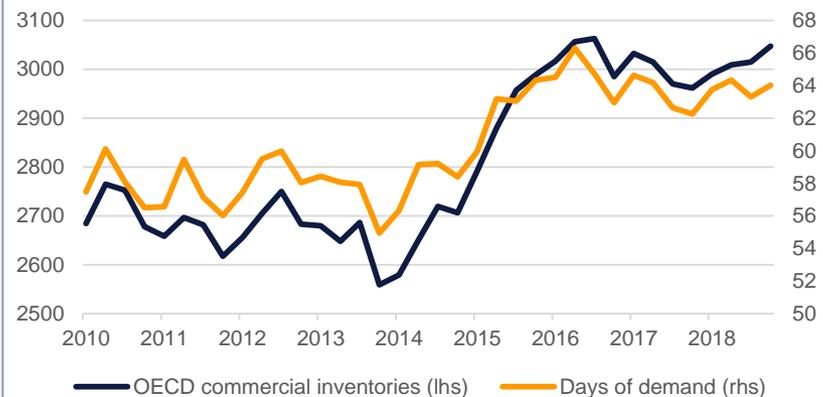
Oil prices likely to face limited upside...



...as OPEC needs to improve compliance...



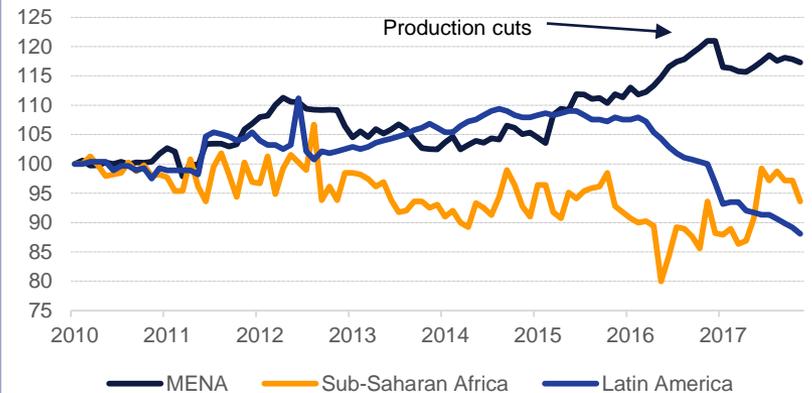
...to avoid market rebuilding stocks



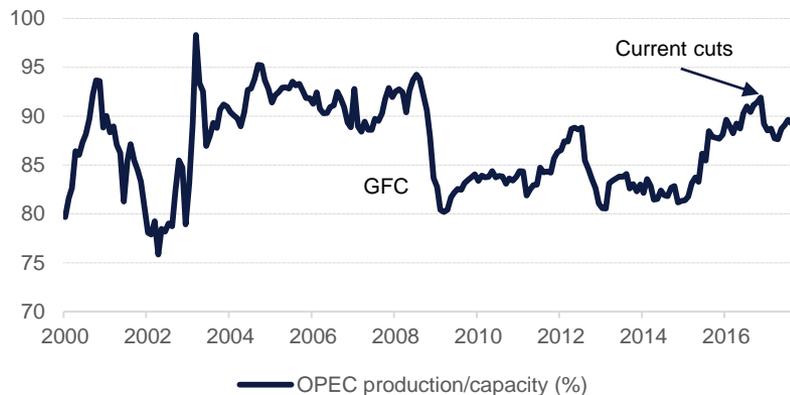
Highlights

- OPEC has re-engaged with market management after sending output to record high levels.
- MENA oil production has surged from around 22m b/d in 2010 to as high as 28-29m b/d at start of 2017.
- Scale of cuts is far shallower than previous rounds of market management; OPEC still producing at around 90% of total capacity
- Deal's emphasis on production, not exports, means the impact on spot prices has been muted

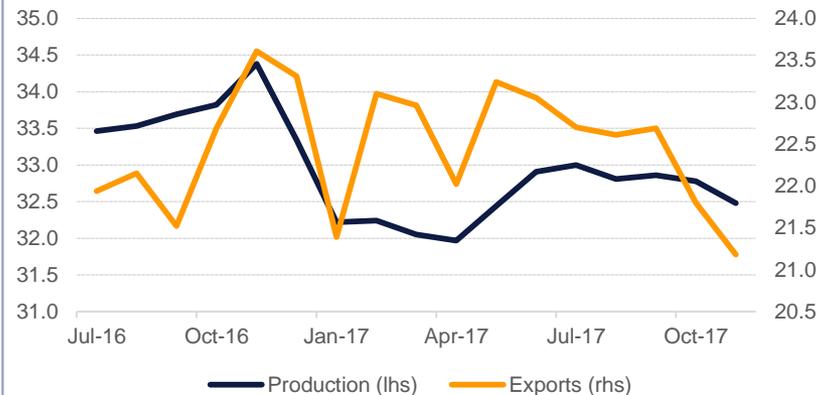
Middle East output had been soaring high...



...while cuts have been deeper before...



...and exports are finally heading lower



Highlights

- Aluminium prices coming off recent highs as market grapples with the impact of China's production cuts
- Transparent inventories have been relatively stable since Q2 2017 while share of cancelled warrants has shrunk—a worrying sign for demand
- Forward curve has remained in contango despite draw in inventories. Elevated pricing is creating possibility of non-China suppliers restarting smelters and re-entering market

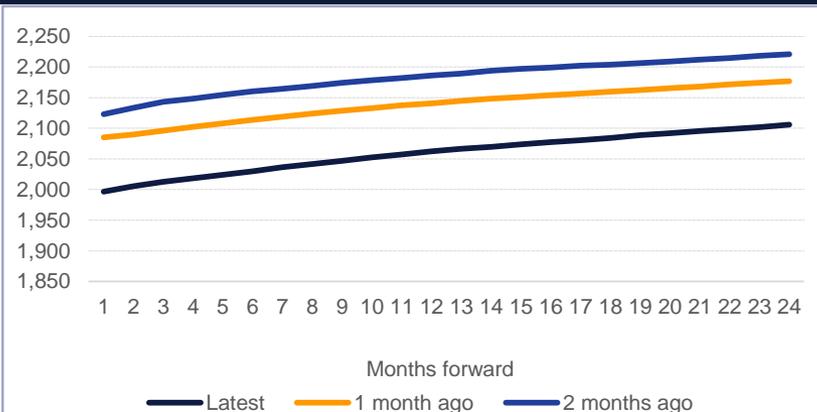
Aluminium prices and volatility



LME aluminium inventories

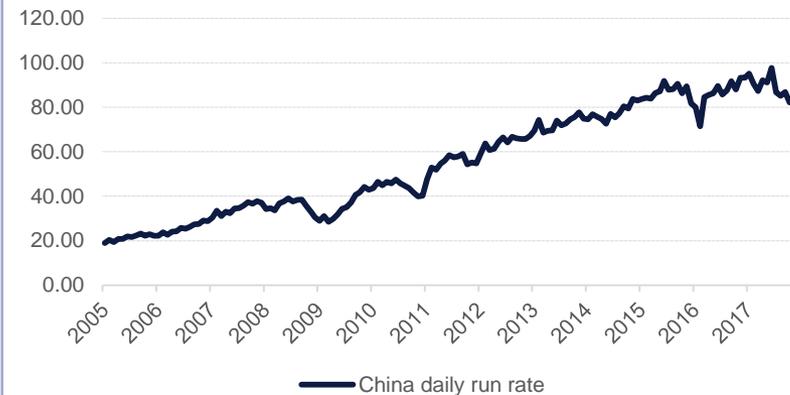


Forward curve



- China's clampdown on industrial metal production is having an impact on aluminium output, albeit slowing it from an extremely elevated pace
- Exports have stabilized but still remain at risk of trade policy disruption from Trump administration
- Meanwhile domestic demand indicators not pointing to particularly robust conditions; SHFE inventories hitting new record levels

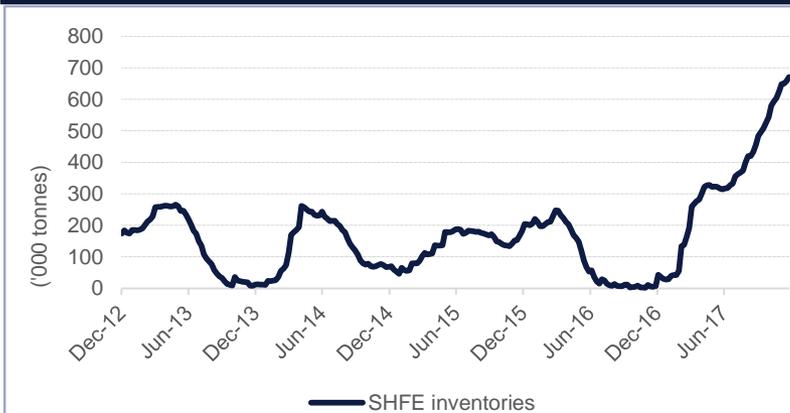
Output restrictions have slowed China's aluminium sector...



...and interrupted exports...



...while domestic demand not enough to chew up elevated production levels



Highlights

- Copper oscillating on China import data but has set on a downward trend from hitting more than USD 7,000/tonne
- Potential for slower growth in China next year—combined with mine restarts—point to a lower copper price in 2018 from current levels
- Labour disruption remains a near-term risk in major producers in South America while political uncertainty around the Grasberg mine in Indonesia also adds short-term upside risks

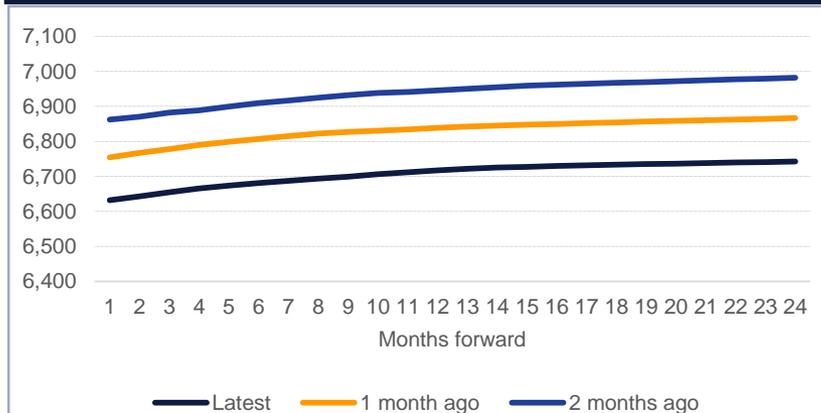
Copper prices and volatility



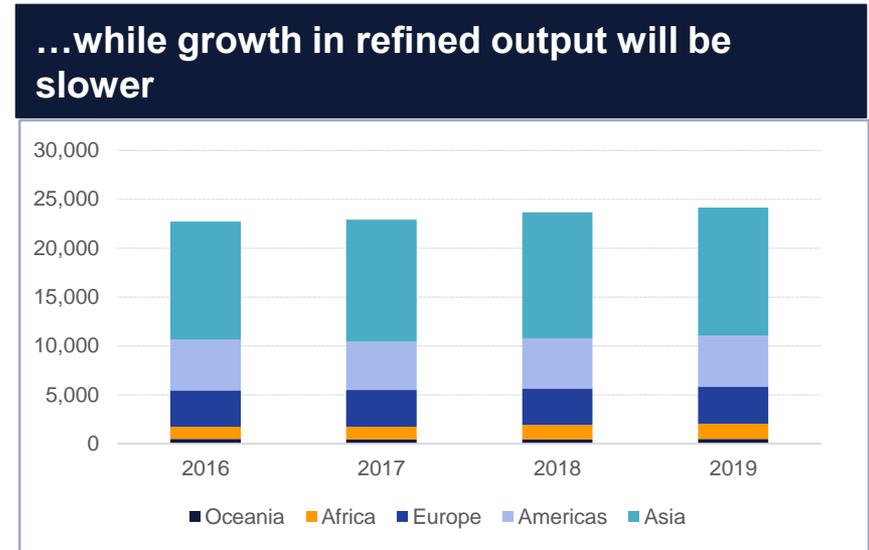
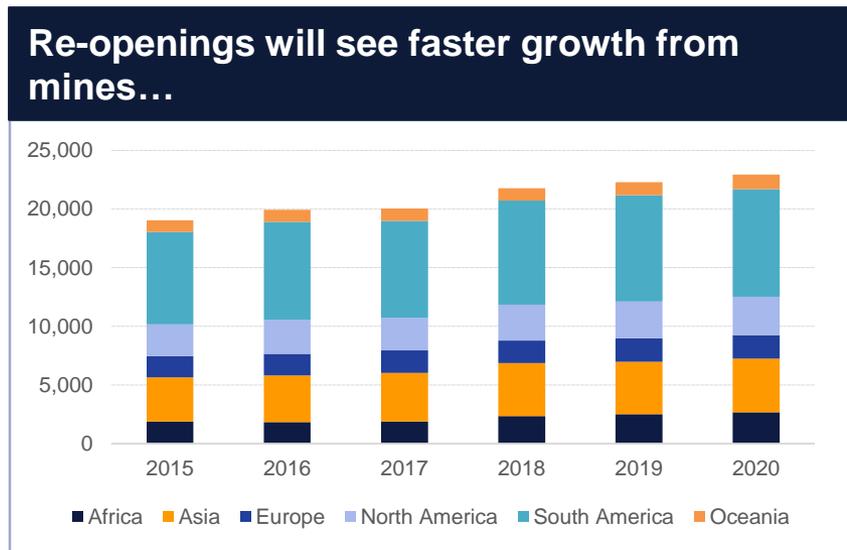
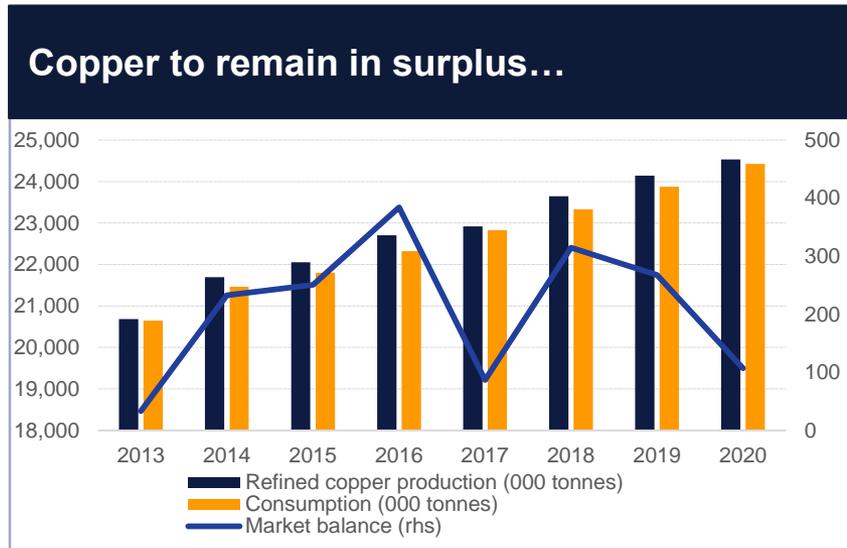
LME copper inventories



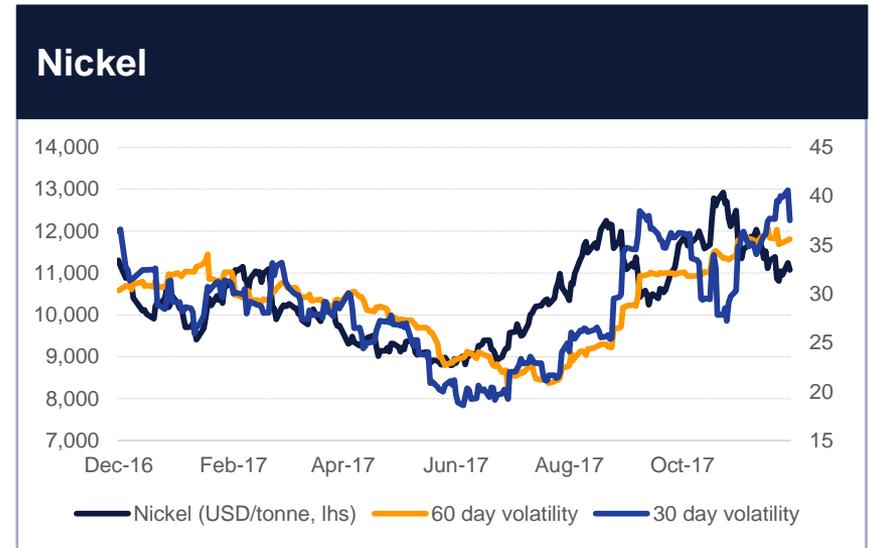
Forward curve



Copper to remain under pressure from growing supply in the near term



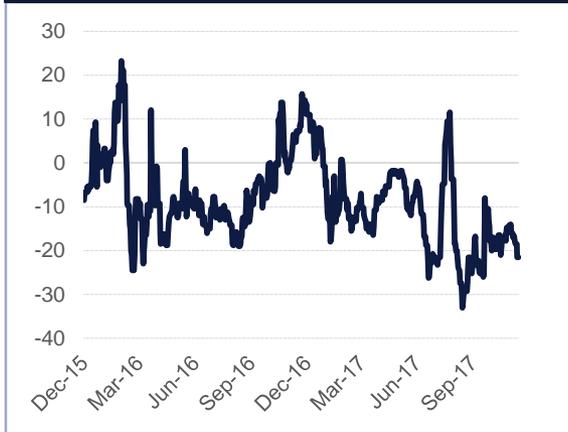
Source: EIKON, GFMS forecasts, Emirates NBD Research.



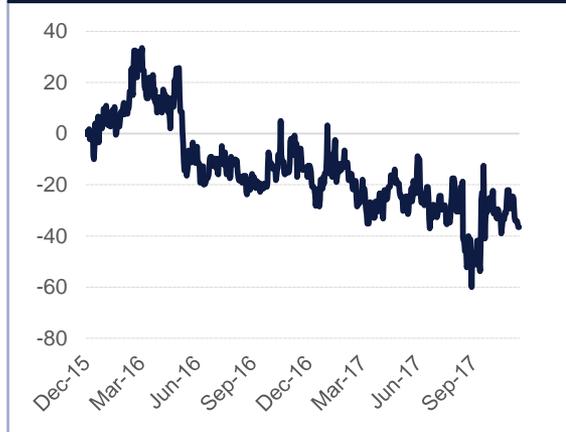
Source: EIKON, Emirates NBD Research.

Cash to 3mth spreads

Aluminium cash-3mth



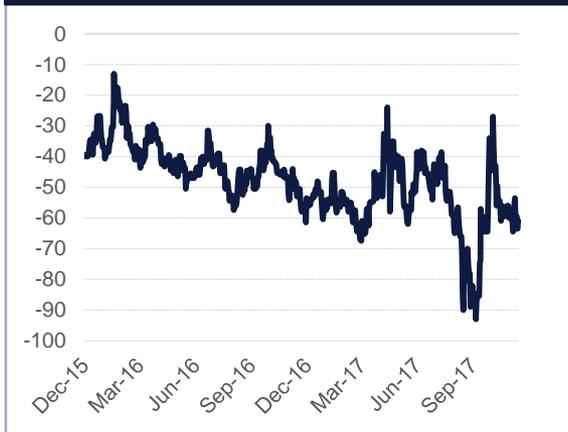
Copper cash-3mth



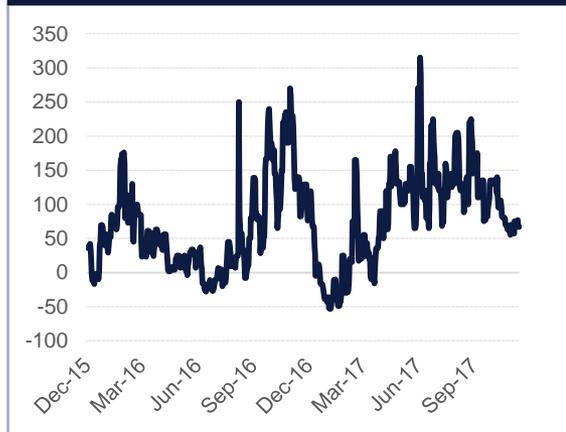
Lead cash-3mth



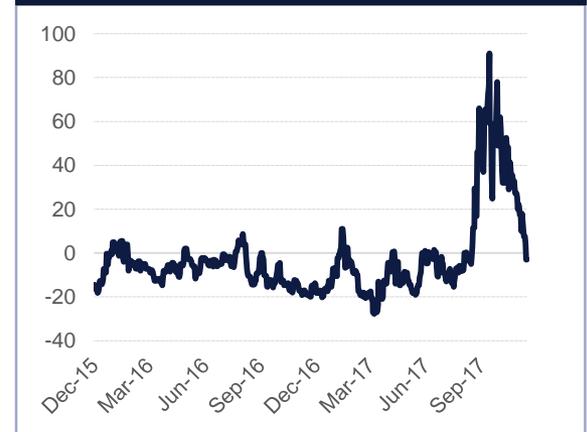
Nickel cash-3mth



Tin cash-3mth



Zinc cash-3mth



Emirates NBD Research commodity price assumptions

	Q1 2017	Q2	Q3	Q4	Q1 2018	Q2	Q3	Q4	2017	2018
Brent	54.68	50.87	52.18	58.50	56.00	58.00	58.00	52.50	54.06	56.13
WTI	51.91	48.25	48.17	54.00	53.00	55.00	55.00	52.50	50.58	53.88
Gold	1,220.24	1,257.89	1,278.79	1,250.00	1,200.00	1,185.00	1,150.00	1,180.05	1,251.73	1,178.76
Silver	17.48	17.19	19.84	17.00	16.85	16.00	15.00	15.15	17.88	15.75
Platinum	982.33	938.13	951.74	960.00	986.78	1,012.07	1,036.61	1,060.42	958.05	1,023.97
Palladium	767.48	817.29	900.21	909.79	890.00	850.00	850.00	875.00	848.69	866.25
Aluminium	1,856.60	1,913.36	2,027.37	2,125.00	2,100.00	2,000.00	1,950.00	1,975.00	1,980.58	2,006.25
Copper	5,857.38	5,692.37	6,388.02	6,750.00	6,500.00	6,250.00	6,250.00	6,150.00	6,171.94	6,287.50

Source: EIKON, Emirates NBD Research. Note: prices are average of period.

Thank you

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