



بنك الإمارات دبي الوطني
Emirates NBD

Commodities

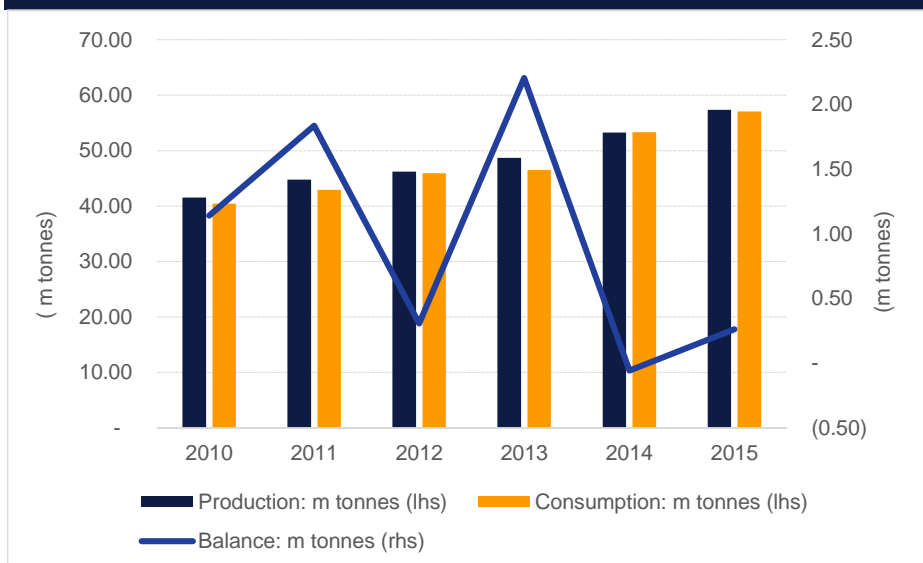
22 March 2016

Base metals update

Aluminium's slipping inventories

Aluminium inventories in the LME system have pushed lower consistently since the start of 2014 and are now at their lowest levels since mid-2008. Despite the dramatic drawdown in stockpiles, aluminium prices have been steady for much of 2016 and are on track to meet our Q1 forecast of USD 1,500/tonne.

Aluminum market remains in oversupply...

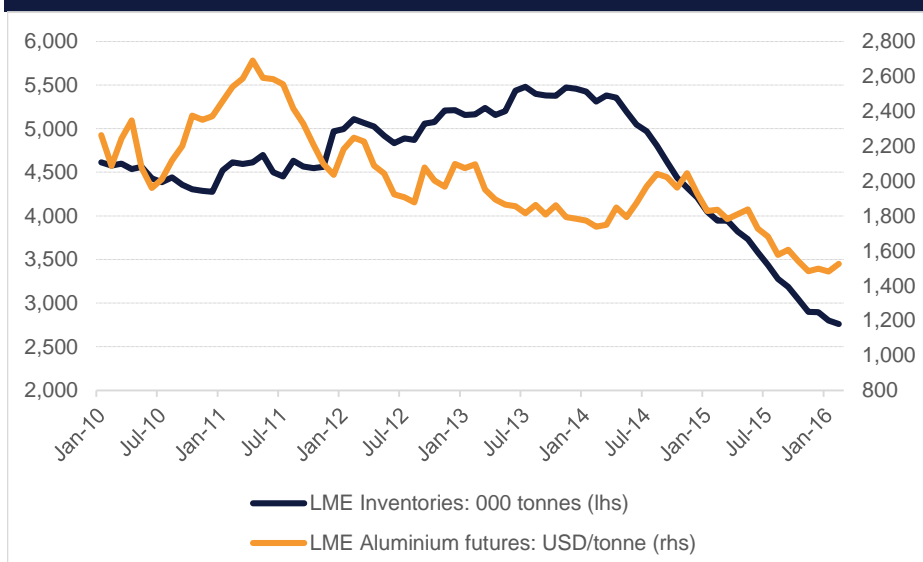


Sources: Bloomberg, WBMS, Emirates NBD Research.

Data from WBMS showed the market recorded a surplus of over 260k tonnes in 2015 yet global inventories have shown a draw of over 2.5m tonnes in 2014-15. A draw of this magnitude along with a futures curve that has been flipping in and out of backwardation in 2016 would normally suggest that demand has been outperforming.

However, premiums for immediate delivery of metal have extended their decline from last year and in February were down 75% year on year. Meanwhile, China's apparent demand for the light metal was down 4% in January and is unlikely to have been significantly better in February in light of the lunar New Year holiday. If there appears then to be no pressing need for the metal, what explains the substantial drop in inventories?

...but where has all the metal gone?



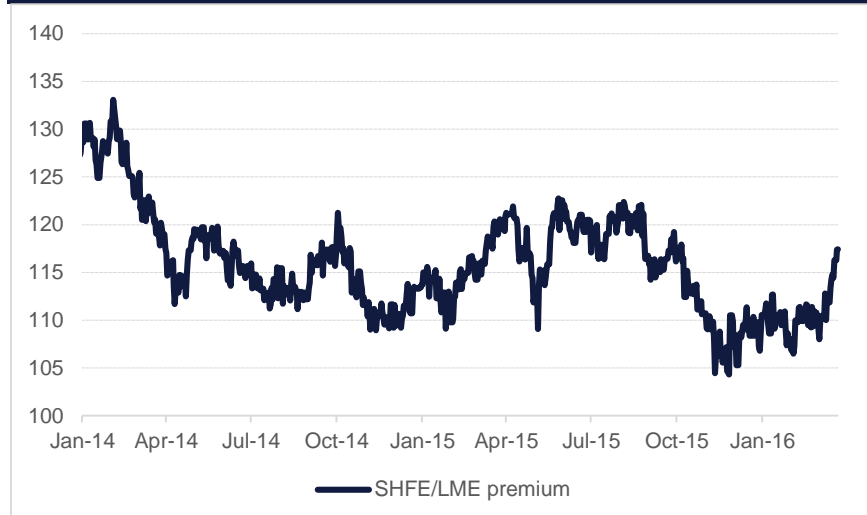
Sources: Bloomberg, Emirates NBD Research.

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The 'missing' metal has likely moved into warehouses outside of the LME, SHFE or Comex systems and out of the realm of transparent assessment. This excess metal may start to creep back into the transparent system, being sold into China as the premium for SHFE metal over LME has ticked higher in recent weeks.

Shanghai continues to command a premium over LME



Source: Bloomberg, Emirates NBD Research. Note: USD, 3-month futures (SHFE/LME).

Despite moving off levels in 2015 that were close to the lows hit during the 2008-09 financial crisis, the outlook for aluminium in 2016 remains muted. We expect prices to average USD 1,575/tonne this year, a 6.4% drop on 2015 as new low cost capacity is added in China. Persistent uncertainty over industrial demand in China, over-capacity and a strong USD will also all weigh on aluminium, among the other base metals, this year. One positive sign though is the copper/aluminium ratio which looks as though it has bounced off a floor for the time being, helping to keep aluminium attractive as an alternative to the red metal.

Copper stays relatively expensive



Source: Bloomberg, Emirates NBD Research. Note: USD, 3-month futures.

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