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Medium term outlook on Aluminium

July 2017

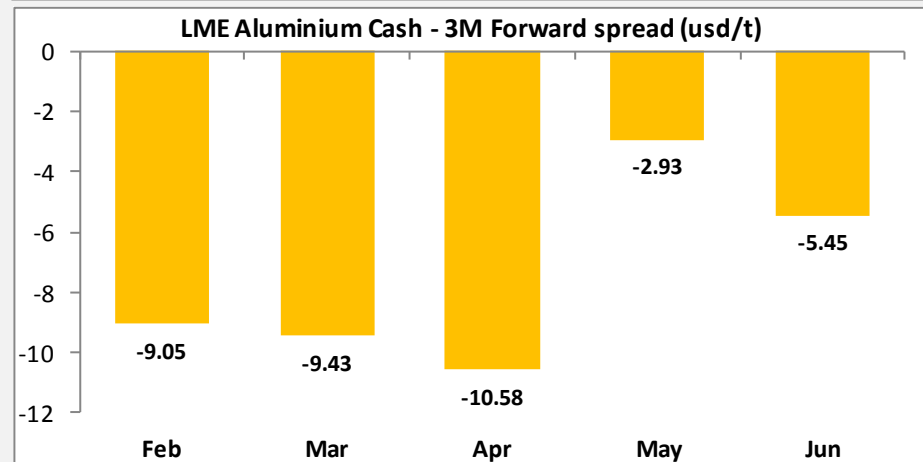
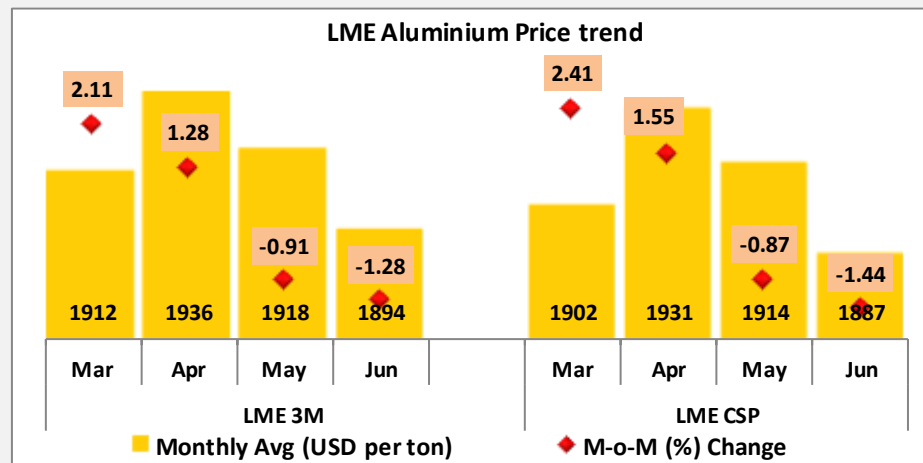


Market Recap

- LME Aluminium remained subdued to end marginally down as concerns of higher physical supplies amid increasing production levels weighed on prices

Major price drivers

- Improvement in upstream raw material supplies
- Higher Aluminium production levels
- Softness in physical premiums
- Reports of capacity curtailment in China's Xinjiang region
- Decline in LME stocks offset by rise in SHFE & Physical stocks in China

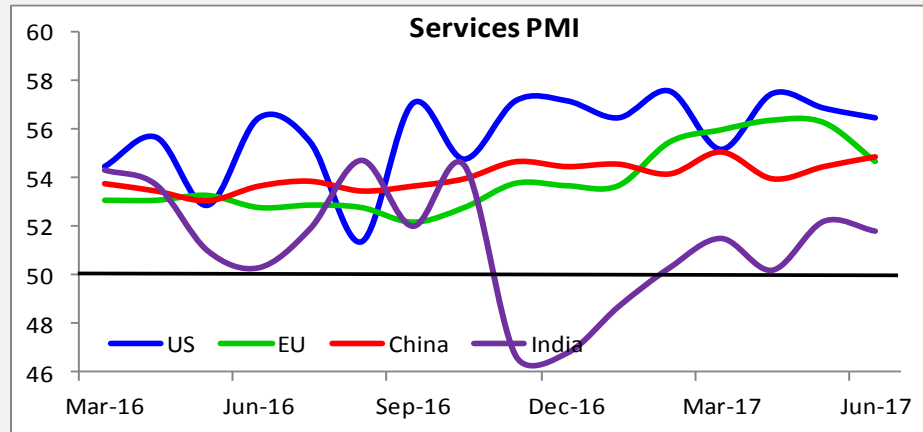
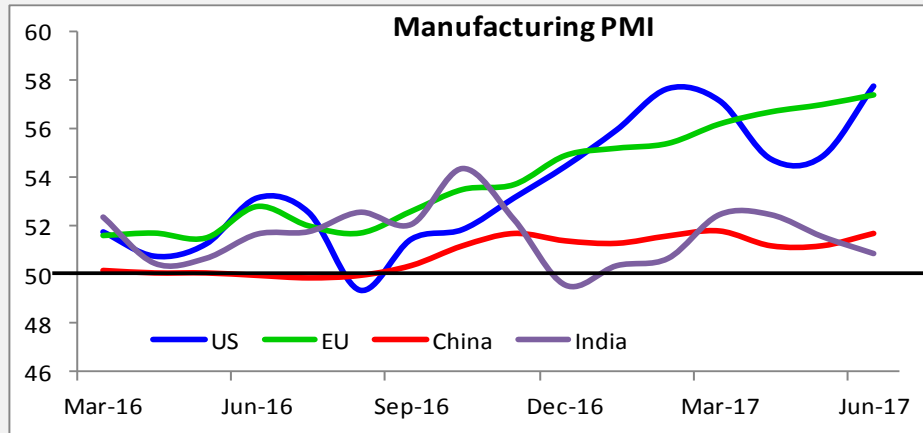


Summary price drivers

Price driver	Type	1 month		2-3 months	
		Weight %	Score (1-5)	Weight %	Score (1-5)
LME inventories	Stocks	25	3	25	4
Primary Aluminium production –China	Supply	20	5	20	3
China Housing/Construction Sector	Demand	15	3	15	2
SHFE/China Physical Stocks	Stocks	5	3	5	3
Alumina Production –China	Raw material Supply	5	4	5	2
Global Auto Production	Demand	5	3	5	2
Dollar Index	Currency	5	4	5	3
Japan Aluminum Imports/Premiums	Demand	10	3	5	3
China Product Exports	Supply	5	2	10	1
Aluminium supply-demand balance	-	5	4	5	3
Total indexed score:		3.30		2.65	
Index score (1-5, 3:consolidation, 1&2:bearish, 4&5:bullish)					

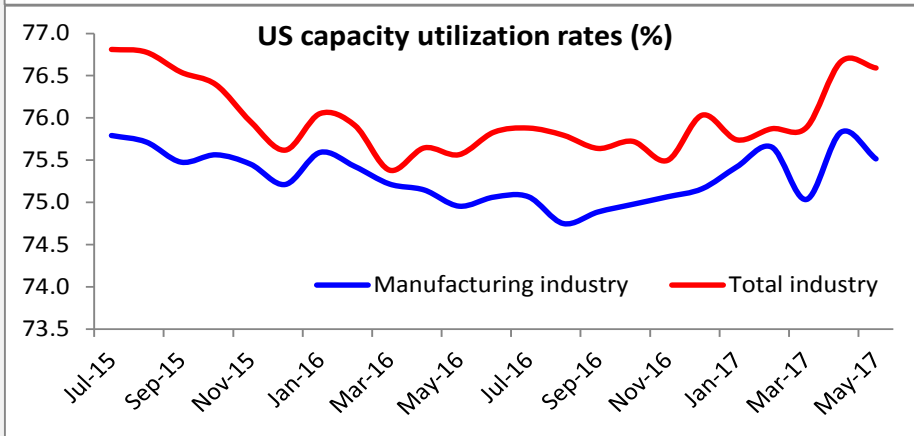
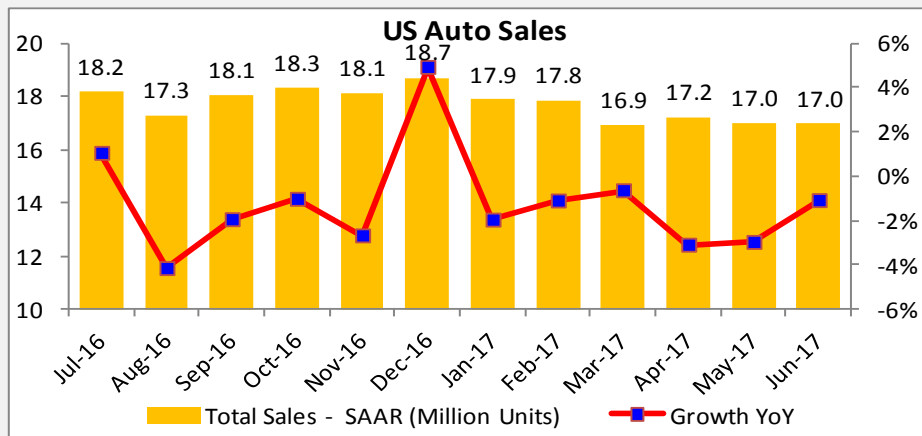
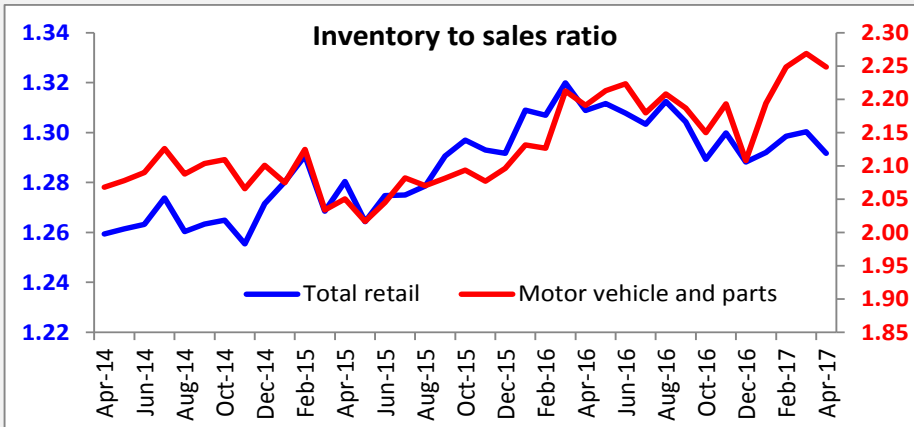
Global PMI trends portend to improving global conditions in unison

- US ISM manufacturing PMI for the month of June came in at 57.8, sharply higher than the market consensus and the May reading of 53.5 portending an upbeat growth outlook in US for AMJ
- Euro Zone continues to grow at a good pace and the upbeat manufacturing PMI for June (57.4 vs 57 in May) reinforces the same keeping the broad strength intact in the Euro
- China manufacturing PMI came in at 51.7 for June, higher than the market consensus and the May reading of 51.2, aiding positive growth sentiments in the economy. Services PMI continues to expand and for June came in at 54.9 compared to May's 54.5
- Indian PMIs although ebbed slightly after recovering from demonetization slump, continues to remain in expansion zone



With personal consumption slowing retail inventories are on the rise in US

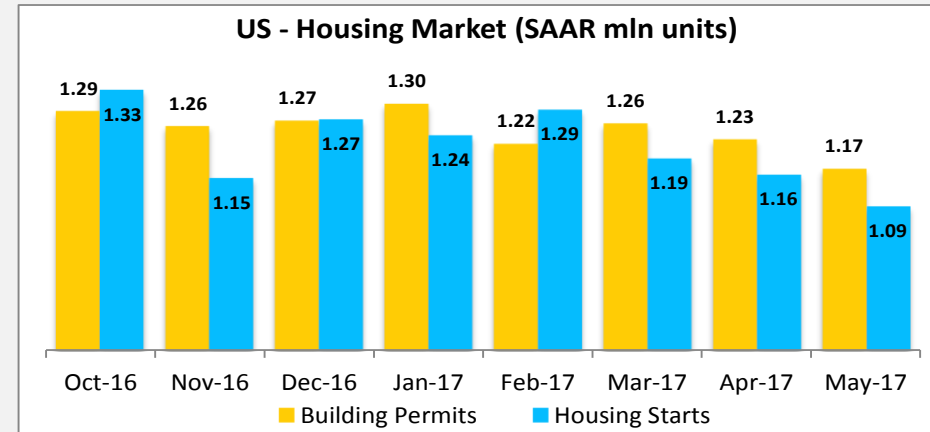
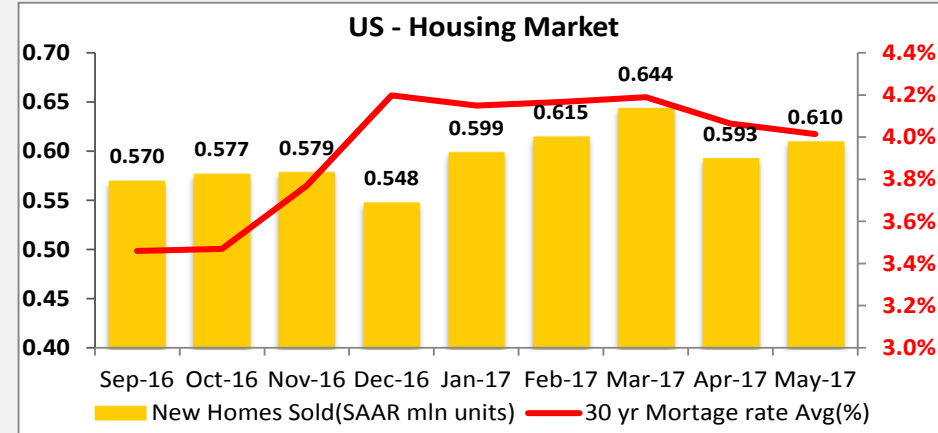
- Retail sales have declined but improvement witnessed in capacity utilization rates in the last few months led to building up of inventories which shall eventually lead to manufacturing slowdown in the coming months
- Auto sales remained subdued despite discounts from car makers underpinning the higher inventory levels at the dealer front



Housing demand remain strong but slowdown likely with increasing monetary costs and higher house prices

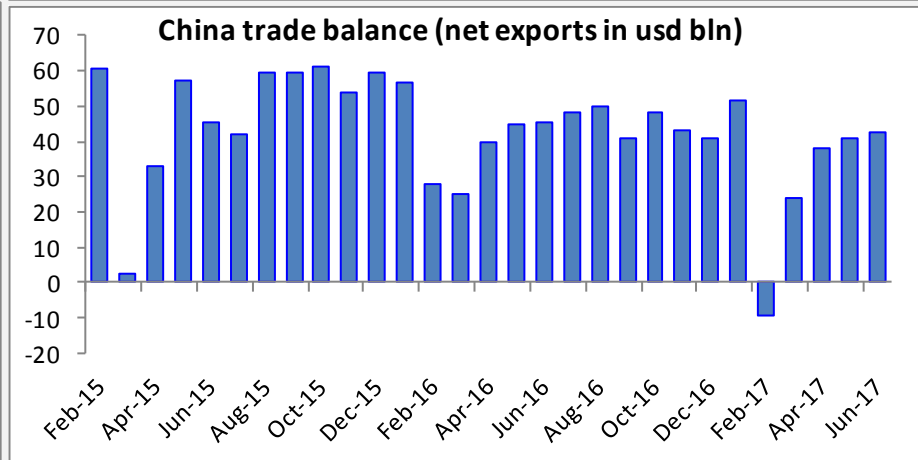
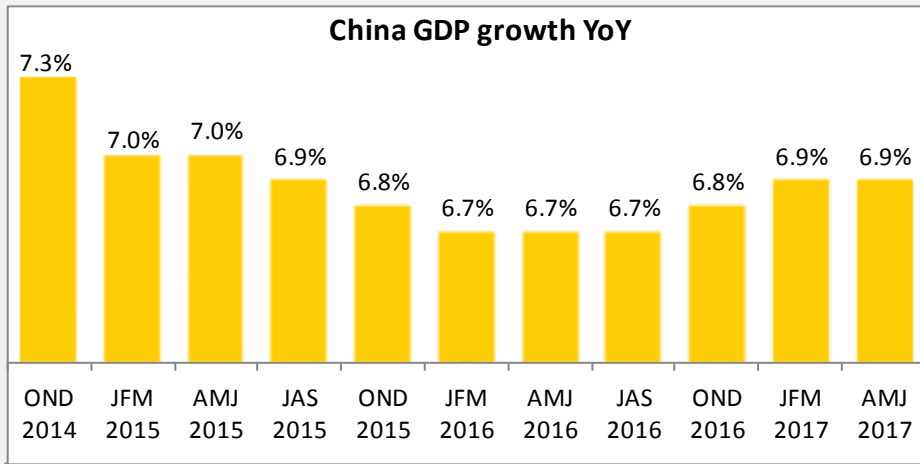
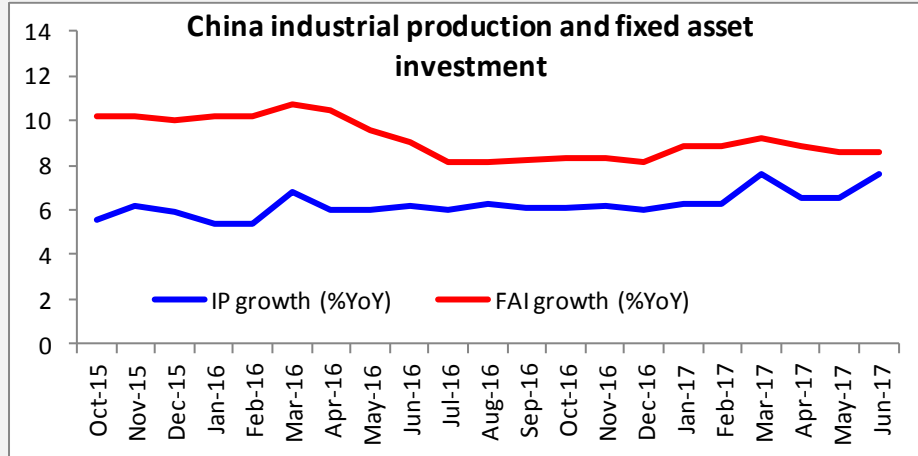
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- Although sales declined marginally in April, broad strength in housing remained intact in the recent months amid benefits discounts from mortgage lenders
- However, with increasing monetary costs as FED continues to push ahead with its monetary tightening shall lead to credit tightness and is expected to result in slowing sales in the coming months
- In line with the same, even housing starts and build permits have been declining in the last few months underpinning the expected slowdown in US housing



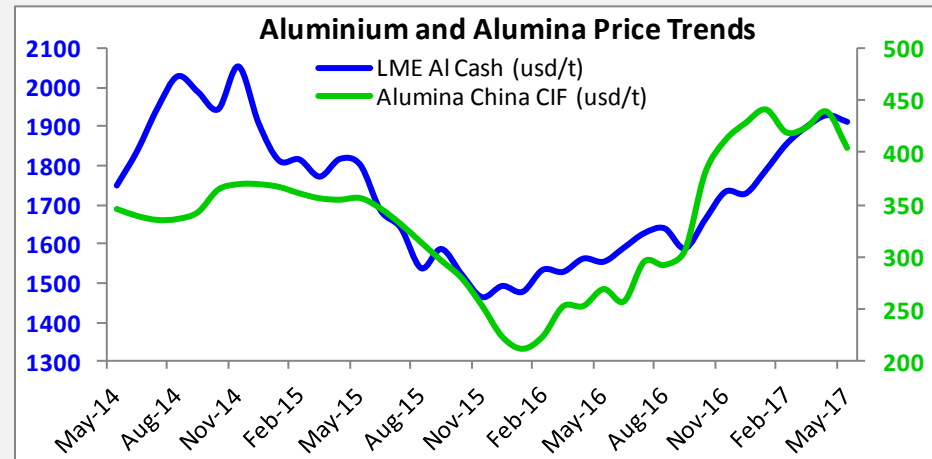
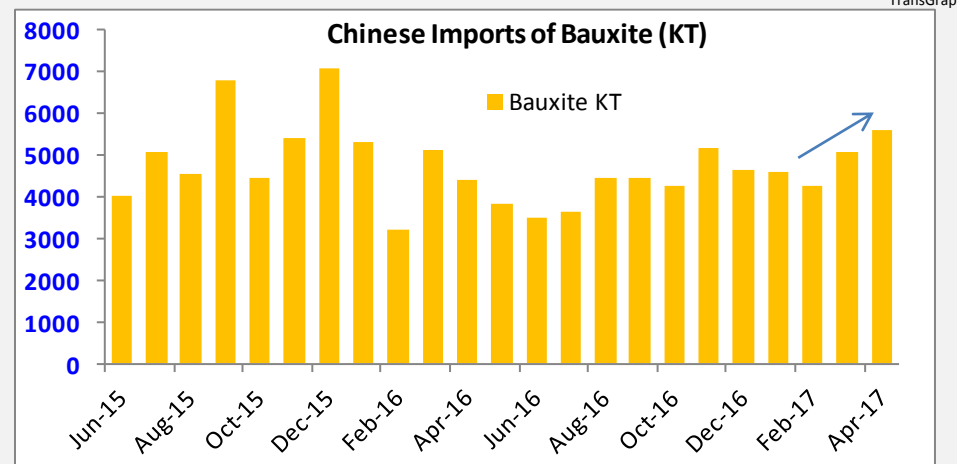
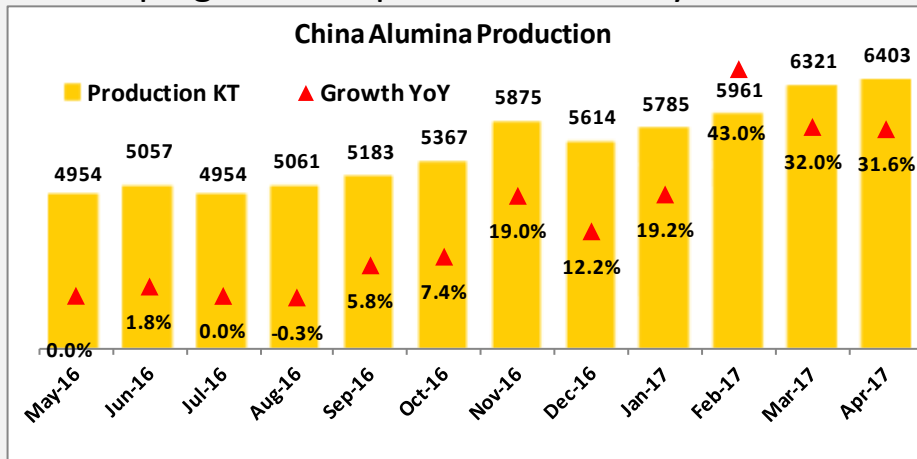
Upbeat growth momentum in China

- Aided by fiscal boost, Chinese growth momentum remained stable
- Amid upbeat industrial activity and improvement seen in export momentum price sentiments in commodities shall remain strong



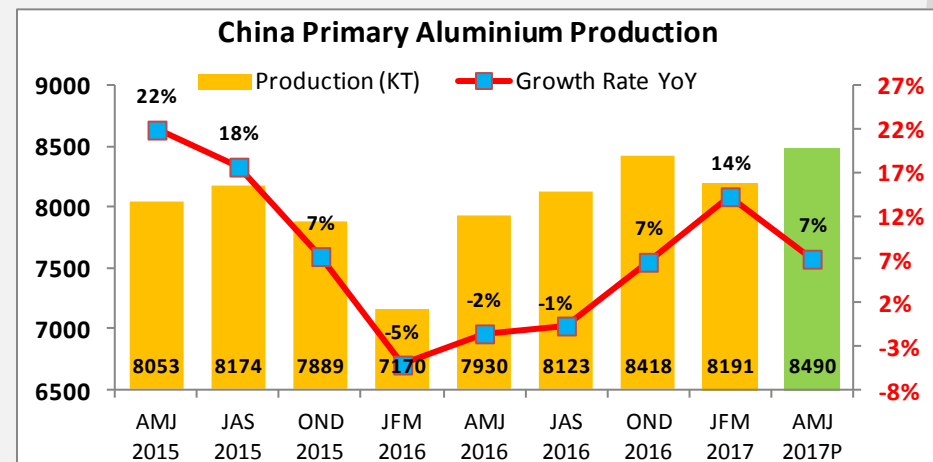
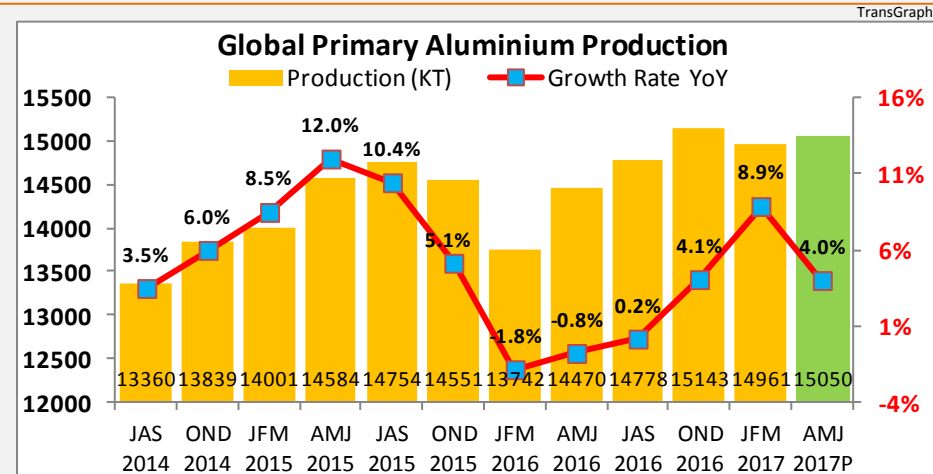
Steady raw material prices along with higher Bauxite imports to keep China Alumina production steady for AMJ'17.

- Global Alumina production rose in JFM'17 (China – 31.3%YoY) which could continue to keep primary aluminium production steady in AMJ'17
- Bauxite imports from China which declined in 2016 due to ban from Malaysian exports is expected to remain steady to higher in 2017 with rise expected from Australia & Guinea keeping Alumina production steady for H1 2017.



Global Primary Aluminium production to slowdown but to remain in positive territory weighing on sentiments.

- Supply side reforms seen in China could lead to slowdown in production in upcoming quarters while it could still remain in positive territory weighing on sentiments for short term scenario.
- Stability seen in Alumina production for JFM'17 on steady prices could also keep primary Aluminium production steady weighing on sentiments.



China New regulations set to potentially impact Aluminium capacities in H2 2017 leading to decline in production supporting sentiments.

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- China's "Air Pollution Control" regulation was formally approved and came into effect during the first week of Mar'17.
- According to regulation, China government will force aluminium smelters in four provinces surrounding Beijing to cut output by 30 percent over the winter heating season, which runs from the middle of November through the middle of March.
- Estimated 20 - 30 percent of China's production capacity might be potentially impacted with a hit of around 1.3 - 1.5 million tonne on output which could again reduce surplus expectations from China for this year.

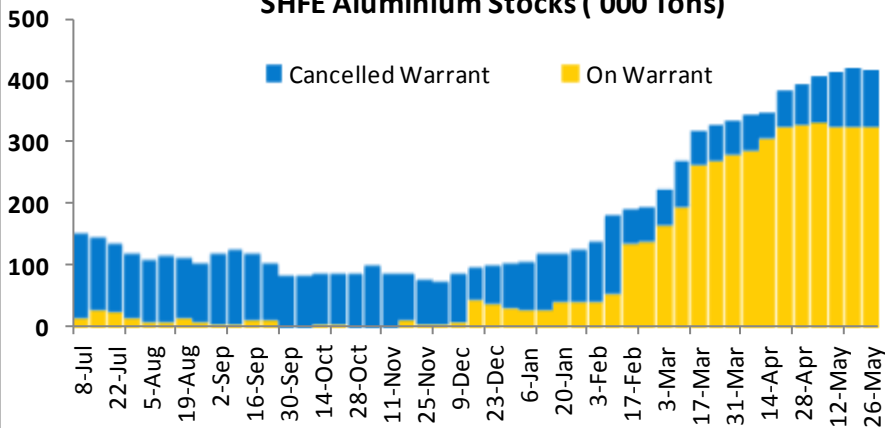
Aluminum Capacity in Shanxi, Hebei, Henan and Shandong

(Source: SMM, Reuters, TG estimates)

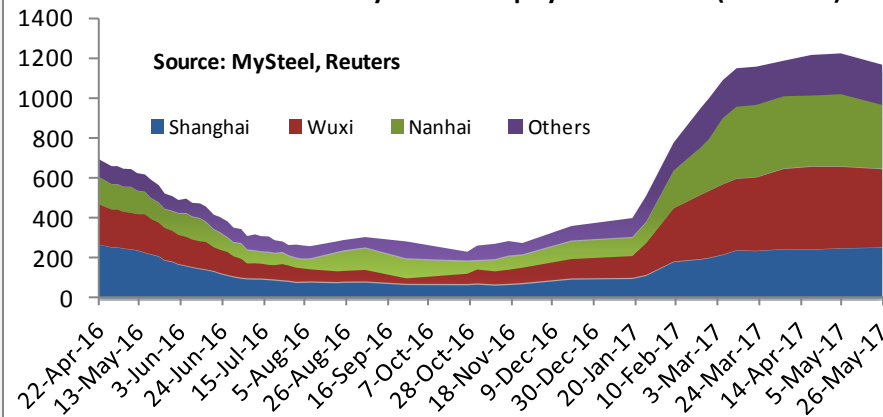
Region	Capacity Built (‘000 tons)	Idled Capacity (‘000 tons)	Operational Capacity (‘000 tons)
Shanxi	1040	45	995
Hebei	80	30	50
Henan	3840	1010	2830
Shandong	10950	270	10680

Stocks in China continues to remain higher to offset lower LME stocks

SHFE Aluminium Stocks ('000 Tons)

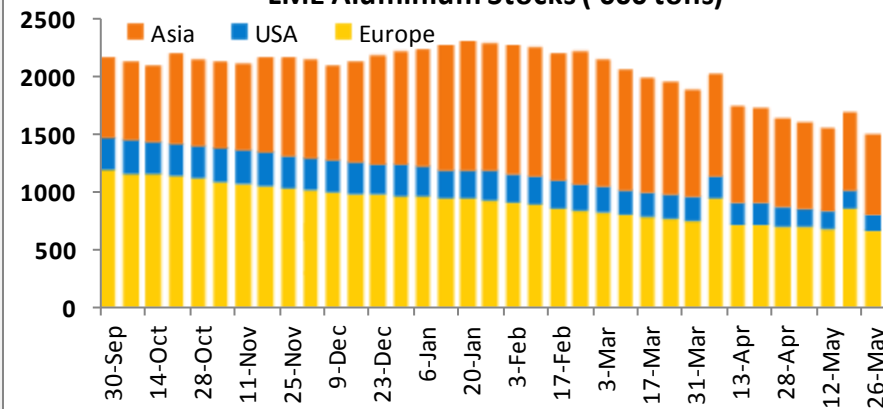


Aluminium inventory in Chinese physical markets ('000 tons)



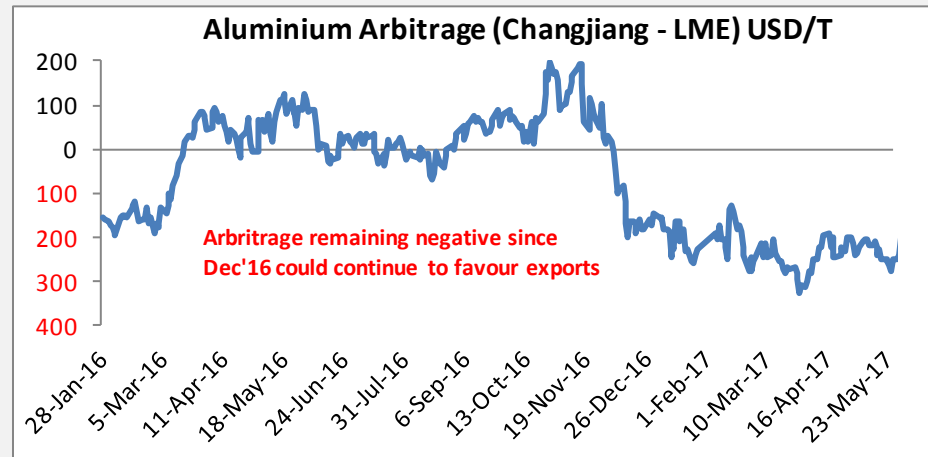
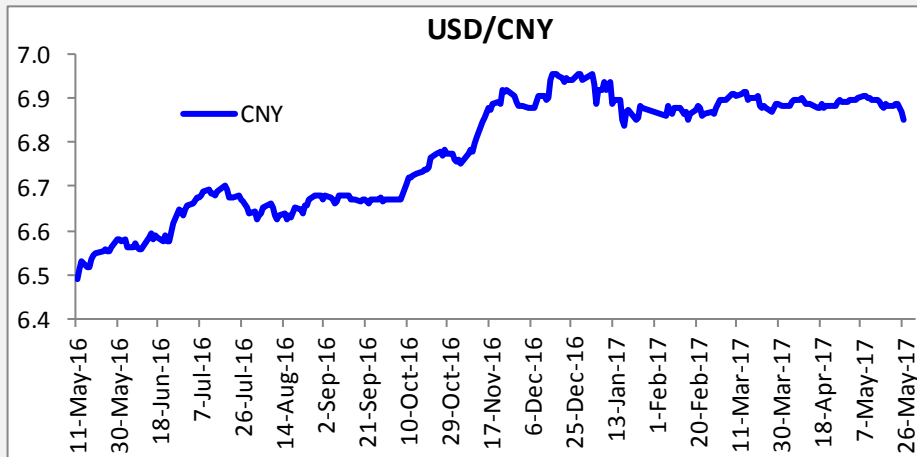
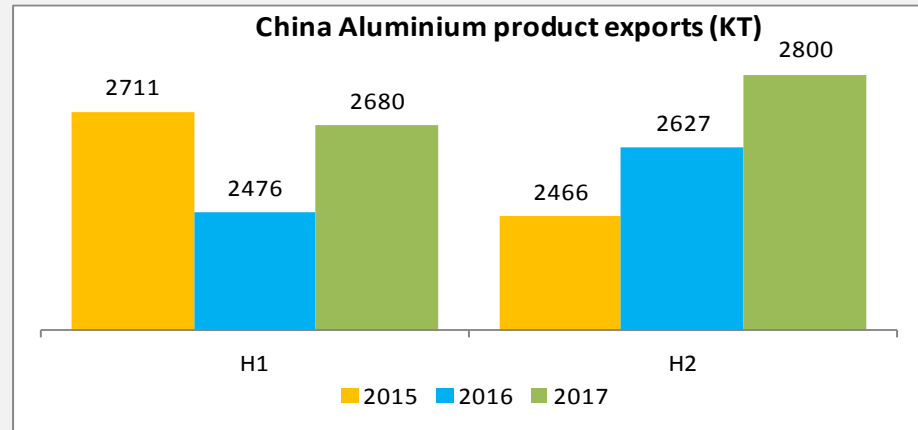
- With stocks in China seen surging during JFM'17 indicates traders delivering excess stocks which could also offset lower LME stocks weighing on sentiments.

LME Aluminium Stocks ('000 tons)



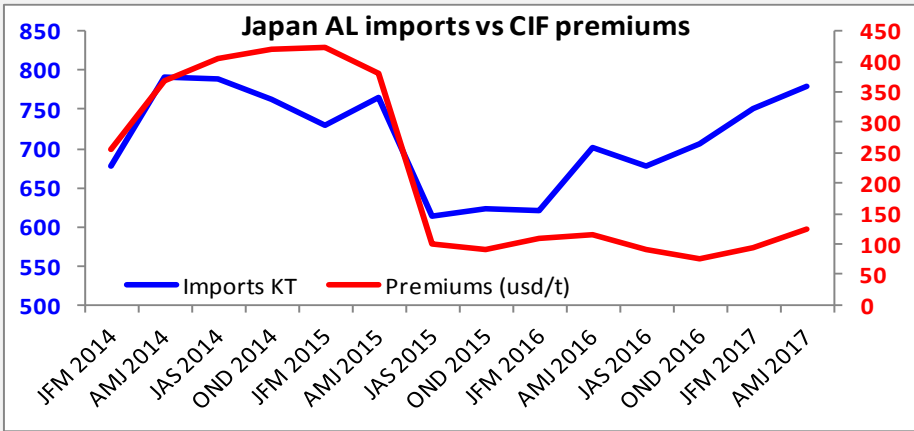
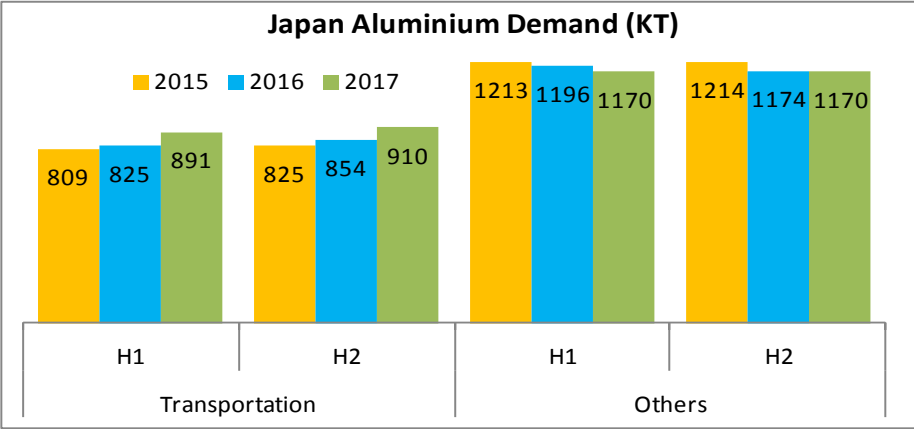
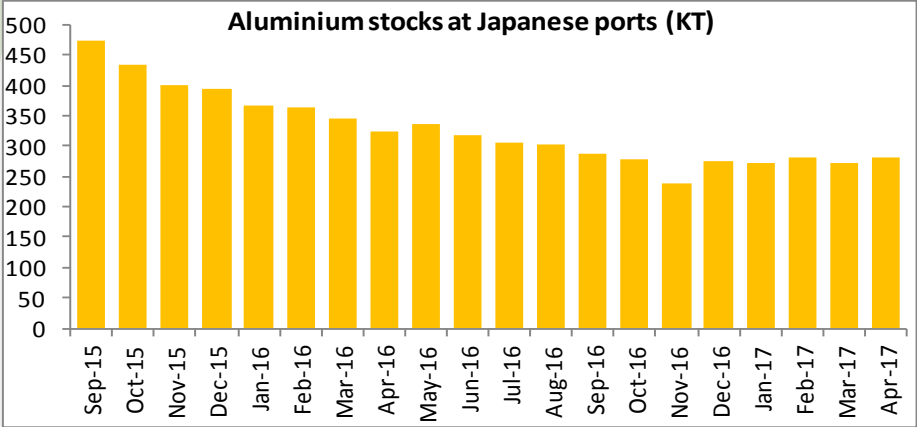
Higher China stocks & arbitrage supporting Higher product exports

- With Arbitrage between Chanjiang & LME Spot market remaining negative since past few months along with higher production witnessed in China could lead to steady exports which could weigh on sentiments.
- Also with CNY remaining steady after depreciation seen during OND'16 could remain favourable for exports weighing on sentiments.



Japanese Aluminium Demand remains strong

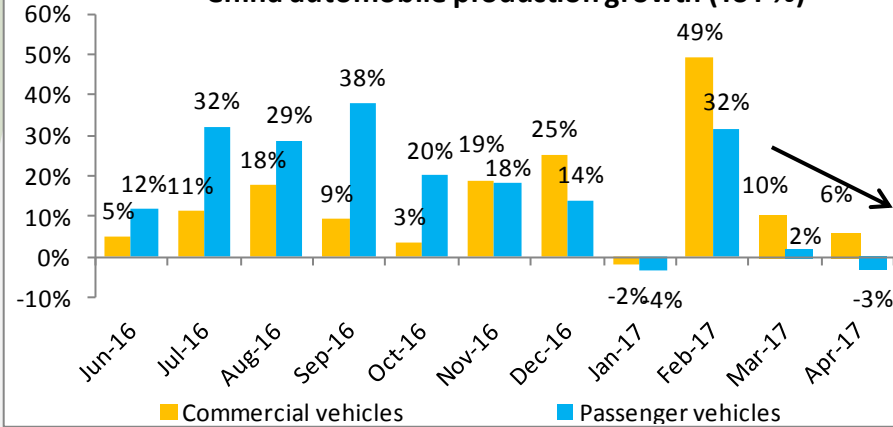
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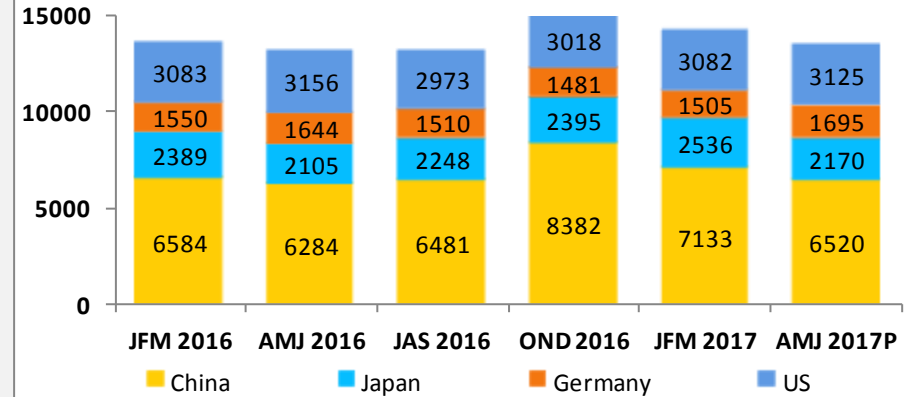
Global automobile sector prospects – Auto demand to remain lower in China on reduced tax incentive partially offset by steady demand from Europe during H2 2017

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China automobile production growth (YoY %)



Automobile Production in Major Markets (000 units)



- Auto sales in China is expected to slowdown during H2 2017 after double digit growth witnessed in same period a year ago on reduced tax incentives from government.
- Decline in China auto demand could be partially offset by steady demand in Europe & U.S during H2 2017.

Increasing government curbs to control housing prices growth indicated by declining investments to weigh on sentiments.

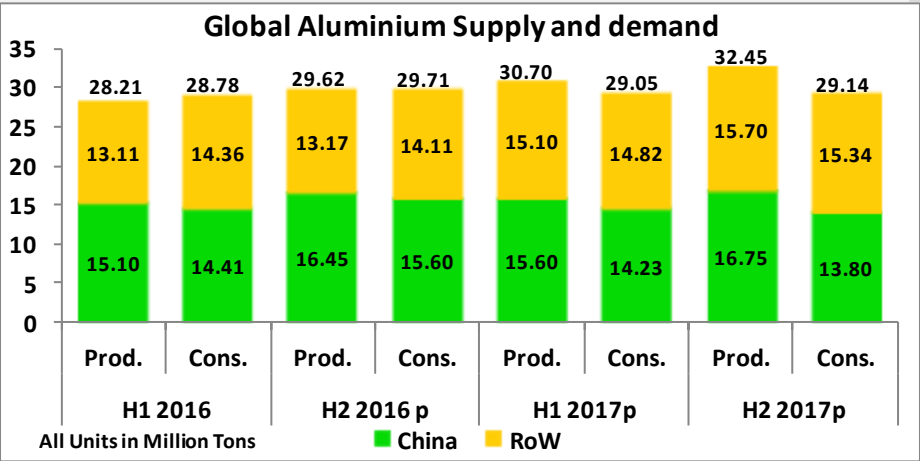
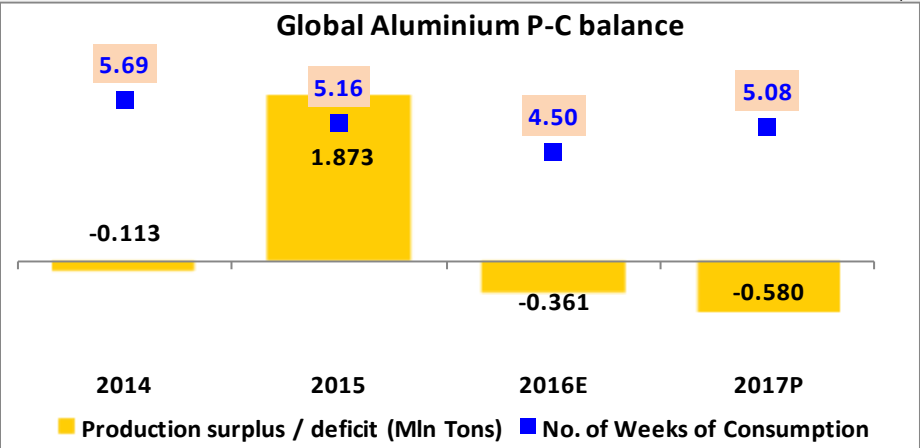
- China increased average interest rate for first-time homebuyers to 4.52% in April in cities around China, up from 4.49% from a year earlier and was the fourth consecutive monthly rate hike since January.
- With China witnessing declining Investment growth in Fixed Assets into Construction sector during JFM'17 could continue to weigh on sentiments for Aluminium.



Aluminium – Effective Balance Sheet

Description	2015	2016 E	2017 P
Aluminium Production	57.90	58.13	60.38
Aluminium Consumption	56.03	58.49	60.96
P-C Balance	1.87	-0.36	-0.58
Ending Stocks (Producer)	2.37	2.41	2.70
Ending Stocks (Exchange)	3.19	2.65	3.25
No. of Weeks of Consumption	5.26	4.42	4.97

Source: IAI, Reuters, TG Estimates, * All figures are in Million tons unless mentioned otherwise

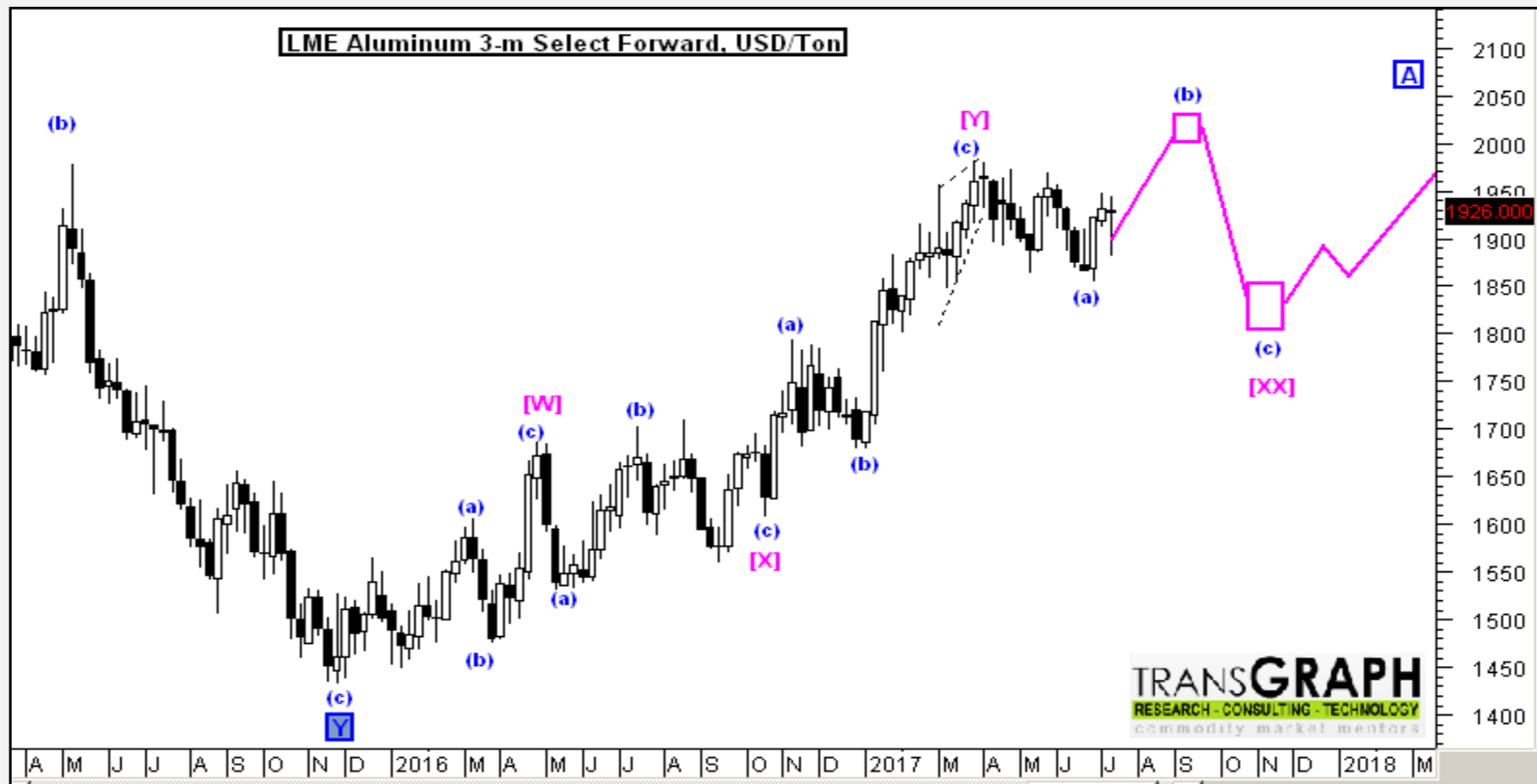


Technical Analysis



LME Aluminum SELECT 3 – Month Forward Elliott wave analysis

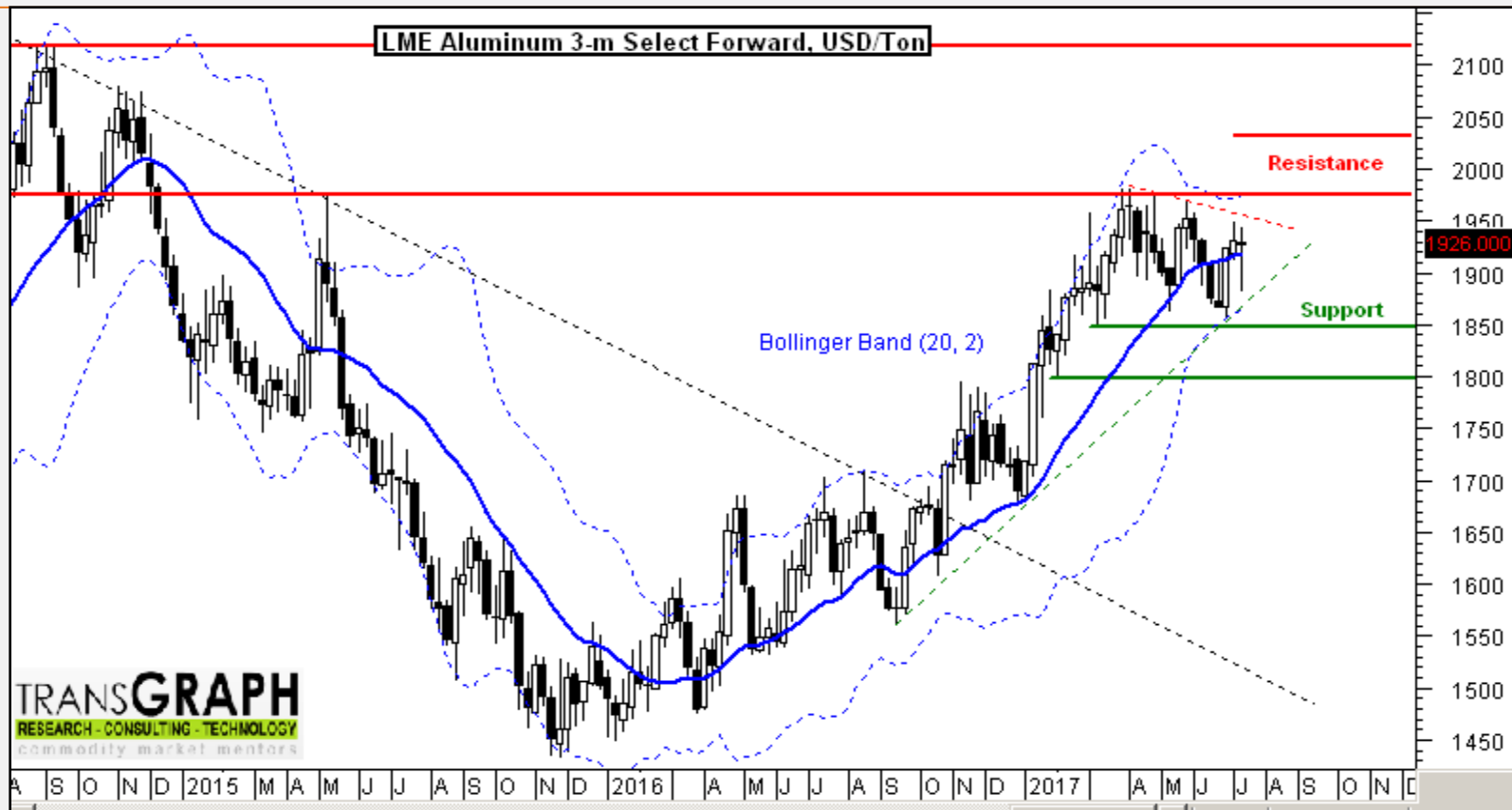
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LME Aluminium 3-Month Forwards prices have culminated primary wave “Y” at USD 1430 and is trading higher as primary wave “A”. Prices after posting Intermediate Wave [Y] at USD 1981 is unfolding lower as a 3-Wave structure and has potential towards USD 1850 to 1800 ahead of turning positive again towards USD 2000 to 2050 in the coming 2 to 3 months.

LME Aluminum SELECT 3 – Month Forward

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LME Aluminium prices are holding above trend based support line and hence likely to continue trading upward towards USD 1970 to 2020 by staying above USD 1850 in the coming 2-3 months ahead of turning negative again.

Price outlook summary

Commodity	Last Closing (USD/ton) (as on July 14, 2017)	Price outlook summary for next 2-3 months	
		Range	Direction
LME Aluminium 3- month forward	1926	1800 – 2050	Aluminium 3 month forward prices are likely to move higher towards USD 2020 ahead of turning lower again towards USD 1850 or lower in the coming 2-3 months.

Note: Weekly close above USD 2020 would negate the subsequent downside potential and current gains can stretch higher towards USD 2120 for the same time period.



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