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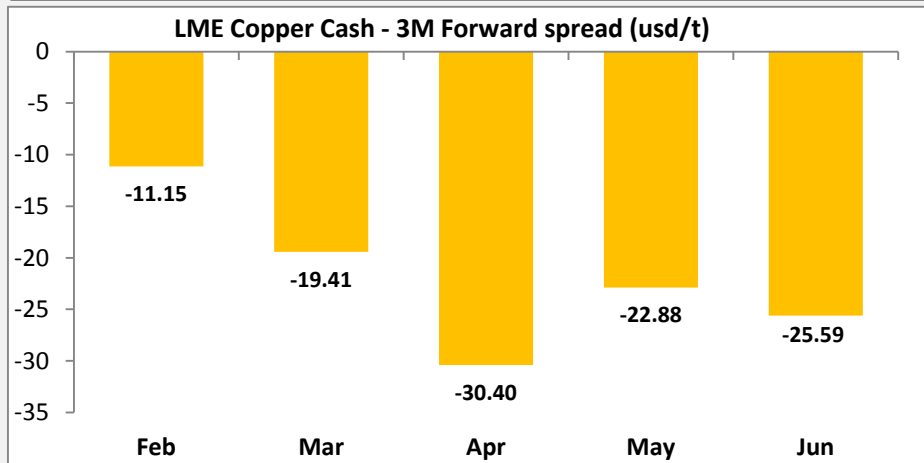
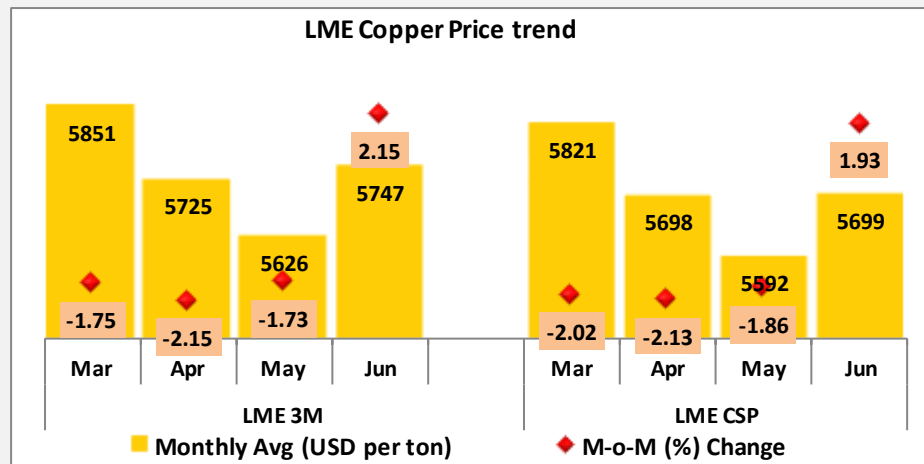
Medium term outlook on Copper

July 2017



Market Recap

- Copper prices traded positive in the past one and half month.
- Major price drivers
 - Upbeat Chinese demand and import appetite
 - Improvement in Chinese CIF premiums
 - ILZSG SnD numbers
 - Increase in LME inventory while cancelled warrants remained same leading to widening of forward spread
 - Weak Dollar which fell to 10 month lows against the basket of currencies

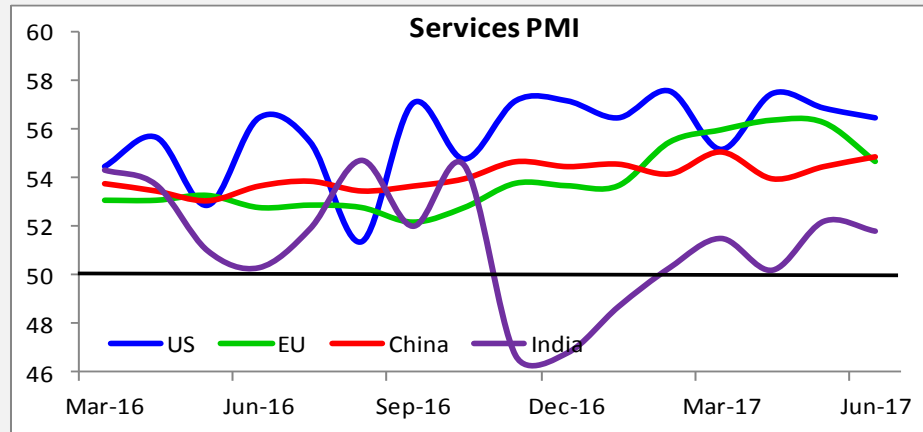
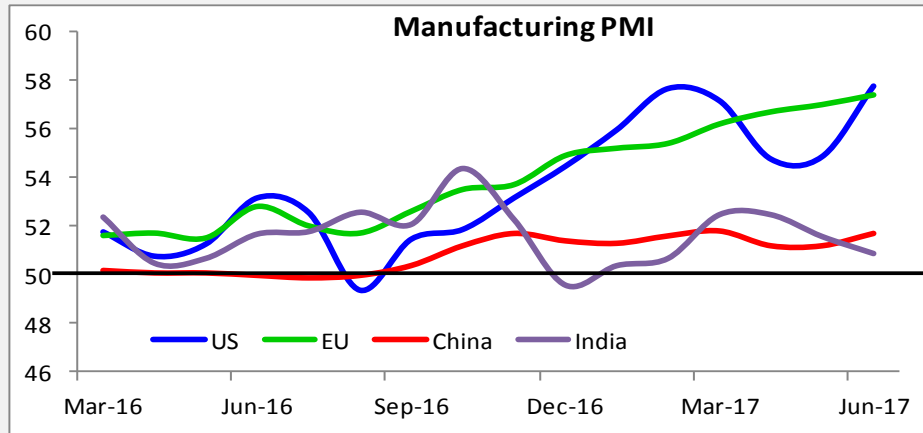


Summary price drivers

Price driver	Type	1 month		2-3 months	
		Weight %	Score (1-5)	Weight %	Score (1-5)
China Exchange/Physical Stocks	Stocks	25	4	20	3
China Copper Net Refined Imports	Demand	20	3	25	4
Copper Concentrate Imports	Raw Material Supply	15	3	5	2
LME Stocks/Forward Spread	Stocks	10	3	10	4
Physical premium	Demand	5	3	5	4
China Housing sector	Demand	5	2	15	3
ICSG Copper Forecast release	Supply-Demand	5	4	5	5
Dollar Index	Currency	5	2	5	3
China Macroeconomic cues	Demand	5	3	5	2
Chile Mine Production	Supply	5	5	5	4
Total indexed score:		3.30		3.45	
Index score (1-5, 3:consolidation, 1&2:bearish, 4&5:bullish)					

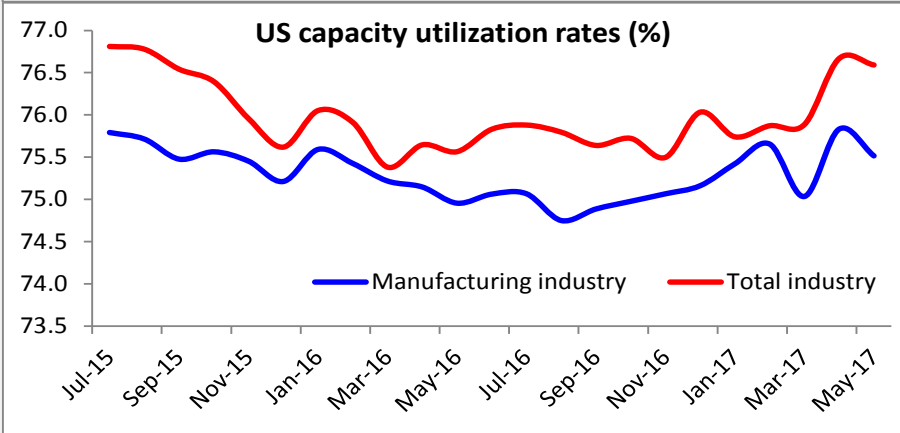
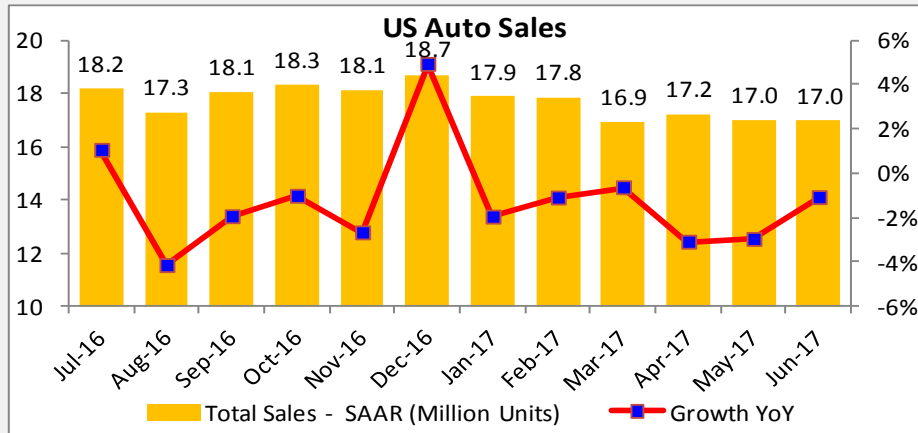
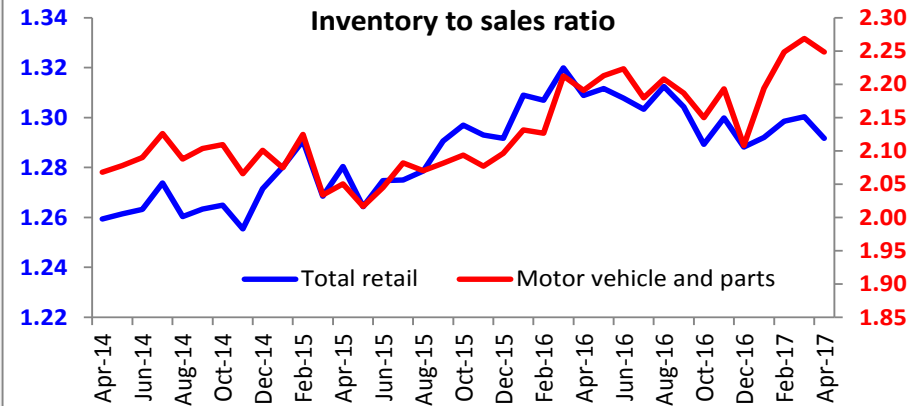
Global PMI trends portend to improving global conditions in unison

- 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

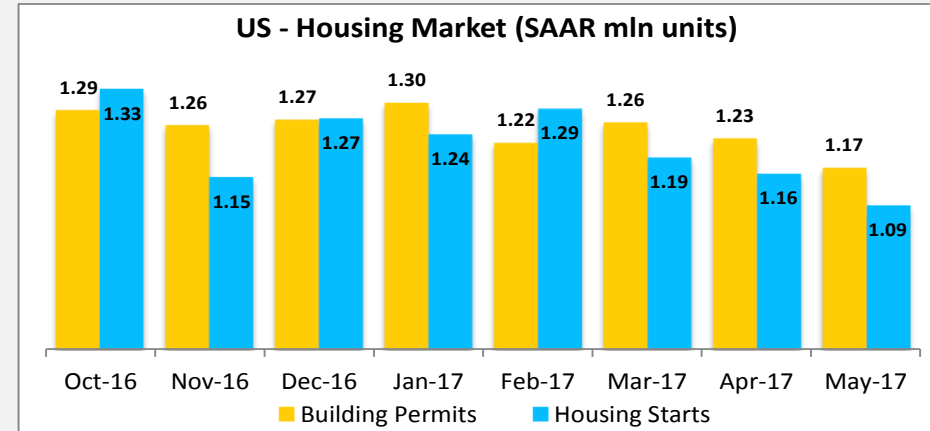
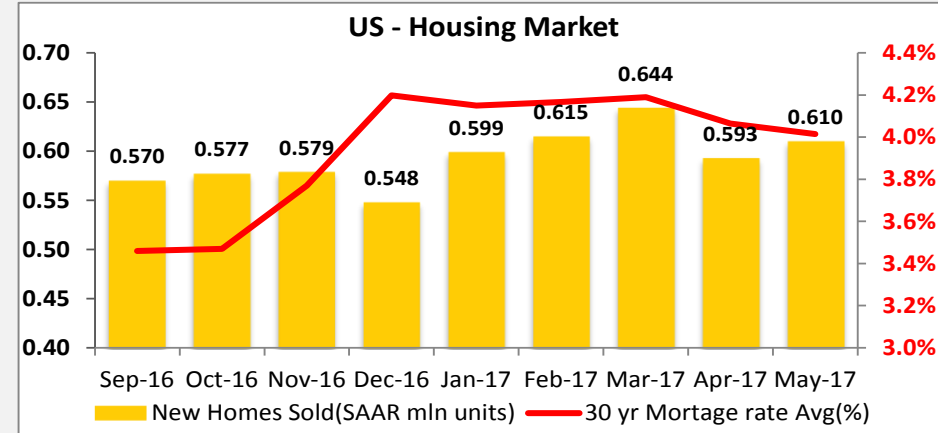
- Retail sales have declined but improvement witnessed in capacity utilization rates in the last few months led to building up of inventories which shall eventually lead to manufacturing slowdown in the coming months
- Auto sales remained subdued despite discounts from car makers underpinning the higher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



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

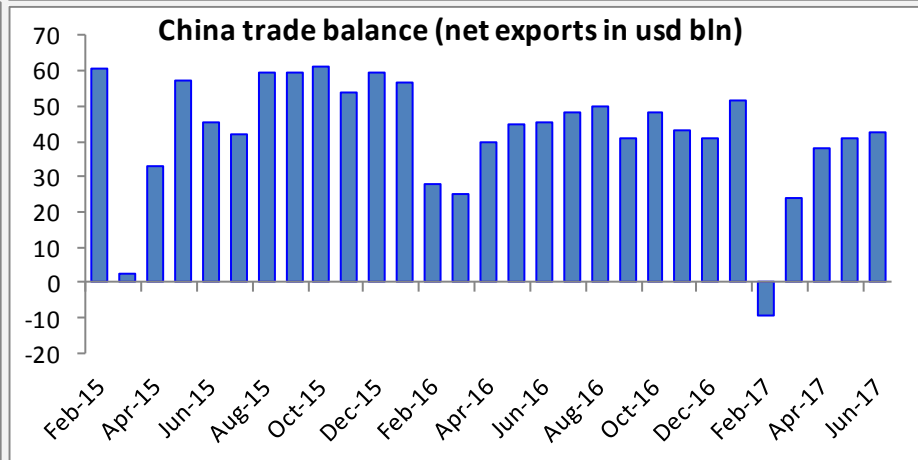
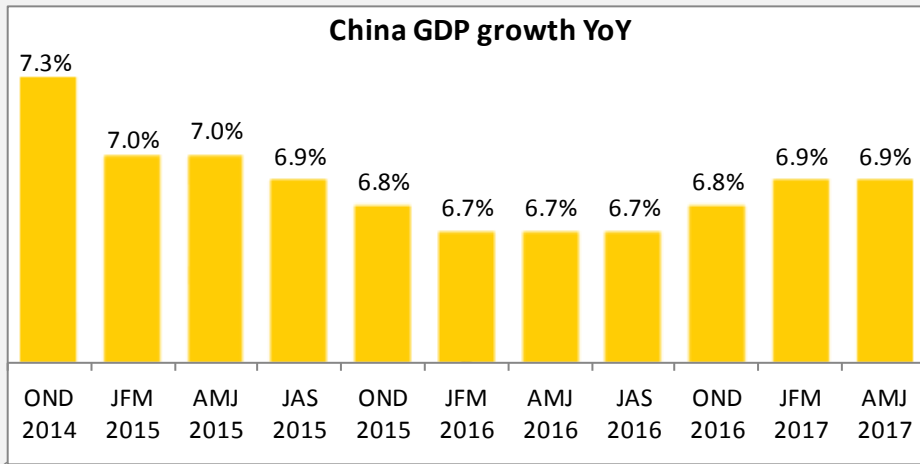
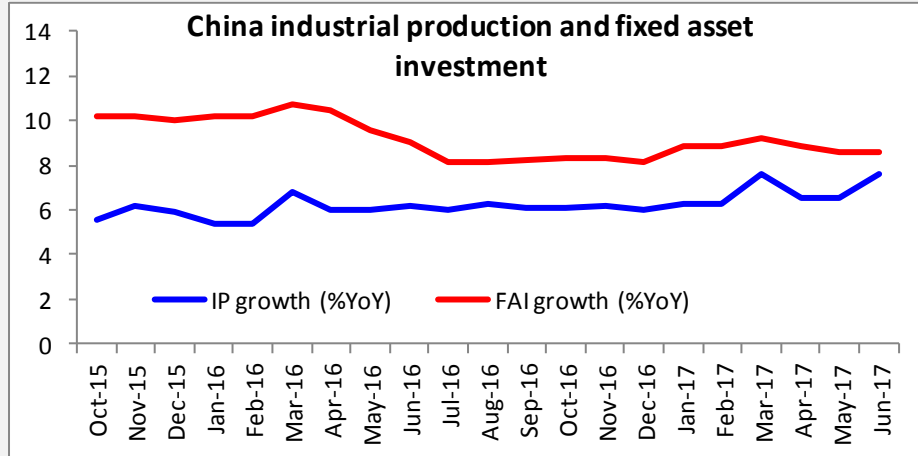
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- Although sales declined marginally in April, broad strength in housing remained intact in the recent months amid benefits discounts from mortgage lenders
- However, with increasing monetary costs as FED continues to push ahead with its monetary tightening 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



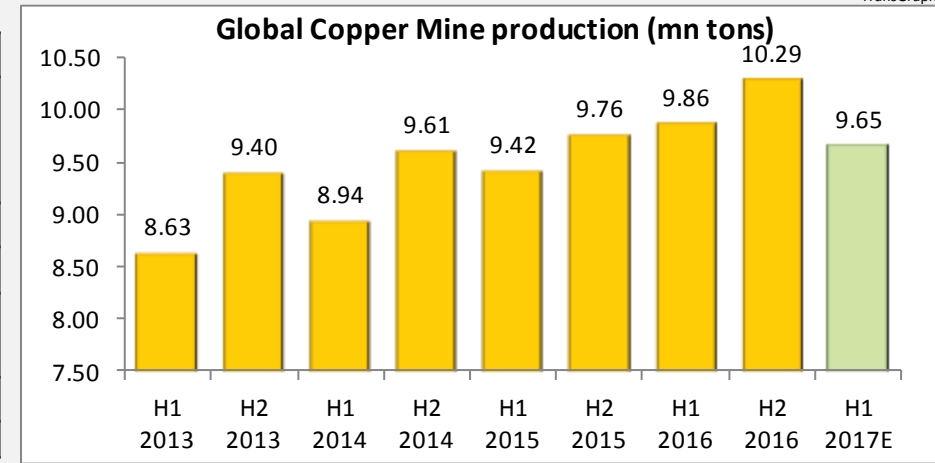
Upbeat growth momentum in China

- 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



ICSG Refined Copper Market Balance – Steady Mine supply seen in 2016 to decline in 2017 on Mine disruptions aiding deficit conditions

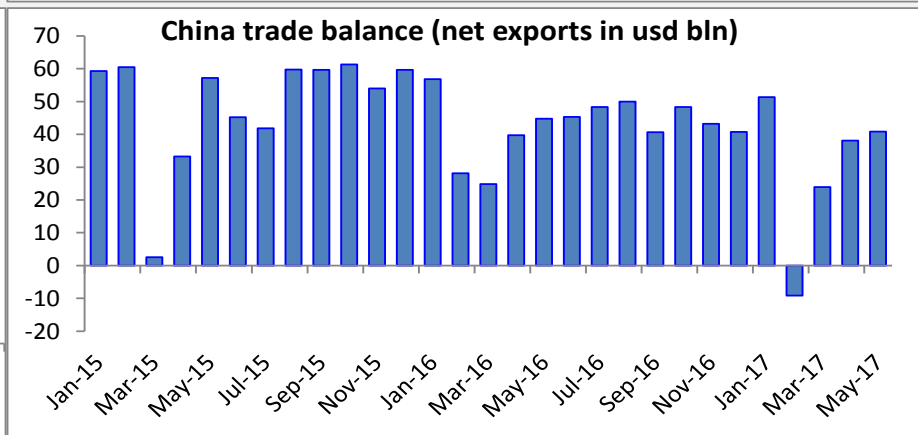
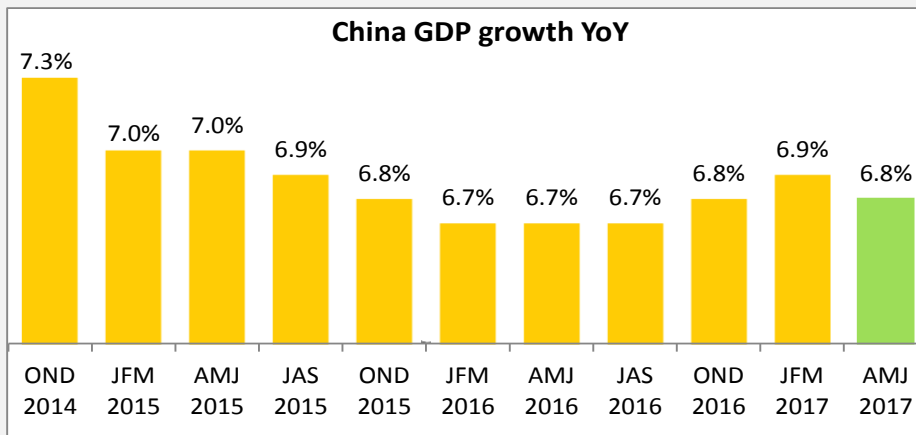
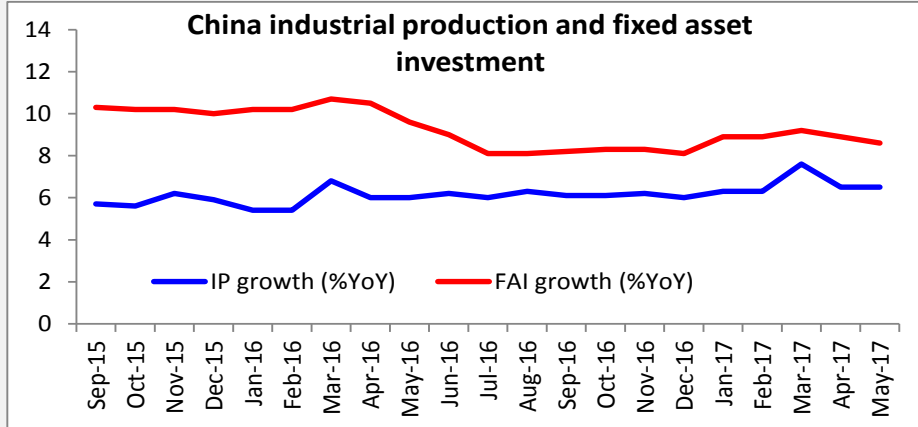
ICSG global Copper market forecast	2017			2018
	Mar'16 forecast	Oct'16 forecast	Apr'17 forecast	Apr'17 forecast
Mine Production	20.889	20.702	20.398	21.241
Refined Production	23.436	23.791	23.748	24.157
Refined Consumption	23.416	23.628	23.895	24.327
Balance	0.020	0.163	-0.147	-0.169
All units in million tons, Source: ICSG				



- Supply Disruptions seen in Feb-Mar'17 to lead to lower production during H1 2017.
- Peru could continue to boost output for 2017 partially offsetting decline from Chile.
- ICSG having revised its forecast for 2017 to deficit of 147 KT mainly on account of decline in refined production and steady usage leading to deficit conditions aiding sentiments.

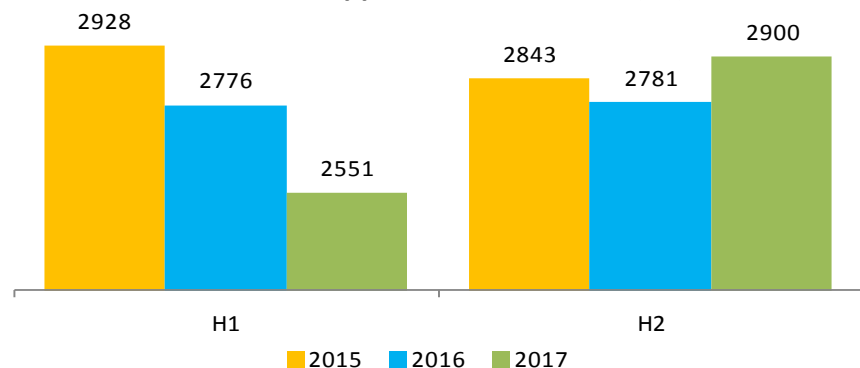
Stable growth momentum in China

- Aided by fiscal boost, Chinese growth momentum remained stable
- However, with moderation in industrial activity and decline in exports shall lead to overall growth moderation



Copper mine production lower in 2017 due to supply disruptions in H1

Chile Copper Mine Production (KT)



Freeport Copper production (KT)

Year	South America	North America	Indonesia	Total
2013	600	649	415	1664
2014	522	758	288	1568
2015	394	883	341	1618
2016	602	831	482	1915
2017P	562	812	495	1869

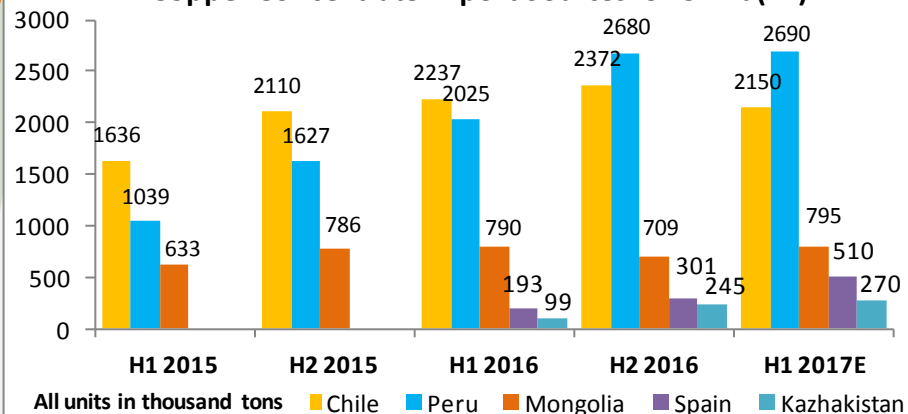
Source: Company reports

- Decline in Chile Output in H1 2017 due to loss of over 200K of production from Escondida mine during Feb-Mar'17.
- Freeport Mcmoran operated Grasberg Mine in Indonesia also witnessed supply disruptions during JFM'17 while strike still continues since May'17 resulting in further losses.

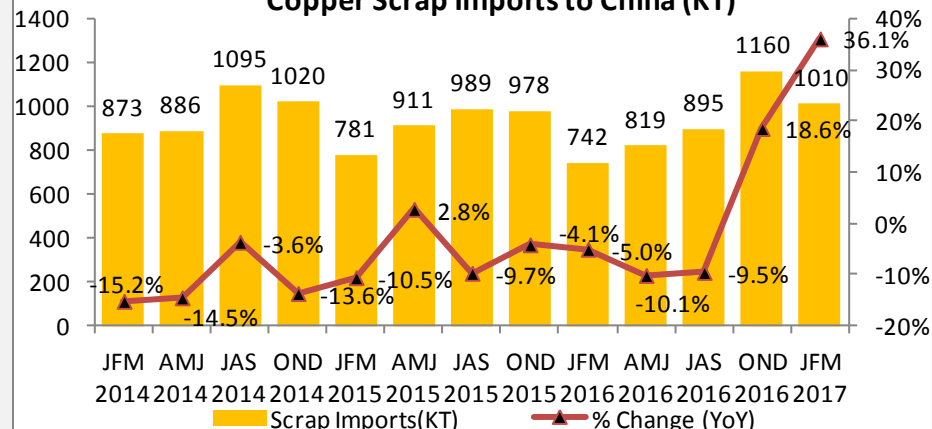
Declining China Conc. Imports from Chile to be offset by rising imports from other sources while steady scrap imports to keep refined production steady for H1 2017.

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Copper Concentrate Import Sources for China(KT)

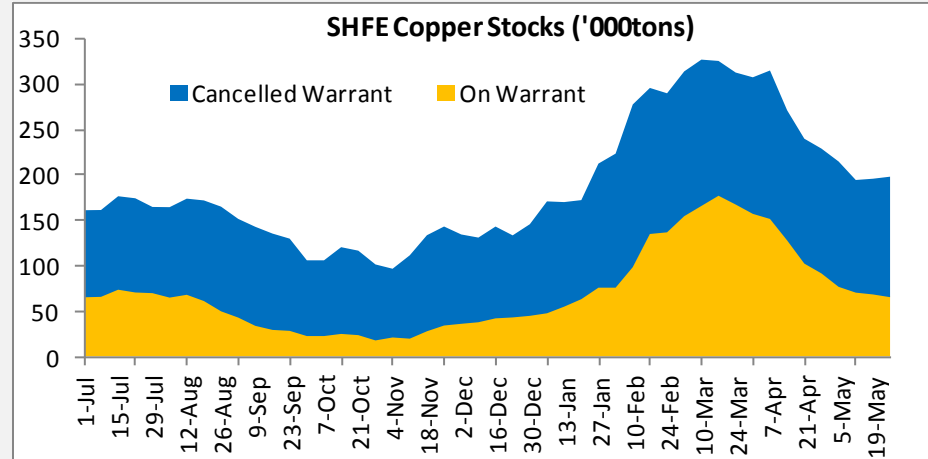
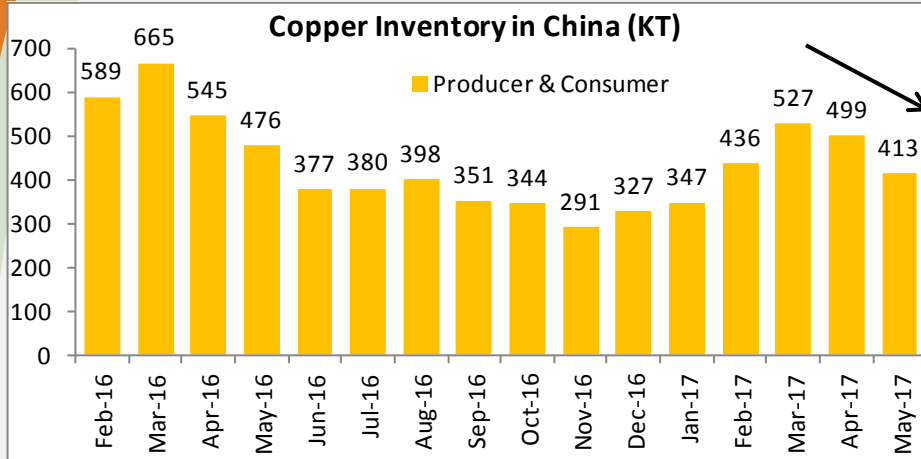


Copper Scrap Imports to China (KT)



- With Copper prices rising more than 20 % since OND'16, had led to improved scrap availability in the spot market during JFM'17 while China scrap imports rose by 18 % from Jan-Apr period keeping refined production steady.
- Decline of Copper Conc. Imports from Chile due to loss of production during Feb-Mar'17 was seen offset by rise in imports from other sources including Peru, Spain & Kazakhstan.

Physical stocks to decline in China during AMJ'17 amid seasonal consumption period while premiums could rise aiding sentiments.



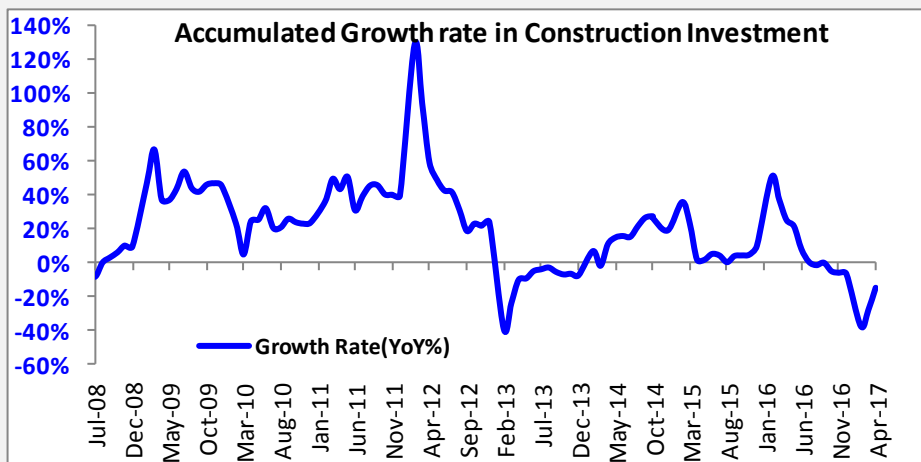
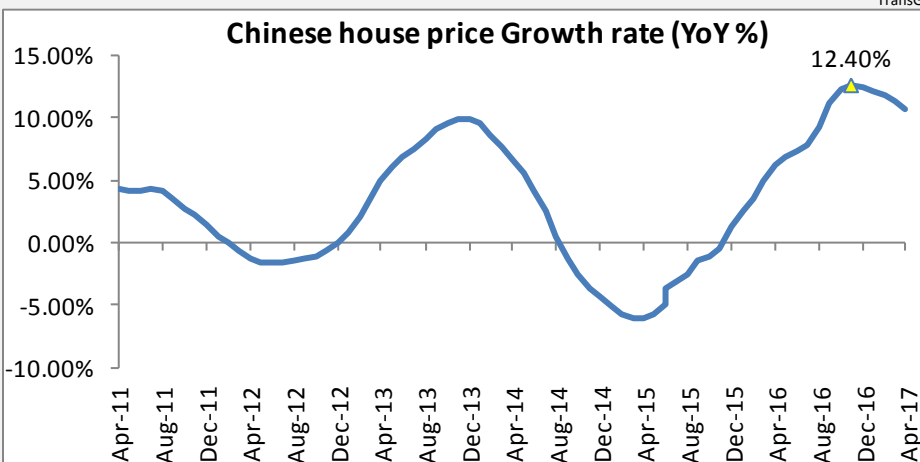
- Inventories in China rose during JFM'17 in line with restocking ahead of stronger Consumption period in AMJ'17.
- However with deficit condition to persist in 2017 inventories could decline during H2 2017 aiding price sentiments.

China Bonded Warehouse Premiums	
Date	Premiums(Usd/Ton)
1 st Oct'16	60
1 st Jan'17	80
1 st Apr'17	65
30th May'17	70
Source: Reuters	

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

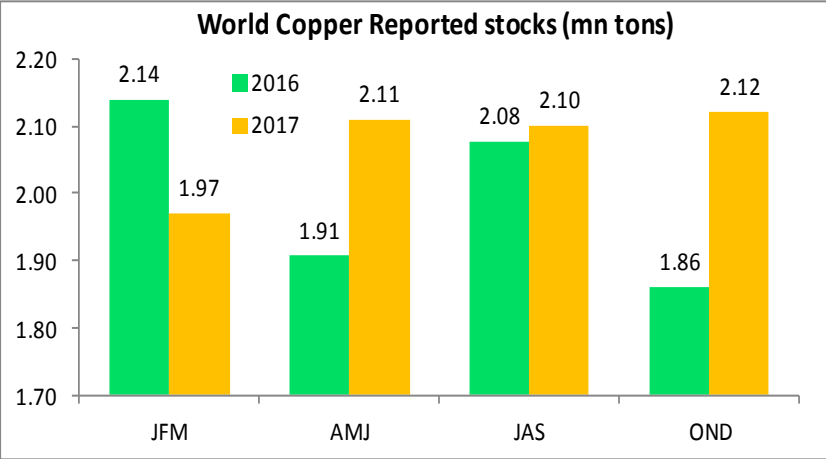
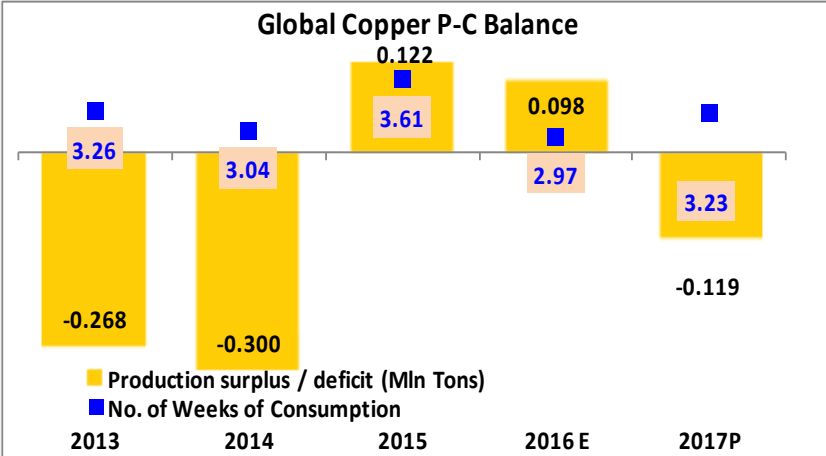
- China increased average interest rate for first-time homebuyers to 4.52% in April in cities around China, up from 4.49% from a year earlier and was the fourth consecutive monthly rate hike since January.
- With China witnessing declining Investment growth in Fixed Assets into Construction sector during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

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Copper – Effective Balance Sheet

Description	2015	2016 E	2017 P	Change
Refined Copper Production	22.987	23.524	23.85	0.325
Refined Copper Consumption	22.865	23.426	23.971	0.545
P-C Balance	0.122	0.098	-0.119	
Ending Stocks (Producer)	1.100	0.860	0.930	0.070
Ending Stocks (Exchange)	0.488	0.480	0.560	0.080
China bonded warehouse stocks	0.400	0.520	0.630	0.110
No. of Weeks of Consumption	3.61	2.97	3.23	
No. of Weeks of Consumption (incl. china bonded)	4.52	4.13	4.60	
Source: ICSG, TG Estimates, * All figures are in Million tons unless mentioned otherwise				

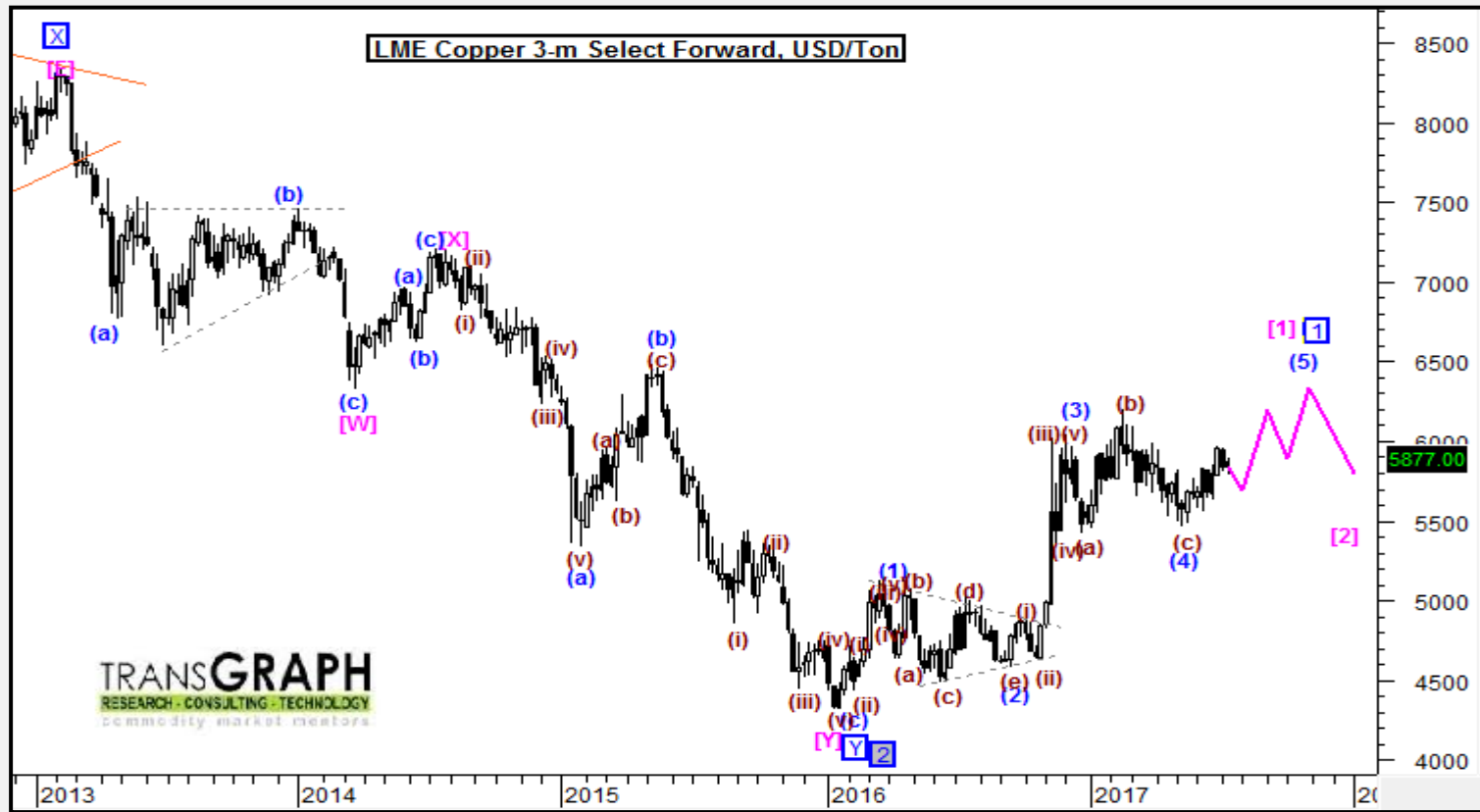


Technical Analysis



LME Copper 3 – Month Forward (Daily) Elliott wave analysis

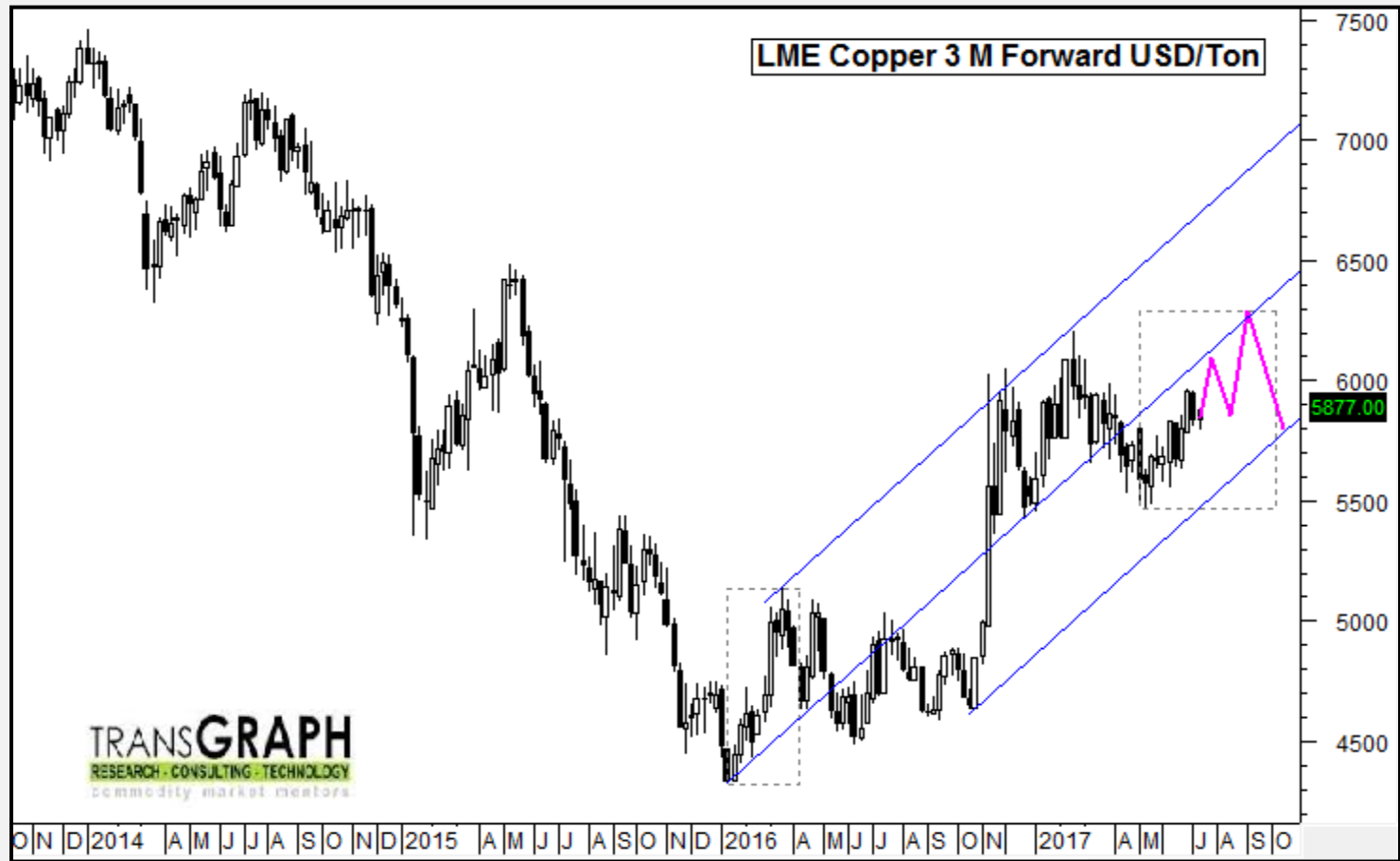
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From Elliott wave perspective, prices have culminated primary wave “Y” at USD 4318 levels and started the primary wave “1” within that price have completed minor wave “4” at USD 5460 and resuming the positive trend which can extend towards USD 6300 as final leg of intermediate wave “1” in the coming 2-3 months.

LME Copper 3 – Month Forward Mother Chart analysis

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LME Copper prices are likely to extend the gains towards USD 6300 in the coming 2-3 months and turn negative.

Price outlook summary

Commodity	Last Closing (USD/ton) (as on July 14, 2017)	Price outlook summary for next 2-3 months	
		Range	Direction
LME Copper 3-month forward	5926	5750 – 6300	Prices are likely to stay above USD 5750 and trade higher towards USD 6300 in the coming 2-3 months.
<i>Note: Price close below USD 5750 will delay the expected gains and likely to trade lower towards USD 5450</i>			



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