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Medium term outlook on Lead

July 2017



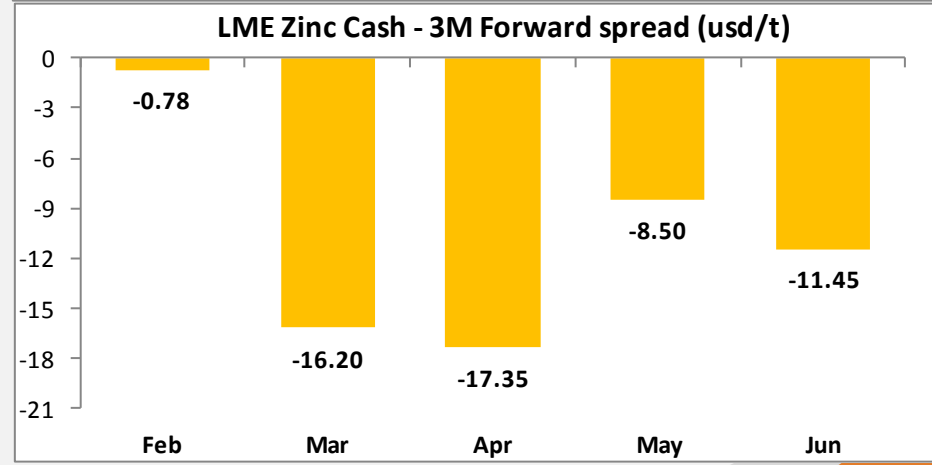
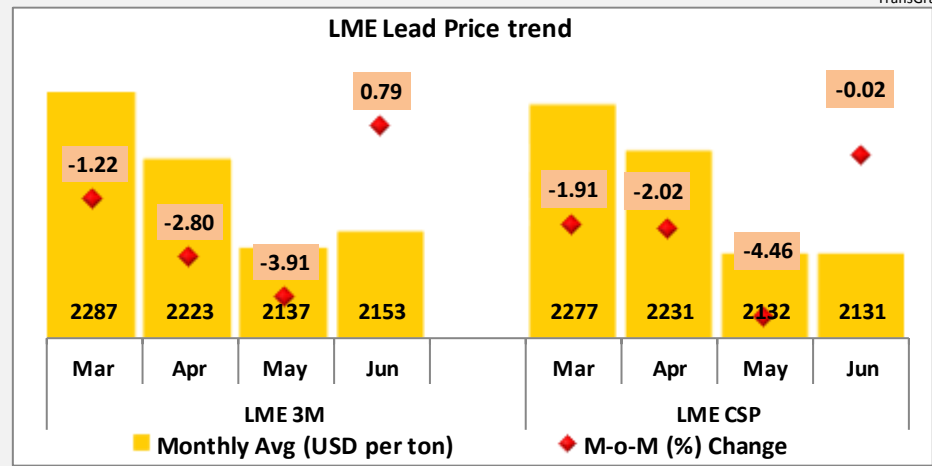
Market Recap

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- LME Lead remained weak last month but recovered towards the end to close higher

Major price drivers

- Decline in LME stocks
- ILZSG SnD release
- Upbeat Chinese demand and import appetite
- Improvement in Chinese CIF premiums
- Slowdown in global auto production prospects for H2 2017 from China weighed on sentiments
- Weak Dollar which fell to 10 month lows against the basket of currencies

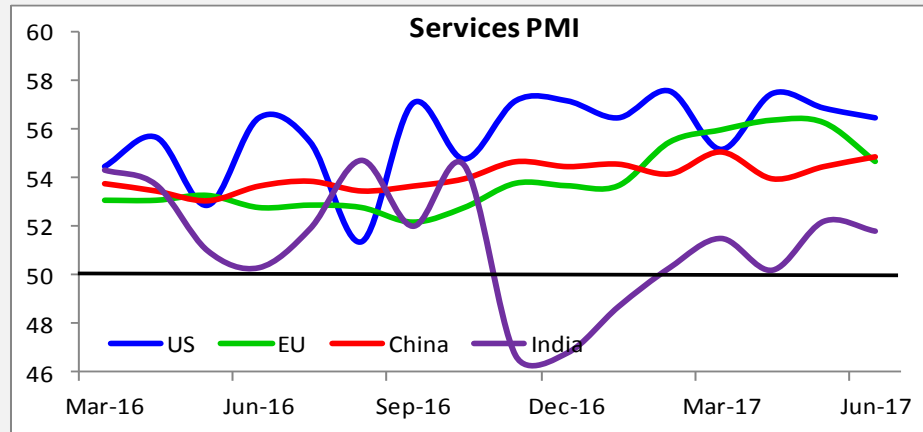
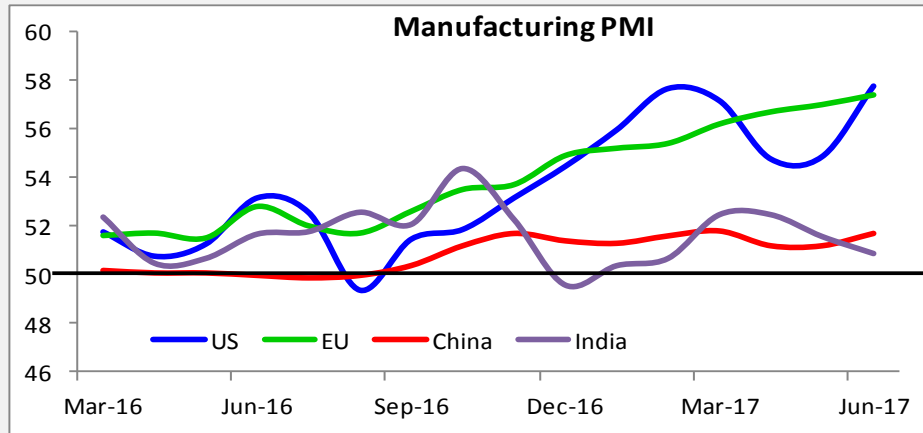


Summary price drivers

Price driver	Type	1 month		2-3 months	
		Weight %	Score (1-5)	Weight %	Score (1-5)
China Physical/Exchange Stocks	Stocks	15	2	20	3
Lead Refined Production – China	Supply	20	3	15	4
Lead Concentrate Imports – China	Raw Material	10	4	5	3
Exchange Inventories – LME	Stocks	25	2	25	3
Automobile Production - Global	Demand	10	3	5	2
Lead Mine Production – China	Supply	5	2	10	4
Dollar Index	Currency	5	3	5	4
ILZSG Monthly Release	Supply-Demand	5	2	5	3
China Macroeconomic cues	Demand	5	3	10	2
Total indexed score:		2.60		3.15	
Index score (1-5, 3:consolidation, 1&2:bearish, 4&5:bullish)					

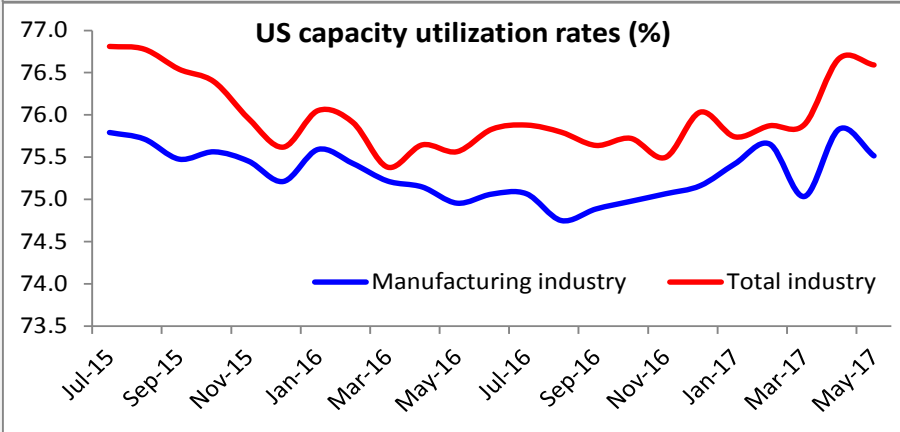
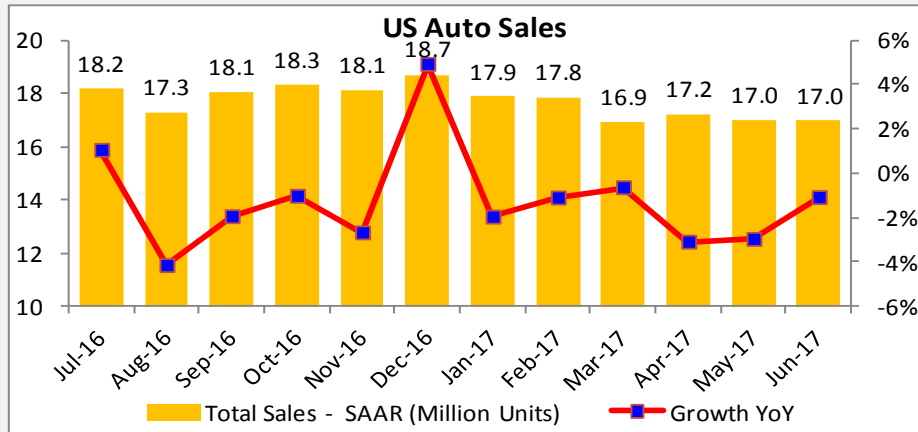
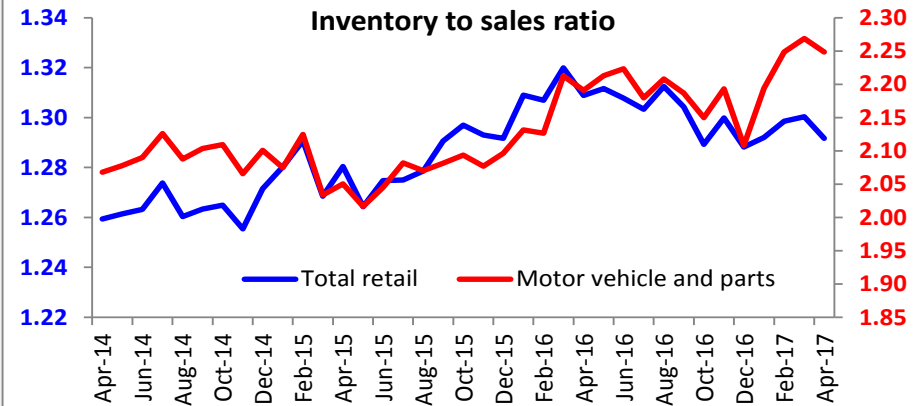
Global PMI trends portend to improving global conditions in unison

- 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

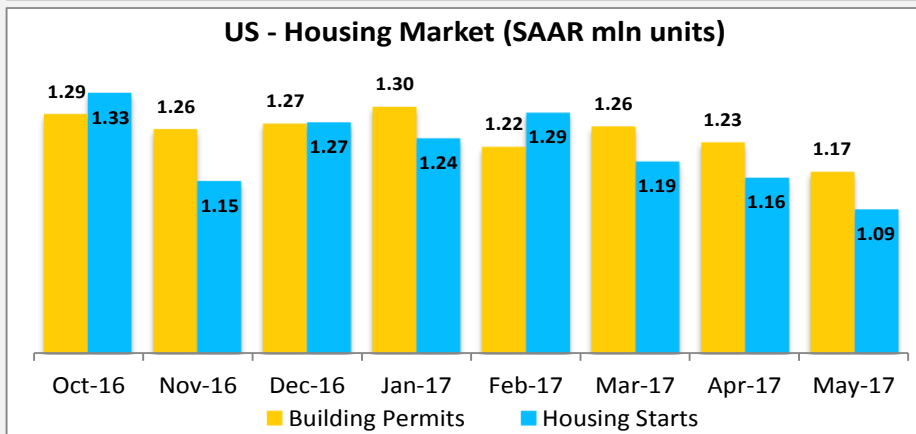
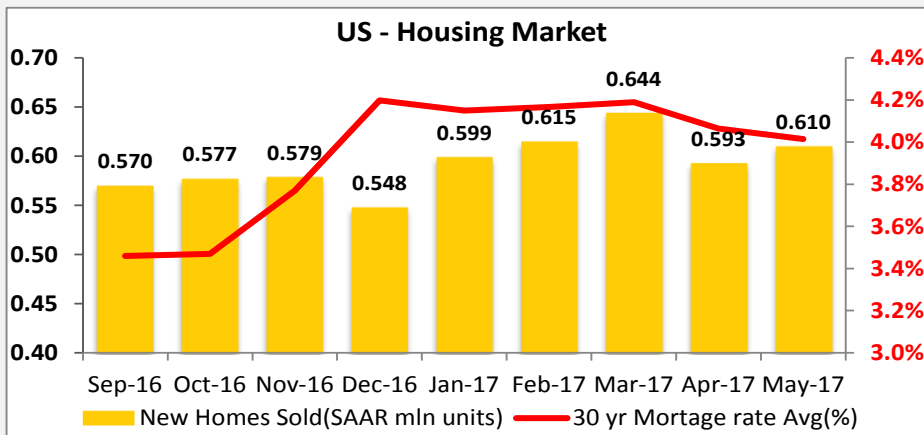
- Retail sales have declined but improvement witnessed in capacity utilization rates in the last few months led to building up of inventories which shall eventually lead to manufacturing slowdown in the coming months
- Auto sales remained subdued despite discounts from car makers underpinning the higher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



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

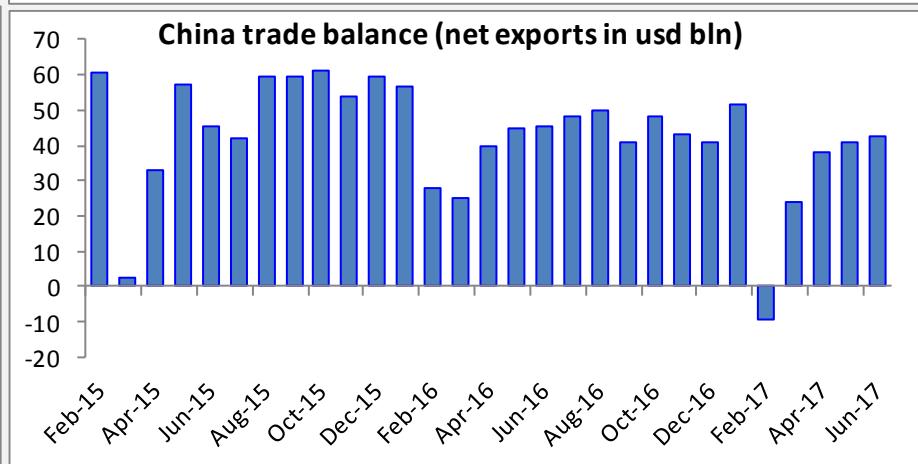
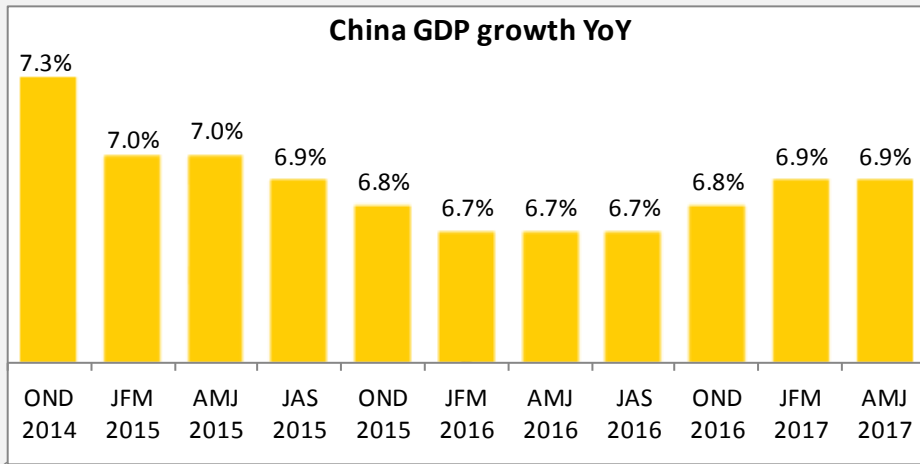
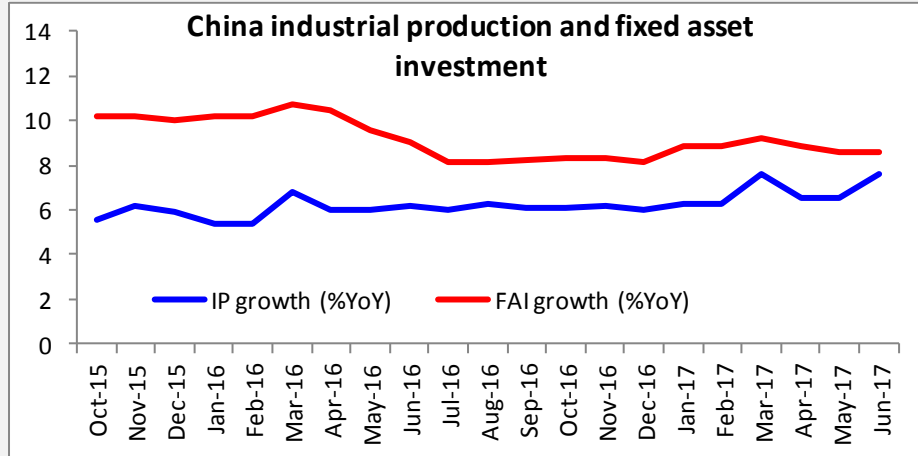
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- Although sales declined marginally in April, broad strength in housing remained intact in the recent months amid benefits discounts from mortgage lenders
- However, with increasing monetary costs as FED continues to push ahead with its monetary tightening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



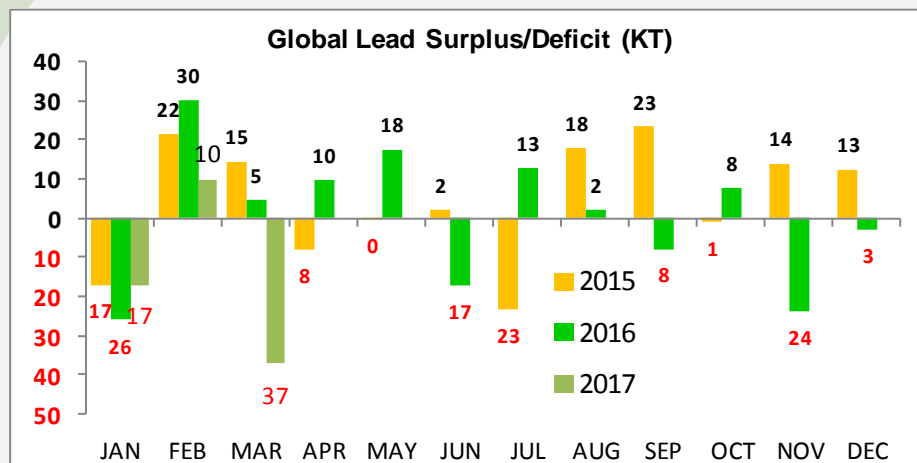
Upbeat growth momentum in China

- 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



ILZSG Lead Forecast: Lead market to remain in balance in 2017 with steady demand to aid sentiments.

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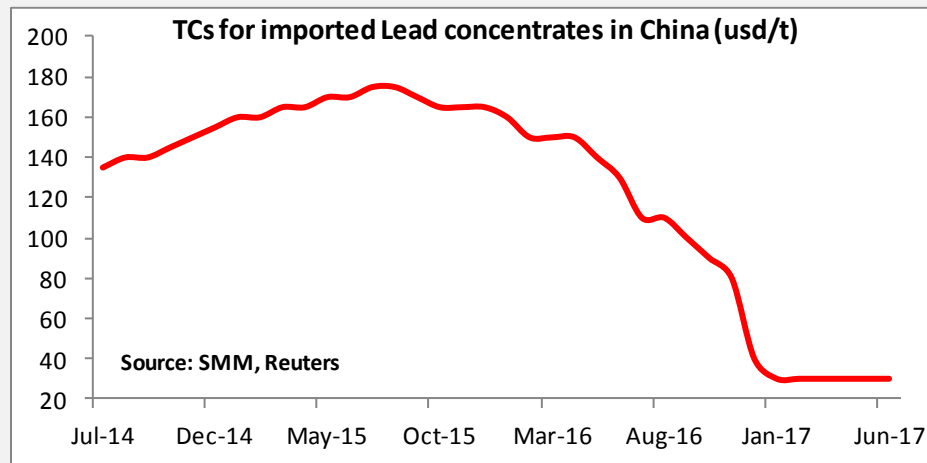
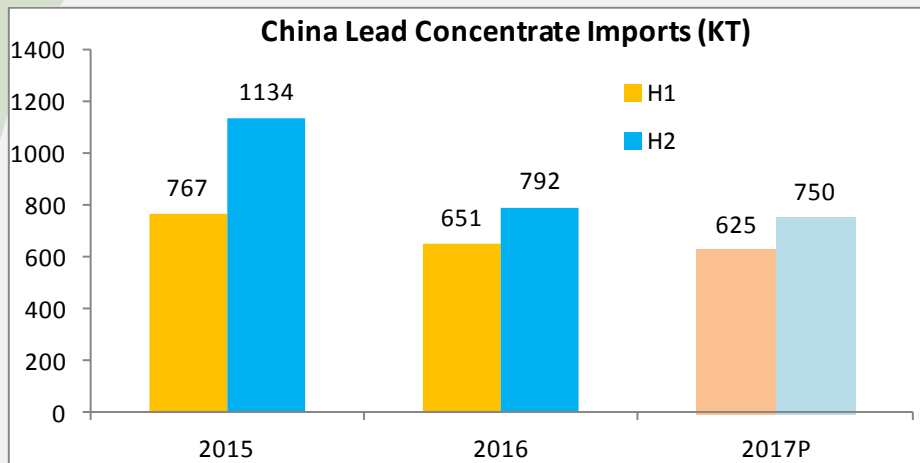


ILZSG global Lead market forecast	2017(MT)	
	Oct'16 forecast	Apr'17 forecast
Mine Production	4.91	4.92
Refined Production	11.36	11.39
Refined Consumption	11.34	11.39
Balance	23	-
All units in million tons, Source: ILZSG		

	Jan-Mar'17	Jan-Mar'16	Change (%)
Global Mine Production	1.310	1.106	18.44%
Global Refined Metal Production	2.940	2.673	9.08%
Global Refined Metal Usage	2.984	2.658	12.26%
Refined Lead Balance	-0.44	0.15	

*All units in million tons, Source : ILZSG

Lower concentrate availability creating tightness leading to higher refined imports

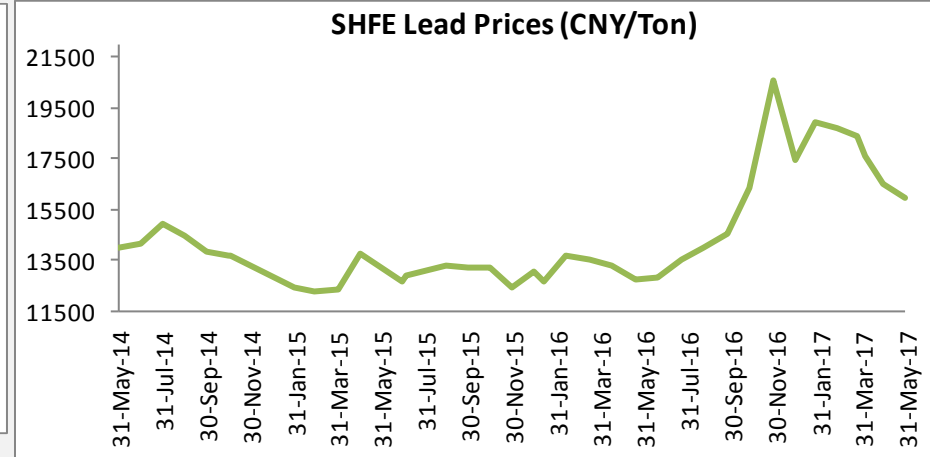
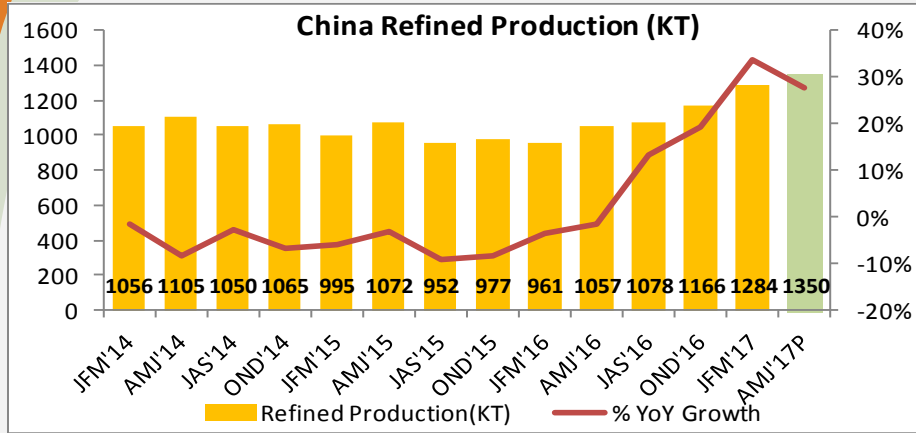


- Lower mine supply witnessed since end of 2015 due to closure of major mines in Australia and Ireland had led to lower concentrate imports in the same period.
- Tightness in Concentrate markets in China is leading to higher refined imports seen since JFM'17.

Quarter	Refined Imports(KT)
JFM'16	0.009
AMJ'16	0.125
JAS'16	0.086
OND'16	0.854
JFM'17	23.036

Stability in Lead prices seen along with improvement in secondary lead availability since H2 2016 to keep refined production steady for H1 2017.

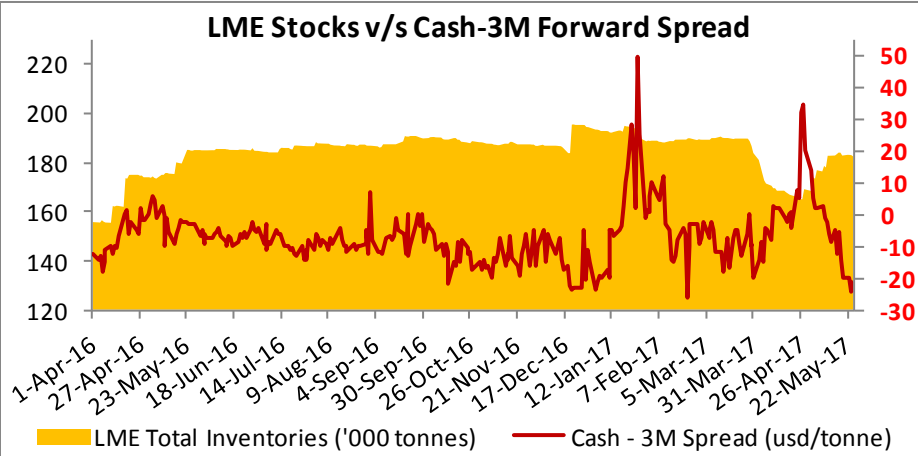
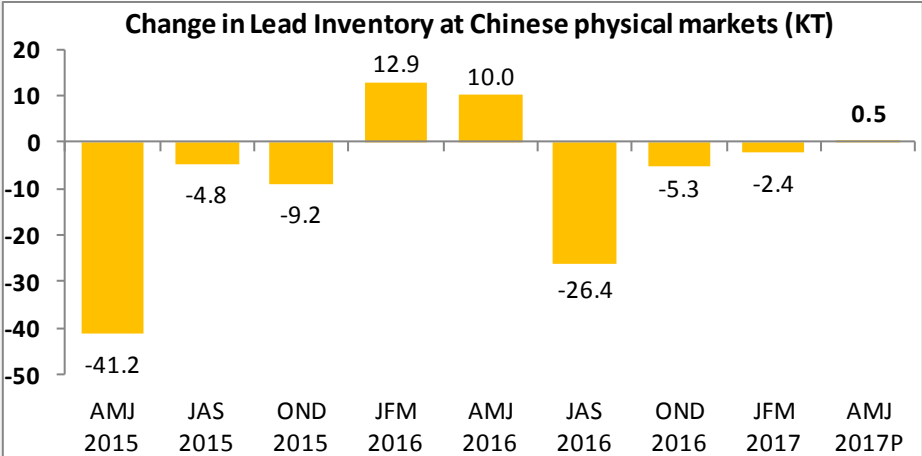
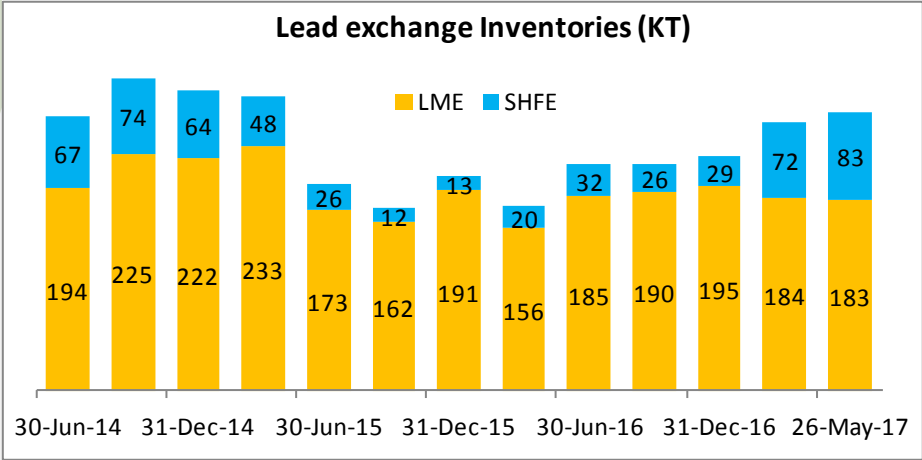
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- Global refined metal output in 2016 remained at around 1.5 % higher as compared to 2015 mainly on account of higher output from U.S & Republic of Korea. Meanwhile Lead output in China during H1 2017 could remain steady as higher prices seen in H2 2016 could lead to improved availability of scrap in spot markets.

Stocks remain higher in China despite improved refined imports indicating lack of consumption demand for H1 2017.

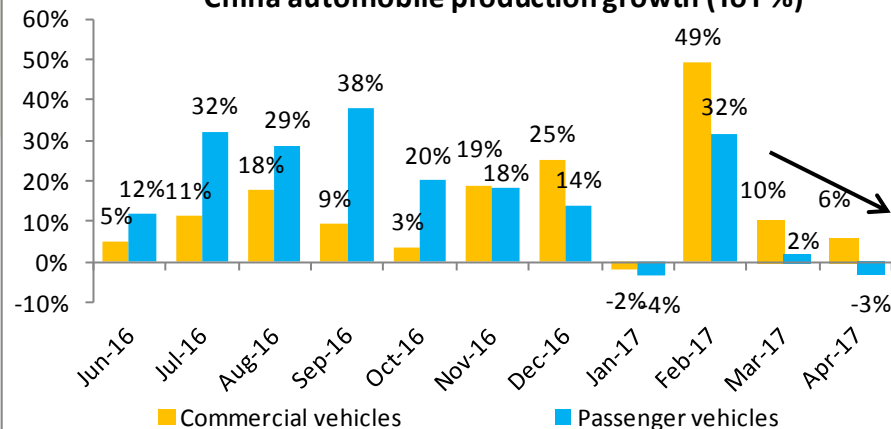
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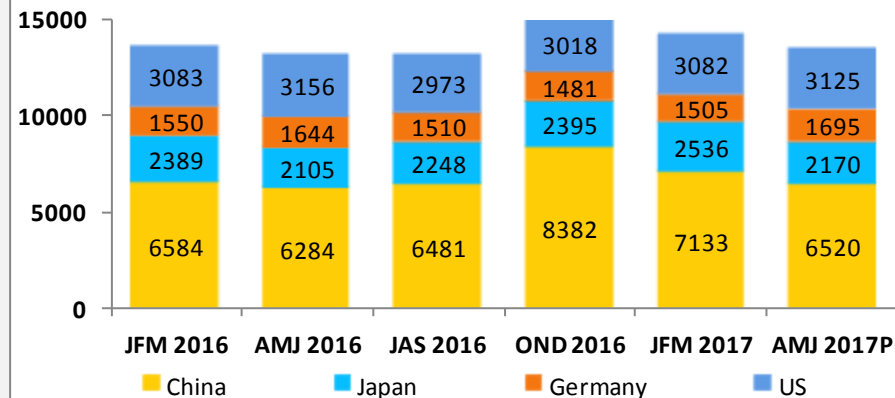
Global automobile sector prospects – Auto demand to remain lower in China on reduced tax incentive partially offset by steady demand from Europe during H2 2017

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China automobile production growth (YoY %)



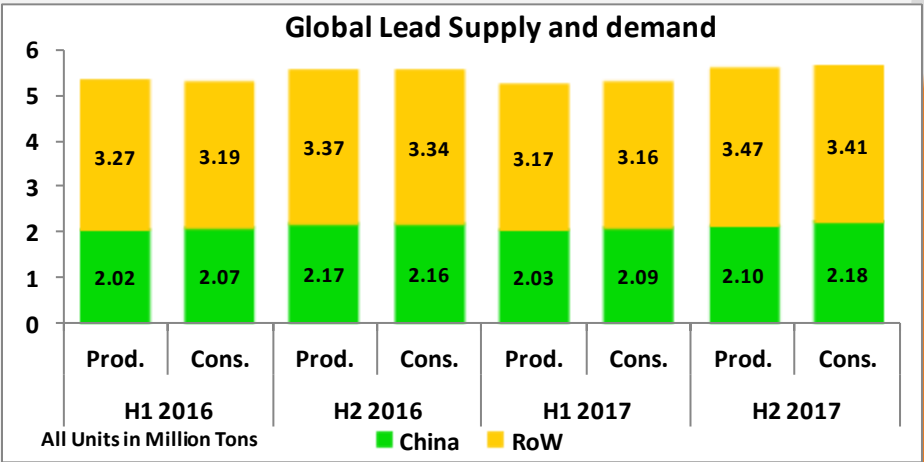
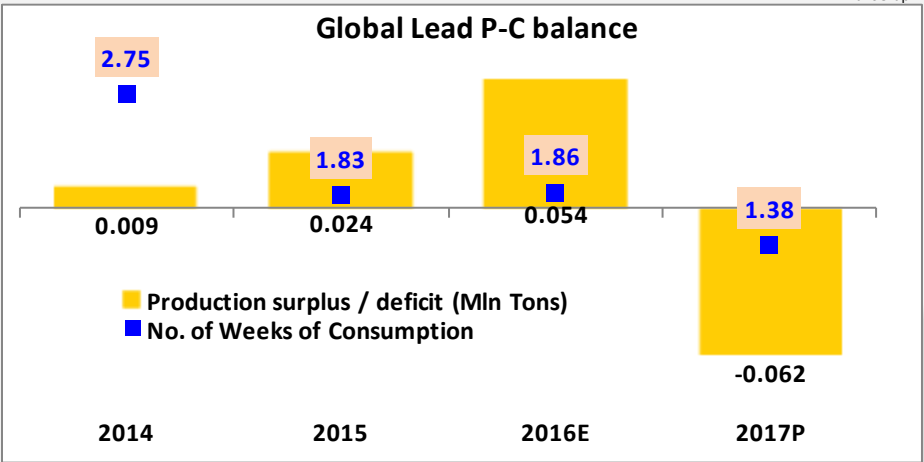
Automobile Production in Major Markets (000 units)



- 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.

Lead – Effective Balance Sheet

Description	2015	2016E	2017 P
Refined Lead Production	10.655	10.818	10.870
Apparent Consumption	10.631	10.764	10.930
P-C Balance	0.024	0.054	-0.062
Ending Stocks (Producer and Consumer)	0.190	0.200	0.140
Ending Stocks (Exchange)	0.185	0.185	0.170
No. of Weeks of Consumption	1.81	1.86	1.38
Source: ILZSG, Reuters, TG Estimates, * All figures are in Million tons unless mentioned otherwise			

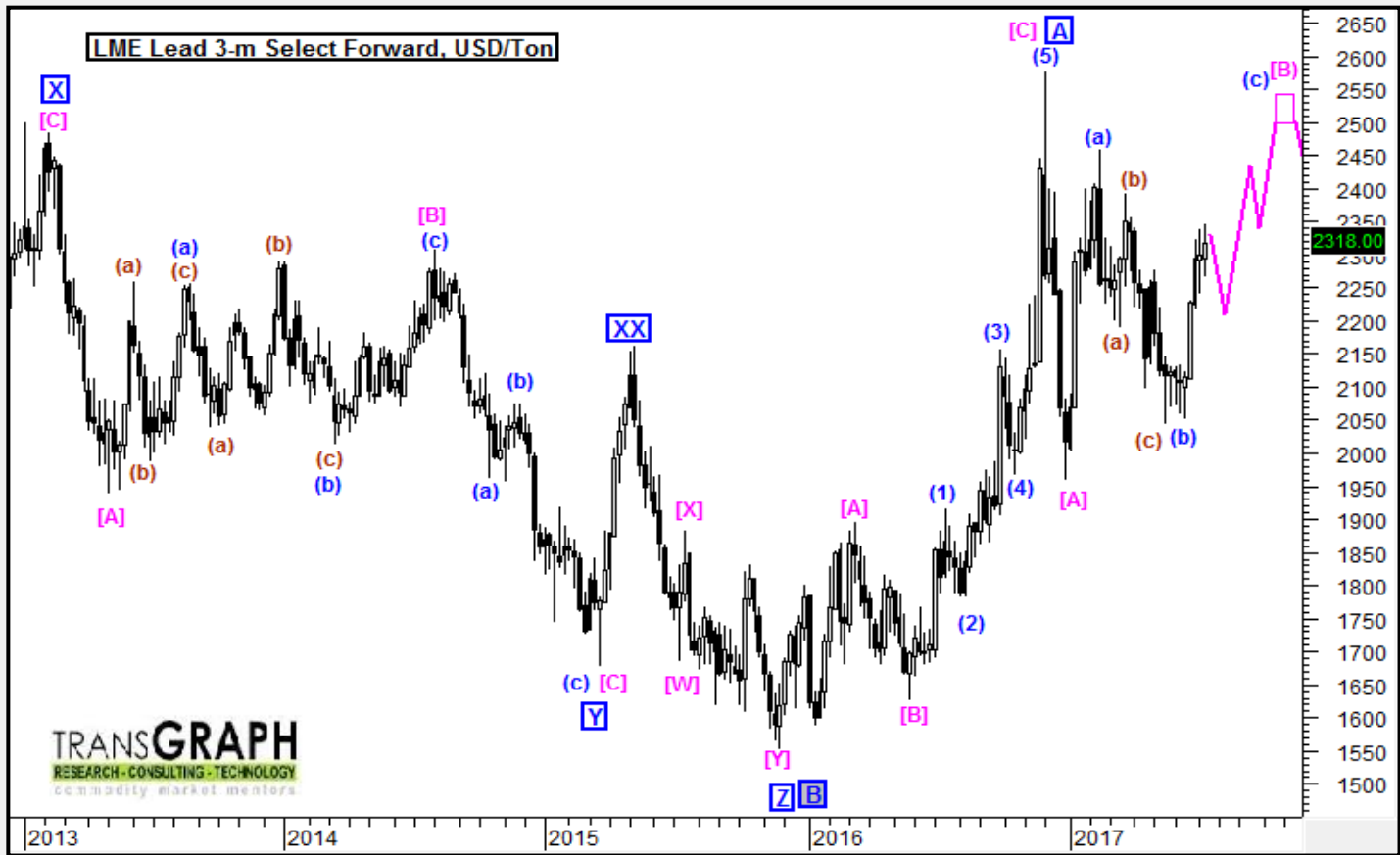


Technical Analysis



LME Lead SELECT 3 – Month Forward Elliott Wave Analysis

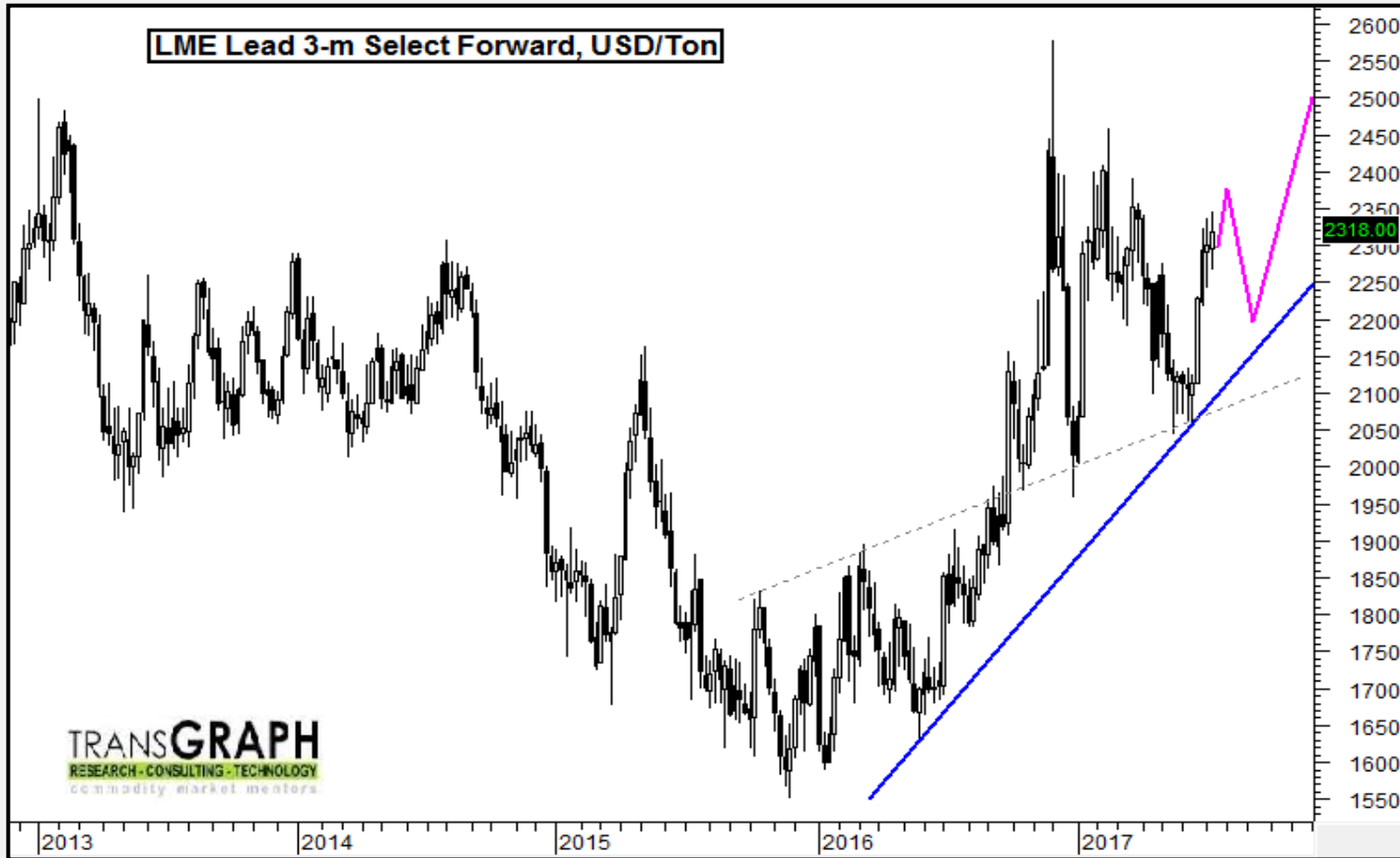
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LME Lead 3 month forward prices have culminated primary wave “A” around USD 2575 and witnessing correction as intermediate flat wave “B” within primary wave “B”, which likely to place top around USD 2550 in the coming 3-5 months.

LME Lead SELECT 3 – Month Forward Mother Chart Analysis

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LME Lead 3 M Forward prices are likely to witness minor correction towards USD 2200 before resuming the positive trend towards USD 2500 in the coming 2-3 months.

Price outlook summary

Commodity	Last Closing (USD/ton) (as on July, 2017)	Price outlook summary for next 2-3 months	
		Range	Direction
LME Lead 3-month forward	2318	2200 – 2500	Prices are likely to witness minor correction towards USD 2200 before resuming the positive trend towards USD 2500 in the coming 2-3 months
<i>Note: Price close below USD 2100 will negate the upside potential and extend the weakness towards USD 1800.</i>			



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