Monthly Metal Buying Outlook
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Editor’s Highlights

Highlights during the month of June

- The USD is experiencing a correction after making a big upside move; we remain bullish on the dollar and believe it is holding its value well

- As news breaks on the Greek crisis, we could expect to see additional currency volatility due to Euro weakness and a flight to the USD (the dollar’s strength is nearly always bearish on metals prices)

- We remain bearish on all commodities

- US trade legislation could change the longer term fundamentals of some of the metals but the overall impact remains to be seen

- Some of the “better” performing metals are no longer performing well (e.g. zinc and aluminum)
Commodities held steady in June and so did oil prices, which held at about $60 per barrel. The dollar depreciated against other currencies in June, which usually provides support to commodity prices but did not this month. The dollar, however, is still holding its value well despite a small retrenchment this month. The dollar index has been range-bound for the past 5 months.

The CRB index remains at low levels. A move above May’s highs would indicate a potential shift in market sentiment and is something worth watching. However, until that happens, commodities remain in bearish mode, and that is weighing on base metal prices. A weaker dollar and higher oil prices could help push other commodity groups higher but that hasn’t been the case yet. Meanwhile, oil prices held relatively well in May, though we could see some price declines next month. Industrial metals led the largest price declines for all commodities.

The long-term trend for commodities remains down. The shorter-term trend appears range bound with few signs of upside potential.
Unlike other commodities, industrial metals fell sharply in June, and appear as the worst performer of all commodities. The Powershares DB Base Metals Fund, which tracks base metals, made a fresh 6-year low. This suggests to us that buying long-term forward does not make much business sense.

Zinc and lead suffered remarkable losses. These two metals held their value relatively well compared to other base metals throughout this year but across-the-board weakness continues to push prices lower, even those with good fundamentals.

Although some individual metals might offer good trend short-term buying opportunities, the long-term trend remains down and therefore risky to commit large volumes in this kind of environment. However, organizations should be vigilant looking for signs that the trend has started to reverse.
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Market Commentary

Aluminum continued to fall throughout June closing at $1,686/mt, a 3.4% decline from our previous monthly report and just above key support levels. The back-story remains exactly the same as one month ago in terms of global oversupply, falling MW premiums and the potential return of the stock and finance trade. What has changed are some of the details within each of these drivers. None have fundamentally changed the monthly outlook.

**It's All in the Output**

World production of primary aluminum has grown 12% from one year ago. This is the fastest growth rate since 2011. The notion that China will curb production remains a pipedream. In fact, global producer UC Rusal pointed to rising Chinese aluminum exports as evidence of no checks on Chinese aluminum production. Combine that with a new “Make in India” campaign and we see a similar situation developing there – more capacity. The bottom line: aluminum prices may need to fall further and it will be the non-Chinese producers that take out capacity.

**Watch the MW Premiums**

Last month this report indicated the conditions appear “ripe” for the stock and finance trade – a strong forward curve combined with low interest rates may be all that is needed to soak up excess inventory and re-start the warehouse trade. MetalMiner analysis of LME data, however, suggests that total tonnages stored in Detroit warehouses are indeed declining meaning we don’t yet see any evidence of the return of the stock and finance trade. Nevertheless, aluminum buying organizations will want to pay close attention to this development.

In the meantime, semi-finished aluminum prices are under pressure. Physical delivery premiums have come down nearly to their historic levels of $100-125/ton and mills are short of work so the conversion premium is under considerable pressure. In Europe, a weak Euro is helping mills export but there is limited demand placing downward pressure on prices.

**The Outlook**

Metal prices are falling across the board, and some of them have already fallen below key support levels. Based on current market conditions, it’s likely that aluminum prices will keep trending lower. Therefore, making long-term commitments is not a good idea until we see real signs of strength.

We do, however, leave open the possibility of rising premiums as an indicator of the resumption of the stock and finance trade.

**Industrial buying strategy**

For the short-term, buy as needed. Should prices break above short-term resistance at $1,800/mt consider covering for short-term requirements. For longer-term purchases, we see no reason to place forward buys.
China Demand is the Name of the Game

China really controls the copper story. Poor demand and near-term copper supply suggest copper will continue to struggle. Chinese government spending, construction spending, auto sales and power grid investment serve as the key drivers to Chinese demand as well as price support. Power grid investment has fallen. Each of these remaining indicators has fallen month over month from April to May and year over year.

Our own MetalMiner IndX™ China industrial copper price data shows that copper prices have already fallen by over 5% in June compared to May data. In addition, the average monthly prices in the chart below suggest that indeed Chinese industrial demand remains muted as prices are markedly lower compared to last year.

The Outlook

Three-month copper closed the month of June at $5,760/mt, down nearly 4+% from last month. Copper prices rallied up until May but have continued to fall. Copper remains in a long-term bearish market despite the fact that the dollar has begun trading sideways. Moreover, throw in a bit of Greek uncertainty and the global price picture for copper looks a bit murky (some believe a successful Greek outcome would be bullish for copper prices). Nevertheless, we remain bearish. While the rest of industrial metals keep falling, we would expect copper prices to trade below $6,500/mt during the second half of the year possibly diving to record lows.

Industrial buying strategy

For the short-term, buy only as needed. There is no point in buying forward when prices are unable to make substantial upside moves. Even if prices manage to rally in the short-term, prices are likely to come back down. For the medium-term, there is no need for volume commitments as we remain in bearish territory as long as prices are below $6,500/mt.
Market Commentary

Nickel fundamentals do not tell a very good story if you are a stainless producer or service center. However, buying organizations likely feel differently about bearish metals. Nickel faces a number of headwinds that will continue to put pressure on prices.

Specifically, nickel suffers from weak demand globally, excess service center inventory levels, an Indonesian export ban that failed to do what it intended to do (we’ll come to that in a moment) and increased stockpiles in China (though we do not accept the one to one correlation that higher inventory levels necessarily equate to lower prices and vice versa, lower inventory levels don’t necessarily equate to higher prices).

Service centers tell MetalMiner that inventory levels remain well above historical “healthy” MOH averages (about 2.4-2.6). Instead, inventory levels are up over 3.5 months, seasonally adjusted. This is a very bearish indicator. Demand has slowed for the typical summer slow-down. Service centers report transactional business is slow.

The Indonesian Export Ban

As many are aware the Indonesian government banned the export of unprocessed minerals back in January of 2014. Instead of having the desired effect of generating new investment for higher value added processing in country, exports have dried up and the government has begun tinkering with the ban to allow for some copper exports. The ban on nickel and aluminum exports remains intact but news reports suggest the ban for bauxite might be lifted which may be an indicator that the government could change its policy.

Regardless, this too is a bearish factor weighing on nickel.

The Outlook

Three-month nickel closed the month of June at $12,000/mt, sliding to a 6-year low. Nickel is in free-fall as shortage expectations faded. The long-term outlook remains bearish, especially while the rest of base metals keep falling. We expect to see high price volatility in the coming months.

Industrial buying strategy

For the short-term, we expect some price volatility. Consider covering some short-term requirements this month as prices could rally. For longer-term purchases, we see no reason to place forward buys as prices still have downside potential.
Lead

Market Commentary

Lead looked a little exciting in May but June has brought prices down on the back of soaring LME inventories (please note MetalMiner does not subscribe to the notion that inventory levels necessarily correlate with metal prices). However, in March a 100,000-ton surge in canceled warrants (metal to be taken out of LME warehouses) does not suggest sudden industrial demand but rather a storage arbitrage, similar to what has happened with aluminum and to a lesser extent, zinc.

China lead prices (not SHFE but industrial trade prices) peaked in early May and have declined ever since according to MetalMiner IndX™ data.

Last month we made mention of data that suggested a global balance between lead supply and demand. The most recent data from the International Lead and Zinc Study Group suggests demand is down across the board from Europe (4.2%), the US (3.9%), China (4.3%) and Korea (9.8%). Nonetheless the market appears in somewhat of a balance. Regardless, we don't see lead's fundamentals much differently than some of the other base metals.

The Outlook

Lead prices continued to fall in June closing at $1,761/mt. The rally that we saw in April has already vanished. Neither fundamentals nor technicals support a sustainable price rally. The long-term outlook remains bearish, especially while we see other industrial metals making record lows.

Lead Drivers

1 Dollar to Euro exchange rate
2 Global production
3 Global capacity utilization
4 Automotive production
5 China lead prices

Support and Resistance Indicator

China Lead Cash Price (RMB)

Industrial buying strategy

In the short-term, prices could bounce after this significant price drop. This month could be a good opportunity for buyers to meet short-term requirements near support. For longer-term purchases, we see no reason to place forward buys as we remain in bearish territory and lead could slide to record lows.
Zinc

Market Commentary

Last month we reported the International Lead and Zinc Study Group suggested 2015 demand for refined zinc would exceed supply by 151,000 metric tons. Those numbers have turned out to be wildly wrong - in fact zinc is running a surplus to the tune of 181,000 metric tons. In addition, buying organizations will want to pay careful attention to the flow of metal into LME warehouses.

According to the most recent LME data available, zinc stocks declined in May by some 57k+ metric tons but some analysts believe that just the opposite will happen through July – more inventory will make its way into LME warehouses than out of them. In addition, plenty of extra inventory exists in non-LME warehouses throughout Asia and the United States.

Market sentiment toward zinc has hinged on the supply/demand equation and it has become a little less likely that any real zinc shortage will materialize.

The Outlook

Three-month zinc fell significantly in June, closing at $2,000/mt. As with lead, zinc’s rally this spring wasn’t sustainable in the face of a bearish commodity market. In the long-term we expect zinc prices to stay range-bound at best.

Industrial buying strategy

In the short-term, prices could rally after this significant price drop. This month could be a good opportunity for buyers to meet short-term requirements near support. For longer-term purchases, we see no need to buy forward as long as prices remain below $2,420/mt.
Tin

Market Commentary

Tin has not had a good year. Prices have fallen 24% year-to-date after falling 15% in 2014. All base metals have fallen this year (and continue to fall) but at least a couple have attempted to show some price strength. Tin has been unable to rally at all for the past 18 months. A sideways market for tin would be a big improvement.

Moreover, the Indonesian tin export restrictions have essentially backfired. The limit of 4,500 metric tons per month, set to go into effect in April never happened. In fact, according to Indonesia’s Ministry of Trade, the country actually exported close to 6,300 metric tons in May.

Indonesian producers expected prices to rebound to $20,000 in the second half of the year against production cut backs. That scenario seems unlikely as tin is trading closer to $14,000/mt this month, below producers’ operating costs of more than $16,000/mt.

The Outlook

Three-month tin fell in June, closing at $13,880/mt. Prices continue to free-fall and tin is now at its lowest level in 6 years. Tin is not the only metal at a 6-year low - this is not a coincidence in bearish markets. Tin however, is the worst performer among industrial metals. The long-term outlook remains bearish until we see signs of an upturn.

Industrial buying strategy

For the short-term, prices could rally although they would probably lose momentum as they approach short-term resistance at $16,500. Consider placing orders for short-term requirements. For longer-term purchases, we see no need to buy forward as prices lack upside momentum.
Market Commentary

Without a doubt the historical passage of several trade measures in the US has the potential to change the steel products landscape in the coming years. After all, US HRC steel prices have dropped by 25% since the start of this year. The steel industry (e.g. producers) believes this price drop has come as a result of massive imports that have begun to slow. Certainly the data supports that conclusion though other factors undoubtedly contribute to falling steel prices.

Regardless of where one stands on the import issue (either for or against) buying organizations are likely to feel the impact of the new legislation. We will discuss some of these impacts in upcoming reports.

A Fundamentals View

Meanwhile HRC pricing has held steady from a month ago (up slightly). However, service center inventory levels (which supply some 40% of all metal to buying organizations) still suffer from too much MOH inventory. According to the latest MSCI data, steel product inventories jumped 11% in June from the same period in 2014 and perhaps more significantly, the current MOH inventory of 2.8 months of supply remains above “healthy” inventory levels.

With higher than healthy MOH inventory, service centers remain weak buyers in the market and that helps keep a lid on prices.

The Outlook

HRC prices seem to have begun to stabilize after falling for nearly a year by closing the month of May at $464/st. We remain hesitant to call bottom particularly as the broader commodity markets remain bearish and the dollar still holds stronger. It would appear challenging for HRC to make any bold price moves to the upside. But we may have found HRC’s floor. This will require buying organizations to be particularly mindful of any upward price movements.

Industrial buying strategy

For the short term, consider placing orders only for needed requirements. Should prices in the short to medium term break above the $485/st resistance level, then buying organizations may wish to cover for known requirements.
Market Commentary

CRC has fallen by some 21%+/- since the beginning of the year. The pricing dynamics for CRC are similar to HRC. Undoubtedly the impact of the trade legislation signed into law in late June will impact all steel product market segments including CRC.

Globally, European mills have filed an anti-dumping suit against cold rolled coil imports from China. India has begun collecting duties on HRC products from three countries but could add CRC tariffs as well. In short, all eyes remain on China but other countries are also contributing to the oversupply.

In the meantime, domestic steel capacity utilization rates are running at 72.5%, down 7.4% from a year ago. Generally speaking a “healthy” capacity utilization rate is up above 80%.

The Outlook

CRC prices have crept up during the month of June closing at $590/st but failing to breach last month’s short-term resistance levels. We also still see some price weakness on the horizon and continue to remain hesitant to call bottom particularly as the broader commodity markets remain bearish and the dollar holds stronger. Like HRC, it would appear challenging for CRC to make any bold price moves to the upside.

Steel Drivers

1 MOH service center inventory
2 US import levels (volume trends)
3 Total China steel exports
4 Raw material input cost trends
5 Quoted lead times

Support and Resistance Indicator

Industrial buying strategy

For the short term, consider placing orders only for needed requirements. Should prices in the short to medium term break above the $610/st resistance level then buying organizations may wish to cover for known requirements. Otherwise, buy only as needed.
HDG

Market Commentary

HDG continues to face price weakness, falling from $619 to $594/st, a 4% price drop. Interestingly, while steel imports have dropped during the month of May by 3.6% from April, HDG imports have continued to increase growing by nearly 17% from April to May after having jumped 20% from March to April. As with the other forms of metal, the new trade legislation will provide more enforcement “teeth” to the import process.

Six steelmakers with major US operations filed a trade complaint over HDG in June, seeking punitive tariffs for alleged unfair pricing of imported steel from China, India, Italy, South Korea and Taiwan. The suit is the first salvo in the campaign this year by the beleaguered US steel industry to protect itself against a record flood of imports.

And though US auto numbers remain positive, Chinese automotive sales continue to decline placing additional price pressure on HDG prices - which have fallen some 24% since the beginning of the year. (See chart to the right)

The Outlook

We remain hesitant to call bottom particularly as the broader commodity markets remain bearish and the dollar holds stronger. Like HRC and CRC, it would appear challenging for HDG to make any bold price moves to the upside. It is possible, however that we will see some price stabilization.

Industrial buying strategy

For the short term, consider placing orders only for needed requirements. Should prices in the short to medium term break above the $630/st resistance level then buying organizations may wish to cover for known requirements. Otherwise, buy only as needed.
Plate

Market Commentary
Steel plate prices have held nearly steady this past month despite continued weakness in the energy sector, which contributes heftily to plate demand. US imports of plate products grew 13% in May and are up 36% from the same five-month time period one year ago June–May.

The Outlook
Plate prices held steady this past month at $574/st. And indeed last month we indicated prices may be stabilizing. However, we remain hesitant to call bottom particularly as the broader commodity markets remain bearish and the dollar holds stronger. In addition, plate suffers from an inventory overhang that will take some time to work off.

Steel Drivers
1 US import levels (volume trends)
2 MOH service center inventory
3 Total China steel exports
4 Raw material input cost trends
5 Energy demand
6 Quoted lead times

Support and Resistance Indicator

Industrial buying strategy
For the short term, consider placing orders only for needed requirements. Should prices in the short to medium term break above the $600/st resistance levels then buying organizations may wish to cover for known requirements.