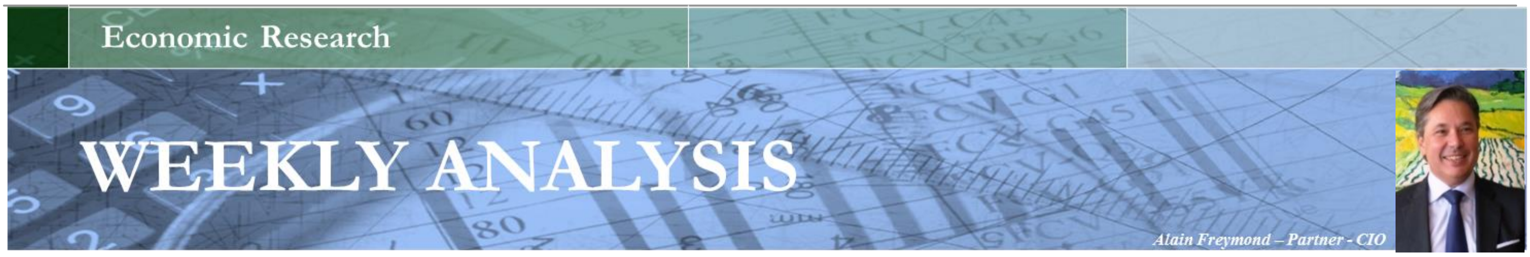


3rd April 2018

The temporary fall in industrial metals is an opportunity

The risk of a “trade war” is overstated. A rise in customs duties will not reduce demand. Limited production, robust demand, falling inventories.

Key points

- Industrial metals slide -7% in the 1st quarter, with only nickel playing its hand well
- Risks of a trade war are sparking widespread profit-taking
- Ongoing tensions, China will call on the WTO to call the United States to heel
- Counter-productive duties for both the US economy and its consumers
- Risks and impact are over-estimated, the “war” will not have the feared effect
- Aluminium- balanced market
- Zinc- supply and inventories are falling
- Copper- limited supply and growing demand
- Nickel- net deficit on the market
- Price rise for basic metals in 2018

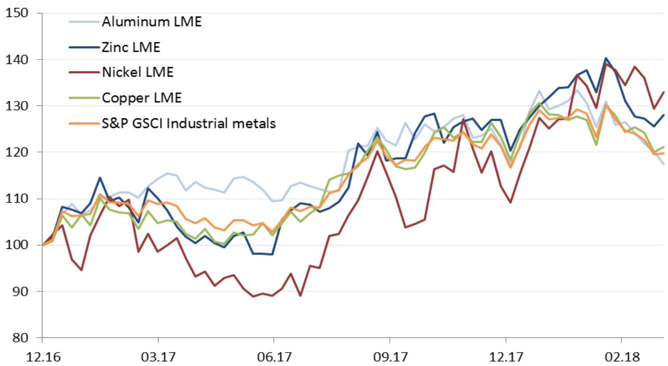
Industrial metals are flagging, but soon to recover

Despite the robust macroeconomic environment working in the segment’s favour in 2018, we were expecting a loss of momentum for industrial metals after the +29% rise in 2017, following on the heels of the +15.5% increase already posted in 2016. The quarter was indeed rather difficult for certain industrial metals and for the global index (S&P GS industrial metals), which has posted roughly a -7% correction over the past six weeks.

These developments in industrial metal prices coincide with a strong global economy, but uncertainty over the past few weeks, sparked by risks of a trade war between the United States and China have dragged basic metal prices down.

The introduction of a 25% import tax on Chinese aluminium and steel into the United States was the catalyst for a change in perspective and for profit-taking. Aluminium, copper, and zinc prices plunged from -8% to -12% during the last weeks of the first quarter, wiping out strong growth in December. Only nickel still played its cards right, with a +4.3% quarterly rise in this negative climate.

S&P GS Industrial Metals Index, Aluminium, Copper, Nickel & Zinc



Sources: Bloomberg, BBGI Group SA

Tensions persist regarding customs duties at the start of the 2nd quarter. Donald Trump wants to reduce the trade deficit from 375 to 100 billion US dollars by imposing 25% duties on 1,300 Chinese products. The list of products is broad, and represents around 50 billion US dollars’ worth of imports. It is likely that China will now respond more robustly and call on the World Trade Organisation to call the United States to heel. The United States’ attack may turn out to be entirely unproductive, as raising customs duties on Chinese imports will only affect producers, and then US consumers due to American products becoming more expensive.

We therefore believe that the risk of a trade war has been overblown, given the context which makes it so counter-productive for the United States. However, we cannot exclude the possibility that in the short-term it could have some negative impact on forecasts regarding demand for industrial metals and their prices. In 2018, the growth rates for the Chinese and Indian economies will be important factors propping up global demand for industrial metals. The issue of securing commodity supply will still be crucial for China, which will continue to try to control its sources, whilst reinforcing its influence.

We believe that short-term uncertainty will gradually fade away in the face of positive economic news, which will bolster a recovery in metal prices.

Aluminium - balanced market

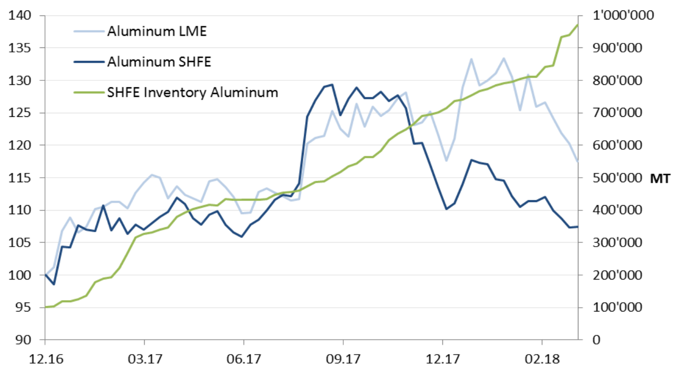
The global aluminium market should grow at an annual pace of more than +5% over the next five years, thanks to increased demand in the automobile, transport, and construction sectors. Chinese demand will continue to provide considerable support for the increased demand for aluminium, but Europe, with the second highest levels of demand internationally, will not be to be outdone. Germany alone represents nearly a third of European consumption, and will remain a key stakeholder in this market, whilst the US market should prove less dynamic. China accounts for nearly 60% of global production, and has committed to undertaking considerable reform, which, in our opinion, will have a wide-reaching impact on market balance. As such, the evolution of aluminium prices will be dependent on efforts to reduce production, particularly the closure of unprofitable production zones, and the knock-on effects of this on surplus stock. China has decided to temporarily slash production by 30%. The aim is to reduce air pollution in around thirty cities, as well as permanently reducing annual production capacity by around 4 million MT, which will have an even greater influence on propping up prices in the long-term. The effects of Chinese reform will be more apparent in the second half of 2018 in terms of bolstering the aluminium market, which could completely turn investors' current prospects on their heads.

For the time being, perception of surplus supply is still weighing heavily on aluminium prices, but the considerable under-performance of metal at the beginning of the year is certainly more due to President Trump's announcements on taxing Chinese imports than the perception of long-term over-capacity.

The risk of a trade war between the United States and China was of particular concern to investors, and has been affecting industrial metal prices for a few weeks. To start with, this was concentrated on aluminium and steel, but gradually spread to other industrial metals. We believe that this is excessive and that it is affecting industrial metals temporarily as a knee-jerk reaction. United States' aluminium production has fallen from 17% to 2% of the global market over the past few years. It is therefore marginal and not very competitive internationally. Imposing new duties will not enable the United States to recover market share; the best-case-scenario is that it will protect the last producers operating in the country. We therefore believe that this decision will mainly have an indirect impact, increasing production costs for the American automobile and construction sectors, because of the bonus indirectly given to American production. At current global prices, these factors seem to be broadly expected. In reality, Chinese demand will remain strong in 2018, particularly in sectors linked to infrastructure and the development of the electric network.

As such, the global aluminium market should be balanced, and prospects for industrial metal prices therefore once again seem to us to be positive for the second half of the year. We believe that prices have a good chance of recovering to US $2,300/MT by the end of the year.

Aluminium - Performance & Inventories



Sources: Bloomberg, BBGI Group SA

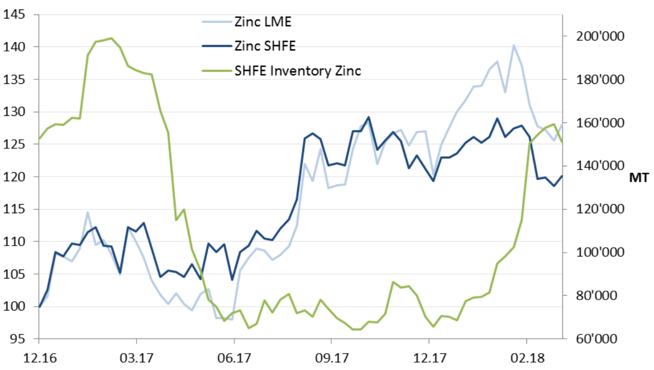
Zinc - supply and inventories are falling

Zinc was the best performer on the LME, with more than +60% growth in 2016. In 2017, it continued to enjoy an upward trend, pushing it past its ten-year high, whilst considerable concerns remained regarding a drop in production capacity, along with very high Chinese demand. The decrease in stocks and the closure of mines were positive for price developments in 2017. In 2018, after a new US $3,600 peak in January, zinc corrected -15%, as did other commodities, when risks of trade war emerged, before stabilising above US $3,200. Zinc production should dip slightly by -2% still in 2018 to around 13 million tonnes. It should then bounce back by +3% - +4% in 2019 to around 14 million tonnes, due to new mines starting to operate. Despite the expected increase in global production, stocks should nonetheless contract in 2018 before stabilising. We do not expect Chinese demand, which still plays an important role in price developments, to fall, despite the rise in prices. The market will remain in deficit in 2018, despite surplus likely dropping from 750,000 tonnes to 200,000 tonnes year on year within the next twelve months. In the shorter term, the real strength of the slowdown in Chinese production over the winter will have a clear impact on the market.

We believe that lower production levels will have a positive impact on prices over the coming quarters.

Zinc prices could hit US $3,600/MT this year in a context of ongoing drops in inventories, providing Glencore does not reactivate the 500,000 MT production capacity that had been removed from the market.

Zinc - Performance & Inventories

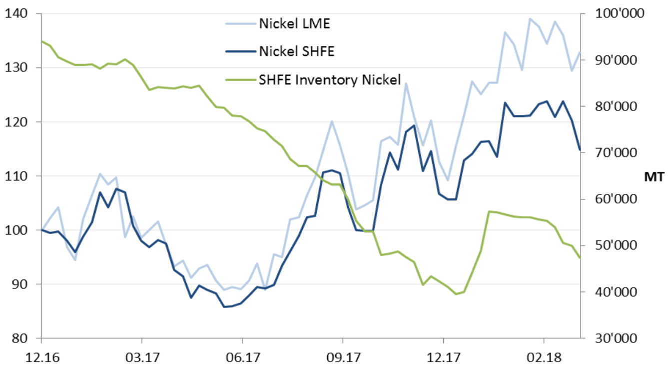


Sources: Bloomberg, BBGI Group SA

Nickel - net deficit on the market

The nickel market will also be influenced by Chinese demand on the one hand, and developments in supply in Indonesia on the other. In 2018, Indonesia will certainly be responsible for nearly 25% of global production, a growing proportion of which will be processed in the country, in line with their strategy of aiming to export fewer raw minerals and more processed minerals. In the future, Indonesia will be increasingly able to compete with processing zones in developed countries. Indonesia's efforts and its strategies to improve the added value of the minerals it exports will be at the heart of concerns in 2018 in terms of predicting what is really at stake and the risks of it causing an imbalance in the market. As regards global supply, a further rise in production is forecast for 2018, created almost entirely by two countries- Indonesia (+50%) and the Philippines (+10%)- whose supply will increase significantly. Elsewhere we are rather seeing production capacity reductions and pressures to close operating areas, particularly open cast mines. For the time being, the nickel market is in deficit, but growth in supply will affect the future market balance, and could in the end exceed growth in demand for the development of the electric batteries market.

Nickel - Performance & Inventories



Sources: Bloomberg, BBGI Group SA

That said, in the meantime, it still seems likely that stocks will continue to shrink, which should foster a price rise. The strong trend for developing the electric vehicles market is bolstering the upward prospects for nickel demand. According to the International Nickel Study Group (INSG), current need in this absolutely booming industry only represents 3% of demand for nickel in 2017. The demand to meet the needs of the production industry in terms of stainless steel is still very much dominating the market and represents nearly 70% of global nickel demand. The expansion in demand for the production of lithium-ion batteries will cause a huge rise in demand for nickel. It is estimated that future demand for nickel for this market will stand at 600,000 tonnes per year over the next five years. This corresponds to 25% of the 2 million tonnes of current production. However, only 50% of this global production is in fact of high enough quality for the battery market. We should therefore specifically see very strong growth in demand for this particular top-quality nickel segment, which could hit 3 million tonnes in 2030. Rare metals are increasingly being swapped for nickel, which will have a lasting, positive effect on prices. As such, the rise in prices is necessary in order to allow new mines, which are essential for the development of a booming market, to be opened in the long-term.

We believe that nickel prices will rise considerably again in 2018. In the longer term, a price increase to US $20,000/MT is possible.

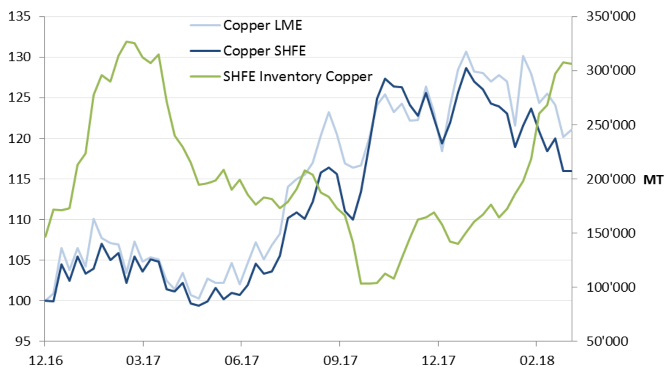
Copper - limited supply but growing demand

Copper stocks have recently leapt to record levels in Asia, Europe and the United States. During this period of weak global demand, LME (London Metal Exchange) inventories have hit a four-year high. However, we must be careful not to jump to the conclusion that this sudden rise in stocks on the Comex (New York Commodity Exchange) and the Shanghai Future Exchange is a sign of a major and lasting imbalance on the market too quickly. Although it is true that demand is temporarily weak, it should pick back up over the coming months. It is not unusual to see this phenomenon at this time of the year; it is the scale of the rise over the last few months that is worrying. The long period of celebration for Chinese New Year may have contributed to stocks swelling. However, they should shrink as industrial activity recovers in the second quarter. The contango situation is one of the most extreme, with a nearly 50-dollar discount on spot prices for three-month futures. This situation should gradually turn around, with a recovery in demand, particularly in Asia. Nonetheless, prices on the Comex and the LME could still trail prices in Shanghai, which is the closest representation of copper stock to Chinese demand, and ready to be delivered in China should demand recover. In the United States, more than half of Comex stocks are stored in Salt Lake City and are therefore less readily available due to the high transport costs of moving stock to areas where it is used.

Chinese demand will still be essential in shaping investors' perceptions in 2018. The strength of demand for electric vehicles over the next few years will prop up demand for copper; on average, electric vehicles use three times more copper than conventional vehicles. The rise in copper prices in 2017 has been followed by a period of consolidation at the start of 2018. Nevertheless, we believe that this recent correction offers a new investment opportunity to become involved in the positive developments expected for copper prices, in a context of consumption and demand, particularly from China, recovering.

In the medium-term, fundamentals favour an ongoing imbalance between limited supply and growing demand. We therefore predict that copper prices could hit US $8,000/MT.

Copper- Performance & Inventories



Sources: Bloomberg, BBGI Group SA

Conclusion

The temporary drop in industrial metals represents a new investment opportunity in 2018.

We believe that short-term uncertainty will gradually fade away in the face of positive economic news, which will bolster a recovery in the price of basic metals.

BBGI Group SA
Rue Sigismond Thalberg no 2
1201 Geneva -Switzerland
T: +41225959611 F: +41225959612
info@bbgi.ch - www.bbgi.ch