1. Tongling Nonferrous Shutting Down 20%-30% of its Smelting Capacity, Likely to Aid the Negotiation of Annual TC/RC

Tongling Nonferrous began halting 20-30% of its 800,000 tons per annum smelting capacity last week at its main production base in Tongling City, as the local government ordered the curb to alleviate the pollution during the winter heating season. According to our channel checks, there has been no impact on Tongling Nonferrous' refined copper output yet. However, the potential loss of the operating capacity may aid Chinese copper smelters during the ongoing negotiation for 2018 annual TC/RC with the overseas miners.

This reaffirms SMM’s view of the overall copper market in 2018: the tight balance of copper supply and demand in 2017 will be continued in 2018, and we forecast 2018 annual TC is likely to be in the range of $87-90/ton.

<table>
<thead>
<tr>
<th>2012-2019E Annual TC Contract (US$/Ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
</tr>
</tbody>
</table>

Source: SMM

2. Yangshan Copper Premium Reaching Highest Level This Year

China Yangshan copper premium reached $78/ton, the highest this year and have increased 22% since September, mainly due to tight physical market. The premium fell in 1Q due to seasonal demand weakness, arbitrage loss, and tight financing, and reached the lowest level of this year at $42.5/ton in early-April.

The Yangshan copper premium, which is paid on top of the benchmark LME cash price, is indicative of the supply-demand dynamics in Yangshan bonded area. It is China’s first physical price for copper in bonded areas, and the premium is backed by the rapid growth in copper imports and exports via Yangshan port, as well as the large amount of copper inventories in the port.
3. Yangshan Copper Premium (Rmb/Ton)

Source: SMM

1. Free Trade Zone inventory (000 tonne)

Source: SMM

3. TC Sensitivity Analysis

SMM’s analysis of the sensitivity to TC of three domestic smelters, which is based on 2018 TC forecast, suggesting:

1) Jiangxi Copper, with a high self-sufficiency ratio, will see low sensitivity in 2018 as copper prices are expected to edge up in 2018. 2) Tongling Nonferrous Metal’s sensitivity to TC will be also low since its revenue from lithium battery copper foil business will increase after the commissioning of its 15,000 tonnes per annum of lithium
battery copper foil project in 2018.

Table 1: TC Sensitivity Analysis for 2018 Expected Net Income (mn Rmb)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Self-Sufficiency Rate (%)</th>
<th>2017 Expected Net Income</th>
<th>2018 Expected Annual TC (US$/ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2017</td>
<td>70</td>
</tr>
<tr>
<td>Jiangxi Copper</td>
<td>16.20%</td>
<td>2,199</td>
<td>2,485</td>
</tr>
<tr>
<td>Tongling Nonferrous</td>
<td>4.07%</td>
<td>509</td>
<td>522</td>
</tr>
<tr>
<td>Yunnan Copper</td>
<td>9.30%</td>
<td>341</td>
<td>333</td>
</tr>
</tbody>
</table>

Source: SMM

1. Mean-Reverting Inter-Commodity Spread Trading Strategy:

Trading Pair: SHFE.HC1805 – SHFE.RB1805

Opportunity description:
In the late November, the supply shortfall of the steel rebar and the delay of China’s seasonal construction sector drop-off have boosted the steel rebar price to a new high this year. Meanwhile, the future price of hot-rolled coil (SHFE HC1805) has experienced a steady growth. Thus, the corresponding spread has dropped from 112.32 to 19.09.

With the relative weak performance of steel rebar future (SHFE RB1805) after the beginning of December (fall by 4.23%), the spread has rebounded to 23 and expected to revert to the previous average.

Suggested strategy: Take long position of the Spread
Frequency: Minute
Source: SHFE

Frequency: Day
Source: SHFE
Remark:
The unexpected supply shortfall of steel rebar may force the future price to rebound.

Previous strategy trackback:

<table>
<thead>
<tr>
<th>Spread</th>
<th>Type</th>
<th>Ratio</th>
<th>Date</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZN1801-ZN1805</td>
<td>Calendar Arbitrage</td>
<td>1:1</td>
<td>30/11/17</td>
<td>Take long position at 165</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12/06/17</td>
<td>Close the position at 360</td>
</tr>
</tbody>
</table>
Frequency: Day  
Source: SHFE  
Estimated profit during the holding period: 7.5%  