Global Markets

Emkay©
Your success is our success

Are we in for a commodities super-cycle?

(*Takeaways from our webcast with BCA Research)*

We hosted veteran commodities market strategist Robert Ryan from BCA Research. He shed some light on the ongoing debate on the commodity cycle. Ryan is largely inclined to call this a super-cycle and not just a bull run. However, he reckoned the commodities movement will be asynchronous in the medium term, led by different fundamental drivers. He is bullish on base metals (Cu, Al, Ni), bulk metals (Steel, Iron ore) and energy, and neutral on Agri/soft commodities.

- **In the short term (to the end of 2022), oil and base metals will appear to be in the early stages of a commodity super-cycle, but in the medium term, demand dynamics will rule.**
- **In the medium term, oil will behave like a commodity in its sunset phase, with demand rising slightly or remaining flat to down over the next decade. Base metals, amid their criticality to renewables and electric vehicles (EVs), will behave like a commodity in its early growth phase.**
- **Metals leg of this renewables buildout is just the beginning – higher prices will be required to incentivize the development of new supply.**
- **Steel prices work as a leading indicator for copper prices – leading copper prices by ~9 months. Steel, Iron ore, etc. will be supported by continued buildout of China's defense, technology, communications, and energy industries, in line with copper prices.**

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Madhavi Arora
madhavi.arora@emkayglobal.com
+91 22 6612 1341

Hitesh Suvarna
hitesh.suvarna@emkayglobal.com
+91 22 66121205

Industrial metals (Copper/Aluminum): 2021-2030 will be their decade

- Base metals output will struggle to meet higher demand from the ongoing buildout of renewables infrastructure and growing sales of EVs. China's buildout of defense, manufacturing and infrastructure continues under its 14th Five-Year Plan and will support base metal demand.
- Metals markets – particularly copper and aluminum, which are critical for the transition to renewable generation – likely will be in physical deficits in CY21-22, with demand > supply which inclines them to believe the metals leg of this renewables buildout is just beginning – higher prices will be required to incentivize the development of new supply.
- However, high and rising copper prices could prompt the Chinese government to release some of its massive state holdings of copper.
- Another leg-up in copper would pull other base metals higher with it. BCA recommended investors to get long on politically-induced sell-offs, particularly with USD weakening in the near term.
- The tax on carbon emissions ahead would also enhance competitiveness of solar and wind energy − beneficial for copper and iron, respectively, which are the key inputs.

Bulks (Steel/Iron ore): Bull medium-term; may correct marginally in near term amid easing supply

- Steel, Iron ore, etc. will be supported by the continued buildout of China's defense, technology, communications, and energy industries − in line with copper prices.
- Steel prices work as a leading indicator for copper prices – steel leads copper prices by ~9 months. This makes sense when one considers steel is consumed early in infrastructure and construction projects, while copper consumption occurs later with completed project (in the form of wires or pipes) as airports and houses are fitted with copper for electric, plumbing and communications applications.
- Even as steel is carbon intensive, there aren't any substitute to it yet. With US focus on infra increasing, steel demand is here to stay. Decarbonizing steel would be a story of later decades maybe, but in the visible medium term, possible higher carbon tax would mean higher demand even amid higher input cost of steel.
- Stronger steel margins and another round of environmental restraints on mills continue to boost demand for high-grade iron ore. Iron ore is trading off its recent highs and will likely move lower toward the year end as Brazilian supply returns to the market.

Brent oil to hover around USD60-80/bbl for the next five years

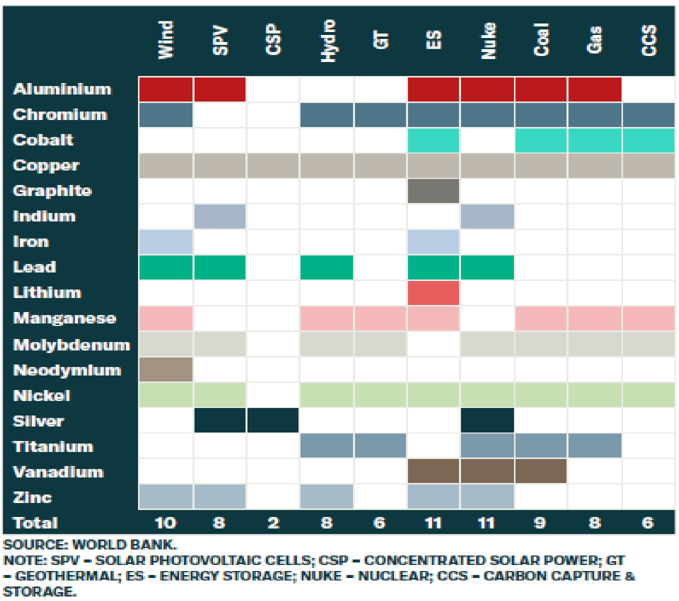
BCA sees Brent oil to average USD65/bbl in CY21 and believes that the production-management strategy and physical supply deficits in base metals will keep growth in demand higher into 2022. Supply will be calibrated to demand in the global oil market amid equations of dominant producers. However, prices kept too far above USD75/bbl to put a dent in demand and incentivize US shale production, which can ramp up quickly, or encourage EV sales. Beyond 2025 and out to 2030, oil supply side looks cloudier. OPEC may not want to aggressively invest in increasing crude-oil production capacity amid uncertainty around global oil and gas demand once renewables kick into a high gear.

Please see our model portfolio (Emkay Alpha Portfolio): Nifty (Page 4)

Take on EVs: China-led concentration risk

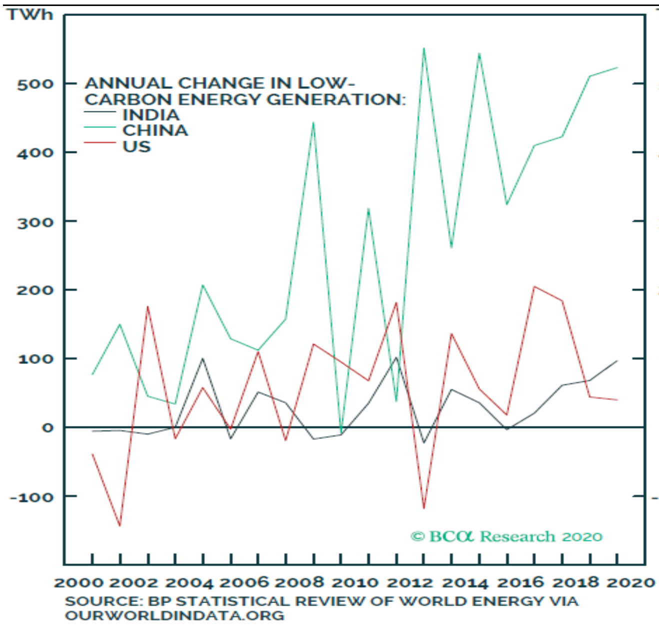
- EVs require 6x more copper than ICEs (Internal combustion engines). Hence, a lot of copper would be needed once EV demand reaches a meaningful level. **By 2030, the demand from EVs alone would amount to close to 4mn tons of copper per year**. Copper is limited in supply and with mining challenges. Despite requirement of capex, outlook on actual spends and supply globally is clouded.
- EV sales will rise, particularly in China, which has built a commanding position in global EV supply chains. This supports China's goal of reducing dependence on imported oil but increases supply chain concentration risk outside China.
- EV batteries are a combo of Lithium-Nickel-Cobalt. 70-75% of cobalt is mined in Congo (by Chinese players), while 60-70% of graphite for anodes is also from China. **Hence, there is an enormous concentration risk** and potential global dependence to China. The Biden administration appears poised to direct significant investment to reducing US exposure to concentration risks in battery supply chains.
- At present, EVs represent ~1% of the global automobile fleet and account for ~5% to 6% of nickel demand. By 2030, EV battery demand could hit 36% of total nickel demand.
- Against EVs, renewables and other clean tech, the global hydrocarbon industry is also working on a lot of innovations. **Carbon capture and storage is one such innovation, which can decarbonize the fossil fuel chain substantially.** It can be a game-changer and reduce emissions at much lower cost compared to renewables but it is far ahead in future. Hence, EVs are not a done deal and these challenges would come when scale of implementation increases.

Exhibit 1: Copper, Aluminum Span New Energy Applications



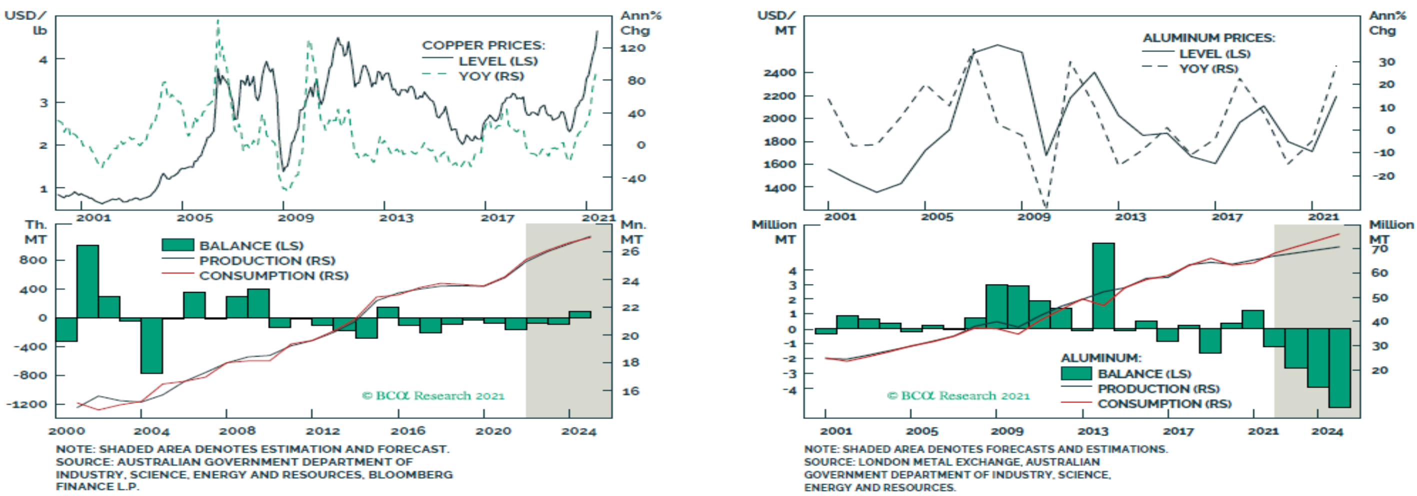
Source: World Bank, BCA research

Exhibit 2: China Leads Low-Carbon Generation Investment



Source: World Bank, BCA research

Exhibit 3: Base metals balance tightening and will lead the price situation ahead



Source: BCA Research estimates

Speaker Profile

Robert Ryan is a veteran in commodities strategy, having more than 25 years of experience in tracking the sector. Currently heading BCA commodities strategy research, Ryan's previous stints include Limehouse Research & Trading, Clarendon Ltd, Bankers Trust, Goldman Sachs, Deutsche Bank, etc. As a research economist at the N.Y. Mercantile Exchange, he developed the crude oil options contract. He also worked as an economist at the U.S. DOE. Ryan is an honorably discharged veteran of the US Navy and holds degrees from Penn State University in Journalism and Economics.

Emkay Alpha Portfolio – Nifty

EAP-Nifty (25 stocks)

Company Name	Nifty Weight	Nifty EAP Weight	OW/UW (%)	OW/UW (bps)
Agri Input & Chemicals	0.68	0.00	-100%	-68
UPL	0.68	0.00	-100%	-68
Auto & Auto Ancillaries	5.42	8.21	51%	279
Bajaj Auto	0.83	1.35	62%	52
Eicher Motors	0.55	1.56	185%	101
Hero Motocorp	0.59	0.00	-100%	-59
Mahindra & Mahindra	1.20	0.00	-100%	-120
Maruti Suzuki India	1.40	2.40	72%	100
Tata Motors	0.86	2.90	237%	204
BFSI-Banks	26.62	31.62	19%	500
Axis Bank	2.84	4.80	69%	196
Bandhan Bank	0.00	0.85	NA	85
HDFC Bank	9.73	9.62	-1%	-12
ICICI Bank	6.80	6.74	-1%	-6
Indusind Bank	0.86	3.90	355%	304
Kotak Mahindra Bank	3.93	1.01	-74%	-292
State Bank of India	2.46	4.71	91%	225
BFSI-Insurance	1.41	1.92	37%	51
HDFC Life	0.83	0.35	-58%	-48
SBI Life	0.58	1.57	172%	99
BFSI-NBFCs	10.17	7.62	-25%	-254
Bajaj Finserv	1.08	0.00	-100%	-108
Bajaj Finance	2.27	0.00	-100%	-227
Cholamandalam Investment	0.00	0.88	NA	88
HDFC	6.81	6.74	-1%	-7
Cement & Building Materials	2.54	4.99	96%	244
Ambuja Cements	0.00	1.01	NA	101
Grasim Industries	0.82	0.81	-1%	-1
Shree Cements	0.56	1.51	167%	95
Ultratech Cement	1.16	1.66	43%	49
Consumer Goods & Retail	11.07	5.76	-48%	-531
Asian Paints	2.00	1.98	-1%	-2
Britannia Industries	0.61	0.00	-100%	-61
Hindustan Unilever	3.13	0.00	-100%	-313
ITC	2.78	1.77	-36%	-101
Nestle India	0.95	0.00	-100%	-95
Titan Company	1.00	0.99	-1%	-1
Tata Consumer	0.59	0.00	-100%	-59
United Breweries	0.00	1.01	NA	101
Engineering & Capital Goods	2.70	2.67	-1%	-3
Larsen & Toubro	2.70	2.67	-1%	-3
Information Technology	16.50	15.38	-7%	-112
HCL Tech	1.54	2.51	63%	97
Infosys	7.83	7.77	-1%	-6
TCS	4.96	1.95	-61%	-301
Tech Mahindra	0.95	1.94	104%	99
Wipro	1.21	1.20	-1%	-1
Metals & Mining	3.59	4.80	34%	122
Coal India	0.46	0.45	-1%	0
Hindalco	0.85	1.59	87%	74
JSW Steel	0.99	0.98	-1%	-1
Tata Steel	1.29	1.77	38%	49
Oil & Gas	11.32	7.01	-38%	-431
BPCL	0.66	1.70	158%	104
GAIL	0.00	0.00	NA	0
Indian Oil	0.42	0.99	135%	57
ONGC	0.62	1.09	78%	48
Reliance Industries	9.63	3.23	-66%	-640
Pharmaceuticals	3.61	5.55	54%	194
Cadila Healthcare	0.00	1.04	NA	104
Cipla	0.72	1.20	67%	48
Divi's Lab	0.78	0.00	-100%	-78
Dr. Reddy's Lab	0.96	1.68	74%	71
Sun Pharma	1.14	1.63	43%	49
Ports & Logistics	0.83	0.00	-100%	-83
Adani Ports	0.83	0.00	-100%	-83
Power	1.67	2.14	28%	47
NTPC	0.79	0.78	-1%	-1
Power Grid Corporation	0.88	1.36	55%	48
Telecommunications	1.89	2.33	23%	44
Bharti Airtel	1.89	2.33	23%	44
Cash		**0.00**		
Nifty	**100.0**	**100.0**		

*Source: Emkay Research; Note: *We have internally capped single stock exposure to 10% in our EAP*

Sector portfolio NAV

	Base				Latest
	1-Apr-19	27-May-20	26-Nov-20	25-Feb-21	27-Apr-21	27-May-21
EAP - Nifty	100.0	79.8	103.7	125.5	121.1	128.4
Nifty50	100.0	79.8	111.3	129.4	125.6	131.4

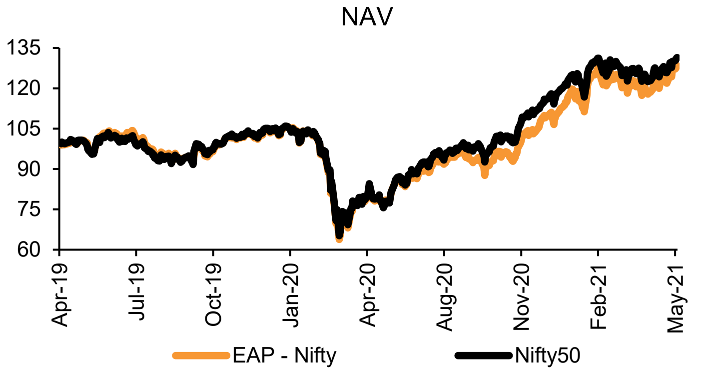
**Performance measurement base date 1st April 2019*
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Nifty	6.0%	2.3%	23.8%	60.9%
Nifty50	4.7%	1.6%	18.1%	**64.7%**

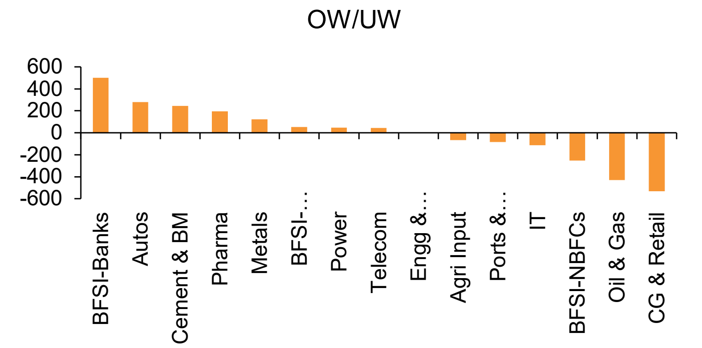
Source: Emkay Research

NAV chart



Source: Emkay Research

Sector OW/UWs



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): SMID

"Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals"

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 31 May 2021 03:31:16 (SGT)
Dissemination Date: 31 May 2021 03:32:16 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

ANALYST CERTIFICATION BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL)

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible of the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer, director or employee of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant). The research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. EGFSL has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the EGFSL and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of EGFSL compensation to any specific investment banking function of the EGFSL.

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interest that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at the arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):

Disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report-:

1. EGFSL, its subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of May 30, 2021
2. EGFSL, and/or Research Analyst does not market make in equity securities of the issuer(s) or company(ies) mentioned in this Research Report
   Disclosure of previous investment recommendation produced:
3. EGFSL may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by EGFSL in the preceding 12 months.
4. EGFSL , its subsidiaries and/or other affiliates and Research Analyst or his/her relative's does not have any material conflict of interest in the securities recommended in this report as of May 30, 2021.
5. EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her relative's does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the May 30, 2021
6. EGFSL, its subsidiaries and/or other affiliates and Research Analyst have not received any compensation in whatever form including compensation for investment banking or merchant banking or brokerage services or for products or services other than investment banking or merchant banking or brokerage services from securities recommended in this report (subject company) in the past 12 months.
7. EGFSL, its subsidiaries and/or other affiliates and/or and Research Analyst have not received any compensation or other benefits from securities recommended in this report (subject company) or third party in connection with the research report.
8. Securities recommended in this report (Subject Company) has not been client of EGFSL, its subsidiaries and/or other affiliates and/or and Research Analyst during twelve months preceding the May 30, 2021

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is not for distribution into Australia.
Hong Kong	This report is not for distribution into Hong Kong.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is not for distribution into Malaysia.
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 16800306E) or DBSVS (Company Regn. No. 1860024G) both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an agreement under Regulation 32C of the financial Advisers Regulations. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.
United Kingdom	This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608-610, 6th Floor, Gate Precinct Building 5, PO Box 506538, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

NAVAL SETH

Digitally signed by NAVAL SETH
DN: c=IN, o=EMKAY GLOBAL FINANCIAL SERVICES LIMITED, ou= ,
2.5.4.20=abda4ce9ac067602590d86cf238501fd6c297f83ac23daf73ed9a76df274942b, postalCode=400013, st=Maharashtra,
serialNumber=5486859566404ade1c4ed187e19b0fbd0bc6ded66804bd4a1fa0708c90aeeb5f, cn=NAVAL SETH
Date: 2021.05.31 01:04:51 +05'30'