



Base Metals Weekly

Monday, July 06, 2020

Market Commentary

Base metals have been have a good run up over the last couple of months, and rally looks to be getting exhausted and could head towards some consolidation soon than later. There is a surge in daily number of cases in the US and that could keep the rally under check. Better than expected economic data in Europe and improving U.S. housing and business activity data boosted sentiment and let to a broad based buying across many risky assets.

Perspective

Copper has been the top gainer on the LME in recent months, rebounding 40% from late March to a peak of more than five months, partly on concern about supply from top producer Chile. Some profit taking was seen as traders bet a rally had extended too far with demand in China likely to struggle and after new coronavirus cases in the US hit record levels. Some indicators are indicating too overbought conditions for many asset classes and there are signals that global growth is stalling after the strong recovery we've had.

The recent surge has been propped up by fears that the spread of COVID-19 could disrupt mining in top ore producer Chile. Coronavirus cases spiralled upward in May and early June, leading powerful labour unions to pressure the government and mining firms to scale down operations to ensure employee safety. Supply fears as BHP's massive Chilean mine at Escondida has its workforce struck down with coronavirus after BHP Group Ltd announced stricter health protocols, while the Chilean government imposed lockdowns for the mines-heavy Antofagasta region. Chilean

Copper- Weekly Market Data			
Exchange	LME	LME	MCX
Contract	Cash	3M	
Open	6041	5931	467.2
Close	6073	6015	464.6
Change	56	72	6.95
% Change	0.93%	1.21%	1.52%
Open Int.			5271
Change			772
Pivot	4055	4039	465.5
Resistance	2078	2153	468.5
Support	2032	1958	461.5

Copper- Weekly Market Data				
Exchange	COMEX	Shanghai	LME	Shanghai
			Inventory	Inventory
Open	2.75	48040	219600	99971
Close	2.7425	49000	206375	114318
Change	0.071	960	-13225	14347
% Change	2.66%	0.46%	-6.02%	14.35%
Open Int.	2836.00	91173		
Change	110	-36306		
Pivot	2.74	32627		
Resistance	2.76	17213		
Support	2.73	15633		

LME 3 Month Forwards – Other Metals				
Commodity	Nickel	Zinc	Lead	Aluminium
Open	12685	2037	1780	1597.5
Close	12975	2036	1785	1612
Change	310	-0.5	1	14.5
% Change	2.45%	-0.02%	0.06%	0.91%

state miner Codelco announced stricter safety measures and suspended some construction projects after two workers died from COVID-19.

However, as the hot, wet summer months have arrived in China, many construction sites are slowing work, stripping away a key driver of copper's recent rebound. Orders in June were lower and could get worse in July. June to August is seasonally weak. Export orders for copper-rich goods such as air conditioners from outside China remain weak, even as countries start to emerge from COVID-19 lockdowns.

Supply has been on the rise as China, where around 70% of the refined copper consumed last year was made domestically, production rose 2.7% YoY in January-May. Copper inventories in warehouses tracked by the ShFE rose for the first time in seven weeks, as demand eased in top consumer China.

Outside of China, major economies are facing a bumpy road to recovery. The market will realise that ex-China demand is contracting and stimulatory measures will take time to translate into real-demand. Surging virus cases in several countries including the U.S. raise concerns of a second wave of lockdowns.

In other metals, Aluminium recovered during the second half of 2Q20 in defiance of surging inventories LME and a widely expected market surplus. Aluminium shares the same macro background as copper, including negative dollar themes and US election-related trade rhetoric growing louder. Also supporting prices was news from Aluminum Corp of China Ltd, known as Chalco, will shut alumina production lines accounting for about 10% of its total capacity.

China's aluminium imports more than doubled YoY in May, but failed to hit an expected decade-high level. The market surplus continues to be supported by weak demand prospects and rising production, and more alarmingly, we are anticipating another 1.8 million of capacity in the pipeline to come online during the remainder of the year. Thus, it's hard to be very optimistic towards the metal.

China's apparent demand is set to remain elevated positive - whether backed by arbitrage-driven imports or commercial stockpiling domestically. Exports of semi-refined products fall

more deeply bearish - a further slide in aluminium semi-refined exports coming alongside a drop in exports of other aluminium products, could weigh heavily on Chinese consumption.

Lead prices have suddenly caught up to the momentum in sister metal zinc on demand for lead-acid batteries from hospitals and food producers seeking more backup power is helping lead producers weather a collapse in orders from the auto sector. Lead stocks in ShFE warehouses jumped 17.3% over the week to 27,362 tonnes, their highest since March 13, while aluminium inventories stopped falling for the first time in 15 weeks.

Nickel prices have been supportive over the last week and have been seeing positive momentum trading above \$13000, on the LME highest since Feb. 18, after Shanghai stainless steel futures hit a six-week high.

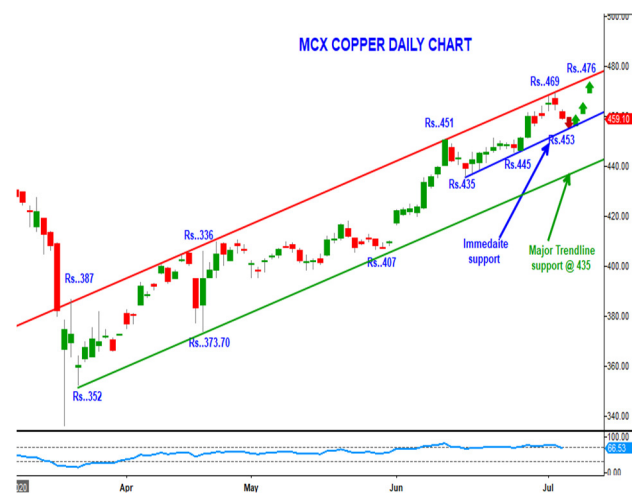
Outlook:-

Second wave of the pandemic is a risk that applies to all cyclical assets. Industrial metals will be no exception. If governments are forced to tighten lockdowns yet again, economic activity will be jolted. Nevertheless, we draw comfort in not hearing any alarm bells yet. Copper prices have already rallied around 40% from lows hit in March 2020 and are close to levels of \$6100, but to hold above the same there has to be some solid evidence that Chinese demand is going to hold up.

Technical Outlook

Copper

MCX Copper traded on a positive note last week but gave up gains at the end of the week and closed marginally higher by approximately 0.31% at Rs.459.10 level. Short term trend remains positive for the metal as it is continuously making higher tops and higher bottom on daily chart. On lower side Rs.453 remains very strong support for metal while intermediate support for the metal is in the range of Rs.456-457 level. Any dips towards the intermediate support zone remains good buying opportunity for the metal. On higher side the metal is likely to test resistance level of Rs.469 - 475 levels. However daily close below Rs.453 level may lead to metal correcting further towards Rs.445 - 435 levels. Also 14-period RSI is



sustaining well above 50 mark which indicates the strength in the prices of the commodity. Buying on dips is thus advised.

Zinc

MCX Zinc traded on a negative note last week and closed lower by approximately 1.50% at Rs.162.05 level. Going ahead, the metal is likely to face stiff resistance at Rs.168 level on the higher side while strong short-term support for the metal is at Rs.160 level. If the metal manages to give daily close below Rs.160 level then it is likely to turn more bearish and may give further downfall till Rs.157- 154 levels. However as long as the metal is trading above Rs.160 level, it will continue to trade in a range bound market. If the metal manages to give daily close above strong resistance level of Rs,168 level then it is likely to gain more bullish momentum and then it may test the level of Rs.172 - 175 level on the higher side. Thus Rs.160 remains very important support level while Rs.168 is likely to act as strong resistance for the metal.



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