



# Base Metals Weekly

Monday, August 24, 2020

## Market Commentary

Base metals have been choppy within a range as prices have been moved by volatility in the Dollar Index, data from China and mixed economic data from rest of the nations. There is a continued risk-off sentiment on the macro-economic front which seems to be getting momentum. Despite this, the market has an overall positive view on copper as Chinese demand has been recovering well that is still in place despite the shock from headwinds recently.

## Perspective

Copper fell saw a brief run up during the week, but later witnessed a selloff as concern mounted over the recovery of some of the world's largest economies, but rising Chinese demand and low inventories lent support to prices.

However amidst all this we expect some positive price momentum in copper prices in the medium term. The reason for copper's looming breakout is connected to the availability of cheap money. There is a benefit to borrowing. Interest rates are at or near all-time lows. 30-year fixed mortgage data, our current level of 3.1% is the lowest since they began tracking the data in the 1980s.

The result of that monetary policy is a massive building boom. Construction demand sent price of lumber soaring. About 25% of the copper demand comes from construction. That means it is affecting copper demand already.

Copper stocks in LME warehouses were at a 13 year low of 103,475 tonnes. The lack of available metal has pushed cash copper contract into a premium of about \$18.50 over the 3M contract from a discount last week. Demand is up and

Copper- Weekly Market Data			
Exchange	LME	LME	MCX
Contract	Cash	3M	
Open	6500	6364	530.2
Close	6522	6490	518.8
Change	32	124.5	9.05
% Change	0.49%	1.96%	1.78%
Open Int.			2133
Change			982
Pivot	4353	4392	523.1
Resistance	2207	2440	529.1
Support	2178	2077	512.8

Copper- Weekly Market Data				
Exchange	COMEX	Shanghai	LME	Shanghai
			Inventory	Inventory
Open	2.925	50110	110000	172051
Close	2.9135	51720	103475	172266
Change	0.0575	1610	-6525	215
% Change	2.01%	-2.48%	-5.93%	0.12%
Open Int.	330.00	27115		
Change	293	79187		
Pivot	2.92	34090		
Resistance	2.92	18170		
Support	2.92	14680		

LME 3 Month Forwards - Other Metals				
Commodity	Nickel	Zinc	Lead	Aluminium
Open	14380	2371.5	1949	1743
Close	14765	2450	1963	1768
Change	385	79.5	13	27
% Change	2.68%	3.35%	0.67%	1.55%

global pandemic complicated supplies. In South America, where most copper comes from, the coronavirus is starting to take hold.

Reuters expectation is of a cut copper mine production by 2.4% for 2020 to around 19.6 million metric tons from 20.4 million metric tons in 2019. That may not seem like much, but in this market, it's enough to send metal prices soaring.

On the data front, number of new U.S. unemployment benefit claims unexpectedly rose back above 1 million last week. U.S. Fed policymakers, meanwhile, have said more monetary policy easing may be needed to revive the US economy. Data from France and Germany showed the European economies were struggling to recover from the impact of the coronavirus. While economic data from China released this month points to economic improvement, including rising auto sales and factory activity.

Zinc and Lead prices have been very firm for much of the month, with some minor profit taking before end of the week. The latest ILZSG data shows a surplus in global lead market fell to 16,300 tons in Jun, from 45,300 tons in May. The global zinc market surplus narrowed to 2,000 tons in Jun, from 19,000 tons in May.

Aluminium prices have been trading firm over the last few days, gradually surging towards a seven-month high. In a surprise development, China's July aluminium imports leapt nearly 7 fold YoY to their second-highest level on record, as a rare price phenomenon saw world's top exporter of metal turn net importer for the first time since 2009. Arrivals of unwrought aluminium and aluminium products into China came to 391,297 tonnes last month. That is the highest monthly total since April 2009, when China imported almost 440,000 tonnes. It was up 570% from July 2019 and up 35.5% from 288,783 tonnes in June this year.

The import volume beat China's July export total of 373,402.3 tonnes, which means China, by far the world's biggest producer of aluminium, was a net importer of unwrought aluminium and aluminium products last month for the first time since Sept 2009.

The bumper imports came amid a wide disparity between aluminium prices in China, where demand has rapidly recovered since the coronavirus outbreak earlier this year, and lower international prices on the LME.

The spread between the two prices, called for an arbitrage, which meant Chinese consumers - who usually have little need for foreign aluminium - were able to source metal more cheaply from overseas. This arbitrage window has now shut, but large volumes were still coming into China because contracts to ship the metal were signed earlier when the arbitrage window was open. Aluminium prices are likely to be broadly range bound in the short term.

## Technical Outlook

### Copper

MCX Copper traded on a positive note last week and managed to close higher by approximately 2.56% at Rs.515.55 level. MCX Copper gave up gains from higher levels at the end of the week but however short trend remains term positive for the metal as it is continuously trading in uptrend price channel (Visible in the graph) on daily chart. On the lower side Rs.505 remains very strong support for the metal while intermediate support for the metal is in the range of Rs.513 - 514 levels. Any dips towards the intermediate support zone remains good buying opportunity for the metal. On the higher side the metal is likely to test the resistance level of Rs.524 initially and then Rs.531 levels. However daily close below Rs.505 level may lead to metal correcting further towards Rs.490 - 482 levels. However 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 positive note last week and closed higher by approximately 3.29% at Rs.194.15 level. Short term trend remains positive for the metal as it is trading in uptrend price channel (Visible in the graph) on daily chart. On the lower side Rs.189 remains very strong support for the metal while intermediate support for the metal is in the range of Rs.192.50-193 levels. Any dips towards the intermediate support zone remains good buying opportunity for the metal. On the higher side the metal is likely to test the resistance level of Rs.198 initially and then Rs.202 levels. However daily close below Rs.189 level may lead to metal correcting further towards Rs.185 - 181 levels. However 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.



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