



Base Metals Weekly

Monday, September 07, 2020

Market Commentary

Base metals traded choppy last week, with prices hitting multi month highs at the start of the week and followed by some profit taking on back of volatility in the dollar and mixed data signals from China and US. Hopes of a sustained economic recovery in China and as the unemployment rate fell in the US led to some gains before the end of the week. The US dollar consolidated gains, but was set for its biggest weekly rise in 2-1/2 months as an overnight drop in high-flying US technology stocks fuelled a bout of risk aversion in global markets.

Perspective

Copper prices are trading close to highs of the year, rebounding strongly since hitting an 11-year low in March. After briefly trading below \$2 per pound, the metal has recovered 50% of its value, as demand from China soars and COVID-19 hits supply from South America.

China's manufacturing and construction sectors, which consume around half of the world's copper, have posted a strong recovery from the COVID-19 shutdowns earlier in the year, with factory activity in August reached its highest level in nine years.

China copper imports continue to surge, but were less as compared to last month. China's copper imports eased in August from the previous month's all-time high, as an arbitrage window to bring in overseas metal shut and demand from key consumption sectors slowed. Imports of unwrought copper and copper products into China totalled 668,486 tonnes, down 12.3% from a record 762,210.9 tonnes in July, but still up by 66% from August 2019.

Copper- Weekly Market Data			
Exchange	LME	LME	MCX
Contract	Cash	3M	
Open	6791	6722	516.1
Close	6798	6780	526.65
Change	88	106	5.15
% Change	1.31%	1.59%	0.99%
Open Int.			4382
Change			842
Pivot	4567	4494	523.3
Resistance	2343	2442	530.8
Support	2312	2158	519.1

Copper- Weekly Market Data				
Exchange	COMEX	Shanghai	LME	Shanghai
			Inventory	Inventory
Open	2.9595	52080	88250	170086
Close	3.0465	51700	82450	176873
Change	0.0515	-380	-5800	6787
% Change	1.72%	0.44%	-6.57%	3.99%
Open Int.	3052.00	84157		
Change	2784	-25481		
Pivot	3.02	34710		
Resistance	3.09	18520		
Support	2.98	16420		

LME 3 Month Forwards – Other Metals				
Commodity	Nickel	Zinc	Lead	Aluminium
Open	15435	2525.5	1980.5	1803
Close	15330	2508	1978	1792
Change	10	-8.5	3.5	-6
% Change	0.07%	-0.34%	0.18%	-0.33%

Imports were up 38% from a year earlier in the first eight months of 2020 at 4.27 million tonnes. Monthly imports are lower because the arbitrage window closed, and it is traditionally a weaker demand season in Q3. Imports of copper concentrate, or partially processed copper ore, stood at 1.59 million tonnes in August. That was down 11.4% from July and also down 12.4% from 1.815 million tonnes a year earlier.

The price of copper is also being supported by supply factors. The world's two largest copper producers, Chile and Peru, continue to face severe COVID-19 outbreaks. In Peru, copper output fell by 42% in May, while Chile's state-run miner Codelco has temporarily closed its largest smelter and refinery and suspended construction at its flagship mine.

Meanwhile, many are worried about a potential supply squeeze in the copper market, with exchange inventories slipping to their lowest level in over a decade, as Chinese demand runs high. LME inventories are at their lowest levels in almost 15 years, or only enough to last users a little more than a day, whereas a year ago, inventory levels would have lasted five.

China's Caixin manufacturing PMI for August touched its highest level since January 2011. Copper demand surged as factories churned out cars, household appliances, smartphones, and electrical cables.

Nonfarm payrolls increased by 1.37 million in August, outstripping the 1.32 million expected and sending the unemployment rate tumbling to 8.4% as the world's largest economy looks to recovery from the Covid-19 crisis. Post the data volatility on the dollar led to consolidated gains, but was set for its biggest weekly rise in 2-1/2 months as an overnight drop in high-flying US technology stocks fuelled a bout of risk aversion in global markets.

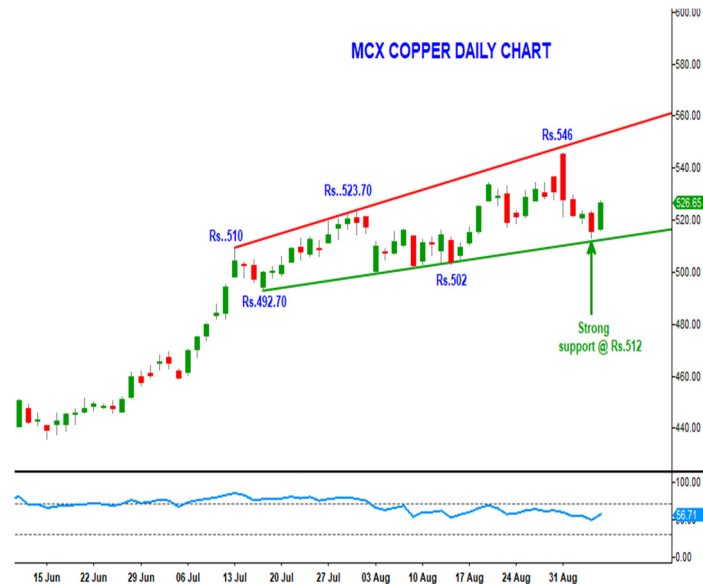
Aluminium prices have been on the rise in line with the other metals. Hints of a recovery in demand for aluminium in Japan came in the form of a rise in contracts for Q4 premiums that buyers have already agreed to pay \$88 per metric ton, 11% above Q3 on LME prices. In another surprising data, China's exports of unwrought aluminium and aluminium products came to 395,424 tonnes in August, the highest in four months though down 11% from August 2019. China turned net aluminium importer in July for

the first time since 2009, buoyed by another rare arbitrage opportunity. In the first eight months, China's aluminium exports, also hit by weak demand overseas due to the coronavirus pandemic, were down 20% on the year at 3.13 million tones.

Technical Outlook

Copper

MCX Copper traded on a positive note last week and managed to close higher by approximately 1.00% at Rs.526.65 level. MCX Copper term trend remains 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.512 remains very strong support for the metal while intermediate support for the metal is in the range of Rs.518 - 520 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.535 initially and then Rs.542 levels. However daily close below Rs.512 level may lead to metal correcting further towards Rs.502 - 495 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 negative note last week and closed marginally lower by approximately 0.30% at Rs.194.20 level. MCX Zinc has given a breakdown of upward sloping price channel which indicates weakness in the counter in short term. On the higher side Rs.200 remains very strong resistance for the metal while intermediate resistance for the metal is in the range of Rs.196.50-197 levels. Any rise towards the intermediate resistance zone remains good selling opportunity for the metal. On the lower side the metal is likely to test the support level of Rs.189 initially and then Rs.184 levels. However daily close above Rs.200 level may lead to metal entering into bullish trend again. Selling on rallies is advised as long as it is trading below the resistance zone.



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