



Base Metals Weekly

Monday, September 21, 2020

Market Commentary

The upside momentum in base metals looks unstoppable, as after a one week break, rally has resumed one again with copper surging to new yearly high. Metals were supported by the weaker US dollar and stronger than expected Chinese industrial production. Data showing high levels of US weekly jobless claims halted a rally in the dollar that was initially triggered by the US Federal Reserve saying it expects economic growth to improve faster than previously forecast.

Metals are sensitive to dollar movements, weaker dollar makes those assets cheaper for non-US firms, a relationship used by funds to generate buy and sell signals. The dollar index eased due to U.S. election uncertainty and the latest U.S.-China political tensions, making it cheaper to buy metals using other currencies.

Perspective

Copper hit a two-year high surging 55% since lows hit in March 2020, as a weaker U.S. dollar and positive economic outlook boosted sentiment. The market had been buoyed recently by data showing China's strong recovery from the virus-induced slowdown earlier this year. Performance of copper ranks amongst the best in the space of commodities after the coronavirus induced market volatility experienced this year. Because of the broader use across different industries, copper prices correlate perfectly with the economic output. So, the surge in prices of copper might serve like the bellwether for continuing economic growth.

It's really the China story and also about the overall momentum that has come into the commodities space.

Copper- Weekly Market Data			
Exchange	LME	LME	MCX
Contract	Cash	3M	
Open	6833	6745	532.3
Close	6854.5	6850	536.85
Change	42	135	12.75
% Change	0.62%	2.01%	2.43%
Open Int.			3900
Change			210
Pivot	4584	4562	535.1
Resistance	2335	2448	540.5
Support	2291	2249	531.4

Copper- Weekly Market Data				
Exchange	COMEX	Shanghai	LME	Shanghai
			Inventory	Inventory
Open	3.08	51800	74875	176795
Close	3.1135	52320	78900	193347
Change	0.0795	520	4025	16552
% Change	2.62%	-0.08%	5.38%	9.36%
Open Int.	1753.00	29650		
Change	394	84178		
Pivot	3.10	34583		
Resistance	3.13	17867		
Support	3.08	16677		

LME 3 Month Forwards – Other Metals				
Commodity	Nickel	Zinc	Lead	Aluminium
Open	15130	2475.5	1889.5	1778
Close	14855	2548	1914.5	1795.5
Change	-255	75.5	23	20.5
% Change	-1.69%	3.05%	1.22%	1.15%

China's industrial output accelerated the most in eight months in August, while retail sales grew for the first time this year, suggesting the economic recovery is gathering pace as demand improves more broadly from the virus crisis. Furthermore, OECD data shows global economy appears to be recovering from the coronavirus slump faster than thought only a few months ago, thanks to improving outlooks for China and the United States.

Furthermore, the analyzing prices of copper trends with china's imports show that china prefers purchasing copper if the prices are weak. If this continues, there will be a possibility for the commodities to remain afloat as China Opposed to TikTok Forced Sale of U.S. Operations. See-saw trade is likely to continue as investors await developments on U.S. fiscal stimulus and coronavirus vaccines amid resurgence of infections in Europe.

LME warehouse storage level plunged to below 75,000 tonnes in September at 13-year lows. On-warrant inventories of copper in LME-registered warehouses were at 46,700 tonnes, near their lowest since March 2019. The premium for cash copper over 3M contract was last at \$26 a tonne, indicating tight nearby supply.

Following the first rebound in most activities after the eased lockdown measures, there are signs from the high frequency signals and business data that the current pace of global economic recovery has lost some momentum, especially in the highly advanced economies. However, other market fundamentals showed that the imbalances in the market might be in support of the prices of copper.

Investment between the US and China tumbled to a nine-year low in the first half of 2020, hit by bilateral tensions that could pressure more Chinese companies to divest US operations. US-China tensions will likely have an impact on metals markets going forward and could flare up even more after the US election as both candidates have said they want to limit China's influence in the world.

Coronavirus induced lockdown measures that affects mining operations are highly likely to continue having the impact on copper supply side and it's highly likely that this will continue to a certain level until when countries gain better control for ongoing covid-19 pandemic.

Technical Outlook

Copper

As recommended, MCX Copper traded with positive bias in the preceding week and achieved our recommended target marking high of Rs.538.70. The 14-period RSI has reversed from its mid-level of 50 and MACD above zero line is indicating strength in price. Immediate support is at Rs.521.90 whereas short-term support is at Rs.512. Overall bias remains positive and dip buying is still recommended targeting Rs.545 – 552 levels.

Zinc

MCX Nickel traded with negative bias for the third straight week and has closed near the strong support of Rs.1090. The 14-period RSI has reversed from its overbought zone and MACD is above the zero line but is about to give a crossover. Price sustained break below support will turn bias negative and it could test Rs.1030 – 1010 levels. Strong resistance remains at Rs.1130 – 1158 levels. Selling on sustained break below support is advised for short-term.



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