



Base Metals Weekly

Monday, March 22, 2021

Market Commentary

- Directionless trading over the last few days
- High volatility witnessed on macro factors
- LME copper warehouses stocks at 6 month highs
- Aluminium stocks in LME warehouse surge to a 4 year high

Perspective

Base metals have been struggling to find clear direction in the last few weeks thanks to macro-market jitters and the bond market tantrum which caused consternation in cross-asset markets. Copper prices were under some pressure midweek from a higher dollar and spiking U.S. Treasury bond yields, but losses were capped by supply worries fuelled by shortages of concentrates.

Rising stocks of copper in LME-registered warehouses are weighing on sentiment. They are up more than 40% at 106,425T since beginning of Mar. Copper stocks monitored by the Shanghai Futures Exchange stand at a six-month high of 187,372 tonnes. The Yangshan copper premium dipped to \$65.50 a tonne, it's lowest since Jan. 13, indicating weakening demand for imported copper into China.

Still, losses were cushioned by signs of support from China's central bank governor, who said country's monetary policy needs to focus on supporting economic growth in a targeted way while also reducing financial risks. China's government has supported its economy through COVID-19 pandemic with huge infra spending that has boosted demand for metals including copper. Beijing is expected to gradually wind back some of its economic stimulus spending, which may temper some Chinese demand for copper products, although new demand is emerging.

MCX- Weekly Market Data

Commodity	Copper	Nickel	Aluminium	Zinc
Open	655.5	1386.8	171.55	233.9
Close	692.25	1416.00	170.05	234.35
Change	51.10	72.40	1.85	10.05
% Change	7.97%	5.39%	1.10%	4.48%
Open Int.	1304	727	189	1062
Change	2988	1171	668	906
Pivot	680.5	1407.7	170.2	234.0
Resistance	707.7	1437.8	174.2	236.3
Support	665.0	1386.0	166.1	232.0

LME Inventory Weekly Market Data

Commodity	Copper	Nickel	Aluminium	Zinc
Open	74250	250056	1379325	283125
Close	75700	249480	1354150	276525
Change	1450	-576	-25175	-6600
% Change	1.95%	-0.23%	-1.83%	-2.33%

Recently, China has reported a better-than-expected factory and retail sector activity in the first two months of 2021. As per the data from the China NBS, the industrial output rose 35.1% in the first two months from a year earlier. Likewise, retail sales increased 33.8% against a 20.5% contraction in January-February of 2020. Supply conditions of copper are the tightest in years in many areas of the key physical market. Shrinking profit margins for processing raw ore into refined metal in China was a key reason for supply shortage. There are also reports that many suppliers are considering cutting output as refining margins have slumped to 2012 lows.

China's refined copper output for January and February rose 12.3% YoY to 1.63 million tonnes. Latest ICSG data suggest global refined copper market was in a 5,89,000 tonne deficit compared with a 4,27,000 tonne deficit for the first 11 months of 2020.

Investors may bet on copper on hopes that demand will surge in coming years on expectations that the need for huge volumes of raw materials after the unprecedented fiscal stimulus measures taken by various governments.

However, a strong US dollar and a possible surge in supply from key producers may limit the upside. Expectations of rising demand and tight supply pushed copper prices slightly higher, although investors were cautious following tensions between Chinese and U.S. diplomats and a rapid rise in U.S. bond yields.

Aluminium prices have been on the rise even as fundamentals states otherwise. LME aluminum inventories surged to 1.97 million tonnes, their highest since March 2017, while stockpiles of the metals in warehouses tracked by ShFE climbed to a level unseen since April 2020 of 375,571 tonnes. The sudden jump in inventories has pushed the LME cash-3M spread into a steep discount.

Outlook

The outlook for the copper market remains strong. Demand from new growth sectors, such as renewable energy and EVs continues to rise. Chinese economic stimulus measures and growing investment in copper-intensive electrification and green energy initiatives are expected to carry the copper price to a fresh high this year. Demand from new growth sectors, such as renewable

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energy and EVs continues to rise. Supply side issues are also ramping up. The rally will likely resume, but not immediately. There's a little too much uncertainty going on to kick off the rally again just yet. But the underlying fundamentals in copper remain strong.

Technical Outlook

Copper

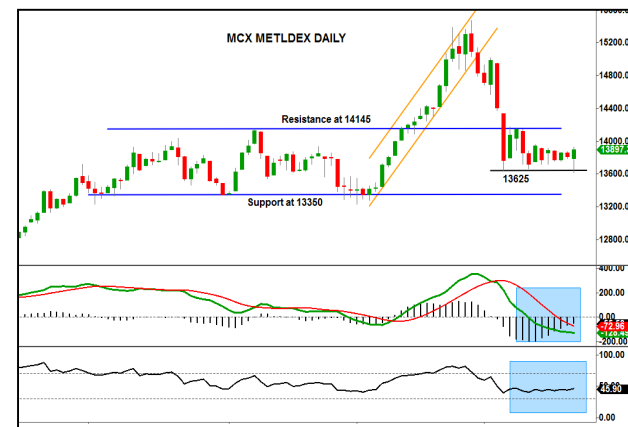
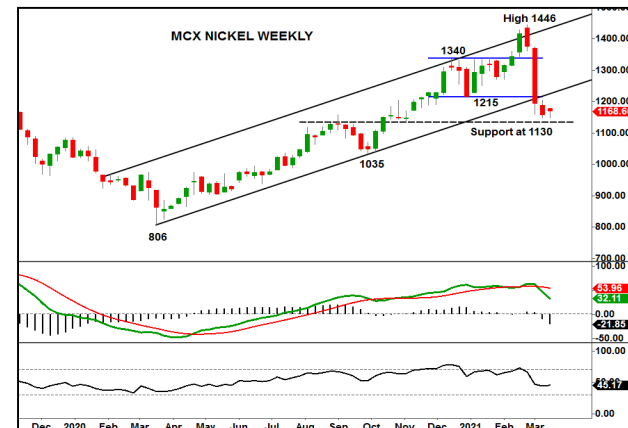
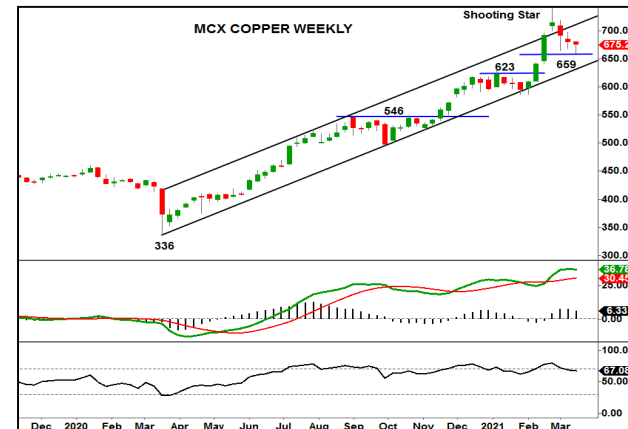
MCX Copper a low of Rs.659.40 in the preceding week, but failed to extend its weakness and recovered marginally. The 14-period has reversed slightly from its overbought zone but is sustaining well around the same. Recent low around Rs.659 will continue to act as key support whereas resistance is at Rs.690 - 702 of rising channel. Short-term pullback could be seen as long as price holds above support, but upside too will be capped towards the resistance mark. On the either side, price sustained break below support will confirm weakness in price towards Rs.643 – 635 levels.

Nickel

As seen on weekly chart, MCX Nickel traded in a sideways range in the preceding week but is sustaining well below the rising channel formation. The 14-period RSI is sustaining well below the mid-level of 50 which is signifying weakness & crossover on MACD is also confirming the same for short-term. However, downside will be limited around Rs.1130 as it will act as strong support. Short-term resistance is capped at Rs.1215. Overall, sideways consolidation in a broad of Rs.1130 – 1215 will be seen in the coming week.

METLDEX

As seen on daily chart, MCX Metldex gained some momentum in the previous week but failed to close above 14000 as it acts as key resistance. The 14-period RSI is flat but sustaining well below the mid-level of 50 and MACD is about to give a crossover. Support for the index is placed at 13625 – 13350 whereas resistance is at 14145. Sideways consolidation in the given range will be seen and price sustained break on either side will give further trend direction.



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