MOTILAL OSWAL
Investment Services

Base Metals Weekly

Monday, September 13, 2021

Market Commentary

- Aluminium rallies ~43% YTD, inches towards $3000
- Nickel surpasses $20000, Steel and EV drives the metal
- Copper add gains after losing some momentum

Perspective

Base metals have been on a roll for much of 2021 and metals which were under dogs in 2020 are the ones leading the pack. Copper did incur some losses from the peak of the year, but the momentum has started to catch up once again. Fall in warehouse stocks is one of the driving factors, where copper Shanghai stocks fell 10.7% from the previous week to below 62000 tons, sinking to their lowest level in almost 10 years as tight supplies push metal prices higher.

Historically, workers use high copper prices and profits as leverage while discussing wages and renewal of contracts, while companies looked to contain labour costs. Codelco mine in Chile agreed to end a strike while union members at a BHP Group mine accepted a new wage proposal, easing labour tensions. The breakthroughs follow strike-ending agreements with the two main unions at Andina and Nippon.

Nickel prices surged to a 7 years high due to shortages created by a sharp rise in demand from stainless steel mills and electric vehicle battery makers and sliding stocks. The metal is up ~30% since hitting 2021 lows in March. Stainless steel production is set to grow by 16% this year, adding 250,000 tonnes to nickel demand. External estimates suggest nickel used in batteries is set to grow by 100,000 tonnes this year to around 290,000 tonnes.

The nickel market has swung into a large deficit despite large growth in Indonesian nickel supply of over 300,000

MCX- Weekly Market Data

Commodity	Copper	Nickel	Aluminium	Zinc
Open	719.5	1532.7	226.8	253
Close	741.15	1540.50	230.95	255.10
Change	24.80	63.40	16.35	9.95
% Change	3.46%	4.29%	7.62%	4.06%
Open Int.	3738	2397	2591	1355
Change	432	612	394	407
Pivot	734.8	1541.7	229.6	255.0
Resistance	750.1	1553.5	232.4	256.9
Support	725.9	1528.8	228.1	253.2

LME Inventory Weekly Market Data

Commodity	Copper	Nickel	Aluminium	Zinc
Open	250700	187602	1341000	235775
Close	233950	179394	1317725	226900
Change	-16750	-8208	-23275	-8875
% Change	-6.68%	-4.38%	-1.74%	-3.76%

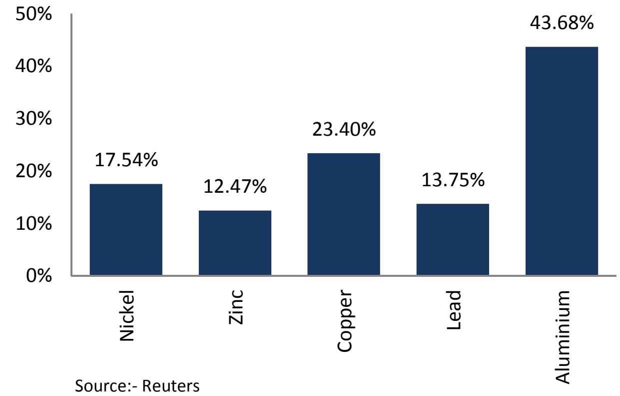
tonnes this year. Stainless steel mills, mostly in China, account for roughly two-thirds of global nickel consumption. Nickel stocks in ShFE warehouses were at 8,608 tonnes have more than halved since the end of last year. LME stocks at 179,394 tonnes have tumbled more than 30% since mid-April. These worries about supplies have created a premium for the cash over the 3M contract.

Aluminium prices have been rallying for much of 2021 and have added more than 40% gains YTD pushing prices to a 13-year high, which looks unlikely to ease any time soon. Worries about production curbs in China to control emissions and fears of disruption in major bauxite producer Guinea due to political turmoil propelled aluminium prices. Prices have jumped 48% this year on surging demand, shipping bottlenecks and production curbs in China, and causing a major issue for consumer-goods producers facing worsening material shortages alongside the sharp rise in costs.

The rally in prices comes as producers and consumers negotiate annual supply contracts. Buyers are holding off as long as possible from making agreements because shipping premiums are so high. They're also waiting for indications on whether Russia, the world's second-largest aluminum producer, will keep an expensive export tax into next year.

Overall, metals have had a good run up, and incremental gains from here in select metals will be a challenge. We remain focussed on the medium term trend, while the short term bias is driven by rapid change in micros for the metals. Overall active labour negotiations and easing in Chinese restrictions if any could cap the gains.

Change in LME metals YTD

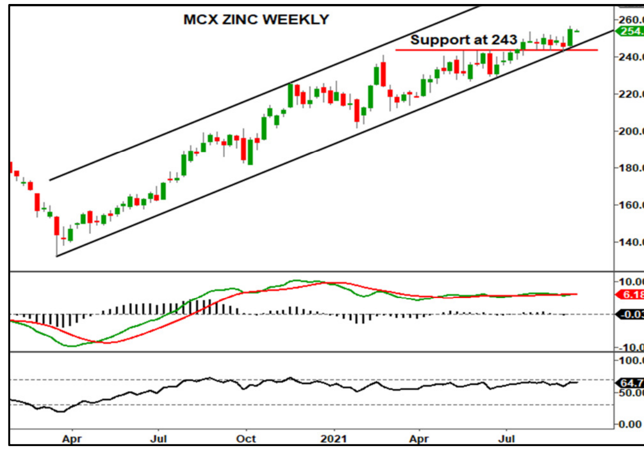


Source:- Reuters

"Nickel prices surged to a 7 years high due to shortages created by a sharp rise in demand from stainless steel mills and electric vehicle battery makers and sliding stocks."

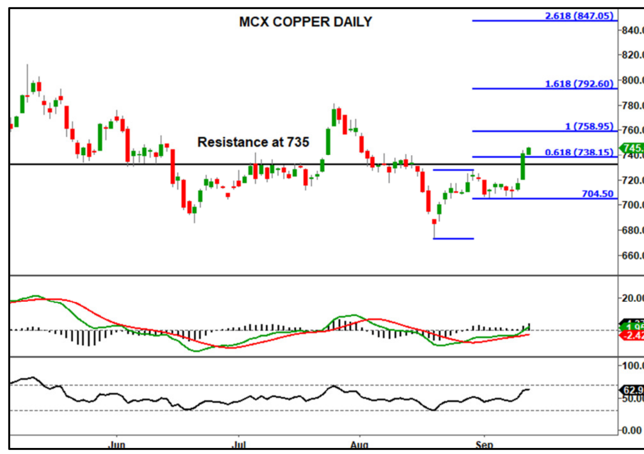
Technical Outlook

Zinc



MCX Zinc on weekly chart has breached above the consolidation range and is confirming further strength in price for near term. Both the momentum indicators 14-period RSI and MACD are also confirming further strength in price. Major support remains at Rs.243 and dip buying in the range of Rs.250 – 247 will be advised. The metal is likely to target Rs.258.50 – 263 levels. Our bias will negate below support on a closing basis.

Copper



MCX Copper has recently breached above the key horizontal resistance of Rs.735 and price sustained trade above the same is confirming further strength in price for short-term. Both the momentum indicators 14-period RSI and MACD are also confirming further strength in price. The metal is likely to target Rs.759 and it has potential to test Rs.782 levels as well. So, dip buying is advised but our bias will negate if price closes below support.

METLDEX

MCX Metldex traded with positive bias in the previous week and is indicating further strength in price for short-term. Support is placed at 16000 and overall bias remains positive above the same. Both the momentum indicators 14-period RSI & MACD are indicating strength in price. So, dip buying is advised targeting 16525 – 16700 levels. However, our bias will negate below support.

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