Motilal Oswal Investment Services

Base Metals Weekly

Monday, September 20, 2021

Market Commentary

- Metals Highly choppy last week amidst mixed fundamentals
- Chinese Evergrande issue likely to have a spill over impact on metals
- Nickel supported on Indonesian ban of Ore imports
- Aluminium power woes supports, metal looks overheated

Perspective

Copper prices were highly volatile last week and we have seen this as a common feature for much of 2021. Stronger dollar made the metal more expensive, while investors were in wait-and-watch mode with a U.S. Federal Reserve meeting taking the spotlight in a week full of central bank events. Policymakers from major economies including Japan and the UK are due to meet this week, though the focus is on the Fed's two-day meeting that will conclude on Wednesday, with markets expecting it will stick with broad plans to begin tapering this year.

Concerns also aggravated about troubled developer China Evergrande Group's debt crisis, which some analysts feared would ripple beyond the Chinese property market. China's central bank injected 100 billion yuan through reverse repo operations into the banking system, resuming fresh fund injections via the 14-day tenor for the first time in more than seven months. The move helps "calm markets amid China Evergrande woes, which could spill over risks to the broader Chinese property sector. Copper and some base metals are widely used in construction of buildings.

Nickel prices surged towards 7 year highs as supply fears resurfaced after an Indonesian government was looking at taxes on exports of the certain quality of nickel ore.

MCX- Weekly Market Data

Commodity	Copper	Nickel	Aluminium	Zinc
Open	725.9	1473.1	228.2	255.25
Close	721.15	1471.90	227.35	256.25
Change	-20.00	-68.60	-3.60	1.15
% Change	-2.70%	-4.45%	-1.56%	0.45%
Open Int.	3397	1151	2044	1184
Change	341	1246	547	171
Pivot	724.7	1487.4	228.4	256.9
Resistance	729.3	1518.0	229.8	259.0
Support	716.5	1441.4	225.9	254.1

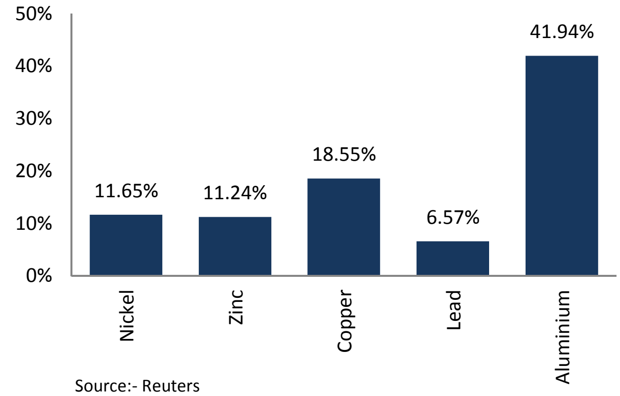
LME Inventory Weekly Market Data

Commodity	Copper	Nickel	Aluminium	Zinc
Open	240350	177078	1309450	231150
Close	240800	171714	1327725	225575
Change	450	-5364	18275	-5575
% Change	0.19%	-3.03%	1.40%	-2.41%

Inventories are low, demand is stronger than expected and supplies haven't kept up. The idea of Indonesia imposing export taxes just adds to the mix. Investment minister said Indonesia is exploring the possibility of levying an export tax on nickel products with less than 70% nickel content to drive expansion of the country's domestic processing industry.

Stocks of nickel in LME warehouses have dropped 35% since April to 171,714 tonnes. Cancelled warrants – metal earmarked for delivery – at 35% and one company holding large amounts of warrants are also fueling concern about a tight LME market. This pushed the premium for cash metal over the 3M contract to $32 a tonne, indicating near term supply shortage. However we believe that the prices are little overheated at current levels and once the new gets absorbed by the market, we can witness some correction / consolidation.

Change in LME metals YTD



Source:- Reuters

Aluminium prices zoomed to the highest level in 13 years on expectations that accelerating production cuts in China to control emissions will create large shortages this year. China needs to balance environment against the economy. High prices have also been bolstered by concerns about disruptions in Guinea, which has large reserves of bauxite used to make aluminium feedstock alumina. Yunnan Aluminium said last week that it expects aluminium output to fall to 2.36mt in 2021. This would be 500kt lower than initial forecast. The reduction is primarily due to power shortages and orders by local government for production controls.

The latest trade data from China Customs shows that imports of unwrought aluminium and aluminium products in August fell 42% YoY and 21% MoM to 247.5kt (lowest since May). However, imports were up 23.6% YoY to 2mt in first eight months of year.

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In August last year, imports hit the second-highest on record as the COVID-19 pandemic upended trade flows and a price arbitrage made it cheaper for domestic buyers to source overseas metal. This year, curbs on smelter output and electricity usage in several regions have sharply cut domestic aluminium supply in China, keeping demand for imported aluminium at a high level. Russia, one of China's biggest overseas suppliers of primary aluminium, imposed a tax of a 15% - or a minimum of $254 a tonne - on aluminium exports from August, however, making shipments less favourable.

China's imports of bauxite, the main source of aluminium ore, were down 15.1% YoY at 8.7 million tonnes in August. That was also down 5.9% from July. A coup in Guinea, ousted President Alpha Conde in early September, but mines has reported no immediate impact on operations. A Japanese aluminium buyer has agreed to pay a global producer a premium of $220 per tonne over the benchmark price for shipments in October to December, up 19% from the current quarter to reflect higher overseas premiums.

Outlook

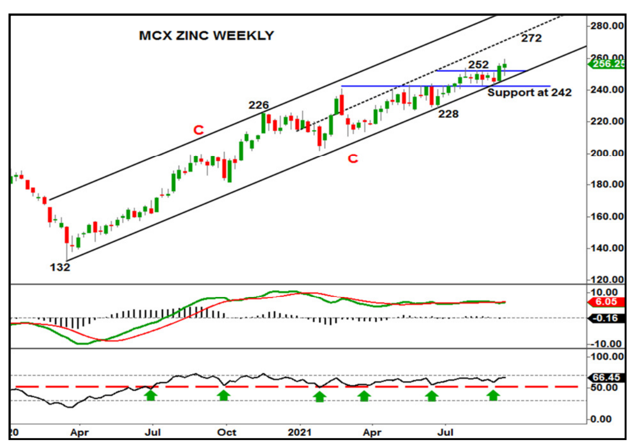
Overall the metals complex has had a good run up and is undergoing another round of buying with some micro changes in most; however the rise in dollar and macro issues developing in China along with overheated risky assets can cap gains in the short run. We advise caution for the next few weeks.

Technical Outlook

Lead

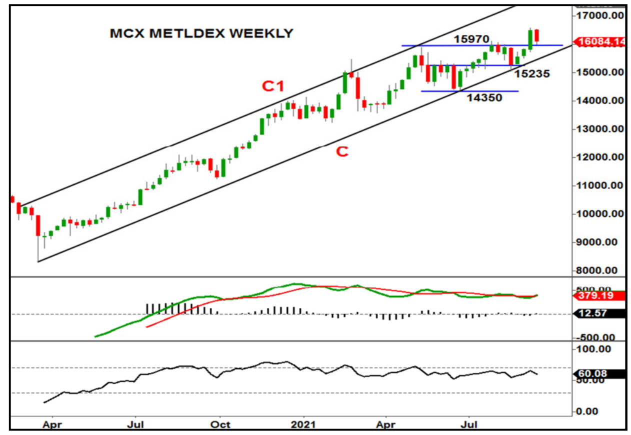
MCX Lead breached and closed above the strong resistance of Rs.182 and is indicating further strength in price for the near-term. Previous resistance will now act as support and dip buying will be recommended. The 14-period RSI has reversed marginally but holding above the mid-level of 50 is indicating strength in price. Price break above recent high of Rs.189.50 will lead the move towards Rs.195.50 – 199 levels.

Zinc



MCX Zinc has been holding well above the consolidation range and strong support of Rs.252 and bias looks positive above the same. The 14-period RSI is indicating further strength in price and MACD is also confirming the same. Price sustained trade above the recent high of Rs.259.60 will lead the move towards Rs.272 mark. So, buying is advised in the short-term, but our bias will negate below support.

METLDEX



MCX Metldex pared its previous three weeks of gains and closed with negative note. However, the index is still holding above the strong support at 15970. The 14-period RSI has inched lower and but still holding above the mid-level of 50 indicating some strength. Recent high 15300 - 15575 will act as strong resistance. In the upcoming trading sessions, sideways consolidation will be seen and price break on either side will give further trend direction.

Navneet Damani
Research Head

For any details contact:
Commodities Advisory Desk - +91 22 3958 3600
commoditiesresearch@motilaloswal.com

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