



Base



Metals Weekly

Monday, October 19, 2020

Market Commentary

Base metals have been trading with a mixed bias for the last week, giving up some of the gains before the weekend. However, this week is a data packed one which is likely to keep the metals pack busy. The broader trend still follows the base case where macro picture is positive, the dollar is weaker and demand from China has been very strong. Stronger manufacturing activity and new orders in the world outside China, as seen in surveys of purchasing managers, are soon expected to feed through to higher demand for industrial metals.

Perspective

Copper had a good start to the week, but later witnessed some profit taking added a little over 4% gains, but remains off its September YTD high of \$6,837. Most mines recently have managed to avert any labour related strike concerns and union from Escondida – Chile’s largest mine, has agreed on a deal averting a strike. LME copper stocks totalled 184,850 tonnes last week, up from 73,625 tonnes on September 24 amid busy two-way flows.

Weaker demand may dampen some of the seasonal appetite traditionally seen in the space. Usually, Chinese seasonal demand for copper peaks in October, when buyers pick up tonnages, but major imports during the summer months have led to a stock overhang and minimal demand for imports.

Aluminium prices hit 17-month highs backed by robust demand from China, expectations of stronger growth and demand in the rest of the world and a lower dollar helped to create buying momentum.

Copper- Weekly Market Data			
Exchange	LME	LME	MCX
Contract	Cash	3M	
Open	6723	6745	529.9
Close	6777	6728	527.6
Change	37	-44	-0.50
% Change	0.55%	-0.65%	-0.09%
Open Int.			4656
Change			329
Pivot	4515	4468	528.2
Resistance	2307	2279	529.9
Support	2245	2145	525.9

Copper- Weekly Market Data				
Exchange	COMEX	Shanghai	LME	Shanghai
			Inventory	Inventory
Open	3.0635	51530	152975	156454
Close	3.065	51470	184850	157547
Change	-0.0145	-60	31875	1093
% Change	-0.47%	0.89%	20.84%	0.70%
Open Int.	929.00	26777		
Change	532	83430		
Pivot	3.06	34403		
Resistance	3.06	17947		
Support	3.06	16917		

LME 3 Month Forwards – Other Metals				
Commodity	Nickel	Zinc	Lead	Aluminium
Open	15150	2423.5	1818.5	1843
Close	15685	2430	1750.5	1863.5
Change	510	3	-68.5	16.5
% Change	3.36%	0.12%	-3.77%	0.89%

China's imports of unwrought aluminium and aluminium products in August were the highest in more than 11 years at 429,464 tonnes, having stood at 119,145 tonnes in May. Stocks of aluminium in ShFE warehouses have reached 247,965 tonnes, compared with numbers above 530,000 tonnes in March. Inventories in China have turned largely flat after a significant drawdown during the second quarter. Current inventories are 25% lower than the same period last year and are well below the five-year average.

Nickel spent the week in the green, amidst a mid-week slip, followed by a quick rebound before the weekend. It has been the second best performer this year from lows towards \$11,000 to September 1, the base metal reached a year-to-date high of US\$15,660. On Friday, nickel was valued at \$15,353.

The September import figures are not yet available, but anecdotal evidence suggests total imports during September could remain elevated.

Global nickel production is expected to decline by 7.4% to 2.19-million tonnes in 2020, citing the temporary suspension of mines caused by the Covid-19 pandemic and the advancement of Indonesia's export ban. Indonesia's mine production is expected to fall to 680 000 t in 2020 – down by 15%, compared with 800 000 t in 2019, owing to the advancement of the exports ban from 2022 to 2020.

Indonesian nickel mining companies without integrated nickel pig iron operations have been facing difficulties in selling output to domestic smelters at low prices alongside inadequate capacity. Therefore, domestic miners have been either halting or curbing their output in the first three quarters of the year and this is expected to continue over the rest of 2020.

Mine production in the Philippines is forecast to fall by 9.3%, down to 293 400 t in 2020, as companies struggle to keep operating while combating the dual challenges of Covid-19 and weather disruptions. All this indicates a supply squeeze in the future and could be supportive for prices.

Zinc also saw an YTD high in September, hitting \$2,554 per tonne, but has since shed some of that value, holding in the \$2,400 range. By Friday, zinc was on the decline following a strong early week

showing. It was moving for US\$2,397 to end the week. Positive momentum is likely to continue in zinc; however we need to wait for more fundamental trigger which could support the rally.

Outlook

For this week investors will draw cues from China’s third-quarter economic growth data, as well as monthly production and retail sales numbers. The central bank governor expects Chinese economy to likely expand by about 2% this year as the country has put the COVID-19 pandemic under control. Stronger manufacturing activity and new orders in the world outside China, as seen in surveys of purchasing managers, are soon expected to feed through to higher demand for industrial metals.

We expect copper, nickel to be benefited from any positive data, while aluminium’s recent run ups could take a pause soon.

Technical Outlook

Copper

MCX Copper traded in a higher range in the preceding week closing at Rs.527.60. The 14-period RSI is indicating strength in price and crossover on MACD is also indicating the same. Immediate support is placed at Rs.518 whereas resistance is at Rs.535. Bias for the metal remains positive as long as price holds above support. Price sustained break above the resistance will lead the rally towards Rs.545. Our bias will negate below support.



Zinc

MCX Zinc turned positive after marking a low of Rs.189.70. The 14-period RSI is flat and is not indicating any strength in price and MACD is also confirming the same. However, as long as price holds above Rs.189.70 – 186 bias is likely to remain positive and it looks to test Rs.199 – 201 levels. So, buying is recommended but our bias will negate if price break and sustains below support.



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