MOTILAL OSWAL
Investment Services

Base Metals Weekly

Monday, December 21, 2020

Market Commentary

Base metals settled the week on a stronger footing amid a weaker US dollar and the FDA's vaccine approval. Strong demand for industrial metals from China, weak US greenback, and an improved long-term economic sentiment supported the metals complex.

However, the US-China tensions have sparked once again, as the US Commerce Department blacklisted more than sixty companies in order to “protect US national security.

China's economy has staged an impressive recovery from its COVID-19 paralysis. This was mainly driven by robust export demand and fiscal stimulus measures taken by their central bank.

China posted a 7% industrial output growth in November compared to a year earlier. This was in line with expectations and for an eighth straight month of gains, showing a steady recovery in industrial activities in the world's largest metal consumer.

As per China's official data, factory activity growth hit a more than three-year high in November as fewer COVID infections boosted consumer confidence. Likewise, retail and auto sales numbers and fixed-asset investment has also increased in the last few months.

Perspective

Copper settled to end the year on a high note, riding the dollar bear trend. Both the US CFTC data and LME COTR report are providing a glimpse of the bullish trend.

Copper- Weekly Market Data	
Exchange	MCX
Contract	
Open	603.95
Close	601.75
Change	5.15
% Change	0.86%
Open Int.	4805
Change	632
Pivot	601.0
Resistance	604.7
Support	598.0

Copper- Weekly Market Data				
Exchange	COMEX	Shanghai	LME Inventory	Shanghai Inventory
Open	3.5755	57210	150125	97783
Close	3.524	57750	146325	82092
Change	0.01	540	-3800	-15691
% Change	0.28%	2.23%	-2.53%	-16.05%
Open Int.	2631.00	46465		
Change	1108	-17135		
Pivot	3.54	39457		
Resistance	3.59	22213		
Support	3.48	18523		

Source:-www.lme.com, Reuters

The data is showing that money managers' net long positions have risen to almost three-year highs; while in LME, it is at the highest level (net long positions) since the bourse revamped the data back in early 2018.

For inventories, LME and SHFE continue to show decline as China's strong exports of air-conditioners/refrigerators have been helping to keep copper tube/pipe producers busy.

According to the SMM report, the average operation rate in this sector grew 4.28% MoM in November. In the copper-intensive new energy vehicles sector, sales growth has been picking up momentum over the last couple of months.

In November, New Electric Vehicle sales increased by 104.9% YoY to 200,000 units- a monthly record, which brings the total sales year-to-date to over one million units (1.109 mln units; +3.9% YoY).

Estimates suggest that growing demand for renewable infrastructure projects and electric vehicles will help drive global consumption of refined copper up from 23.4m tonnes in 2020 to 33.3m tonnes in 2030. Refined copper production is currently around 23.8m tonnes.

Nickel rose to the highest level since October 2019 following a rally in stainless steel and was further boosted on reports of riots at Indonesia's nickel producers. However, lead turned out to be the worst performer amid huge inflows reported at LME warehouses during the week.

Aluminum prices trading near their highest levels in almost two years, fueled by soaring demand for raw materials and worries that potential new U.S. sanctions on one of the world's largest producers could limit global supplies of the metal. U.S. might reapply sanctions on United Co. Rusal International PJSC, a Russian aluminum producer and major supplier to Europe.

Previous sanctions against the company sparked a steep climb in prices for the metal, disrupting the aluminum industry and threatening profits at manufacturers such as Boeing and Ford. The winter restrictions on refineries also fuelled the bullish vibe in the Chinese aluminium market.

It remains to be seen how many further restrictions will be required should air pollution worsen, citing smog warnings issued by some provinces, while also highlighting currently robust Chinese demand for the metal.

Outlook

The metals rally is getting over heated and While the industry and financial speculators can afford to continue building shadow stocks that may well prove to be the case, but a shock to demand, a surge in supply or a flattening of the forward curve making financing harder could all knock what looks like somewhat artificially supported market from enduring through the start of next year.

Traders are still concerned about the economic impact of the new COVID-19-induced lockdowns eclipse strong industrial output from China. Even though the corona related euphoria eased over a vaccine rollout in many countries, resurging new cases prompted some European countries to impose strict lockdowns again.

Technical Outlook

Copper

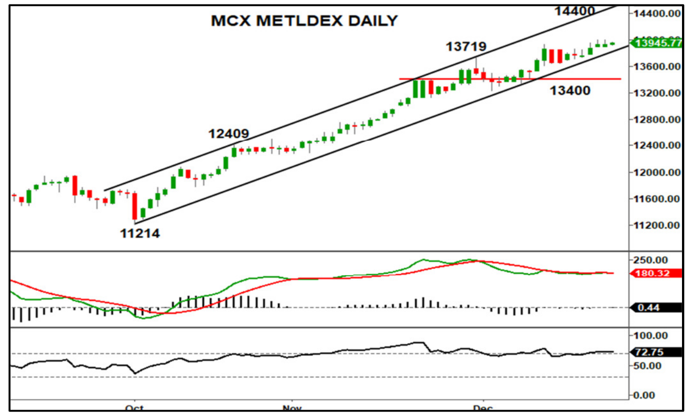
As seen on weekly chart, MCX copper continue to trade in a rising channel forming higher highs and higher lows and is not signifying any trend reversal. Both the momentum indicators RSI & MACD is indicating strength in price for the medium term. Immediate support is at Rs.595 and bias remains positive above the same. The counter is likely to target Rs.630 – 640 in the near-term. Buying is advised, but our bias will negate below support.

Zinc

As seen on weekly chart, MCX Zinc is trading in a rising channel formation which indicates strength in price. The 14-period RSI is trading close to overbought zone and MACD is yet to give any signs of reversal. The counter is facing immediate resistance at Rs.226 whereas support is placed at Rs.212. Price sustained break above the resistance will only confirm further positive move towards Rs.230 – 234 levels. On the either side, price failure to break above resistance will result in consolidation move between Rs.212 – 226 area. So, buying will be advised only if price break and sustains above resistance.

METLDEX

As seen on daily chart, MCX Metldex continue to trade in a rising channel formation and is indicating further strength in price for near term. Both the momentum indicators RSI & MACD is indicating strength in price for the medium term. Supports are placed at Rs.13400 – 13200 whereas resistance is at Rs.14400 – 14650 levels. Overall bias remains positive and dip buying is recommended as long as price holds above support.



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