Base Metals Weekly

Monday, March 08, 2021

Market Commentary

- Base metals witness first weekly correction for 2021
- Copper slides as DXY rallies and bond yields spikes
- Nickel cracks 16% in 2 days on change in technology
- Aluminium resilient to volatility in metals
- Senate passes $1.9 trillion package

Perspective

Copper prices corrected last week after rallying for much of 2021, as dollar index rallied above 92 level building some pressure on the metals along with bond yield which briefly surged above 1.6% mark. Copper had been highly volatile with profit taking in equities and copper longs taking some profit from the headed market. Downside however will be protected buoyed by expectations of a faster economic recovery and higher capital inflows into markets after the U.S. Senate passed a long-awaited $1.9-trillion coronavirus stimulus bill.

The U.S. Senate passed the relief plan on Saturday, a major milestone for the bill. House of Representatives will vote on it on Tuesday. Copper is often used as a gauge of global economic health and the bill is expected to boost a recovery in the US. Dollar held near three-month peaks after the U.S. Senate passage of a $1.9 trillion stimulus bill augured well for a global economic rebound, though it also put fresh pressure on Treasuries.

China's January-February copper imports rose 4.7% YoY despite a recent spike in prices, indicating stronger demand for the metal. Spot treatment charges for copper concentrate in China slumped to their lowest in more than 10 years, underscoring tight feedstock for smelters. The underlying supply and demand fundamentals for copper

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%

still point to higher prices in the longer term, but in the short term a rapid rise in U.S. bond yields that has sent ripples through markets threatens all risk assets.

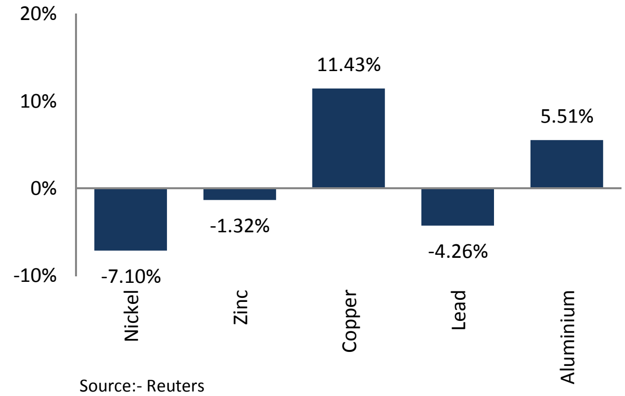
The IMF adjusted its expectations for global growth and US growth in 2021 upwards to 5.5% and 5.1% respectively, while the World Bank foresees 4% growth globally and 3.5% growth in the US. As investors position for an environment with potentially both strong growth and rising inflation, copper could thrive.

2021 may prove to be a transformation year for copper. Inflation expectations are rising, while global economic growth is recovering, with Chinese demand in particular coming back online at a rapid pace. These short-term fluctuations are important to consider, but they are not the whole story. Looking out into the long-term, demand for copper looks set to grow further. The rise of new industries like electric vehicles and renewable energy as well as continuing traditional infrastructure needs in China and the US mean that demand for copper will likely persist well after COVID-19 disruptions subside.

Nickel has suffered its worst week in almost 10 years, with the LME price collapsing by 16% in the space of two days to a 3M low of $15,830 per tonne. The trigger for the ferocious sell-off was an announcement by China's Tsingshan Holding Group that it had signed deals to deliver nickel matte to two Chinese battery materials suppliers. Tsingshan has rapidly emerged as one of the world's largest nickel producers, its Indonesian mines pumping NPI into a local stainless steel plant the company brought online in 2017. It is a self-proclaimed disruptor of the stainless steel market and it's now disrupting nickel's bullish electric vehicle narrative.

Nickel prices were trading at a six-year high as recently as last week on expectations surging demand from the electric-vehicle sector would spur a shortage. Tesla boss Elon Musk recently said that nickel was Tesla's top concern for scaling lithium-ion cell production and was behind a shift to using iron for some EV batteries instead. Nickel is critical to the world's clean-energy transition and previous comments from Musk have drawn attention to the possibility of a crunch. He pleaded with miners last year to produce more, promising a "giant contract" for supply produced efficiently and in an "environmentally sensitive way" amid concerns that deficit looms as early as 2023. The conversion

Change in LME metals YTD



Source:- Reuters

"2021 may prove to be a transformation year for copper. Inflation expectations are rising, while global economic growth is recovering, with Chinese demand in particular coming back online at a rapid pace."

of NPI to matte for processing into battery-grade nickel sulfate is another twist of nickel's market, could rock the long-term investment case for nickel.

The severity of this week's price collapse underlines nickel's sensitivity to changes in investor sentiment with nickel bulls now risking regular whip-sawing from both the stop-start EV rollout story and the continuously evolving nickel raw materials puzzle.

Several Indonesian players are currently trialling the conversion of nickel ore to battery-grade material using high-pressure-acid-leach processing, a technology that is notoriously difficult to master. Tsingshan is now opening up another bridge between ferrous and battery grades of nickel by going down the matte route. Nickel-pig-iron producers can now make nickel matte by slightly adjusting the manufacturing process, which will substantially ease concerns of a shortage of battery materials.

Nickel's growing usage in lithium-ion batteries and the accelerated roll-out of electric vehicles are not in doubt. The case for higher prices, however, rests on the assumption that only certain types of nickel can be processed into battery precursor materials. INSG data shows, Indonesia is now both the world's largest nickel producer and the fastest-growing one, with national mine output surging another 41% last year to 853,000 tonnes.

Aluminium has been trading firm and has been immune to volatility on other metals. However the cash -3m spread has started to ease and fresh material has started to arrive on Chinese ports which could weight on the prices.

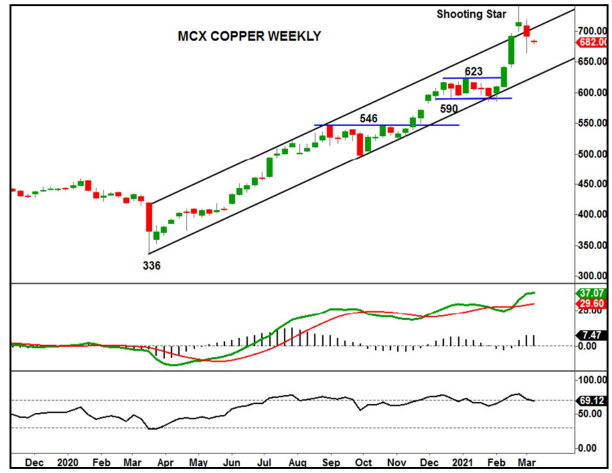
Outlook

Overall given the change in macro backdrop, mixed trading activity with heightened volatility is likely to persist for the next couple of sessions. Fall in some metals are likely to attract buyers to jump and capitalize on opportunity, but with so many moving parts like inventories, demand supply balance, bond Yields and dollar index is likely to keep participants busy.

Technical Outlook

Copper

As seen on weekly chart, MCX Copper traded with negative bias in the preceding week after forming a shooting start candle stick formation which indicates reversal. The 14-period is still at overbought zone but zone but has reversed from its peak and MACD is yet to give any confirmation of reversal. Recent low around Rs.663 will act as key support and price sustained break below the same will confirm further weakness towards Rs.645 – 635 levels. Resistance is capped at Rs.702 of rising channel. For short-term selling will be advised only if price break below support. On the either side price sustained break above resistance will resume positive move towards Rs.745.



Nickel

As seen on weekly chart, MCX Nickel has reversed from its peak of Rs.1146 and has broken below the rising channel formation which signifies weakness. The 14-period RSI reversed from its peak which is signifying weakness & crossover on MACD is also confirming weakness in price for short-term. Resistance is capped at Rs.1215 whereas support is placed at Rs.1130. Selling on rise is recommended, but our bias will negate if price break and sustains above the resistance mark.

METLDEX

As seen on daily chart, MCX Metldex also traded with negative bias and has closed the week below the key resistance area of 14145 which signifies further weakness. The 14-period RSI is flat but sustaining well below the mid-level of 50 which signifies weakness and crossover on MACD is also confirming the same. Selling is recommended for short-term targeting 13550 – 13350 levels, but our bias will negate above the resistance mark.

Navneet Damani
Research Head

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

Commodity Disclosure& Disclaimer:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).
MotilalOswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of MotilalOswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com.
MotilalOswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile MotilalOswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products.Details of associate entities of MotilalOswal Financial Services Ltd. are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf

Details of pending Enquiry Proceedings of MotilalOswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

Terms & Conditions:

1. This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.
2. This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it.
3. This report is not to be construed as an offer to sell or solicitation of an offer to buy any commodity or commodity derivative to any person in any jurisdiction where such an offer or solicitation would be illegal.
4. It is for the general information of clients of MOFSL and MOCBPL. It doesn't constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.
5. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL.
6. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate.
7. All such information and opinions are subject to change without notice.
8. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.
9. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed.
10. Neither MOFSL, nor any person connected with it, accepts any liability arising from the use of this document.
11. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the commodity referred to in this material may go up or down. Past performance is not a guide for future performance.
12. Certain transactions including those involving commodity derivatives involve substantial risk and are not suitable for all investors.
13. Reports based on technical analysis centers on studying charts of a commodity's price movement and trading volume as opposed to focusing on a commodity's fundamentals and as such may not match with a report on a commodity's fundamentals.
14. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to subject commodity for which Research Team have expressed their views.
15. MOFSL or its associates or Research Analyst or his relatives may have Open Position in subject commodity.
16. A graph of daily closing prices of commodities is available at http://www.moneyline.co.in/
17. Opinions expressed are our current opinions as of the date appearing on this material only. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.
18. The commodities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.
19. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment.
20. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the commodities mentioned in this document.
21. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein.
22. The commodities described herein may or may not be eligible for trade in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.
23. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors.
24. MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may (a) from time to time, have long or short positions in, and buy or sell the commodities mentioned herein or (b) be engaged in any other transaction involving such commodities and earn brokerage or other compensation or act as a market maker in the commodity/ (ies) discussed herein or have other potential conflict of interest with respect to any recommendation and related information and opinions. However the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the commodities mentioned in the research report.
25. MOFSL and it's associates and Research Analyst have not received any compensation or other benefits in connection with the research report. Compensation of Research Analysts is not based on any brokerage transactions generated by broking activities under MotilalOswal group.

Registered Office Address: MotilalOswal Tower, RahimtullahSayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 22 71934200/022-71934263; Website www.motilaloswal.com.

Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 7188 1000.

Registration Nos.: MotilalOswal Financial Services Limited (MOFSL)*: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579, PMS: INP000006712. MotilalOswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. MotilalOswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. MotilalOswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs,

Insurance Products and IPOs.●Real Estate is offered through MotilalOswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. ●Private Equity is offered through MotilalOswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. ●Research & Advisory services are backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

* MOSL has been amalgamated with MotilalOswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench. Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for Securities Broking write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com