

PAIR TRADE STRATEGY IN METALS

27th September, 2018

MCX LEAD

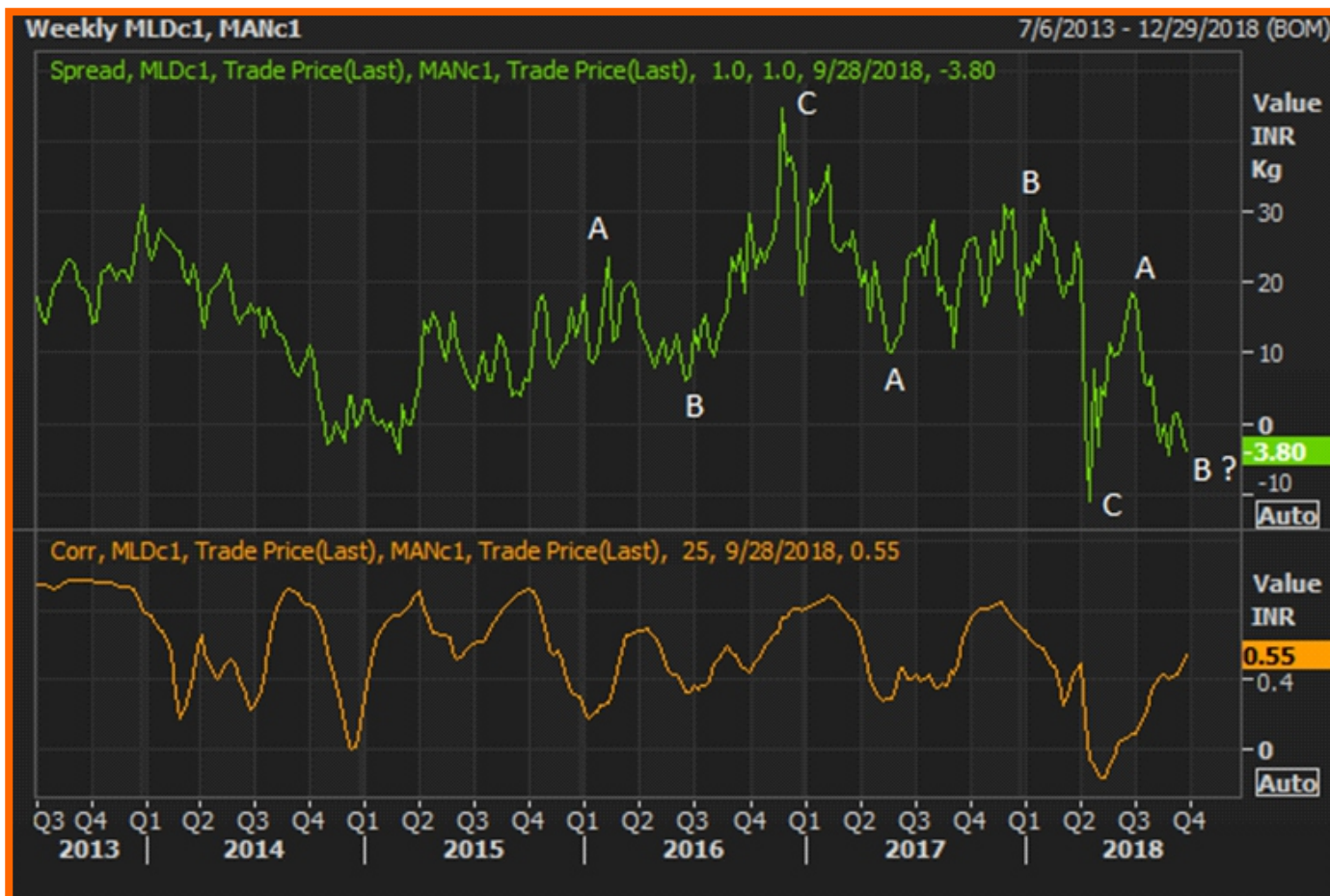


MCX Lead: Wave C is likely to emerge and rally towards 156 after the completion of wave B which seems to have completed at 142.4. The alternate scenario could be the commodity could fall towards 141 first and then rebound sharply towards 156.

MCX ALUMINIUM



MCX Aluminium: Wave c is likely to emerge and fall towards 142 where wave b seems to have completed at 150.4. The alternate scenario could be the commodity can touch 152.5 first and later fall towards 143.



The above chart signifies the spread of Lead and Aluminium prices. The spread has been hovering in the range of +40 and -10 which means Lead was trading higher than Aluminium by 40 points and lower by 10 points in the last 6 years. Currently, the spread is taking support near -4 (where Lead is priced lower than Aluminium) and it has been moving in corrective A-B-C structures and is near to its completion in the form of Wave B. Wave C is likely to unfold after the completion of the structure in wave B.

Also, the correlation is increasing between the two commodity prices and currently reading at 0.55.

STRATEGY

Conclusively, traders can long lead futures (oct) and short sell aluminium futures (oct) at the current spread difference of around -4.5 to -5. The stop losses of spread difference of -8 on daily closing basis and the targets of spread difference of 1 and 4 can be considered in the pair trade.



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