

# SPECIAL MONTHLY REPORT ON

# BASE METALS

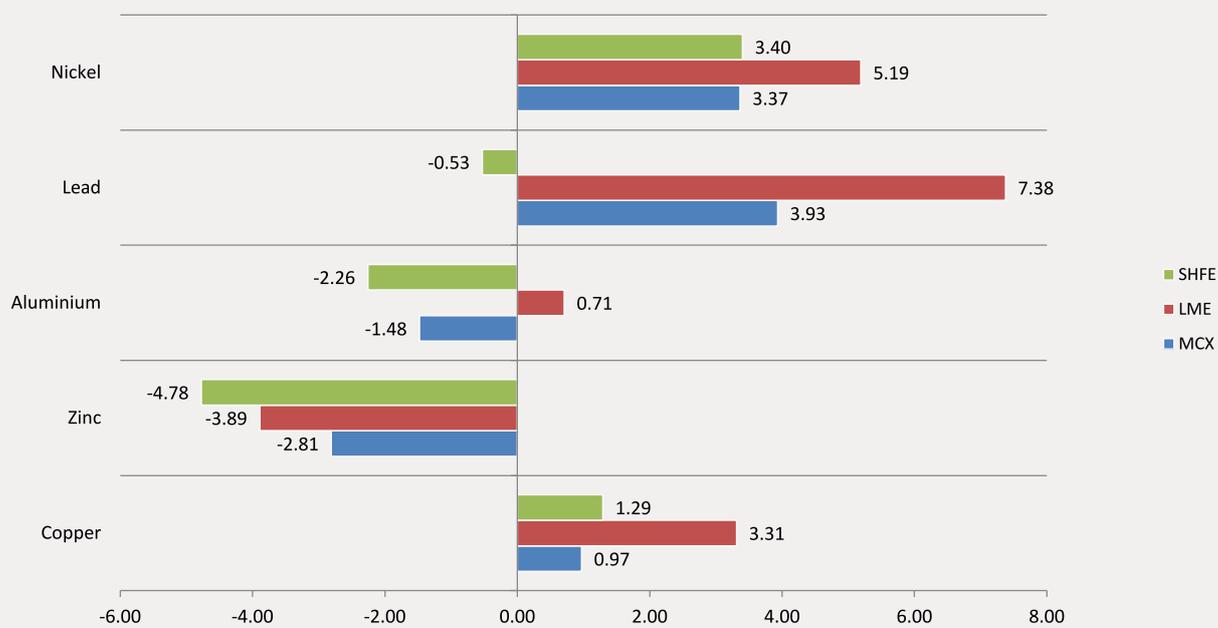
July 2019



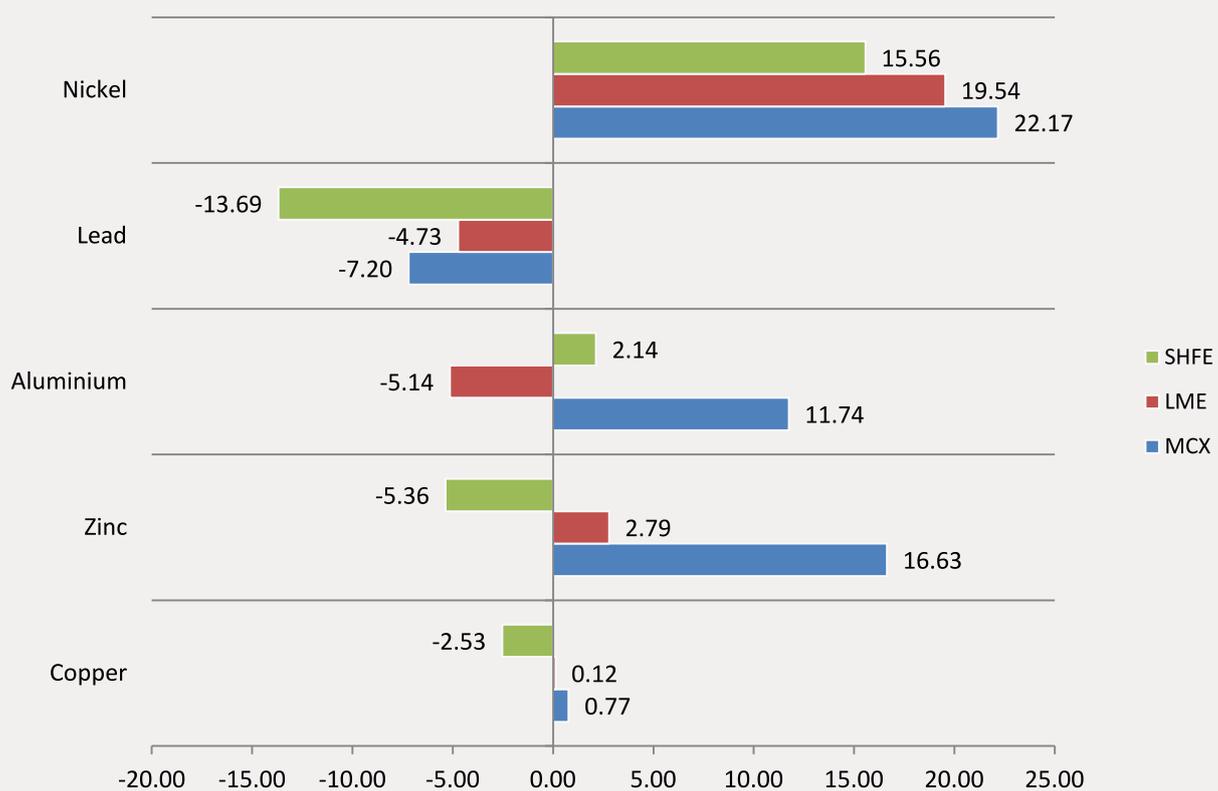
Moneywise. Be wise.

COPPER • NICKEL • LEAD • ZINC • ALIUMINUM

**BASE METALS PERFORMANCE (June 2019) (% change)**



**BASE METALS PERFORMANCE (January - June 2019) (% change)**



## COPPER

### Overview and outlook

Copper ended marginally lower in the month of June as trade tensions between US and China along slower demand from China kept the prices under pressure. Copper (June) traded in range of 399.55-421.00. Unions at Chile's Chuquicamata mine called on members to reject a sweetened contract offer from Codelco, the world's largest copper producer, amid a nearly week-long strike that has halved output from the sprawling copper mine. Workers at Chuquicamata, one of the world's biggest copper mines, went on strike since mid-June to demand better healthcare and retirement benefits, hurting output of state-run Codelco, the world's top copper producer.

Copper prices got some support following news that dozens of artisanal miners were killed when part of a copper and cobalt mine owned by Glencore collapsed in Congo. Refining charges in China have fallen, signaling a tightening in market, and Chinese copper premiums have started to make a comeback. Chile's Codelco, the world's top copper miner its Chuquicamata mine was fully operational after a two-week long strike that had docked output from the sprawling deposit came to an end.

### Key news

Indonesia's Amman Mineral to cut copper concentrate exports, boost local sales Indonesian copper miner Amman Mineral Nusa Tenggara stated recently as it expects to export about 236,000 tonnes of copper concentrate in 2019, below its export quota, as it increases shipments to a local smelter.

### Copper market in 51,000 tonnes deficit in Mar 2019 - ICSG

The global world refined copper market showed a 51,000 tonnes deficit in March, compared with a 72,000 tonnes surplus in February, the International Copper Study Group (ICSG) stated recently. For the first 3 months of the year, the market was in a 32,000 tonnes deficit compared with a 81,000 tonnes surplus in the same period a year earlier, the ICSG said. World refined copper output in March was 2.01 million tonnes, while consumption was 2.06 million tonnes. Bonded stocks of copper in China showed a 1,000 tonnes deficit in March compared with a 137,000 tonnes surplus in February.



Source: Kitco metals

## TECHNICAL OUTLOOK

### COPPER MCX CHART



Copper futures at the MCX platform has settled higher at 453 on the previous week. Since last four weeks prices are trading higher from 399.55 levels to 453. Now the price traded above the trend line. Prices are trading above the 200EMA daily resistance levels of 432 and above the 50EMA 426. The immediate support 431 may act as a trend interrupting point. Overall the commodity is expected to move sideways to positive from its support level of 431.

### COPPER LME CHART



On LME copper has formed double bottom pattern. The support for the counter holds at 5840.48 & resistance holds at 6147. Break above 6147 could test upside all the way to 6480, whereas if prices break below 5840.48 then again bears take control from bulls and price could test 5670. Current structure & technical indicator indicates high volatility in the counter in the coming few sessions. The bias for market is expected to bullish momentum in the counter, where it can take support at 5840.48; and could face resistance at 6147 & 6480 respectively.

## Nickel

### Overview and outlook

Nickel counter ended with positive path in the month of June as it Nickel rose amid worries that floods in Indonesia could disrupt supplies of nickel. In the first four months of the year, the global nickel deficit narrowed to 27,200 tonnes from a deficit of 59,400 tonnes in the same period of 2018. The downside in Nickel may be capped amid supply worries. Meanwhile, production is also halted temporarily from Glencore's Koniambo nickel plant in New Caledonia amid leak. Nickel moved in range of 844.00-907.00 in MCX. Nickel bulls are undeterred, keeping faith with the metal's future prospects as a key raw material in the coming electric vehicle (EV) revolution.

### Key news

#### Nickel prices under pressure from vanishing deficits

Rapidly rising nickel supplies and slowing demand from stainless steel mills are weighing on prices of the metal, which are likely to come under further pressure this year as deficits disappear. Reasons behind weaker demand from the stainless sector, which accounts for 70 percent of global nickel consumption estimated at 2.4 million tonnes this year, include overstocking of stainless steel by producers earlier in 2019. Also a major influence is the trade dispute between the United States and China, the world's two largest economies, and its potential to disrupt growth and demand.

A deficit would typically mean draws on stocks, which have been sliding for more than two years now. Stocks in LME-approved warehouses are at 164,000 tonnes, compared with around 380,000 tonnes in November 2017. Nickel stocks in warehouses monitored by the Shanghai Futures Exchange, at around 9,000 tonnes, are a fifth of the level in January 2018.

### INSG Estimates

The global refined nickel market registered a supply deficit of 27,000 tonnes in the first four months of 2019, according to the latest snapshot from the International Nickel Study Group (INSG). The deficit in the same four months of 2018 was 59,000 tonnes and analysts' broad consensus is that the supply gap will close over the second half of this year.

Stainless steel remains the current driver of nickel usage and China remains the key driver of stainless production with output in the rest of the world largely flat-lining this year. However, with stainless inventories building and margins contracting, China is itself heading for a stainless steel slowdown in the months ahead. Meanwhile, production of nickel pig iron (NPI), the preferred nickel input for stainless steel, has been booming.

Indonesia's mines form the collective core of the world's NPI production stream. The country's output of mined nickel surged 71% to 606,000 tonnes last year and jumped another 30% to 235,000 tonnes in the first four months of 2019, according to the INSG.



Source: Kitco metals

## TECHNICAL OUTLOOK

### NICKEL MCX CHART



Nickel future at the MCX platform has settled higher at 886.20 on the previous week. At present prices are trading above the weekly 50EMA levels of 880.83 and also above 200 EMA levels 889.36. The Momentum weekly Oscillator MACD is trading the resistance line of 889, witnessing bullish crossover. Buying can be seen in the counter if it continue to trade above 900 levels, which take the counter towards 930/945 in near-term. If it break below 895 levels and sustain can see further down side move up to 875/850 levels.

### NICKEL LME CHART



Nickel daily charts on LME have formed golden cross formation which indicates the buying in the counter. The Last few sessions ended up bullish after testing the key 50 & 200 DMA. Current price action suggests that if prices break above 13322 levels then it confirms the buying and takes the bullish rally towards 14342 & 14648 with the support of 12680. Another scenario indicates that if prices failed to break 13296, then the bears turn on and we may witness a bearish rally towards 11500. Low volatility is expected in the counter as defined by technical indicators.

## Lead

### Overview and outlook

The battery metal lead registered steady recovery in the month of June as worries about lead supplies, mainly used to make auto batteries, have been fuelled by Belgium-listed Nyrstar, which has halted output at its Port Pirie lead and zinc smelter in Australia and declared force majeure. Emerging supply tightness and the expectation of lower production from China augurs well for lead prices. Battery demand globally will continue to be key driver for the prices as some 80% of lead demand goes to production of batteries, the bulk of them for vehicles. Lead prices moved in range in of 148-168 the month of June. Lead can improve further as supply concerns and decline in stock positions lifted the sentiment higher.

### Key News

#### Lead Cash to 3 month in premium

The premium for cash over the three-month lead contract stands at about \$8 a tonne, having been at a discount at the end of May. It rose to 2-1/2 year highs above \$40 a tonne earlier last month.

Tight battery scrap supply, maintenance can assist Lead prices

Spot lead prices across Chinese markets are likely to find support at the 16,000 yuan/mt level, as tight battery scrap supply keeps costs firm for secondary

lead and as maintenance at primary lead smelters will likely to extend declines in social inventories in the short term. With high prices of battery scrap, secondary lead refiners saw a loss of 200 yuan/mt recently, and smelters saw a loss of 100 yuan/mt, excluding taxes. This grew uncertainties over the production recovery at secondary lead smelters from environmental inspections. Battery producer operating rates rebounded as production recovered on eased inventory pressure after output cuts and holidays since the end of April. The approaching end of the first half of the year drove some large battery plants to step up production for better results in their mid-year reports, which also helped lift the average operating rate.

### ILZSG estimates of Lead

Provisional data reported to the ILZSG indicate that world refined lead metal demand exceeded supply by 39kt during the first four months of 2019. Over the same period total reported stock levels decreased by 21kt. A growth of 0.7% in global lead mine production was primarily a consequence of rises in India, Peru and Sweden, that were partially balanced by a reduction in China. Refined global lead metal usage rose by 2.3%, influenced by rises in China and India. In Europe, Japan, the Republic of Korea and the United States, usage was lower compared to the first four months of 2018.



Source: Kitco metals

## TECHNICAL OUTLOOK

### LEAD MCX CHART



Lead future at the MCX platform has settled higher at 156.50 on the previous week. At present prices are trading above the weekly 50EMA levels of 145.00. The Momentum Oscillator Stochastic (14,3,3) is now witnessing positive divergence and also providing bullish crossover for short term basis. The lower side of 200EMA levels supports is at 148 which will be act the crucial support in coming weeks. Overall the commodity is expected to move higher from its support level of 148.

### LEAD LME CHART



Lead weekly charts on LME has formed bullish piercing pattern. The last few sessions are ended up in bullish trend along with correction. Based on current price action, the market is expected to continue on bullish momentum. Presently the counter is kissing the 50 DMA & facing strong resistance. If prices break & hold above 50DMA then it can take extent rallies towards 2090 & 2210. On the contrary, another scenario indicates that if price failed to break above the key 50-DMA then a corrective rally could test all the way to 1780 in the shorter horizon. Buy on dips suggested for the counter.

## Zinc

### Overview and outlook

Zinc prices ended the month of June in red as decline in demand from stainless steel sector and US China trade war kept the prices under pressure. Overall zinc traded in range of 194.90-208.25. Output recovery, poor consumption is set to grow stocks of zinc, but regular maintenance will slow the inventory buildup in July. Small inflows of seaborne materials in a closed import arbitrage window will also cap the increase in zinc social inventories in the short term.

### Key News

#### Decline in seasonal demand to pressurize zinc prices

Zinc prices can remain pressure in July as production recovers and downstream consumption enters a seasonal lull. Lower prices of zinc, below 20,000 yuan/mt, narrowed profit margins at miners and grew the expectations of lower concentrate treatment charges (TCs). However, maintenance at northern smelters in July-August is expected to depress demand and support TCs. Miners and smelters remained in a deadlock over TCs for July. Current TCs remain at highs above 6,000 yuan/mt, which had limited impact on production enthusiasm at smelters. A traditional slow season in July will take a toll on demand from key downstream sectors of galvanising, casting, and alloy. Galvanising plants continued to face high costs of raw materials as steel prices surged. Trade conflicts also dragged on overseas orders for zinc alloy across exporters in the south.

#### Chinese zinc smelter bottlenecks expected to curb surplus

Weak output of refined zinc from Chinese smelters is likely to persist longer than expected because of bottlenecks at the country's smaller metal producers, keeping the market tight and wrong-footing bearish investors. Smelter restarts, expansions and new operations will add 500,000-600,000 tonnes of new refined zinc supply this year.

### ILZSG estimates

#### Zinc Usage

Global demand for refined zinc metal was forecast to rise by 2.0% to 13.97 million tonnes in 2018, after remaining stable over the past three years.

Zinc usage in both Europe and the United States was anticipated to rise by 2.1% in 2018. In Europe the rise would be influenced by increases in Belgium and Italy. Apparent demand in China was forecast to increase by 2.2%.

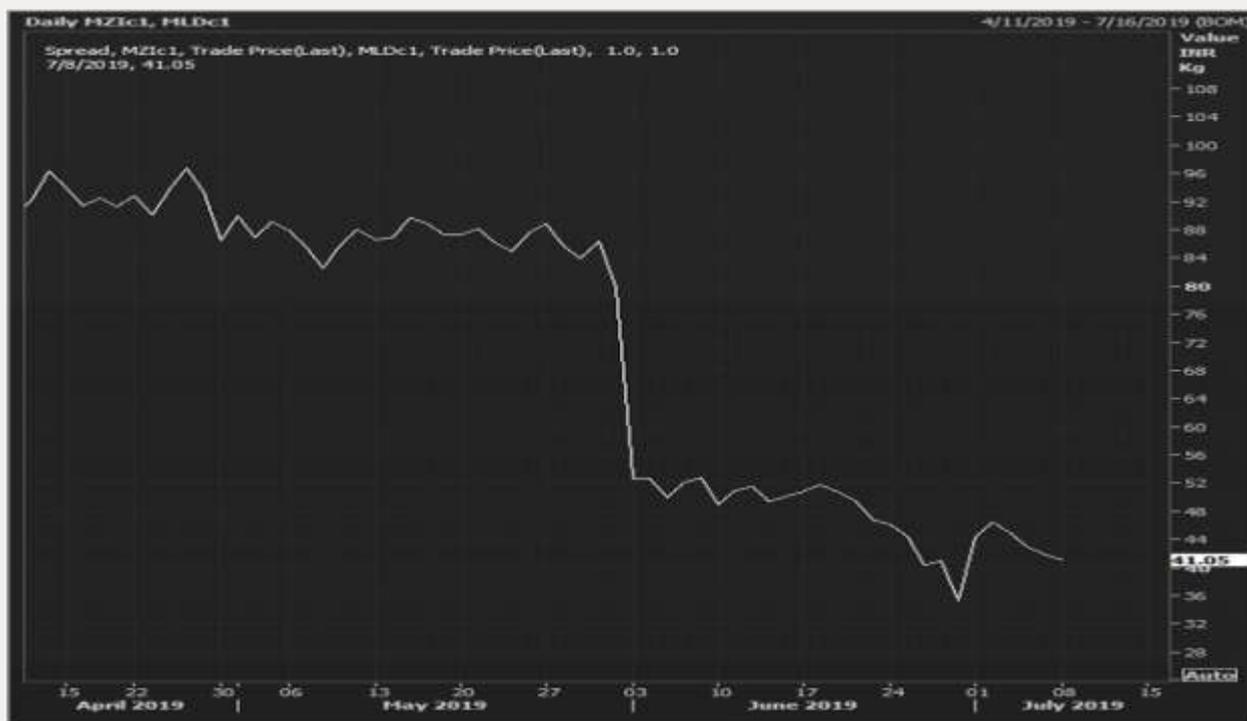
#### Zinc Supply

After increasing by 1.1% in 2017, global zinc mine production was forecast to rise by 5.1% to 13.62 million tonnes in 2018. This would be driven mainly by an expected 2.3% rise in China and a further 3.9% increase in Peru. In India, zinc mine output was predicted to be marginally lower due to a fall in output at Hindustan Zinc's Rampura Agucha operation. In Australia, additional tonnage was forecast to be generated mainly as a consequence of the recent opening of the Dugald River mine and the expected commissioning of New Century Resources' 262,000 tonnes per year tailings project in Queensland. The opening of Vedanta's Gamsberg mine during the second half of the year would result in an increase in South African production. Increases were also forecast in Canada, Cuba, Greece, Namibia and the United States.

#### World Refined Zinc Metal Balance

Regarding the global market balance, the Group continued to anticipate that global demand for refined zinc metal would comfortably exceed supply in 2018 with the extent of the deficit forecast at 263,000 tonnes.

### Zinc Lead Spread



Source: Reuters

**Analysis:** Zinc and Lead spread can move in range of 36-54 in the month of July 2019.



Source: Kitco metals

## TECHNICAL OUTLOOK

### ZINC MCX CHART



Zinc future at the MCX platform has settled lower at 193.90 on the previous week. From last couple of weeks, prices are trading lower from 233.40 to 190.10. At present prices are trading below the daily 200EMA levels 200.00 and as well as below the weekly rising trend line resistance levels 207. The intermediate trend is bullish but in short term basis below 190 can see further down side up to 185/180. But the view will be intact until the recent low 190 is not interrupted.

### ZINC LME CHART



Zinc daily charts on LME has formed Falling Channel pattern where it take correction within the channel pattern. Based on the current chart pattern, the market is expected to continue on bearish momentum, once the same break below a key support holding at 2350. If prices hold below the key support then bearish rally may extend towards 2280. Another scenario indicates that if prices hold above key support then it may test 2520-2660. Higher volatility is expected in the counter as defined by technical indicators. The counter may take support near 2350 and could face resistance at 2650.

## Aluminum

### Overview and outlook

Aluminum prices ended on negative note as it moved in range of 139.85-145.25 in the month of June. The U.S. Commerce Department has agreed to Tesla Inc's request to waive 10% tariffs on imported aluminium from Japan used in the manufacture of battery cells at Tesla's Nevada Gigafactory.

According to the International Aluminium Institute "Global aluminium production flatlined in the first quarter of this year" China global production rose by a marginal 0.3 percent year-on-year as China remained the world's dominant player with a 57 percent share of world production.

### Key News

#### Tariff relief but no price relief for U.S

The United States in May removed tariffs on imports of steel and aluminium from Canada and Mexico. A stroke of the presidential pen has liberated the largest supplier of aluminium to the U.S. market from the 10% duty that was imposed in the middle of last year. Canada accounted for 51% of total U.S. imports of primary aluminium in 2018. Australia and Argentina

were exempted from tariffs from the start and together with Mexico they accounted for another 8% of the country's imports.

#### Producers seek Q3 aluminium premium of \$115-\$120/T from Japan buyers

Top aluminium producers have offered Japanese buyers premiums of \$115-\$120 a tonne for July-September primary metal shipments, up 10%-14% from the current quarter, amid tighter supply. Japan is Asia's biggest importer of the metal. The premiums it agrees to pay each quarter for primary metal shipments over the London Metal Exchange (LME) cash price set the benchmark for the region. For the April-June quarter, Japanese buyers agreed to a premium of \$105 per tonne, up as much as 27% from the prior quarter, marking the first increase in three quarters.



Source: Kitco metals

## TECHNICAL OUTLOOK

### ALUMINIUM MCX CHART



Aluminium Future at the MCX platform has settled lower at 141 on last week, from the previous closing price of 143.20. Now the prices have trading near the 18 days moving averages of 142.80. On the downside, the channel support is identified in the range of 140.50-140.00. From a longer term prospective, break below the above support zone shall invite a change in trend but the same is likely to face strong support near 140.50. Thus, any change to the medium term trend has to break below 140.50 for confirmation in the coming months otherwise the price will move higher again.

### ALUMINIUM LME CHART



Aluminium weekly charts on LME prices have formed rounding bottom formation. The last few sessions ended up in bullish momentum. Based on current price action it may continue to trade in a bullish momentum & approach all the way to 1930. Alternatively, if the key resistance holds strong then the market might retest 1680 and turn bearish once again. The immediate support for counter holds at 1680-1640 whereas resistance holds at 1853.96 & 1930.

SMC Research also available on Reuters

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