Special Monthly Report on

BASE METALS

Feeling the hit of Political and Economic Turmoil

OCTOBER 2020

smc

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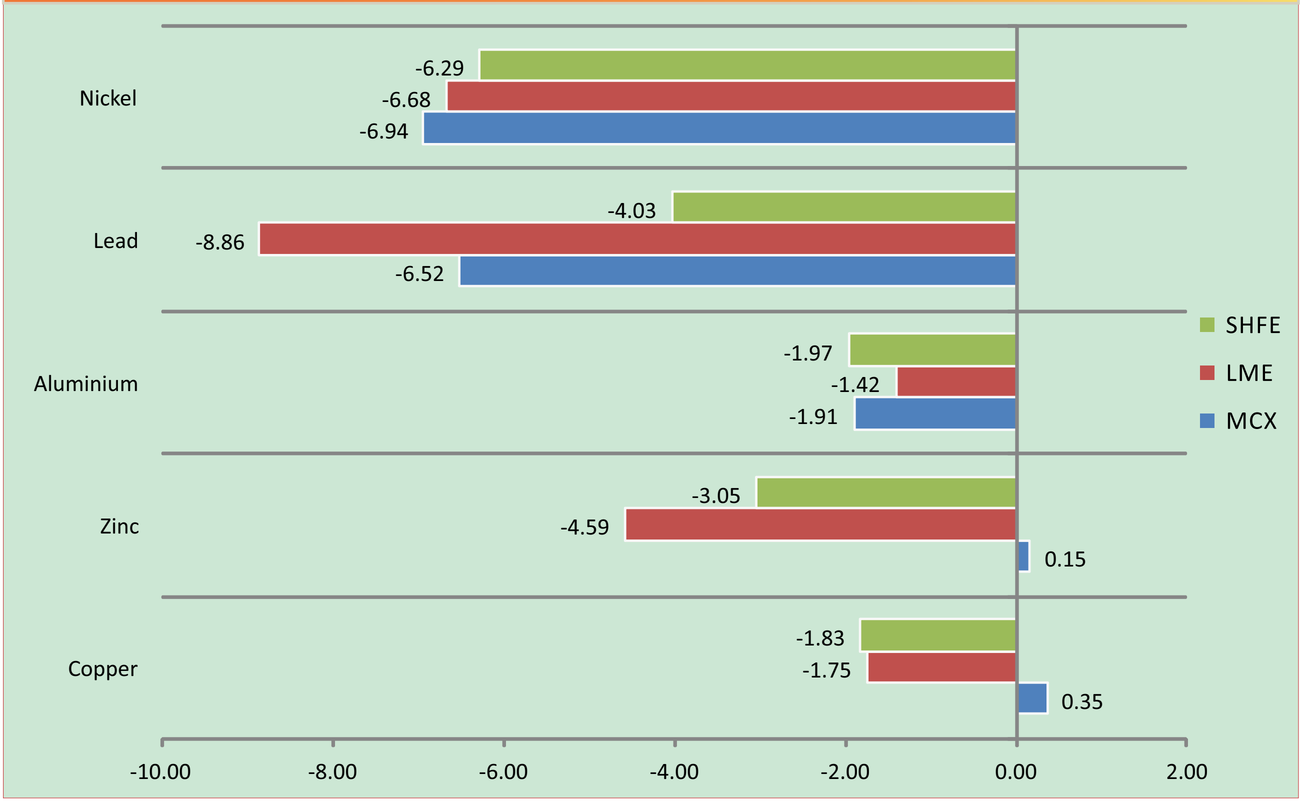
COPPER • NICKEL • LEAD • ZINC • ALIUMINUM

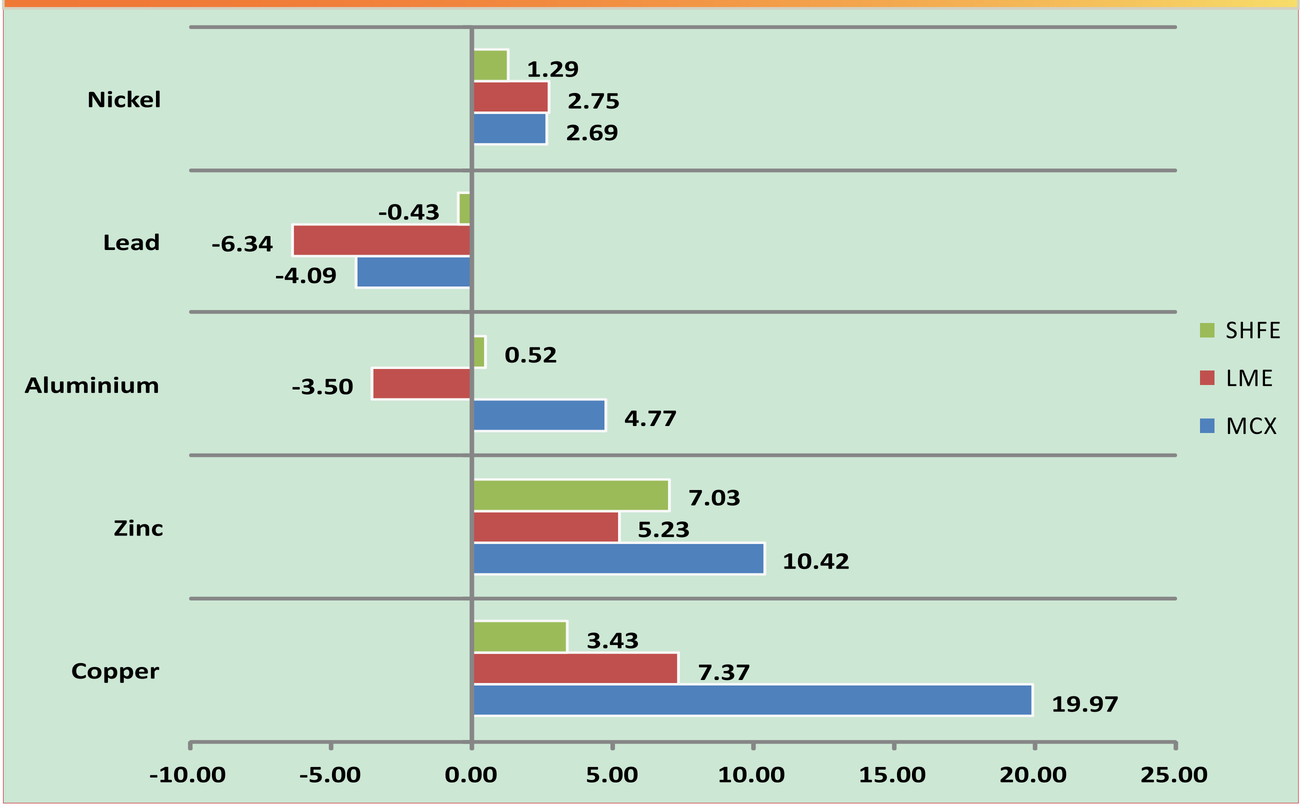
Base Metals... "Feeling the hit of Political and economic turmoil"

It was the month in which we saw base metals prices witnessed upside down on some dull economic activities amid rise in dollar index stimulate selling in all, especially in the latter half of the month. Market reacted on news of reposition of lockdown in many countries, US elections, rise in dollar index, some slowdown in economic releases, doubt on further stimulus by US and many more.

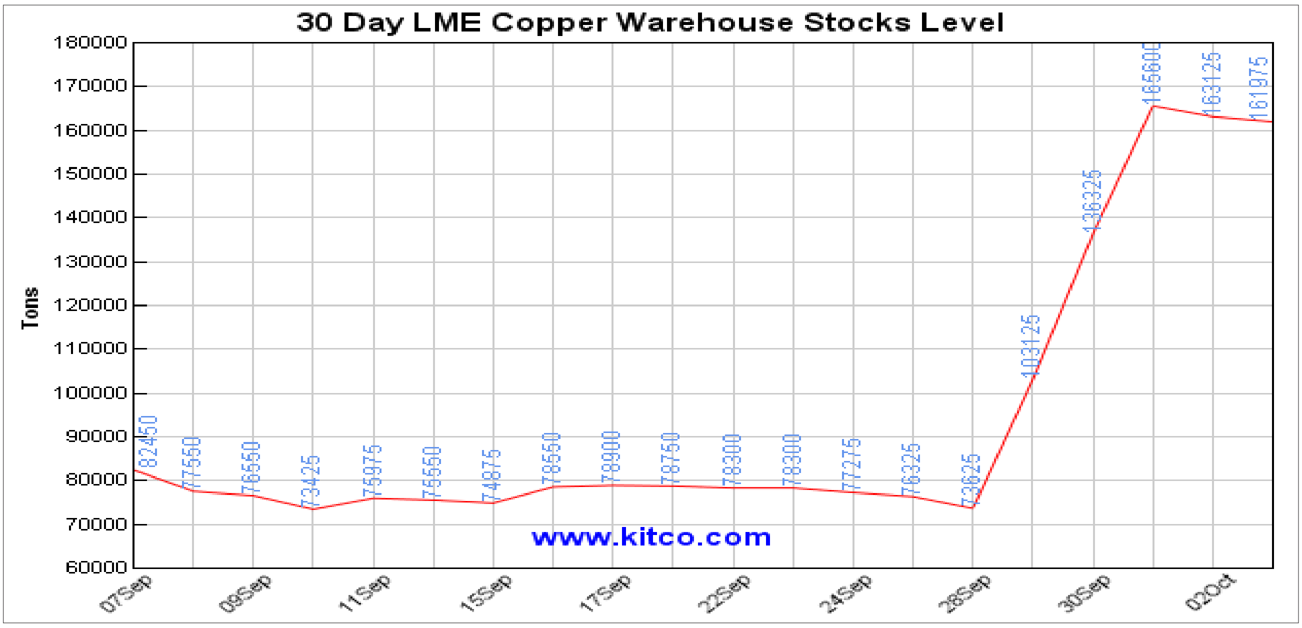
BASE METALS PERFORMANCE (September 2020) (% change)



BASE METALS PERFORMANCE (January - September 2020) (% change)



The most stable metal of this counter gave up previous gain and saw a sharp fall in the second half of the month. MCX copper saw range trade. The copper price rally came to an abrupt halt on last Thursday with the bellwether metal experiencing one of the worst one-day price drops on record. It was the biggest decline since mid-March at the height of the covid-19 induced sell-off, which sent the copper price crashing to below $2.00 a pound - levels last seen during the global financial crisis. S&P Global reports a rapid buildup of inventories in warehouses managed by the London Metal Exchange could be behind Thursday's decline after inflows of almost 92,000 tonnes over just three days. LME-registered stocks stood at 165,600 mt Oct. 1. They started 2020 at 144,675 mt, hitting a peak of 282,75mt in May. The market balance for copper remains in deficit. According to MetalBulletin, some 1.15 million tons of production was lost to the pandemic this year, with a further 672,000 tons lost due to other disruptions. China, Japan, Malaysia, Vietnam and Thailand are among the major exporters of copper, accounting for 45% of India's $5 billion in copper imports for 2019/20, government data showed.



Source: Kitco metals

Technical - Weekly Chart of Copper (MCX)

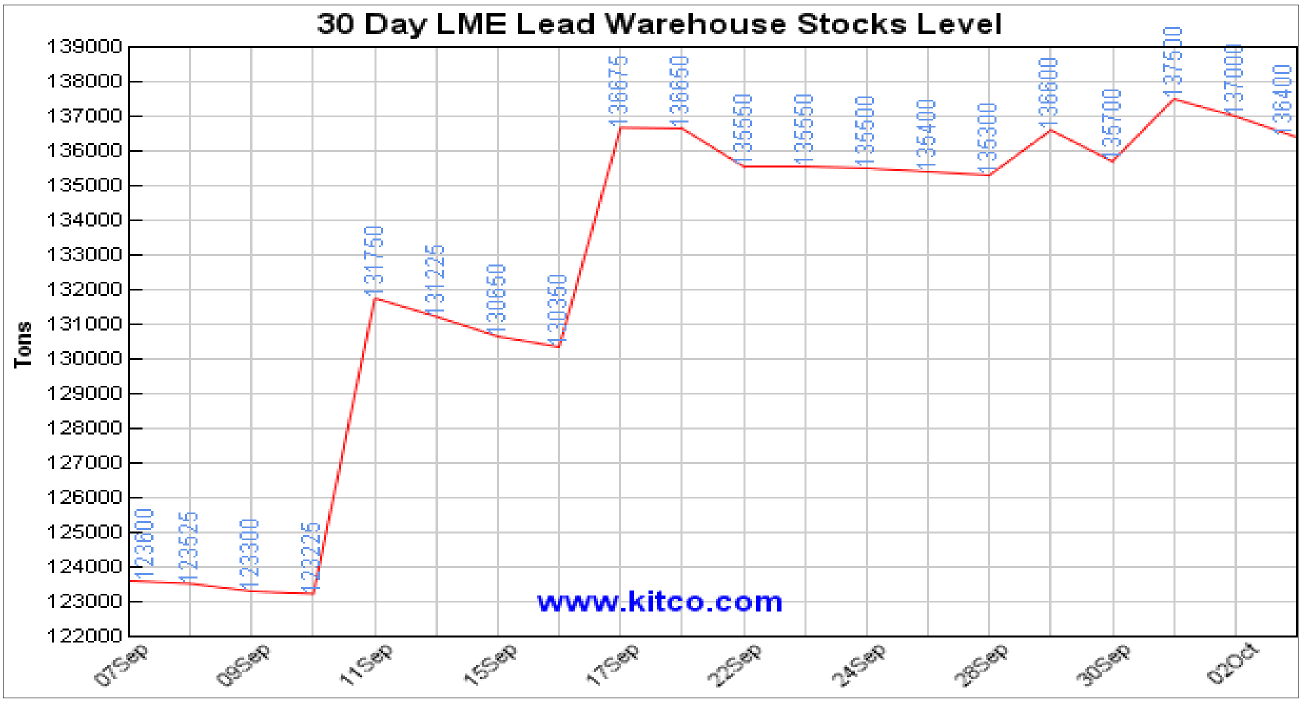
Source: SMC & Reuters

Copper futures at the MCX platform has settled lower at 497.50 on the previous week. Since last couple of weeks prices are trading higher from 494.80 levels to 539.80 and now the prices are taking some correction from 539.80 to 494.80 which is the Fibonacci retracement of 23.6% exactly. If the price will sustain below the support line of 494.80 it will continue to move downside towards 487/480.. If it break and sustain above the immediate resistance line of 527 can see further upside move towards 540/555 levels in coming weeks.

COPPER

LEAD

We saw more than 8% fall in lead prices in LME whereas it was only 4% in SHFE. It gave some arbitrage opportunities between the two. MCX saw a fall of more than 6%. Latest data from the International Lead and Zinc Study Group (ILZSG) shows that the total lead production declined 3.1% YoY to 6.5mt, while consumption fell 5.4% YoY to 6.4mt from Jan'20-Jul'20. The lead market encountered a surplus of 128kt over the first seven months of 2020, compared to a deficit of 31kt during the same time last year. In the coming month, we expect lead futures to trade bearish due to stronger Dollar Index and weak economic data in the US and European Union. China and other Asian countries usage, which had been lagging in the previous months, are also forecasted to remain lower in the months ahead.



Source: Kitco metals

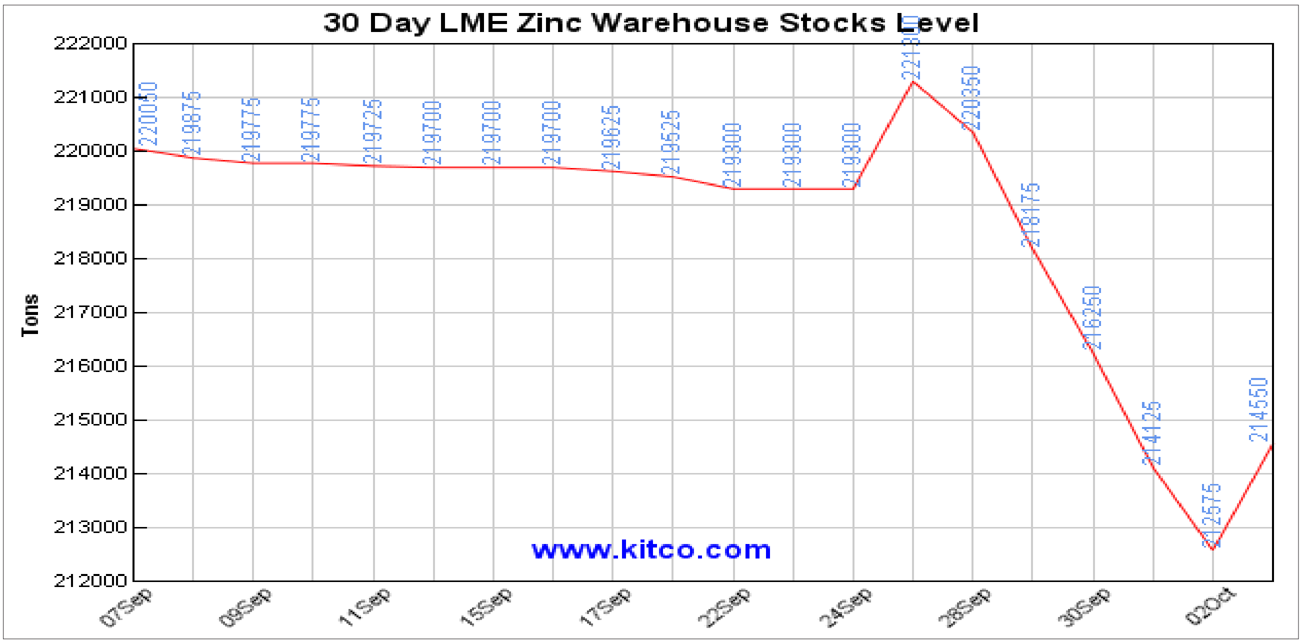
Technical - Weekly Chart of Lead (MCX)

Source: SMC & Reuters

Lead future at the MCX platform has settled lower at 143.35 on the previous week. At present prices are trading below the daily 18 EMA levels of 147.35.The Momentum Oscillator Stochastic (14,3,3) is now witnessing negative divergence and also providing bearish trend for short to medium term basis. The 50 days EMA sustained on the lower side which is indicate selling in short term basis. So overall the commodity is expected to move lower from its resistance level of 151. Now the crucial resistance is seen at 151, sustainable trade above this level will see the good upside move towards 155/160 in this month and if the prices has sustain below 141.50 levels then will see again the downside move towards 138/135 respectively.

ZINC

In zinc, SHFE and LME, the two major exchanges noticed around 3% and 4.5 % respectively whereas MCX saw a marginal upside of 5%. With some expectation of improvement in construction activities may continue to lend support to zinc prices. Expectations of a surge in government's construction and infrastructure spending boosted the demand outlook for steel as well as zinc (used in galvanizing steel). Some smelters are worried about the ore supply in Q4 recently. The winter stockpiling time is advanced with more demand of smelters in the near term, leading to the tight supply of zinc concentrate and the decrease of treatment charges (TC) of domestic zinc concentrate to some extent. Treatment charges of domestic zinc concentrate stood at 5,300 yuan/metal mt as of September 18, 200 yuan/mt lower than that of September 11. Treatment charges of imported ore has been declining since August, indicating that the supply of zinc ore overseas is also tight, and it is expected that there will still be support on the supply side.



Source: Kitco metals

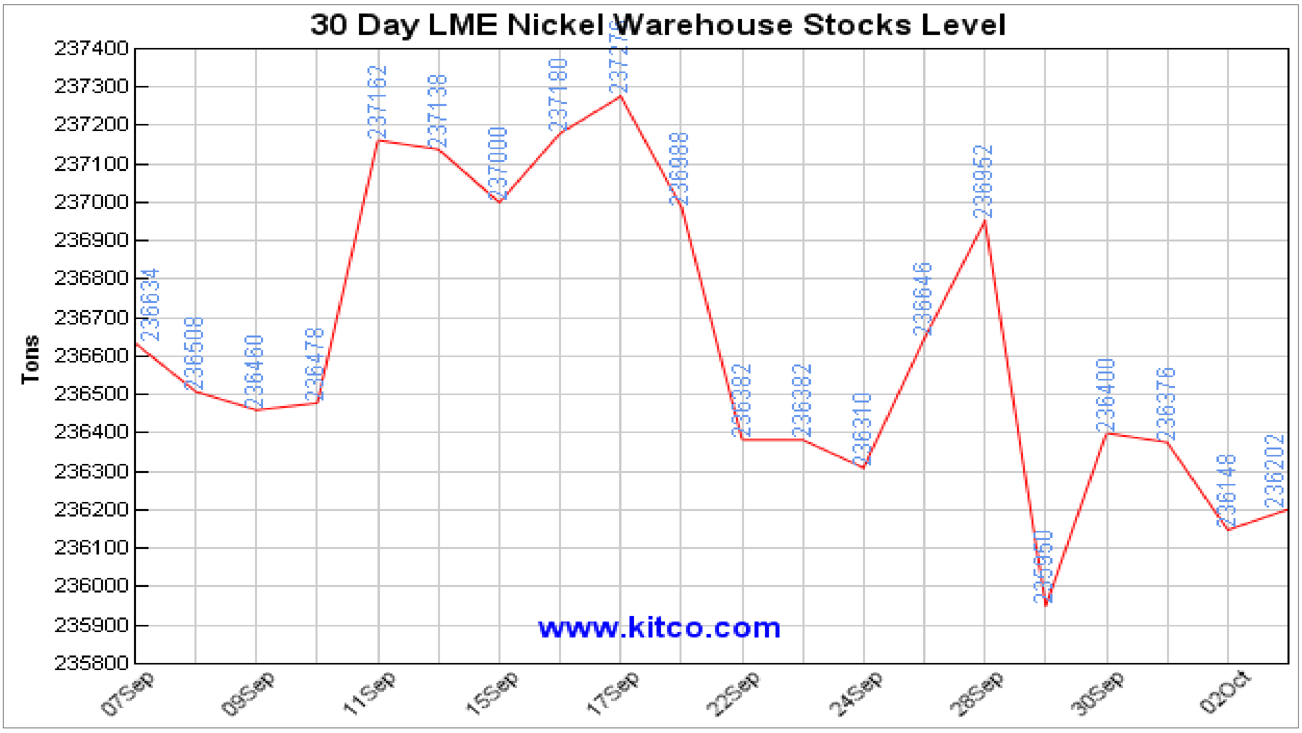
Technical - Weekly Chart of Zinc (MCX)

Source: SMC & Reuters

Zinc future at the MCX platform has settled lower at 183.95 on the previous week. From last couple of weeks, prices are trading lower from its high of 199.40 to 182.30. At present prices are trading above the daily 200EMA levels 177.90 and below the weekly rising trend line resistance levels of 190. The long term trend is bullish only but we may see some correction in short term basis if it sustain below 182 levels and if it trade above 200 can see further upside again up to 210/220. But the view will be intact until the recent low 182 is not interrupted.

NICKEL

We saw major reaction in nickel among all base metals and all three major exchanges vis a vis, SHFE, LME and MCX saw a fall of more than 6%. The primary reason for the slump in Nickel prices has been due to a global fall in demand – and not on the supply side. Over two-thirds of the nickel ore goes into the production of stainless steel, which has witnessed a major drop in demand this year. Why is stainless steel demand slowing down? Primarily due to the poor performance of the Chinese real estate and construction industry – along with the falling demand from the oil & natural gas industry. The worse news is that these demand sectors are unlikely to recover from the slump – even after the pandemic.



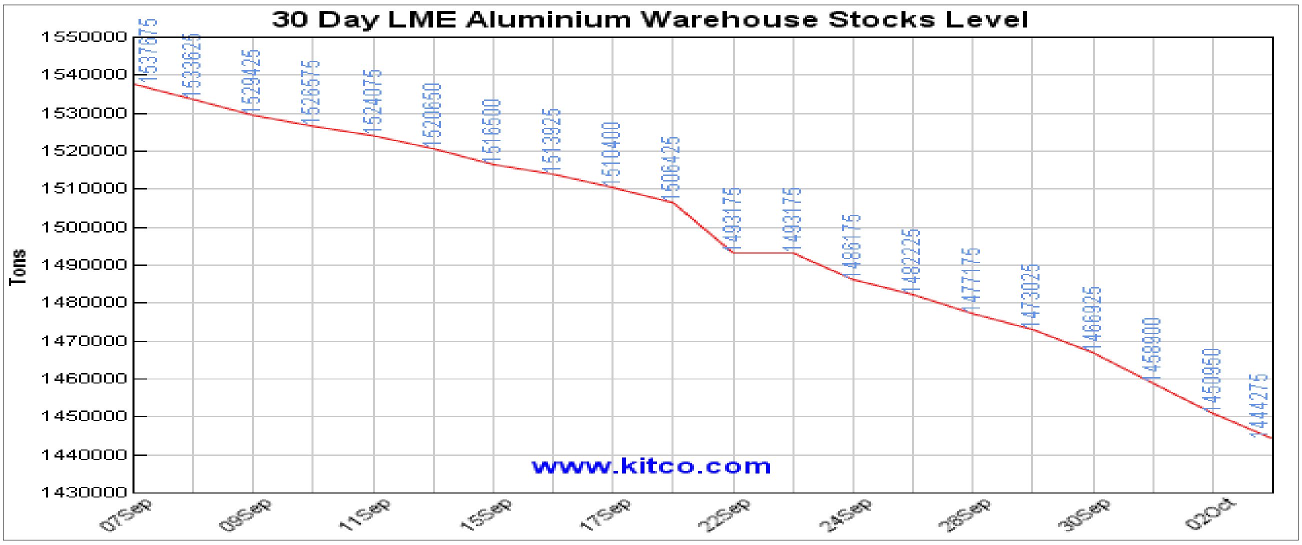
Source: Kitco metals

Technical - Weekly Chart of Nickel (MCX)

Source: SMC & Reuters

Nickel future at the MCX platform has settled lower at 1047.60 on the previous week. At present prices are trading above the weekly 50 EMA levels of 1008 and also above 200 EMA levels of 1017. The Momentum weekly Oscillator MACD is trading above the resistance line of 1025, witnessing bullish crossover. Buying can be seen again in the counter if it continues to trade above 1080 levels, which take the counter towards 1120/1150 again. If it break below 1035 levels and sustain can see further down side move towards 1010/985 levels. Overall the commodity is expected to move higher from its support level.

Aluminum saw limited downside with 1.5% to around 2% fall in the month of September. Aluminum trade became more political recently and trade policies have made it trickier. The United States has made its peace gesture conditional on how much metal flows over the border in the last four months of this year. Too much and the tariffs come back. The U.S.-Canada border is going to remain a contested zone for the aluminium market with politics a bigger price driver than physical supply and demand for regional premiums. Anti-dumping measures have already been imposed or are under consideration in the United States, Canada, Europe, Australia, Argentina and India. China is one of India's largest suppliers and there is a danger that aluminium will be wrapped into the broader, troubled political and trade relations between the two countries. There is the potential for another such realignment of the component parts of aluminium's pricing structure as ever more countries erect trade barriers. Outside China, construction projects are restarting and consumers who have been destocking will need to buy aluminium. Since April, about 58% of India's aluminium demand has been met by scrap imports, at prices 22% cheaper than domestic primary aluminium, according to industry data. Downside in crude oil and slowdown in manufacturing activities put some pressure on the prices. Chinese exports are down 11% from August 2019 (despite a slight increase in August). However, exports reached a four-month high at 395,424 tons. The downtrend is mostly due to weak demand overseas, as most countries are still in the early recovery phases of the coronavirus pandemic, while China seems to be ahead. China remains the largest aluminum producer and consumer. Since China is the largest driver of aluminum, its "new infrastructure" stimulus package – which includes railway systems, ultra-high voltage power lines and electric vehicle charging points – should support aluminum demand in the medium- to long-term.



Source: Kitco metals

Technical - Weekly Chart of Aluminum (MCX)

Source: SMC & Reuters

Aluminium Future at the MCX platform has settled lower at 142.35 on last week, from the previous closing price of 143.50. From last couple of weeks prices have been traded lower and now the prices have trading below the 18 days moving averages of 144.35. The medium term channel resistance of 142 is already breached on previous month but was not able to sustain above the 18 days moving averages of 145.58. Now the next immediate resistance is seen at 147.50, sustainable trade above 147.50 can expect to move towards 151/154 and if it break the immediate support line of 141.50 will see the downside move towards 138/135.Overall the commodity is expected to move lower from its resistance level of 147. Thus we recommend selling on rise in this month.

Conclusion: October should be a very volatile month as apart from fundamentals one major political event; US presidential election is scheduled on 3rd of Nov which may result in reshuffling in positions by major players. Just keep an eye on economic data and progress in US election. Trump is now Covid positive has already made base metals very volatile and put more uncertainty in election and it is going to give impact on US elections too.

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