



SPECIAL MONTHLY REPORT ON

BASE METALS

FEBRUARY 2019

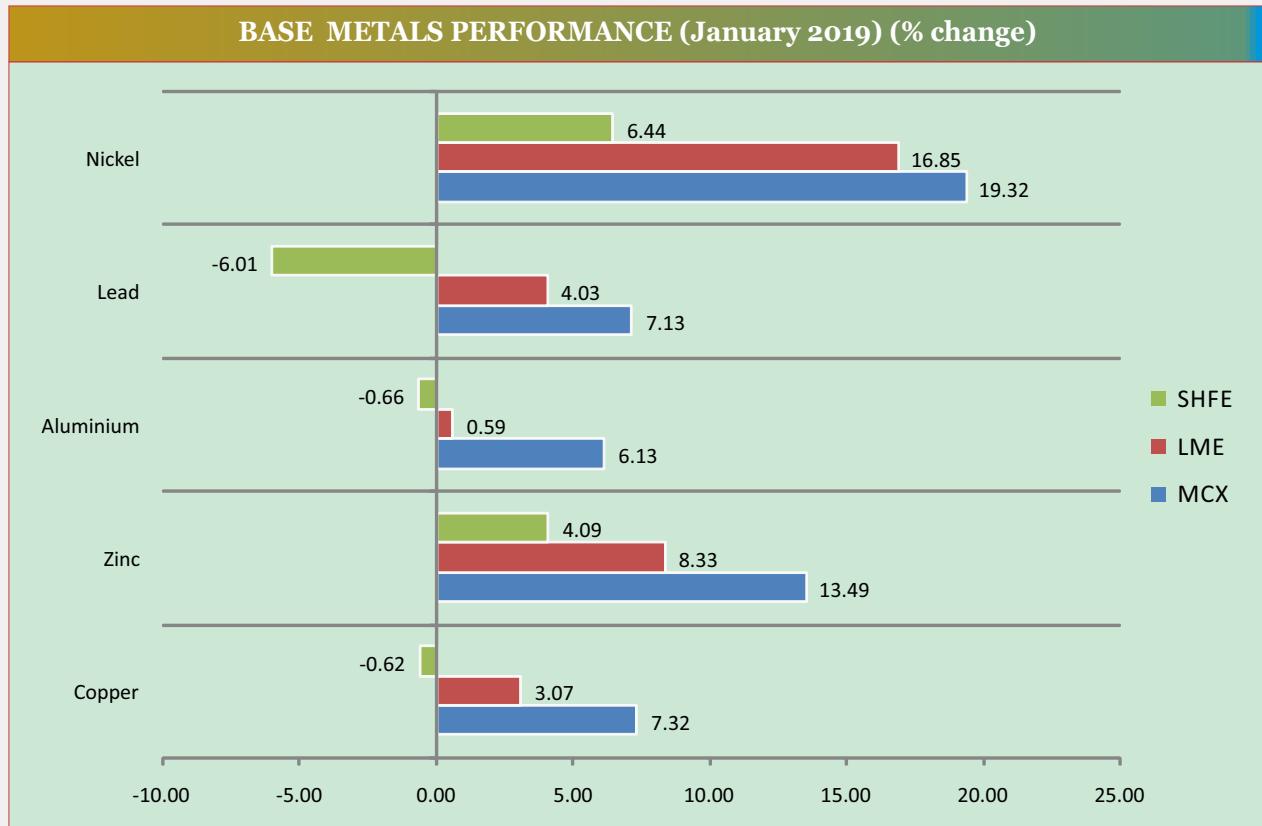


Moneywise. Be wise.

COPPER • NICKEL • LEAD • ZINC • ALUMINUM

BASE METALS

February 2019



COPPER

Overview and outlook

Copper surged higher in the month of January as drop in stockpiles and supply constraints supported the prices higher. Copper traded in range of 397.40-439.90.

China stimulus measures also supported the red metal in the first month of 2019. China's central bank cut the amount of cash that banks have to hold as reserves for a fifth time in a year on Jan. 4, a move that will free up as much as \$116 billion in new credit. The looser monetary policy announcement came two days after the national rail operator said it planned 6,800 km (4,225 miles) of new track this year, a 40 percent lift on what was laid last year. Chilean copper miner Antofagasta Plc is evaluating building a new concentrator plant at its Centinela mine that would cost around \$3 billion.

Key news

Zambia Vedanta unit halts operations at underground mine on tax concerns

Zambia's Konkola Copper Mines (KCM), majority owned by Vedanta Resources, suspended operations at its Nchanga mine following the introduction of an import duty on copper concentrates. Zambia, Africa's No.2 copper producer, introduced new mining duties, increased royalties and plans to replace Value Added Tax (VAT) with a sales tax by April to help bring down mounting debt.

Chile monthly copper output highest in 13 years

Chile's copper production touched 540,720 tonnes in November 2018, its highest level in 13 years, as ore grades and efficient processing favored increased output in the world's top producer of the red metal. Total production between January and November reached 5.33 million tonnes, a 6 percent increase over the same period the previous year.

ICSG estimates

World mine production is estimated to have increased by about 2.4% in the first ten months of 2018, with concentrate production rising by 2.3% and solvent extraction-electrowinning (SX-EW) by 2.6%. World refined production is estimated to have increased by 1.2% in the first ten months of 2018 with primary production (electrolytic and electrowinning) remaining essentially unchanged and secondary production (from scrap) increasing by 5%. World apparent refined usage is estimated to have increased by about 2.8% in the first ten months of 2018. World refined copper balance for the first ten months of 2018 (including above referred usage upward revisions) indicates a deficit of about 545,000 tonnes. China's bonded stocks are thought to have declined by 80,000 tonnes over the first ten months of 2018 compared to the year-end 2017 level. Bonded stocks increased by around 20,000 tonnes over the same period of 2017.



Source: Kitco metals

SHFE Copper



Source: Reuters

TECHNICAL OUTLOOK



Copper futures at the MCX platform has settled lower at 442.70 on the previous week. Since last five consecutive weeks prices are trading higher from 397 levels to 451. Now the price has been in corrective mode. Prices are trading above the 200EMA weekly support levels of 406 and below the 50EMA 437. The recent previous low 420 may act as a trend interrupting point. Overall the commodity is expected to move higher up to 450 and 460.



LME Copper bounced from key level of 200-SMA 5784.51; now facing resistance at 6378.49; 50-SMA. Based on current price action correction is expected in the counter which may stop near 5890 & pull back is expected from the mentioned level which could take the counter towards 6378.49. MACD is also trading near centre line with bullish crossover which also confirms the trend when it enters in bullish territory. Buying on dips is suggested in Copper.

Nickel

Overview and outlook

Nickel counter traded higher last month as falling stockpiles supported the prices but trade war concerns capped the upside. Nickel moved in range of 735.20-882.80 in MCX. Nickel bears have been sent running for cover by last month amid ferocious squeeze on the LME. The resulting bear rout has halted a six-month downtrend in outright nickel price.

Supporting prices, cancelled warrants, or metal earmarked for removal from LME warehouses, have surged to nearly 400,000 tonnes from 235,000 tonnes in the middle of January. Meanwhile on the LME, nickel stockpiles fell through 2018 starting above 350,000 tonnes and falling to 209,000 tonnes by late December a loss of around 40 percent year-to-date, indicating a supply shortfall.

Key news

Nickel soars to four-month high as miner Vale announces force majeure

Nickel hit its highest in more than four months recently on concerns that a force majeure by Brazil's Vale on some iron ore contracts could lead to restrictions in its nickel supply. A Brazilian court forced production to stop at Vale's iron ore mine after a tailings dam burst last month, killing more than 300 people and compelling Vale to tell clients it could not deliver on some iron ore contracts. The strength in nickel has been largely on worries that Vale's nickel supply might be impacted after the iron ore force majeure

Higher Nickel prices required: Advanced Automotive Battery Conference

Higher nickel prices are required to incentivize supply of nickel sulphate for electric vehicle (EV) batteries, particularly given lower cobalt prices. Supply of nickel increased by 7per cent last year to about 2.19million tonnes, but demand increased by 8per cent to 2.33million tonnes, increasing the deficit to

147,000tonnes, from 131,000tonnes in 2017.

The battery sector accounted for 124,000tonnes of consumption last year, and while overall nickel demand is expected to increase at a compound annual growth rate (CAGR) of 5per cent to 2025, demand from the battery sector is estimated to climb at a CAGR of 18percent over the same period.



Source: Kitco metals

SHFE Nickel



Source: Reuters

TECHNICAL OUTLOOK



Nickel future at the MCX platform has settled lower at 895 on the previous week. At present prices are trading near the weekly 50EMA levels 856 and below 200 EMA levels 808. The Momentum weekly Oscillator MACD is treading below the “o” line, witnessing bearish crossover. In LME and also in MCX formed shooting star formation on weekly charts. Further selling can be seen in the counter if it continue to trade below 855 levels, which take the counter towards 825/800 in near-term. If the strong key support holds at 850 levels then the counter revisit towards 930/960 levels and above 960 levels reverse for the trend to bullish.



LME Nickel witness selling after testing the key resistance holds at 50-SMA; also formed shooting star formation on weekly charts. Further selling can be seen in the counter if it continue to trade below 12665, which take the counter towards 11865 in near-term. Alternatively, if the key support 11865 holds strong then the counter might retest the same 13007 and reverse the trend to bullish.

Lead

Overview and outlook

The battery metal lead traded in green as sharp drop in LME Stockpiles and growing battery demand can propel its prices higher. Lead prices moved in range in of 135.30-151.20 the month of January.

The scale of disruption to the Chinese lead supply chain due to ongoing environmental and safety checks was greater than expected, even eclipsing markedly slower Chinese lead demand (weaker automotive, e-bike and telecom sectors) to lift Chinese lead prices to open the arbitrage opportunity to import more lead from overseas. Lead prices got support on stimulus measures from China last month. China, the central bank made big cash injection through open market operations .In signs of improving liquidity and Chinese banks extended far more new loans in December than expected, bringing last year's tally to a record \$2.4 trillion. Furthermore the nation is said to cut taxes "on a larger scale" to help support its slowing economy.

The mine supply is expected to increase by 4.1% in 2019 as some mine supply is likely to come on-stream from Coeur Mining's Silvertip mine in Canada and Vedanta's Gamsberg. China contributes around 40% to the world's lead demand but tight environment inspection has put production limitation.

Lead prices may get a boost as environmental crackdowns on smelters in China curb output in the world's biggest market for the battery metal as inventories tumble.

Key News

ILZSG estimates of Lead

According to the ILZSG world refined lead metal demand exceeded supply by 95000 tonnes during the first eleven months of 2018. Over the same period total reported stock levels decreased by 66000 tonnes.

A 2% fall in global lead mine production was primarily due to lower output in China, Kazakhstan,

Peru, South Africa, Sweden and the United States that more than offset increases in Australia, Macedonia and Morocco.

A 1% increase in global lead metal production was primarily a consequence of rises in Australia, India and the United States that were partially balanced by decreases in Canada and Germany.

Refined global lead metal usage remained stable compared to the first eleven months of 2017. In Europe, usage decreased by 0.4%, influenced by reductions in apparent usage in the Czech Republic and France.

Chinese imports of lead contained in lead concentrates fell by 4.4% to 624000 tonnes. Net imports of refined lead metal totalled 91000 tonnes, a rise of 18.2% compared to the same period of 2017.



Source: Kitco metals

SHFE Lead



Source: Reuters

TECHNICAL OUTLOOK



Lead future at the MCX platform has settled lower at 148.60, marginally lower from the previous week's closing price of 151.90. At present prices are trading below the weekly 50EMA levels 148. The Momentum Oscillator Stochastic (14,3,3) is still witnessing positive divergence and also providing bullish crossover. The lower side of 200EMA levels providing supports around 140. If the price holds successfully the support level of 140 then prices may retest 152/156 again in the near term.



LME Lead has traded in downwards slanting channel since Jan'18 with some correction within channel pattern. As of now, the counter is traded well below the key 50 & 200-SMA which indicates the selling pressure in counter. MACD is traded in bearish territory which further confirms the trend. Based on current chart action if LME lead breaks the previous support 1920 and sustains successfully below the level then the bearish rally may continue and stopped near 1760 in a longer frame. Another scenario indicates that if prices hold successfully the previous support of 1920 then prices target the 50-SMA; 2080 & 200 SMA; 2161 in the near term.

Zinc

Overview and outlook

Zinc prices jumped sharply higher last month as stimulus measures from China along with drop in stockpiles supported its prices higher. Overall zinc traded in range of 167.20-194.20.

China's factory activity shrank by the most in almost three years in January as new orders slumped and output fell, a private survey showed, reinforcing fears that a slowdown in the world's second largest economy was deepening.

U.S. and Chinese officials expressed hopes recently that a new round of talks would bring them closer to easing their seven-month trade war, but a U.S. Navy mission through the disputed South China Sea cast a shadow over the negotiations in Beijing.

Key News

ILZSG estimates

According to preliminary data recently compiled by the ILZSG, the global market for refined zinc metal was in deficit by 326000 tonnes over the first eleven months of 2018 with total reported inventories decreasing by 161000 tonnes over the same period.

World zinc mine production rose by 1.7%, mainly influenced by a substantial increase in Australia, and rises in Eritrea and the United States. In Europe, a 5.2% rise was primarily a consequence of increases in Finland, Greece, Macedonia and Russia, that more than offset reductions in Poland and Sweden. Output was also lower in Canada, China, India and Mexico compared to the first eleven months of 2017.

Higher refined zinc metal production in Australia, Belgium, Canada, Finland, Mexico, Norway and Peru was more than balanced by decreases in China and India resulting in a small overall reduction globally of 0.3%.

A 1.1% fall in global usage of refined zinc metal was mainly influenced by decreases in apparent demand in China, Korea Rep, South Africa and Taiwan (China). In Europe, usage increased by 1.4%,

influenced by rises in Belgium, France, Norway and Poland that more than offset reductions in Germany and Italy.

Chinese imports of zinc contained in zinc concentrates rose by 21.3% to 1,238000 tonnes. At 601000 tonnes net imports of refined zinc metal were 6.9% higher than during the same period of 2017.

China 2018 zinc output down 4.6 pct, biggest drop in 5 years

China's refined zinc production saw its steepest plunge since 2013 last year amid tight raw material supply, longer maintenance periods and the relocation of the country's top smelter. But a recent spike in treatment and refining charges (TC/RCs) in China, the top producer of the metal used to galvanise steel, could lead to a rebound this year. December output slipped by 4.4 percent on a daily basis from November to a monthly total of 393,000 tonnes as Zhuzhou Smelter Group, the country's top producer, went ahead with a planned relocation within southern China's Hunan province.

Zinc and Lead Spread



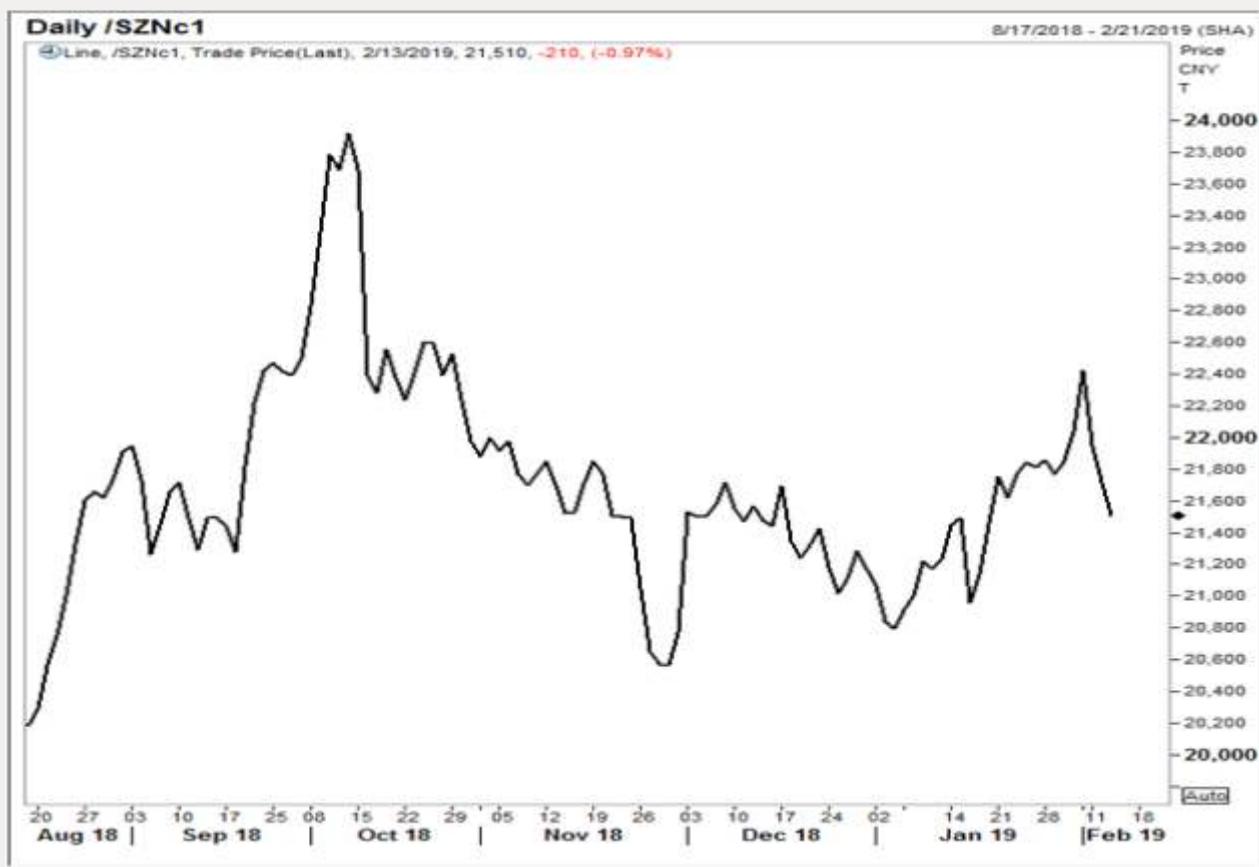
Source: Reuters

Analysis: Zinc and Lead spread narrowed from 50 to below 43 as zinc underperformed lead. This spread can narrow further towards 39 levels in the month of Feb 2019.

February 2019



SHFE Zinc



TECHNICAL OUTLOOK



MCX Zinc future has settled at 192.75 on the previous week. From last couple of weeks, prices are trading within a confined range of 170-200. During the consolidation phase indicators has corrected from overbought to normal zone. At present prices are trading below the weekly 50EMA levels 190 and as well as below the falling trend line resistance levels 191. The intermediate trend is bullish thus we are expecting to prices to move higher again. But the view will be intact until the recent low 170 is not interrupted.



LME Zinc is traded in a bearish trend since Feb'18; plunges over 27% from the previous high of 3594.75. After a sharp fall Zinc tried to bounce from key support of 200-SMA but failed to break the 50-SMA. Based on current price action the counter continues to trades in a sideways range of 2490-2758, break on either side confirms the trend. MACD is also trading in the bearish territory with a bullish crossover which further confirms the sideways trading in counter.

Aluminum

Overview and outlook

Aluminum ended on positive note as it moved in range of 124.75-136.80. U.S. President Donald Trump's administration on lifted sanctions on aluminum giant Rusal and other Russian firms linked to oligarch Oleg Deripaska, defying a Democratic-led push in the U.S. Congress to maintain the restrictions.

The new premiums are down between 17% and 19% from a premium of \$103 per tonne in the previous quarter, marking the second consecutive quarterly drop and the lowest since the fourth quarter of 2016.

Key News

Russia's Rusal jump 12 percent on upbeat aluminum demand outlook

Russian aluminum giant Rusal expects demand for aluminum to grow in 2019 and sees potential for prices to rise. Shares in Rusal, the world's largest aluminum producer outside China, hit their highest since April when the United States imposed sanctions on the company and its co-owner Oleg Deripaska because of his ties to Russian President Vladimir Putin. Its aluminum production rose 1.3 percent in 2018 to 3.75 million tonnes, while aluminum sales fell 7.2 percent to 3.67 million tonnes.



SHFE Aluminum



TECHNICAL OUTLOOK



Aluminium Future at the MCX platform has settled lower at 133.50, down from the previous closing price of 134.15. After rising sharply at the start of the month, Aluminium prices have reversed and fell below the 50 day EMA and traded weak over the last two week. This has led to a downward channel within which prices have been moving. On the downside, the channel support is identified in the range of 127-129. 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 127. Thus, any change to the medium term trend has to break below 127 for confirmation in the coming months.



On Weekly Charts pattern LME Aluminium is in consolidation mode where support is seen near 1750 & could face support near 1990. As of now, the counter is bounced from 200-SMA; which also act as immediate support. MACD has given a bullish crossover in bearish territory which signalled short-covering in counter. Based on current price action bounce back is expected from 1840; which take the rally towards 1990. Another scenario indicates that if prices failed to sustain above 1840 then it may fall towards 1750.

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