

# SPECIAL MONTHLY REPORT ON

# BASE METALS

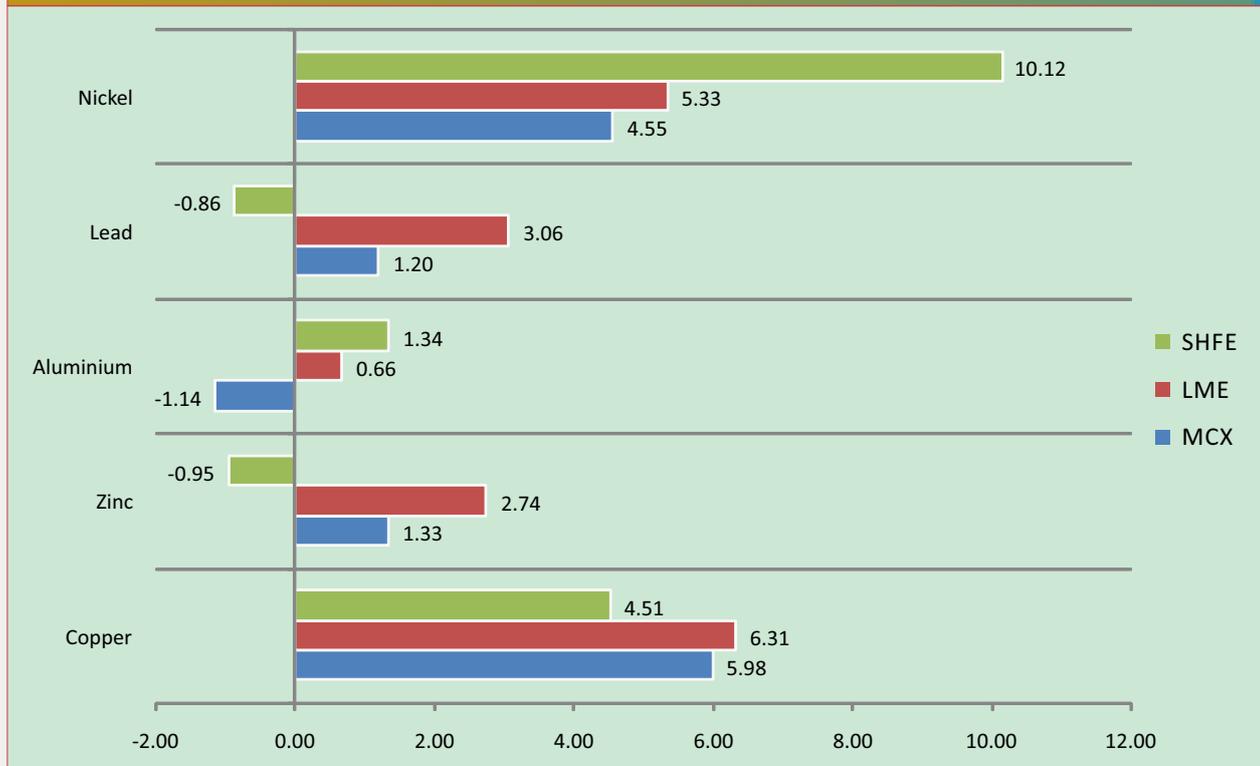
MARCH 2019



Moneywise. Be wise.

COPPER • NICKEL • LEAD • ZINC • ALIUMINUM

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



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



## COPPER

### Overview and outlook

Copper surged higher in the month of February as drop in stockpiles at LME and increase in cancelled warrants supported the prices higher. Copper traded in range of 430.65-466.75. Declining stockpiles and increase in China exports data supported the prices but China's factory-gate price growth missed expectations. According to Chinese customs data "January dollar denominated exports meanwhile rose 9.1 percent from a year ago".

Meanwhile Chinese banks extended a record 3.23 trillion yuan (\$476.87 billion) in net new yuan loans in January, sharply more than expected, as policymakers try to prevent a sharper economic slowdown in the world's top metals consumer. Miner and trader Glencore lowered its 2019 copper output forecast to 1.5 million tonnes from 1.54 million tonnes, citing production cuts at its Mutanda mine in the Democratic Republic of Congo. China will cut billions of dollars in taxes and fees, increase infrastructure investment, and step up lending to small firms, Premier Li Keqiang stated, as the world's second-largest economy looks set to slow further this year. Chile's Chuquibambilla underground copper mine is due to start operations in middle of this year, state copper miner Codelco's chairman stated recently. The amount of available copper stored in the London Metal Exchange's (LME) warehouse system fell to 21,600 tonnes, the lowest level since 2005. The year 2005 marked the start of an extraordinary six year rally that was only briefly interrupted by the Global Financial Crisis.

### Key news

#### Falling LME stockpiles and increased cancelled warrants supported copper prices

Supply of copper looked tight after on-warrant stocks available to the market in LME-registered warehouses fell to 21,600 tonnes from around 300,000 tonnes a year ago. They are now the lowest since 2005. Cash copper has also risen to a premium of \$46.50 a tonne over the three-month contract from a discount around \$20 a tonne earlier in February.

#### China's Jiangxi Copper to take control of Shandong Smelter

Jiangxi Copper, one of China's top copper producers, stated that it planned to buy a nearly 30 percent stake in the Shandong smelter for 2.98 billion yuan (\$444.83 million) to become its controlling stakeholder.

#### Chile state copper miner Codelco sees 1.9 pct y/y production drop in 2018

Chilean state copper miner Codelco saw a 1.9 percent drop in its output in 2018, at 1.8 million tonnes, while production at the world's largest copper mine, Escondida, shot up 34 percent in the same year.



Source: Kitco metals

#### SHFE Copper



### TECHNICAL OUTLOOK



Copper futures at the MCX platform has settled higher at 462.65 on the previous week. Since last six consecutive weeks prices are trading higher from 397 levels to 468. Now the price has been in corrective mode. Prices are trading above the 200EMA weekly support levels of 409 and also above the 50EMA 437. The immediate support 440 may act as a trend interrupting point. Overall the commodity is expected to move higher again from its support level of 440.



On LME copper prices were a surge to its highest since Jul'18, based on weekly chart pattern earlier the counter has been facing strong resistance at 6357.48, which is broken and the prices sustain well above this level. Current structure & technical indicator indicates high volatility in the counter in the coming few sessions. The market is expected to continue the bullish momentum in the counter, where it can take support at 6357.48 & 6121.21; and could face resistance at 6548.43 & 6739.40 respectively.

## Nickel

### Overview and outlook

Nickel counter surged sharply higher last month as falling stockpiles and recovering demand kept the metal used to make stainless steel at a six-month high. LME nickel inventories have fallen for 10 days in a row to under 200,000 tonnes. Shortages for a fourth year running and historically low stocks of zinc are likely to propel prices of the metal to \$3,000 a tonne over coming months, while an end to the U.S.-China trade dispute could spur even more gains. Nickel moved in range of 858.30-956.40 in MCX. Data from the International Nickel Study Group showed that nickel market deficit at 46,000 tonnes in 2016, 115,000 tonnes in 2017 and 127,000 tonnes last year. Nickel stocks at 196,542 in LME-registered warehouses have nearly halved since the start of January last year, while cancelled warrants metal earmarked for delivery stand at 37 percent.

### Key news

#### Indonesia to tap nickel laterite, make batteries to become EV hub

Indonesia plans to start processing its rich supplies of nickel laterite ore for use in lithium batteries on the way to becoming a global hub for producing and exporting electric vehicles (EVs) to Asia and beyond.



Source: Kitco metals

### SHFE Nickel



Source: Reuters

### TECHNICAL OUTLOOK



Nickel future at the MCX platform has settled higher at 935.20 on the previous week. At present prices are trading above the weekly 50EMA levels 864 and above 200 EMA levels 812. The Momentum weekly Oscillator MACD is trading below the “o” line, witnessing bearish crossover. Further selling can be seen in the counter if it continue to trade below 900 levels, which take the counter towards 880/850 in near-term.



On LME Nickel has formed a shooting star pattern on weekly charts which indicates the selling in the counter. Current price action suggests that if prices break below 12847.50 levels then it confirms the selling and takes the bearish rally towards 12104.80 with the resistance of 13756.90. Another scenario indicates that if prices failed to Break 12847.50 and break above 13757.50, then the shooting star formation negates and we may witness a positive rally towards 14440.60. Low volatility is expected in the counter as defined by technical indicators. Selling is recommended in counter below the mentioned level.

NICKEL

## 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 got a boost as environmental crackdowns on smelters in China curb output in the world's biggest market for the battery metal as inventories tumble. A record-breaking cold blast in United States could deepen potential shortages, creating a spike in demand as drivers scramble to replace batteries damaged by the big freeze. Lead inventories in warehouses registered with the LME have slid by a third over the past month to the lowest levels since April 2009, while metal stored in Chinese non-exchange depots have tumbled by 70 percent. Lead prices moved in range in of 142.25-153.50 the month of February. Last year, primary lead output in China fell 2.3 percent. While secondary, or recycled, lead production increased by 5.9 percent and offset that decline, this year the authorities are launching a crackdown on illegal lead battery recycling.

### Key News

#### China pollution crackdown, sliding inventories hit lead market

Lead prices got a boost as environmental crackdowns on smelters in China curb output in the world's biggest market for the battery metal as inventories tumble. A record-breaking cold blast in United States could deepen potential shortages, creating a spike in demand as drivers scramble to replace batteries damaged by the big freeze. Lead inventories in warehouses registered with the LME have slid by a third over the past month to the lowest levels since April 2009, while metal stored in Chinese non-exchange depots have tumbled by 70 percent. A clampdown on polluting smelters in China has resulted in a significant proportion of smelters idle or operating at reduced rates.

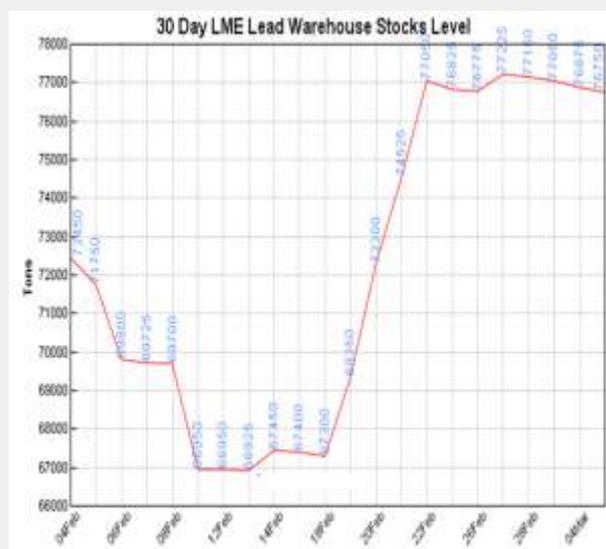
#### Demand for used electric vehicles increasing

Demand began increasing for Electric vehicles in the second half of 2018 and has continued into 2019. EV numbers are now getting to the point where the used

car sector is starting to see higher volumes passing through auction and the entire used industry must be prepared for that. This is our future, and the remarketing industry needs to keep pace in providing the service levels for EV that customers have come to expect from petrol and diesel used cars.

### ILZSG estimates of Lead

Provisional data reported to the ILZSG indicate that 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.



Source: Kitco metals

### SHFE Lead



Source: Reuters

### TECHNICAL OUTLOOK



Lead future at the MCX platform has settled higher at 152.10, from the previous week’s closing price of 145.90. At present prices are trading below the weekly 50EMA levels 148. The Momentum Oscillator Stochastic (14,3,3) is now witnessing negative divergence and also providing bearish crossover for short term basis. The lower side of 200EMA levels providing supports around 141.



On LME the counter has formed lower high lower low formation on weekly charts. Presently the counter is trading inches above 200 DMA after facing strong resistance at 50 DMA. Break below 2077.39; 200 DMA key support can take the bearish rally towards 1900. On the contrary, another scenario indicates that if price bounced from the key 200-DMA then a pullback rally towards the 2138.90 in the shorter horizon and 2400 for a longer horizon. Buy on dips suggested for the counter.

## Zinc

### Overview and outlook

Zinc prices ended the month on slightly positive path as decline in LME stockpiles coupled with demand from stainless steel sector kept the prices supported. Overall zinc traded in range of 183.40-203.35. Zinc prices took a breather as Floods in Queensland are set to disrupt the rail delivery of zinc exports to the northern port of Townsville, with the line likely to be out of action for at least a month. LME zinc stocks are at their lowest since January 2008, but cash zinc was trading at a discount of \$US6.25 a tonne to the three-month price, down from a premium of \$US125 in early December, in a sign of weaker immediate demand. The premium for cash zinc over the three-month LME contract rose to \$26.50 as stocks in LME warehouses fell to their lowest since 2017 at 83,250 tonnes.

### Key News

#### Low stocks in LME supportive for zinc

Stocks of zinc registered with the LME currently total 111,775 tonnes, the lowest level since 2008. Excluding metal earmarked for physical load-out, LME inventory is only 58,575 tonnes, as low as it has been since 2007, when zinc traded at record highs above \$4,000 a tonne. LME zinc inventory has flattered to deceive many times over the past few years, but it is noticeable that inflow has almost totally dried up this year. The only arrival in the system was a single lot of 25 tonnes at Antwerp on Jan. 25.

#### Zinc market deficit narrows to 61,800 Tonnes in December -ILZSG

The global zinc market deficit narrowed to 61,800 tonnes last December from a revised deficit of 80,900 tonnes in November, data from the International Lead and Zinc Study Group (ILZSG) showed recently. In the full year 2018 the zinc market had a 384,000

tonne deficit, compared with a deficit of 442,000 tonnes in 2017.

#### Australia flooding to disrupt lead, zinc concentrate rail shipments

Floods in Australia's Queensland state are set to disrupt the rail delivery of zinc exports to the northern port of Townsville, with the line likely to be out of action for at least a month.

#### China's top steelmaking province of Hebei issues orange smog alert

China's Hebei province, home to the country's biggest steelmaking cities, issued an orange pollution as a wave of smog was expected to blanket the region. Orange alerts, the second-highest after red in China's four-tier pollution warning system, require industrial companies to cut output by at least 30 percent.

### Zinc and Lead Spread



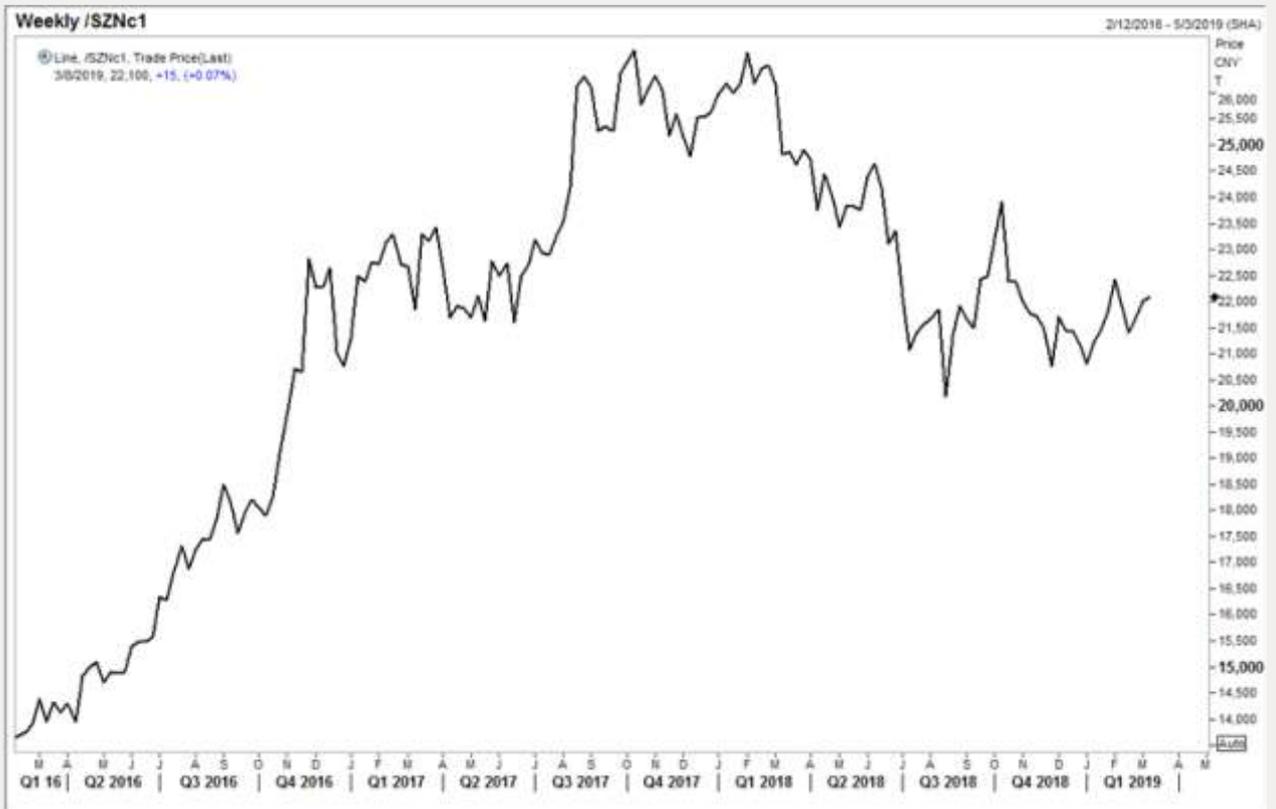
Source: Reuters

**Analysis:** Zinc and Lead spread moved from 45 to 50 as zinc outperformed lead. This spread can move in range of 45-52 in the month of March 2019.



Source Kitco metals

### SHFE Zinc



Source: Reuters

### TECHNICAL OUTLOOK



MCX Zinc future has settled higher at 199.60 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 near the weekly 50EMA levels 190.60 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.



On LME the counter is trading in upward sloping channel pattern where it could take correction within the channel pattern. Based on the current chart pattern, the zinc prices are trading well above the key level of 50-DMA and approach towards the upper slope line of the channel. Higher volatility is expected in the counter as defined by technical indicators. The counter may take support near 2600 and could face resistance at 2900. Buying is suggested in the counter on correction.

## Aluminum

### Overview and outlook

Aluminum ended on positive note as it moved in range of 130.20-138.85 in the month of February. Global primary aluminium output fell to 5.304 million tonnes in January from revised 5.498 million tonnes in December, data from the International Aluminium Institute showed. The Malaysian government stated it would not extend its moratorium on bauxite mining which ends on March 31 due to strong demand for the ore.

Aluminium prices fell lower to a near three-week low recently, due to rising inventories and Chinese demand concerns. Shipments surged to a record high of 552,000 tonnes in January. Russia's Rusal, the world's largest aluminium producer outside China, said global aluminium demand is expected to rise by 3.7 percent in 2019 to 68 million tonnes as it posted a fourth-quarter adjusted net loss of \$17 million.

Glencore has lodged a complaint with the London Metal Exchange (LME) about the company's inability to take speedy delivery of aluminium from warehouses owned by ISTIM UK in Port Klang, Malaysia. China's imports of primary aluminium from Russia rose tenfold year on year in January, data released by the General Administration of Customs showed.

Malaysia stated that it would not extend a moratorium imposed on bauxite mining on environmental grounds that expires on March 31. Before the moratorium, Malaysia accounted for more than 40 percent of China's imports.

### Key News

#### Glencore Buys 200 Thousand Tons of Aluminium from ISTIM's Port Klang Warehouse

Anglo-Swiss mining firm Glencore plc has purchased 200 thousand metric tons of aluminium on the London Metal Exchange for delivery at Malaysian warehouses owned by ISTIM UK. Though Glencore ultimately needs the aluminium supply for delivery to an end user, the sources say the move is also meant as a shot across the bow of ISTIM, which is forbidding firms from taking LME metal from its warehouses in Port Klang.

### Global aluminum production contracted in China

Global aluminium production contracted in China and the rest of the world in January. The world's smelters turned out 5.30 million tonnes of aluminium in January month, down 1.1 percent on January 2018 and the lowest count since November 2017.

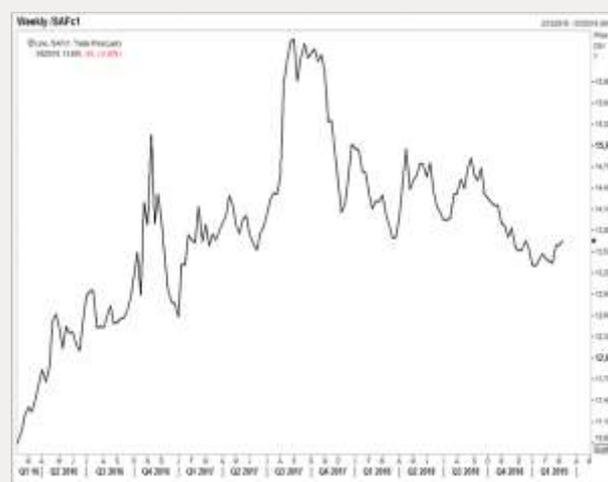
### China's Jan imports of Russian aluminium surge tenfold y/y – customs

China's imports of primary aluminium from Russia rose tenfold year on year in January, data released by the General Administration of Customs showed recently. China imported 11,185 tonnes of aluminium from Russia last month, the data showed, versus just 1,109 tonnes in the same month a year earlier



Source: Kitco metals

### SHFE Aluminum



Source: Reuters

### TECHNICAL OUTLOOK



Aluminium Future at the MCX platform has settled higher at 149.40, from the previous closing price of 134.40. After rising sharply at the start of this month now the prices have steady and trading above the 50 day EMA. On the downside, the channel support is identified in the range of 134-135. 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 135. Thus, any change to the medium term trend has to break below 135 for confirmation in the coming months otherwise the price will move higher again.



On LME prices of Aluminium are stuck in a wide range of 1810-1900, where 200DMA 184.63; provides strong support to counter. Based on current price action it may continue to trade in a sideways range of 1810-1900, break on either side will provide clarity in the counter if it breaks on the higher range then it may take rally towards 1957.50-2070 and if the counter break below 1810 then it could approach to 1771.80.

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