

# BASE METALS

Some Green Shoots Driving Up The Prices

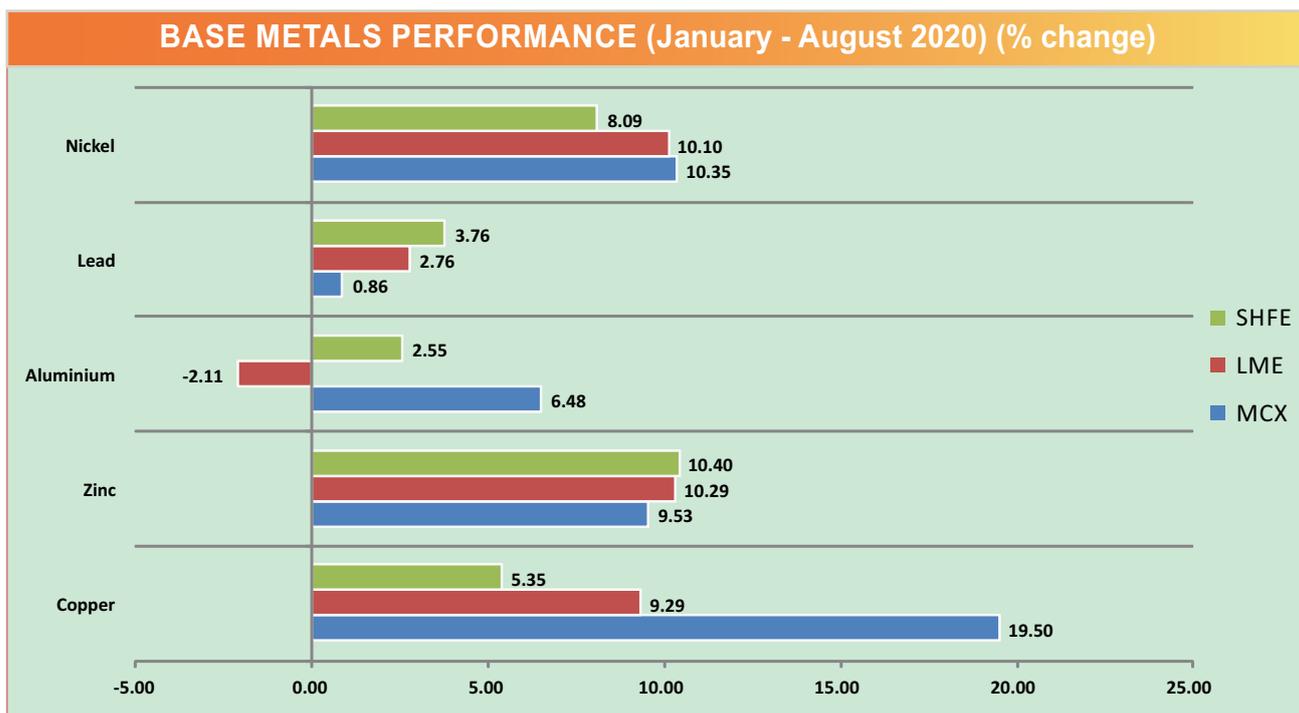
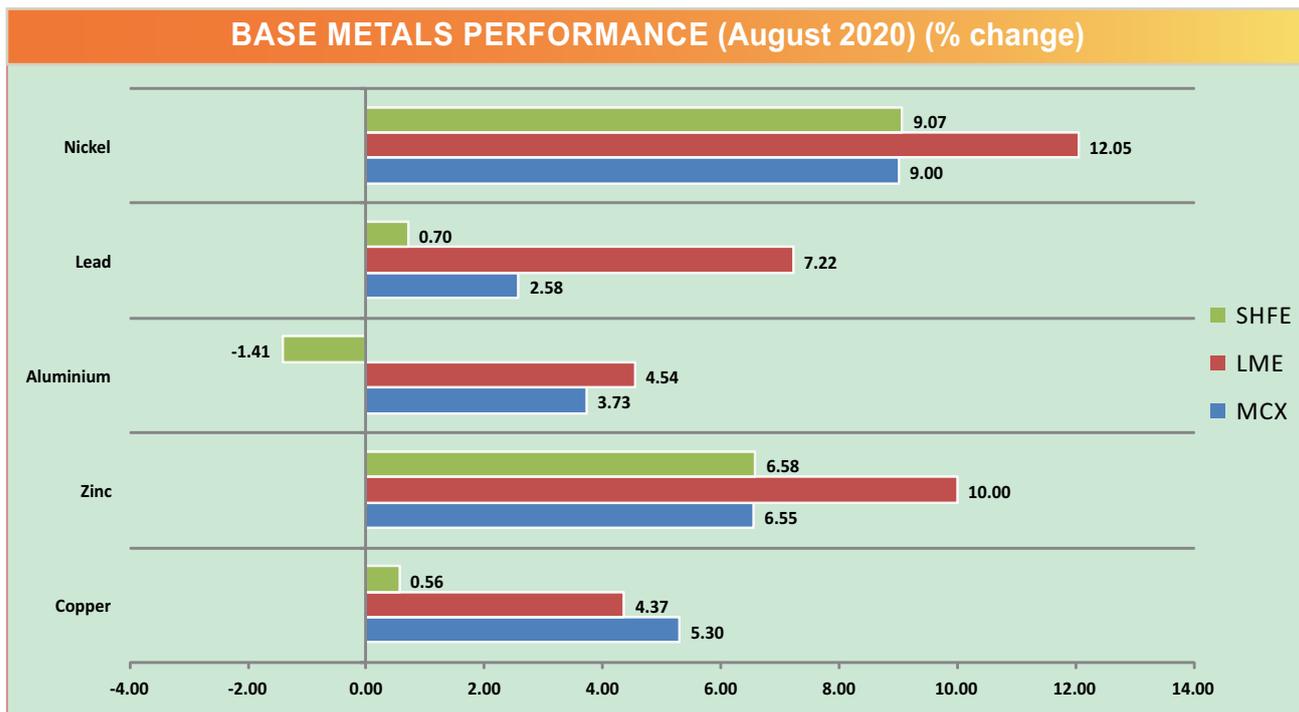
Special Monthly  
Report on

SEPTEMBER 2020



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COPPER • NICKEL • LEAD • ZINC • ALIUMINUM

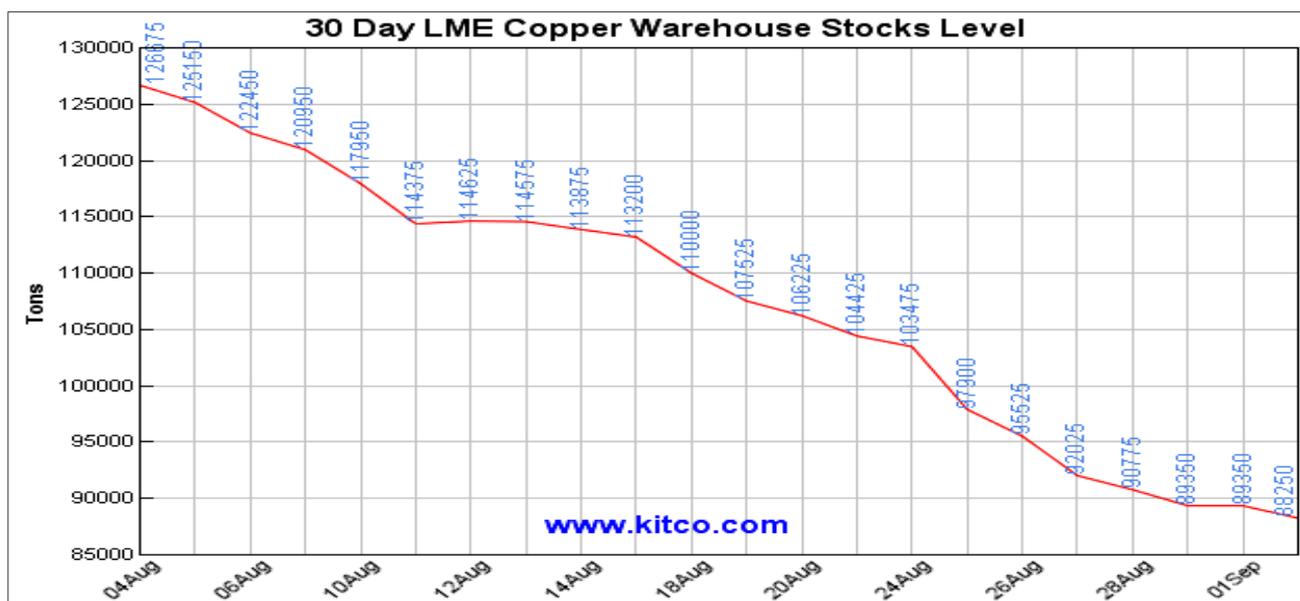


The base metals surprised the entire world with its well-built upside move amid the mayhem of Covid-19. It is highly correlated to the economic performance and moves on the rhythm of same. Before March, these non-ferrous metals descended on failed tie up between US and China, slowdown in demand and due to pandemic Covid.

But later on, with massive stimulus never seen in the past, lower dollar index, tightness on supply side due to halt in mining supply for lockdown worldwide and some early green shoots are some major reasons behind the past 3-4 months of rally in base metals. The positive talk between US and China trade talk and buoyancy in equity market also painted the economic picture green. The most important factor was that China was quite active on manufacturing side to support their industry and to take the opportunity of less input cost of base metals as lower crude prices cut the input cost significantly. A simultaneous fall in SHFE inventory and a rise in refined metal imports supported the rapid recovery story in China. In between, we have seen improvement in PMI data across the globe which pushed up the prices owing to its positive correlation with industrial metals prices. Apart from PMI, housing data, retail sales, etc improved which pushed up prices further in upside. China's auto sales have posted four straight months of year-over-year gains. The streak followed weak sales in March, when they fell 43.3% year over year.

**Copper: It has given almost 20% return in 2020 so far and more than 5% in the month of August.**

Copper is the leading metal of the counter and known as Phd in Economics; and it behaved in same manner in 2020 so far. It gave the highest return among all major base metals. Some reason behind its extraordinary journey is manufacturing activities in China, stimulus, lower dollar index, tighter mining supply, lower stocks in LME warehouse etc. Strong construction and infrastructure activities, buoyed by the Chinese government's stimulus programs as well as a recovery in domestic consumption have fueled copper demand in the world's second biggest economy. Copper miners are struggling globally with the ongoing disruption of the coronavirus pandemic, while in Chile they are also facing a combination of declining ore grades and costly overhauls of ageing mines. In 2020, mine output is expected to decrease by 4.0% to 19.65 million tonnes. Global copper demand is forecast to drop 5.4% to 22.625 million tonnes in 2020.



Source: Kitco metals

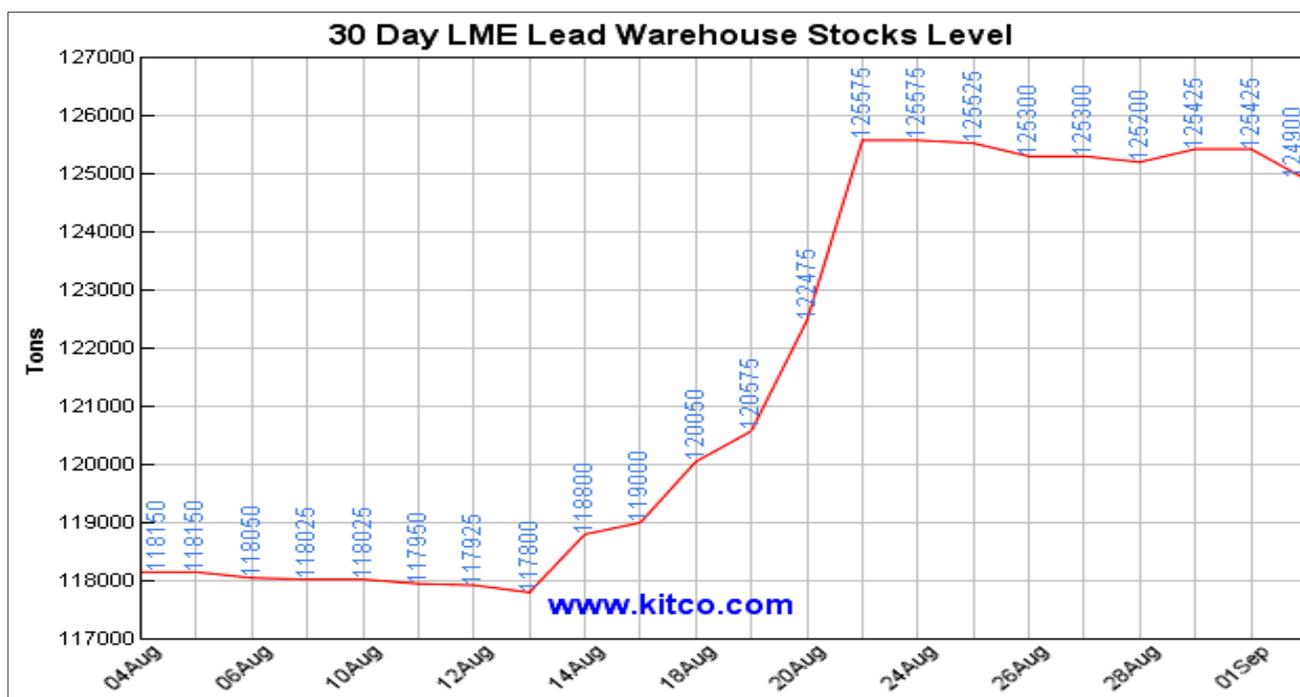
**Technical - Weekly Chart of Copper (MCX)**



Source: SMC & Reuters

Copper futures at the MCX platform has settled little higher at 521.50 on the previous week. Since last couple of weeks prices are trading higher from 495.50 levels to 531 and now the prices are in some relaxation mode. Copper prices traded above the trend line of 509 and also are trading above the 50 EMA daily support levels of 505. The immediate resistance 524 may act as a trend interrupting point. Overall the commodity is expected to move higher from its recent support level of 505. If it break and sustain above the immediate resistance line of 524 can see further upside move towards 545/560 levels in coming weeks. In other side if prices will success to breach the support level of 505 then can see the further downside movement towards 495/490.

**Lead: This year so far, it gained by more than 4.5%, & close to 2% in the month of August.** There have been concerns on the supply-side which acted a factor to provide support to this base metal (often co-mined with zinc). This upsurge was despite a massive surge in LME inventory arriving in last July, nearly doubling stock levels to 119,000 metric tons. Lead mine production declines in China, India and Kazakhstan contributed to a 3.4% decline drop in global lead mine output. Whether China can soak up that kind of surplus remains to be seen. While much uncertainty remains about the ongoing impact on supply, the case for scarcity and, therefore, support for prices seems stronger for copper than for zinc and lead, despite all of them benefitting from supply-side worries.



Source: Kitco metals

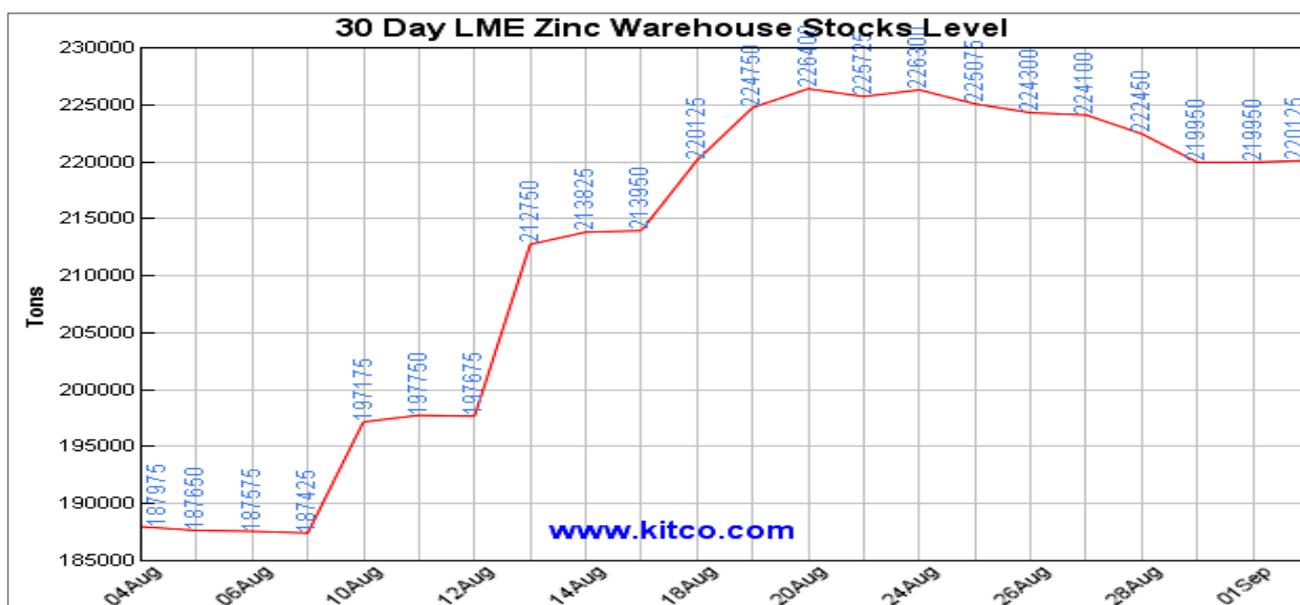
### Technical - Weekly Chart of Lead (MCX)



Source: SMC & Reuters

Lead future at the MCX platform has settled lower at 154.20 on the previous week. Last month prices has been broken the resistance level of 147 and made a high of 159 after a long time consolidation. At present prices are trading below the daily 14 EMA levels of 153. 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 157. Now the crucial resistance is seen at 157, sustainable trade above this level will see the good upside move towards 162/165 in this month and if the prices has sustain below 150 levels then will see again the downside move towards 147/145 respectively.

**Zinc: It has given almost 9.5% return in 2020 so far and more than 6.5% in the month of August.** Zinc ticks the construction and infrastructure boxes in the form of galvanized steel. China's refined zinc imports have started picking up over the last two months. June imports totaled 64,700 metric tons, the highest monthly total since August 2019. Imports of zinc concentrates, by contrast, fell 40% month over month to 213,000 tons. Dropping concentrate imports supports the narrative of lower availability from countries such as Peru, where production has been hit hard by quarantine measures. Rising LME inventory suggests demand outside of China remains subdued. Overall, according to the ILZSG, the global zinc market was in surplus by 239,000 tons in Q1, while inventories increased by 156,000 tons. At present it is gaining momentum on aggressive manufacturing of stainless steel and refined zinc in China.

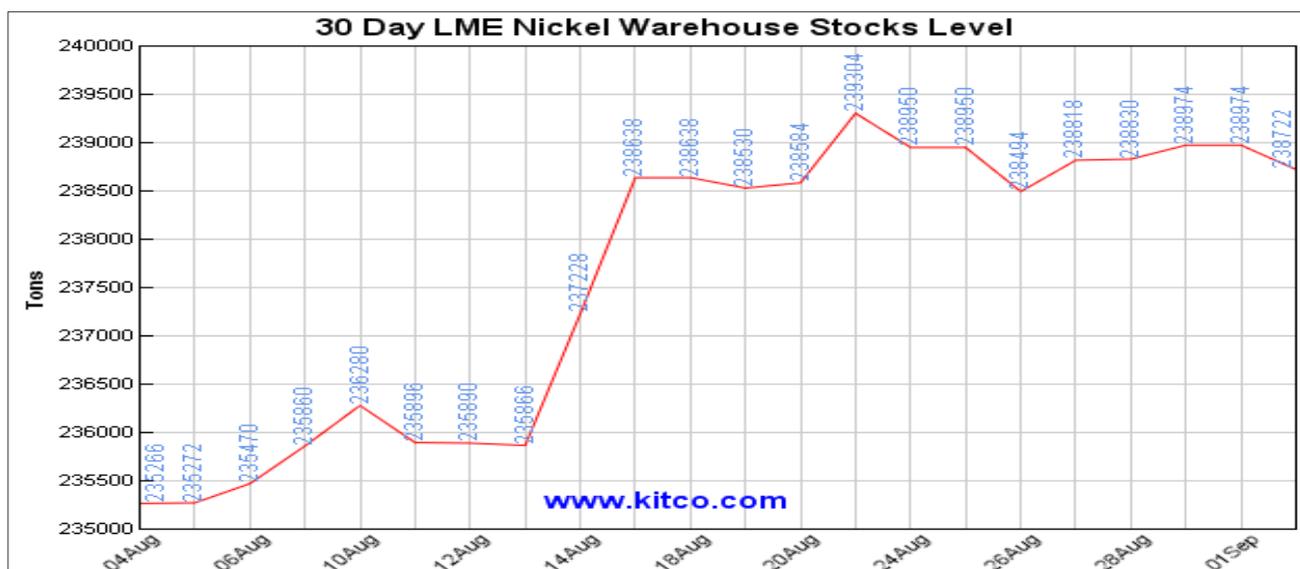


Source: Kitco metals



Zinc future at the MCX platform has settled higher at 194.80 on the previous week. From last couple of weeks, prices are trading higher from 181.25 to 199.90. At present prices are trading above the daily 200EMA levels 185 and as well as above the weekly rising trend line resistance levels of 190. The short to medium term trend is bullish only 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 190 is not interrupted.

**Nickel: It has given almost 10.35% return in 2020 so far and more than 9% in the month of August.** The upsurge in this base metal surprised the whole world owing to a potential tightness in supply as Indonesian ore exports remain banned by the government and may not be fully replaced by other nickel suppliers. Nickel content of ores extracted by miners in the Philippines, the world's biggest exporter of the material, dropped 28% year-on-year to 102,310 tonnes in the first half of 2020. During the first half of 2020, mining and refining facilities for nickel were disrupted at a global scale, from the Philippines to Canada, as a result of coronavirus containment measures. Stainless steel will continue to dominate the demand side of the nickel market throughout the decade. One big project by Elon Musk of Tesla is on the way and it urged that it will give a giant contract for a long period of time if miners mine nickel efficiently and in an environmentally sensitive way, it may prove as game changer if it happens. The performance of the Indonesian high-pressure acid leach projects as they should get close to commencing production may have significant impact on the prices.



Source: Kitco metals



Source: SMC & Reuters

Nickel future at the MCX platform has settled higher at 1131.10 on the previous week. At present prices are trading above the weekly 50 EMA levels of 1125 and also above 200 EMA levels of 1100. The Momentum weekly Oscillator MACD is trading above the resistance line of 1125, witnessing bullish crossover. Buying can be seen again in the counter if it continue to trade above 1125 levels, which take the counter towards 1185/1200 in near-term. If it break below 1125 levels and sustain can see further down side move towards 1100/1085 levels. Overall the commodity is expected to move higher from its support level.

**Aluminum: It has given almost 6.5% return in 2020 so far and more than 3.5% in in the month of August.** Aluminum caught up the rally late on a stronger market recovery in China. Destocking in 2Q20 was mostly driven by a pick-up in overall construction activity in the country, aided by supply reduction as smelters suspended their production. Upside in crude prices also supported aluminum prices on higher side. The aluminium tides turned for the People’s Republic of China in July, as the nation became a net importer of aluminium for the first time in almost 11 years. China’s July aluminium imports leapt nearly sevenfold year-on-year to their second-highest level on record. The reversal in the flow of aluminum is the result of a price arbitrage that made importing the raw metal more affordable than buying from domestic producers. China imported 816,592 metric tons of aluminum, up 219.2% year on year for the first half of the 2020. In June alone, China imported 490% more than a year ago, reaching an 11-year high. With tens of thousands of homes and businesses destroyed after Beirut explosion the need for building materials -especially glass and aluminium - has gone through the roof. The coronavirus crisis is causing an aluminum can shortage as lockdowns accelerate demand for packaged food and drinks.



Source: Kitco metals

### Technical - Weekly Chart of Aluminum (MCX)



Source: SMC & Reuters

Aluminium Future at the MCX platform has settled higher at 145.90 on last week, from the previous closing price of 145.05. From last couple of weeks prices have been traded higher and now the prices have trading above the 14 days moving averages of 145.58. The medium term channel resistance of 142 is already breached on previous month and also sustained above the 14 days moving averages of 145.58. Now the next immediate resistance is seen at 147.50, sustainable trade above 148 can expect to move towards 152/155. Overall the commodity is expected to move higher from its support level. Thus we recommend buying on dips in this month.

**Conclusion:** A series of upbeat economic data released this month from top consumer China supported prices, with rising auto sales and factory activity suggesting that the economy was recovering from coronavirus-driven lows. Improvement in PMI, retail sales, housing sales etc amid massive stimulus may continue to give support to the base metals to trade in upper zone. Nevertheless nickel, copper and zinc have rallied too high and it would be prudent to buy at dip for better risk reward ratio whereas lead and aluminum may continue their upward journey.

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