



Monday, September 25, 2023

- Copper slides 4% as LME inventories double
- DXY rallies to multi month highs adding pressure on metals
- Chinese market headed for holiday from 29th Sept to 6th Oct

Perspective

Copper prices were under pressure for much of the week due to a strong dollar, high inventories and reduced risk appetite after the US Federal Reserve signalled monetary policy would remain restrictive for longer. The US dollar currency index was on track for its 10th consecutive weekly increase in the wake of the Fed decision, making dollar-priced metals less attractive to holders of other currencies. With rates this high now, investors face a dilemma – do they continue to hold no-yielding metal exposure, or switch to some other asset that offers rising returns.

Adding to the pressure on prices for copper, which is used in the power and construction sectors, inventories in LME-registered warehouses remained at their highest level since May 2022, and data by the ICSG showed that the copper market was in surplus in the January-July period. Copper inventories in warehouses monitored by the Shanghai Futures Exchange fell 16.9% last week.

The discount for near-term delivery versus the LME three-month copper contract was at a four-month high, indicating plentiful immediate supply. It closed at \$64 per ton, compared to \$4.5 on Sept. 5.

Commodity	Copper	Aluminum	Zinc
Open	719.65	203.4	223.35
Close	714	204.05	224.25
Change	-20.15	2.35	0.90
% Change	-2.74%	1.17%	0.40%
Open Int.	1563	700	1092
Change	2323	2624	3057
Pivot	715.7	203.6	224.0
Resistance	718.3	204.9	225.2
Support	711.3	202.8	223.0

LME Inventory Weekly Market Data				
Commodity	Copper	Nickel	Aluminum	Zinc
Open	147575	39960	492575	118650
Close	162900	41292	482300	105400
Change	15325	1332	-10275	-13250
% Change	10.38%	3.33%	-2.09%	-11.17%

Amidst fall in some metals, aluminium ended with gains, as supply pressures took centre stage amid signs of rising demand. China decided to halt capacity expansion beyond its current limit of 45 million tons to prevent oversupply and curb energy consumption from outdated, inefficient infrastructure. Additionally, Indonesia's ban on bauxite exports, posed further supply constraints.

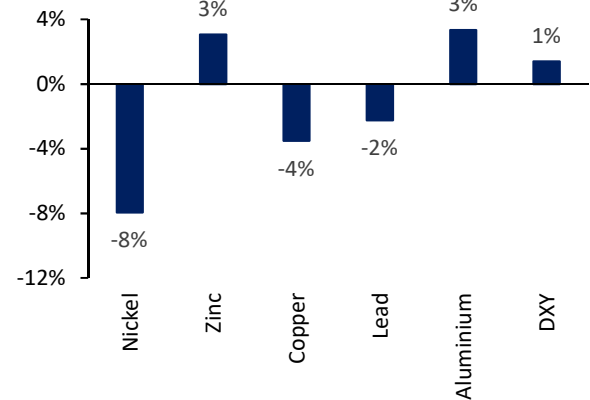
On the demand side, the outlook appeared positive as increased use of aluminium in solar panels and electric vehicles in China offset reduced usage in construction, indicating a rebound in purchasing activity. In August, global primary aluminium production increased by 2.4% compared to the previous year, as per the IAI. China's aluminium imports also surged by 38.9% in August, driven by low domestic stocks and promising demand prospects.

Zinc was under pressure as refined zinc output recovered post-smelter maintenance. On the supply side, refineries have started purchasing raw materials for winter storage, causing zinc concentrate treatment charges (TCs) to decrease significantly. This points to a consensus that there might be reduced smelter output in Q4.

Additionally, low zinc prices and high TCs have led to reports of production cuts at overseas zinc mines. During the Asian Games, production restrictions will be in place around Hangzhou, impacting zinc secondary consumers and terminal companies. Local zinc ingot procurement in Zhejiang has been lacklustre. Despite a slight increase in domestic zinc ingot social inventory, it remains relatively low, indicating resilient downstream demand. However, recent trading activity has been subdued. Notably, domestic zinc ingot social inventory is at its lowest level in the past five years.

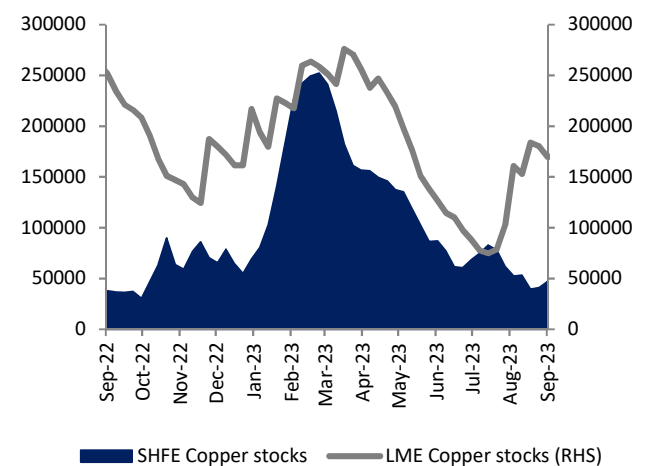
Overall it's a confused state in the metals market. There has been a decent run up in some metals and looks like some more could be on cards, but news coming from the US, volatility in the dollar Index and host of data points this week are likely to keep a lid on the price gains.

Change in LME Metals MTD



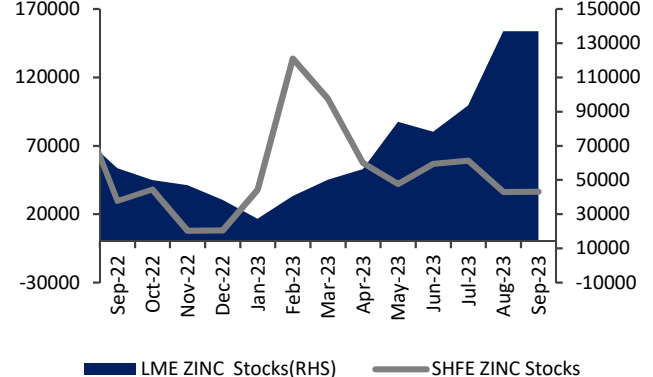
Source: - Reuters

Copper LME and SHFE Stocks



Source: Reuters

Zinc stocks in LME & SHFE



Source: Reuters

Technical Outlook: -

Copper

MCX Copper lost by nearly 20 rupees i.e. 2.74% in the previous week. Copper prices have breached below triangle pattern and trading close to the immediate support zone Rs. 710 - 705 levels, whereas immediate resistance is place at Rs. 728 - 730 levels for the counter. The 14-period RSI is trading below the midpoint of 50 mark which signals weakness in momentum and could drag prices further lower. Likewise, a sustain break above resistance zone Rs. 730 - 736 might be the reversal which will negate the view.



Aluminum

MCX aluminium prices gained by 1.79%. Aluminium prices broke out of downward slopping channel and sustaining above the channel, whereas immediate support for the counter is placed at Rs. 200 - 195 levels. The 14-period RSI is trading above the mid-point of 50 mark which signals strength in counter which is likely to push prices towards Rs. 210 - 215 levels. Likewise, a sustain break below support zone Rs. 200 will negate the view.



Navneet Damani	Research-Head	navneetdamani@motilaloswal.com
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For any details contact:

Commodities Advisory Desk - +91 22 3958 3600

commoditiesresearch@motilaloswal.com

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com



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