



Monday, October 23, 2023

- Base metals continue to be under pressure amidst geo political uncertainty
- DXY continue to hover around multi month highs
- Chinese data supportive, lending some support on the downside

Perspective

Copper prices were under pressure, weighed down by worries about high interest rates, sluggish global growth and lack of additional stimulus in China. Tension in the Middle East and rising stocks have also been weighing in the prices. Fears that the Israel-Hamas war could mushroom into a wider Middle East conflict rose on Sunday with US warning of a significant risk to U.S. interests in the region as ally Israel pounded Gaza and clashes on its border with Lebanon intensified.

Stocks on the LME have been increasing since mid-July and they ended last week at a two-year peak of 191,675 tons. Copper inventories surged by nearly 50% in a single week, causing worries about future supply inadequacies. However, China also saw a substantial 14.5% YoY increase in refined copper production in September, raising questions about oversupply.

This increase in stockpiles was the primary factor putting downward pressure on copper prices. Amidst these inventory concerns, China's economic indicators provided a mixed picture. China's GDP grew by 4.9% in the third quarter, outpacing expectations, indicating that recent policy measures had contributed to a tentative economic recovery. This, in turn, supported consumption and industrial activity in September. Copper stocks on the SHFE rose for a second consecutive week.

Commodity	Copper	Aluminum	Zinc
Open	699.2	202.6	218.25
Close	696	202.20	219.65
Change	-2.15	-0.85	-0.50
% Change	-0.31%	-0.42%	-0.23%
Open Int.	5765	2336	2161
Change	-2960	-1360	-1275
Pivot	696.4	202.1	219.0
Resistance	698.8	202.7	220.6
Support	693.6	201.6	218.0

LME Inventory Weekly Market Data				
Commodity	Copper	Nickel	Aluminum	Zinc
Open	181000	42870	486600	83450
Close	191925	43194	488450	78125
Change	10925	324	1850	-5325
% Change	6.04%	0.76%	0.38%	-6.38%

The global refined copper market showed a 33,000 metric tons deficit in August, compared with a 30,000 metric tons deficit in July, as per the ICSG. For the first 8 months of the year, the market was in a 99,000 metric tons surplus compared with a 313,000 metric tons deficit in the same period a year earlier. World refined copper output in August was 2.25 million metric tons, while consumption was 2.28 million metric tons.

Aluminium lost its mojo over the last few weeks and has been under pressure with the dip being attributed to concerns stemming from a hawkish Fed outlook and a slowdown in the Chinese economy, which have negatively impacted industrial sentiment. China, took measures to prevent oversupply and increased energy consumption from outdated infrastructure. They halted the expansion of production capacity, keeping it at the current limit of 45 million tons. Nonetheless, China's primary aluminium output for September saw a 5.3% increase from the previous year, supported by strong demand and low inventories.

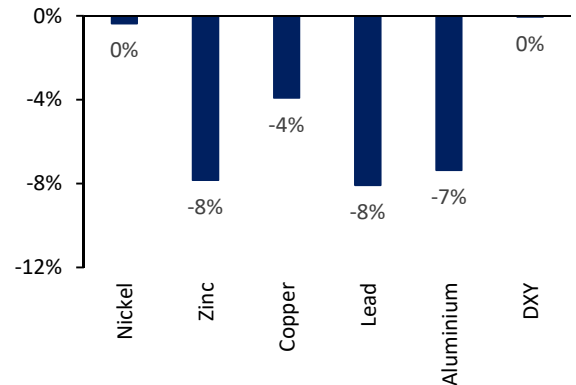
Zinc was under pressure as refined zinc output recovered post-smelter maintenance. On the supply side, refineries have started purchasing raw materials for winter storage, causing zinc concentrate treatment charges (TCs) to decrease significantly. This points to a consensus that there might be reduced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

Aluminium stocks on the ShFE dropped significantly to 79,194 tons, the lowest since March 2019 and down by 66% from the previous year. NBS reported that primary aluminium output for the first nine months of 2023 reached 30.81 million tons, a 3.3% increase from the same period in 2022. Looking ahead, it's anticipated that monthly output in the fourth quarter will remain in the range of 3.5 to 3.6 million tons.

Outlook:

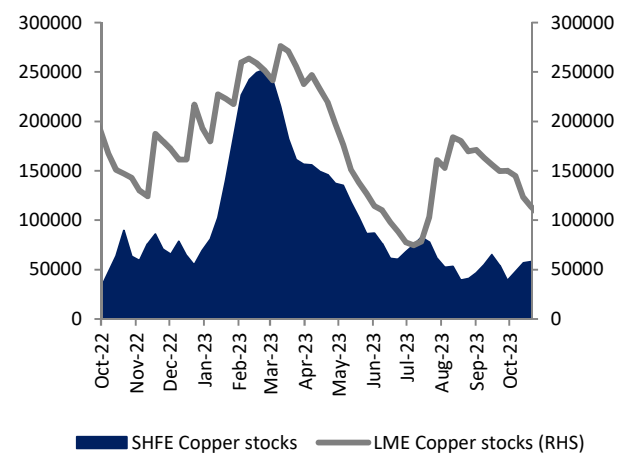
U.S. government bond yields are on a tear and up at 5% for the first time since 2007, hit wider financial markets including metals as investors feared interest rates would have to remain high to curb stubborn inflation. Market is divided over what will be the stance from the US towards interest rates, and is adding to the uncertainty, keeping traders on the side lines. Short term outlook for copper could be weak due to a lack of additional stimulus from China and uncertainty about a global recession.

Change in LME Metals MTD



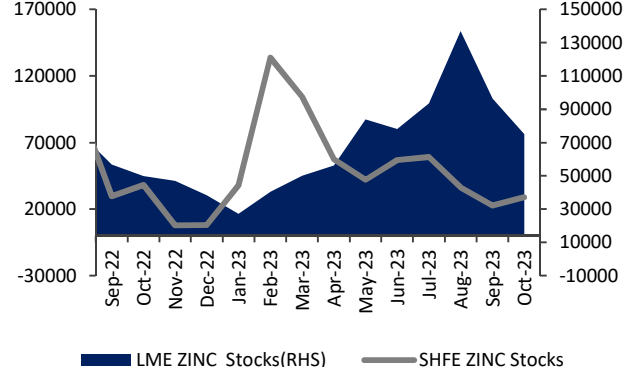
Source: - Reuters

Copper LME and SHFE Stocks



Source: Reuters

Zinc stocks in LME & SHFE



Source: Reuters

Technical Outlook: -

Copper

In last week, copper gave a positive close, with a gain of over 2.40 rupees or 0.35%. This marked the flat close for the week. The 14-period Relative Strength Index (RSI) currently stands at 40, positioned below the midpoint, signaling market weakness. Immediate support can be identified in the 690 to 684 range. Nevertheless, we anticipate a retracement on the upside, possibly reaching around Rs. 705 to 710. This level presents an attractive opportunity to consider selling, while it's prudent to set a stop loss at 712-720 levels to manage risk. It's worth noting that our perspective would shift if the price manages to maintain itself above the resistance level. The expected target range for a potential downward movement would be between 684 and 675.



Zinc

In last week, zinc witnessed a negative closure, with a decline of over 1.30 rupees or -0.60%. This marked the third consecutive week decline. Leading up to this prices had been following a pattern of head & shoulder as well as lower lows and lower highs, indicating a down trend. However, the most recent movement is a reversal from the higher price levels. Considering the structural and historical price movement, it's advisable to employ a "sell on rise" strategy, targeting entry points near the range of Rs. 220 to 222. To manage potential risks, setting a stop loss at Rs. 225 is recommended. The anticipated price target in this scenario is within the range of 215 to 210.



Aluminium

In Last week, aluminum prices saw a negative fall of over 0.30 paise, equivalent to a loss of 0.15%. There is an anticipation of further upward movement, although prices could encounter significant resistance around the Rs.205- 210 level. If there is a successful breakthrough and closure above this resistance level, it could potentially propel prices towards the range of 215 to 222. For now, the immediate support level stands at Rs. 197-194. Beyond that, a robust support zone can be identified at Rs. 190.





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