



Monday, June 24, 2024

Copper prices saw a significant decline in June, wiping out gains made in May and part of April. Prices dropped by 12.46% from their recent peak, as investors pulled back from a rapid rally driven by speculative buying, which had pushed prices to record highs in May. Despite this, demand failed to keep pace, leading to a reversal in prices.

Stocks of copper in Shanghai Futures Exchange (ShFE) warehouses reached a four-year high of 330,000 tonnes this month. The situation remains uncertain with Chinese smelters continuing to deliver cathode into bonded warehouses due to favorable export conditions, suggesting it may be premature to determine whether copper prices have hit bottom. Bearish signals such as a negative Yangshan premium and increasing LME inventories indicate that the copper market might need more time to stabilize.

China's Yuan weakened to a seven-month low against the dollar due to outflows from mainland financial markets and speculation of gradual depreciation by the central bank. A weaker Yuan typically weighs on industrial metals as it increases the cost of commodities priced in dollars for Chinese buyers.

Despite weak physical consumption, China's copper cathode imports rose by 17% year-on-year to 324,530 tons in May. Refined copper production in China also saw a slight increase of 0.6% year-on-year to 1.09 million metric tons during the same period. Globally, the refined copper market reported a surplus of 125,000 metric tons in March, down from 191,000 tons in February, with output at 2.33 million metric tons and consumption at 2.20 million metric tons.

| Commodity         | Copper | Aluminum | Zinc   |
|-------------------|--------|----------|--------|
| <b>Open</b>       | 858.65 | 232.3    | 261.65 |
| <b>Close</b>      | 847.2  | 232.70   | 263.00 |
| <b>Change</b>     | -9.60  | 0.20     | 7.65   |
| <b>% Change</b>   | -1.12% | 0.09%    | 3.00%  |
| <b>Open Int.</b>  | 1647   | 618      | 744    |
| <b>Change</b>     | -4558  | -2416    | -1507  |
| <b>Pivot</b>      | 851.1  | 232.3    | 262.3  |
| <b>Resistance</b> | 857.1  | 234.5    | 264.1  |
| <b>Support</b>    | 841.1  | 230.4    | 261.2  |

| LME Inventory Weekly Market Data |        |        |          |        |
|----------------------------------|--------|--------|----------|--------|
| Commodity                        | Copper | Nickel | Aluminum | Zinc   |
| <b>Open</b>                      | 136675 | 87744  | 1073950  | 250950 |
| <b>Close</b>                     | 167825 | 90906  | 1049825  | 240400 |
| <b>Change</b>                    | 31150  | 3162   | -24125   | -10550 |
| <b>% Change</b>                  | 22.79% | 3.60%  | -2.25%   | -4.20% |

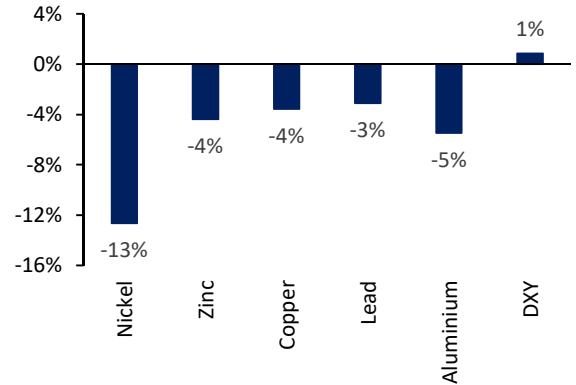
LME copper prices indicated subdued demand conditions, with three-month prices maintaining a historically high premium over spot prices. The wide contango suggests a well-supplied market rather than one driven by strong demand. Futures prices carry an average premium of nearly \$14 per metric ton over spot prices, significantly lower than the current \$138 per metric ton premium.

Zinc prices also corrected from recent highs, reflecting market skepticism and a wait-and-see approach among participants. In China, zinc concentrate imports dropped by 24% year-on-year in the first four months, indicating a tightening of raw materials. Spot treatment charges for imported zinc concentrates fell sharply to \$30-50 per ton, insufficient to cover processing costs for many Chinese smelters, who are increasingly turning to domestic sources.

Globally, zinc mine production has declined consecutively, with a 2% drop in 2022 followed by another 1% in 2023, and a 3% year-on-year decrease in the first quarter of 2024. This highlights supply constraints as European smelters restart previously idled capacity, reducing spot market concentrate availability. LME zinc stocks have significantly increased recently to 255,900 tons, reflecting ongoing market dynamics and warehouse arbitrage activities. Despite these fluctuations, the global zinc market surplus narrowed to 22,100 metric tons in April from 70,100 tons in March, indicating tightening market conditions year-on-year.

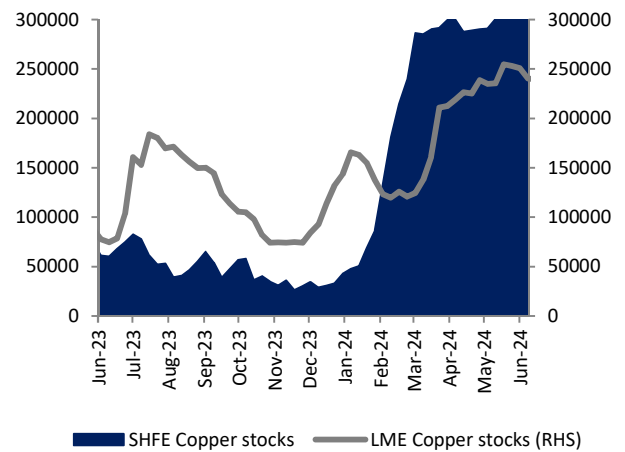
Aluminium supplies in the short term are constrained, as companies are using metal as collateral to release tied-up cash from their stocks. Concerns about shortages persist despite record high stocks, as seen in the narrowing contango—a discount for cash material over the three-month contract—which decreased to around \$30 per ton compared to levels around \$35 per ton on June 1st.

**Change in LME Metals MTD**



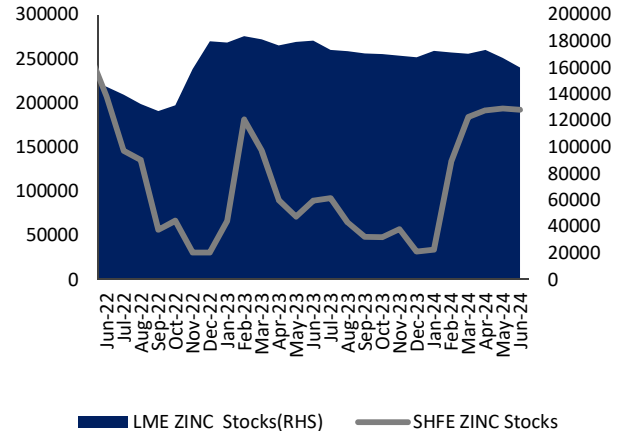
Source: - Reuters

**Copper LME and SHFE Stocks**



Source: Reuters

**Zinc stocks in LME & SHFE**



Source: Reuters

## Technical Outlook: -

### Copper

In the past week, copper prices closed flat with a decline of around 11.60 rupees or 1.30%. The market exhibited sideways and lower movement throughout the week. On the daily chart, prices are forming lower highs and lower lows, indicating a bearish trend. The Ichimoku cloud analysis indicates a bearish momentum as copper prices are trading below the conversion and base line. Additionally, the metals are trading below mid-point of RSI, which is sign of weakness in the counter, and may portend further sell off in the counter. Immediate support can be identified in the 843 to 838 range. Nevertheless, we anticipate a retracement on the upside, possibly reaching around Rs. 856 to 861. It's prudent to set a stop loss at 869-872 levels to manage risk. The expected target range for a potential downward movement would be between 835 and 825.



### Aluminum

In last week, Aluminium witnessed a flat to negative close, with a decline of over 1.50 rupees or 0.65%. On the daily chart, aluminium has been trading within a rectangular pattern since April 2024 and is currently hovering near the lows seen in May 2024, specifically around the critical level of 228. A decisive break below this support level could signal further weakness in the counter. On the average front the price is trading below its 21 EMA indicating a bearish outlook. A momentum indicator RSI (14) is reading below 50 levels, which suggests a bearish move may continue in near term. The immediate support is observed at Rs. 228 level. A decisive close below this level is likely to drag prices towards Rs. 224-222 levels with accelerated momentum. However, key immediate resistance is observed at Rs. 234 level with higher strong resistance placed at Rs. 238 level. Sell on rise is suggested in the counter as long as this level is not breached on an upside.





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