



Monday, July 22, 2024

Base metals, notably copper, experienced a significant decline last week, marking its largest weekly drop since 2022. This downturn followed a Chinese policy meeting that refrained from announcing additional stimulus measures aimed at boosting metals demand. Concerns over weakening demand in China, which posted its slowest growth in five quarters from April to June, contributed to the decline in copper prices from their peak in May. Investors were disappointed by the outcome of the recent Third Plenum, a pivotal gathering of Communist Party officials, as it did not address key structural economic issues, particularly in the troubled property sector.

Against this backdrop, global copper inventories have surged in recent months, particularly in warehouses across Asia, reflecting subdued demand dynamics. Despite efforts to enhance long-term supply by ramping up refined copper output in China, concerns persist due to closures like First Quantum's Panama Cobre mine and other supply constraints affecting smelters. Moreover, inventories in LME-registered warehouses have now reached their highest levels since September 2021.

Despite China's economy struggling to maintain growth momentum, the key political meeting did not provide details on further economic support, dampening demand prospects. China's refined copper output, crucial for investors betting on long-term supply tightness driven by the rising demand for energy transition technology, saw a 3.6% increase in June to 1.13 million metric tons. This increase did not alleviate concerns as the December closure of First Quantum's Panama Cobre mine and output reductions elsewhere have squeezed raw material supplies for smelters.

Commodity	Copper	Aluminum	Zinc
Open	828.45	221.65	266.3
Close	820.3	220.70	260.95
Change	-47.95	-8.35	-12.35
% Change	-5.52%	-3.65%	-4.52%
Open Int.	8372	2430	1432
Change	1443	-1046	-917
Pivot	822.9	221.5	263.8
Resistance	826.7	222.4	267.0
Support	816.5	219.7	257.7

LME Inventory Weekly Market Data				
Commodity	Copper	Nickel	Aluminum	Zinc
Open	210325	99132	970725	247475
Close	231425	102540	960075	240275
Change	21100	3408	-10650	-7200
% Change	10.03%	3.44%	-1.10%	-2.91%

In contrast, copper inventories in LME-registered warehouses surged to a 33-month high of 221,100 tons. Inventories in other key warehouses, including Comex, bonded warehouses in China, and those designated by the ShFE, also increased in July, further pointing to weak demand. The global refined copper market showed a surplus of 13,000 metric tons in April, compared to a 123,000 metric ton surplus in March. For the first four months of the year, the market was in a surplus of 299,000 metric tons, up from 175,000 metric tons a year earlier.

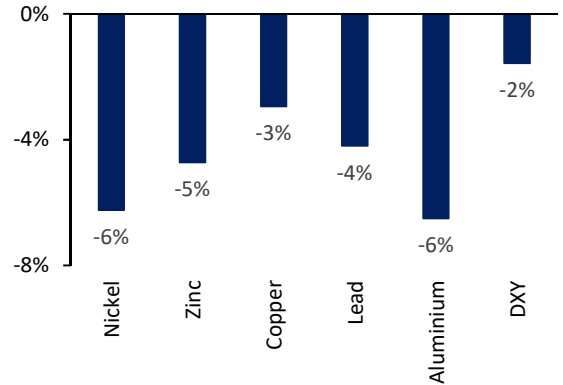
Chinese economy grew at the slowest pace in five quarters in the three months through June, and the sluggish growth is flowing through to global copper prices, which have dropped by around 14% since mid-May. However, some hope coming in as the PBoC cut a key short-term policy rate for the first time in almost a year, in a bid to revive activity.

Similarly, aluminium prices have faced downward pressure amid weak economic signals from China, including sluggish growth, modest lending activities, and rising inventories. Despite a notable rise in primary aluminium production in June, driven by favourable profitability and expansions in specific provinces, market confidence remains cautious due to broader economic uncertainties.

China's production of primary aluminium in June increased by 6.2% from the previous year, reaching 3.67 million metric tons, the highest single month of production on record since November 2014. This increase is attributed to higher profits, leading producers to ramp up production. New capacity was added in Inner Mongolia, and Yunnan province resumed most of its production due to sufficient hydropower supply during the summer rainy season. The surge in aluminium prices, driven by fund investments in the base metals sector, contributed to increased operations.

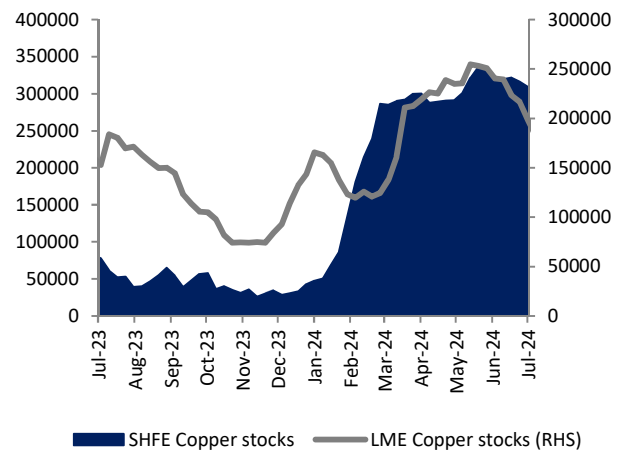
Looking ahead, ongoing concerns about China's economic deceleration and the absence of expected stimulus measures are likely to continue exerting downward pressure on metals prices in the near term.

Change in LME Metals MTD



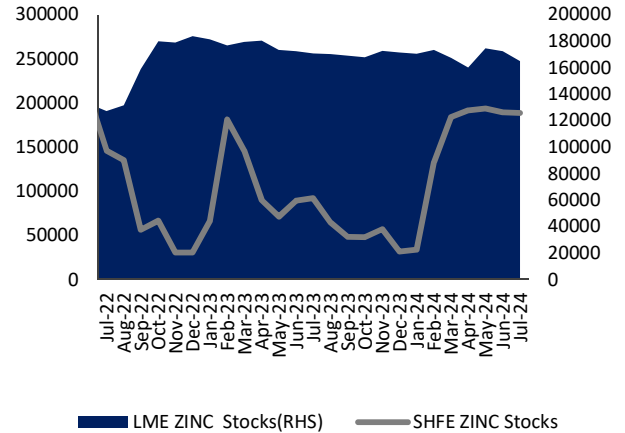
Source: - Reuters

Copper LME and SHFE Stocks



Source: Reuters

Zinc stocks in LME & SHFE



Source: Reuters

Technical Outlook: -

Copper

In the last week, copper gave a negative close, with a decline of around 47 rupees or -5.52%. The 14- period Relative Strength Index (RSI) is currently trading at 32, positioned below the midpoint mark of 50, signalling market weakness. Prices are expected to remain in the sideways to lower range. Immediate support can be identified at Rs. 810 mark whereas immediate resistance is observed at Rs. 824. Any break below Rs. 810 level is likely to test Rs. 794 on the lower side going forward.



Zinc

In the last week, zinc gave a negative close, with a decline of around 12.00 rupees or 4.52%. The 14- period Relative Strength Index (RSI) is currently trading at 41, positioned below the midpoint mark of 50, signalling market weakness. Immediate support can be identified at Rs. 255 mark whereas resistance is observed at Rs. 266. There is a possibility for it to trade in a broader consolidation range of 255 – 266 and any breach on either side is likely to decide the tone of market.



Aluminum

In the last week, aluminium prices saw a negative close of nearly 8.35 rupees, equivalent to a loss of 3.65%. The 14- period Relative Strength Index (RSI) currently trading at 46, positioned below the midpoint mark of 50, signalling market weakness. We maintain sell on rise till it holds below 225 level testing 214 on the lower side followed by 208 as an extended target.





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