



Weekly Digest

KCSPL Research

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- Base metals noted volatile movement last week to end on a mix note. LME Zinc was the worst performer with 1.3% slide followed by modest 0.1% and 0.2% slide in Lead and Nickel respectively. In other metal however Copper managed to end 0.8% higher whilst Aluminium ended 1.9% higher.
- LME was closed on Monday for Easter holiday and trading resumed on Tuesday after four day holiday
- Base metals fluctuated between gains and losses amid swaying risk appetite. Earlier in the week prices rose amid hopes of robust demand from China tracking upbeat reading of China's official Mfg. PMI and easing worries over escalating trade tensions between China and US
- The tensions however reemerged after US President Donald Trump late on Thursday ordered his administration to consider imposing tariffs on an additional \$100 billion in Chinese imports
- Aluminium prices jumped on Friday amid supply worries following sanctions by the US on aluminium giant Rusal
- US Dollar Index traded in a range of 89.822 – 90.597 to almost unchanged at 90.11 while US DJIA ended the week 0.7% lower
- China's Official Manufacturing PMI rose to 51.5 in March as against market expectation of 50.6 and Feb's reading of 50.3; Caixin Mfg. PMI eased to 51 from 51.6 in Feb; lowest reading since Nov. 2017

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Macro Economic Analysis

Base metals noted mixed movement last week to end on a mixed note. Earlier in the week prices rose tracking demand optimism from top consumer China and chopiness in US Dollar.

Base metals on LME which reopened on Tuesday after four day holiday rose following upbeat reading of China's official factory activity which in turn has fueled demand optimism.

In China data over the weekend showed that Official Manufacturing PMI rose to 51.5 in March as against market expectation of 50.6 and Feb's reading of 50.3. Also non-manufacturing PMI came in at 54.6 compared with 54.4 in February. However private gauge Caixin Mfg. PMI eased to 51 from 51.6 in Feb; lowest reading since Nov. 2017.

However swaying risk sentiment due to developments relating to trade policies between US and China led to fluctuation in base metals prices.

On Tuesday Trump administration proposed imposing 25% tariffs on about \$50 billion worth of Chinese-made products. Following this, China announcement that it will impose reciprocal tariffs on 106 US products totaling \$50 billion per year.

Sentiments improved in early Thursday after US and China signaled willingness to try to resolve an intensifying trade dispute. However the improvement was short lived as the tensions reemerged after US President Donald Trump on late Thursday ordered his administration to consider imposing tariffs on an additional \$100 billion in Chinese imports. Meanwhile Chinese state media on Friday slammed Donald Trump's threat of more trade action against China as "ridiculous".

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Macro economic data had little impact on prices as global risk sentiment continued to major price influencer.

In US, major data continued to disappoint. On weaker note, ISM Mfg. PMI eased to 59.3 from Feb's 60.8 while Non Mfg. PMI eased to 58.8 from Feb's 59.5. Also on labour front, initial jobless claims rose by 24,000 to 242,000 in week ended March 31 while all important Non Farm payrolls grew at a slower pace of 103,000 in March as against market expectation of 185,000 gains. And Feb's reading of 326,000.

However on positive note, Factory orders rose by 1.2% in Feb after 1.3% decline in January.

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| Currencies | 06-Apr-17 | 29-Mar-17 | % Change |
|---------------------|-----------|-----------|---------------|
| Dollar Index | 90.11 | 90.15 | -0.05% |
| Euro/USD | 1.228 | 1.229 | -0.08% |
| GBP/USD | 1.4092 | 1.4016 | 0.54% |
| USD/YEN | 106.93 | 106.42 | 0.48% |
| USD/INR | 64.9762 | 65.1775 | -0.31% |

US Dollar Index, a gauge of dollar's strength against six major currencies, noted choppy movement to modestly lower at 90.11. The currency continued to remain under pressure tracking weak data from US and worries over escalating trade tensions

Between US and China. In other currency, Euro too ended modestly lower against US Dollar while GBP closed 0.5% higher. Furthermore Yen depreciated 0.5% against US Dollar amid fluctuating safe haven demand while on domestic front, Indian Rupee gained 0.3% against US Dollar. Indian Rupee rose as RBI at its policy meet lowered its inflation outlook and kept growth forecasts unchanged at 6.6%.

| Global Indices | 06-Apr-17 | 29-Mar-17 | % Change |
|--------------------|-----------|-----------|---------------|
| DJIA | 23,932.76 | 24,103.11 | -0.71% |
| S&P 500 | 2,604.47 | 2,640.87 | -1.38% |
| FTSE 100 | 7183.64 | 7056.61 | 1.80% |
| Nikkei | 21567.52 | 21159.08 | 1.93% |
| Nifty 50 | 10331.6 | 10113.7 | 2.15% |
| Shanghai | 3131.11 | 3160.53 | -0.93% |

Global equity indices too fluctuated between gains and losses amid swaying risk appetite. However due to sharp slide on Friday, US equity markets ended on a lower note. In US, both Dow Jones and S&P ended 0.7% and 1.4% lower respectively. Further in

Asia, China Shanghai ended 0.9% lower in holiday truncated week while India's Nifty and Japan's Nikkei closed 2.15% and 1.9% higher respectively.

| Copper - 2nd - 6th April 2018 | | | | | | | | 2018 | |
|-------------------------------|-------------|---------|---------|---------|---------|--------|----------|---------|---------|
| Exchange | Contract | High | Low | Close | PCP | Change | % Change | High | Low |
| LME (USD/ Tonne) | 3-M Forward | 6,870.0 | 6,621.5 | 6,769.0 | 6,714.0 | 55.0 | 0.82% | 7,285.0 | 6,532.0 |
| MCX (Rs/Kg) | 30-Apr-18 | 443.50 | 428.60 | 438.25 | 433.45 | 4.80 | 1.11% | 467.85 | 432.25 |
| COMEX (Cents/Lb) | May-18 | 308.80 | 297.00 | 305.85 | 302.55 | 3.30 | 1.09% | 330.95 | 297.05 |

Analysis

LME three month Copper alternated between gains and loses to end 0.8% higher week on week.

On positive note prices sought support from hopes of robust demand from top consumer China tracking upbeat reading of official Mfg. PMI. Also supporting prices was choppiness in US Dollar and decline in stocks at LME warehouses along with rise in cancel warrants ratio.

Copper stocks at LME fell by 12325 tonnes last week while cancel warrants rose from 13.75% to 18% on Thursday. However despite the decline in stocks last week they hovered near 2013 highs hit in previous week meanwhile stocks at SHFE rose by modest 434 tonnes.

Furthermore, adding to bullish tone was increase in net long position by Speculators. According to latest report by CFTC, Hedge funds and Speculators increased their net longs by 9% to 20,912 contracts in week ended April 3 from 19187 contracts in prior week.

The gains were however capped amid bleak global sentiment tracking trade worries between US and China. Also capping the upside was mixed trend in global equity market and easing worries over supply disruption due to labour unrest in top producer Chile.

At Chile's Escondida mine, the Union and company delegates started early talks on a new collective contract; fueling hopes that the workers at world's largest mine may avoid strike.

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Outlook - LME Copper trades 0.9% higher in early trades today following last week's 0.8% gains. Lending support to the prices is recovery in global equity markets despite lingering trade worries.

Also supporting prices is choppiness in US Dollar and hopes of robust demand from top consumer China.

US Dollar trades in a narrow range following flat close last week. For this week focus will be on FOMC March meeting minutes along with comments by various Fed officials which may have an impact on US Dollar. US Fed at its 21 March meeting raised rate by 25 basis points in line with market expectation. The central bank further indicated two more rate hikes for 2018 disappointing hawks expecting four hike for the year. Further cues will come in from US economic data which too may impact US Dollar. Key data due this week includes PPI, CPI and preliminary reading of University of Michigan Consumer Sentiment.

Meanwhile in case of China, focus will be on CPI, PPI and trade balance data including Copper imports data.

The gains may however be capped amid fragile global sentiment tracking lingering trade worries between US and China.

Furthermore on fundamental front, prices may come under pressure tracking ample supplies as is evident from build up in stocks across exchange warehouses.

For the week we expect the metal to note volatile movement amid mixed cues however overall bias may be weak tracking bleak global sentiment. Meanwhile prices on MCX may trade in the range of Rs. 431 – 448 with ideal strategy to sell on rise.

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| Lead & Zinc - 2nd - 6th April 2018 | | | | | | | | | | 2018 | |
|------------------------------------|------------------|-------------|--------|--------|--------|--------|--------|----------|--------|--------|--|
| Commodity | Exchange | Contract | High | Low | Close | PCP | Change | % Change | High | Low | |
| Lead | LME (USD/ Tonne) | 3-M Forward | 2,421 | 2,349 | 2,393 | 2,395 | -2.0 | -0.08% | 2,685 | 2,312 | |
| | MCX (Rs/Kg) | 30-Apr-18 | 157.75 | 153.10 | 155.55 | 156.05 | -0.50 | -0.32% | 172.50 | 150.65 | |
| Zinc | LME (USD/ Tonne) | 3-M Forward | 3,294 | 3,194 | 3,232 | 3,274 | -42.0 | -1.28% | 3,595 | 3,165 | |
| | MCX (Rs/Kg) | 30-Apr-18 | 215.25 | 208.15 | 211.3 | 213.7 | -2.40 | -1.12% | 232.7 | 207.4 | |

Analysis

Both Lead and Zinc noted choppy movement last week with Lead prices ending marginally lower while Zinc closing 1.3% lower.

On weaker note both the metals came under pressure tracking global risk aversion amid escalating trade worries between US and China.

Further Lead prices also came under pressure tracking rise in stocks at SHFE along with signs of easing tightness in physical market. Lead stocks at SHFE rose by 2367 tonnes last week while those at SHFE fell by modest 50 tonnes.

Meanwhile in case of Zinc, prices came under pressure tracking decline in cancel warrants at LME warehouses and easing backwardation between LME cash to three month.

Zinc cancel warrants eased to 19.14% on Friday as compared to 32.5% in prior week. Meanwhile, the premium between LME Cash to three month narrowed to \$1.5 from \$17 on 28th March.

The downside was however capped amid decline in stocks across both LME and SHFE warehouses.

Zinc stocks at LME fell by 7475 tonnes while those at SHFE fell by 4171 tonnes.

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Lead Outlook – LME Lead trades in a narrow range today after an almost flat close last week. For the week we expect the metal to note mixed movement amid mixed cues however overall bias remains weak. The metal may come under pressure fragile global sentiment along with signs of easing tightness in physical market and rise in stocks at SHFE warehouses. The downside may be capped amid choppiness in US dollar. MCX Lead may trade in the range of Rs. 154 – 161.3 with ideal strategy to sell on rise.

Zinc Outlook – LME Zinc trades modestly lower today extending last week's decline. Putting pressure on the prices is weak risk appetite amid lingering trade worries along with decline in cancel warrants at LME and narrowing backwardation between LME Cash to three month signaling easing tightness in near term. The downside may however be capped amid choppiness in US Dollar and decline in stocks at LME and SHFE warehouses. For the week we expect the metal to witness volatile movement amid mixed cues however overall bias may be weak. MCX Zinc to trade in range of Rs. 207 – 216 with ideal strategy to sell on rise.

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| Aluminium - 2nd - 6th April 2018 | | | | | | | | 2018 | |
|----------------------------------|-------------|-------|-------|-------|--------|--------|----------|--------|-------|
| Exchange | Contract | High | Low | Close | PCP | Change | % Change | High | Low |
| LME (USD/ Tonne) | 3-M Forward | 2,063 | 1,977 | 2,042 | 2,004 | 38.0 | 1.90% | 2,290 | 1,977 |
| MCX (Rs/Kg) | 30-Apr-18 | 133.3 | 128.3 | 133 | 130.35 | 2.65 | 2.03% | 145.45 | 128.3 |

Analysis

LME Aluminium hit lows of \$1977 on Thursday but pared all its losses to end the week 1.9% higher. On weaker note prices came under pressure bleak risk appetite due to worries over trade war along with near record stocks at SHFE, worries over improvement in supply from China and widening contango between LME Cash to three month signaling ample supplies.

Aluminium stocks at SHFE fell by modest 154 tonnes last week from record high levels of 90387 tonnes. However stocks at LME fell by 25400 tonnes last week. Meanwhile the contango between LME Cash price to three month hovered above \$20.

Prices however pared its losses and trended higher on Friday after US surprised the markets by imposing sanctions on allies of President Vladimir Putin and their companies, including Rusal, one of the world's biggest aluminium producers.

Supply worries rose as Rusal accounts for 7% of the world's Aluminium supply and about 17% of supply outside of China.

Outlook - LME Aluminium trades sharply higher today extending last week's rally. Major factor lending support to prices is supply worries following US sanctions on Rusal. Prices may further seek support from falling stocks at LME and choppiness in US Dollar. The gains may be capped amid near record high stocks at SHFE along with expectation of rise in production from China. Considering the uncertainty surrounding the impact of sanctions on Rusal on global supply the near term bias remains positive. As a result we expect Aluminium to trade in a range of Rs. 132 -140 with ideal strategy to buy on dips.

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| Nickel - 2nd - 6th April 2018 | | | | | | | | 2018 | |
|-------------------------------|-------------|--------|--------|--------|--------|--------|----------|--------|--------|
| Exchange | Contract | High | Low | Close | PCP | Change | % Change | High | Low |
| LME (USD/ Tonne) | 3-M Forward | 13,660 | 12,909 | 13,270 | 13,300 | -30.0 | -0.23% | 14,420 | 12,190 |
| MCX (Rs/Kg) | 30-Apr-18 | 886.50 | 841.60 | 860.90 | 841.40 | 19.50 | 2.32% | 917.80 | 782.40 |

Analysis

LME Nickel too alternated between gains and losses last week to end marginally lower.

On weaker note prices came under pressure tracking weak risk appetite amid trade worries between US and China. Also putting pressure was mixed trend in global equity market.

The downside was however capped amid choppiness in in US Dollar and falling stocks at LME and SHFE warehouses.

Nickel stocks at LME fell by 3258 tonnes last week to lowest level since 2014 while those at SHFE fell by 1569 tonnes.

Outlook – LME Nickel trades little changed today following modest decline last week. The metal is stuck in a range amid mixed cues and we expect this range bound movement to persist even this week. On positive note prices may seek support from choppiness in US Dollar and falling stocks at exchange warehouses. However weak sentiment amid worries over trade tensions may cap the upside. On LME we expect Nickel to continue to trade in a range of \$12800 – \$13650 however within the range buying on dips is recommended. Similarly prices on MCX may trade in a range of Rs. 830 – 884 with ideal strategy to buy on dips.

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| MCX Nickel Apr 18 | | | | | LME Nickel | | | | |
|-------------------|-------|-------|-------|-------|------------|-------|-------|-------|-------|
| S2 | S1 | Pivot | R1 | R2 | S2 | S1 | Pivot | R1 | R2 |
| 818.1 | 839.5 | 863.0 | 884.4 | 907.9 | 12529 | 12899 | 13280 | 13650 | 14031 |

Strategy: Buy at 852-848, TP 884, SL 830



| The Week That Was | | Date | IST | Currency | Data | Forecast | Previous | Importance |
|---------------------|--|--------|-----------|----------|-------------------------------|-------------------------------|---------------------------|------------|
| - Highlights | | 09-Apr | 11:30 | EUR | German Trade Balance | 20.1B | 17.3B | Low |
| | | | 14:00 | EUR | Sentix Investor Confidence | 20.8 | 24 | Low |
| - Macro Analysis | | 10-Apr | 14:00 | USD | Fed Kaplan Speaks | | | Medium |
| | | | 18:00 | USD | PPI m/m | 0.10% | 0.20% | Medium |
| - Other Indicators | | 11-Apr | 7:00 | CNY | CPI y/y | 2.60% | 2.90% | Medium |
| | | | | CNY | PPI y/y | 3.20% | 3.70% | Medium |
| Copper | | | 14:00 | GBP | Manufacturing Production m/m | 0.20% | 0.10% | Low |
| | | | | GBP | Industrial Production m/m | 0.40% | 1.30% | Low |
| - Market Analysis | | | Tentative | GBP | NIESR GDP Estimate | 0.30% | 0.30% | Low |
| | | | | 18:00 | USD | CPI m/m | 0.00% | 0.20% |
| - Technical Outlook | | | 23:30 | USD | FOMC Meeting Minutes | | | High |
| | | | | 12-Apr | 14:30 | EUR | Industrial Production m/m | 0.10% |
| Lead & Zinc | | | 18:00 | USD | Unemployment Claims | 230K | 242K | Medium |
| | | | | 12-Apr | 18:00 | USD | FOMC Meeting Minutes | |
| Aluminium | | 13-Apr | Tentative | CNY | Trade Balance | 160B | 225B | High |
| | | | Tentative | CNY | USD-Denominated Trade Balance | 26.1B | 33.7B | High |
| Nickel | | | 2:30 | USD | Fed Kashkari Speaks | | | Medium |
| | | | | 11:30 | EUR | German Final CPI m/m | 0.40% | 0.40% |
| - Market Analysis | | | 14:30 | EUR | Trade Balance | 20.2B | 19.9B | Low |
| | | | | 17:30 | USD | Fed Rosengren Speaks | | |
| - Technical Outlook | | | 18:30 | USD | Fed Bullard Speaks | | | Medium |
| | | | | 19:30 | USD | Prelim UoM Consumer Sentiment | 100.6 | 101.4 |
| Economic Calendar | | | 22:30 | USD | JOLTS Job Openings | | 6.31M | Low |
| | | | | USD | Fed Kaplan Speaks | | | Medium |

Source : - Bloomberg and Forex Factory

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