



# Weekly Digest

KCSPL Research

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- Most Base metals ended on a lower note last week led by 3.5% drop in Nickel prices. In other metals Aluminium prices closed 2.6% lower while Zinc and Copper ended 1.5% and 0.7% lower respectively however Lead closed unchanged
- Prices came under pressure tracking escalating trade war worries especially between US – China along with gains in US Dollar and weakness across global equity market. Prices also came under pressure amid demand worries from top consumer China and worries of contagion of turmoil in emerging market
- The downside was however capped amid falling stocks of almost all the metals at both LME and SHFE warehouses
- US Dollar Index rebounded from the lows of 94.871 to hit highs of 95.737 and end 0.2% higher week on week while US DJIA ended modestly lower
- Markets were wary of possible US tariff on \$200 billion worth of Chinese imports after 6<sup>th</sup> Sept deadline for public comment period
- US President Trump further upped his ante on Friday by threatening he was ready to slap tariffs on another \$267 billion of goods on top of \$200 billion; virtually covering all of Chinese imports to US
- Concerns also rose over trade dispute between US-Japan amid reports that US President Donald Trump could be contemplating taking on Japan over trade
- China's Caixin Mfg. PMI, a private survey, showed that factory activity in August eased to 50.6 from 50.8 in July. It is the lowest reading since June 2017
- US Non Farm Payrolls rose by 201,000 in August as against market expectation of 190,000; unemployment rate was unchanged at 3.9%

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**Macro Economic Analysis**

Base metals continued to remain under pressure last week tracking bleak macro factors.

The major factor that weighed on the prices was bleak global sentiment due to growing worries over trade war between US-China along with trade tensions between US-Canada and US-Japan.

On US-China trade front, markets were wary of escalating tensions after US President Trump said he was ready to impose tariffs on \$200 billion more on Chinese imports as soon as a public comment period on the plan ended 6<sup>th</sup> September. In response, China's commerce ministry on Thursday warned that the nation will be forced to retaliate if US implements any new tariff measures.

Ratcheting up the trade tensions further, US President Trump on Friday threatened he was ready to slap tariffs on another \$267 billion of goods on top of \$200 billion in imports; which would virtually mean all of Chinese imports to US.

Furthermore markets were also worried of possible dispute between US-Japan amid reports that US President Donald Trump could be contemplating taking on Japan over trade along with no progress with Canada over NAFTA deal

Prices further came under pressure amid growth worries in China along with gains in US Dollar and weakness in equity market.

In top consumer China, spate of mixed to weak data fuel worries over slowdown which in conjunction with ongoing trade war with US dented demand outlook for metals.

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After a surprise jump in official mfg. PMI for the month of August; data from the nation last week showed that Caixin Mfg. PMI, a private survey, showed that factory activity in August eased to 50.6 from 50.8 in July; the lowest reading since June 2017. Also Caixin Services PMI eased to 51.5 from July's 52.8.

Meanwhile US Dollar noted gains tracking upbeat labour data from US along with general optimism over US economic health and expectation of two more rate hike this year by US Fed. Also supporting the currency is safe haven demand amid escalating trade war worries.

On data front from US, ISM Mfg. PMI jumped to 61.3 in August from 58.1 in prior month while ISM Non-Mfg PMI rose to 58.5 from July's 55.7. Further on labour front, Non Farm payrolls rose by 201,000 as against market expectation of 190,000. The unemployment rate was unchanged at 3.9%, while average hourly wages surged 0.4% month on month as against market expectation of 0.2% gains.

However on a weaker note, factory orders fell by 0.8% in July following 0.6% gains in June.

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Currencies	07-Sep-18	31-Aug-18	% Change
<b>Dollar Index</b>	95.37	95.14	<b>0.24%</b>
<b>Euro/USD</b>	1.155	1.160	<b>-0.42%</b>
<b>GBP/USD</b>	1.2920	1.2960	<b>-0.31%</b>
<b>USD/YEN</b>	110.99	111.03	<b>-0.04%</b>
<b>USD/INR</b>	71.7363	70.9962	<b>1.04%</b>

US Dollar Index, a gauge of dollar's strength against six major currencies, rebounded from lows of 94.871 to end 0.24% higher week on week. The currency sought support from upbeat data, general optimism over US economy and increase expectation of two

more rate hike this year. Also supporting the currency was increased safe haven demand. In other currency both Euro and GBP ended 0.3% and 0.4% lower against US Dollar. GBP had risen earlier in the week amid easing fears of Britain leaving the European Union with no comprehensive agreement. Further on domestic front, Indian Rupee hit record low of 72.105 against US Dollar to end 1.04% lower. Apart from trade war worries and rising crude oil prices, the currency came under pressure amid risk of contagion following sharp depreciation in Turkey's Lira, Argentina's Peso, South African Rand and Indonesia's Rupiah.

Global Indices	07-Sep-18	31-Aug-18	% Change
<b>DJIA</b>	25,916.54	25,964.82	<b>-0.19%</b>
<b>S&amp;P 500</b>	2,871.68	2,901.52	<b>-1.03%</b>
<b>FTSE 100</b>	7277.7	7432.42	<b>-2.08%</b>
<b>Nikkei</b>	22307.06	22865.15	<b>-2.44%</b>
<b>Nifty 50</b>	11589.1	11680.5	<b>-0.78%</b>
<b>Shanghai</b>	2702.30	2725.25	<b>-0.84%</b>

Global equity indices traded sideways to lower last week amid bleak macro factors. Escalating trade war worries between US-China along with possible trade tensions between US-Japan and US-Canada weighed on the sentiments. In US, Dow Jones closed

0.2% lower while S&P ended 1% lower. Meanwhile, in Asia, China's Shanghai and India's Nifty ended 0.8% lower while Japan's Nikkei ended 0.8% lower.

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Copper - 3rd - 7th Sep 2018								2018	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	6,005.0	5,800.5	5,933.0	5,975.0	-42.0	-0.70%	7,348.0	5,773.0
MCX (Rs/Kg)	31-Aug-18	429.40	414.30	422.60	423.80	-1.20	-0.28%	493.55	402.55
COMEX (Cents/Lb)	Jul-18	268.00	258.00	262.25	271.75	-9.50	-3.50%	332.60	267.35

**Analysis**

LME Copper prices noted mixed movement last week however prices ended 0.7% lower week on week. The downside in domestic market was capped amid depreciation in Indian Rupee.

Earlier in the week prices came under pressure tracking demand worries amid escalating trade war worries between US- China along with growth worries in China. Also putting pressure was gains in US Dollar, weakness in equity market and turmoil in emerging markets.

Adding to bearish tone, data from CFTC showed that speculators turned net shorts to the tune of 5977 contracts in week ended 4<sup>th</sup> September from net long of 291 contracts in prior week.

The metal however pared some of its losses later in the week amid falling stocks at exchange warehouses.

Copper stocks at LME fell by 18750 tonnes last week to lowest level since Jan while those at SHFE fell by 1950 tonnes lowest level since November 2017.

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**Outlook** – LME Copper trades 0.8% lower in early trades today extending last week's decline. Putting pressure on the prices is demand worries tracking rising trade war worries between US – China along with signs of slowdown in China.

Trade war worries between US- China continue to escalate after US President Trump upped his ante on Friday by threatening he was ready to slap tariffs on another \$267 billion of goods on top of \$200 billion in imports primed for levies in coming days; which would virtually mean all of Chinese imports to US.

Meanwhile in top consumer China, recent spate of mixed to negative data along with ongoing trade war with US is expected to hurt demand for metals from the nation. Inflation data from the nation today was mixed; focus this week will be on Industrial production, retail sales and fixed asset invt. data due later in the week. Weaker reading will further fan slowdown worries in nation and thereby weigh on the prices.

Prices may also come under pressure amid gains in US Dollar. US Dollar Index trades modestly higher following 0.2% gains last week. The currency is seeking support from increased safe haven demand, general optimism over US economy along with rising expectation that US Fed may raise rates for two more times this year. For the week focus will be on macro economic data from US including CPI, PPI , retail sales along with comments by Fed officials and its impact on US Dollar.

The downside may however be capped amid falling stocks at exchange warehouses.

For the week, the metal may witness mixed movement amid mixed cues however overall bias maybe weak. Prices on MCX may trade in the range of 417 – 445 with ideal strategy to sell on rise.

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Lead & Zinc - 3rd - 7th Sep 2018								2018		
Commodity	Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
Lead	LME (USD/ Tonne)	3-M Forward	2,132	2,026	2,078	2,078	0.0	0.00%	2,685	1,918
	MCX (Rs/Kg)	31-Jul-18	151.65	145.60	148.25	147.55	0.70	0.47%	172.50	137.25
Zinc	LME (USD/ Tonne)	3-M Forward	2,483	2,392	2,420	2,457	-37.0	-1.51%	3,596	2,283
	MCX (Rs/Kg)	31-Jul-18	178.85	172.7	173.85	176.1	-2.25	-1.28%	232.7	163.8

**Analysis**

Both Lead and Zinc noted mixed movement last week with Lead prices ending flat and Zinc 1.5% lower.

On weaker note prices came under pressure amid bleak macro factors viz. trade war worries, gains in US Dollar, weakness in equity market and signs of slowdown in China.

Lead prices however pared all its losses to end unchanged amid lower stocks at exchange warehouses and worries over reduced supply from China due to environmental crackdown.

Lead stocks at LME fell by 4750 tonnes while those at SHFE fell by 1054 tonnes.

Meanwhile in case of Zinc, the downside was capped amid lower stocks at exchange warehouses and rising premium in China's spot market.

Zinc stocks at LME fell 8775 tonnes last week while those at SHFE rose by 4232 tonnes rebounding from 2007 low hit in prior week. Meanwhile Zinc premiums jumped by \$10 to \$190-\$210 amid a shortfall of supply in China's domestic market.

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**Lead Outlook** – LME Lead trades marginally lower tracking weakness across other metals. Weighing on the prices is escalating trade war worries between US – China along with growth worries in China and gains in US Dollar. However the upside may be capped amid lower stocks at LME and SHFE warehouses along with concerns over supply from China. The metal may note mixed movement this week amid mixed cues however overall bias may be weak in sync with other metals. For the week MCX Lead may trade in the range of Rs. 147 – 153.

**Zinc Outlook** – LME Zinc trades 0.9% lower today extending last week's decline. Putting pressure on the prices is weakness across base metals complex amid global risk aversion due to trade war worries along with fears of slowdown in China and gains in US Dollar. The downside may however be capped amid lower stocks at exchange warehouses along with signs supply squeeze in China. For the week the metal may witness volatile movement amid mixed cues however overall bias remains weak. MCX Zinc may trade in range of Rs. 171 – 186.7 with ideal strategy to sell on rise.

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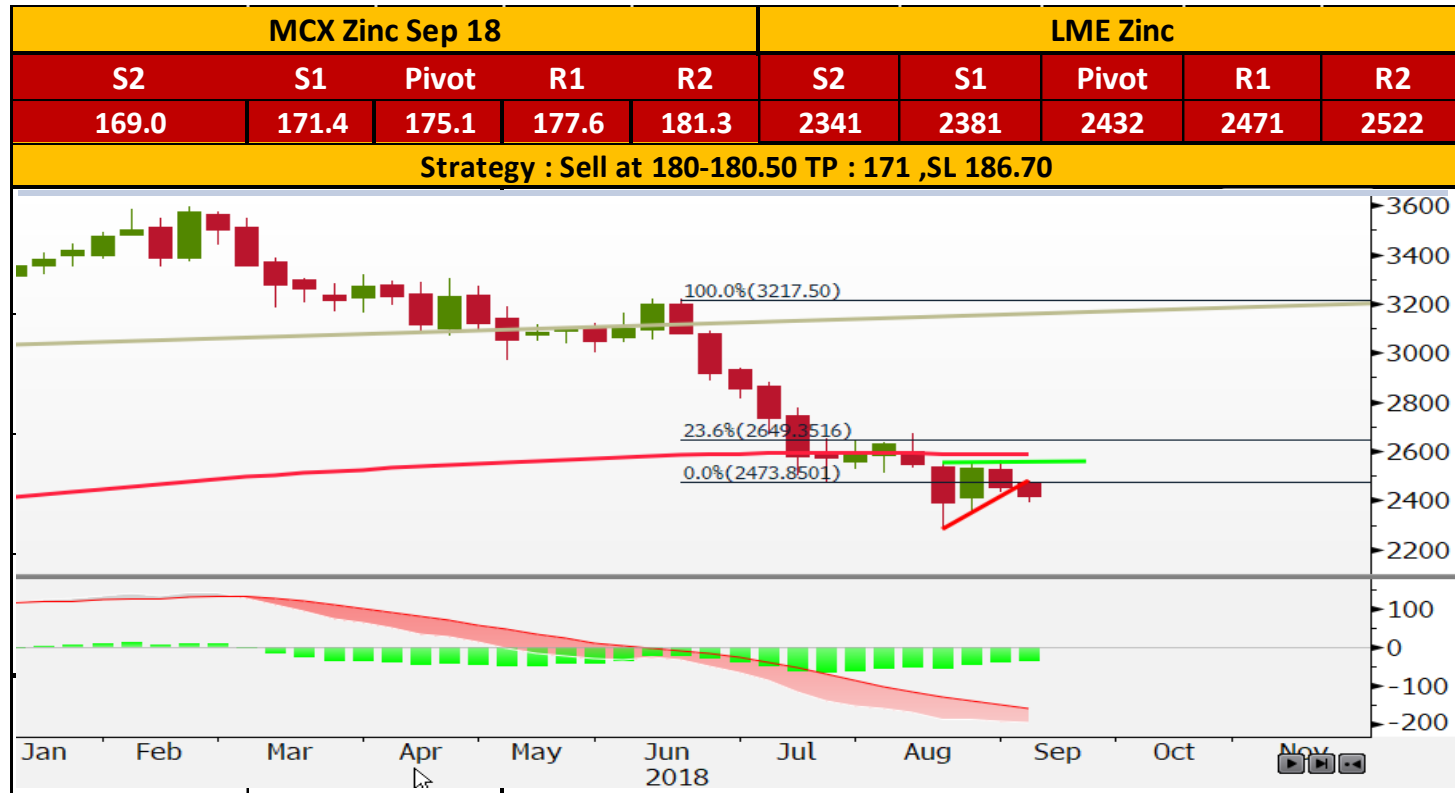
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Aluminium - 3rd - 7th Sep 2018								2018	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	2,124	2,035	2,070	2,125	-55.0	-2.59%	2,718	1,977
MCX (Rs/Kg)	31-Jul-18	150.4	145.3	147.2	150.1	-2.90	-1.93%	178.85	128.3

**Analysis** - LME Aluminium too noted mixed movement last week but ended on a lower note. On weaker note prices came under pressure tracking weakness across base metals complex amid bleak macro factors. Prices also came under pressure amid signs of ample supplies as is evident from widening contango between LME Cash to three month. The contango between LME Cash to three month widened to \$39 on Friday; highest since October 2015.

The downside was however capped amid falling stocks at exchange warehouses along with renewed supply worries from Rusal as there is little progress over lifting of US sanctions on the company ahead of 23rd Oct deadline and worries over tightness in Alumina market.

Aluminium stocks at LME fell by 9175 tonnes while those at SHFE fell by 8785 tonnes hitting lowest level since 8 March. Meanwhile according to a report from Reuters, European customers will avoid deals with Russia's Rusal, under US sanctions, when the industry meets in Berlin this week to seal 2019 metal supply agreements. Furthermore on Alumina front, adding to supply tightness was a vote to continue a strike at Alcoa's alumina and bauxite operations in Western Australia. Workers at Alcoa's in Western Australia voted to continue a month long strike. According to the company, alumina production fell by only about 15,000 tonnes in August.

**Outlook** – LME Aluminium trades more than 1% lower today tracking sell off in base metals. Putting pressure on the prices is bleak macro factors along with higher Chinese exports and ample supplies in physical market. The downside may however be capped amid upbeat fundamentals viz. falling stocks along with supply tightness in Alumina market and worries over supply from Rusal. Overall the metal may witness mixed trade amid mixed cues however bias may be weak in sync with other metals. MCX Aluminium August may trade in a range of Rs. 144 - 150 with ideal strategy to buy on dips.

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Nickel - 3rd - 7th Sep 2018									2018	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low	
LME (USD/ Tonne)	3-M Forward	12,855	12,225	12,355	12,800	-445.0	-3.48%	16,690	12,190	
MCX (Rs/Kg)	31-Jul-18	914.00	879.60	888.70	909.30	-20.60	-2.27%	1,095.20	782.40	

**Analysis**

LME Nickel was the worst performer last week as prices ended 3.5% lower week on week.

Prices came under pressure tracking bleak macro factors viz. US-China trade war worries along with gains in US Dollar and concerns of slowdown in China.

Prices also came under pressure tracking signs of ample supplies in physical marker as was evident from wide contango between LME Cash to three month. The discount between LME Cash to three month hovered above \$80 last week.

The metal failed to seek support from falling stocks at exchange warehouses. Nickel stocks at LME fell by 2532 tonnes to lowest level since 2014 while those at SHFE fell by modest 1929 tonnes to lowest level since July 2015.

**Outlook** – LME Nickel trades modestly lower today extending last week's slide. Weighing on the prices is weakness across base metals amid trade war worries, gains in US Dollar and growth worries in China. Also putting pressure is signs of ample supplies in physical market. The downside may be capped amid falling stocks at exchange warehouses. The metal may trade with weaker bias today however suggest waiting for pullback to create fresh shorts. MCX Nickel may trade in a range of Rs. 880 – 925 with ideal strategy to sell near upper band.

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Date	IST	Currency	Data	Forecast	Previous	Importance
10-Sep	14:00	EUR	Sentix Investor Confidence	14.3	14.7	Medium
	21:30	USD	Fed Bostic Speaks			Medium
11-Sep	14:30	EUR	German ZEW Economic Sentiment	-13.5	-13.7	Medium
		EUR	ZEW Economic Sentiment	-10.9	-11.1	Medium
12-Sep	14:30	EUR	Industrial Production m/m	-0.50%	-0.70%	Low
		INR	Industrial production	6.50%	7.00%	Medium
	18:00	USD	PPI m/m	0.20%	0.00%	Medium
	19:00	USD	Fed Bullard Speaks			Medium
	22:15	USD	Fed Brainard Speaks			Medium
	23:30	USD	Beige Book			Low
13-Sep	Indian Markets are closed for Ganesh Chaturthi; evening session is open					
13-Sep	16:30	GBP	Official Bank Rate	0.75%	0.75%	High
		GBP	Asset Purchase Facility	435B	435B	Medium
	17:15	EUR	Main Refinancing Rate	0.00%	0.00%	High
	18:00	EUR	ECB Press Conference			High
		USD	CPI m/m	0.30%	0.20%	Medium
		USD	Unemployment Claims	210K	203K	Medium
	19:30	USD	Fed Quarles Speaks			Medium
	22:45	USD	Fed Bostic Speaks			Medium
14-Sep	7:30	CNY	Industrial Production y/y	6.20%	6.00%	High
		CNY	Retail Sales y/y	8.80%	8.80%	Medium
		CNY	Unemployment Rate		5.10%	Medium
	15:30	GBP	BOE Gov Carney Speaks			Medium
	18:00	USD	Retail Sales m/m	0.40%	0.50%	Medium
	18:30	USD	Fed Evans Speaks			Medium
	18:45	USD	Industrial Production m/m	0.30%	0.10%	Medium
	19:30	USD	Prelim UoM Consumer Sentiment	96.8	96.2	Medium
		USD	Fed Rosengren Speaks			Medium

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