



Weekly Digest

KCSPL Research

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- Base metals noted sharp slide last week to end on a lower note. Zinc was the worst performer with prices on LME ending more than 5% lower followed by more than 3.8% slide in Lead and Copper prices. In other metals, Aluminium and Nickel prices ended 3.1% and 3% lower respectively
- The major factor that weighed on the prices was profit booking as this year's rally seemed overdone. Also putting pressure was demand worries from top consumer China and gains in US Dollar
- On fundamental front Zinc prices came under pressure amid signs of easing tightness in physical market while Aluminium prices came under pressure amid record high stocks at SHFE and rise in Chinese exports. In other metals Copper prices came under pressure tracking jump in stocks at LME however sharp jump in China's copper import capped the downside
- Meanwhile on macro front capping the downside was gains across most global equity market and growth optimism in US and Euro Zone
- US Dollar Index hit highs of 93.035 to end the week 1.1% higher; while US DJIA ended the week 0.4% higher
- China's Exports rose by 12.3% in November as against market expectation of 5.3% while imports rose by 17.7% as against market expectation of 13%
- US Non Farm Payrolls rose by 228K in November as against market expectation of 195,000 however average hourly earnings rose at a slower pace of 2.5% from a year earlier, as against market expectation of 2.7%

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Macro Economic Analysis

Base metals noted sharp slide last week led by more than 5% slide in LME Zinc prices.

The metals pack opened on a lower note amid demand worries from top consumer China along with gains in US Dollar.

In top consumer China, concerns of a slowdown in real estate market along with mixed data dented demand outlook from the region, thereby weighing on the prices.

On data front, last weekend, private survey that largely focuses on small and mid-sized companies showed that Manufacturing activity grew at the weakest pace in five months in November.

However trade balance data released last Friday showed that both imports and exports rose in November signaling robust demand in both domestic and international market. Exports rose by 12.3% in November as against market expectation of 5.3% while imports rose by 17.7% as against market expectation of 13% leaving a trade surplus of \$40.21 bn. China's upbeat trade balance data did little to clam worries over bleak demand outlook from the nation.

Meanwhile US Dollar continued to edge higher; ending last week with more than 1% gains. The currency rose seeking support from growth optimism in world's largest economy despite mixed data from the region along with signs of progress over tax reforms.

On data front, factory orders fell by 0.1% in October following 1.7% growth in Sept. while ISM Non Mfg. PMI eased to 57.4 from October's 60.1. Also preliminary reading of University of Michigan Consumer Sentiment fell to 96.8, lowest since Sept, after 98.5 in Nov.

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Meanwhile on Labour front, Initial jobless claims fell by 2,000 to 236,000 in the week ending December 2 while Non Farm Payrolls rose by healthy pace of 228,000 as against market expectation of 195,000 while the unemployment rate held at a 17-year low of 4.1% however on weaker note average wages grew at a slower pace of 0.2% instead of 0.3% and the October series was revised to -0.1% from flat.

The downside was however capped amid gains across most equity markets and hopes of robust growth in US and Euro Zone.

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Currencies	08-Dec-17	01-Dec-17	% Change
Dollar Index	93.90	92.89	1.09%
Euro/USD	1.177	1.190	-1.03%
GBP/USD	1.3390	1.3477	-0.65%
USD/YEN	113.48	112.17	1.17%
USD/INR	64.4575	64.4588	0.00%

US Dollar Index, a gauge of dollar's strength against six major currencies, hit highs of 94.087 to end 1.1% higher at 93.9. On positive note the currency sought support from growth optimism along with signs of progress over tax reform. However concerns

over Russian interference in the 2016 US presidential election capped the upside. In other currency, Euro ended 1% lower against US Dollar tracking mixed data from Euro Zone and political worries in Germany while GBP fell 0.65% against US Dollar amid lingering worries over Brexit. Further Japanese Yen fell 1.2% against US Dollar amid decline in safe haven demand. Meanwhile on domestic front, Indian Rupee closed almost unchanged against US Dollar as RBI kept its key interest rates unchanged in line with market expectation.

Global Indices	08-Dec-17	01-Dec-17	% Change
DJIA	24,329.16	24,231.59	0.40%
S&P 500	2,651.50	2,642.22	0.35%
FTSE 100	7393.96	7300.49	1.28%
Nikkei	22811.08	22819.03	-0.03%
Nifty 50	10265.65	10121.8	1.42%
Shanghai	3289.99	3317.62	-0.83%

Global equity markets noted mixed movement last week but most indices ended on a higher note. In US, optimism over economic health, upbeat reading of payrolls data and signs of progress over tax reforms lent support. As a result Both Dow Jones and

S&P ended 0.4% and % higher respectively. Further in Asia, India's Nifty closed 1.4% higher However Japan's Nikkei ended almost flat while China Shanghai closed 0.8% lower.

Copper - 4th - 8th Dec 2017								2017	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	6,863.5	6,507.5	6,571.0	6,833.0	-262.0	-3.83%	7177	5450.5
MCX (Rs/Kg)	28-Feb-18	446.70	423.10	427.80	442.25	-14.45	-3.27%	466.35	353.85
COMEX (Cents/Lb)	Sep-17	311.80	294.30	297.85	309.25	-11.40	-3.69%	325.95	247.25

Analysis

LME three month Copper prices hit lows of \$6507.5 on Tuesday but pared some of its losses to end 3.8% lower. Meanwhile on MCX too prices hit lows of Rs. 423.1 to end 3.3% lower.

On weaker note prices came under pressure amid demand worries from top consumer China along with gains in US Dollar and decline in Chinese equity markets.

Also putting pressure on the prices was rise in stocks at LME warehouses and decline in net longs by speculators.

Copper stocks at LME rose by 11625 tonnes last week rebounding from lows of June 2016. Meanwhile according to latest report by CFTC, Hedge funds and Speculators reduced their net longs by almost 40% to 26653 contracts; lowest since July in week ended Dec 5 from 43923 contracts in prior week.

Prices however pared some of its losses later in the week tracking news that China's second largest producer, Tongling Nonferrous Metals Group was idling up to 30% its smelting capacity to meet winter output restrictions. Also capping the downside was jump in China's Copper import and decline in stocks at SHFE warehouses.

China's copper import rose by more than 40% month on month to 470,000 tonnes in November from October's 330,000 tonnes while Copper stocks at SHFE fell by 10842 tonnes; its first decline in six weeks.

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Outlook - LME Copper trades in a narrow range today as prices take breather after last week's steep decline. The metal has been trending lower for past two weeks and the bias for the week too remains negative.

Prices may come under pressure tracking growth worries in top consumer China which in turn may dent demand outlook from the nation. Last week's upbeat Copper imports data from China has done little to ease demand worries from the nation. For the week focus will be on China's Industrial Production, retail sales and fixed asset investment. Bleak reading may further add to worries of slowdown in the region thereby weighing on the prices.

Prices may also come under pressure tracking gains in US Dollar. US Dollar Index trades little changed today after closing more than 1% higher last week. The currency is seeking support from signs of progress in tax reforms in US along with strong payrolls data which is underlining upbeat growth outlook in the region. For the week focus will be on FOMC meeting where in the central bank is largely expected to raise interest rate by 0.25% to a range of 1.25-1.5%. Since this has been largely factored in, market focus will be on FOMC statement and projections as it will help form expectations for Fed's monetary policy next year. Also focus will be on progress over tax reforms as both US House and Senate are working on a comprehensive bill along with US data. Major data this week are CPI, PPI, retail sales and industrial production.

The downside may however be capped amid gains across most equity indices along with upbeat growth outlook in US and Euro Zone.

For the week we expect prices on MCX to trade in a range of Rs. 418 - 442 with ideal strategy to sell on rise.

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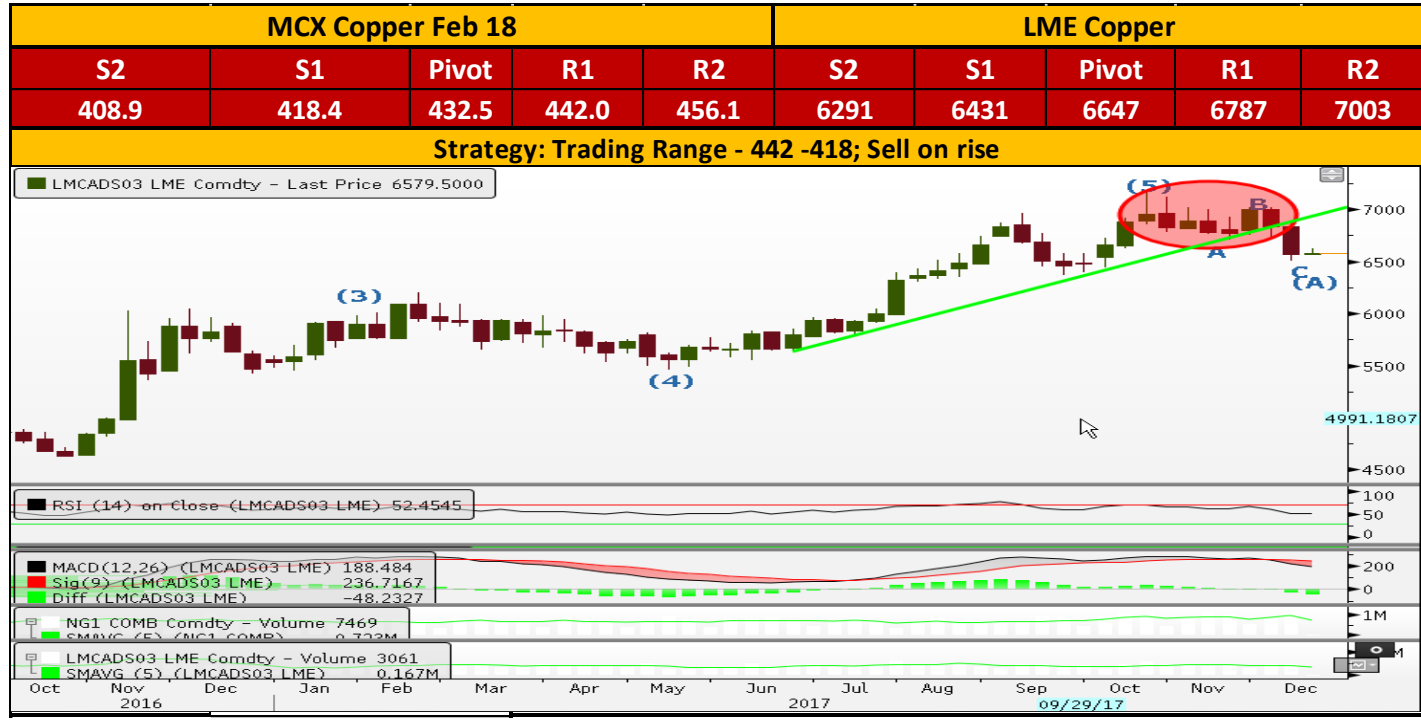
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Lead & Zinc - 4th - 8th Dec 2017									2017	
Commodity	Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
Lead	LME (USD/ Tonne)	3-M Forward	2,560	2,414	2,447	2,545	-98.0	-3.85%	2621	1986
	MCX (Rs/Kg)	29-Dec-17	165.60	155.65	158.35	164.55	-6.20	-3.77%	171.1	132.3
Zinc	LME (USD/ Tonne)	3-M Forward	3,252	3,051	3,083	3,249	-166.5	-5.12%	3326	2428
	MCX (Rs/Kg)	29-Dec-17	209.25	198.55	199.3	210	-10.70	-5.10%	218.8	156.1

Analysis

Both Lead and Zinc prices noted sharp slide last week. LME Zinc was the worst performer with 5.1% decline while Lead was second worst performer with 3.9% decline.

Zinc prices came under pressure tracking bleak demand outlook from top consumer China along with gains in US Dollar. Also putting pressure on the prices was year end profit taking and easing tightness in physical market as was evident from narrowing backwardation between LME Cash to three month prices. The backwardation between LME Cash to three month dipped below \$10 last week the lowest since Sept. from decade high of \$91 hit in October.

The downside was capped amid falling stocks at exchange warehouses. Zinc stocks at LME fell by 10400 tonnes while those at SHFE fell by 4531 tonnes.

Further Lead prices came under pressure tracking sharp selloff across base metals complex amid growth worries in top consumer China and gains in US Dollar. Also putting pressure was rise in stocks at exchange warehouses. Lead stocks at SHFE rose by 2412 tonnes while those at LME rose by modest 300 tonnes.

The downside was however capped amid signs of tightness in physical market.

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Lead Outlook – LME Lead trades little changed today as prices take breather after last week's decline. For the week we expect prices to trade broadly in the range of \$2400 - \$2500 on LME amid mixed cues. On positive note prices may seek support from signs of supply tightness in physical market along with expectation of uptick in seasonal demand for lead based batteries during winter; as freezing weather causes battery failures. However growth worries in China, gains in US Dollar and higher stocks at SHFE warehouses may cap the upside. The metal may note mixed movement this week however overall bias remains positive. MCX Lead may trade in the range of Rs. 154– 162 with ideal strategy to buy near lower band.

Zinc Outlook – LME Zinc trades modestly higher today as prices rebound after last week's steep decline. Also supporting prices is lower stocks at exchange warehouses and worries over lower supplies. However demand worries from top consumer China along with gains in US Dollar and signs of easing tightness in physical market may cap the upside. For the week we expect the metal to note volatile movement amid mixed cues however overall bias remains weak. MCX Zinc may trade in range of Rs. 192 – 206.5 with ideal strategy to sell on rise.

Aluminium - 4th - 8th Dec 2017								2017	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	2,082	1,999	2,011	2,075	-64.0	-3.09%	2215	1677
MCX (Rs/Kg)	29-Dec-17	133.55	128.7	129.4	133.75	-4.35	-3.25%	142.7	114.6

Analysis

LME Aluminium fell below \$2000 for a brief moment last week and ended 3.1% lower. Prices came under pressure tracking broad based sell off across base metals complex tracking growth worries in China and gains in US Dollar. The metal prices also came under pressure amid record high stocks at SHFE along with growing speculation that China's winter output cuts will be less severe than initially feared and surprise rise in Chinese Aluminium exports.

Aluminium stocks at SHFE rose by 12495 tonnes last week rising for 23rd straight week to hit fresh record high. Meanwhile China's Aluminium and Aluminium exports rose to 380,000 tonnes in November from Oct's 350,000 tonnes.

The downside was however capped amid lower stocks at LME and signs of improving spot premiums. Aluminium stocks at LME fell by 14375 tonnes last week to lowest level since 2008. Meanwhile some Japanese aluminum buyers agreed to pay some global producers a premium of \$103 per tonne for shipments in Jan to March from current quarter's \$94-\$95.

Outlook - LME Aluminium trades in a narrow range today following weaker close last week. For the week we expect the metal to trade with weaker bias however considering the recent selloff suggest creating fresh shorts on pullback. Prices may come under pressure amid growth worries in China, record high stocks at SHFE and growing speculation that supply cuts in China may disappoint. For the week focus will be on China's Nov production data. The downside may be capped amid falling stocks at LME warehouses. Overall we expect MCX Aluminium to trade in a range of Rs. 127 -133.5 with ideal strategy to sell on rise.

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Nickel - 4th - 8th Dec 2017								2017	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	11,470	10,740	10,950	11,290	-340.0	-3.01%	13030	8700
MCX (Rs/Kg)	29-Dec-17	740.60	692.80	706.40	731.40	-25.00	-3.42%	841.9	563.5

Analysis

LME Nickel continued to slide with prices last week ending 3% lower.

There were no new factors for weakness in Nickel prices last week. Broad based selloff across base metals complex amid growth worries in China and gains in US Dollar weighed on Nickel prices too.

Further lingering worries over weak demand from China's stainless steel sector and expectation of improving supply from Indonesia weighed on the prices.

The downside was however capped amid decline in stocks at exchange warehouses and news that Brazilian miner Vale SA has reduced its nickel output forecasts for the next five years. Nickel stocks at LME fell by 3162 tonnes last week while those at SHFE fell by 1209 tonnes.

Outlook - LME Nickel little lower today following last week's decline. Prices may continue to be weighed down by demand worries from China's stainless steel sector along with expectation of rising exports from Indonesia. Meanwhile on macro front, gains in US Dollar too may weigh on the prices. The downside may however be capped amid recent decline in stocks at exchange warehouses. We expect the metal to trade with weaker bias however considering the metal has slid more than 9% in past two week; suggest waiting for pullback before creating fresh shorts. Prices on MCX may trade in a range of Rs. 690 – 746.5 with ideal strategy to sell on rise.

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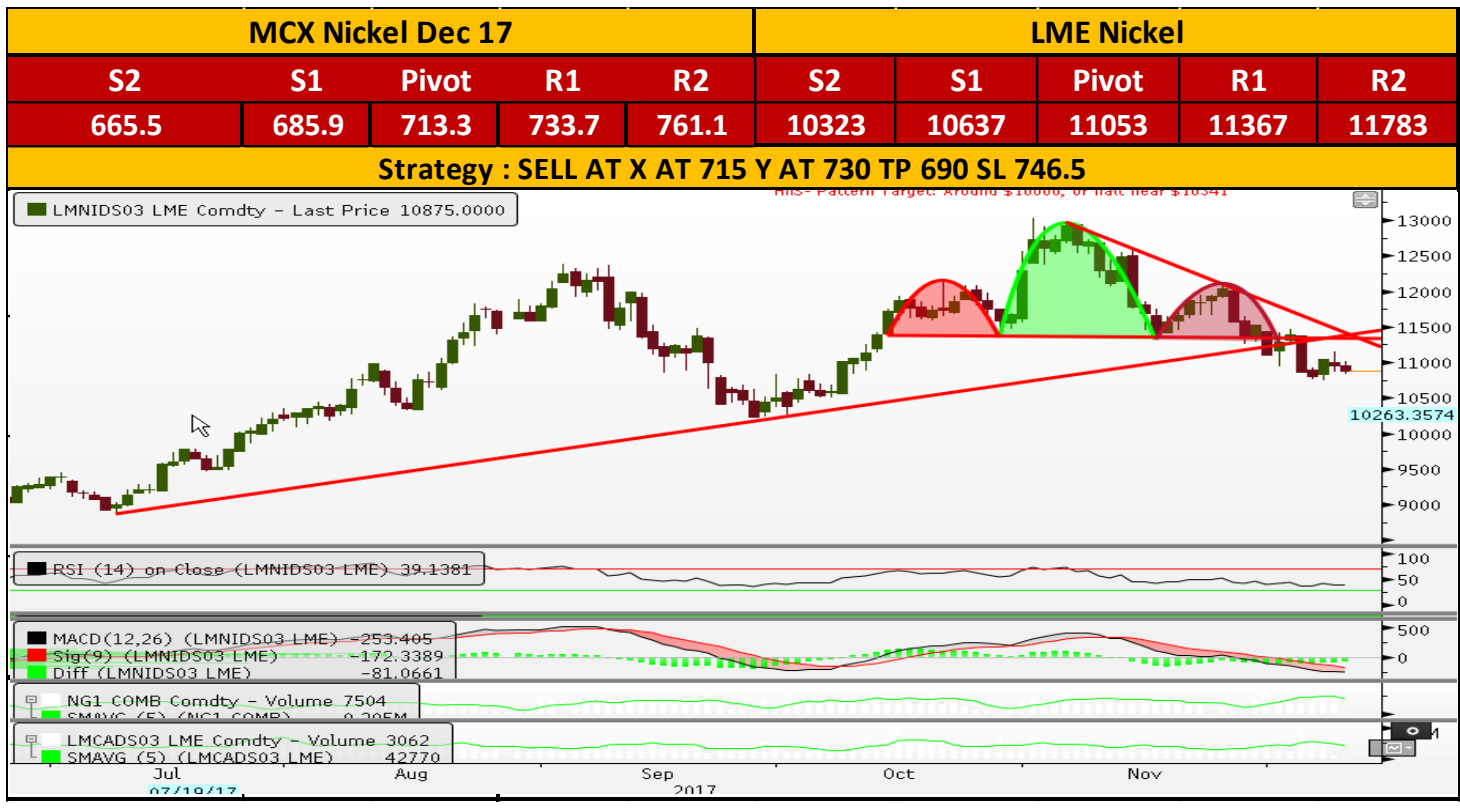
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Date	IST	Currency	Data	Forecast	Previous	Importance	
11-Dec	20:30	USD	JOLTS Job Openings	6.1M	6.09M	Low	
12-Dec	15:00	GBP	CPI y/y	3.00%	3.00%	Medium	
	15:30	EUR	German ZEW Economic Sentiment	18	18.7	Medium	
		EUR	ZEW Economic Sentiment		30.9	Medium	
12-Dec	19:00	USD	PPI m/m	0.30%	0.40%	Medium	
	13-Dec	12:30	EUR	German Final CPI m/m	0.30%	0.30%	Low
	15:00	GBP	Claimant Count Change	0.4K	1.1K	Medium	
13-Dec		GBP	Unemployment Rate	4.30%	4.30%	Low	
	15:30	EUR	Industrial Production m/m	0.00%	-0.60%	Medium	
	19:00	USD	CPI m/m	0.40%	0.10%	Medium	
14-Dec	0:30	USD	FOMC Economic Projections			High	
		USD	Federal Funds Rate	1.25-1.5%	1-1.25%	High	
	1:00	USD	FOMC Press Conference			High	
	7:30	CNY	Industrial Production y/y	6.10%	6.20%	High	
		CNY	Retail Sales y/y	10.30%	10.00%	Medium	
	14:00	EUR	German Flash Manufacturing PMI	62	62.5	Medium	
		EUR	German Flash Services PMI	54.6	54.3	Low	
	14:30	EUR	Flash Manufacturing PMI	59.7	60.1	Medium	
		EUR	Flash Services PMI	56	56.2	Low	
	15:00	GBP	Retail Sales m/m	0.40%	0.30%	Medium	
14-Dec	17:30	GBP	Official Bank Rate	0.50%	0.50%	High	
	18:15	EUR	Minimum Bid Rate	0.00%	0.00%	High	
	19:00	EUR	ECB Press Conference			High	
		USD	Retail Sales m/m	0.30%	0.20%	Medium	
		USD	Unemployment Claims	239K	236K	Medium	
	20:15	USD	Flash Manufacturing PMI	54	53.9	Medium	
		USD	Flash Services PMI	54.2	54.5	Low	
15-Dec	15:30	EUR	Trade Balance	24.3B	25.0B	Low	
	19:00	USD	Empire State Manufacturing Index	18.3	19.4	Medium	
		USD	Industrial Production m/m	0.30%	0.90%	Medium	

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