



Weekly Digest

KCSPL Research

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- Base metals traded with a weaker bias for most part of the week to end on a negative note last week. LME Aluminium was the worst performer with 4.1% slide followed by 4% declines in Copper prices and 3.8% drop in Zinc prices. In other metals, Lead and Nickel closed 2.5% and 1.5% lower respectively
- Prices came under pressure tracking gains in US Dollar and mixed trend in global equity market. Also weighing on the prices was demand worries from top consumer China and escalating trade worries between US and China
- US Dollar Index hit November 2017 high of 95.131 to end 1.3% higher at 94.79; the currency rose majorly against Euro amid divergent monetary policy between Fed and ECB; while US DJIA ended the week 0.9% lower
- US Fed raised its rates by 25 basis points for second time this year; it further signaled possibility of two more rate hike this year
- ECB said it would end its monthly asset purchases by 2018 however will hold off raising rates at least until mid 2019
- China's Industrial Production rose by 6.8% percent in May as against expectation of 7%; Retail sales too grew at slower pace of 8.5% as against forecast of 9.6%
- China's Fixed-asset investment rose 6.1% in the first five months, slowest since 1999
- US President Donald Trump decided to move ahead with his plan to impose 25% tariff on \$50 billion of goods from China and pledged to impose further levies if the nation took retaliatory measures

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Macro Economic Analysis

Base metals pack ended sharply lower last week tracking bleak macro economic factors. Prices came under pressure tracking gains in US Dollar and mixed trend in global equity market.

US Dollar Index hit November 2017 high of 95.131 gaining majorly against Euro to end 1.3% higher. The currency rose following Fed's hawkish stance juxtaposed with dovish ECB. Also supporting US Dollar was upbeat macro economic data from US.

US Fed last week raised its rates by 25 basis points for second time this year; in line with market expectation. The central bank further signaled possibility of two more rate hike this year from its earlier stance of only three rate hikes in 2018.

As against this European Central Bank, said it intended to reduce monthly asset purchases between October and December to 15 billion euros and then conclude the program by 2018. However indicated that interest rates would stay at record lows at least through the mid 2019.

Meanwhile on data front, US CPI grew by 0.2% in May following similar gains in April while PPI grew by 0.5% following 0.1% gains in April. Furthermore, Retail sales rose by 0.8% in May following 0.4% gains in April while University of Michigan Consumer Sentiment rose to 99.3 from May's 98. Also on labour front, initial jobless claims fell by 4000 to 218,000 in week ended June 9.

However on weaker note, industrial production slipped 0.1% in May following 0.9% gains in April.

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The Week That Was	Also weighing on the prices was demand worries from top consumer China and escalating trade worries between US and China
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- Macro Analysis	In top consumer China, string of disappointing data last week fueled growth worries which in turn dented demand outlook for metals. China's Industrial Production rose by 6.8% percent in May from a year as against market expectation and prior month's reading of 7%; Retail sales too grew at slower pace of 8.5% as against forecast of 9.6% and April's 9.4%. Furthermore Fixed-asset investment rose 6.1% year-on-year in the first five months, compared to expectation of 7% and was slowest increase since 1999.
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- Market Analysis	Meanwhile trade worries between China and US escalated after US President Donald Trump decided to move ahead with his decision to impose 25% tariff on \$50 billion worth of imports from China and threat to impose further levies if the nation took retaliatory measures.
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Currencies	15-Jun-18	08-Jun-18	% Change
Dollar Index	94.79	93.54	1.34%
Euro/USD	1.161	1.177	-1.35%
GBP/USD	1.3278	1.3405	-0.95%
USD/YEN	110.66	109.55	1.01%
USD/INR	68.0175	67.5075	0.76%

US Dollar Index, a gauge of dollar's strength against six major currencies, hit seven month high of 95.131 to end 1.3% higher at 94.79. The currency rose tracking Fed's hawkish stance and upbeat macro economic data from US. US Fed hiked its rates by 25

points and signaled possibility of two more rate hikes this year as against prior estimates of one more hike. Both Euro and Yen fell against US Dollar amid divergent monetary policy by ECB and BOJ as compared to US Fed. Euro ended 1.4% lower against US Dollar as ECB signaled it will not raise rates at least until mid 2019 while Japanese Yen ended nearly 1% lower amid no change in BOJ's monetary policy. In other currency GBP ended 1% lower against US Dollar while on domestic front, Indian Rupee too depreciated 0.8% against US Dollar.

Global Indices	15-Jun-18	08-Jun-18	% Change
DJIA	25,090.48	25,316.53	-0.89%
S&P 500	2,779.66	2,779.03	0.02%
FTSE 100	7633.91	7681.07	-0.61%
Nikkei	22851.75	22694.5	0.69%
Nifty 50	10817.7	10767.65	0.46%
Shanghai	3021.90	3067.15	-1.48%

Global equity indices noted mixed movement last week amid mixed cues. On weaker note global trade worries along with Fed's hawkish stance weighed on the sentiment however dovish stance by ECB lent support. In US, Dow Jones ended 0.9%

Lower while S&P closed nearly unchanged. Meanwhile in Asia, India's Nifty and Japan's Nikkei ended 0.5% and 0.7% higher respectively however China Shanghai closed 1.5% lower tracking signs of slowdown following disappointing data.

Copper - 11th - 15th June 2018								2018	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	7,329.0	6,996.0	7,020.0	7,312.0	-292.0	-3.99%	7,285.0	6,532.0
MCX (Rs/Kg)	29-Jun-18	489.95	472.60	473.90	491.25	-17.35	-3.53%	467.85	425.00
COMEX (Cents/Lb)	Jul-18	330.35	313.10	314.45	330.00	-15.55	-4.71%	332.60	295.85

Analysis

Copper prices on LME traded with a weaker bias for four out of five trading sessions last week and ended 4% lower.

Prices came under pressure tracking gains in US Dollar and mixed trend in equity market. Also putting pressure was demand worries from top consumer China following string of weak data along with escalating tensions over trade worries between China and US.

Meanwhile on fundamental front prices came under pressure amid easing worries over supply disruption from Chile's Escondida mine after BHP Billiton responded to a proposal from unionized workers. BHP said on Monday it had responded to the latest contract proposal from unionized workers at its Escondida copper mine in Chile, triggering a new round of talks that could last a month or more. Though it is too soon to say uncertainty relating to supply threat is over; the worries have eased especially after unionized workers at BHP's Spence copper mine, a much smaller operation in northern Chile, late on Sunday approved a new labor contract, including a bonus of \$21,500 per worker.

The downside was however capped amid decline in stocks at exchange warehouses along with tightening spreads on LME and jump in speculative net long. Copper stocks at LME fell by 12375 tonnes last week while those at SHFE fell by 3013 tonnes. Meanwhile according to latest report by CFTC, Hedge funds and Speculators increased their net longs by nearly 48% to record high of 70537 contracts from 47707 contracts in prior week.

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Outlook – LME Copper trades modestly lower today extending last week's sharp slide. Putting pressure on the prices is bleak risk appetite amid escalating worries over trade war between China and US along with gains in US Dollar.

Tensions related to US - China trade war have escalated after US President Trump decided to go ahead with 25% tariffs on \$50 billion worth of Chinese imports prompting Beijing to immediately respond in kind. Trump administration on Friday laid out a list of more than 800 strategically important imports from China that would be subject to 25% tariff starting on July 6. China has retaliated saying it would impose tariffs "of the same scale and strength" and that any previous trade deals with Trump were "invalid."

Meanwhile US Dollar trades modestly higher today after noting sharp gains last week. The currency is seeking support from Fed's hawkish stance and upbeat data from US. Focus this week will be on comments by Fed officials and economic data. Key data due this week are housing data ,regional mfg. indices and flash reading of Mfg. Services PMI.

Prices may also come under pressure tracking demand worries from China following disappointing data last week.

Meanwhile on fundamental front prices may come under pressure tracking easing worries over strike at Chile's Escondida mine. The downside may however be capped amid falling stocks at exchange warehouses and signs of tightness in physical market.

For the week we expect the metal to witness sharp volatility however bias may be weak tracking bleak macro factors. Prices on MCX may trade in the range of 464 – 485 with ideal strategy to sell on rise.

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Lead & Zinc - 11th - 15th June 2018									2018	
Commodity	Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
Lead	LME (USD/ Tonne)	3-M Forward	2,509	2,401	2,405	2,466	-61.0	-2.47%	2,685	2,241
	MCX (Rs/Kg)	29-Jun-18	169.75	163.55	163.80	166.65	-2.85	-1.71%	172.50	149.80
Zinc	LME (USD/ Tonne)	3-M Forward	3,218	3,073	3,080	3,202	-122.0	-3.81%	3,596	2,970
	MCX (Rs/Kg)	29-Jun-18	219.15	211.55	212	217.4	-5.40	-2.48%	232.7	198.7

Analysis

Both Lead and Zinc prices ended on a lower note last week with bulk of the decline coming in on Friday.

Prices came under pressure tracking weakness across base metals complex amid gains in US Dollar, growth worries in top consumer China and escalating trade tensions between China and US.

Further on fundamental front, Lead prices came under pressure tracking rise in stocks at SHFE warehouses and signs of ample supplies in physical market as was evident from loosening of spread between LME Cash to three month. Lead stocks at SHFE rose by 611 tonnes or 6% last week while those at LME fell by 1025 tonnes

Meanwhile in case of Zinc, the metal came under pressure tracking demand worries from China along with jump in stocks at SHFE. Further falling stocks at LME and tightening of spreads on LME too failed to arrest the downfall in prices. Zinc stocks at SHFE rose by 6841 tonnes or 7.6% while those at LME fell by 8450 tonnes. Meanwhile the premium between LME cash to three month rose to \$39.75 on Friday; highest since Feb 2018; signaling tightness in physical market

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Lead Outlook – LME Lead trades modestly lower today extending last week’s slide. Weighing on the prices is weakness across base metals complex tracking trade worries along with gains in US Dollar and mixed trend in equity market. Prices may further come under pressure tracking growth worries in China and rise in stocks at SHFE. However lower stocks at LME may cap the downside. Prices on MCX may trade in the range of Rs. 160 – 168 with ideal strategy to sell near upper band

Zinc Outlook – LME Zinc too trades modestly lower today extending last week’s drop. Putting pressure is demand worries from China along with growing trade tensions between China and US. Also putting pressure is gains in US Dollar, mixed trend in equity market and rise in stocks at SHFE warehouses. The downside may however be capped amid falling stocks at LME and tightening spread on LME signaling supply squeeze. For the week the metal may trade sideways to lower tracking bleak macro factors however \$2980 - \$3000 may act as a strong support. MCX Zinc may witness volatile movement with bias being weak. The metal may trade in range of Rs. 206 – 216 with ideal strategy to sell on rise.

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Aluminium - 11th - 15th June 2018								2018	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	2,327	2,201	2,204	2,299	-95.0	-4.13%	2,718	1,977
MCX (Rs/Kg)	29-Jun-18	158	151.2	151.95	156.9	-4.95	-3.15%	178.85	128.3

Analysis

LME Aluminium was the worst performing commodity in base metals complex with 4.1% slide. The metal traded in a narrow range in first two days but came under pressure later in the week.

On weaker note prices came under pressure tracking gains in US Dollar, mixed trend in equity market, growth worries in China and escalating trade worries between China and US.

The metal also came under pressure following reports of jump in China's Aluminium production. The downside was however capped amid falling stocks at exchange warehouses.

Data from China last week showed that the nation's output of 10 non-ferrous metals including copper, aluminium, lead, zinc and nickel rose 4.3% in May from a year earlier to 4.55 million tonnes. Of these, Aluminium production was up 1.5% at 2.79 million tonnes. Meanwhile Aluminium stocks at LME fell by 32,625 tonnes last week while those at SHFE fell by 9178 tonnes declining for fifth straight week from record high levels.

Outlook – LME Aluminium trades little changed as prices take breather after last week's decline. On weaker note the metal may come under pressure tracking gains in US Dollar and growing trade worries. Also putting pressure is growth worries in China and worries over rising production and exports from China. However decline in stocks across exchange warehouses may cap the downside. Overall we expect Aluminium to trade in a range of Rs. 150 -157.5 with ideal strategy to sell on rise

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	Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
- Highlights	LME (USD/ Tonne)	3-M Forward	15,730	15,100	15,185	15,420	-235.0	-1.52%	16,690	12,190
- Macro Analysis	MCX (Rs/Kg)	29-Jun-18	1,057.90	1,020.10	1,030.20	1,043.10	-12.90	-1.24%	1,095.20	782.40

Analysis

LME Nickel too traded with a weaker bias for four out of five session to end 1.5% lower week on week.

The metal came under pressure tracking sharp selloff across base metals complex tracking gains in US Dollar, growth worries in China and trade worries between China and US.

However upbeat fundamentals of the metal capped the downside. The metal's downtrend was arrested due to falling stocks at exchange warehouses and hopes of robust demand from electric vehicle and stainless steel sector.

Nickel stocks at LME fell by 2610 tonnes to lowest level since 2014 while those at SHFE fell by 1515 tonnes to lowest level since November 2015.

Outlook – LME Nickel trades modestly higher today following last week's decline. For the week we expect the metal to note mixed movement amid mixed cues however overall bias may be positive. Despite bleak global sentiment amid lingering trade worries and gains in US Dollar the metal may continue to seek support from falling stocks at exchange warehouses and expectation of robust demand. As a result buying on dips is suggested for the week. Prices on MCX may trade in a range of Rs. 975 – 1050 with ideal strategy to buy on dips.

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Date	IST	Currency	Data	Forecast	Previous	Importance
18-Jun Chinese Markets are closed for Dragon Boat Festival						
18-Jun	18:30	USD	Fed Dudley Speaks			Medium
	19:30	USD	NAHB Housing Market Index	70	70	Low
	22:30	USD	Fed Bostic Speaks			Medium
	23:00	EUR	ECB President Draghi Speaks			Medium
19-Jun	1:15	USD	Fed William Speaks			Medium
	13:30	EUR	ECB President Draghi Speaks			Medium
	16:30	USD	Fed Bullard Speaks			Medium
	18:00	USD	Building Permits	1.35M	1.35M	Medium
		USD	Housing Starts	1.312M	1.29M	Medium
20-Jun	5:20	JPY	Monetary Policy Meeting Minutes			Medium
	11:30	EUR	German PPI m/m	0.40%	0.50%	Low
	19:00	EUR	ECB President Draghi Speaks			High
		JPY	BOJ Gov Kuroda Speaks			High
		USD	Fed Chair Powell Speaks			High
	19:30	USD	Existing Home Sales	5.53M	5.46M	Medium
21-Jun	16:30	GBP	Official Bank Rate	0.50%	0.50%	Medium
	18:00	USD	Philly Fed Manufacturing Index	29	34.4	Medium
		USD	Unemployment Claims	220K	218K	Low
	19:30	EUR	Consumer Confidence	-0.1	0.2	Low
22-Jun	1:45	GBP	BOE Gov Carney Speaks			Medium
	13:00	EUR	German Flash Manufacturing PMI	56.2	56.9	Medium
		EUR	German Flash Services PMI	52.2	52.1	Low
	13:30	EUR	Flash Manufacturing PMI	55	55.5	Medium
		EUR	Flash Services PMI	53.8	53.8	Low
	19:15	USD	Flash Manufacturing PMI	56.3	56.4	Medium
		USD	Flash Services PMI	56.5	56.8	Low

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