# DAILY ANALYSIS REPORT

Thursday, March 7, 2019

Aluminium drifted lower as demand has not picked up after the Chinese New Year holiday.

Nickel prices may remain higher on supply deficit

Copper corrects marginally on concern over demand and global growth

U.S. Crude oil supply is rising rapidly; inventories were up by 7.1 million barrels

Gold is locked in the 1282-1293 range before ECB meeting and US non-farm payroll data.

Indian rupee strengthened in early trade following softer crude oil prices

China Steel futures fell on concerns over slowing economic growth

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## ALUMINIUM DRIFTED LOWER AS DEMAND HAS NOT PICKED UP AFTER THE CHINESE NEW YEAR HOLIDAY

- Aluminium and other industrial metals drifted lower on Wednesday as investors awaited further signs on demand in top metals consumer China would rebound post the Lunar New Year. So far, signs of metal demand in China have been lacklustre, with rising inventories in the world's second-largest economy and weak physical premiums.

## NICKEL PRICES MAY REMAIN HIGHER ON SUPPLY DEFICIT

- Nickel market has been in deficit for consecutive three years, expecting another deficit this year
- Nickel prices climbed to a six-month peak as expectations of a fourth consecutive year of supply deficit were reinforced by signs of robust demand from steel mills in China.
- International Nickel Study Group shows nickel market deficit at 46,000 tonnes in 2016, 115,000 tonnes in 2017 and 127,000 tonnes last year. Global nickel demand is estimated at about 2.4 million tonnes this year.
- Inventory- Nickel stocks in LME-registered warehouses stands at 196,410, have nearly halved since the start of January last year. Nickel stocks at LME-registered warehouses have nearly halved since the start of January last year, while canceled warrants — metal earmarked for delivery — stands nearly at 37 percent. Inventories in warehouses monitored by the Shanghai Futures Exchange are below 10,000 tonnes and have declined nearly 40 percent since the middle of November.

## COPPER CORRECTS MARGINALLY ON CONCERN OVER DEMAND AND GLOBAL GROWTH

- Global growth concerns are weighing on the industrial metals prices. OECD (Organization for Economic Co-operation and Development) cut forecasts again for the global economy in 2019 and 2020, warning that trade disputes and uncertainty over Brexit would hit world commerce and businesses.
- LME and CME copper stocks have been shrinking; those in Shanghai have jumped by 108,363 tonnes to 227,049 tonnes since the start of January.
- Copper prices may rise if China unveiled economic stimulus measures including tax cuts for manufacturing industry, bolstering demand outlook.
- The premium of cash LME copper over the three-month contract rose to $70 a tonne, the highest since January 2015, indicating tight availability.
- Production cuts at following copper mining companies are creating supply deficit.
  - Vedanta is navigating the legal process of getting permission to restart the Tuticorin plant in the state of Tamil Nadu. The 400,000-tonne-per-year smelter has been closed since May last year.
  - In Zambia, Chambishi has closed and Vedanta's Nchanga has cut production in response to a new tax on copper concentrate coming from Democratic Republic of Congo.
  - Chile's Codelco has two of its four smelters off-line for refits to comply with new emission regulations. The work on the Chuquicamata and Potrerillos plants commenced on Dec. 13 and should reportedly take 75 and 45 days, respectively.
  - Codelco has scheduled maintenance at a third smelter in October and others taking downtime this year include Aurubis, Pan Pacific Copper, Mitsubishi Materials and Sumitomo Metal Mining.

Outlook

- Decreasing mine production and drying up inventories are keeping copper prices higher. Optimism over US-China trade talks could support copper prices further. Copper may find minor support around 6285, short-term trend remains positive above this level. Meanwhile, immediate resistance is seen near 6544-6702.

## U.S. CRUDE OIL SUPPLY IS RISING RAPIDLY; INVENTORIES WERE UP BY 7.1 MILLION BARRELS TO 452.9 BARRELS IN THE WEEK ENDED MARCH 1- EIA REPORT

- U.S. supply is rising rapidly; inventories of crude were up by 7.1 million barrels to 452.9 barrels in the week to March 1st according to EIA report. The level is about 4% higher than average during this time of year.
- The U.S. and China appear close to a deal that would roll back tariffs, easing fears that their stand-off will weigh on global growth and dent fuel demand.

Outlook

- Brent oil may recover after declines as OPEC+ production cut and US-China trade deal may support oil prices in the short term. Immediate recovery can be seen towards the next level of resistance around $67.80 per barrel and $70.80. Meanwhile increasing US production levels and crude oil inventories may keep rally limited. Import support is seen around $64.10 per barrel and $62.80.

## GOLD IS LOCKED IN THE 1282-1293 RANGE BEFORE ECB MEETING AND US NON-FARM PAYROLL DATA.

- Gold prices remained lower due to rise in dollar index. Asian stocks continued to trade in a tight range as investors await fresh directional cues from U.S.-China trade negotiations, meanwhile robust U.S. economic data supported the dollar.
- Precious metal traders are a bit cautious on the US-China trade negotiations and are awaiting for further indications of development. U.S. Secretary of State Mike Pompeo said on Monday the United States and China were "on the cusp" of a deal to end their trade war.
- The focus is shifting towards European Central Bank's monetary policy meeting on Thursday and U.S. non-farm payrolls data on Friday.

Outlook

- Comex gold broke key support level around 1305, we may see further decline towards 1275-1266 in the near term on a positive US-China trade deal. Meanwhile gold may receive support from ongoing geopolitical tensions such as Brexit deal, Venezuela crisis and a Terror attack on India. Important resistance remains near 1305 and 1335 in short to medium term.

## INDIAN RUPEE STRENGTHENED IN EARLY TRADE FOLLOWING SOFTER CRUDE OIL PRICES

- The rupee strengthened to trade near 70-level against the US dollar following softening crude oil prices amid sustained inflows by foreign institutional investors.
- Oil prices eased due to record US crude output and rising commercial fuel inventories. FII and DII Data
- Foreign funds (FII's) bought shares worth Rs. 1130.78 crore, while Domestic Institutional Investors (DII's) sold shares to the tune of Rs 878.45 crore on 6th March.
- In March 2019 FIIs net bought shares worth Rs 2081.08 crore, while DII's were net sellers to the tune of Rs.180.54 crore.

Outlook

- Current weakness in dollar may continue further and rupee will be strong as FII inflow continued in Mar'19 as well. The USD-INR pair may find next support level around 69.80. If the USD-INR pair breaks support level of 69.80, then we may witness fresh decline towards 69.30. Meanwhile, key resistance level is placed at 70.90; else it may remain in the 70.90-60.30 range. FII's inflow may continue to support Indian rupee however any increase in crude prices from current levels may limit Rupee strength.

## CHINA STEEL FUTURES FELL ON CONCERNS OVER SLOWING ECONOMIC GROWTH

- Chinese steel futures fell by the still-clouded outlook on demand in China. Traders are worried about the impact of steel output curbs in the top steelmaking city of Tangshan on demand for steel-making ingredients.
- But construction activities in China are likely to increase later this month, which may spur a rebound in steel prices.
- China economic slowdown- China cut the growth target for this year to 6.0 percent to 6.5 percent, as expected, from around 6.5 percent last year and offered further stimulus, including cuts in taxes and social security fees, increase in infrastructure investment and lending to small firms.
- China VAT- The government work report said that the deepening of the VAT reform and will reduce the current 16% tax rate in industries such as manufacturing to 13%, and reduce the current 10% tax rate in transportation, construction, and other industries to 9%;
- Inventory- According to private reports, Rebar stocks in 20 Major cities of China, were 5.3 million tons in February, with an increase of 2.56 million tons from previous month, which is an increase of 93.3%

Outlook

- China steel future recovered marginally from recent lows and found strong support base near 3720, minor recovery can be seen towards the next level of resistance around 3877-3897 while immediate support is seen around 3782-3753. China's economic slowdown may weigh on prices; markets await economic stimulus and any reduction in VAT for construction-related activity which may boost demand, US-China trade talks could provide further direction to the counter.

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