



# Weekly Digest

KCSPL Research

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- Base metals noted sharp volatility last week with most metals ending on a higher note
- LME Aluminium was the best performing metal with prices ending 2.8% higher followed by Zinc and Copper which ended with 2.4% and 2.2% gains respectively. In other metals Nickel too closed 0.5% higher however Lead closed 1.5% lower
- On positive note prices sought support from sharp slide in US Dollar. Also metals like Aluminium and Zinc sought support from supply worries and draw down in stocks at exchange warehouses
- The gains were however capped amid reduced risk appetite due to political uncertainty in US along with demand worries from top consumer China. Also putting pressure was weakness across global equity markets
- US Dollar hit lows of 97.08, its lowest level since November to end the week 2.1% lower while DJIA ended 0.4% lower
- Risk appetite waned as reports that President Trump tried to influence a federal probe raised doubt over his ability to push through his pro-growth policies like infrastructure spending and tax reforms
- US Building Permits fell 2.5% in April to 1.23 mn annualized pace from 1.26 mln while Housing Starts fell 2.6% to 1.17 mn annualized rate, lowest since November
- China New Home Prices grew by 10.7% in April compared to a year earlier, from 11.3% level of March

The Week That Was	<b><i>Macro Economic Analysis</i></b>
- Highlights	Base metals noted sharp volatility last week however most metals, barring Lead ended on a higher note.
- Macro Analysis	Major factor that lent support to base metals was sharp slide in US Dollar. US Dollar Index opened on a lower note and continued to trend lower to hit lowest level since November 2016.
- Other Indicators	The currency came under pressure tracking mixed data from US along with political uncertainty in US.
Copper	On data front, Empire State Mfg. Index fell to -1 in May from April's 5.2. Further Building Permits fell 2.5% in April to 1.23 mn from March's 1.26 mn while Housing Starts fell 2.6% to 1.17 mn annualized rate, lowest since November.
- Market Analysis	However on positive note, NAHB Housing Market Index rose to 70 from April's 68 while Conference Board Leading Economic Index increased 0.3% in April to 126.9 following a 0.3% increase in March. Further industrial production rose by 1% in April, fastest pace of growth since February 2014 while Philly Fed Mfg. Index jumped to 38.8 from April's 22. Also on labour front, initial jobless claims fell by 4000 to 232,000 in the week ended May 13.
- Technical Outlook	Further political uncertainty rose in US following reports that President Donald Trump asked then-FBI Director James Comey to end the FBI investigation into ties between former White House national security advisor Michael Flynn and Russia. These reports not only raised doubt over Trump's ability to fulfill his promised pro-growth policies like infrastructure spending and tax reforms but also raised the possibility he could end up leaving the presidency.
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The Week That Was	The upside however was capped amid risk aversion due to political uncertainty in US along with worries over slowdown in top consumer China which in turn dented demand outlook from the region.
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Copper	China's Industrial Production in April grew at a slower pace of 6.5% as against market expectation of 7% and March reading of 7.6% while fixed investment grew by 8.9% for the first four months as against market expectation of 9.1%. Also prices of new homes, excluding state subsidized housing, gained in 58 of 70 cities, compared with 62 in March.
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Currencies	19-May-17	12-May-17	% Change
<b>Dollar Index</b>	97.14	99.25	<b>-2.13%</b>
<b>Euro/USD</b>	1.121	1.093	<b>2.52%</b>
<b>GBP/USD</b>	1.3036	1.2890	<b>1.13%</b>
<b>USD/YEN</b>	111.26	113.38	<b>-1.87%</b>
<b>USD/INR</b>	64.6375	64.31	<b>0.51%</b>

US Dollar Index, a gauge of dollar's strength against six major currencies, hit lows of 97.08 to end 2.1% lower at 97.14. The currency came under pressure tracking worries over political uncertainty in US and mixed macro economic data from the region

In other currency, Euro ended 2.5% higher against US Dollar amid while Japanese Yen ended 1.9% higher against US Dollar amid rise in safe haven demand. Meanwhile on domestic front, Indian Rupee fell below 65 against US Dollar but managed to pare some of its losses to close 0.5% lower.

Global Indices	19-May-17	12-May-17	% Change
<b>DJIA</b>	20,804.84	20,896.61	<b>-0.44%</b>
<b>S&amp;P 500</b>	2,381.73	2,390.90	<b>-0.38%</b>
<b>FTSE 100</b>	7470.71	7435.39	<b>0.48%</b>
<b>Nikkei</b>	19590.76	19883.9	<b>-1.47%</b>
<b>Nifty 50</b>	9427.9	9400.9	<b>0.29%</b>
<b>Shanghai</b>	3090.63	3083.51	<b>0.23%</b>

Global equity markets note mixed movement last week amid mixed cues. In US, both Dow Jones and S&P closed 0.44% and 0.4% lower respectively tracking political uncertainty in US. In Europe, FTSE closed 0.5% amid signs of improving

Economic health. Further in Asia, Japan's Nikkei ended 1.5% lower tracking appreciation in Yen however China's Shanghai and India's Nifty managed to eke out modest gains.

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Copper - 15th - 19th May 2017								2017	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	5,694.5	5,485.0	5,682.0	5,559.5	122.5	2.20%	6204	5450.5
MCX (Rs/Kg)	30-Jun-17	370.20	356.80	369.55	359.80	9.75	2.71%	414.75	353.85
COMEX (Cents/Lb)	May-17	259.05	248.45	258.15	252.40	5.75	2.28%	283.6	247.25

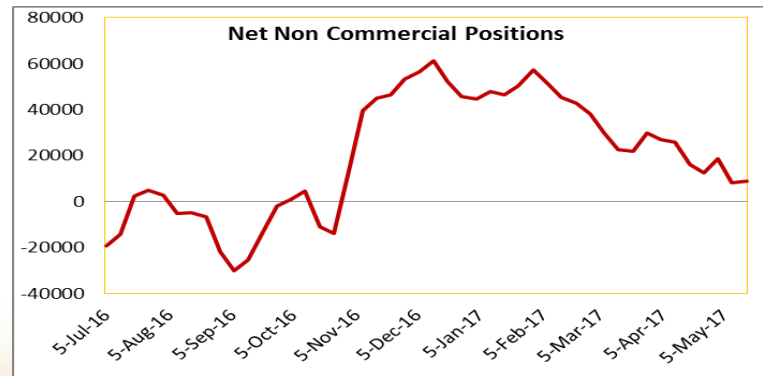
**Analysis**

LME three month Copper prices hit lows of \$5485 but pared all its losses to end the week 2.2% higher at \$5682. Prices on MCX too rebounded from lows of Rs. 356.8 to end 2.7% higher at Rs. 369.55. Prices on domestic exchange also sought support from weakness in Indian Rupee against US Dollar.

Prices came under pressure amid demand worries from top consumers China along with general risk aversion in the market following political uncertainty in US. Prices further came under pressure amid gain in stocks at exchange warehouses.

Copper stocks at LME rose by 7275 tonnes last week while those at SHFE fell by 1365 tonnes.

Prices however pared all its losses on Friday to end on a higher note tracking sharp decline in US Dollar along with recovery in equity markets amid improving risk appetite.



Prices further sought support from rise in net long position by Non-Commercial. According to latest CFTC report, Speculators and Hedge Fund managers increased their net long position by 7% to 8646 in week ended 16 May from 8081 contracts in prior week.

### *Outlook*

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LME Copper trades in a narrow range today holding on to last week's gains. The metal has risen amid improvement in global risk sentiment as is evident from rebound across global equity market along with weaker US Dollar.

US Dollar tanked more than 2% last week which in turn has supported commodities in general. For the week focus will be on comments by Fed officials along with FOMC Meeting Minutes which will give some cues on Fed's stance over future rate hike thereby affecting movement in US Dollar.

Also supporting prices is modest rebound in Chinese equity markets along with worries over supply disruption due to ongoing labour unrest at Freeport's Grasberg mine in Indonesia.

However capping the upside is demand worries from top consumer China and US. In US recent spate of mixed data is denting growth outlook from the region which in turn is fuelling demand worries. With no major data from China this week focus will be on US economic data along with comments by Fed officials which will impact US Dollar. For the week focus will be on Housing data, Durable Goods data and Q1 GDP data.

Also capping the upside is higher stockpiles at exchange warehouses. Despite recent rise in Copper's cancel warrants at LME, overall stocks at exchange warehouses remain at elevated level thus limiting the upside.

Considering the above-mentioned mixed cues we expect prices to witness mixed movement this week however ideal strategy would be to sell on rise. Overall we expect LME Copper to trade in a narrow range of \$5550 - \$5800 with ideal strategy to sell on rise. On MCX we expect prices to trade in range of Rs. 360 – Rs. 377 with ideal strategy to sell on rise.

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### Technical Outlook





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Aluminium - 15th - 19th May 2017									2017	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low	
<b>LME (USD/ Tonne)</b>	3-M Forward	1,947	1,885	1,944	1,891	<b>52.5</b>	<b>2.78%</b>	1981	1677	
<b>MCX (Rs/Kg)</b>	31-May-17	125.9	121.2	125.35	121.2	<b>4.15</b>	<b>3.42%</b>	130.6	114.6	

### Analysis

LME Aluminium prices hit highs of \$1947 to end 2.8% higher at \$1944 per ton. Prices on MCX too hit highs of 125.9 to end 3.4% higher week on week.

Prices rose seeking support from weakness in US Dollar along with falling stocks at LME warehouses and expectation of deficit in physical market due to lower production from China.

Aluminium stocks at LME fell by 49,450 tonnes last week to lowest level since November 2008 while those at SHFE rose by 5669 tonnes.

The gains were however capped amid growth worries from top consumer China along with mixed trend in equity markets.

### Outlook

LME Aluminium trades marginally lower today after last week's rally. Weighing on prices is choppiness across base metals complex along with growth worries in China. The downside may however be capped amid steady decline in stocks at LME and expectation of lower production from China as the nation intensifies its fight against pollution. For the week the metal may witness mixed movement amid mixed cues however overall trend remains positive. Prices on MCX may trade in a range of Rs. 122 -127 with ideal strategy to buy on dips.

Nickel - 15th - 19th May 2017								2017	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	9,440	8,995	9,360	9,315	45.0	0.48%	11165	8905
MCX (Rs/Kg)	31-May-17	607.90	580.20	602.50	599.20	3.30	0.55%	745	580.2

### **Analysis**

LME Nickel hit lows of \$8995 on Thursday but pared all its losses to end the week 0.5% higher at \$9315.

The metal came under pressure earlier in the week amid bleak risk appetite along with demand worries from top consumer China and hopes of improvement in supplies from Indonesia and Philippines.

Also putting pressure was signs of surplus in physical market. According to latest monthly report from INSG, the global market for refined nickel swung into a small surplus in March after an increase in production global demand.

Prices however pared all its gains to end higher tracking rebound across base metals complex amid weakness in US Dollar and decline in stocks at exchange warehouses. Nickel stocks at LME fell by 1716 tonnes last week while those at SHFE fell by 2249 tonnes.

### **Outlook**

LME Nickel trades modestly higher today extending last week's gains. The metal may seek support from improvement in global risk appetite along with recent retreat in stocks at exchange warehouses. However overall stock to use ratio remains at elevated level capping the upside. Also demand worries from China in face of expectation of improvement in supply may weigh on the prices. MCX Nickel may trade in a range of Rs. 585 – 625 this week with ideal strategy to sell on rise.

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Lead & Zinc - 15th - 19th May 2017										2017	
Commodity	Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low	
Lead	LME (USD/ Tonne)	3-M Forward	2,146	2,044	2,094	2,126	-32.0	-1.51%	2459	1986	
	MCX (Rs/Kg)	31-May-17	137.55	132.30	135.70	136.30	-0.60	-0.44%	165.15	132.3	
Zinc	LME (USD/ Tonne)	3-M Forward	2,646	2,460	2,616	2,554	62.0	2.43%	2981	2460	
	MCX (Rs/Kg)	31-May-17	170.35	159.35	169.8	163.6	6.20	3.79%	198.6	159.35	

### Analysis

Both Lead and Zinc hit multi month low on Thursday however Zinc prices rebounded sharply to end the week on a higher note even as Lead ended 1.5% lower.

Apart from political uncertainty in US, Lead prices also came under pressure amid demand worries from top consumers China and US along with jump in stocks at exchange warehouses. Lead stocks at LME rose by 1275 tonnes last week while those at SHFE rose by 2123 tonnes.

Meanwhile Zinc noted sharp rebound from lowest level since Nov 2016 tracking signs of deficit in physical market along with decline in stocks at exchange warehouses.

In China, premiums for zinc jumped by \$10 to \$155 a tonne, the highest in nearly three years. Meanwhile, Zinc stocks at LME fell by 2475 tonnes last week while on warrants stocks fell to lowest level since 2008. Also stocks at SHFE fell by 9601 tonnes.

**Lead Outlook** – LME Lead trades higher in early trades today as prices take breather following last week's slide. The overall bias however remains weak amid demand worries along with jump in stocks at exchange warehouses. Meanwhile on macro front prices may also come under pressure amid political uncertainty in US. We continue to maintain bearish view on the metal however suggest creating fresh shorts on pullback. Prices on MCX may trade in the range of Rs. 132.5 – 141.5 with ideal strategy to sell on rise.

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**Zinc Outlook** – LME Zinc too trades higher extending last week’s gains. Lending support to the prices is expectation of deficit in physical market along with lower stocks at exchange warehouses. The gains may however be capped amid growth worries in top consumer China and lingering political uncertainty in US. We expect Zinc to trade with positive bias however suggest waiting for corrective dips before initiating fresh longs. Prices on MCX may trade in a range of Rs. 161.3– Rs 173.5 with ideal strategy to buy on dips.

**Technical Outlook**



Date	IST	Currency	Data	Forecast	Previous	Importance
22-May	All Day	EUR	Eurogroup Meetings			Medium
	18:00	USD	Chicago Fed Nat Activity Index	0.1	0.08	Low
	18:30	CNY	CB Leading Index m/m		0.90%	Low
	19:30	USD	Fed's Harker Speaks in Philadelphia			Medium
	20:00	USD	Fed's Kashkari Speaks in Minneapolis			Medium
23-May	5:00	USD	Fed's Brainard Speaks on Economy		0.60%	Medium
	6:40	USD	Fed's Evans Speaks in Shanghai			Medium
	11:30	EUR	German Final GDP q/q	0.60%	0.60%	Low
	13:00	EUR	German Flash Manufacturing PMI	58	58.2	Medium
		EUR	German Flash Services PMI	55.5	55.4	Low
	13:30	EUR	Flash Manufacturing PMI	56.5	56.7	Medium
		EUR	Flash Services PMI	56.4	56.4	Low
	13:30	EUR	German Ifo Business Climate	113.1	112.9	Medium
	18:30	USD	Fed's Kashkari Speaks in Minneapolis			Medium
	19:15	USD	Flash Manufacturing PMI	53.1	52.8	Medium
		USD	Flash Services PMI	53.3	53.1	Low
19:30	USD	New Home Sales	610K	621K	Medium	
	USD	Richmond Manufacturing Index	15	20	Medium	
24-May	0:45	USD	Fed's Kashkari Speaks in Minneapolis			Medium
	2:30	USD	Fed's Harker Speaks in New York			Medium
	11:30	EUR	GfK German Consumer Climate	10.2	10.2	Low
	19:30	USD	Existing Home Sales	5.65M	5.71M	Medium
	23:30	USD	FOMC Meeting Minutes			High
25-May	3:30	USD	Fed's Kaplan Speaks in Toronto		0.30%	Medium
	4:00	USD	Fed's Kashkari Speaks in Wisconsin			Medium
	14:00	GBP	Second Estimate GDP q/q	0.30%	0.30%	Medium
	18:00	USD	Unemployment Claims	238K	232K	Medium
	19:30	USD	Fed's Brainard Speaks on Global Economy			Medium
	20:30	USD	Kansas City Fed Manufacturing Index		7	Low
26-May	7:30	USD	Fed's Bullard Speaks on US economy			Medium
	18:00	USD	Prelim GDP q/q	0.90%	0.70%	High
		USD	Durable Goods Orders m/m	-1.50%	0.90%	Medium
	19:30	USD	Revised UoM Consumer Sentiment	97.5	97.7	Medium

Source : - Bloomberg and Forex Factory

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