



# Weekly Digest

KCSPL Research

## The Week That Was

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- Most Base metals ended on a higher note last week with Nickel being the best performer with more than 7% gains. In other metals Copper jumped 5.35% while Lead and Zinc closed 3.6% and 0.8% higher respectively. However on weaker note, Aluminium prices closed 0.4% lower
- Prices rose seeking support from weakness in US Dollar along with hopes of improving demand from top consumer China
- On fundamental front most metals also sought support from decline in stocks at exchange warehouses and signs of deficit in physical market. Copper prices further sought support from threat of supply disruption and possible ban on Copper scrap imports by China while Nickel prices rose amid renewed uncertainty over supplies from Philippines.
- The gains were however capped amid mixed trend in global equity market along with concerns relating Trump administration
- US Dollar hit 13 month low of 93.152 to end the week 0.6% lower while DJIA ended 1.2% higher week on week even as S&P closed unchanged
- IMF last week cut growth outlook for US and UK but raised its estimate for China and Euro-zone growth
- US Fed kept its interest rates unchanged in line with market expectation; but raised flags over inflation and refrained from giving any details over timing of trimming its balance sheet
- US Q2GDP grew by 2.6% as against market expectation of 2.7% following downwardly revised 1.2% growth in Q1

The Week That Was	<b><i>Macro Economic Analysis</i></b>
- Highlights	Most Base metals ended on a higher note last week with Nickel outperforming the pack and closing more than 7% higher.
- Macro Analysis	Prices rose seeking support from hopes of robust demand in top consumer China along with weakness in US Dollar.
- Other Indicators	
Copper	In China, demand optimism persisted following better than expected GDP data released in prior week. Sentiments were further lifted after, IMF last week revised its growth forecast for China. IMF revised its Chinese growth forecast for 2017 to 6.7% from 6.6%. Also profits earned by China's industrial companies in June rose 19.1% from a year earlier, quickening from May's 16.7%.
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Nickel	Meanwhile US Dollar continued to edge lower amid mixed data from US, concerns over Trump administration and uncertainty over future monetary stance by US Fed
Aluminium	In US, macro economic data last week continued to remain mixed. On positive note, preliminary Mfg. PMI for July rose to 53.2 from June's 52 while service PMI was unchanged at June's five-month high of 54.2. Further Richmond Mfg. Index rose to 14 from June's 7 while Durable goods jumped by 6.5% in June as against market expectation of 3.9% rise and 0.1% decline in May. Also Conference Board consumer confidence index rose to 121.1 this month from 117.3 in June while final reading of University of Michigan Consumer Sentiment came in at 93.4 from preliminary reading of 93.1.
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Economic Calendar	However on weaker note, Existing Home Sales dropped 1.8% in June to a seasonally adjusted annual rate of 5.52 million units while new home sales increased 0.8% to 610k annualized pace as against market expectation of 615k.

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The Week That Was	<p>Further, on labour front, initial jobless claims rose by 10,000 to a seasonally adjusted 244,000 in week ended July 22. Also Q2 GDP grew by 2.6% as against market expectation of 2.7% however was better than Q1 downwardly revised growth of 1.2%.</p> <p>Also IMF cut US 2017 growth forecast from 2.3% to 2.1% citing concerns about Trump's economic policies.</p> <p>Meanwhile political worries persisted as Senate rejected Majority Leader Mitch McConnell's health-care proposal with no clear idea of what Obamacare replacement plan the senators will ultimately be asked to pass.</p> <p>Also US Fed last week kept its key interest rates unchanged in line with market expectation. The central bank however raised flags over weak inflation while stating ear-term risks to the economic outlook appear balanced, thus signaling it intends to start reduction in its \$4.5 trillion balance sheet in September and fueling speculation the central bank won't rush to raise rates.</p>
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## Economic Calendar

Currencies	28-Jul-17	21-Jul-17	% Change
<b>Dollar Index</b>	93.26	93.86	<b>-0.64%</b>
<b>Euro/USD</b>	1.175	1.166	<b>0.75%</b>
<b>GBP/USD</b>	1.3136	1.2997	<b>1.07%</b>
<b>USD/YEN</b>	110.68	111.13	<b>-0.40%</b>
<b>USD/INR</b>	64.1525	64.3187	<b>-0.26%</b>

US Dollar Index, a gauge of dollar's strength against six major currencies, hit 13 month low of 93.152 to end 0.6% lower at 93.26. The currency came under pressure amid mixed data from US along with uncertainty over Fed's future monetary stance and

concerns over Trump administration. In other currency, Euro rallied to highest level since Jan 2015 to end 0.75% higher against US Dollar. The common currency is seeking support from improving pace of growth in Euro Zone which in turn is fueling expectation of monetary tightening by ECB. Also GBP ended more than 1% higher against US Dollar. Meanwhile on domestic front, Indian Rupee closed modestly higher at 64.15.

Global Indices	28-Jul-17	21-Jul-17	% Change
<b>DJIA</b>	21,830.31	21,580.07	<b>1.16%</b>
<b>S&amp;P 500</b>	2,472.10	2,472.54	<b>-0.02%</b>
<b>FTSE 100</b>	7368.37	7452.91	<b>-1.13%</b>
<b>Nikkei</b>	19959.84	20099.75	<b>-0.70%</b>
<b>Nifty 50</b>	10014.5	9915.25	<b>1.00%</b>
<b>Shanghai</b>	3253.24	3237.98	<b>0.47%</b>

Global equity markets note mixed movements amid mixed cues. On weaker note, denting sentiment was uncertainty over US growth along with concerns over Trump's policies however signs of stabilization in China and improving pace of

pace of growth in Euro Zone lifted risk appetite. In US, Dow Jones ended 1.2% higher while S&P closed almost unchanged. Meanwhile in Asia, India's Nifty and China's Shanghai closed 1% and 0.5% higher while Japan's Nikkei ended 0.7% lower.

Copper -24th - 28th July 2017								2017	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	6,400.0	5,985.0	6,325.0	6,004.0	<b>321.0</b>	<b>5.35%</b>	6400	5450.5
MCX (Rs/Kg)	30-Jun-17	414.25	387.65	408.90	389.00	<b>19.90</b>	<b>5.12%</b>	414.75	353.85
COMEX (Cents/Lb)	Jul-17	290.55	271.70	287.50	272.25	<b>15.25</b>	<b>5.60%</b>	290.55	247.25

### **Analysis**

LME three month Copper prices hit more than 2 years highs of \$6400 last week to end 5.35% higher at \$6325.

Prices rose seeking support from weakness in US Dollar along with demand optimism from top consumer China.

Also supporting prices was talks that China may ban imports of some scrap metal, including copper, from the end of 2018, which in turn may lead to higher refined copper imports from the nation.

Further on fundamental front, prices sought support from decline in stocks at LME warehouses along with worries over supply disruptions.

Copper stocks at LME fell by 6050 tonnes last week while those at SHFE rose by 6009 tonnes. Meanwhile on supply front, strike continued at the world's second-biggest copper mine in Indonesia while Glencore cut its output target on weaker ore quality. In Freeport's Grasberg copper mine in Indonesia roughly 5,000 workers were to extend their strike for a fourth month in a dispute over layoffs and employment terms. Also Glencore said its copper output fell 9% in first half and cut its full-year production forecast .

Adding to bullish tone, Speculators and Hedge Fund managers increased their net long position by 58.2% to 24,257 in week ended 25 July from 15,330 contracts in prior week.

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### *Outlook*

LME Copper trades higher today extending last week's rally. Lending support to the prices is hopes of robust demand from top consumer China and weakness in US Dollar.

In China, data today showed that factory activity slowed down slightly in July but still was on firmer note. China's Official Manufacturing PMI came in at 51.4 in July, missing market expectation of 51.5 and down from June's reading of 51.7 in June. Focus now shifts to China's Caixin Mfg. PMI data due on Tuesday. Upbeat reading may further lift prices higher.

Meanwhile the Dollar Index has been trending lower for past few session and hit 13 month low last week. The currency remains pressurized due to mixed macro economic data from US, concerns over Trump administration and uncertainty over future monetary stance by US Fed. For the week focus will be on US data along with speeches by Fed officials and developments related to Trump all of which may impact general sentiment and US Dollar. Major data from Us Due this week are Chicago PMI, personal income and spending, ISM manufacturing PMI, trade balance, factory orders and non-farm payrolls data.

Meanwhile on fundamental front, prices may seek support from decline in stocks at exchange warehouses and lingering supply worries.

The gains may however be capped amid possible risk aversion due to uncertainty over Trump administration and renewed worries over Korean peninsula

We expect the metal to continue to trade with positive bias this week however considering recent steep run up in prices suggest waiting for corrective dips to create fresh buying. LME Copper may trade in a range of \$6150 - \$6600 while prices on MCX may trade in range of Rs. 396 – Rs. 424 with ideal strategy to buy on dips.

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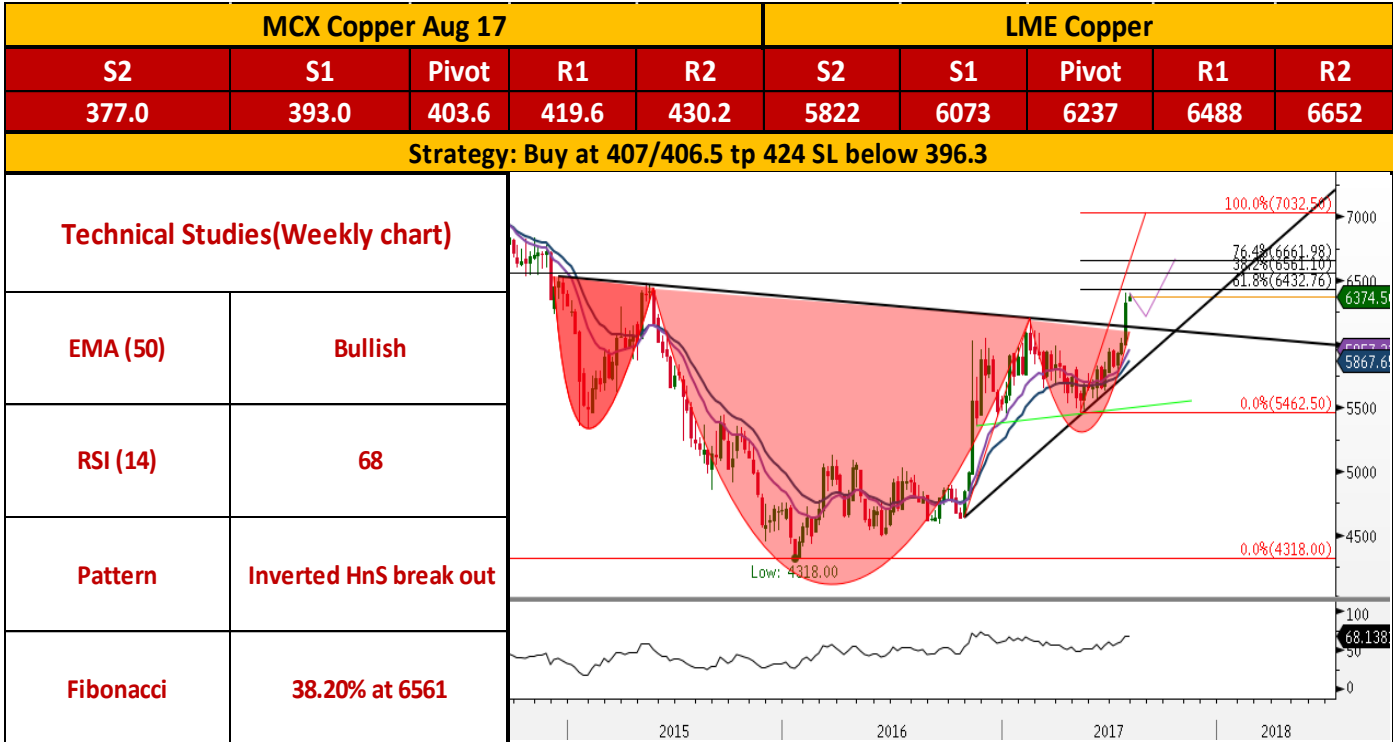
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Lead & Zinc - 24th - 28th July 2017									2017	
Commodity	Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
Lead	LME (USD/ Tonne)	3-M Forward	2,347	2,238	2,320	2,240	80.5	3.59%	2459	1986
	MCX (Rs/Kg)	31-Jul-17	150.05	143.05	147.65	143.30	4.35	3.04%	165.15	132.3
Zinc	LME (USD/ Tonne)	3-M Forward	2,857	2,740	2,776	2,754	22.5	0.82%	2981	2428
	MCX (Rs/Kg)	31-Jul-17	184.45	176.8	178	177.55	0.45	0.25%	198.6	156.1

### Analysis

Both Lead and Zinc prices ended on a higher note last week tracking gains across base metals complex. On macro front both the metal sought support from growth optimism in top consumer China and weakness in US Dollar.

Lead prices further sought support from decline stocks at exchange warehouses along with lower production by Glencore. Lead stocks at LME fell by 1175 tonnes while those at SHFE fell by 1789 tonnes. Meanwhile Glencore's lead production fell 4% in first six months of 2017 to 139,200 tonnes and the company cuts its production guidance for the full year to around 285,000 tonnes as against from 295,000 tonnes in 2016

Meanwhile in Zinc prices pared some of its gains later in the week amid jump in Glencore's production along with easing cancel warrants at LME warehouses and build up in stocks at SHFE. Glencore's zinc production rose 13% year-on-year to 570,800 tonnes in the first half of 2017 while Zinc stocks at SHFE rose by 5996 tonnes or 8.3%. Also stocks at LME fell by 3250 tonnes last week however cancel warrants eased to 45% on Friday. Further stocks

**Lead Outlook** – LME Lead trades higher today extending last week's gains. Lending support to the prices is decline in stocks along with signs of tightness in physical market. Also supporting prices is recent downtrend in US Dollar. The gains may however be capped amid growth worries in China and bouts of profit booking. We expect the prices to witness volatile movement this week however overall bias remains positive. MCX Lead August contract may trade in the range of Rs. 146 – 154 with ideal strategy to buy on dips.

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**Zinc Outlook** – LME Zinc trades higher today following last week gains. The metal continues to seek support from weak US Dollar, demand optimism from China and expectation of tightness in physical market. However recent rise in on warrants stocks at LME and jump in stocks at SHFE may cap the upside. We expect the metal to witness volatile movement this week amid mixed cues however bias may be positive in sync with other metals. We expect MCX Zinc to trade in range of Rs. 175 – 184 with ideal strategy to buy on dips.

Nickel - 24th - 28th July 2017							2017		
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low
LME (USD/ Tonne)	3-M Forward	10,290	9,475	10,200	9,520	680.0	7.14%	11165	8700
MCX (Rs/Kg)	31-Jul-17	657.90	616.00	656.90	613.20	43.70	7.13%	745	563.5

### Analysis

Nickel was the best performing base metal on LME as prices ended more than 7% higher.

The metal rose seeking support from weakness in US Dollar along with supply uncertainty from Philippines and expectation of robust demand from China's stainless steel sector. Also supporting prices was rise in China's nickel imports and decline in stocks at exchange warehouses.

In Philippines, Philippines President Rodrigo Duterte's backed the local processing of metal ore and threatened mining firms with more taxes unless they increase efforts to protect the environment. Meanwhile China's import of Ferronickel rose to 137,152 tons, the highest monthly total after a record 184,066 tons in May, amid rising demand from stainless steel mills to replenish stockpiles. Further Nickel stocks at LME fell by 1704 tonnes last week while those at SHFE fell by 2673 tonnes to lowest level since March 2016.

### Outlook

LME Nickel trades higher extending last week's rally. Supporting prices is gains across base metals complex amid upbeat Chinese data and weak US Dollar. Also supporting prices is supply uncertainty from Philippines and decline in stocks at exchange warehouses. The gains may however be capped amid improving supply situation from Indonesia. Nickel may trade with positive bias this week however considering recent steep rally in prices suggest waiting for corrective dips before creating fresh long. Overall we expect MCX Nickel August contract to trade broadly in a range of Rs. 635 – 680 with ideal strategy to buy on dips.

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Aluminium - 24th - 28th July 2017									2017	
Exchange	Contract	High	Low	Close	PCP	Change	% Change	High	Low	
LME (USD/ Tonne)	3-M Forward	1,964	1,907	1,907	1,915	-8.0	-0.42%	1981	1677	
MCX (Rs/Kg)	31-Jul-17	125.4	121	121.15	122.45	-1.30	-1.06%	130.6	114.6	

### **Analysis**

LME Aluminium prices hit highs of \$1964 but pared its gains to end 0.4% lower at \$1907. Prices rose seeking support from gains across base metals complex amid weakness in US Dollar and demand optimism from top consumer China.

Prices however pared its gains amid rise in stocks at LME and SHFE warehouses along with higher production from China despite talks of output cuts.

Aluminium stocks at LME rose by 7350 tonnes while those at SHFE rose by 1716 tonnes to highest level since May 2013.

### **Outlook**

LME Aluminium trades higher today tracking gains across base metals complex. Supporting prices is upbeat Chinese data and weak US Dollar. Also supporting prices is worries of deepening production cuts from China. The gains may however be capped amid rising global production led by jump in China's production along with rise in SHFE stocks. Overall we expect the metal to note mixed movement today amid mixed cues however overall bias remains weak. MCX Aluminium August contract may trade in a range of Rs. 121.2 -126.5 with ideal strategy to sell on rise.

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**Technical Outlook**

MCX Aluminum Aug 17					LME Aluminum				
S2	S1	Pivot	R1	R2	S2	S1	Pivot	R1	R2
119.4	120.8	123.5	125.0	127.7	1869	1888	1926	1945	1982
<b>Strategy: Sell at 124.8/125 TP 122/121.2 sl above 126.5</b>									



Date	IST	Currency	Data	Forecast	Previous	Importance
31-Jul	14:30	EUR	CPI Flash Estimate y/y	1.30%	1.30%	Medium
		EUR	Unemployment Rate	9.20%	9.30%	Low
	19:15	USD	Chicago PMI	60	65.7	Medium
	19:30	USD	Pending Home Sales m/m	1.00%	-0.80%	Medium
01-Aug	7:15	CNY	Caixin Manufacturing PMI	50.4	50.4	Medium
	13:25	EUR	German Final Manufacturing PMI	58.3	58.3	Medium
		EUR	German Unemployment Change	-5K	7K	Low
	13:30	EUR	Final Manufacturing PMI	56.8	56.8	Low
	14:00	GBP	Manufacturing PMI	54.5	54.3	Medium
	14:30	EUR	Prelim Flash GDP q/q	0.60%	0.60%	Low
	18:00	USD	Personal Spending m/m	0.10%	0.10%	Medium
		USD	Personal Income m/m	0.40%	0.40%	Medium
	19:15	USD	Final Manufacturing PMI	53.1	53.2	Medium
	19:30	USD	ISM Manufacturing PMI	56.5	57.8	High
All Day	USD	Total Vehicle Sales	16.8M	16.41M	Medium	
02-Aug	14:30	EUR	PPI m/m	-0.10%	-0.40%	Low
	14:30	INR	RBI Repurchase Rate	6.00%	6.25%	High
	17:45	USD	ADP Non-Farm Employment Change	190K	158K	High
03-Aug	21:30	USD	Fed's Mester Speaks			Medium
	1:00	Fed's Williams Speaks in Las Vegas				Medium
		7:15	CNY	Caixin Services PMI		51.6
	13:25	EUR	German Final Services PMI	53.5	53.5	Low
	13:30	EUR	Final Services PMI	55.4	55.4	Low
	14:00	GBP	Services PMI	53.6	53.4	Low
	14:30	EUR	Retail Sales m/m	0.00%	0.40%	Low
	16:30	GBP	Official Bank Rate	0.25%	0.25%	High
	17:00	GBP	BOE Gov Carney Speaks			High
	18:00	USD	Unemployment Claims	240K	244K	Medium
04-Aug	19:15	USD	Final Services PMI	54.2	54.2	Low
	19:30	USD	ISM Non-Manufacturing PMI	56.9	57.4	Medium
		USD	Factory Orders m/m	2.80%	-0.80%	Medium
	11:30	EUR	German Factory Orders m/m	0.50%	1.00%	Low
		18:00	USD	Non-Farm Employment Change	180K	222K
	USD	Unemployment Rate	4.30%	4.40%	High	
	USD	Trade Balance	-44.8B	-46.5B	Medium	

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