

Weekly Report: Metals & Energy (7th Jan–11thJan 2019)

Weekly Highlights

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- Gold prices fell on Friday, pulling back from more than a six-month peak hit earlier in the session, as robust US jobs data eased some concerns about an ailing economy. Gold futures were down 0.63% at \$1,286.65 on the Comex division of the New York Mercantile Exchange late Friday, having briefly risen as high as \$1,300.35 earlier in the session.
- The Labor Department reported that US employers hired the most workers in 10 months in December while boosting wages, suggesting a sustained strength in the economy that could soothe concerns of a sharp slowdown in growth.
- Copper prices were under pressure last week, after a surprise cut to Apple's sales forecast in China pointed to slowing growth in the country and a measure of Chinese manufacturing activity fell into contraction territory, also raised concerns among traders. For the week, prices at LME corrected almost 1% and at MCX they dropped 1.85%.
- Nickel ended the week up 3.63% on LME, while at MCX it closed at Rs.773.10/kg with gains of 2.94%. The latest INSG statistics pegged the global refined nickel market in a deficit of 118,700 tonnes over the January-October period in 2018, up from the 86,500 tonnes in the corresponding period of the previous year, indicating that nickel's fundamental backdrop remains mildly positive.
- Aluminium ended the week up 1.11%, while at MCX it closed up 0.50%. Inventories at the Shanghai Futures Exchange fell 39 percent from their peak in April last year. The Shanghai Futures Exchange Aluminium On Warrant Stock change index rose 26 percent in 2018. Depleting inventory usually corresponds to an uptick in demand. The record low inventories at LME and SHFE are likely to support aluminium prices.
- Zinc ended the week up 0.33%, while at MCX it closed down by 1.29%. Zinc prices touched the weakest in more than three months at \$2,356.50 on Thursday after a weak China manufacturing figure suggested the US trade war was dampening global growth.
- Lead prices ended the week down 4.26% at \$1956.00 a tonne, while at MCX prices closed at Rs.136.60/kg with losses of 4.07%. China's central bank said on Friday it was cutting the amount of cash that banks have to hold as reserves for the fifth time in a year, freeing up \$116 billion for new lending as it tries to reduce the risk of a sharp economic slowdown.
- Crude oil posted solid gains in the first week of 2019 trading despite rising concerns that the China-US trade war will lead to a global economic slowdown. For the week, the US benchmark gained 6.57%. Global benchmark Brent crude was up \$1.46, or 2.61% to end at \$57.41 a barrel. It jumped 9.98% for the week. At MCX, it jumped up 5.12%.
- In the week ahead, oil traders will continue to monitor developments in US-China trade talks while supply levels will also continue to capture market attention after signs of falling supply last week supported prices.
- Natural gas finished lower last week after almost wiping out the entire winter rally. The selling started on Monday with a gap-lower opening and continued till Thursday. For the week, NYMEX natural gas settled at \$2.880, down 8.51%. At MCX, it recorded a drop of 9.63%.
- This week precious metals traders will get a fresh update on the outlook for monetary policy from Wednesday's December Federal Reserve

Week Ahead Buy : Copper

- China and the United States will hold vice- ministerial level trade talks in Beijing on Jan. 7-8, as the two sides look to end a dispute that is inflicting increasing pain on both economies and roiling global financial markets.
- China's services sector extended its solid expansion in December, offering some cushion for the slowing economy, a private survey showed on Friday.

WEEKLY LEVELS

| Commodity | S1 | S2 | R1 | R2 |
|--------------------------|-----------|-----------|-----------|-----------|
| GOLD (Feb) | 31520 | 31250 | 31800 | 32100 |
| SILVER (Mar) | 39100 | 38500 | 39700 | 40200 |
| COPPER (Feb) | 405.00 | 397.00 | 415.00 | 424.00 |
| ZINC (Jan) | 169.00 | 165.50 | 176.00 | 180.00 |
| NICKEL (Jan) | 750.00 | 735.00 | 795.00 | 810.00 |
| ALUMINIUM (Jan) | 128.00 | 124.00 | 134.00 | 137.00 |
| LEAD (Jan) | 135.00 | 132.50 | 138.00 | 141.50 |
| CRUDE OIL (Jan) | 3330 | 3220 | 3470 | 3580 |
| NATURAL GAS (Jan) | 202.50 | 197.00 | 213.50 | 230.00 |

BULLION FUNDAMENTALS

GOLD

- Gold prices fell on Friday, pulling back from more than a six-month peak hit earlier in the session, as robust US jobs data eased some concerns about an ailing economy. Gold futures were down 0.63% at \$1,286.65 on the Comex division of the New York Mercantile Exchange late Friday, having briefly risen as high as \$1,300.35 earlier in the session.
- The Labor Department reported that US employers hired the most workers in 10 months in December while boosting wages, suggesting a sustained strength in the economy that could soothe concerns of a sharp slowdown in growth.
- The Fed chairman on Friday sought to ease market concerns that the US central bank was ignoring signs of an economic slowdown, saying he was aware of the risks and would be patient and flexible in policy decisions this year. Last month, the Federal Open Market Committee voted to increase interest rates for a fourth time in 2018 and indicated that two more rate hikes this year are likely. Gold is highly sensitive to rising interest rates, as these increase the opportunity cost of holding non-yielding bullion.
- Chinese officials will meet their US counterparts for trade negotiations this week, the first face-to-face talks of the year. Trump also said that trade talks with China were going very well and that weakness in the Chinese economy gave Beijing a reason to work towards a deal. Holdings of SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, rose 0.37 percent to 798.25 on Thursday.
- In the week ahead, the minutes of the Fed's December policy meeting will be published on Wednesday. US officials are scheduled to visit Beijing to resume trade talks on Jan. 7-8, as the two sides look to end a dispute that is inflicting increasing pain on both economies and roiling global financial markets. The Commerce Department will publish December inflation figures on Friday, which will be closely watched as investors try to determine the Fed's outlook on monetary policy.

SILVER

- Spot Silver prices ended the week up 2.15% at \$15.70 a troy ounce, while at MCX prices closed at Rs.39173/kg with gains of 1.21%.
- US and Chinese negotiators are holding trade talks Monday in Beijing as the world's two largest economies seek a resolution to an ongoing tariff fight. The meetings are due to last for two days, and both sides are expressing optimism. US President Donald Trump said last week, "I think we'll have a deal with China," while Chinese Foreign Ministry spokesman Lu Kang said the negotiators would have "positive and constructive discussions."
- U. S. employers added jobs at a robust pace in December, and wages posted their biggest full-year gain in a decade, providing a strong counterpoint to Wall Street worries that tariffs and rising interest rates are holding back the economy. Nonfarm payrolls rose a seasonally adjusted 312,000 in December, the Labor Department said Friday. That compared with an average gain of 215,000 a month over the previous five years. Average hourly earnings rose 3.2% in 2018, their biggest full-year gain of the expansion.
- Investors have been on the edge for weeks on concerns about a global economic slowdown and the gathering effects of rate increases by the Federal Reserve. Contributing to those concerns are trade frictions between the US and China, which have led to tit-for-tat tariffs that raise the cost of goods and disrupt business supply chains.
- President Donald Trump stood by his demands for funding for a border wall Sunday as another round of shutdown talks failed to break an impasse, while newly empowered House Democrats planned to step up the pressure on Trump and Republican lawmakers to reopen the government.
- Jerome H. Powell, the Federal Reserve chairman, said Friday that low inflation would allow the Fed to be "patient" in deciding whether to continue raising interest rates, a message welcomed by jittery investors.

BULLION TECHNICALS

GOLD

Gold prices settled 0.45 percent lower, while witnessing selling pressure later in the week. The precious metal remained sideways after approaching near recent highs as the tussle continued between the bulls and bears. Heading forward, prices are still favoring positive bias and following 50 Day EMA as support. Technical oscillators are signalling positive bias for the counter that can move higher towards Rs.31800/10gms initially and could extend for Rs.32100/10gms mark. On the other hand, the levels of Rs.31480/10gms & Rs.31250/10gms would provide cushion to the counter. As a strategy, traders can look for buying opportunity in gold near Rs.31520/10gms level, for upside target of Rs.31800/10gms mark, with stop loss at Rs.31380/10gms mark.



SILVER



The white metal is trading on a strong note on both daily and weekly charts as prices trade well above its 20 DEMA. However, prices are extremely overbought and trading around the weekly resistance zone of Rs.39550-39600/kg (\$15.87 an ounce on COMEX). It is highly probable that a prior uptrend could turn into a sideways range or trigger a sharp selloff as prices trade in the domain of the sellers. Prices are expected to range between Rs.39100/kg and Rs.39700/kg, until we see a valid breakout on the either side. Once prices breach Rs.39100/kg mark support, they are likely to witness further selling pressure towards Rs.38500-38200/kg. On the contrary, a move above Rs.39700/kg will negate our bearish view as the counter will then resume its original upwards trajectory and target higher levels.

BASE METALS' OVERVIEW

FUNDAMENTALS

- Copper prices were under pressure last week, after a surprise cut to Apple's sales forecast in China pointed to slowing growth in the country and a measure of Chinese manufacturing activity fell into contraction territory, also raised concerns among traders. For the week prices at LME corrected almost 1% and at MCX they dropped 1.85%.
- Apple Inc. on Wednesday surprised markets by slashing its quarterly revenue forecast as a result of a downturn in sales of iPhones in China, which represents nearly 20% of Apple's sales.
- China's Caixin manufacturing purchasing managers index fell into contraction territory in December for the first time since May 2017, according to data released Wednesday.
- That followed official Chinese government manufacturing figures released Monday, showing a fall in the PMI to its lowest level since February 2016. China, an engine of global growth in recent years, is the world's largest consumer of industrial metals used in construction, including copper.
- Nickel prices ended the week up 3.63% at \$11,125 a tonne on LME, while at MCX prices closed at Rs.773.10/kg with gains of 2.94%.
- The latest International Nickel Study Group (INSG) statistics pegged the global refined nickel market in a deficit of 118,700 tonnes over the January-October period in 2018, up from the 86,500 tonnes in the corresponding period of the previous year, indicating that nickel's fundamental backdrop remains mildly positive.
- Meanwhile, nickel prices have found support from a steadier stainless steel market in China and declining on-exchange inventories. Following sharp price falls in November, Chinese stainless steel prices managed to maintain a generally steady footing in December, against a backdrop of falling inventories. This has helped boost confidence across the stainless steel supply chain, including the nickel market.
- Nickel stocks at SHFE-approved warehouses ended 2018 at 15,259 tonnes, down 68.8% from the 48,920 tonnes seen at the beginning of last year. London Metal Exchange nickel stocks, meanwhile, remain near their 2018 low at 206,100 tonnes.

Copper Technicals

Copper prices tumbled for the third week in a row, while losing 1.85 percent on a closing basis. However, prices have come to their crucial support after the sell off and witnessed a bounce that signals demand to come in at lower levels. On technical ground, prices have been in oversold zone as indicated by RSI oscillator which has come closer to 30 levels on daily chart and inching higher gradually. Moving ahead, prices are likely to travel north side towards immediate resistance of Rs.415/kg level and a breakout above the same can lead to Rs.424/kg mark. On the other hand, Rs.402/kg would act as an immediate support followed by Rs.397/kg mark. Looking in to the positive momentum, traders can buy copper near Rs.405/kg mark for upside target of Rs.415/kg mark with stop loss of Rs.400/kg mark.

Nickel Technicals

Prices recuperated with strength as bargain demand attracted traders. Counter gained almost 4 percent on a weekly basis, countering two consecutive weekly sell off. A positive divergence on Daily RSI indicator is signalling recovery in coming days, coupled with Rs.735/kg support. While Rs.755/kg seems immediate base, prices are likely to march ahead towards Rs.795/kg and next at Rs.810/kg projection levels. Some dips in prices would be an opportunity to buy nickel near Rs.765/kg mark for upside target of Rs.795/kg mark with stop loss at Rs.750/kg mark

BASE METALS' OVERVIEW

FUNDAMENTALS

- Zinc prices ended the week up 0.33% to \$2,448 a tonne, while at MCX prices closed at Rs.171.55/kg with losses of 1.29%.
- Zinc prices touched the weakest in more than three months at \$2,356.50 on Thursday after a weak China manufacturing figure suggested the U.S. trade war was dampening global growth. Zinc was the worst performer of metals last year, falling by a quarter, as a flood of new mine supply erased a deficit.
- China's central bank said on Friday it was cutting the amount of cash that banks have to hold as reserves for the fifth time in a year, freeing up \$116 billion for new lending as it tries to reduce the risk of a sharp economic slowdown.
- Aluminium prices ended the week up 1.11% at \$1868.00 a tonne, while at MCX prices closed at Rs.130.15/kg with gains of 0.50%.
- Inventories at the Shanghai Futures Exchange fell 39 percent from their peak in April last year. The Shanghai Futures Exchange Aluminium On Warrant Stock change index rose 26 percent in 2018. Depleting inventory usually corresponds to an uptick in demand. The record low inventories at LME and SHFE are likely to support aluminium prices.
- Geopolitical factors such as sluggish growth in China—the world's largest consumer of aluminium—and the lifting of American sanctions on Russian producer Rusal, too, hit prices. The metal was caught in the crossfire of the US-China trade war: the US imposed 10 percent duty on certain aluminium products from China, with Asia's largest economy responding in kind.
- The premium has attracted some aluminium to the LME system but stocks, at 1.27 million tonnes, are still 10 percent below those last April and a fraction of global demand estimated at about 67 million tonnes this year.
- Lead prices ended the week down 4.26% at \$1956.00 a tonne, while at MCX prices closed at Rs.136.60/kg with losses of 4.07%.
- China's factory activity contracted for the first time in over two years in December, highlighting the challenges facing Beijing, as it seeks to end a bruising trade war with Washington and reduce the risk of a sharper economic slowdown in 2019.

Zinc Technicals

Zinc prices marked 15-weeks low, while losing 1.29 percent last week. Bulls were weak in almost all sessions but came in to action later, as buying interest was seen near support levels. Going ahead, counter can witness recovery in the coming week as technical bounce can be seen from oversold region as signaled by Daily stochastic. One can find Rs.176/kg as an immediate supply zone for prices, whereas a sustained move above the mentioned level can lift the counter towards Rs.180/kg mark. On the down side, initial support can be seen at Rs.169/kg mark while Rs.165.50/kg mark would act as a key support for the week. With positive developments on price chart, traders can buy zinc near Rs.171/kg mark for upside potential of Rs.176/kg mark with stop loss below Rs.169/kg mark.

Aluminium Technicals

Metal found springboard on lower levels as supply was being absorbed as week continued. Prices recovered from early set back and settled up half a percent at the close. A hammer candlestick pattern on weekly time frame suggests positive bias in coming days. Also, weekly RSI has come down to 34 mark that seems a technical trigger to pull out the metal from the ground. Level wise, prices have respected Rs.128/kg level on a weekly closing basis, that confirm strong demand near these level. For the next week, prices seem to continue with positive breath and can move towards Rs.134/kg mark. As a trading bet, it is advisable to initiate long trades near Rs.129/kg mark, for upside target of Rs.133.50/kg mark while considering Rs.127/kg as a stop loss for the trade.

Lead Technicals

The industrial metal has been trading with low momentum for last couple of days on account of low volumes. Price action suggests an accumulation at lower levels as prices trade in the vicinity of weekly support zone of Rs.134.50-135.50/kg. A double bottom pattern is evident on the hourly charts with a short term resistance around the neckline at Rs.138/kg. Biasness of the week ahead remains bullish. As a strategy, traders are advised to build long position in the counter on convincing break and retest of the neckline around Rs.138/kg for upside targets of Rs.144/kg, keeping stops below Rs.135.50/kg.

ENERGY FUNDAMENTALS**CRUDE OIL**

- Crude oil posted solid gains in the first week of 2019 trading despite rising concerns that the China-US trade war will lead to a global economic slowdown. WTI crude rose 2.59% on Friday to settle at \$48.31 a barrel by close of trade on the New York Mercantile Exchange. For the week, the US benchmark gained 6.57%. Global benchmark Brent crude was up \$1.46, or 2.61% to end at \$57.41 a barrel. It jumped 9.98% for the week. At MCX it jumped up 5.12%.
- The US and China have been locked in a trade war for much of the past year, disrupting the flow of hundreds of billions of dollars' worth of goods and raising concern of slowing growth.
- Despite the demand-side worries, oil has received some support as supply cuts announced by the global coalition of producers known as OPEC+ kicked in.
- OPEC, Russia and other non-members agreed in December to reduce supply by 1.2 million barrels per day (bpd) in 2019. OPEC's share of that cut is 800,000 bpd.
- The Reuters survey on Thursday found OPEC supply fell by 460,000 bpd in December, following assessments by Bloomberg and JBC Energy also showing a sizeable decline.
- The focus now will be on whether producers deliver further curbs in January to implement the deal fully. Iraq, a laggard in reducing production in the last OPEC cutback, said on Friday it would stick to the new accord.
- In the week ahead, oil traders will continue to monitor developments in US-China trade talks while supply levels will also continue to capture market attention after signs of falling supply last week supported prices.

NATURAL GAS

- Natural gas finished lower last week after wiping out the almost entire winter rally. The selling started on Monday with a gap-lower opening and continued to Thursday. For the week, NYMEX natural gas settled at \$2.880, down 8.51%. At MCX it recorded 9.63% of drop.
- Prices were a little higher on Friday despite a lower than expected storage draw the previous week. The market found support as new forecasts showed colder temperatures creeping into key demand areas during the last two weeks of January. Deficits continue to tighten due to the recent above average temperatures.
- On Friday, the US Energy Information Administration (EIA) reported that domestic supplies of natural gas fell by 20 billion cubic feet for the week-ended December 28. Traders had priced in a decline of 42 billion cubic feet. The five-year average decline for the same period is 107 billion.
- Total stocks now stand at 2.705 trillion cubic feet, down 450 billion cubic feet from a year ago, and 560 billion below the five-year average, the government report showed. Traders should expect a much larger withdrawal for the week-ending January 4 because of a drop in production of 1.5 Bcf/d and a jump in demand of 7.4 Bcf/d.

ENERGY TECHNICALS

CRUDE OIL

Oil prices remained under pressure for most of the weeks, during the second half of 2018. However, the energy counter has witnessed a sharp recovery from its oversold zone and prices gained more than 5% for the week to settle at Rs.3348/bbl. Price action suggests a strong support around the psychological level of Rs.3000/bbl (\$42.50 per barrel on NYMEX, but prices are again likely to witness selling pressure at higher levels. Setting eyes on the week ahead, after the recent rebound in the energy counter, we may see prices cooling off a bit, where they are likely to face near term hurdle at Rs.3470/bbl mark, while there is a major hurdle at Rs.3580/bbl mark on its way up. As a strategy, traders are advised to build short positions in the counter around Rs.3435/bbl mark, for downside targets of Rs.3220/bbl, keeping stops above Rs.3500/bbl mark.



NATURAL GAS



After the steep fall in the month of December, the energy counter traded on a muted note during the first week of the New Year. Counter is consolidating in a narrow ten point range between Rs.202/mmbtu and Rs.213.50/mmbtu. Volume and price action suggests accumulation at lower levels by the smart money around the weekly demand zone of Rs.201.50-202.50/mmbtu. On the higher side, Rs.213.50/mmbtu remains the short term resistance in the counter and only a breakout above the same would be a convincing signal of further strength in the counter. Traders are advised to build long positions in the counter only in case of a breakout above the same, for upside targets of Rs.230/mmbtu, keeping stops below Rs.207/mmbtu.

meeting minutes along with other key data including the weekly report on initial jobless claims and the inflation data by the US.

| Date | Time | Name | For | Consensus | Previous | Importance |
|--------|-------|-------------------------------|-----------------------------|-----------|-----------|------------|
| 07-Dec | 20:30 | Factory Orders | November | 0.3% | -2.1% | High |
| 07-Dec | 20:30 | Ism Non-Manufacturing PMI | December | 59.6 | 60.7 | Very High |
| 08-Dec | 19:00 | Export | November | - | \$211.05B | Very High |
| 08-Dec | 19:00 | Import | November | - | \$266.53B | Very High |
| 08-Dec | 19:00 | Trade Balance | November | - | -55.50B | Very High |
| 08-Dec | 20:30 | JOLTs Job Openings | November | 7.170M | 7.079M | Very High |
| 09-Dec | 21:00 | Crude Oil Inventories | W/o 4 th January | -3.086Mb | 0.007Mb | Very High |
| 10-Dec | 00:30 | FOMC Meeting Minutes | - | - | - | Very High |
| 10-Dec | 19:00 | Initial Jobless Claims | W/o 5 th January | 226K | 231K | Very High |
| 10-Dec | 21:00 | Natural Gas Storage | W/o 4 th January | -47Bcf | -20Bcf | Very High |
| 10-Dec | 22:30 | Fed Chair Powell Speaks | - | - | - | Very High |
| 11-Dec | 19:00 | Core CPI | December | 0.2% | 0.2% | Very High |
| 11-Dec | 19:00 | CPI | December | -0.1% | 0.0% | Very High |
| 11-Dec | 23:30 | US Baker Hughes Oil Rig Count | W/o 4 th January | - | 875 | Very High |

US Economic Calendar

7th Jan–11thJan 2019

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