

# Weekly Report: Metals & Energy (21st Jan–25thJan 2019)

## Weekly Highlights

- Gold slid to its lowest in more than a week on Friday and posted its first weekly decline since mid-December, as equities and the US dollar got a lift from investors taking on more risk due to growing hopes for a resolution in the China-US trade war. For the week, gold at COMEX was down 0.54% and at MCX closed higher by 0.5% due to weakness in our domestic currency.
- Media reports on Thursday and Friday suggested both countries were considering concessions ahead of a Washington visit from Chinese Vice Premier Liu He on Jan. 30 and 31 for talks aimed at resolving the trade standoff between the world’s two largest economies.
- China on Monday announced that its GDP came in at 6.6% in 2018, the slowest pace since 1990. That full-year figure matched expectations from Reuters’ poll. Fourth-quarter GDP growth also matched expectations, coming in at 6.4% on-year from 6.5% in the third quarter.
- Copper crept forward for a second straight week as China’s move to inject liquidity into the financial system boosted expectations of higher demand in the world’s top industrial metals consumer and producer. Last week copper gained 1.65% and 3.23% at LME and MCX respectively.
- Nickel ended the week up 3.05% on LME, while at MCX prices closed with gains of 4.15%. LME inventory slumped by 44% over the course of 2018.
- Aluminium ended the week up 1.99%, while at MCX it closed with gains of 3.34%. China’s primary aluminum output defied low prices to rise for a second straight month to a record high in December as falling alumina costs boosted margins, while 2018 annual output was also a record.
- Zinc ended the week up 3.36%, while at MCX it closed with gains of 5.13%. LME zinc also hit a 2019 high of \$2,595.00. Lead prices ended the week down 0.15% at \$1995.00 a tonne, while at MCX prices closed at Rs.141.85/kg with gains of 1.29%.
- US WTI crude ended Friday's session up 3.2% on the NYMEX. WTI earlier during the week rose to its best level since Dec. 7. For the week, the US benchmark rose about 4.3%, while MCX crude surged more than 5% for the last week.
- Oil traders will be watching for more trade-related headlines this week, after prices enjoyed a third weekly gain in a row on hopes the United States and China would strike a deal to end a trade war between the world's two biggest economies. Fresh data on U.S. commercial crude inventories and production activity will capture the market's attention this week.
- Natural gas futures had a volatile week, highlighted by Monday’s gap-higher opening and two-sided trade, before closing higher. The price action was fueled by the weather. The first price surge was triggered by last weekend’s cold blast and forecasts for an additional cold blast later in the week. However, a slight warm spell chased speculators out of the market until Friday when the market posted a dramatic turnaround ahead of the weekend. Last week, NYMEX natural gas settled up by 9.98% and at MCX it surged 9.77%.

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## Week Ahead Sell : Nickel

- The supply-demand picture for stainless steel in China is not expected to experience any major changes in 2019 compared with last year. Large steel mills in China have not released any plans for new stainless steel capacity.
- Global stainless production growth braked sharply from almost 13 percent in the first half of 2018 to just five percent in the third quarter, according to the most recent statistical update from the International Stainless Steel Forum. Nickel prices shall be hit hard as the steel market is the largest consumer for the metal.

**WEEKLY LEVELS**

<b>Commodity</b>	<b>S1</b>	<b>S2</b>	<b>R1</b>	<b>R2</b>
<b>GOLD (Feb)</b>	31800	31680	32250	32380
<b>SILVER (Mar)</b>	38500	38000	39200	39800
<b>COPPER (Feb)</b>	423.00	419.00	434.00	440.00
<b>ZINC (Jan)</b>	181.00	176.50	187.00	190.00
<b>NICKEL (Jan)</b>	815.00	800.00	845.00	858.00
<b>ALUMINIUM (Jan)</b>	130.00	128.00	135.50	138.00
<b>LEAD (Jan)</b>	141.20	138.00	144.50	149.00
<b>CRUDE OIL (Feb)</b>	3820	3710	3985	4050
<b>NATURAL GAS (Jan)</b>	225.00	215.00	252.00	265.00

**BULLION FUNDAMENTALS****GOLD**

- Gold slid to its lowest in more than a week on Friday and posted its first weekly decline since mid-December, as equities and the U.S. dollar got a lift from investors taking on more risk due to growing hopes for a resolution in the China-U.S. trade war. Gold futures settled down 0.86% at \$1,281.15 on the Comex division of the New York Mercantile Exchange late Friday, after falling as low as \$1,280.10 earlier. For the week, gold was down 0.54%. On MCX, gold futures traded higher by 0.51% to settle at Rs.32091/10gm.
- The U.S. dollar index, which measures the greenback's strength against a basket of six major currencies, was up 0.32% at 96.02 late Friday, for a weekly gain of 0.76%. It was the first positive week for the index since mid-December. Gold is often sensitive to movements in the dollar. A stronger greenback is seen as a headwind for commodities priced in dollars as it makes them more expensive to holders of other currencies.
- Media reports on Thursday and Friday suggested that both US and China were considering concessions ahead of a Washington visit from Chinese Vice Premier Liu He on Jan. 30 and 31 for talks aimed at resolving the trade standoff between the world's two largest economies.
- Less than two weeks ahead of the U.S. central bank's first policy meeting of the new year, Federal Reserve officials have left little doubt that they want to stop raising interest rates - at least for a while. Slower global growth, a stock meltdown last quarter, and a partial U.S. government shutdown that threatens consumer confidence and spending have many in the Fed worried. Reflecting investor appetite for gold, holdings of SPDR Gold, the largest gold based exchange traded fund, rose 1.5 percent on Friday to 809.76 tonnes.
- This week precious metals traders will be monitoring trade talks for signs of a resolution in the U.S.-China trade dispute, while concerns over the economic impact of the U.S. government shutdown and uncertainty over Brexit will also remain in focus. While the ongoing government shutdown continues to delay some key U.S. economic reports, investors will get an update on U.S. existing home sales and jobless claims this week and U.S. markets are to remain closed for a long holiday weekend on Monday.

**SILVER**

- Spot Silver prices ended the week down 1.54% at \$15.33 a troy ounce, while at MCX prices closed at Rs.39198/kg with losses of 0.35%.
- U.S. officials expect China's top trade negotiator may visit Washington this month, signaling that higher-level discussions are likely to follow with mid-level officials in Beijing as the world's two largest economies try to hammer out a deal to end a tit-for-tat tariff war.
- US President Donald Trump proposed an immigration deal on Saturday in a bid to end a 29-day partial government shutdown, including temporary protections for "Dreamers" and other immigrants, but Democrats immediately dismissed it. Insisting on his demand for \$5.7 billion to fund a US-Mexico border barrier as part of any bill to fully reopen the government, Trump sought to pile pressure on Democrats by appealing to immigrants they have tried to help.
- U.S. President Donald Trump said on Saturday he had "an incredible" meeting with North Korea's nuclear envoy Kim Yong Chol and the two sides had made "a lot of progress" on denuclearization. The White House announced after talks between Trump and Kim on Friday that the U.S. president would hold a second summit with North Korean leader Kim Jong Un in late February, but would maintain economic sanctions on Pyongyang.
- Labor markets tightened across the United States as businesses struggled to find workers at any skill level and wages generally grew moderately, the Federal Reserve said on Wednesday in its latest report on the economy.

**BULLION TECHNICALS**

**GOLD**

Pressure engulfed yellow metal as prices were unable to break the crucial mark of Rs.32400/10gms and retreated in the later part of the week. However, counter settled on a positive note with 0.51 percent. It seems the yellow metal has lost steam in near term and bias would be negative for the next week. One can find prices to slip towards previous week lows where Rs.31850/10gms & Rs.31700/10gms can be seen as key support levels. On the other hand, Rs.32250/10gms would be the initial hurdle, followed by Rs.32400/10gms level to resist the prices. For the coming week, traders can sell gold on rise near Rs.32200/10gms level for target price of Rs.31800/10gms, while considering Rs.32380/10gms as a stop loss for the trade.



**SILVER**



Bulls tried hard for three consecutive weeks to push the counter above the key weekly resistance of Rs.39500/kg (\$15.90 an ounce on COMEX) but still prices failed to sustain higher, trapping early bulls betting on the breakout; forming a bearish pin bar pattern on weekly charts. Pattern suggests that bulls have exhausted and bears are ready to step in. Also, on four hourly charts prices have clearly formed a triple top reversal pattern turning biasness of the next week as bearish. On the lower side, Rs.38500/kg remains the next support for the counter. As a strategy, traders are advised to build shorts in the counter near neckline resistance of Rs.39200/kg for downside targets of Rs.38500/kg (partial profit booking recommended) and Rs.38000/kg, keeping stops above Rs.39780/kg.

## BASE METALS' OVERVIEW

### FUNDAMENTALS

- Copper prices crept forward for a second straight week as China's move to inject liquidity into the financial system boosted expectations of higher demand in the world's top industrial metals consumer and producer. Last week copper gained 1.65% and 3.23% at LME and MCX respectively.
- The People's Bank of China is injecting ¥250 billion (\$37 billion) through seven-day reverse bond repurchase agreements and ¥150 billion through 28-day reverse repos.
- Shanghai copper has flipped into backwardation amid a promise of value-added tax (VAT) cuts in China, which has increased near-term demand for physical copper.
- The tax reductions are not expected to be formalised until March but their implementation could result in a ¥400 a tonne boost to the ShFE copper price for every percentage point VAT decrease.
- China on Monday announced that its official economic growth came in at 6.6 percent in 2018, the slowest pace since 1990. That full-year figure matched expectations from analysts polled by Reuters. Fourth-quarter GDP growth also matched expectations, coming in at 6.4 percent on-year from 6.5 percent in the third quarter.
- Industrial output grew 5.7 percent in December from a year earlier — beating economists' expectations of 5.3 percent growth — outpacing November's 5.4 percent growth. Retail sales data rose 8.2 percent in December on-year, in line with a forecast and up from November's 8.1 percent gain.
- Nickel prices ended the week up 3.05% at \$11,810 a tonne on LME, while at MCX prices closed at Rs.838.70/kg with gains of 4.15%.
- LME stocks inventory slumped by 44 percent, or 160,212 tonnes, over the course of 2018 and last Friday the headline figure fell through the 200,000-tonne level for the first time since 2013. Live stocks, stripping out the metal earmarked for physical load-out, totalled 142,788 tonnes at the end of last week, the lowest level since early 2014.
- The supply-demand picture for stainless steel in China is not expected to experience any major changes in 2019 compared with last year. Stainless crude steel capacity is unlikely to increase in 2019 because China is strictly prohibiting the construction of any new crude steel capacity. At the same time, large steel mills in China have not released any plans for new stainless steel capacity.

### Copper Technicals

Copper prices witnessed a positive close for the last week while gaining 3.23 percent on the back of bargain buying on lower levels. While shift saw a positive change on hourly chart, prices have settled above 50 Day SMA, supported with rising 10 Day EMA. Moving ahead, tone looks positive and dips can be used as a buying opportunity. On the lower side, Rs.423/kg is an immediate support available for prices, whereas Rs.419/kg would act as a key level on the downside. While prices are likely to take a flight towards Rs.434/kg & next at Rs.440/kg mark, one can enter in to long trade on dips near Rs.423/kg mark for target price of Rs.434/kg and then next at Rs.440/kg, with stop loss at Rs.418/kg level.

### Nickel Technicals

Nickel prices headed for third straight weekly gains and settled with 4.17 percent returns. Counter has been in momentum in recent weeks and got support of rising 10 Day EMA. However after the sharp rise of close to 13% since the beginning of this month, the rally now looks to take a pause and counter is likely to witness some profit booking in the immediate short term. Prices could find initial resistance at 100 Day SMA at Rs.845/kg mark, followed by Rs.860/kg level on the higher side. For the next week, it is advised to short nickel near Rs.842-845/kg mark for downside target of Rs.815/kg, with stop loss at Rs.858/kg levels.

## BASE METALS' OVERVIEW

### FUNDAMENTALS

- Zinc prices ended the week up 3.36% to \$2,581 a tonne, while at MCX prices closed at Rs.185.30/kg with gains of 5.13%.
- Shanghai zinc was the top performer, rising as much as 2.5 percent to 21,380 yuan a tonne, the most since Oct. 25. LME zinc also hit a 2019 high of \$2,595.00.
- Zinc hit their highest level of 2019, on optimism that the United States and top metals consumer China are closer to resolving their long-running trade dispute.
- Sentiment also picked up after President Trump predicted Washington would reach a deal with China to end a tit-for-tat trade war, saying Beijing wants to negotiate and that talks are going well.
- Aluminium ended the week up 1.99% at LME, while at MCX prices closed with gains of 3.34%. China's primary aluminum output defied low prices to rise for a second straight month to a record high in December as falling alumina costs boosted margins, while 2018 annual output was also a record.
- The world's top producer churned out more than 3 million tonnes in a month for the first time, undeterred by aluminum prices at two-year lows, the impact of the U.S.-China trade war and Beijing's environmental crackdown. Production was likely spurred by new smelter openings late last year and higher utilization rates following a plunge in the cost of raw material alumina.
- A vote by US lawmakers cleared the way for sanctions to be lifted on major producer Rusal, potentially increasing supply. The US Senate rejected legislation to keep sanctions on companies linked to Russian oligarch Oleg Deripaska, including aluminium firm Rusal.
- Lead prices ended the week down 0.15% at \$1995.00 a tonne, while at MCX prices closed at Rs.141.85/kg with gains of 1.29%.
- China signaled its intent to introduce fresh stimulus measures in near term to address the increasing downward pressure on its economy. The measures included lower value added tax rates for select industries and tax rebates for others. The stimulus news eased concerns over a downswing in the world's second-largest economy.

### Zinc Technicals

Zinc prices surged for the second week in a row, while momentum led prices to gain 5.13 percent. Three rising soldier candlestick pattern on daily chart suggest strength to continue in coming days and prices can march higher towards next crucial hurdle at Rs.191/kg mark. On the lower side, support can be seen near Rs.181/kg mark along with 50 day SMA that should act as a key base for prices. Though near term looks promising, but one should wait for dips to initiate long positions as prices have seen a sharp rise in the last week. Hence we recommend buying zinc near Rs.182/kg mark for upside target of Rs.190/kg mark with stop loss below Rs.180/kg mark.

### Aluminium Technicals

The light metal took a flight after consolidating near major base and settled higher with 3.34 percent gains. Bargain buying near crucial support of Rs.128/kg mark provided stimulus to prices where they went on to close near high of the week. Moving forward, prices are likely to remain elevated and can mark their presence towards Rs.138/kg levels, along with minor resistance at Rs.135.50/kg mark. While Rs.128/kg would be the key level for the week, prices can find Rs.130/kg as an initial support for the week. Considering short term rally on the cards, traders can buy aluminum near Rs.130/kg mark for upside projections of Rs.135.50/kg & Rs.138/kg levels with stop loss at Rs.129/kg mark.

### Lead Technicals

The industrial metal managed to break the key range resistance of Rs.141/kg on Friday and looks primed to trade in positive trajectory for the next week. Price action suggests a strong bullish momentum building at lower levels. On the higher side, Rs.144.50/kg shall be the next hurdle and key level to watch for the counter. Traders are advised to build long positions on dips as price looks to retest the support of Rs.141.20/kg for upside targets of Rs.144.50/kg and Rs.148/kg (in case prices sustain above Rs.144.50/kg), keeping stops below Rs.138.50/kg.

**ENERGY FUNDAMENTALS****CRUDE OIL**

- US WTI crude ended Friday's session up 3.2% on the NYMEX. WTI earlier during the week rose to its best level since Dec. 7. For the week, the US benchmark rose about 4.3%. It climbed about 3.7% for the week. MCX crude surged more than 5% for the last week.
- After ending 2018 in a freefall, oil is off to its best start for a year since 2001, gaining 18% since the start of January. Overall, the recent advance for the energy complex has been powered by evidence of a decline in global output.
- Offering a hint on U.S. production activity, Baker Hughes reported Friday that the number of domestic rigs drilling for oil fell by 21 to 852 in the week to Jan. 11. It was the third straight weekly decline in the rig count and the largest weekly drop since February 2016, suggesting a slowdown in domestic crude production.
- That followed a report Thursday from the Organization of the Petroleum Exporting Countries, which revealed that the group's output fell by 751,000 barrels to 31.6 million barrels a day in December. The decline was driven by a large voluntary reduction in Saudi output, as well as supply disruptions from Libya and Iran.
- The EIA data showed that crude oil inventories fell by 2.68 million barrels in the week to Jan. 11. That was compared to forecasts for a stockpile draw of 1.32 million barrels, after a decline of 1.68 million barrels in the previous week.
- Oil traders will be watching for more trade-related headlines this week, after prices enjoyed a third weekly gain in a row on hopes the United States and China would strike a deal to end a trade war between the world's two biggest economies. Fresh data on U.S. commercial crude inventories and production activity will capture the market's attention this week. The reports come out one day later than usual, due to the Martin Luther King Jr. Day holiday on Monday.

**NATURAL GAS**

- Natural gas futures had a volatile week, highlighted by Monday's gap-higher opening and two-sided trade, before closing higher. The price action was fueled by the weather. The first price surge was triggered by last weekend's cold blast and forecasts for an additional cold blast later in the week. However, a slight warm spell chased speculators out of the market until Friday when the market posted a dramatic turnaround ahead of the weekend. Last week, NYMEX natural gas settled up by 9.98% and at MCX it surged 9.77%.
- According to the EIA report released on Thursday, domestic supplies of natural gas fell by 81 billion cubic feet for the week-ended January 11. Analysts were looking for a consensus decline of 77 billion cubic feet. However, it fell between the 76-82 Bcf range of guesses. This also came in well-below the five-year average of a 218 Bcf withdrawal.
- Total stocks now stand at 2.533 trillion cubic feet, down 77 billion cubic feet from a year ago, and 327 billion below the five-year average, the government said.
- According to NatGasWeather for January 18-24, "High pressure will dominate much of the southern US one last day with warm highs of 60s and 70s before colder air arrives this weekend, where lows will drop into the 20s and 30s.
- Depending on where the frigid temperatures struck this week-end, we could be looking at another "gap and go" trade on Monday's opening. After the opening, the weather reports on Monday should set the tone for the week.

**ENERGY TECHNICALS**

**CRUDE OIL**

Oil prices continued to endure higher for the third consecutive week as prices were up by 5% to close at Rs.3817/bbl on MCX. Prices have given a clear breakout above the 50 DEMA resistance of Rs.3800/bbl (\$53.50 per barrel on NYMEX) and sustained higher. Buyers are ready to enter on every significant dip as counter forms new hourly highs. On the higher side, Rs.3900/bbl remains the short term resistance for the counter above which buying may accelerate. Biasness of the week ahead remains bullish. Traders are advised to build long position in the counter near Rs.3820/bbl for upside targets of Rs.4000/bbl, keeping stops below Rs.3750/bbl.



**NATURAL GAS**



The energy counter bounced back sharply from the key weekly support of Rs.202/mmbtu to gain about 9.77% for the week and closed at Rs.238.20/mmbtu. Strong rally seen on last Monday and Tuesday could not sustain higher as prices witnessed strong resistance around 61.8% of the Fibonacci level drawn on daily charts around Rs.263-264/mmbtu zone. On hourly charts, prices have formed a series of lower high/lower low structure indicating that buyers are no longer eager to take prices higher and sellers are ready to take over. As a strategy, traders are advised to build shorts in the counter around Rs.240/mmbtu mark for downside targets of Rs.215/mmbtu, keeping stops above Rs.252/mmbtu.

Date	Time	Name	For	Consensus	Previous	Importance
21-Jan	-	US Markets Closed	-	-	-	-
22-Jan	20:30	Existing Home Sales	December	5.24M	5.32M	Very High
23-Jan	-	No Major Data From US	-	-	-	-
24-Jan	19:00	Initial Jobless Claims	W/o 19 <sup>th</sup> January	218K	213K	Very High
24-Jan	20:15	Manufacturing PMI	January	-	53.8	Very High
24-Jan	20:15	Markit Services PMI	January	-	54.4	Very High
24-Jan	20:15	Markit Composite PMI	January	-	54.4	Very High
24-Jan	21:00	Natural Gas Storage	W/o 18 <sup>th</sup> January	-	-81Bcf	Very High
24-Jan	21:30	Crude Oil Inventories	W/o 18 <sup>th</sup> January	-	-2.683Mb	Very High
25-Jan	19:00	Core Durable Goods Orders	December	0.2%	0.4%	Very High
25-Jan	19:00	Durable Goods Orders	December	1.8%	-4.3%	Very High

US Economic Calendar

21th Jan–25th Jan 2019

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