

# Weekly Copper Price Outlook and Strategy

Decision enabling cash market analysis & price outlook

For the week beginning Oct '08, 2013

Report Summary				
LME / SHFE / MCX on Oct 04, 2013		LME 3M: <b>USD 7252</b> (0.56%) SHFE: <b>CNY 52570</b> (+0.46%) MCX Nov'13: <b>454.20</b> (-3.37%)		
Fundamental Summary	Price drivers		Impact on Price	
	✓ Economic data from US		Mixed	
	✓ Re-stocking activity from China		Bullish	
	✓ Weak demand from Japan electrical sector		Bearish	
	✓ Warehouse inventory movement		Mixed	
	✓ Increasing supply of concentrates		Bearish	
	✓ US Fed keeping its stimulus programme intact		Bullish	
	✓ Looming concerns of possible government shutdown in and debt default in US		Bearish	
	✓ European economic revival		Bullish	
	Sum up		Mixed to Positive	
	➤ Corrective rise with positive trend is evident on the chart, support around USD 7020.			
	➤ However, long term trend is still bearish, likely to provide resistance around USD 7550.			
Technical Summary				
Price Outlook Summary		Concisely, price is likely to trade towards USD 7550 with support in place around USD 7020 in the forthcoming few weeks.		
		Concisely, price is likely to move lower towards INR 440 and consolidate in the coming few weeks.		
Price Ranges (LME 3M-Forward)	0 – 2 Weeks		0 – 1 Month	
	Range	Price Bias	Range	Price Bias
	7020-7550	Positive	7020-7700	Mixed to Positive
Procurement Strategy (LME Cash)		Oct '13 procurement completed at an average of USD 7105.00 compared to the monthly average of USD 7161.43 per ton. Price 50% of Nov '13 buying requirements near USD 7120 - 7150. Wait for pricing remaining Nov '13 buying requirements.		
Turnaround point		A daily close below USD 7020 shall negate the upside potential and then price could test USD 6900/6700 in the said time frame.		

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### Market Analysis

Prices remained in a holding pattern over the past week, with thin China-less trading conditions meaning that most of the price activity happens during US trade, with the direction at the moment depending on how US markets feel the government shutdown and more important debt ceiling negotiations are faring. Overall, prices are little changed from the initial knee-jerk reaction to the US government shutdown. Turnover was sluggish during the previous session with no US NFP figures last week owing to the US government shutdown. With the impasse over the US government shutdown to continue over the current week and the debt limit estimated to hit by Oct 17th, the same is likely to keep the current uncertainty intact in the short-term and lead to further market volatility.

### Fundamental picture

- ✓ Supply demand numbers pointing towards narrowing surplus than earlier estimates. According to the data reported by ICSG, despite improving supply global copper market reported a deficit of 132 KT in June amid sharp rise in Chinese apparent demand of metal during the months. Chinese apparent refined demand in June at 824 KT was at the highest level since December 2011.
- ✓ Cumulatively, global copper market reported a surplus to 55 KT in first six months (Jan-June 2013) compared to deficit of 467 KT during the same period in 2012.
- ✓ In the first half of 2013, world usage is estimated to have remained flat compared with that in the same period of 2012. Despite June's high level, Chinese apparent demand in the first six months was practically unchanged (-0.3%) from that in the same period of 2012 as reflected by a 30% decline in net imports of refined copper.
- ✓ **Moving ahead**, while increase in output from Chile and Peru shall keep market well supplied, uptick in Chinese imports of refined metal in July-Aug period and production hiccups in Indonesia, India and a Rio Tinto mine in North America shall further led to deficit during the period.
- ✓ **However, stocks levels are indicating of different story** – Copper inventories in H1 2013 (as reported by ICSG) has increased by around 45 percent to 9.94 million tons compared to only 6.86 million tons in H1 2013, we expect overall pricing tone to remain bearish in the medium term.
- ✓ Sharp rise in higher stocks to days of consumption in 2013 further indicates off why Copper prices in 2013 have been weaker compared to that in 2012.
- ✓ LME copper inventories have declined from peaks in late June. Copper stocks at Chinese bonded warehouses and at the Shanghai Future Exchange (SFE) have fallen considerably over the year



too, after peaking in February and March. But in September, Chinese bonded warehouse copper stocks rose. Copper-financing deals drove the rise in Chinese bonded warehouse holdings in the past few years. These financing deals use cheap offshore funds to import copper which is then used as collateral for lending into property and other markets. The lift in copper stocks held at Chinese bonded

warehouses in September may indicate a pickup in financing demand.

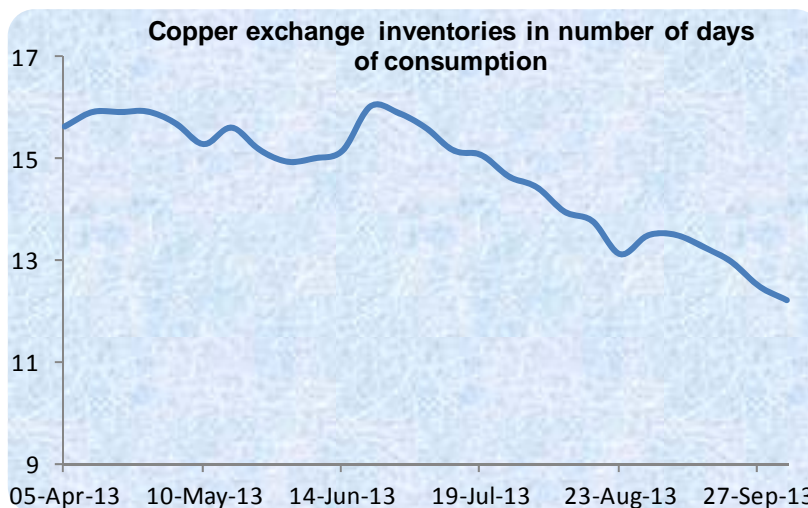
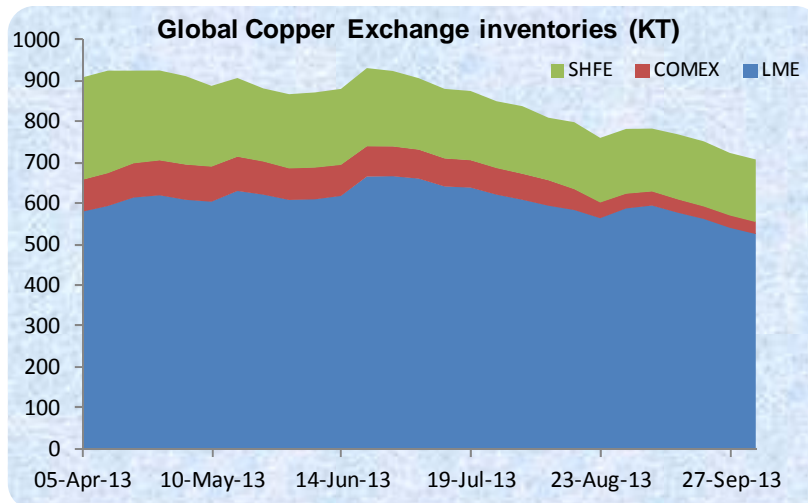
- ✓ The increase in Chinese bonded warehouse copper inventories and the more modest-than-anticipated increase in China's HSBC manufacturing PMI in September may indicate slower underlying Chinese copper demand growth. If these trends continue, and China's

property and infrastructure construction activity slows in the next few months as well, we can expect near-term Chinese copper demand to slow and potentially weaken copper prices.

- ✓ LME Copper stocks witnessed a decline of 12 thousand tons from 538 thousand tons to 526 thousand tons during the previous week with cancelled warrants falling by 10 thousand tons indicating the cancelled tonnage going out of the warehouses rather than in the form of rising available stocks, which bodes positive for the prices in the short-term.
- ✓ Total inventory decline since July 2013 has been 133 thousand tons as against a decline in cancelled warrants by 104 thousand tons indicating tightening supplies in the market.
- ✓ At the Chinese front, SHFE Copper stocks witnessed a sharp decline of 22 thousand tons since July indicating the strong domestic demand from the Chinese front.

Cumulative stocks at LME, CME and SHFE have declined by 196 thousand tons since July indicating the stocks demand for Copper.

- ✓ In terms of stocks to consumption ratio, the overall decline in stocks over the past three months has led to a decline in stocks from 16 days of consumption to 12.22 days of consumption indicating the improvement in demand.
- ✓ At the Chinese front, with the Chinese national day holidays ending and markets resuming this week, expectations of demand revival in line with the positive PMI numbers released last week shall provide the necessary boost to prices.



- ✓ With the LME week starting today, markets would be keenly looking at the metals supply and demand prospects for 2014, with initial expectations of brightening demand from China in 2014 backed by the government's drive to boost infrastructure activities.
- ✓ Ahead of LME week, the main focus has been discussions around copper premia and what sort of positioning, both futures and physical to take for the year ahead. European premiums aside, CESCO Asia now trumps LME week in terms of proximity to the timing of the annual Asian premium and TC/RC contracts. The outcome of discussions over the course of next one week will nevertheless prove interesting, albeit perhaps inconclusive.

### Economy

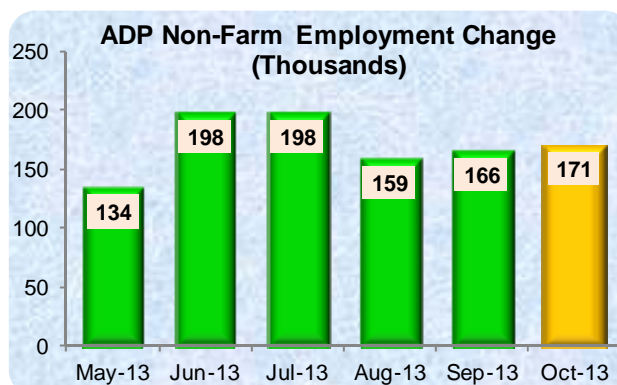
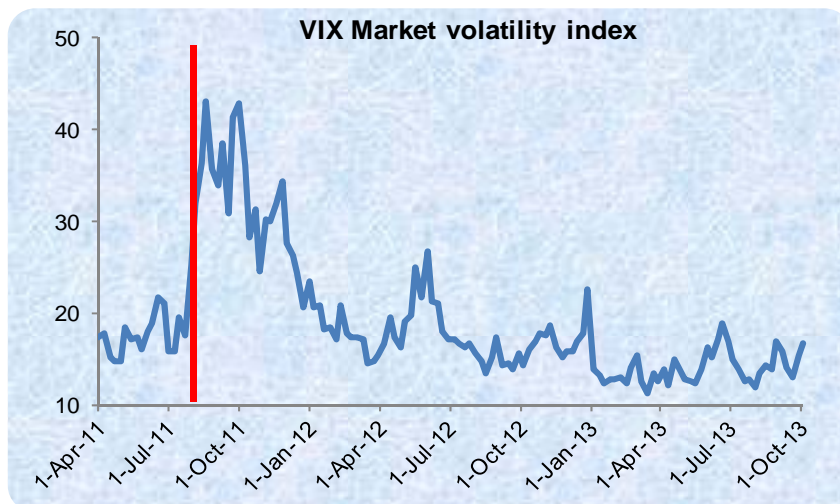
#### U.S. political impasse leads to government shutdown

Political gridlock in Washington dominated the headlines last week, as a divided Congress was unable to agree on the terms required to extend funding for the government. As a result, a shut-down of all non-essential Federal government services began, leaving an estimated 800,000 public sector employees furloughed indefinitely without pay. Financial markets have remained largely unperturbed by the standoff in the nation's capital. Estimate are that for each week the government is shutdown, fourth quarter GDP will be reduced by roughly 0.2 percentage points. However, with each additional day of impasse, the U.S. Treasury comes a bit closer to hitting the debt ceiling limit. The implication of the U.S. government missing a payment on any of its liabilities would be to challenge the "full faith and credit" of the world's reserve currency.

There are no historical precedents on which to base the potential impact of such an event. However, the events of summer 2011, in which the government pushed very close to the limit show what might happen. As the debt-limit date approached, both consumer and business confidence plummeted. Financial market volatility spiked to its highest level

since the 2008-09 financial crisis and also remained elevated for several months. This all occurred even without an actual breach of the debt ceiling.

Another causality of the government shutdown has been the delay of essentially all public-sector economic data releases. This includes the release of the much anticipated September payrolls report that was slated to come out earlier this morning. In its absence, markets had to rely on private-sector metrics



such as the ADP private payrolls report and the employment sub-component of the ISM Non-Manufacturing index in order to the gauge underlying momentum in the labor market.

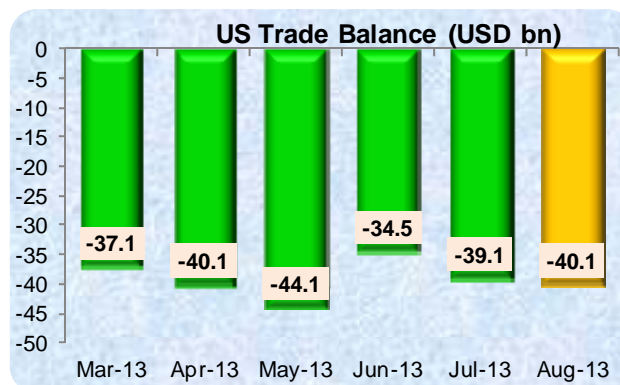
Unfortunately, ADP reported disappointing 166k jobs – below the market consensus of 180k – while revisions subtracted an additional 17k jobs from the previous months posting of 176k. The relatively disappointing economic news continued with the release of the ISM Non-Manufacturing index. The headline number slipped from its previously posted cyclical high of 58.6 (falling to 54.4) with the employment sub-component suffering its largest monthly decline since March 2009, pointing to a slightly softer tone in the labor market. This will only intensify if the standoff in Washington drags on, underscoring the need for Congress to come to a bi-partisan agreement on the debt ceiling sooner rather than later.

**Overall, the US government shutdown is likely to remain the major theme in the financial and commodity markets in the near term with the debt ceiling being the key mover over the coming week.**

### Upcoming key economic releases

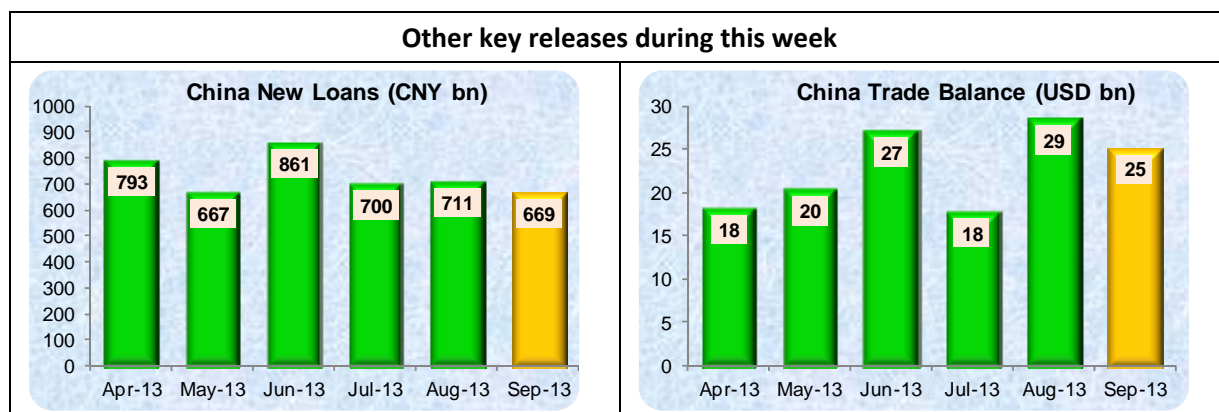
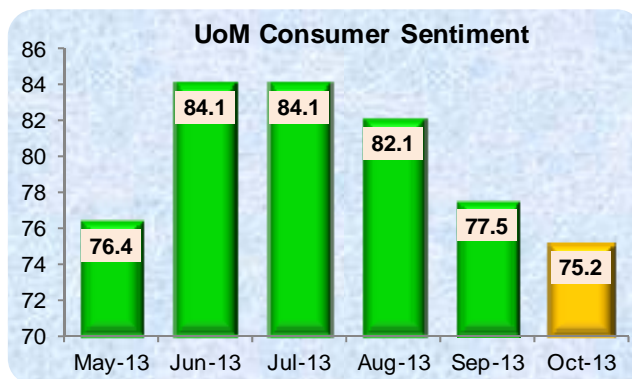
Calendar – Key Economic & Other Fundamental Data			
Event	Date	Expected Value	Current Value
LME Week	07-11 Oct	--	--
EU GDP (EUR)	07 Oct	0.3%	0.3%
German Factory Orders m/m (EUR)	08 Oct	1.2%	-2.7%
German Industrial Production m/m (EUR)	09 Oct	1.1%	-1.7%
FOMC Meeting Minutes (USD)	09 Oct	--	--
China New Loans (CNY)	10 Oct	669 Bn	711 Bn
China M2 Money Supply y/y (CNY)	10 Oct	14.1%	14.7%
Weekly Unemployment Claims (USD)	10 Oct	307K	308K
Chinese Base metals trade	10-11 Oct	--	--
Prelim UoM Consumer Sentiment (USD)	11 Oct	77.2	77.5
China Trade Balance (CNY)	12 Oct	25.2 Bn	28.5 Bn
IMF Meetings	11- 12 Oct	--	--

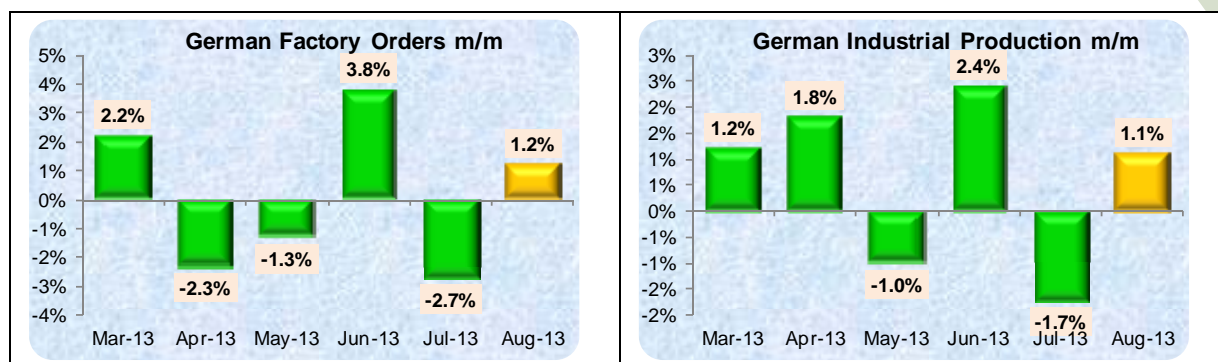
- ✓ The US trade balance should weaken further in August as higher energy prices and rising non-crude import activity push the deficit to USD 40.1 Billion. This will mark the second consecutive monthly increase in the deficit as some of the dramatic improvement seen in June unwinds.





- ✓ The worsening in the nominal trade deficit should also translate into a modest deterioration in the real trade balance, suggesting that the external sector could provide a modest drag to economic activity in August. The headwinds from net trade should dissipate in coming months as the improving global backdrop provides a more favorable backdrop for domestic growth.
- ✓ The prospect of a protracted US government shutdown is expected to weigh on household moods, and we expect the initial reading on the Michigan consumer confidence index to reflect some deterioration in sentiment towards the economic recovery. In October, the headline index should decline slightly to 75.2 from 77.5, marking the third consecutive monthly fall. Much of the deterioration in confidence should be reversed in the final print of this survey later this month if an agreement is reached in time to avoid a default.
- ✓ In other key releases at Chinese and European front this week, German factory orders and Industrial production are expected to witness a marked improvement over the preceding months indicating the revival in EU economic growth to continue in the coming quarter. Chinese new loans and trade balance are expected to suggest a minor softening during September, which shall be in line with the expectations of a major pick up in October following the national day holidays.
- ✓ Overall, the major economic releases this week point to a mixed trend at the US front with the overhang of the debt showdown while sentiments from China and Europe continue to point to demand revival.

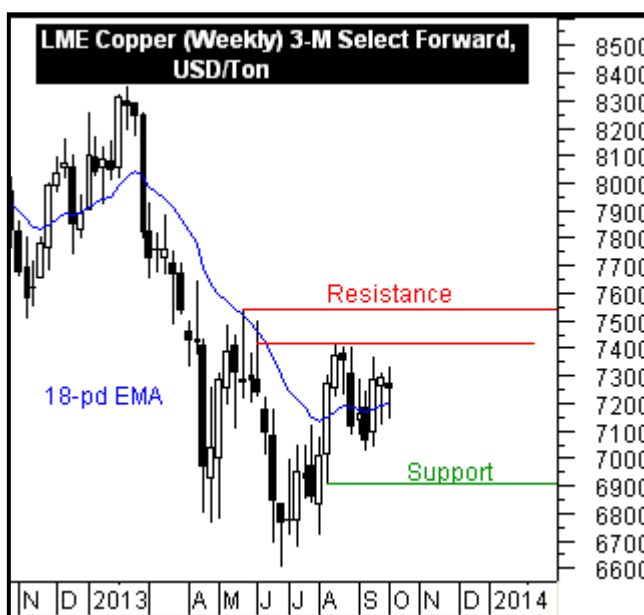




### Chartist view on LME Copper 3-Month Forward

#### A. Chart Analysis: Mixed to Positive

- ✓ Short term trend in the price is positive however long term trend is still bearish on the weekly chart. On the downside support is expected in the range of USD 7020-6900.
- ✓ Momentum is retracing towards equilibrium and is above its average indicating waning of the negativity. However, long term trend is still bearish and demand for the commodity is likely to be contented around USD 7550.
- ✓ On the immediate front, price sustaining above USD 7350 likely to trade higher towards USD 7550/7700 in the coming few weeks.



#### B. Elliott Wave Perspective: Corrective

- ✓ The development from low of USD 6602 is corrective in nature and likely to take the price towards USD 7550/7700. After culmination of 'b' leg up a sharp decline is expected which could take the price below USD 6600 in the coming few months.

Concisely, price is likely to trade towards USD 7550 with support in place around USD 7020 in the forthcoming few weeks.

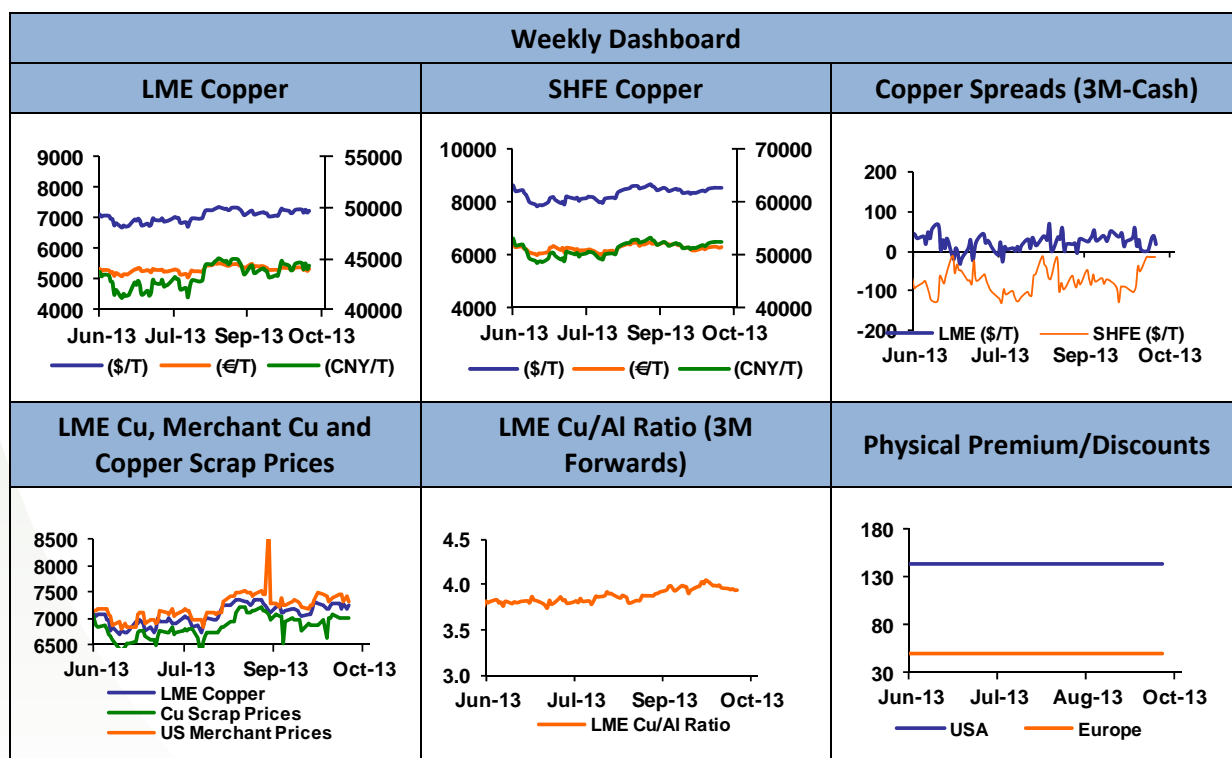
## Chartist view on MCX Copper Futures Continuation Chart

- ✓ MCX Copper futures price after getting resistance around INR 470 traded with negative momentum and closed at INR 454.20 in the last week.
- ✓ Price is below 18-pd EMA, likely to find retracement based support around INR 445.
- ✓ However, on the upside swing based resistance is expected around INR 470.
- ✓ Also, on the downside long term uptrend is still intact and likely to provide support around INR 440.
- ✓ On the Daily technical setup, Price oscillator is trading below average indicating negative bias in the price action.



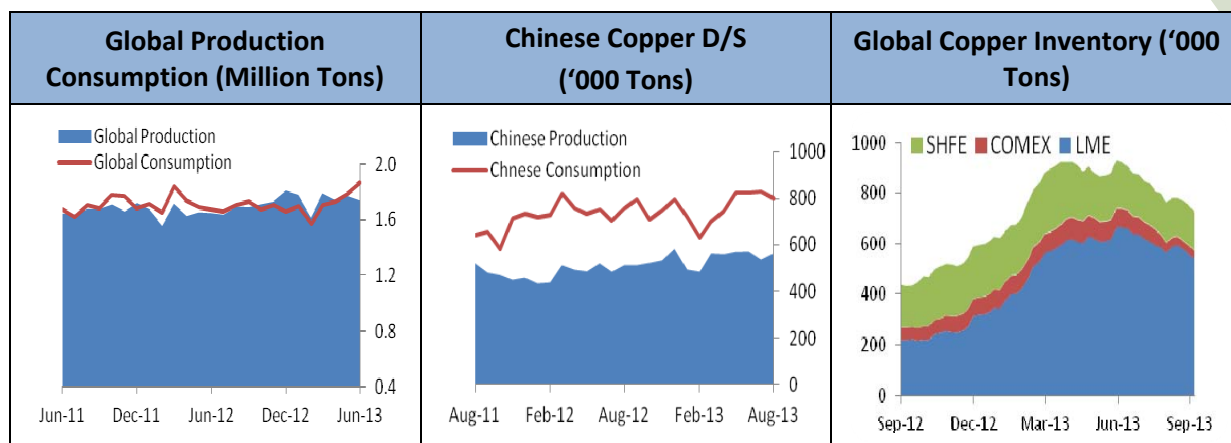
Concisely, price is likely to move lower towards INR 440 and consolidate in the coming few weeks.

\* COMEX Copper Commitment of Traders Report (CFTC) unavailable due to US government shutdown





## Weekly Copper Price Outlook and Strategy



### Facts and Figures digest

Market and details	04-Oct-13	27-Sept-13	Change	%Change
LME Copper Cash (USD/Ton)	7232	7286	-54.50	-0.75
LME Copper 3M-Forward (USD/Ton)	7252	7292	-40.50	-0.56
LME Copper 15M-Forward (USD/Ton)	7335	7363	-28.50	-0.39
LME Copper 27M Forward (USD/Ton)	7391	7408	-16.75	-0.23
Changjiang Spot Prices (CNY/Ton)	52660	52640	20.00	0.04
SHFE 3M Futures (CNY/Ton)	52570	52330	240.00	0.46
Stocks LME (Tons)	525925	541125	-15200	-2.81
Stocks SHFE (Tons)	150994	150994	0	0.00
MCX Nov'13 Futures	454.20	470.05	-15.85	-3.37
MCX Feb'14 Futures	464.85	480.15	-15.30	-3.19
LME Copper Futures Open Interest *	265323 #	268403	-2283	-0.84
LME Copper Call Option Open Interest *	69841 #	78069	2246	2.96
LME Copper Put Option Open Interest *	77025 #	88648	1532	1.76

\* LME Open Interest is released with a lag of one day, # Data as on 03rd Oct 2013.

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