



“Copper Stuck Between Global Slowdown Pressure And Support From Solution Of Trade Deal”

Copper LME price lost almost 1/5th of its value since last 16-month (June 2018) when the United States finalised a list of Chinese goods that would be subject to tariffs, escalating the trade war between world two largest economy, mirror its fall around 14% in domestic future market too and fall by almost 12% since 2019 peak of April, due to top two economy trade war which may resulted in global slowdown added by list of poor manufacturing & growth data at world largest economy hurt metals demand and weigh on prices. Manufacturing activity, a gauge for any country economy seen consistently under pressure at top Copper consuming country namely China, Europe (especially Germany), Japan, S.Korea and India and this will makes prices fall from every rally since last 6-months.

On broader view, LME Copper stuck in sideways trading pattern since middle of the year with downside pressure due to bullish in supply side disturbance offset by broader negative micro story. Since middle of the year June, globally many a big fund houses turn to bearish in copper as concern about China (a largest metal consumer) economy & manufacturing slowdown and US-China trade war which may resulted in global slowdown/short of recession which may resulted in softer demand for copper in months to come.

The U.S. House of Representatives last week passed two bills intended to support protesters in Hong Kong and send a warning to China about human rights. With U.S. President seen likely to sign the bill, this may extended beyond trade war and reducing the odds of a “phase-one” deal this year. According to sources, completion of a “phase one” U.S.-China trade deal could slide into next year, as Beijing presses for more extensive tariff rollbacks, and the Trump administration counters with demands of its own. If so this will continue to weigh on its demand & prices. However, recently U.S. President said, US and China are close to agreement on the first phase of a trade deal, after top negotiators from the two countries spoke by telephone and agreed to keep working on remaining issues.

In its latest update this week OECD (Organisation for Economic Cooperation and Development) forecasts, the global economy is growing at the slowest pace since the financial crisis as governments leave it to central banks to revive investment. The world economy is projected to grow by a decade-low 2.9% this year and next, the OECD said in its Economic Outlook, trimming its 2020 forecast from an estimate of 3.0% in September. Earlier of the month IMF (International Monetary Fund) also forecasted same view, as the U.S.-China trade war will cut 2019 global growth to its slowest pace since the 2008-2009 financial crises, adding that the outlook could darken considerably if trade tensions remain unresolved. The IMF in its latest World Economic Outlook projections show 2019 GDP growth at 3.0%, down from 3.2% in a July forecast. Global trade growth reached just 1% in the first half of 2019, the weakest level since 2012, weighed down by higher tariffs and prolonged uncertainty about trade policies, as well as a slump in the automobile industry. After expanding by 3.6% in 2018, the IMF now projects global trade volume will increase just 1.1% in 2019, 1.4% less than it forecast in July and 2.3% less than forecast in April. All this will continue to hurt metals demand & prices.

On other side, money manager position indicates different story as Money managers held a net short position of 17,838 contracts on the CME copper market as of the most recent Commitments of Traders Report. One month ago, that collective short position was 62,741 contracts and three months ago it was 74,597 contracts, an all-time record in terms of bear positioning. Both parts of the positioning equation have changed dramatically over the last couple of weeks. Long positions have rebuilt significantly from 39,870 contracts a month ago to 61,835, the strongest reading since April this year, when LME copper was still trading near year-to-date highs above \$6,400 per tonne. If so this to seen as global money managers turn bullish in hope that some kind of pause seen in trade war with phase one trade deal will be sign as expected.

Another bullish factor seen recently is, record Chinese refined copper output in October, seen as a prescient indicator of demand recovery in China. As country consumes about half the world's refined copper in its vast manufacturing and construction sectors, and while many traders believe weak macroeconomic data suggests a subdued copper market next year, others see signs of improving metal demand, especially from construction. Also to be noted that, China's concentrate copper imports during the first 10 months of 2019 are 8.3% higher than the year ago period.

The unclear supply outlook will also be a major focus. The world's biggest copper producer Chile has had a month of nationwide violent civil protests that have raised concerns about potential supply disruptions. According to International Copper Study Group forecasting mine production to drop by 0.5% in 2019.

Here to be note that weakness in prices this year in LME Copper has not been accompanied by any noticeable build in inventories. Global exchange stocks of copper were 438,000 tonnes at the end of October, up just 9,000 tonnes on October 2018. Besides this according to one report, inventories at consumers and end-users are also low. This means any further supply-side disruption could exponentially heighten the physical market impact & price rally especially to be eye at Chile, the largest copper-producing country, where ongoing protest might affect production/supply.

Technical Update



Sources – Ticker Plant, Bonanza Commodity Research

In daily chart, Copper approach medium term trend line support with price made double top in last 4-month after made 2019 year high and also in last 1-year. Now price approach long term 3-year trend line which act as strong support and any sustain below same resulted in medium term bearish trend. Price trading well below medium & long term 20-50 & 200 days Simple Moving Average (SMA). However, some recovery seen in RSI indicates short term bounce in counter while MACD around signal line indicates mix of the view for now. If price sustain below trend line support 429 may result in test of previous bottom support zone between 419-421 belt and any close below same will confirm double top pattern with deep price fall below psychological level 400-mark. Other side if price manage to take support from medium term trend line, then some relief rally can't be ruled out towards 437-446 levels which scene unlikely as of now. Scenario will turn bullish & uptrend starts only on sustain close above 447 which fly price towards 460-465 belt in days to come.

So, trade conflict, weak business investment and persistent political uncertainty are weighing on the world economy, noting the global economy is growing at the slowest pace since the financial crisis. In the short term, metals is directly tied to global GDP growth and thus the ongoing uncertainty surrounding U.S.-China trade talks will hamper global growth & its prices. Unless we get firm solution towards end of trade war between world two largest economies and as long deteriorate business conditions especially manufacturing & global growth data demand for metals will remain soft. But list of stimulus offer by top consumer China to revise its multi decade low growth & any hint of solution of trade war and hope of demand revival will result in sharp short covering & jump up metals prices. So next few months' economical data & trade war development will decide Copper prices for days to come.

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