29 Dec 2022

ACCUMULATE IN CORRECTION

SILVER – MCX
CMP : 269.35

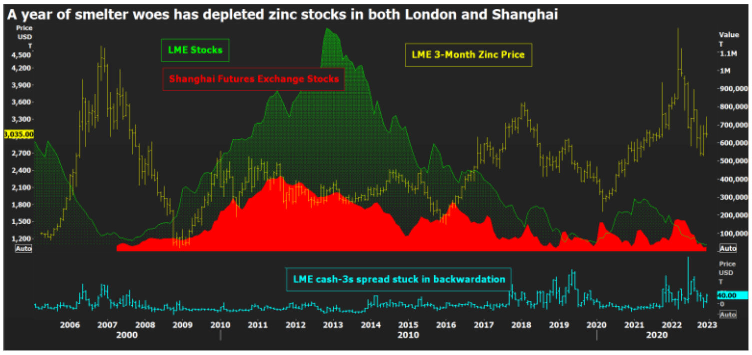
Zinc likely to gain on Supply Disturbance, Low Stocks and Reopen demand

Zinc is the 4th most widely used base metal in the world which occurs naturally in the earth's crust and is the 24th most abundant element, with about 1.9 billion tonnes of identified resources. Due to its resistance to non-acidic atmospheric corrosion, zinc plays a vital role in extending the life of buildings, vehicles, ships, and so on. Zinc also used in the automobile, battery, petroleum, paint, fungicide, rubber, and chemical industries and many industrial uses in today's world. Zinc prices generally effected ruled by industrial activity, recession, global financial situation, inflation and environment events which affects its mines and production as well supply and its prices.

Suring 1sr week of Nov, Zinc price in MCX hit 1-year low due to recession fear, lower demand and after series of US FED increases interest rates which effect industrial demand overall added by top consumer china where Strict Covid norms which resulted in lockdown & poor off take of metals. But since then price made smart recovery to reach 2-month high in 2nd week of Dec due to lower inventory, China reopening expectations and slower interest rates hike spree by major central banks globally.

Fundamentals likely to support Zinc prices over a period of time

1) Lower Warehouse stocks – Just few days ago, London Metal Exchange (LME) warehouse stocks of the galvanising metal Zinc total 36,525 tonnes, the lowest amount this century. Out of this almost 60% of that metal is earmarked for physical load-out, leaving just 15,175 tonnes of live tonnage, no more than a few hours worth of global consumption. Other side at top consumer China, Shanghai Futures Exchange stocks are equally depleted at 22,642 tonnes.



Sources – Reuters Graphics, LME zinc price, spread and stocks; Shanghai Futures Exchange stoc

2) Supply Disturbance - an unprecedented year of smelter problems, particularly in Europe due to higher energy prices especially after Russia-Ukraine geopolitical crisis, hit production hard, although demand also not emerge during same period which balance prices somehow in past few months.

3) Smelter Problems - Global refined zinc output fell by 3.2% in January-October, according to the ILZSG. Production fell in China, Kazakhstan, Canada and Mexico, all of which are major sources of refined metal. But the biggest hit was to European production this year as the region's smelters faced an acute margin squeeze due to the rolling energy crisis. Glencore mothballed its 100,000-tonne per year Portovesme plant in Italy at the end of 2021 and put its 165,000-tonne per year Nordenham smelter in Germany on care and maintenance last month. Nyrstar, owned by Trafigura, did the same with its 315,000-tonne per year Dutch smelter in September, although the plant has since resumed production "on a limited basis". The company's Auby smelter in France, by contrast, will now not come back from scheduled maintenance but remain on care and maintenance until further notice.

4) Premium in develop western world at record high - Fastmarkets assesses the northern European premium at a mid-point of $520 per tonne over LME cash and the southern at premium at $585 per tonne, a fresh record high which indicates poor availability against the off take and situation not likely to improve in near term.

5) China reopening – recently China, world top metals consumer announce to reopen economy turn from Zero Covid policy to relief most of the restrictions which might increased demand for metals and also Zinc during time when stocks at already multi year low.

Fundamentals against Zinc & may pressure prices at higher level

Demand outlook seen dark after recession fear in mid of the next year after a sharp rate hike by global central banks, and if so this will definitely hurt base metals demand and also Zinc prices to fall from every rally. Secondly, recent spike in Covid cases in many of the countries which again put thought of lockdown and restrict industrial consumer from fresh buying for some period which hurt demand and prices.

China has historically been a significant importer of refined zinc to the annual tune of 400,000-700,000 tonnes over the last decade. This year it is on course to turn a net exporter for the first time since 2007. Imports collapsed and exports surged to 78,500 tonnes in the January-October period. But Chinese zinc has also been exported to far-flung destinations such as Turkey, Italy, Mexico and the United States to plug gaps in the rest of the world's supply.

So it is to be concluded that, Next year's outlook depends a lot on whether demand or supply recovers fastest, assuming either recovers at all. If recession in western countries come before recovery in China then prices will remain under pressure but after China reopen from most Covid restrictions and incentivize industries to open fast & economic plan might turn demand scenario higher in China sooner than expected and support prices from sharp fall. So for short term zinc prices likely to be range bound but over a longer period definitely fundamentals in favors of bulls.

Technically Outlook

Zinc Daily Chart MCX

Sources – Ticker Plant and Bonanza Research

Technically, Zinc seen lower top lower bottom pattern since last 1-year and recently made swing high with higher top higher bottom pattern seen in last few weeks. Also, it trades above 23.5% retracement level of above 380 to below 250 and also Sustain above same. However, price fail to break above long term trend line resistance and also 50-DMA. RSI seen fall during recent sell off from above 70-mark to around 40-mark and recovery seen in last few days with upward slop. MACD which remain below zero line for past 5-6 month also turn positive in recent days indicates more room for upside.

So, based on above setup, immediate resistance seen at 277 and 292-295 belt and any Sustain close above same will likely to test 50% retracement level of 380 to 250 which place around 310-320 levels which also resistance as previous swing. While on lower side immediate Support seen at 258 & overall at 248-245 belt.

Overall accumulation strategy advisable at every dip from here on and unless price close below support level of 245 on daily basis, most likely to test higher side around 293-295 belt immediate and overall above 310 in months to come.

Immediate Support seen at 258 & 245 and Resistance seen at 278 followed by 293-295 belt.

Technical Research Analyst

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