FIS

Base Morning Intraday Note

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Copper

As noted on the E.U close report on Friday, the technical argument had started to weaken due to deteriorating sentiment in China and increased hawkish comments from the Federal reserve. A further push lower into the U.S close resulted in price trading below the USD 10,153 fractal support, meaning we target the USD 9,820 level, if broken the futures have the potential to trade into the USD 9,680 – USD 9,458 range. The daily technical closed below the EMA support bands with aggregate open interest starting to drop, warning we could be seeing the market is starting to go risk off. We continue to see a further weakening of sentiment on the Asian open over the fears that the Covid lockdowns witnessed in Shanghai could spread to the capital. The futures opened below the daily pivot point meaning intraday price and momentum are aligned to the sell side with the one hour moving averages (30-60) starting to fan, suggesting we are potentially in the initial stages of a corrective trend. There is separation on the 4-hour bands, but these are not as established as the lower timeframe technical. Upside moves that close on the 4-hour candle above USD 10,149 with the RSI at or above 46 (currently 33) will mean price and momentum are aligned to the buyside. However, below USD 10,221 the futures remain vulnerable to further tests to the downside; above this level we target the USD 10,345 fractal resistance.

Alu

The technical has been showing signs of weakness in recent days with price below the daily EMA bands; however, the break was considered as unconvincing with the 4-hour technical looking like it would produce a positive divergence below USD 3,221. Price has moved lower alongside copper this morning on weakening sentiment in China, resulting in the futures producing a new low and a positive divergence with the RSI. Both the 4-hour and daily technical are weakening but until we see a divergence failure the futures are not considered a technical sell due to the momentum indicators; the 4-hour EMA band is bearish and stable, warning of the potential for divergence failure. Upside moves on the 4-hour candle that close above USD 3,262 with the RSI at or above 46 (currently 33) will mean price and momentum are aligned to the buyside. Resistance is at USD 3,216, USD 3,234, USD 3,262 with support at USD 3,148, USD 3,092, and USD 3,069. The EMA's would suggest that the technical is weakening, however the positive divergence means that from a technical perspective the futures are not a sell whilst it is in play.

Zinc

China is exporting unusually large volumes of metals, highlighting the precarious state of global markets as supplies tighten. Aluminium shipments from the world's biggest producer rose a record in the first quarter, while copper exports nearly doubled in March from the previous month. Zinc shipments also surged last month, and there are signs that steel exports will pick up. The export wave is being fuelled by growing shortages outside China, exacerbated by supply ruptures in the wake of Russia's invasion of Ukraine. Meanwhile, domestic Chinese demand is suffering as authorities grapple with spreading Covid-19 outbreaks. The metals export tonnages are modest relative to China's massive output and overall flows, but the appearance of these trades is something of a warning indicator. "These are temporary arbitrage opportunities," said Dong Hao, head of research at a futures brokerage under major Chinese commodity hedge fund Shanghai Chaos Invest Group Co. They will not last, and when China's economy regains momentum the global supply shortage will deepen, he said (Bloomberg). Near-term focus is on inflation and Covid and this is causing the market to correct alongside the rest of the base sector. Price remained neutral on Friday with the futures holding in the EMA support band, however the futures have followed the rest of the base sector lower on the Asian open with price below the EMA support bands, intraday price and momentum are now aligned to the sell side. The daily technical remains bullish but in a corrective phase. Upside moves on the 4-hour candle that close at or above USD 4,415 with the RSI at or above 53.5 (currently 42.5) will mean price and momentum are aligned to the buyside; however, price remains vulnerable below USD 4,424 and neutral above, further resistance is at USD 4,482.50. Downside moves that hold at or above USD 4,282 will support a bull argument on the daily technical, below this level the futures will have a neutral bias with further support at USD 4,233, and USD 4,150.

Nickel

For the first time in many years, the commodity-trading industry has caught the eye of policy makers and regulators. They're not pleased. In a series of recent reports, letters and confidential memos from major central banks and global financial regulators, a couple of words creep out: "opaque" and "unregulated." Anyone familiar with commodity trading would be forgiven for thinking this is obvious. It is, but don't dismiss the newfound attention. Coming from some of the world's most powerful institutions, from the U.S. Federal Reserve to the Financial Stability Board to the International Monetary Fund, this heralds a new era for the industry — one of greater oversight, at the very least, if not outright regulation. For decades, policy makers have focused on the most transparent side of commodity markets — futures and options — and paid little attention to the murkier corners: above all, privately negotiated over-the-counter derivatives and physical markets. Any extra oversight fell on what was already quite regulated and transparent. That failure to dig into the opaque allowed top commodity trading houses, such as Vitol Group, Trafigura Group, Glencore Plc and Cargill Inc., to expand without the burden of extra regulation. The Russian invasion of Ukraine, and the resulting jump in commodity prices, has since catalyzed attention toward "the resilience of corners of global financial markets that were little known by the broader public only a few weeks ago," as the IMF put it. It wasn't just the broader public. Regulators themselves knew little. The Bank of England was rather candid about it: "The assessment of risk was made more difficult by the relative opacity of commodity derivatives markets" and the fact that some "material physically settled transactions are not reportable to trade repositories."1The British central bank added that several "important" commodity firms weren't subject to transparency regulations put in place after the global financial crisis. (Bloomberg). They did not actually pinpoint Nickel in the article, just the metals market, but is the Elephant in the room here! Price continues to show minimal movement at this point.

Lead

A clean sweep of negativity in the Base complex this morning with the futures moving lower on the Asian open to trade below the USD 2,365 fractal support, the intraday technical is now bearish. Upside moves on the 4-hour candle that close above USD 2,392 with the RSI at or above 49 (currently 40) will mean price and momentum are aligned to the buyside, however upside moves that fail at or below USD 2,442 will leave the futures vulnerable to further tests to the downside. Support is at USD 2,327, USD 2,281.50, and USD 2,246. Technically bearish.