Base Morning Intraday Note

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Copper

Industrial commodities in China continued to swoon as markets judge that Beijing isn't doing enough to support demand, at least when compared to the government's response to cratering economic activity at the start of the pandemic. Some 76% of the economy has been affected by the spread of omicron, versus a 62% impact from the original variant two years ago, according to a note from Huatai Financial. However, the "relief measures adopted so far are surprisingly less strong than in 2020," and have been "aimed at emergencies rather than supporting demand recovery in real-economy sectors," Huatai said. "Traders increasingly see a risk that we have all been waiting for Godot," TD Securities said in a note, "as China's pledge to support the economy fails to quell concerns while the nation prioritizes its zero-Covid objective" (Bloomberg). The futures came under pressure during the E.U morning session with the RSI testing its support level. Driven lower by weakening sentiment but saved by a weakening USD basket which gave back early gains, to close unchanged on the day. The USD has been moving sideways for the last eight sessions with yesterdays Doji confirming the indecision in the market. If the dollar moves higher it diverges, suggesting upside moves will fail to hold for now, if we move lower then global commodities are likely to find bid support on the back of it, perhaps China are waiting to see if the market is naturally going to support itself before announcing a package? Copper closed bid and moved higher on the open, meaning price and momentum are aligned to the buyside, upside moves that fail at or below USD 9,555 will leave the futures vulnerable to further tests to the downside, above this level the futures will have a neutral bias. A close on the 4-hour candle below USD 9,249 with the RSI at or below 33.5 (currently 42) will mean price and momentum are aligned to the sell side. Technically bearish, RSI support held yesterday, if it had been broken the RSI will have entered oversold territory, suggesting caution regardless of any failed divergence. Based on the move lower that started on the 05/04/22 our intraday Elliott wave cycle is now showing 5 waves lower, indicating we could be on wave 5 of C here. If this is the case then downside moves should be limited, if they are not then we are talking wave extension and potentially a much larger correction. Now is probably a good time to monitor the aggregate open interest, if that moves higher alongside price then it would suggest the market will be entering from the buyside. Resistance is at USD 9,380, USD 9,454, USD 9,555 with support at USD 9,249, USD 9,139, and USD 9,036. Technically bearish, there is potentially one move test to the downside left in this cycle, but it is not a technical sell at these levels based on our wave analysis.

Ali

China's primary aluminium output rose on domestic capacity expansion, says researcher Shanghai Metals Market, citing its survey of smelters. Aluminium output was at 3.298m tons in April, or 109.9kt/daily; that's +3kt/daily from March Aluminium smelters' run rates were ~91.6% of capacity as of early May. China copper output at 827.3kt last month, -2.5% from March, and volume may drop further this month on plants' scheduled maintenance (SMM). The futures moved lower yesterday with price trading to a low of USD 2,740 on the open before stabilizing, intraday price and momentum are aligned to the sell side. A close on the 4-hour candle above USD 2,787 with the RSI at or above 34 (currently 31) will mean it is aligned to the buyside. Upside moves that fail at or below USD 2,957 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Intraday EMA bands remain well spaced, implying the trend is stable, suggesting resistance levels could hold if tested. The Copper/Alu ratio has been moving higher since March whilst the spread at USD 6,600 is testing yearly lows, suggesting it might be worth a deeper investigation to see if has buyside potential from here. We see copper producing a 5-wave pattern, warning of exhaustion, Alu looks like it might have more to go in this corrective phase. Resistance is at USD 2,787, USD 2,858, USD 2,937 with support at USD 2,725, USD 2,698, and USD 2,669.

Zinc

Peruvian unionized workers on Tuesday will lift a strike at Nexa's zinc refinery after reaching an agreement with the mining company, union leader Roberto Huachaca said in a phone interview. Nexa and workers signed a three-year agreement at the Labour Ministry after the company improved salary conditions, Huachaca said NOTE: Union held a six-day strike at one of the most important zinc refineries in the world (Bloomberg). The trend remains technically bearish with price making new lows yesterday, intraday price and momentum are conflicting. A close on the 4-hour candle above USD 3,667 with the RSI at or above 32 (currently 31.2) will mean P&M are aligned to the buyside; likewise, a close below this level with the RSI at or below USD 27.5 will mean it is aligned to the sell side. The RSI made a new low yesterday suggesting any upside move from here could be countertrend, corrective moves higher that fail at or below USD 3,899 will leave the futures vulnerable to further tests to the downside, above this level the futures will have a neutral bias. The RSI is leaving oversold territory, implying the downside moves is a little overextended at this point, however the EMA resistance band remains well spaced indicating the bearish trend looks stable. Resistance is at USD 3,767, USD 3,823, USD 3,899 with support at USD 3,586, USD 3,536, and USD 3,490.

Nickel

Nickel futures finally tumbled back below the level where the London Metal Exchange market closed March 4, the last trading day before prices exploded upwards in an unprecedented short squeeze. It's not the first time -- prices dipped under $28,919 a ton for a couple of days in late March. But the level is a key one because Tsingshan Holding Group Co., the company at the centre of the crisis, had paid its margin calls up until March 4. Further margin payments above those levels have been waived under a standstill agreement with its banks, with Tsingshan pledging to reduce its short positions once "abnormal" market conditions subside (Bloomberg). This is the issue that is the elephant in the room, the point of the margin call is to avoid the chaos that was allowed to follow, margin calls are not open to subjectivity! Price moved lower yesterday supported by the RSI making new lows, suggesting upside moves have the potential to be countertrend, intraday price and momentum are aligned to the sell side. A close on the 4-hour candle above USD 28,791 with the RSI at or above 37 (currently 34) will mean it is aligned to the buyside. Resistance is at USD 28,791, USD 29,146, USD 29,500 with support at USD 27,427, USD 26,444, and USD 26,036.

Lead

lead prices continued to fall with the downward trend of lead futures. Spot discounts at smelters narrowed down to within 100 yuan/mt and the downstream purchased on rigid demand amid strong wait-and-see sentiment in the market. The market mainly delivered long-term orders in Henan. The transactions in Hunan and Yunnan improved from yesterday, but the downstream consumption was weak amid thin spot transactions (SMM). Technically bearish with the EMA resistance band suggesting the trend is stable. Price has started to base a little with the RSI moving above its moving average, price and momentum are conflicting. A close on the 4-hour candle above USD 2,177 will mean it is aligned to the buyside; likewise, a close below this level with the RSI at or below 28.5 (currently 34) will mean it is aligned to the sell side. The RSI has made new lows suggesting upside moves should be considered as countertrend, corrective moves higher that fail at or below USD 2,264 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Resistance is at USD 2,177, USD 2,208, USD 2,232 with support at USD 2,132, USD 2,085, and USD 2,018.