Base Morning Technical Report

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(Bloomberg) -- Aluminum futures in Shanghai rallied to their highest since early April with domestic inventories running unusually low and the global market flashing signs of tightness.

The action in China partly mirrors trading in the rest of the world over the past week, where falling stockpiles have fueled a rising premium for upfront material. Inventories in China are at their lowest for this point of any year since 2016, according to Shanghai Metals Market.

Read More: Aluminum Market Tightens as Big Positions Build, Stockpiles Fall

“Risks of a squeeze are looming,” Gao Yin, analyst with Shuohe Asset Management Co. “Speculative funds continue building short positions while inventories keep falling.”

There has been nervousness in the international market about a possible short squeeze because of the emergence of large long positions ahead of the expiry of the LME’s June contract next week. A lack of inventory could make it difficult for shorts to close out their positions.

Aluminum has rebounded since plunging to a seven-month low on the Shanghai Futures Exchange in the aftermath of US President Donald Trump unveiling his so-called reciprocal tariffs. The trade war’s impact on global demand has been less severe than expected, according to Goldman Sachs Group Inc.

Further evidence of tightening is visible in SHFE’s time spreads. The July contract is currently trading at a premium of more than 200 yuan ($28) over the August contract, indicating strong demand for prompt delivery.

Futures on SHFE rose as much as 0.6% on Friday to 20,510 yuan a ton — highest since April 3 — before trading at 20,450 yuan a ton by 11:32 a.m. Shanghai time.

Copper Morning Technical (4-hour)

Support		Resistance		Current Price	Bull	Bear
S1	9,595	R1	9,683	9,640		RSI below 50
S2	9,555	R2	9,805.5			
S3	9,486	R3	9,827			

Synopsis - Intraday

Source Bloomberg

- Price is below the EMA support band (Black EMA's)
- The RSI below 50 (46)
- Stochastic is below
- Price is below the daily pivot point USD 9,683
- The downside move previously had breached near-term trend support, whilst the MA on the RSI implied momentum was weak. However, the corrective move had held above the USD 9,595 Fibonacci support, meaning the technical was still in bullish territory. If broken, then the probability of price trading to a new high would start to decrease, warning we had the potential for further downside. Although we remained cautious on moves higher, due to the failed swing high on the threat of a divergence; as long as we were above the USD 9,595 support, resistance levels would still be considered as vulnerable.
- Sideways action yesterday, the futures are lower on the open this morning. We are below the EMA support band with the RSI below 50, intraday price and momentum are aligned to the sell side.
- A close on the 4-hour candle above USD 9,683 with the RSI at or above 53 will mean price and momentum are aligned to the buyside. Downside moves that hold at or above USD 9,595 will support a bull argument, below this level the technical will have a neutral bias.
- Unchanged on the technical today, we remain bullish with the MA on the RSI implying momentum is weak. As noted previously, the failure to make a new high on the divergence threat had resulted in near-term trend support being broken, meaning we were cautious on moves higher. However, for downisde continuation, the futures will need to trade below the USD 9,595 Fibonacci support. If we do, then the probability of price trading to a new high will start to decrease; whilst above the USD 9,595, resistance levels are still vulnerable.

Aluminium Morning Technical (4-hour)

Support		Resistance		Current Price	Bull	Bear
S1	2,502	R1	2,517	2,510	RSI above 50	Stochastic overbought
S2	2,459	R2	2,529.5			
S3	2,448	R3	2,557			

Source Bloomberg

Synopsis - Intraday

- Price is above the EMA support band (Black EMA's)
- RSI is above 50 (56)
- Stochastic is overbought
- Price is below the daily pivot point USD 2,517
- Near-term price action remained bullish yesterday whilst the longer-term Elliott wave cycle was bearish below USD 2,557 and neutral above. The MA on the RSI did imply that we are seeing momentum support; however, high volume selling around the 2,529 level previously had been followed by a minor negative divergence with the RSI, meaning we continued to have a note of caution on moves higher, as price still looked vulnerable to an intraday pullback.
- The futures are consolidating just below their highs, we remain above the EMA support band with the RSI above 50, intraday price and momentum are aligned to the buyside, as the previous candle closed above the daily pivot level.
- A close on the 4-hour candle below USD 2,517 with the RSI at or below 57.5 will mean price and momentum are aligned to the sell side. Upside moves that fail at or below USD 2,557 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias.
- Like copper, we are unchanged this morning, as near-term price action remains bullish, whilst the longer—term Elliott wave cycle is bearish below USD 2,557, and neutral above. High volume candles on the 11/06 indicate selling resistance in the market, the USD 2,505.5 low yesterday resulted in a high volume support candle, creating the consolidation phase. We are cautious on moves higher due to the selling resistance and the potential divergence above USD 2,529.5; however, for downisde continuation, the futures will need to close and hold below the linear regression line (USD 2,502). Neutral.

Zinc Morning Technical (4-hour)

Support		Resistance		Current Price	Bull	Bear
S1	2,631	R1	2,643	2,632	Stochastic oversold	RSI below 50
S2	2,624	R2	2,663			
S3	2,590	R3	2,696			

Source Bloomberg

Synopsis - Intraday

- Price is below the EMA resistance band (Black EMA's)
- RSI is below 50 (41)
- Stochastic is oversold
- Price is below the daily pivot point USD 2,643
- Technically bearish yesterday, the MA on the RSI implied that we had light momentum support. The futures were trading on the 200-period MA (USD 2,664), meaning we were at an inflection point, implying neutrality. As noted previously, there was an underlying support in the market at lower levels due to price holding two standard deviations below the linear regression, meaning for downside continuation we need to see a close below the low of last dominant bull candle on the daily chart (USD 2,627).
- The futures are coming back under pressure with price approaching the linear regression support (2 stdv) at USD 2,624. We are below the EMA resistance band with the RSI below 50, intraday price and momentum are aligned to the sell side.
- A close on the 4-hour candle above USD 2,643 with the RSI at or above 48 will mean price and momentum are aligned to the buyside. Upside moves that fail at or below USD 2,752 will leave the futures vulnerable to further tests to the downside.
- Technically bearish, we are now testing the standard deviation support for a third time. The continued testing of the support is warning that it could be broken; however, as noted previously, for downisde continuation, the futures need to close below the low of the high volume bullish support candle on the daily chart (USD 2,627). If we do, it will warn of downisde continuation, suggesting the linear line should then be run from the USD 2,786 high, rather than the USD 2,515.5 high.

Nickel Morning Technical (4-hour)

Support		Resistance		Current Price	Bull	Bear
S1	15,000	R1	15,150	15,130	Stochastic oversold	RSI below 50
S2	14,922	R2	15,405			
S3	14,585	R3	15,506			

Synopsis - Intraday

Source Bloomberg

- Price is below the EMA resistance band (Black EMA’s)
- RSI is below 50 (41)
- Stochastic is oversold
- Price is below the daily pivot point USD 15,150
- Technically bearish with a neutral bias yesterday, the MA on the RSI indicated that momentum remained weak. There was a very minor positive divergence with the RSI, leaving the futures vulnerable to an intraday upside moves; however, with the recent move lower being supported by the RSI, we maintained our view that upside moves could struggle to hold in the near-term.
- Having seen a small move lower yesterday, the futures have found light bid support on the open due to the positive divergence. We remain below all key moving averages supported by the RSI below 50, intraday price and momentum are conflicting.
- A close on the 4-hour candle above USD 15,150 with the RSI at or above 43.5 will mean price and momentum are aligned to the buyside; likewise, a close below this level with the RSI at or below 39 will mean it is aligned to the sell side. Downside moves that hold at or above USD 14,584 will support a bull argument, below this level the technical will be back in bearish territory.
- Technically bearish with a neutral bias, the futures are finding light bid support on the positive divergence with the RSI; however, lower timeframe Elliott wave analysis does suggest that upside moves could struggle to hold at this point. From an Elliott wave perspective, intraday price needs to move higher to sell lower. Due to the divergence in play, we have a note of caution on downside breakouts below USD 15,070.

Lead Morning Technical (4-hour)

Support		Resistance		Current Price	Bull	Bear
S1	1,993	R1	2,006	1,994	RSI above 50	Stochastic overbought
S2	1,965	R2	2,009			
S3	1,946	R3	2,039			

Synopsis - Intraday

Source Bloomberg

- Price is above the EMA support band (Black EMA's)
- RSI is above 50 (53)
- Stochastic overbought
- Price is above the daily point USD 1,993
- Unchanged yesterday, we remained technically neutral, the futures continued to consolidate within the consolidation zone (a box within the dominant bear candle USD 1,995—USD 1,973.5). We noted that ultimately, directional bias should come from a close outside of the USD 1,957—USD 2,009 range.
- The futures had a small move higher yesterday and on the open this morning; however, bids have now started to fade. We are above all key moving averages supported by the RSI above 50, intraday price and momentum are conflicting.
- A close on the 4-hour candle below USD 1,993 with the RSI at or below 52.5 will mean price and momentum are aligned to the sell side; Likewise, a close above this level with the RSI at or above 55 will mean it is aligned to the buyside. Upside moves that fail at or below USD 2,006 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias.
- Unchanged again today, we remain technically neutral, directional bias should come from a daily close outside of the USD 1,957—USD 2,009 range.