

Al

(Bloomberg) -- Aluminum prices could be driven to record levels as Iran's weekend strikes on Middle Eastern smelters threaten a supply crisis.

Futures traded on the London Metal Exchange surged as much as 6% on Monday after two major producers confirmed attacks by Iranian drones and missiles. The region's top supplier, Emirates Global Aluminium, said on Saturday it sustained "significant damage" at its site in Abu Dhabi, while Aluminium Bahrain said it was assessing the extent of the damage to its facility.

Even before the industry became a direct target, the closure of the Strait of Hormuz had left the Middle East's giant smelters running short of key inputs, forcing the industry to brace for a cascading series of production cuts in coming weeks. The Middle East accounts for about 9% of global output of the metal, used in airplanes, food packaging and solar panels.

"Traders need to face the reality of significant cuts to Middle East supplies," said Li Xuezhi, head of research at Chaos Ternary Futures Co.

LME aluminum was holding most of its gains at 2:30 p.m. in Hong Kong, trading 4.8% higher at \$3,452.50 a ton.

Shutting down and restarting an aluminum smelter is a lengthy and costly task, and the strikes on two of the world's biggest facilities raise the risk that the effect on global production may persist long after the strait is reopened. The conflict's impact is being amplified because constraints on production elsewhere have eroded global inventories, leaving the market with little buffer against shocks.

Aluminum is the most widely used metal after steel, and a sustained price spike would heap further pressure on manufacturers already reeling from the surge in energy costs. Potentially more worrying for the global economy, the disruption to supplies could be so acute that some industrial consumers would run out of certain specialized products, forcing factories into temporary shutdowns.

Shares in aluminum companies also rose, with Australia's South32 Ltd. up as much as 9.4% in Sydney and Aluminum Corp. of China rising 9.7% in Hong Kong.

Confirming the strikes in a statement to Iranian state media on Saturday, the nation's Islamic Revolutionary Guard Corps. said the two companies were suppliers to the US military, and the action was retaliation for US-Israeli strikes on infrastructure in Iran.

"The aluminum supply chain has entered a new phase of disruption," AZ Global Consulting said in a note after the attacks. "We will wait to hear from both companies, but it is clear the system is now exposed to sudden production loss, not just gradual constraint."

Prices have swung wildly since the war begun, surging at the start of the conflict, and then easing due to growing worries about the global economic impact of the war. Traders and industry executives have warned that if shipping doesn't resume soon in the Strait of Hormuz, the inevitable production cuts would drive prices above 2022's record high of \$4,073.50 a ton.

Some smelters had already begun to curtail operations. Qatar's Qatalum has reduced production by about 40%, while Alba — as the Bahraini producer is known — had announced the shutdown of 19% of its capacity.

#### Historic Shock

The hit to aluminum production in the Middle East threatens to be one of the biggest supply shocks in the history of the market. The two facilities struck by Iran have combined production of 3.2 million tons a year, while Gulf Cooperation Council countries as a whole produce more than 6 million tons — although not all suppliers ship through the Strait of Hormuz.

By comparison, the threat of an interruption to supplies from Russia's United Co. Rusal PJSC, which produces about 4 million tons a year, was enough to send aluminum prices up 30% in three weeks in 2022.

Still, an extended closure of the strait could also cause an energy price spike that would knock global growth, and hurt demand for aluminum and other industrial metals.

The Middle East accounts for a smaller share of the world's aluminum production than it does oil or liquefied natural gas, but the market context is also different. While oil and gas traders were for the most part been warning of gluts before the US and Israel started their campaign against Iran on Feb. 28, aluminum traders had been gearing up for a bull market for months.

# Copper Morning Technical (4-hour)



	Support	Resistance	Current Price	Bull	Bear
S1	12,190	R1	12,214.5		
S2	12,078	R2			
S3	11,700	R3			

## Synopsis - Intraday

Source Bloomberg

- Price is below the EMA resistance band (Black EMA's)
- The RSI is at 50 (50)
- Stochastic is below 50
- Price is above the daily pivot point USD 12,190
- Technical Outlook Friday: Neutral
- Elliott wave analysis continued to suggest that upside moves should be considered as countertrend on Friday, making USD 12,689 the key resistance to follow. A move above USD 12,689 would reduce the probability of the futures trading to a new low. Countering this, price had entered a consolidation phase in the form of an ascending triangle, meaning near-term price action was neutral. However, we noted that an ascending triangle had a bullish bias based on the rising trend line; ultimately, directional bias would come from a close and hold outside of the pattern (USD 12,395—USD 12,134). We noted that an upside breakout would need volume support, this was not necessarily the case on a downside breakout, but it was preferred.
- The futures had a small gap lower on the open due to rising escalations in the Middle East; however, price has since seen light bid support to close the open window. We are below the EMA resistance band with the RSI neutral at 50, intraday price and momentum are conflicting.
- A close on the 4-hour candle below USD 12,160 with the RSI at or below 46.5 will mean price and momentum are aligned to the sell side. Likewise, a close above this level with the RSI at or above 51 will mean it is aligned to the buy side. Upside moves that fail at or below USD 12,689 will leave the future vulnerable to further tests to the downside, above this level the corrective phase will enter neutral territory.
- Technical Outlook: Bearish breakout—needs to hold below USD 12,251
- The downside breakout on the open means price as exited the ascending triangle pattern. However, bid support means that we are testing the USD 12,251 trend line. A close and hold back above this level will place price back within the ascending triangle, implying neutrality. Conversely, a rejection of the trend line will confirm that sell side pressure is on the increase, warning the USD 11,700 fractal low is becoming vulnerable.

# Aluminium Morning Technical (4-hour)



	Support	Resistance	Current Price	Bull	Bear
S1	3,347	R1	3,465	RSI above 50	
S2	3,303	R2	3,546		
S3	3,272	R3	3,682		

## Synopsis - Intraday

Source Bloomberg

- Price is above the EMA resistance band (Black EMA's)
- RSI is above 50 (72)
- Stochastic is above 50
- Price is above the daily pivot point USD 3,272
- Technical outlook Friday: Market support; Upside moves considered as countertrend.
- The futures were holding above the intraday 200-period MA on Friday; however, the RSI was in its resistance zone between 52-55. We noted that for upside continuation, the RSI would need to close and hold above the 55 level; if it did, then the USD 3,399 resistance would start to become vulnerable. This remained a key resistance on the technical, a move above this level would reduce the probability of price trading to a new low. Conversely, if the RSI rejected its resistance zone, then the 200-MA was likely to come under pressure. Market longs should act with caution on a close that held below the trend support line at USD 3,239, as it would signal an increase in sell-side pressure.
- Iran hits Aluminium plants in the middle east over the weekend resulting in price gapping above the USD 3,399 resistance. We are above all key moving averages supported by the RSI above 50, intraday price and momentum are aligned to the buy-side.
- A close on the 4-hour candle below USD 3,272 with the RSI at or below 50.5 would mean price and momentum are aligned to the sell side. Downside moves that hold at or above USD 3,243 will support a bull argument, below this level the futures will have re-entered bearish territory.
- Technical outlook: Buy-side pressure increasing.
- The upside move above the USD 3,399 resistance means that the probability of the futures trading to a new low has begun to decrease, warning the USD 3,546 fractal high is vulnerable. The gap higher has put the RSI above its resistance zone while the RSI moving average implies momentum is supported, suggesting support levels should hold if tested.

# Zinc Morning Technical (4-hour)



	Support	Resistance	Current Price	Bull	Bear
S1	3,100	R1	3,162	RSI above 50	Stochastic overbought
S2	3,078	R2	3,205		
S3	3,029	R3	3,263		

## Synopsis - Intraday

Source Bloomberg

- Price is above the EMA resistance band (Black EMA's)
- RSI is above 50 (60)
- Stochastic is overbought
- Price is above the daily pivot point USD 3,100
- Technical outlook Friday: Neutral
- We noted on Friday that technically upside moves were still considered as countertrend. We took a neutral approach today as the RSI was approaching resistance at 60; if price and momentum became aligned to the sell side, then the USD 3,024.5 fractal low becomes vulnerable. However, a downside breakout would create a positive divergence with the RSI, suggesting caution, as we could see a momentum slowdown.
- The futures have seen a small move higher with the RSI now at 60. Price is above all key moving averages supported by the RSI above 50, intraday price and momentum are aligned to the buyside.
- A close on the 4-hour candle below USD 3,100 with the RSI at or below 50 will mean price and momentum are aligned to the sell side. Upside moves that fail at or below USD 3,263 will leave the futures vulnerable to further tests to the downside, above this level the technical will have a neutral bias.
- Technical outlook. Upside moves considered as countertrend
- The Upside move on the open means that the RSI is currently testing resistance, while our Elliott wave analysis suggests upside moves should be considered as countertrend. As highlighted previously, market longs should be cautious if price and momentum become aligned to the sell side, as it will leave support levels vulnerable. Conversely, a close below the low of the last dominant bull candle at USD 3,098 will signal an increase in sell-side pressure. Key resistance remains unchanged at USD 3,263, as a move above this level will reduce the probability of price trading to a new low.