Base Morning Technical Report

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Zn

(Bloomberg) -- The zinc market is flashing signs of tightness just days after a short-term supply crunch in copper spurred wild trading on the London Metal Exchange.

Zinc for prompt delivery traded as much as $132.37 a ton higher than the three-month futures on Thursday — the widest gap this year — in a backwardation structure pointing to tighter supply. On Friday, the benchmark price advanced 0.9% to head for its highest close in four years.

Zinc's gains follow the squeeze on copper, when a shortage of immediately available metal ahead of a key LME delivery date sent spreads and prices sharply higher. The tightness has eased somewhat in recent sessions after a series of big deliveries into LME-tracked warehouses.

Tight conditions in the zinc market have emerged this year amid concerns that mine output is struggling to keep up with demand. Processing fees for the metal slumped to minus $110-a-ton this month, putting pressure on smelters. And LME stockpiles are also low by historical standards, at below 100,000 tons.

"There are still concerns about overseas supply disruptions" in zinc, Chinese brokerage Jinrui Futures Co. said in a note. "So the driving forces for the relative strength of the LME price continue to exist, together with heightened volatility around macroeconomic sentiment."

Traders have also been dealing with the consequences of the US Treasury's interventions to try to contain long-term borrowing costs. The US dollar has softened against its peers this week — and was down again on Friday — lending support to metals priced in the currency.

Zinc rose as much as 0.9% to $3,793.50 a ton on the LME, before trading at $3,792.50 at 8:16 a.m. in London. A close at that level would be a fifth weekly advance. Copper rose 0.7% to $14,134, and was little changed over the week.

"Zinc's firmer tone should remain intact while prices hold above $3,740 a ton, but the wider complex still lacks enough momentum for a sustained move higher," Sucden Financial Ltd. wrote in a note.

Copper Morning Technical (4-hour)

Support		Resistance		Current Price	Bull	Bear
S1	14,009	R1	14,212	14,122	RSI above 50	
S2	13,844	R2	14,280			
S3	13,738	R3	14,396			

Synopsis - Intraday

Source Bloomberg

- Price is above the EMA support band (Black EMA's)
- The RSI is above 50 (54)
- Stochastic is above 50
- Price is above the daily pivot point USD 14,009
- Technical Outlook Previously: Wave B
- We noted yesterday that the broader trend remained bullish above USD 13,844 and neutral below. The upside move yesterday on USD weakness suggested that we had entered an Elliott wave B, making USD 14,212 the key resistance to follow. Upside moves that reject this level will warn of further downside in the near-term; however, caution wasw warranted on moves above USD 14,212, as it would warn we could be in the early stages of a bullish Elliott wave 5. We maintained our view that downside moves should be considered as countertrend.
- Having traded at a low of USD 13,910 the futures have seen bid support. We are 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 14,009 with the RSI at or below 42.5 would mean price and momentum are aligned to the sell side. Downside moves that hold at or above USD 13,844 would support a bull argument, below this level the technical will have a neutral bias
- Technical Outlook: Wave B
- The 3-wave pattern higher still looks like it could be an Elliott wave B, warning we remain vulnerable to another move lower within this corrective phase; however, the broader wave cycle remains bullish with downside moves considered as countertrend. If we trade above the USD 14,212 resistance it will warn that we could be in an impulse wave 5; upside moves will be contingent with the RSI breaching and holding above the 60 level, as this is an area where momentum failure can lead to price weakening. USD 14,212 will be the key level to follow in the near-term.

Aluminium Morning Technical (4-hour)

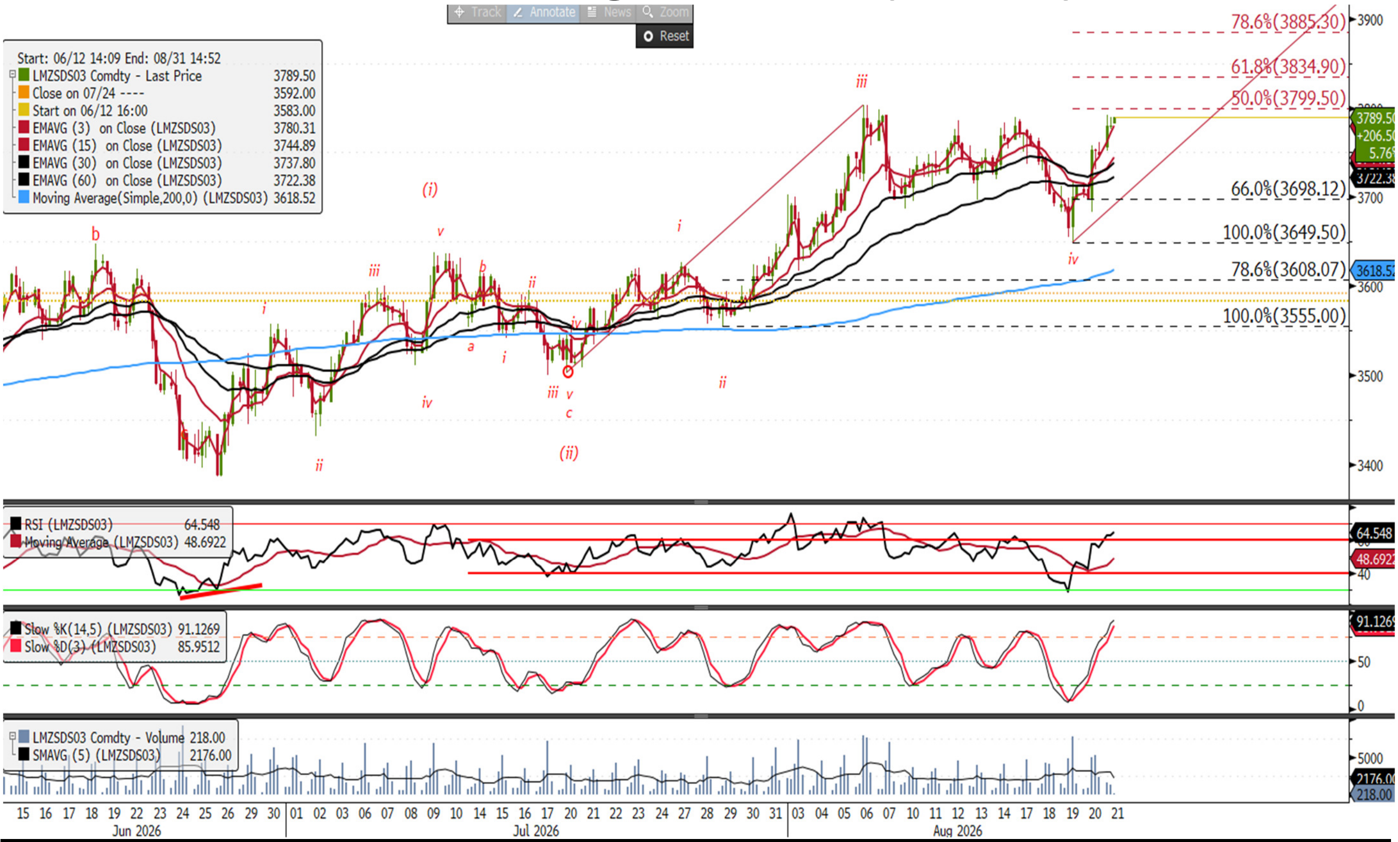
Support		Resistance		Current Price	Bull	Bear
S1	3,205	R1	3,256	3,211.5	Stochastic oversold	RSI below 50
S2	3,190	R2	3,281			
S3	3,176	R3	3,314			

Synopsis - Intraday

Source Bloomberg

- Price is below the EMA resistance band (Black EMA's)
- RSI is below 50 (43)
- Stochastic is oversold
- Price is above the daily pivot point USD 3,205
- Technical outlook Previously: Caution on downside moves
- Unchanged on the technical this morning. As highlighted previously, the move below USD 3,209 warned that the 3-wave pattern lower had the potential to be part of a larger corrective phase, providing the USD 3,216 resistance was not breached. We remained cautious on downside moves in the near-term, as we had the 200-period MA at USD 3,188, while the RSI had the potential to be divergent below this level. If we saw a sustained close below the daily 200-period MA at USD 3,188, it could potentially trigger further selling pressure within the current corrective 3-wave pattern.
- The futures traded to a low of USD 3,177.5 before finding light bis support off the intraday 200-period MA at USD 3,190. Price is now finding light bid support, but we remain below the EMA resistance band with the RSI below 50, in-traday price and momentum are aligned to the buyside.
- A close on the 4-hour candle below USD 3,205 with the RSI at or below 36.5 would mean price and momentum are aligned to the sell side. Upside moves that fail at or below USD 3,314 will leave price vulnerable to further downside moves; conversely, above this level the technical will have a neutral bias
- Technical outlook: Caution on downside moves
- We continue to see price testing but failing to hold below the 200-period MA at USD 3,190. These probes to the down-side mean that the move that started from the high at USD 3,286 on the 17/08, looks to have produced a 5-wave pattern lower, warning we could be nearing exhaustion. We also note that the RSI looks to be finding a base; however, the RSI will need to hold above 40 to signal momentum support. At this point, we still need to see more upside, as price is vulnerable to another test lower, as the upside move still lacks genuine bullish momentum. If we trade above the USD 3,239 resistance, it will signal an increase in buyside pressure, warning the USD 3,314 resistance could be tested. We identify USD 3,214 as a key level to monitor, as a rejection here would leave price vulnerable to another 3-wave move lower (double 3 that would be labelled W—X—Y). Warning signs continue to suggest caution on lower moves. One final point, we have two downside rejection candles that have volume support, suggesting either the market is seeing some short covering, or accumulation.

Zinc Morning Technical (4-hour)



Support		Resistance		Current Price	Bull	Bear
S1	3,735	R1	3,799	3,706	RSI above 50	Stochastic overbought
S2	3,698	R2	3,834			
S3	3,649	R3	3,885			

Synopsis - Intraday

Source Bloomberg

- Price is above the EMA support band (Black EMA's)
- RSI is above 50 (64)
- Stochastic is overbought
- Price is above the daily pivot point USD 3,735
- Technical outlook Previously: Downside moves considered as countertrend.
- Unchanged on the technical yesterday. As highlighted previously, we indicated that we were looking at a flat Elliott wave correction with downside moves considered as countertrend. We had a 3-wave corrective structure lower that warns market sellers should act with caution. Market bulls will need to see price above the USD 3,742 resistance, as a rejection here would signal that we could be looking at a more complex corrective phase.
- The futures traded above the USD 3,742 resistance, signaling that we were in a bullish impulse wave 5 for this phase of the cycle. 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 3,735 with the RSI at or below 46.5 would mean price and momentum are aligned to the sell side. Downside moves that hold at or above USD 3,698 would support a bull argument, below this level the technical will have a neutral bias.
- Technical outlook: Resistance vulnerable
- With price now looking to be in an impulse wave 5 our Fibonacci projection levels indicate we have a near-term upside target at USD 3,834. A close and hold above this level will target USD 3,885. Lower timeframe Elliott wave analysis continues to suggest caution on intraday throwbacks.