
Strong demand from China and stimulus hopes from the US to keep copper prices firm
Natural Gas prices are trading lower on change in the weather forecast
Silver trading firm due to dollar weakness and dovish central bank comments

STRONG DEMAND FROM CHINA AND STIMULUS HOPES FROM THE US TO KEEP COPPER PRICES FIRM

- ▲ LME Copper prices are holding in a range this week, near the 6,590 level, after a drop from the recent high of 6,878, to a low of 6,449 last week. Copper found support from a drop in inventories, strong demand from China, and a fresh hope from US stimulus. Democrats in the U.S. House of Representatives are working on a \$2.2 trillion stimulus package, which could be voted on this week.
- ▲ China's economic recovery is gaining momentum with pent-up demand, fiscal stimulus, and surprisingly resilient exports boosting sentiment across the region. China's manufacturing is expected to pick up this month. In August, data showed that industrial output in China, the world's top consumer of metals, accelerated the most in eight months.
- ▲ According to the Japan Copper and Brass Association, Japan's production of wrought copper products is likely to sink 15.6% in the current financial year. Production of wrought copper, and copper alloy products, is expected to fall to 622,600 tonnes this financial year, until March 31, down from 737,396 tonnes last year. The country's output in August fell 31.2%, to 36,750 tonnes year-on-year, marking the 21st consecutive monthly decline, and the lowest for August, since 1967.
- ▲ On the demand side, the Japanese Electric Wire & Cable Makers' Association slashed its forecast for the country's copper electric wire shipment for this financial year, to 619,000 tonnes, from its March estimate of 684,000 tonnes. The revised figure will mark a 10.8% drop year-on-year and the lowest since the 1970 financial year.
- ▲ Meanwhile, Zambia is removing import duty on copper ores and concentrates to encourage local processing, Finance Minister Bwalya Ng'andu said in a Budget speech delivered in Parliament on Friday. Africa's second largest copper producer saw its export earnings from the metal in the first half of the year fall 14.8%, to \$2.3-billion, due to a drop in prices, he added.
- ▲ LME inventories for copper at registered warehouses jumped 29,500 tonnes to 103,125 tonnes on Monday, and cancelled warrants slipped to 41%, from near 60%, last week. An increase in inventories is negative for Copper prices.
- ▲ On the economic data front, profits at Chinese industrial enterprises rose for a fourth consecutive month in August, which would further support a recovery in demand for industrial metals. Industrial firms' profits grew 19.1% year-on-year in August, to 612.81 billion Yuan (\$89.8 billion), the statistics bureau said, this compares with a 19.6% increase in July. Raw material manufacturing profits increased by 32.5% in August, up from 14.7% in July. Meanwhile, profits of the general equipment manufacturing sector notched up 37% in August year-on-year, with electrical machinery up by 13.3%, over the same period.
- ▲ On Comex, money managers have increased their bullish bets on copper by 10,611, and net-long positions to 87,308 for the week ending 22nd September.

Outlook

- ▲ LME Copper prices are likely to find support around the 50-days EMA at 6,511, while the key resistance level remains near the 20-days EMA of 6,650. We expect recovery in copper prices from current levels, in the backdrop of low inventories, strong Chinese demand, and stimulus hopes from the US. Copper prices are likely to get further direction from September surveys of Purchasing Managers in China's manufacturing sector.

NATURAL GAS PRICES ARE TRADING LOWER ON CHANGE IN THE WEATHER FORECAST

- ▲ Natural Gas (NG) November expiry contract on Nymex is trading near 2.755, following a weakness from

Monday. According to Maxar (space technology company), cool weather in the eastern US would give way to widespread above-normal temperatures from October 8-12, which would reduce heating demand.

- ▲ NG prices are also down, after a Bloomberg report, which shows that US demand for NG on Monday was 61.9 bcf, down -27% from the pre-Covid peak on January 20.
- ▲ However, NG found some support from export demand as gas flows to U.S LNG export terminals on Monday were at 6.1 bcf, up +20% w/w.
- ▲ US NG production is still weak, and was at 86.329 bcf/d on Monday which was -8.7% Y/Y
- ▲ Baker Hughes, last Friday, reported that the number of active U.S. natural gas drilling rigs in the week ended September 25, rose by +2 rigs, to 75 rigs.
- ▲ A weekly EIA report last week showed that gas inventories rose +66 bcf for the week of 18th September, to 3,680 bcf, which was above the consensus of +77 bcf, and the 5-year average of +80 bcf. The total U.S. NG supplies are at 3,614 bcf in the week of 18th September, which are up +14.8% y/y, and are +12.4% above the 5-year average.

Outlook

- ▲ Nymex Natural Gas November expiry contract is likely to find key support levels around the 5-days EMA at \$2.409, and the 20-days EMA at \$2.304. Meanwhile, significant resistance could be seen at \$2.926 levels.

SILVER TRADING FIRM DUE TO DOLLAR WEAKNESS AND DOVISH CENTRAL BANK COMMENTS

- ▲ Silver prices are trading near 23.60, higher by 8.2%, from the low of 21.81, registered on 24th September. Silver prices are getting support from stimulus hopes in the US, and dovish comments from the ECB. The House Democrats have released a scaled back \$2.2 trillion proposal to extend support to the US economy.
- ▲ Meanwhile, the Gold to Silver ratio is currently trading near 80, and it has dropped from recent high of 85.18, registered on 24th September, still, it is 16% higher from this month's low of 68.87.
- ▲ Monday's global economic data was supportive for industrial metals demand. The U.S. September Dallas Fed manufacturing activity index rose +5.6, to a 1-3/4 year high of 13.6, stronger than expectations of +1.5, to 9.5. Also, China's August industrial profits rose +19.1% y/y, to 613 billion Yuan, the fourth consecutive monthly increase.
- ▲ Dovish central bank comments are positive for the bullion segment. The ECB Governing Council member, Hernandez de Cos, has said on Sunday that significant monetary stimulus should stay in place, and that steps to boost stimulus further shouldn't be discounted, should they become necessary. He added that inflation is expected to be well below the ECB's target and that recent exchange rate moves mean there is "no room for complacency."
- ▲ Also, ECB President, Christine Lagarde, said on Monday that "businesses are facing difficulties, people are losing their jobs, and prospects about the future remain uncertain." The ECB "continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry."

Outlook

- ▲ Silver prices are trading firm, while above the key support levels at the 100-days EMA at \$23.522. Meanwhile, critical resistance could be seen at \$24.10-\$25.35. Stimulus hopes from US, positive economic data from China, and dovish ECB comments are likely to keep silver prices firm.

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