
Copper down as Covid-19 delta variant Spread Casts Doubt on Growth Prospects
Delta Covid variant may reduce energy demand

COPPER DOWN AS COVID-19 DELTA VARIANT SPREAD CASTS DOUBT ON GROWTH PROSPECTS

- The virus outbreak in China is spreading, and virus mutations are raising concerns about how to manage the pandemic. Copper prices on the LME are now trading at 9437, down from a recent high of 9921.25 on July 27th. The Covid-19 delta variant threatened to derail China's and the world's economic recovery.
- Industrial metal has been unable to find a new direction due to mixed economic data in the United States. On the plus side, the US July ISM services index increased by 4.0 points to a new high of 64.1 (data from 1997), beating expectations of 60.5. The ADP employment report for July in the United States, on the other hand, was weaker than expected, coming in at +690,000, the smallest gain in 5 months.
- Copper prices, on the other hand, have been unable to find support from China's July PMI data. Caixin Media Co. and researcher Markit reported that the Caixin China purchasing managers index fell to 50.3 in July from 51.3 in June. The reading in July was the lowest in 16 months, but it remained above the 50-point threshold that separates expansion from contraction. However, PMI's services exceeded expectations. The Caixin/Markit services Purchasing Managers' Index (PMI) increased to 54.9 in July, the highest level since May and up from 50.3 in June.
- On the Comex, Copper open interest was 209200 contracts on August 4th, down 1069 contracts in the previous five trading days, while on the LME, open interest was 176992 contracts on August 4th, up 2160 contracts in the previous five trading sessions. Copper open interest on the SHFE as of the 5th of August 2021 is now at 294225 contracts, down 18809 contracts in the last five trading sessions.
- As of the 4th of August, Comex copper inventory stood at 41446.6 metric tonnes, up 225.90 from the previous five trading days. As of the 5th of August, the LME's copper inventory stood at 236100 mt, up 925 mt from the previous five trading sessions. Copper inventory at SHFE is now at 44766 mt, down 3324 mt in the last five trading sessions as of August 5th.

Outlook

- Copper prices are likely to trade lower as long as they remain below the key resistance level of the 50-day EMA at \$9537, while immediate support can be found around \$9243.

DELTA COVID VARIANT MAY REDUCE ENERGY DEMAND

- In China, the spread of the delta Covid variant may reduce energy demand. The latest outbreak has spread to nearly half of China's 32 provinces in less than two weeks, prompting Beijing to cancel flights and shut down Nanjing. China reported 62 confirmed Covid-19 cases on Wednesday, according to the National Health Commission, with the majority of infections occurring in the eastern province of Jiangsu. Beijing banned train passengers from 23 regions on Tuesday, and residents of 46 Chinese cities were advised not to travel unless absolutely necessary.
- Fuel demand in India remains weak putting downward pressure on prices. Diesel sales in July were 5.449 MMT, down -11 percent from the same period last year before the pandemic began, according to data from India's three largest fuel retailers. Diesel sales account for 40% of all oil consumption in India.
- Meanwhile, OPEC crude production increased by 420,000 barrels per day in July, reaching a 15-month high of 26.82 million barrels per day, putting downward pressure on oil prices.
- Crude inventories increased by +3.63 million barrels per day, versus expectations of a -3.0 million barrels per day draw, according to the EIA. Distillate stockpiles unexpectedly rose by +832,000 bbl, against expectations of a -500,00 bbl draw. However, EIA gasoline supplies fell to an 8-month low of -5.29 million barrels per day, against forecast of -1.5 million barrels per day. Furthermore, crude supplies at Cushing, the WTI futures delivery point, fell by 543,000 barrels per day to a one-and-a-half-year low.
- According to the weekly EIA report released on Wednesday, US crude oil inventories were -5.8% below the seasonal 5-year average as of July 30, gasoline inventories were -3.5% below the 5-year average, and distillate inventories were -6.7% below the 5-year average.
- US crude oil production was unchanged w/w at 11.2 million bpd in the week ended July 30, down 1.9 million bpd (-14.5 percent) from the record-high of 13.1 million bpd set in February 2020.
- Baker Hughes reported on Friday that active U.S. oil rigs fell by -2 rigs to 385 in the week ending July 30, down slightly from the previous week's 1-1/4-year high of 387 rigs. Active oil rigs in the United States have risen substantially from a 15-year low of 172 rigs last August, indicating increased crude oil output in the United States.
- The net long position in crude oil futures increased by +1 024 contracts to 449 764 contracts for the week ending July 27, according to the CFTC Commitments of Traders report. Shorts gained +7 341 contracts, while speculative longs gained +8 365 contracts.

Outlook

- Crude oil prices are likely to trade lower while under below key resistance level of 50 days EMA of \$70.59 while immediate support level could be seen around \$67-\$64.20

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