



ZINC

Outlook

Return of the Bulls

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Recent Trend

After posting a record high of 4,575 in November last year, LME Zinc (3m forward) prices lost nearly 35% trading at 2980 in the first week of February. A bounce back to 3,775 in the following weeks failed retain strength and Zinc lost almost the entire gains made in February. Meanwhile, it was Copper, which was about to grab the attention in Base metals. From, it's lows in February, Copper surprised most people with its continued strength and went onto to form higher peaks and higher bottoms (a true bull trend). Copper prices are now 58% up from it's lows in February. An astonishing rally! Among other base metals, Nickel also gained more than 35%, registering a new all-time high and crossed the mammoth 50,000 mark. It was now Zinc's turn to get a share of the attention from the bulls.

Factors at Play in recent months

- Heavy Long Liquidation witnessed in January
- Global Economic data continued to remain robust and supportive for industrial metals
- Higher than expected figures for Chinese production and exports of Zinc. China's production of refined Zinc in Q1-07 was higher by 23.4% compared to last year's figure.
- Positive Contagion from Copper and Nickel prices
- Slide in LME inventories taking it back to near 15 year lows for Zinc. On 4th May, LME inventories of Zinc stood at 93,000 tons vis-à-vis 111,050 tons on 22nd March.
- Initial Short-covering and subsequent longs being built up
- Strike by Peru mine workers
- Demand-supply dynamics have returned to balance and the market is once again in a position where it has become vulnerable to supply disruptions.

LME Inventories of Zinc



Source: LME



LME Weekly Prices



Looking Forward on Fundamentals

- Demand for Zinc will continue to remain strong over the next three to six months as Zinc's single largest source of demand – Galvanised Steel, shows little sign of any pullback
- Construction, Infrastructure and Capital Goods sectors still show growth rates that are unrelenting
- Over the next few weeks, We expect to see an overall rising demand for hedging Zinc requirements, keeping its price well supported
- Over the next few months, supply side threats are seen to gain significance and price impacting capability
- We do not expect Zinc to trade in isolation from the rest of the base metal complex and it is likely to be affected by the overall trend, unless we have some very specific issues related to the supply side of the metal
- Overall, we expect brisk demand and supply worries keeping Zinc prices well supported on dips and possibly increasing momentum on the upside
- We see a fair chance of Zinc prices scaling higher in the next 3 to 6 months.

Technical Analysis

- The rally witnessed in Mar-April has retraced more than 72% of the entire fall that we had between November and February. By any standard, that is considered more than reasonable.
- Zinc is presently trading in a steeply upward sloping channel and is now very near the resistance level of 4200-4230. In its proximity, is also, the 3 SD Bollinger Band (21dma).



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- The price objective for the double-bottom pattern is now more or less accomplished and upside to 4280-4320 could face some resistance
- We would not advise any selling on Zinc at current levels but should we see it trade between 4280-4320 before the end of this week, one could sell it with a stop loss at 4415. This is strictly a short-term technical view.
- Supports will be found at 3,960- 3,900 levels and dips to that level could be bought
- We expect Zinc prices to drop sometime during the middle of May (probably third week) and that may well be an opportune time to add to longs with the possibility of Zinc scaling the 4,500 levels in June

LME Zinc



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