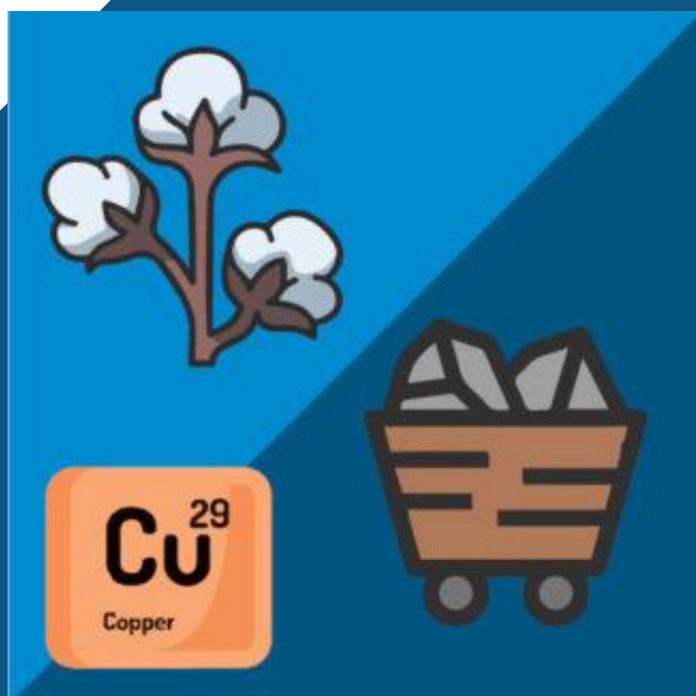
Bubba Trading

TechnoMental Component Report Base Metals & Industrial Commodities



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Base Metals & Industrial Commodities

LME copper, aluminum, and tin edged higher since the last report as of November 16. Zinc, lead, and nickel prices declined. However, COMEX copper dropped on Wednesday, and the one-day lag means that base metals prices were lower on November 17. Iron ore edged lower while the Baltic Dry Index fell since November 10. Lumber exploded higher, posting a double-digit percentage gain, and uranium moved to the upside.

December COMEX copper moved 1.32% lower since November 10. The red metal hit a new all-time peak on May 10 as the continuous contract reached $4.8985. December futures settled at $4.2660 per pound on November 17 after trading to a high of $4.8705 on May 10 and a low of $3.9665 on August 19. December copper made a lower high at $4.8230 on October 18, where it ran out of upside steam. Three-month LME copper edged 0.08% higher to $9,561.00 per ton on November 16. Open interest in the COMEX futures contracts was 2.48% lower over the past week. Short-term technical support for the December copper futures contract is at $4.1140, the October 6 low. The significant level on the downside is at $3.9615 continuous contract low from mid-August. Technical resistance for December futures sits at $4.4890 on December futures, the November 15 high, and the all-time high at $4.8985 on the continuous futures contract.
Chinese demand and output from South American producers will continue to be the most significant factors for the path of the price of copper over the coming weeks and months.

Meanwhile, increased demand from green technologies is increasing copper requirements while supplies are not keeping pace. It takes nearly a decade to bring a new copper mining project online. A US infrastructure program will increase copper demand. The trend in copper remains bullish, but as I wrote, when copper was on the way up, the risk of a correction rose with the red metal's price. Goldman Sachs expects copper to rise to a new all-time high calling the metal the "new oil." Jeff Currie, Goldman's commodity analyst, pointed out that the inflation-adjusted high in the LME copper forward market came in the 1960s at over $14,000 per ton. Goldman expects the price to rise to the $15,000 per ton level in 2025. The investment firm's 2011 target was the $11,000 per ton level. Copper rose to over $10,745 per ton at the May 10 high. Other analysts are calling for even higher prices for the red metal. Bull markets can take prices higher a lot faster than analysts believe possible, but they also suffer periodic corrections, which can be brutal. Copper was moving towards a challenge of the bottom end of its trading range on November 17.

Meanwhile, the US infrastructure rebuilding package that will put the world's leading economy on a green path should support copper demand. China has attempted to cool the bullish price action in the market. Since early July, China has sold a total of 570,000 metric tons of aluminum, zinc, and copper via auctions. The latest sales came in early October.

Copper is a leader in the base metals and industrial sector. The red metal is also a barometer for the global and Chinese economies. Copper's ascent to new highs in May was a sign for all commodity prices. Inflationary pressures are bullish for the red metal and the asset class. Copper made higher lows and higher highs since March 2020. However, increasing interest rates makes the cost of carrying inventories higher and can weigh on the red metal's price. Inflation is bullish for the red metal.

Inventories of copper on the LME and COMEX fell sharply over the past week.

As I wrote over the past weeks:

"Expect lots of volatility in the copper futures arena over the coming weeks and months. I remain bullish on the base metals and shares of producing companies for the medium to long term. Copper has been consolidating over the past months after correcting and probing below the $4 per pound level in mid-August."

Copper has made higher lows since the mid-August low. The red metal needs to hold above $4.1140 to keep the pattern intact.

The LME lead price fell 1.39% to $2,307 per ton on November 16. The rise in demand for electric automobiles around the world had been supportive of lead in the long term as the metal is a requirement for batteries. Since late April 2020, the prices of crude oil, gasoline, and lead moved higher. Meanwhile, a lead surplus has been building in China, but the price was rising because of the magnetic impact of copper and the other base metals that trade on the LME. $2,000 per ton was a pivot point for the three-month lead price. The price remains significantly above that level.

The price of nickel forwards edged 0.04% lower since the previous report and the price remained under the $20,000 level, which is the pivot point. Elon Musk encouraged nickel production as he issued a plea to "any mining company in the world to mine more nickel." The message turned out to be a very bullish message for the volatile metal over the past months. Mr. Musk, the world's wealthiest person, continues to search for supplies of "clean" nickel. Do not discount the potential for him to purchase a nickel producer to guarantee supplies for his business as his Tesla and other franchises, including SpaceX and the Boring Company, grow. SpaceX received a contract from NASA. The nickel price continues to trend higher, but it is a highly volatile base metal. Growing nickel demand for both stainless steel and batteries is likely to continue to underpin the price of the nonferrous metal. Mr. Musk has more assets than the market caps of BHP and RIO put together.

Tin was 0.65% higher since November 9. Aluminum moved 0.70% to the upside since the previous report as of November 9 to $2,574.50 per ton. The price of zinc moved 1.78% lower since November 9. Zinc was at the $3,223.00 per ton level on November 16. January lumber futures were trading at the $712.00 level on November 17, 11.63% higher since the previous report, after plunging from a new record high at $1,711.20 per 1,000 board feet on the continuous contract on May 10.

The nearby lumber price ran out of upside steam at over the $1,700 level, plunged, with the price moving to less than one-third the value at the May high. Lumber can be a leading economic indicator at times. Lumber began falling before selling hit other commodity markets. The potential for an infrastructure building project by the US government could support gains in lumber futures. Home improvement projects during the shutdown contributed to higher demand and prices for wood. Supplies have been a problem because of mill closures. The lumber futures market suffers from minimal liquidity, which makes it a highly volatile commodity. Lumber is often a leader and barometer for the commodities asset class. I never trade lumber but watch the price action like a hawk as it is a valuable guide for trends and trend reversals in the industrial commodity asset class. The winter months tend to be a weak period for the lumber market as construction activity declines, lowering the demand for wood. Lumber was very strong throughout the 2020/2021 winter season. The US infrastructure rebuilding package will likely support wood's price. Lumber had been explosive until it peaked in May and became implosive. Before 2018, the all-time peak was $493.50. November lumber fell to a low at $448 in late August. Technical support is at $591, the November 2 low. Resistance stands at the October 19 $824.00 high. Lumber has been trending higher since the mid-August low.

The price of uranium moved 7.39% higher since November 10 to $47.25 per pound. Meanwhile, Yellowcake PLC's price edged higher to $366.50, up 0.41%, over the past week. CCJ shares closed at the $26.18 level, down 0.68% since November 10.

In recent reports, I had been writing:

"I continue to believe CCJ shares offer value and rate the stock as a buy at the current price level."

I rate the stock a hold but have taken profits on one-third of my long position at higher levels. The volatile Baltic Dry Index fell, moving 7.63% lower since the previous report. The BDI was at the 2,591 level on November 17. Higher fuel prices, strains and bottlenecks in the supply chain, and a container shortage had taken the freight index higher over the past months. Freight rates tend to exhibit season weakness during the winter months. December iron ore futures edged 0.06% lower since November 10.

Supply shortages of iron ore from Brazil have supported the price for more than a year. Rising iron ore and metallurgical coal prices had been a sign of strength in the global economy, but the market ran out of upside steam over the past weeks, and the price corrected as production increased and demand slowed. Open interest in the thinly traded lumber futures market fell 1.78% since the previous report. The illiquid markets like lumber can become roach motels when a trend reverses, creating gaps that can cause significant financial pain for those on the wrong side of a move. Never trade lumber, just watch the price action. The rise in lumber was a sign of demand for framing wood, a primary ingredient in new home construction. The plans for rebuilding infrastructure will increase lumber demand. The price plunge is the result of illiquidity. The Fed and others are pointing to lumber's plunge as validation that inflation is "transitory." What they do not cite is lumber's liquidity makes the price volatility wild.

As I wrote in previous reports:

"I expect lumber to find a bottom and turn higher sooner rather than later. The $448 level looks like it could be a bottom for some time."

Lumber had been powering higher over the past weeks. LME copper inventories fell 14.26% over the past week after double-digit percentage increases over the past months. LME stocks of the red metal stood at 93,925 tons as of November 16 and were 15,625 metric tons below the November 9 level. LME copper inventories had been steadily declining until they reached bottom below the 75,000-ton level and began to climb. They peaked at the 255,000 tons level. Copper stocks are often manipulated by dominant market participants. Since a Chinese company owns and operates the LME, the potential for manipulation to achieve price goals is always a factor for the red metal. I always view substantial and sudden changes in inventory data with a grain of salt. COMEX copper stocks declined 5.39% since November 9 and stood at 56,794 tons on November 16. China's sales of copper from strategic inventories, the prospects for increasing interest rates, and a stronger dollar had pushed copper stocks in LME and COMEX warehouses higher over the past months. The net decline over the past weeks could be a positive sign for the copper price. Copper had been trading in a range from around $4.00 to around $4.40 per pound since early August and broke out to the upside on October 13. Over the past week, copper dropped back towards the bottom end of its trading range.

Lead stockpiles on the LME rose 7.63% over the past week. Lead experienced huge inventory builds in March, but stocks had been falling over the past months. Aluminum stocks were 3.17% lower compared to November 9. Aluminum LME warehouse stocks stood at the 959,975-ton level on November 16, falling below the one-million-ton level and continuing to decline on the back of the rising demand and supplies that struggle to keep pace. Higher energy prices are boosting aluminum production costs, as is addressing climate change by reducing emissions. The energy sector is weighing on aluminum supplies.

Zinc stocks moved 4.04% lower since November 9 to 182,450 tons. Zinc inventories have been volatile over the past weeks and months. Tin inventories were 120 tons or 16.44% higher since November 9 at 850 metric tons. Nickel inventories were 4.74% lower compared to the level on November 9. Infrastructure rebuilding in the US and Chinese economic growth support the base metals. Stockpile data can reveal supply and demand trends, but traders often use the inventories to influence perception and prices. Rising interest rates could attract more metal into exchange warehouses and put pressure on prices. The recovery in base metals reflects the rising demand for industrial commodities.

FXC moved higher even though copper declined since the previous report and was trading at $38.87 on Wednesday, up $1.35 per share or 3.60% since the previous report. I continue to maintain a long position in FCX shares. FCX tends to move higher and lower with the price of copper. FCX reached the highest price since February 2012, when it traded to $46.10.

As I have been writing:

“I remain long FCX at $11.37 and will use a stop on close above that level to protect capital. I would increase the level of the stop as FCX moves higher to protect profits.”

This position is up over 241%, so I would move stops higher to guarantee a substantial profit while riding the trend higher for the potential of more gains. There is nothing wrong with selling half the position and riding the balance for free with no capital risk.

Keep stops tight on all positions in this sector that is highly sensitive to macroeconomic trends. In the medium to longer term, the stimulus and potential for a US infrastructure rebuilding program are bullish for industrial commodities. Short-term bouts of risk-off periods could cause sharp selloffs. A falling dollar is likely to support higher prices; a rising greenback has the opposite effect.

We are long PICK, the metals and mining ETF product. We bought PICK at the $23.38 per share level, and it was trading at $41.15 on November 17, up $0.34 or 0.83% over the past week. PICK hit a new high of $52.39 on May 10, the highest level since February 2012. I continue to rate this metals and mining ETF that holds shares in the leading producing companies in the world a long-term hold. I would raise stops to guarantee a profit if a correction occurs as PICK has moved over 76% higher. Base metals and industrial commodities prices should continue to follow crude oil and stocks over the coming weeks. The strength in industrial commodity prices over the past months is a sign of inflationary pressures on the global economy.

Keep those stops tight on short-term positions. Do not allow a short-term foray into the market to become a long-term investment. More stimulus early this year, and the potential for an infrastructure project in the US is bullish for industrial commodity prices. Protect profitable long positions with stops. Industrial commodity prices had been on bullish fire since March 2020 in a sign of rising inflationary pressures. After the dramatic rallies, there was room for corrections that do not alter the long-term trends established over the past months. I remain bullish on the sector, but we could experience a bumpy ride over the coming weeks and months. It is impossible to pick tops or bottoms in markets. Approach all risk positions with a plan for risk and rewards and stick to it! The summer has ended, and base metals prices appear to be breaking out of their consolidation after correcting from highs in May.

The overall tone of the base metals and industrial commodities sector remains bullish. However, the risk of corrections always rises with prices, as we witnessed over the past two weeks. Bull market corrections can be nasty. The infrastructure package in the US means more demand for construction materials.