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FRI 13 OCTOBER 2023 00:10

Daily Base Metals Report

US stock markets fluctuated after the latest inflation reading raised expectations of a Fed hike. The core CPI rose by 4.1% y/y, which is the lowest since 2021. However, the headline inflation exceeded forecasts, growing by 3.7% y/y, as energy costs filtered through to consumers. Forward swaps are now pricing in a 50% chance of a hike, and the probability of a cut has been shifted to July, away from June, as seen earlier this week. Although we do not anticipate this to change the Fed's narrative for a hike in Q4, the question remains on how far into 2024 the rates will be kept higher. As a result, we see greater focus on pricing out a cut further down the curve rather than rate increases in the near term. The 2-year yield jumped 8bps back to 5.07%, while the 10-year yield came back to 4.65%. The dollar strengthened to 106.40. Despite recent gains pushing the dollar up to test the 107 level, we remain constructive on the greenback over the coming months. Further uncertainty about the case for a hike is likely to maintain the currency above the 106 level.

Mixed performance was seen across the base metals complex. Aluminium continued to edge lower to test the support level of \$2,200/t. We anticipate the recent downside to slow down in the near term as aluminium returns to the September ranges, where we see its fundamental value. Copper continued to fluctuate around the \$8,000/t level. On the other hand, lead continued to decline, falling below the \$2,100/t support level and closing at \$2,054/t, which marks the July low. Zinc remained supported above \$2,500/t. Nickel remained unchanged at \$18,728/t.

Oil futures rose once again after a joint statement from Russia and Saudi Arabia reaffirming their cooperation in the crude market, pushing WTI and Brent up to \$83/bl and \$86/bl, respectively. Gold and silver also rose once again, to \$1,872/oz and \$21.81/oz, respectively. Geopolitical tensions have helped to support the narrative for safe havens. However, our view is that both precious metals remain oversold, and as a result, we are likely to see a continued trend up to \$1,875/oz and \$22.40/oz support levels, respectively.

All price data is from 12.10.2023 as of 17:30

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