

Consider betting short in zinc at current levels

COMMODITY CALL.

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The continuous futures contract of zinc on the MCX, which has moved in a range since early September, breached the lower boundary of ₹260 early this week. This was against last week's prediction of a bounce off ₹260. As a result, the stop-loss of our long position would have been triggered on Monday.

Now that the support at ₹260 is taken out, the probability of a further decline has gone up significantly. From the derivatives data, we see a short build-up in October. That is, zinc futures depreciated by 1.4 per cent and the cumulative open interest went up from 1,851 contracts by end of September to 5,076 contracts on October 31. In the near-term we forecast zinc futures on MCX to decline to ₹242. If this level is breached, the contract could extend the fall and it could find support



at ₹225. On the other hand, the contract should rally past ₹275, a resistance, to turn the trend bullish.

Currently trading at ₹257, the contract is facing the support-turned-resistance level of ₹260. Even if the contract gets over this level, it is less likely to break out of the hurdle at ₹275.

Traders can initiate fresh shorts at the current level of ₹257 and add shorts if the contract moves up to ₹265. Place the initial stop-loss at ₹282. When the contract falls in line with our expectation and touches ₹242, book half of your position and then tighten the stop-loss to ₹252.

Move the stop-loss further down to ₹242 when the price slips below ₹235. Exit the remaining shorts at ₹230.