

# BASE METALS

## Q4 2010

Awarded **'THE BEST FUNDAMENTAL  
RESEARCH-COMMODITY'**  
by Zee Business

**RECOMMENDATIONS:** {Click on the name of the commodity to view complete details}

<b>ALUMINIUM</b>	<b>MCX</b>	<b>Buy</b> in the range of 95-98 TP 109 then 120 with SL below 85
	<b>LME</b>	<b>Buy</b> in the range of \$2160-2230 TP \$2500 then \$2650 SL below \$1950
<b>COPPER</b>	<b>MCX</b>	<b>Buy</b> 1st lot in the range of 352-355, 2nd in the range 340-345 TP 380 then 400 with SL below 315
	<b>LME</b>	<b>Buy</b> in the range of \$7200-7400 TP \$8300 then \$8700 SL at \$6700
<b>LEAD</b>	<b>MCX</b>	<b>Buy</b> in the range of 94-97 TP 113 then 120 with SL below 80
	<b>LME</b>	<b>Buy</b> in the range \$2100-2150 TP \$2460 then \$2670 with SL \$1870
<b>LEAD MINI</b>	<b>MCX</b>	<b>Buy</b> 1st lot at 98-100, 2nd lot at 92-94 TP 120 with SL below 72
<b>NICKEL</b>	<b>MCX</b>	<b>Buy</b> in the range 1000 – 1020 TP 1220 then 1280 with SL at 870
	<b>LME</b>	<b>Buy</b> in the range of \$21500-22000 TP \$26500 then \$29000 with SL at \$18000
<b>ZINC</b>	<b>MCX</b>	<b>Buy</b> in the range of 93-95 TP 115 then 120 with SL below 80
	<b>LME</b>	<b>Buy</b> in the range \$2050-2070 TP \$2620 then \$2810 with SL \$1735
<b>ZINC MINI</b>	<b>MCX</b>	<b>Buy</b> 1st lot at 96-98, 2nd lot at 90-92 TP 115 then 120 with SL below 80

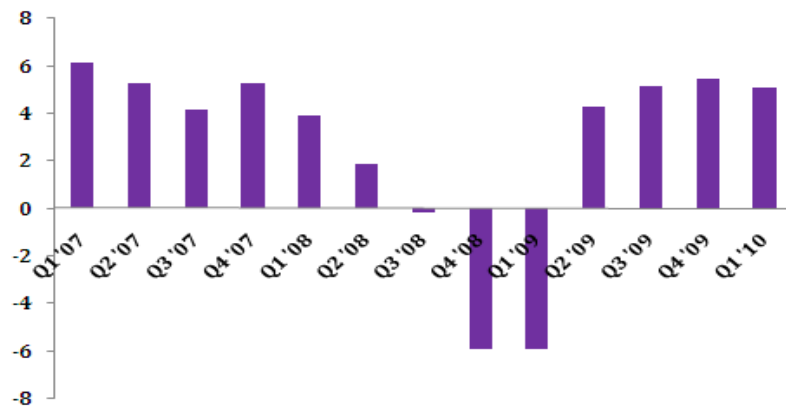
**Emerging economies continue to grow strongly along with improving economic conditions in the developed world.**

Global economic recovery was once again threatened from sovereign problems in the Euro-zone and the fears of hard landing in an overheating Chinese economy. But, by the end of third quarter, confidence did get a boost as bank stress test in the Euro-zone alleviated these fears. Chinese economy also stabilized and continued its upward trajectory without any major set backs in the near term, the growth rate though moderated seems more sustainable. In fact, Chinese economy overtook the Japanese to become the second largest in the world. Developed nations continue to benefit from strong demand in emerging countries and most of them seem to be trying hard to export their way out of the slow recovery they are facing.

Equity markets across the world remained buoyant as the continued commitment of the Fed to support recovery moved more money into the risky assets especially emerging market equities. Commodities as an asset class, moved higher with safe-haven assets like Gold making new life-time highs.

**IMF in its July review projected World growth at about 4.5 percent in 2010 and 4.25 percent in 2011.**

**Figure.1: World GDP Growth (QoQ)**



Source: IMF

Going forward, we will continue to be in a world which is fiscally tight, as governments finances get stretched, but monetarily loose. So it looks like interest rates are going to be lower for longer period in the developed world. Cheap money will continue to seek higher returns thereby bringing more and more money into commodities and emerging market equities. The driving factors will continue to be the emerging markets and the developed world will see only a modest growth as effects of fiscal stimulus fades and austerity measures in certain developed economies kicks in. IMF in its July review projected World growth at about 4.5 percent in 2010 and 4.25 percent in 2011.

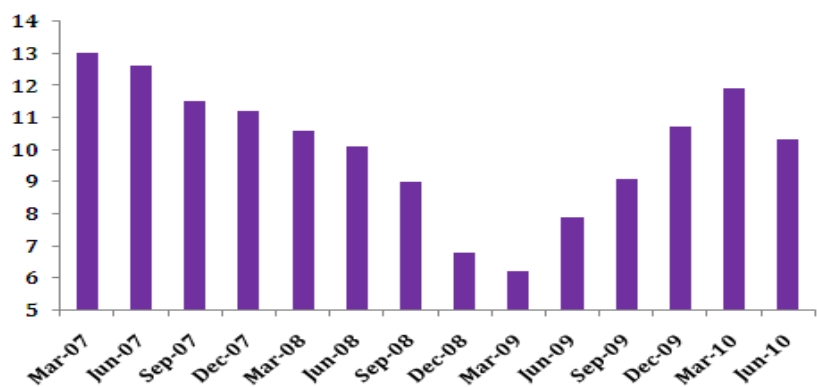
**Japanese-Yen which was trading at near 15-year high against the dollar was adding to its economic woes. The central bank intervened for the first time in six years to stem the gains.**

**ASIA:** Japanese economy grew at a modest pace of 0.4 percent in the second quarter. This was on the back of strong growth in exports to emerging markets. However, the economy showed signs of slowing down as revealed by an unexpected rise in unemployment rate to 5.3 percent from 5.2 percent and drop in industrial production by 1.5 percent. Japanese-Yen which was trading at near 15-year high against the dollar was adding to its woes. Thereby the central bank intervened in currency market for the first time in six years to stem the gains. Last time when Japan intervened over 15 month period of FY04, it realized losses of Yen 32,300 billion in its foreign exchange account.

**Chinese economic growth moderated, largely a result of government's measures to bring back it to more sustainable levels and to prevent overheating. Markets may not get much concerned, as this is largely known and will also be positive in the long term.**

**C**hinese economic growth moderated in the second quarter to 10.30 percent from 11.9 percent in the prior quarter. This was largely a result of government's measures to moderate growth to more sustainable levels to prevent overheating which could have resulted in hard landing for the economy. But the economy has stabilized now and continues to move ahead at a decent pace. In fact industrial production grew at nearly 14 percent in August as against close to 13 percent in the prior month. The concerns of bubble building up in the property market in China seems to be overdone, at least in the near term and the economy is expected to move ahead strongly. Though the pace of growth might slow, markets may not get much concerned, as this is largely known and will also be positive in the long term.

**Figure.2: GDP Growth - China**



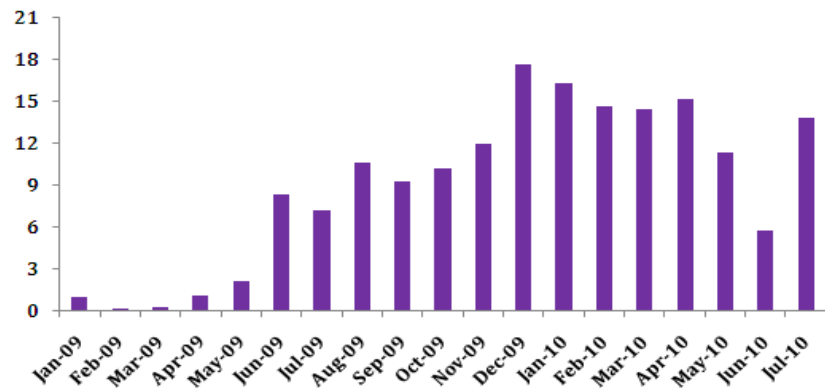
Source: Bloomberg, KCTL Research

India's second quarter GDP grew by 8.8 percent in the second quarter of CY 2010. The number was 6 percent a year ago and 8.6 percent in the previous quarter. India's growth seems to be more sustainable as it is more domestic driven. That's the reason that India's benchmark equity index, Sensex touched 31 month high and has outperformed most of the major equity markets.

**India's second quarter GDP grew by 8.8 percent in the second quarter of CY 2010. The number was 6 percent a year ago and 8.6 percent in the previous quarter.**

Industrial Production growth came in at robust 13.8 percent in the month of July as against 5.8 percent in the previous month, indicating strong domestic fundamentals. Among the composition of industrial production, capital goods sector has grown at an eye-popping 63 percent indicating that the investment cycle has started and thereby optimism lies among the firms. Consumer durables are also growing strongly indicating optimism among the consumers.

**Figure.3: Industrial Production Growth - INDIA**



Source: Bloomberg, KCTL Research

**US Economy expected to grow in the rest of 2010 as well though at a modest pace. The problem area continues to be the unemployment situation which is at close to 10 percent even after more than a year into the recovery.**

**US:** National Bureau of Economic research might have officially reported the end of recession in June 2009 but on ground the situation continues to remain difficult. The main problem continues to be the unemployment situation which is at close to 10 percent even after more than a year into the recovery. Companies seem to be reluctant to invest and hire partly because of uncertainty over regulatory and tax initiatives. The efforts by the government to stabilize economy by stimulus had worked, at least in the near term. However, going forward the government is constrained in terms of the support that they can provide as they have already stretched their finances.

The economy grew by 1.6 percent in the second quarter but many economists are expecting economy to slowdown considerably in the second half. So the US economy is expected to grow in the rest of 2010 as well though at a modest pace.

**Weak euro and demand from EM's drove GDP growth higher. Going forward growth might slow down as austerity measures kicks in.**

**EUROPE:** Euro-zone grew at 1.5 percent in the second quarter which is much higher than its average since 1999, when the region adopted single currency. Europe's largest economy, Germany, grew at 2.2 percent in the second quarter, its fastest expansion in the past two decades. All this put a lid on speculation of sovereign default and the smaller countries also benefited from aid of IMF and from other member countries.

The growth was largely led by nations like Germany and France and other peripheral economies like Greece and Ireland continue to contract. Strong demand from Emerging markets boosted demand for exports from EU and thereby fuelled higher growth. This was also complemented by a weaker Euro. But going forward the pace of growth might decline as EM's consolidate their growth and austerity measures starts to hurt. Nevertheless, the region is expected to grow at a reasonable pace in a tough global environment.

**China and India re-orient their economies more domestic driven, there might be a slightly consolidation in growth but that will at least partly insult them from the un-expected events that may erupt in the western world.**

#### **BASE METALS OUTLOOK:**

Base metal prices are expected to move higher on the back of continued strong growth in emerging markets and improving demand conditions in the developed World. Industrial production activity in EM's is picking up fast and the economies are getting onto more sustainable path to recovery. As countries like China and India re-orient their economies to more domestic driven, there might be a slightly consolidation in growth but that will, at least partly, insult them from the un-expected events that may erupt in the western world. The last quarter is also seasonally very good for base metals demand in China, as construction activity picks up and thereby will support prices.

**Inflation in China quickened to 3.5 percent in August. In India it is at 8.5 percent and soon in the western world also it may pick up. Commodities will do well in an inflationary environment**

The fears of deflation in the near term seem to be overdone and one should worry more about inflation going forward. Inflation in China quickened to 3.5 percent in August from 3.3 percent in July. This was the highest in nearly two years. The Reserve Bank of India has already increasing the policy rates to combat inflation. So as bank credit slowly start to inch upwards in the developed World, inflation effect might spill over to other countries and in such a state commodities prices will do well.

**RISK FACTORS:** Significant tightening in the emerging countries or derailing of recovery in the developed world or even increasing trade tensions between the nations are the risk factors which may send base metal prices lower.

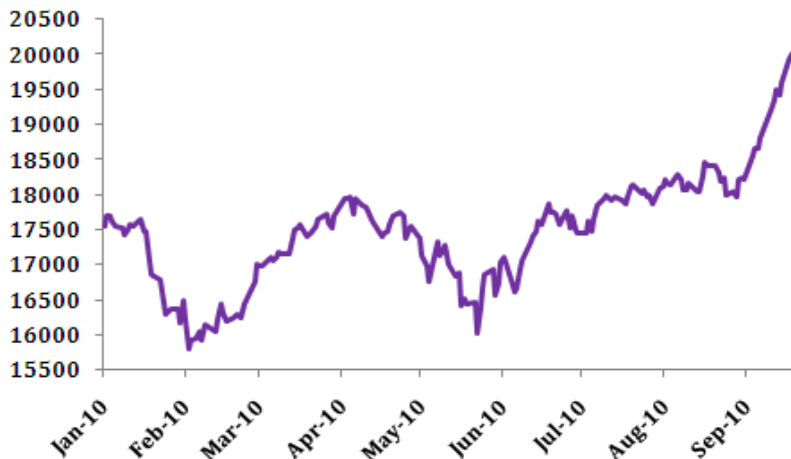
**EQUITY MARKETS PERFORMANCE:** Equity markets witnessed significant turnaround in the third quarter and all the major equity markets ended higher. The fears of probable sovereign default in the Euro-zone alleviated and this saw rally in most of the equity markets after fall in the second quarter.

EQUITY INDEX	Q3 2010	Q2 2010
US - Dow Jones	11.11%	-09.97%
US - S&P 500	11.44%	-11.86%
Brazil - BOSVEPA	11.92%	-13.41%
London - FTSE-100	13.86%	-13.43%
Germany - DAX	05.58%	-03.06%
France - CAC	09.86%	-13.36%
Japan - NIKKEI	00.95%	-15.40%
Hong Kong - Hang Seng	09.89%	-05.23%
Australia - ASX 200	06.98%	-11.77%
India - Sensex	13.24%	00.99%
India - Nifty	13.29%	01.21%
MSCI - World Index	13.61%	-13.26%

Sensex continues to outperform most of the major equity markets for second quarter running. The index has moved above 20,000 mark, level last seen in January 2008

Strong fundamentals of emerging markets provided a further push to prices and thereby they outperformed most of the other markets. Foreign flows continue to chase returns bringing in huge amount of flows into the EM equities. Indian equity markets outperformed for a second consecutive quarter given the strong footing the economy is on to. Strong corporate earnings along with record foreign flows provided further reason to ramp up stock prices.

**FIGURE.4: INDIAN SENSEX - OUTPERFORMER**



Source: Bloomberg, KCTL Research

**CURRENCY PERFORMANCE:** In the second quarter, all the currencies depreciated against the dollar, as investors moved into safe have assets like gold and dollar. But third quarter witnessed a general movement towards risk assets like equities and commodities and this sent even the currencies of EM's higher. Euro also witnessed a significant turnaround and ended the quarter with appreciation of 10.25 percent.

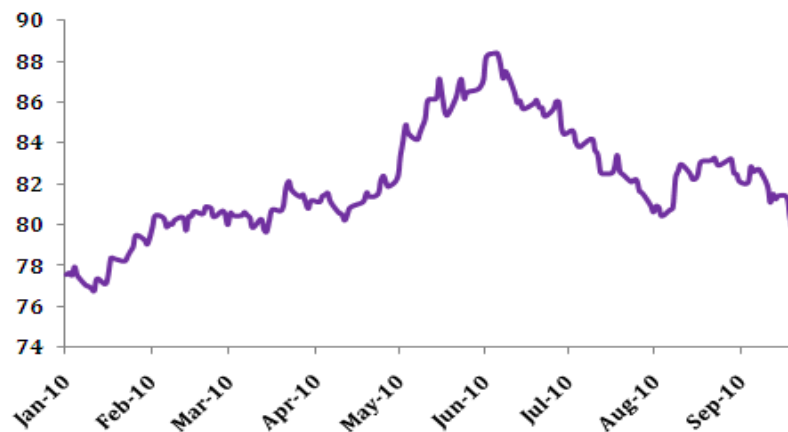
Dollar index's downside might be limited as other countries might not allow their currencies to appreciate significantly for fear of losing competitiveness in the international market.

CURRENCY PAIRS	Q3 2010	Q2 2010
USD INR	-2.57%	3.41%
EUR USD	10.25%	-9.42%
GBP USD	5.89%	-1.57%
USD JPY	-4.77%	-5.39%
AUD USD	14.08%	-8.33%
SGD USD	-5.53%	0.03%
Dollar Index	-7.70%	6.10%

Dollar index fell to 79 odd levels thereby marking seven month low. However going forward there might not been much weakness seen in the dollar. This is not because of strong fundamentals of the US economy but because the other economies not allowing their currencies to appreciate for fear of losing competitiveness in the international market. So it not only Japan which is targeting its exchange rate, but also other countries like Switzerland, Brazil and Korea which are intervening in the currency market. However unilateral intervention might spark trade tensions among the countries at a time when US is already pushing for significant appreciation of Chinese Yuan.

Unilateral intervention might spark trade tensions among the countries at a time when US is already pushing for significant appreciation of Yuan.

**Figure.5: DOLLAR INDEX**



Source: Bloomberg, KCTL Research

# ALUMINIUM

**PRICE PERFORMANCE:**

In the third quarter of 2010, aluminium prices ended higher by 17 percent at \$2,318/Mt on LME and up nearly 15 percent at ₹103.35/Kg on MCX. This was after a pause witnessed in the second quarter when the prices took a correction on the back of increasing concerns of recovery.

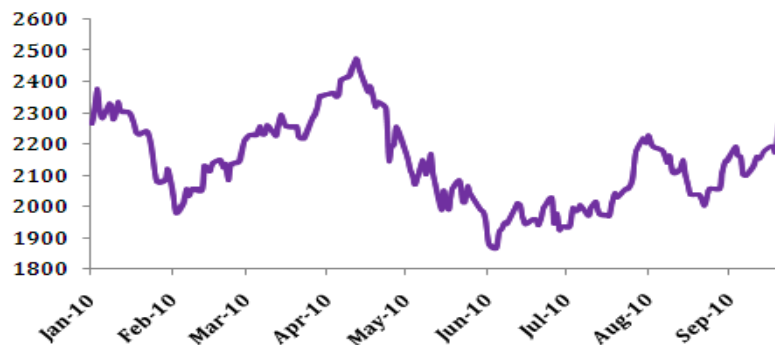
Aluminium prices ended at \$2,318/ tonne on LME and at ₹.103.35/kg on MCX.

Period	LME	MCX
Q3 2010	17.22%	14.90%
Q2 2010	-14.87%	-13.05%
Q1 2010	04.17%	00.39%
Q4 2009	17.99%	15.66%
Q3 2009	15.95%	15.41%
Q2 2009	17.10%	11.08%
Q1 2009	-09.61%	-01.84%

The gains though seem substantial; aluminium has under-performed most of the base metals. This was largely owing to relatively weak fundamental factors like higher inventories and increasing production. However as the euro sovereign default crisis, faded at least in the near term, this boosted returns for most of the commodities. YTD aluminium prices are higher by 4 percent.

Aluminium has under-performed most of the base metals, owing to relatively weak fundamental factors like higher inventories and increasing production YTD aluminium prices are higher by 4 percent.

**Figure.6: LME Aluminium Prices (\$/Tonne)**

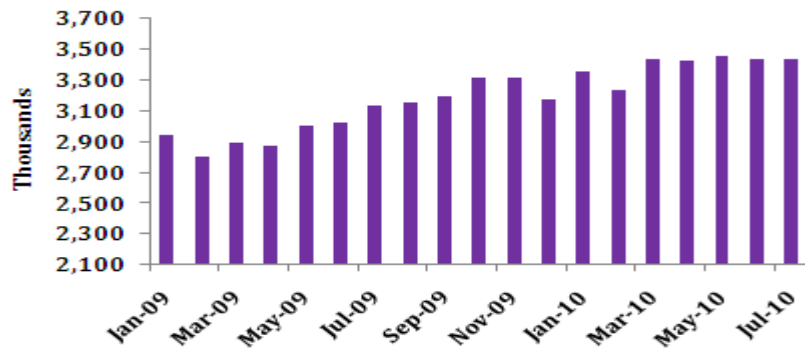


Source: Bloomberg, KCTL Research

**World production of aluminium has largely been stable at 3.4 million tonnes where as consumption is slowly picking up.**

**FUNDAMENTALS:** In the past few months, World production of aluminium has largely been stable at 3.4 million tonnes where as consumption is slowly picking up. In the month of July consumption fell by 6 percent MoM to 3.38 million tonnes whereas production contracted by a mere 0.1 percent to 3.43 million tonnes. Overall, the market continues to remain in a surplus state. In the first seven months of 2010, aggregate production amounted to 23.78 million tonnes whereas consumption amounted to 23.31 million tonnes, thereby adding to the global stocks. Demand for metal used in autos to electronics have been increasing in emerging markets as they witness increasing demand for consumer durables.

**Figure.7: World Aluminium Production**

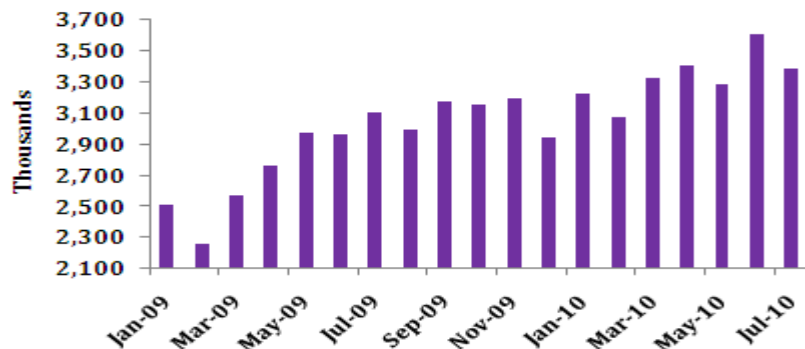


Source: Bloomberg, KCTL Research

**Production capacity in West Asia continues to increase as more and more plants use gas based plants which are cheaper than the plants that are run on power.**

Production capacity in West Asia continues to increase as more and more plants use gas based plants which are cheaper than the plants that are run on power. Energy accounts for a quarter of production cost of aluminium and with the use of gas this cost can be brought down to 10 percent. As production cost for them is low compared to smelters in other regions like Europe, any substantial increase in price will lead to ramp up of production, thereby putting a cap on prices. In fact, the regional capacity at West Asia is expected to touch 4.2 million tonnes by 2013 from the current 3.3 million tonnes per annum.

**Figure.8: World Aluminium Consumption**

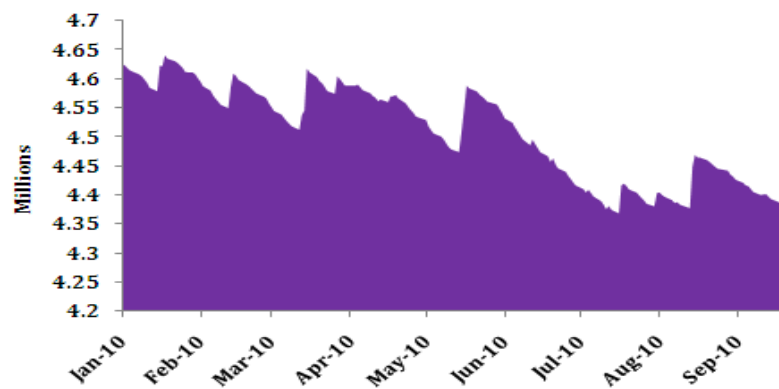


Source: Bloomberg, KCTL Research

**INVENTORY:** In the third quarter of 2010, stocks declined marginally by 1.3 percent or 58,525 tonnes taking the total stock to 4.37 million tonnes. Warehouses in China also witnessed marginal decline of 0.4 percent or 2071 tonnes in the third quarter. The total stocks remains at 494,782 tonnes. The pace of decline has picked up in the past month or so. In the more recent month of September, stocks declined by 72,295 tonnes on LME (quarterly draw-down is less than as few increase of inventories was also witnessed).

Stocks held at three major Japanese ports at the end of August rose by 13.4 percent to 236,100 tonnes from July. Japan imports nearly 2 million tonnes of aluminium every year and around 10% of total imports usually represent a healthy level.

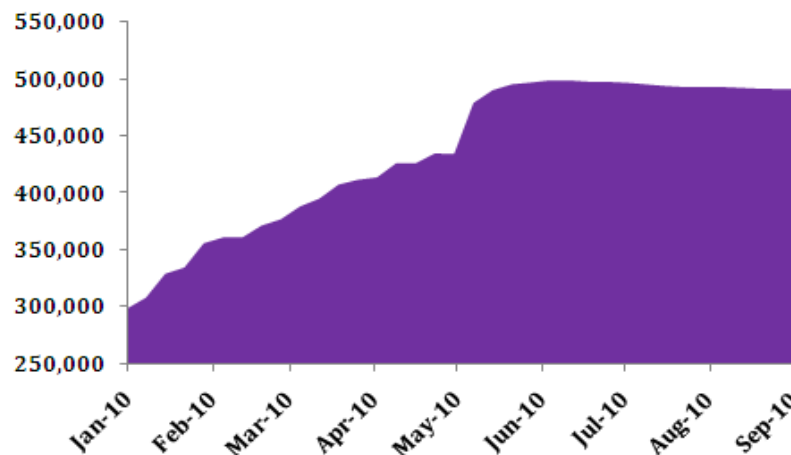
**Figure.9: LME Inventory - Aluminium**



LME inventory stands at 4.37 million tonnes and Inventory in Chinese market stands at 494,782 tonnes.

Source: Bloomberg, KCTL Research

**Figure.10: Aluminium Inventory In Chinese warehouses**

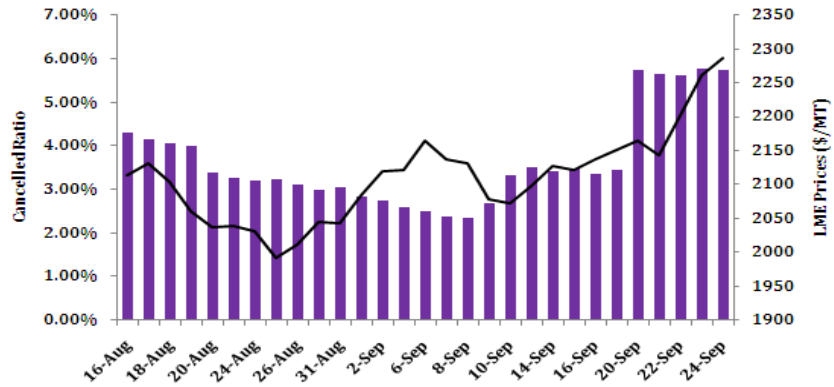


Source: Bloomberg, KCTL Research

**CANCELLED WARRANT RATIO:** - The cancelled warrant ratio has been declining as more and more inventories left the warehouse and new warrants for delivery were not being issued. However, the ratio has started moving higher indicating increasing inventory embarked for delivery. A strong physical demand is usually accompanied by an increase in cancelled warrant ratio and declining inventories. Currently the cancelled warrant ratio is at 6 percent of the total stock.

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**Figure.11: Cancelled Warrant Ratio - Aluminium**

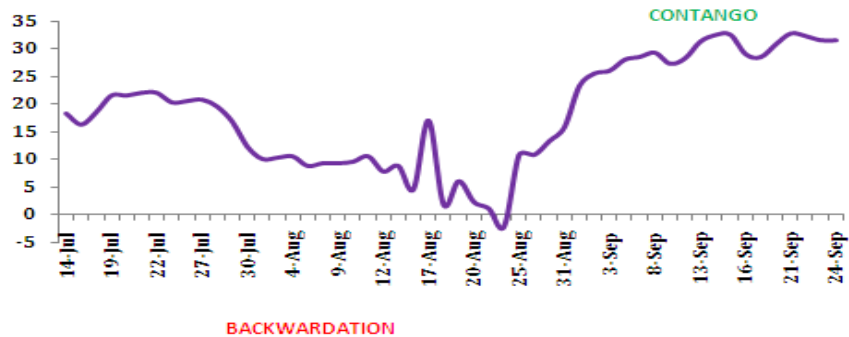


Source: Bloomberg, KCTL Research

In August, the basis became negative indicating tight supply in the near term. Of the stocks available on LME nearly 70% is believed to be tied up in financing deal so any increase of demand in the physical market will push prices higher. The market has moved back strongly into contango and is positive for prices.

Market has moved back strongly into contango and is positive for prices. Currently the basis stands at \$25/tonne

**Figure.12: Basis (LME 3mt Fwd - LME Spot)**



Source: Bloomberg, KCTL Research

**Output in China, world's largest producer may take a hit as increasing power and raw material cost weigh on producers' bottom line. Chalco has already swung into losses in the second quarter.**

**OUTLOOK:** Aluminium prices are expected to move higher as demand from China remains strong and prospects in developed nations like US and Euro-zone also improve. Chalco, the nation's biggest aluminum maker, also expects world output to rise by 12 percent to 42.28 million tonnes this year, while consumption to grow by 20 percent to 41 million tonnes.

On the supply side, output in China, world's largest producer may take a hit as increasing power and raw material cost weigh on producers' bottom line. Chalco has already swung into losses in the second quarter. As the country gears up to meet energy saving requirements, there are reports that three smelters with annual production capacity of 250,000 tonnes have closed down operations. This represents about 2 percent of China's total output of 2009. Excess capacities are available but much of it may not be brought on stream as companies come under increasing pressure to limit their power consumption.

**TECHNICAL ANALYSIS:**

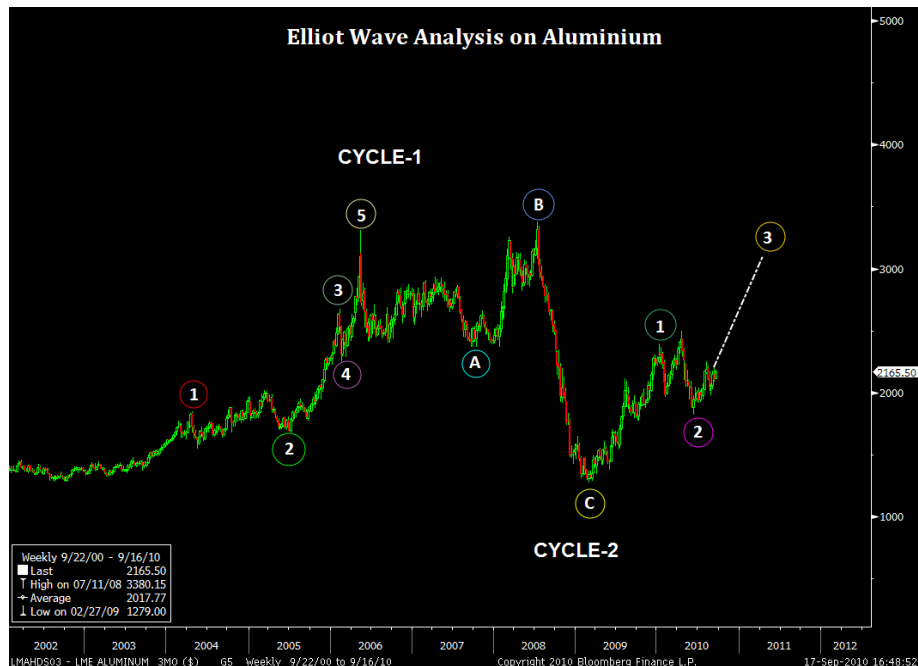
**View:** Upside

**Strategy:** Buy

**Recommendation:**

Buy at \$2160-2230 TP \$2500 then \$2650 with stop loss below \$1950

Buy in the range of 95-98 TP 109 then 120 SL below 85



**Recent wave:** Minor wave 5 is in progress, which is likely to extend its gains till \$2394 or it can end up to \$3494 levels, this would be an end of intermediate wave (1). From hereafter we might see a correction till \$2239 or it can see \$2160 levels described as intermediate wave (2).

**Description:** As per the Elliot wave analysis we predicted market to end corrective primary wave 2 at \$1810 levels. But market made a low of \$1828 levels and thereafter it stretched the fresh trend. As of now market is in motive wave intermediate wave (1) of primary wave 3 which can bring the rally in prices for short to medium term. The downside limit for short term would be \$2100-2040 levels sustain above is likely to remain higher. We expect prices to trade higher and recommend buying.

Monthly chart of aluminum is looking bullish as prices are holding above the short term EMAs i.e. EMA (18) = 2157 and EMA (45) =1997.”**Bullish Harami**” candle stick pattern formation confirms that the bullish trend will continue in the market for the coming quarter also. The momentum oscillator RSI (14) is at 0.53 and the oscillator Stochastic (9) is at 0.49, both are indicating an upside potential for commodity.

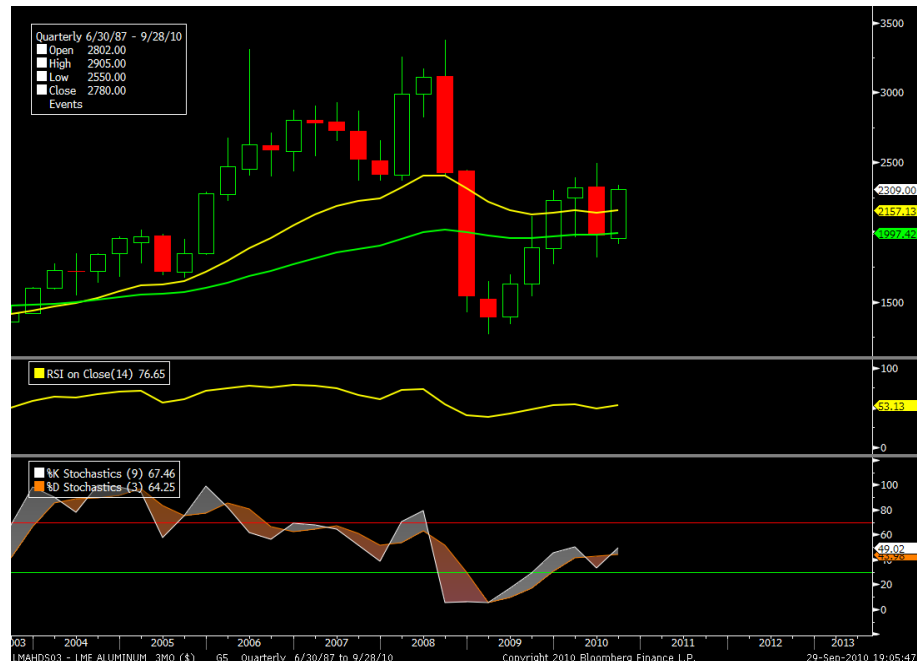
**Recommendation**

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Technical levels	Support 2	Support 1	Resistance1	Resistance 2
LME	1700	2000	2500	2720
MCX	74	85	110	132

## COPPER

**PRICE PERFORMANCE:**

In the third quarter of 2010, copper prices gained 22 percent to end at \$7,945/tonne on LME, thereby creating five month high and approaching the crucial \$8000/tonne mark above which it remained unsustainable in the previous instance in March 2010. On MCX, copper ended the quarter at ₹.361/Kg up by close to 20 percent.

Copper prices ended at \$7,945/ tonne on LME and at ₹.361/kg on MCX.

Period	LME	MCX
Q3 2010	21.95%	19.77%
Q2 2010	-16.37%	-14.15%
Q1 2010	05.63%	02.14%
Q4 2009	19.74%	15.79%
Q3 2009	24.00%	24.67%
Q2 2009	22.95%	15.07%
Q1 2009	31.60%	35.58%

Year-to-date copper prices are up by 7.73 percent on LME and thereby have outperformed all the other base metals other than Nickel. Short supply of material along with increased construction activity increased the demand for copper and thereby prices remained buoyant. Declining inventories also supported prices to move higher.

Year-to-date copper prices are up by 7.73 percent on LME and thereby have outperformed all the other base metals other than Nickel. Declining inventories also supported prices to move higher.

**Figure.13: LME Copper Prices (\$/Tonne)**



Source: Bloomberg, KCTL Research

**In the first six months of 2010, total World copper production amounted to 9.5 million tonnes whereas consumption stood at 9.57 million tonnes, thereby bringing the market into deficit.**

**Chile, World's largest producer, produced 454,178 tonnes of copper in July, registering growth of 6.3 percent (YoY). This was after output fell by 0.6 percent to 465,033 in June.**

**FUNDAMENTALS:** In the first seven months of 2010, total World copper production amounted to 11.17 million tonnes whereas consumption stood at 11.23 million tonnes, thereby bringing the market into deficit. Even on a month-on-month basis, consumption has been outpacing production for the past five months. Emerging markets continue to be bright spot which were less impacted by the crisis and were the first to bounce back. Demand for copper in countries like China and India has been strong as infrastructure and construction activity picks up.

Capacity Utilization has been continuously declining, first owing to fall in demand and then because of operation constraints. As per International Study Group of Copper, the mine capacity utilization has declined from 92.5 percent in 2000 to 80.7 percent in 2009. The number for 2010 might be substantially higher.

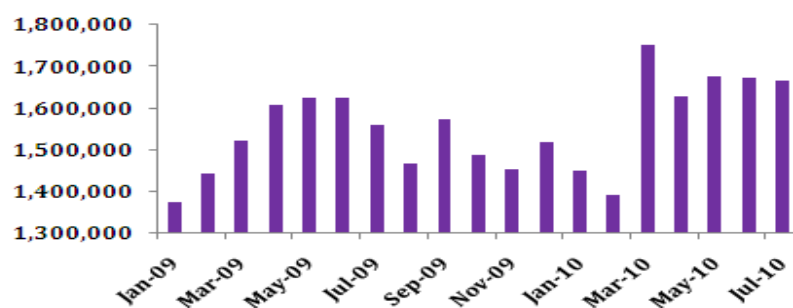
**Figure.14: World Refined Copper Production**



Source: Bloomberg, KCTL Research

**Chile**, World's largest producer, produced 454,178 tonnes of copper in July, registering growth of 6.3 percent (YoY). This was after output fell by 0.6 percent to 465,033 in June. **Peru** also reported a growth of 6 percent in output in July, taking the total production to 106,465 tonnes. Zambia, Africa's largest producer, witnessed output growth of 16 percent to 393,089 tonnes in first half of 2010. To meet the growing demand in China, Jiangxi Copper Co, China's top copper producer, will build a new copper plant in Guangdong with a capacity of 400,000 tonnes. The company currently has more than 500,000 tonnes of annual copper product capacity.

**Figure.15: World Refined Copper Consumption**

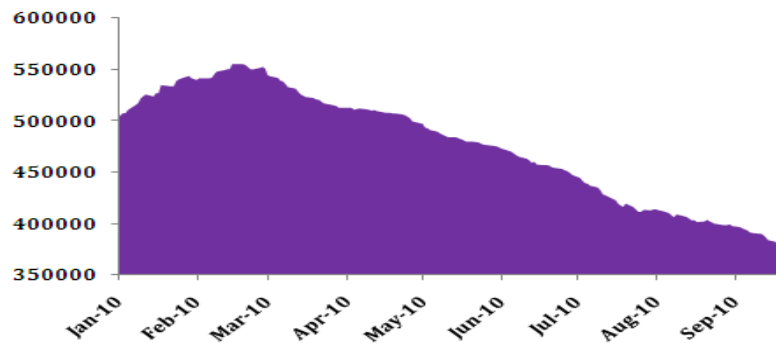


**INVENTORY:** Copper inventories on LME declined by nearly 16 percent or 70,875 tonnes thereby taking the total stock to 380,225 tonnes. Among the base metal pack, copper witnessed the largest decline in inventories, in percentage terms. Strong physical demand pushed more and more stock out of the warehouse. Stocks of copper have been declining for 31 consecutive weeks and are headed for yearly decline in inventories, the first since 2004.

Chinese warehouses also witnessed decline by huge 21 percent or 25,714 tonnes in the third quarter before ending at 98,225 tonnes. Decline of inventory in both China and LME is indicating physical demand for metal and the arbitrage window also largely remained closed.

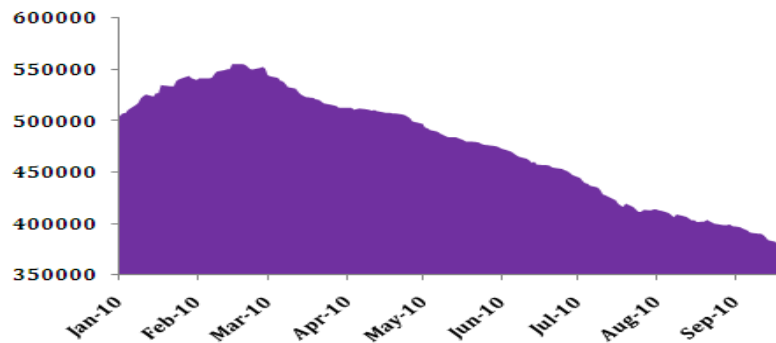
**LME inventory of copper stood at 380,225 tonnes, a decline of 16 percent from previous quarter. In Chinese market it stands at 98,225 tonnes, 21 percent lower than previous quarter.**

**Figure.15: LME Inventory - Copper**



Source: Bloomberg, KCTL Research

**Figure.16: Copper Inventory in Chinese warehouses**

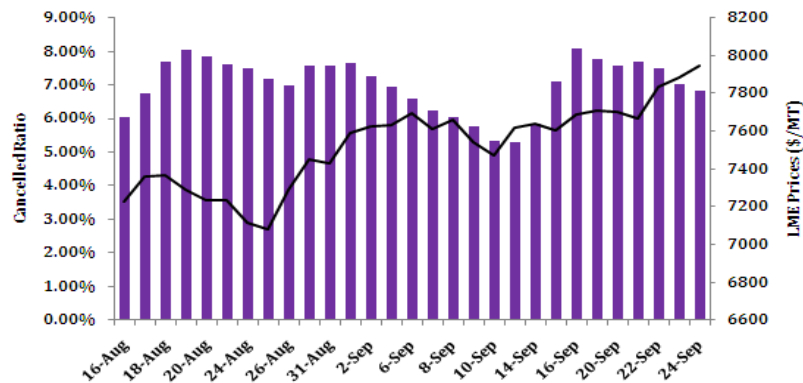


Source: Bloomberg, KCTL Research

**CANCELLED WARRANT RATIO:** The cancelled warrant ratio, indicating the material embarked for delivery has largely been in the range of 5 to 8 percent of the total stock. Currently at 7 percent, is on the higher side of the range, indicating more and more material might leave in the warehouse in the near term. This is also supported by the fact that there is strong demand for the metal in the physical market.

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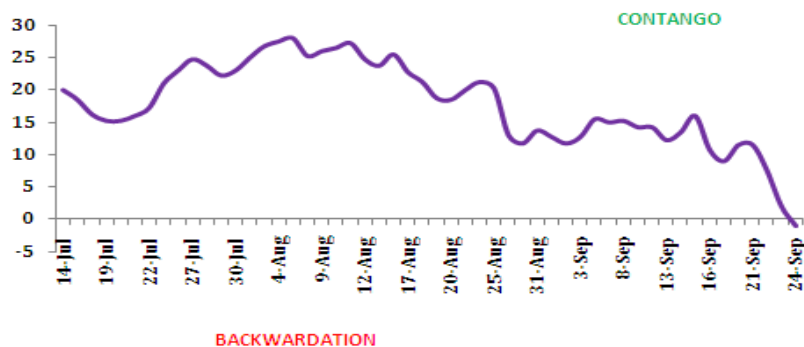
**Figure.17: Cancelled Warrant Ratio - Copper**



Source: Bloomberg, KCTL Research

The basis on LME has moved from \$25/tonne in August to -\$1/tonne by the end of September, thereby moving market into backwardation. Spot price trading at premium indicates tight supply of the metal in the near term.

**Figure.18: Basis (LME 3mt Fwd – LME Spot)**



Source: Bloomberg, KCTL Research

Copper prices has fallen into backwardation thereby also indicating tight supply in the near term.

**Treatment charge and the refining charge which represents the profit margin of smelters is also declining indicating that as smelters are not able to procure enough material.**

**OUTLOOK:** We continue to be positive on copper prices owing to robust demand from Emerging markets and supply constraints. In fact, declining supply has been more visible. Xstrata reported 3 percent drop in output whereas output at BHP Billiton and Rio Tinto fell by 18 percent and 5 percent respectively. Escondida, World's largest copper mine, is expected to witness decline in production by 5 to 10 percent in 2011 owing to lower ore grades. China's domestic production may also decline owing to closure of smelters for maintenance and increasing curbs by government with regard to environment issues.

Treatment charge and the refining charge which represents the profit margin of smelters is also declining indicating that as smelters are not able to procure enough material. In times of tight concentrate supply, companies are forced to offer lower fees (i.e., lower profits) to attract sufficient raw materials to keep their smelters running.

Overall, Chinese economy will be driving factor for copper prices and we expect the economy continuing to grow at reasonable pace. Significant tightening in China or complete derail of recovery in developed World may put pressure on prices.

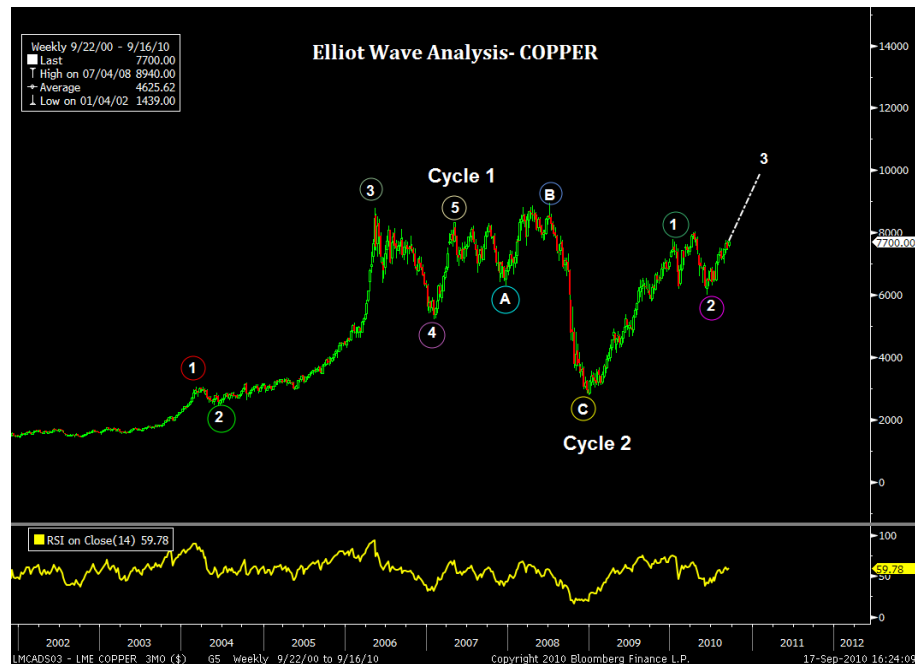
## TECHINICAL ANALYSIS:

**View:** Upside

**Strategy:** Buy

**Recommendation:** Buy at \$7200-7400 TP \$8300 then \$8700 with stop loss at \$6700

**Copper MCX:** Buy 1st lot in the range of 352-355, 2nd in the range 340-345 targeting 380 then 400 with stop loss below 315



**Recent waves:** Minor wave 5 is in progress, if market fails to breach the resistance at \$8040 would be considered as an end of wave 5. On the other hand if market breaches the resistance at \$8040 it would be possible to extend its wave 5 till \$8210 or till \$8500.

### Elliot wave Analysis:

Copper LME 3M prices saw an upside movements in last quarter. Market witnessed an end of primary wave 2 at \$6037.5 in the month of July and thereafter it started a fresh rally. On break of the resistance at \$8043 levels would signals that the rebound from \$6037 levels is expected as intermediate wave (1) that would lead for further rally. However, if market fails to breach the resistance at \$8040 levels might see a correction till \$7275 or \$7039 of 38.2% and 50% retracement of the rally \$8041-6037 levels indicated as intermediate wave (1). Henceforth, an intermediate wave (3) is expected to create new highs.

Copper has breached upper trend line resistance level of \$ 7865 in monthly chart. Also it closed above the 76.4% (at \$7495) Fibonacci Retracement level of the recent down fall (From 8530 as on 31<sup>st</sup> July 2008 to 2817 as on 31<sup>st</sup> Dec 2008). Monthly RSI - 14 is at 0.53 showing an upside potentials for commodity.

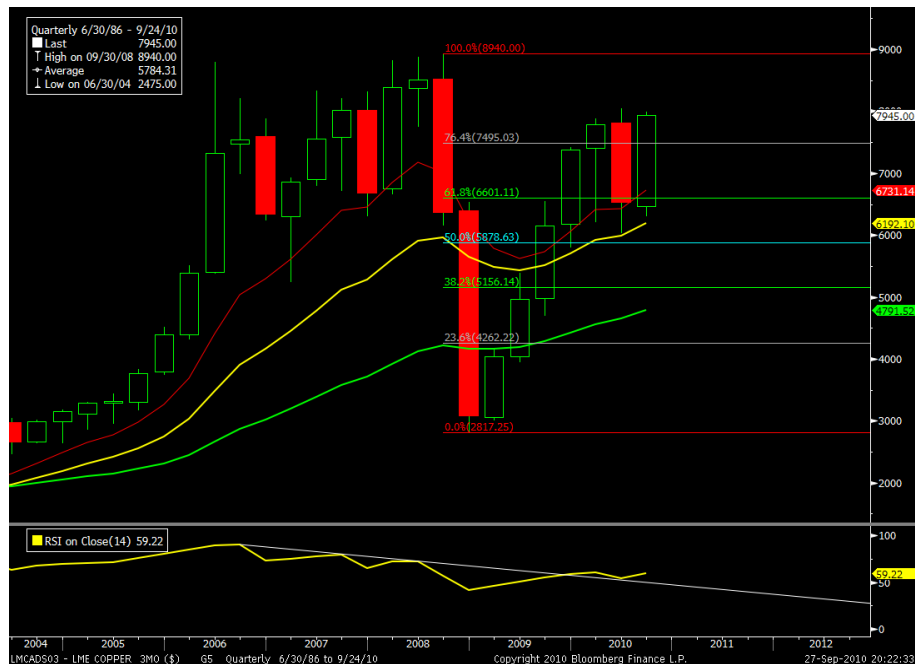
In the quarterly chart a **Long White Candle stick** is spotted signaling continuation of current uptrend in the market. However, market will face an immediate resistance of \$ 8050 levels. If it sustained and trade above the stated level market may trade up to the second resistance level of \$ 8540. All short term exponential moving averages in quarterly chart are also generating buy signal.

We expect Copper prices to remain on higher side this quarter and recommend buying near support levels.

**View:** Bullish

**Recommendation:** Buy at \$7200-7400 TP \$8300 then \$8700 with stop loss at \$6700

**Copper MCX:** Buy 1st lot in the range of 352-355, 2nd in the range 340-345 targeting 380 then 400 with stop loss below 315



Technical levels	Support 2	Support 1	Resistance 1	Resistance 2
LME	6300	6780	8333	9100
MCX	300	320	387	410

## LEAD

### PRICE PERFORMANCE:

Among the base metal pack, lead was the top performer in the third quarter of 2010. Lead prices moved higher by 31 percent on LME to reach \$2,296/tonne. On MCX, price rose by 30 percent to end the quarter at ₹.103/kg. Lead prices underperformed other base metals in the past two quarters and thereby catching-up with other base metals as it has closed third quarter with substantial gains. This was supported by improving fundamentals but increasing inventories continue to weigh on prices.

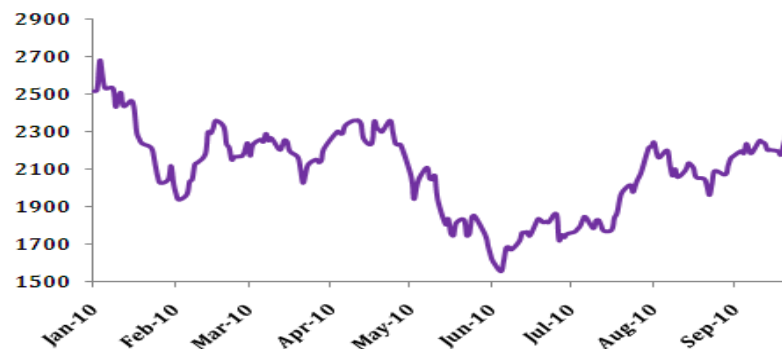
Lead prices ended at \$2,296/ tonne on LME and at ₹.103/kg on MCX.

Period	LME	MCX
Q3 2010	31.20%	30.04%
Q2 2010	-18.49%	-17.60%
Q1 2010	-11.72%	-14.24%
Q4 2009	06.48%	02.10%
Q3 2009	35.15%	32.07%
Q2 2009	33.07%	27.78%
Q1 2009	27.13%	41.02%

But year to date lead prices continue to under perform and are down by 5.59 percent on LME, only base metal along with zinc to post negative returns. However robust automobile sales in emerging markets and improving demand in developed world helped prices to move higher.

Lead prices continue to under perform and are down by 5.59 percent on LME, only base metal along with zinc to post negative returns.

**Figure.19: LME Lead Prices (\$/Tonne)**



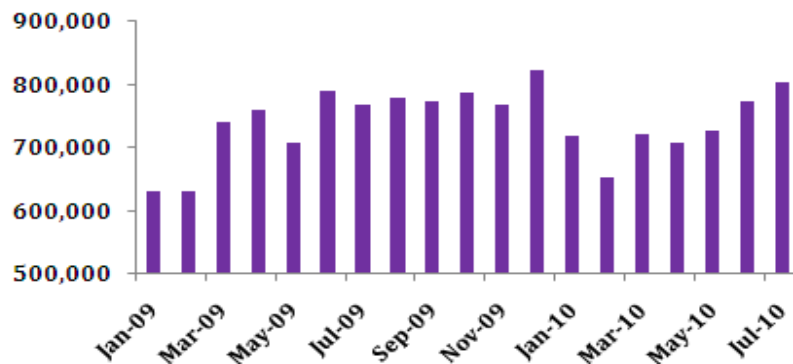
Source: Bloomberg, KCTL Research

**World refined lead production amounted to 51 million tonnes whereas total usage amounted to 50.5 million tonnes, registering a growth of 2.63 percent and 3.29 percent respectively.**

**FUNDAMENTALS:** According to the International Lead and Zinc Study group, in the first seven months of 2010 world refined lead production amounted to 51 million tonnes whereas total usage amounted to 50.5 million tonnes, registering a growth of 2.63 percent and 3.29 percent respectively. However the market continued to remain in surplus of 52,000 tonnes. The group expects global consumption to be 9.3 million tons and production to be 9.41 million tons this year.

The more recent month of July witnessed production of 7.91 million tonnes whereas usage amounted to only 7.85 million tonnes. The increase in mine production largely owed to increase in production in China, Mexico and Russia to name a few. Demand from emerging countries was robust and this was also accompanied by improving demand from developed nations. China, world’s largest producer as well as consumer, produced 2.22 million tons of lead in the seven months to the end of July, a growth of 3.8 percent from a year earlier.

**Figure.20: World Lead Consumption**



Source: Bloomberg, KCTL Research

**China, world’s biggest automobile market, witnessed an increase in sales of passenger cars by 60 percent to 977,300 vehicles in the month of August.**

Automobile sales in emerging countries like China and India are robust and are coming in at record levels. China, world’s biggest automobile market, witnessed an increase in sales of passenger cars by 60 percent to 977,300 vehicles in the month of August. This was after a modest growth of 15.4 percent witnessed in the month of July. For the whole year, the China association of automobile manufacturers expects the vehicle sales to grow at 17 percent to 16 million vehicles. Domestic demand in China has been growing at a decent pace as the government tries to re-orient its economy more domestic driven.

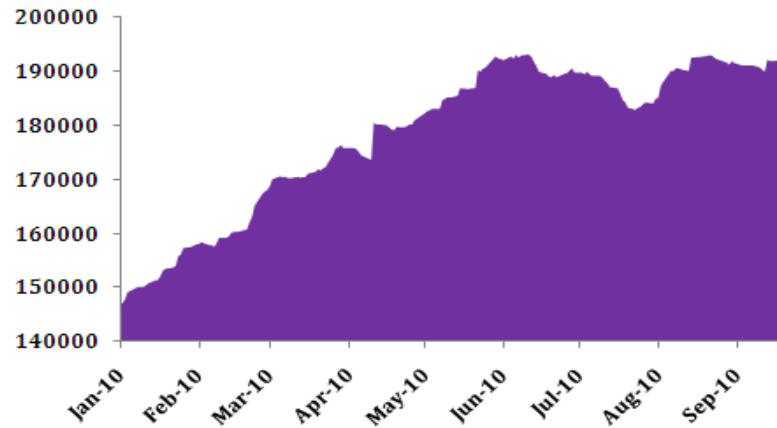
**In India, domestic car sales rose by 33 percent to 160,794 vehicles in the month of August. The rise marks 19<sup>th</sup> consecutive increase.**

Japan witnessed its third ever biggest monthly rise in August where sales soared by 46.7 percent to 290, 789 vehicles. Sales got a boost from subsidies from government, which are about to expire by the end of September. In India, domestic car sales rose by 33 percent to 160,794 vehicles in the month of August. The increase is 19<sup>th</sup> consecutive increase. Sales during April to August period have grown by 34 percent to 753,199 vehicles on the back of rising incomes.

**INVENTORY:** On LME, inventories continue to increase and that has been an area of concern as well as reason for underperformance by prices in 2010. In the third quarter, inventories of lead reported a marginal increase of 0.5 percent or 925 tonnes from previous quarter. This has brought the total stock to 190,875 tonnes. However in the more recent month of September, inventories have actually declined by 625 tonnes.

LME inventory of lead stood at 190,875 tonnes marginal increase of 0.5 percent or 925 tonnes from previous quarter.

**Figure.21: LME Inventory – Lead**

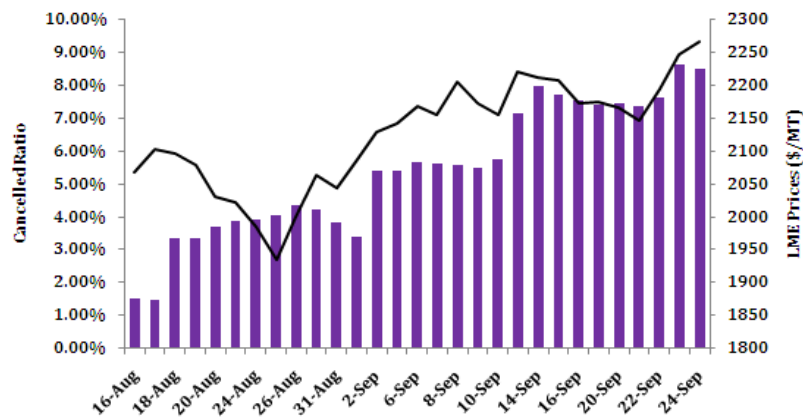


Source: Bloomberg, KCTL Research

**CANCELLED WARRANT RATIO:** The cancelled warrant ratio is a bright spot which has increased from a mere 1 percent in August to over 8 percent of the total stock. This indicates that more and more inventory is being embarked for delivery which is a result of improving physical demand. Automobile sales in China, world’s largest market, are at an all time high and there boosting demand for metal used in batteries.

Cancelled warrant ratio is a bright spot which has increased from a mere 1 percent in August to over 8 percent of the total stock. This indicates that more and more inventory is being embarked for delivery which is a result of improving physical demand.

**Figure.21: Cancelled Warrant Ratio – Lead**

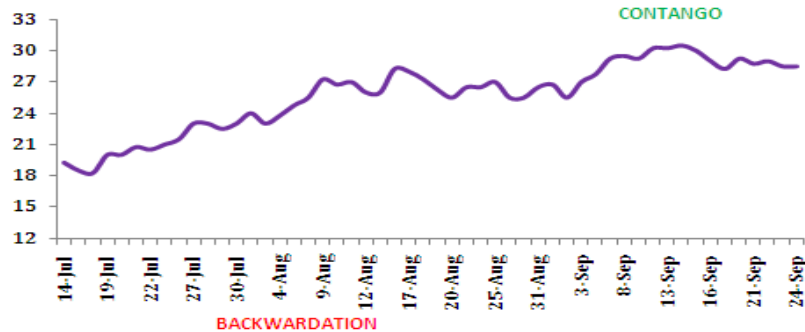


Source: Bloomberg, KCTL Research

Lead has been one of the few base metals where basis has been slowly and steadily moving higher.

Lead has been one of the few base metals where basis has been slowly and steadily moving higher. This was also accompanied by strong price appreciation. The basis continues to hover around \$30/tonne as against \$20/tonnes seen in August.

**Figure.22: Basis (LME 3mt Fwd – LME Spot)**



Source: Bloomberg, KCTL Research

Automobile sales are expected to continue to remain strong especially in countries like India. In fact automobile manufacturers in the country are facing capacity constraints and are not able to ramp up production to meet the growing demand.

**OUTLOOK:** According to China Nonferrous Metals Industry Association, China’s lead output this year may be more than 4 million metric tons. Estimates from China’s state affiliated researcher put the demand of lead in China this year somewhere close to 3.6 million tonnes. This will be a growth of 8.3 percent as against 16.5 percent in the year gone by. To meet its growing demand smelters have been increasing capacity, which is expected to touch 5 million tons by the end of this year as against 4.45 million at the end of 2009.

Automobile sales are expected to continue to remain strong especially in countries like India. In fact automobile manufacturers in the country are facing capacity constraints and are not able to ramp up production to meet the growing demand. The capacity additions have started to pick up as producers ramp up production to meet the anticipated increase of demand in the festive season.

## TECHNICAL ANALYSIS:

**View:** Upside

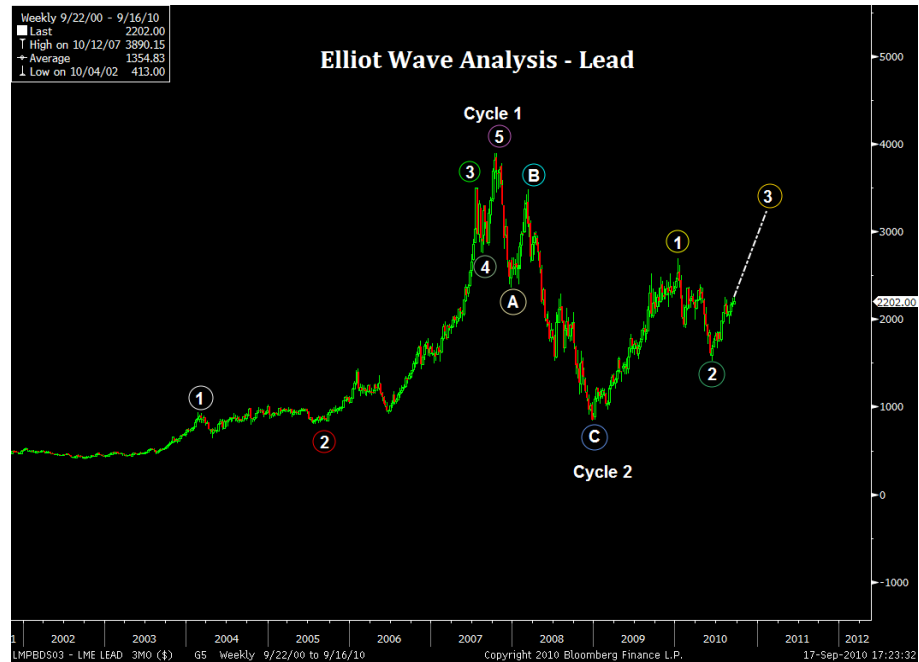
**Strategy:** Buy

**Recommendation:**

Buy at \$2100-2150 TP  
\$2460 then \$2670 SL  
\$1870

Lead- MCX: Buy in the  
range of 94-97 targeting  
113 then 120 with stop  
loss below 80

Lead- mini- MCX: Buy 1st  
lot at 98-100, 2nd lot at 92-  
94 targeting 120 with stop  
loss below 72



**Recent wave:** As per the analysis currently market is in minute wave 3 of minor wave 5 of intermediate wave (1) of primary wave 3.

**Description:** Our preferred count says market is in bullish mode and is likely to continue its upside momentum for this quarter. As of now the minute wave 3 is in progress followed by minute wave 4 than minute wave 5 of minor wave 5 of intermediate wave (1). Market would see a top at \$2400 (Previous swing top intermediate wave (B)) or it can extend its gains till 2468 described as intermediate wave (1). Followed by corrective wave intermediate (2) can end around 2090 or till 1987 levels.

Overall, initially we expect prices to trade higher followed by a decline in the prices at the end.

Analysis of monthly chart of lead depicts that,

**View: Bullish**

**Strategy: Buy**

**Recommendation:**

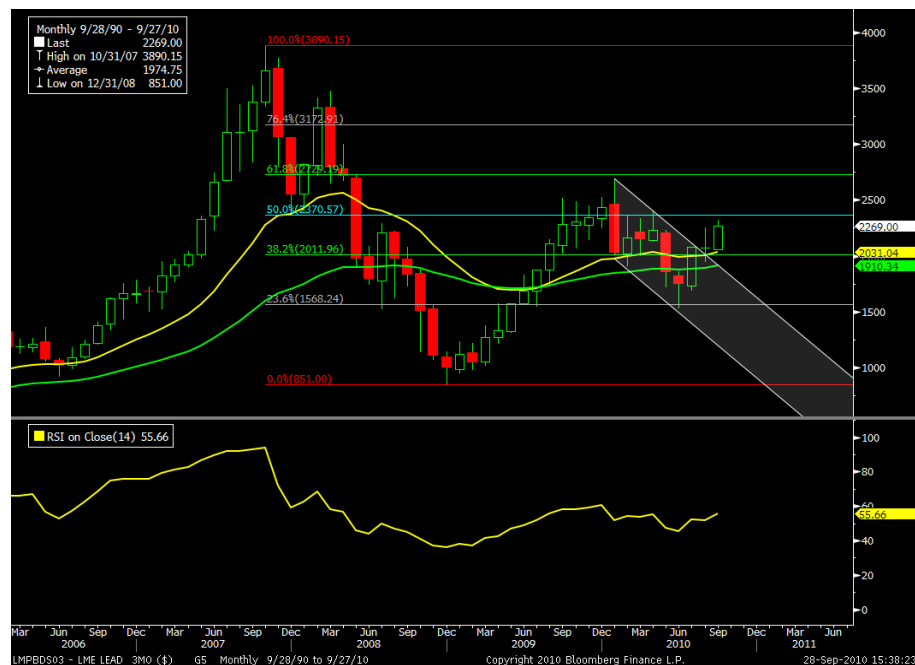
Buy at \$2100-2150 TP \$2460 then \$2670 SL \$1870

Lead- MCX: Buy in the range of 94-97 targeting 113 then 120 with stop loss below 80

Lead- mini- MCX: Buy 1st lot at 98-100, 2nd lot at 92-94 targeting 120 with stop loss below 72

- For the last month a 'White Opening Morubozu' candle stick formation was there, that signifies continuation of current uptrend
- As per Fibonacci principle prices retraced 61.8% (2690 as on 29<sup>th</sup> January 2010) and then again corrected till 23.6 % ( 1535 as on 30<sup>th</sup> June 2010). After a medium term consolidation mode, a bullish consolidation 'Channel' chart pattern has formed with breakout level at above \$2000. (Fibonacci range is from 3890 as on October 2007 to 851 on 31<sup>st</sup> December 2008)
- The momentum oscillator RSI (14) is at 0.55 indicating the upside potentials till 0.70 levels. Another oscillator Stochastics (9) is at 0.63 indicating bullishness in Lead.

For the coming 3 months we expect Lead prices to move higher and recommend buying.



Technical levels	Support 2	Support 1	Resistance1	Resistance 2
LME	1700	2010	2730	3500
MCX	71.80	88.00	120	140.50

# NICKEL

**PRICE PERFORMANCE:**

Nickel along with the Aluminium (with marginal difference in gains) underperformed the base metal pack in the third quarter. As against gains of anywhere between 20 - 30 percent for most of the base metals, nickel prices ended the third quarter of 2010 with gains of nearly 16 percent at \$22,900/tonne on LME and at ₹1040/kg on MCX.

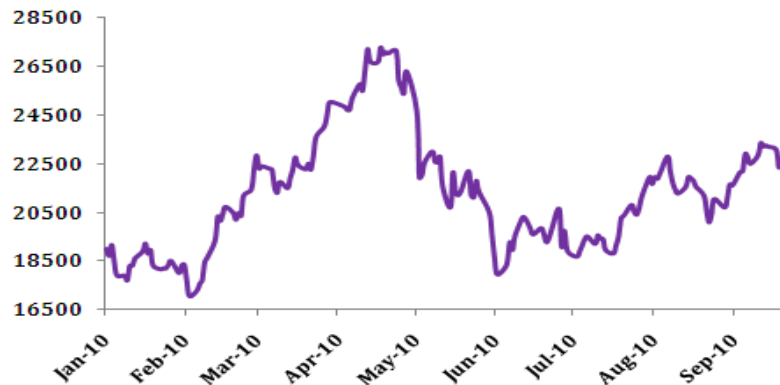
**Nickel prices ended at \$22,900/ tonne on LME and at ₹.1040/kg on MCX.**

Period	LME	MCX
Q3 2010	15.98%	15.61%
Q2 2010	-21.00%	-20.01%
Q1 2010	34.93%	30.37%
Q4 2009	03.52%	03.61%
Q3 2009	16.39%	09.25%
Q2 2009	56.09%	59.09%
Q1 2009	-15.81%	-08.32%

The underperformance was largely because the pace of decline in inventories slowed down in the recent months. However, year to date Nickel is the top performer among the base metal pack with gains of more than 18 percent on LME.

**Year to date Nickel is the top performer among the base metal pack with gains of more than 18 percent on LME.**

**Figure.23: LME Nickel Prices (\$/Tonne)**

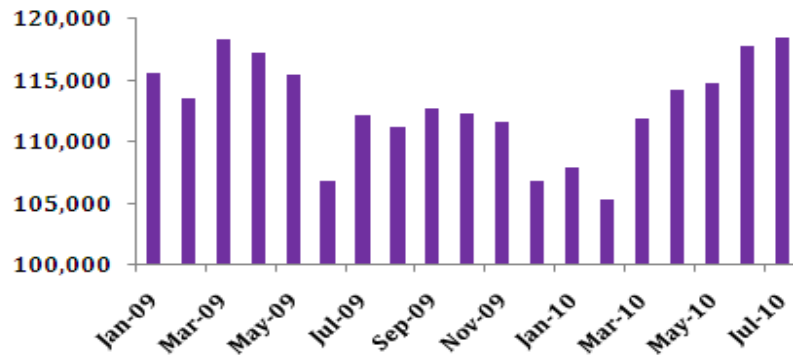


Source: Bloomberg, KCTL Research

**FUNDAMENTALS:** As per the World Metal Statistics, in the Jan-May 2010 period, nickel was in marginal deficit of 5,000 tonnes. This was despite mine production reporting a growth of 5.7 percent. The increased demand was driven from higher purchases by Asian Nickel stainless steel producers. Stainless steel production drives two-thirds of the total nickel consumption.

**Nickel was in marginal deficit of 5,000 tonnes. This was despite mine production reporting a growth of 5.7 percent.**

**Figure.24: World Nickel Ores and Concentrate Production**



Source: Bloomberg, KCTL Research

On the industry front, Lundin Mining, diversified miner, reported drop in reserves by 13.1 percent to 4.26 million tonnes, while total attributable nickel resource was reported at 78,000 tonnes of nickel. Japanese trading house Mitsui & Co will join a \$1.3 billion nickel project that Sumitomo Metal Mining Co Ltd is developing in the Philippines. Sumitomo Metal Mining, Japan's top nickel producer, would start commercial operations at the 30,000 tonne-a-year Taganito nickel plant in August 2013. The project would help it achieve total nickel output of 100,000 tonnes in 2013, up from 65,000 tonnes currently.

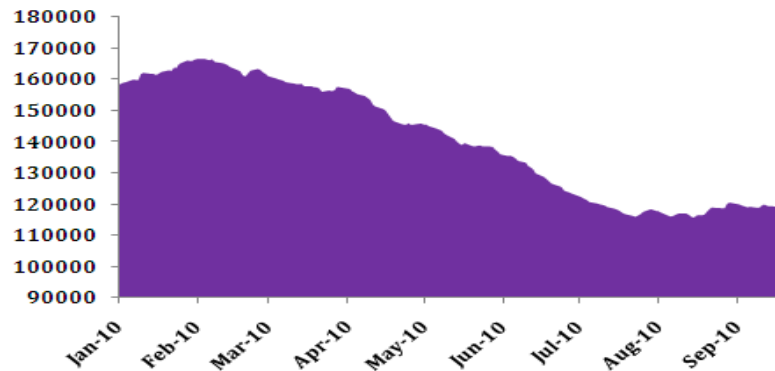
**Norilsk Nickel, World's biggest Nickel producer, turned down the offer Glencore who offered to buy the entire Nickel production of the company.**

Norilsk Nickel, World's biggest Nickel producer, turned down the offer Glencore who offered to buy the entire Nickel production of the company. Glencore, a Swiss commodities powerhouse, already owns 35 percent of Xstrata PLC, a big nickel producer, and 71 percent of Australian nickel miner Minara Resources Ltd. The proposal, which Norilsk rejected, dovetailed with Glencore's moves to strengthen its hold over the supplies of widely sought raw materials and become more powerful force in the commodities markets.

**INVENTORY:** In the third quarter of 2010, Nickel inventory on LME declined by 2.77 percent or 3,432 tonnes taking the total inventory to 120,594 tonnes. However the more recent month of September witnessed build-up of inventory to the extent of 1,932 tonnes. The increase in inventory may be reason why nickel prices have underperformed though in a shorter time frame.

LME inventory of nickel stood at 120,594 tonnes. September witnessed build-up of inventory to the extent of 1,932 tonnes. Increase in inventory may be reason why nickel prices have underperformed though in a shorter time frame.

**Figure.25: LME Inventory – Nickel**

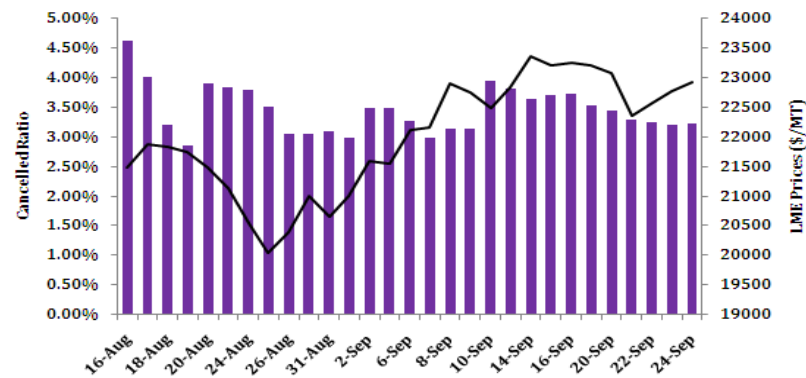


Source: Bloomberg, KCTL Research

**CANCELLED WARRANT RATIO** The cancelled warrant ratio is also indicating a very similar situation. The cancelled warrant is currently at 3 percent, one of the lowest in the base metal pack. This is indicating that going forward, the inventory draw-downs might end and there might even be a case for increase in inventories. This will in fact be negative for prices in the short term. Unless demand picks up significantly in the physical market and there continues to remain short supply of material, cancelled warrant ratio might continue to hover around these levels.

Cancelled warrant is currently at 3 percent, one of the lowest in the base metal pack

**Figure.26: Cancelled Warrant Ratio – Nickel**

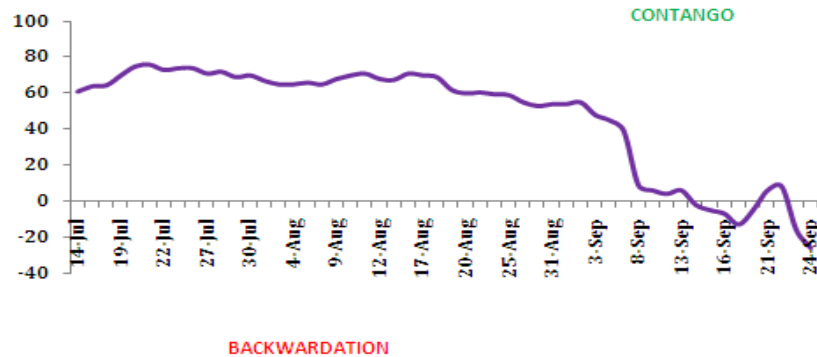


Source: Bloomberg, KCTL Research

**OUTLOOK:** The basis on LME has moved down all the way from \$60/tonne to -\$26/tonne indicating tight supply in the near term. Thereby both the cancelled warrant ratio and basis are giving opposite indications. However going forward, chances are that the short supply is only a near term phenomenon and market will return back to contango.

The basis on LME has moved down all the way from \$60/tonne to -\$26/tonne indicating tight supply in the near term.

**Figure.27: Basis (LME 3mt Fwd – LME Spot)**



Source: Bloomberg, KCTL Research

Nickel is by far the only base metal where in consumption is likely to outpace production in 2010, leading to a small deficit.

World nickel production will increase 12.5 percent during 2010 to 1.44 million metric tons as per the International Nickel Study Group. Nickel is by far the only base metal where in consumption is likely to outpace production in 2010, leading to a small deficit. Both supply disruptions as well as greater demand from China, world's biggest user will contribute to the price rise. All the other base metals though are witnessing strong demand, supply continue to outpace the demand thereby reporting surplus at the global level. Deficit situation has already made Nickel the top performer among the base metal pack in 2010.

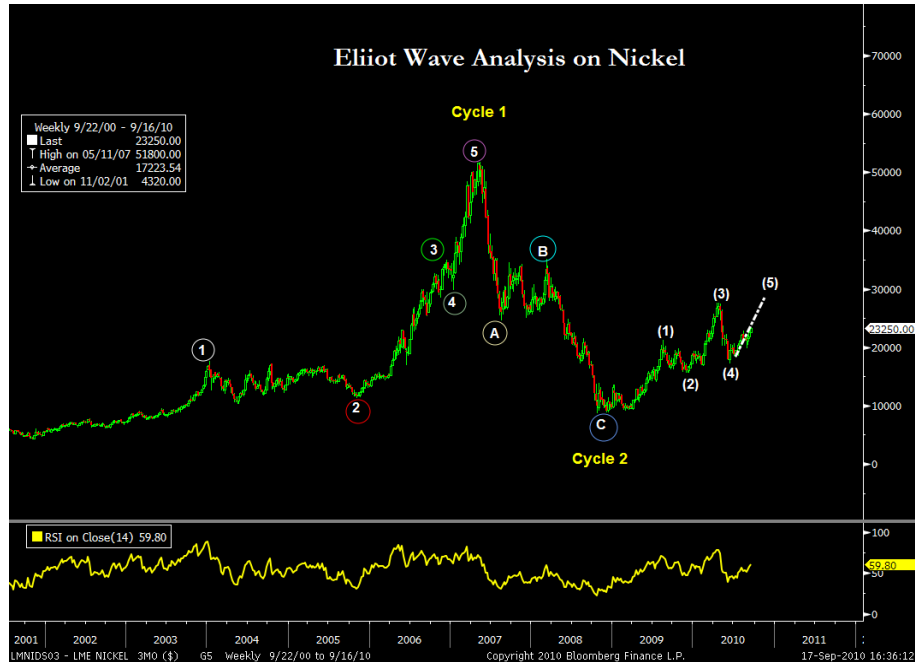
**TECHNICAL ANALYSIS:**

**View:** Bullish

**Strategy:** Buy

**Recommendation:** Buy at \$21500-22000 targeting \$26500 then \$29000 with stop loss at \$18000

MCX: Buy in the range 1000 - 1020 targeting 1220 then 1280 with stop loss 870



**Recent waves:** Minor wave 3 is in progress can bring rally till \$24340 followed by a corrective minor wave 4, might possible to bring the downside correction till \$22250 levels. Hereafter prices are expected to extend its gains with unfolded minor wave 5 (27500 levels).

**Description:** We saw an end of corrective wave intermediate (4) at \$17375 levels in last quarter and bounce back from this level is considered as intermediate wave (5). As of now minor wave 3 of intermediate wave (5) is in progress and is likely to top out at \$24340 levels only if it breaches and sustains above 23570. From hereafter a downside correction is expected till \$21000 or it can extend till \$20300 levels considered as minor wave 4 followed by the minor wave 5, which is unfolded with upside bias till \$27500 levels. Overall, we expect prices to trade higher and recommend buying at dips.

Monthly chart of **nickel** looking bullish reason being:

For the last month nickel has formed white opening Morubozu candle stick which signifies continuation of current uptrend.

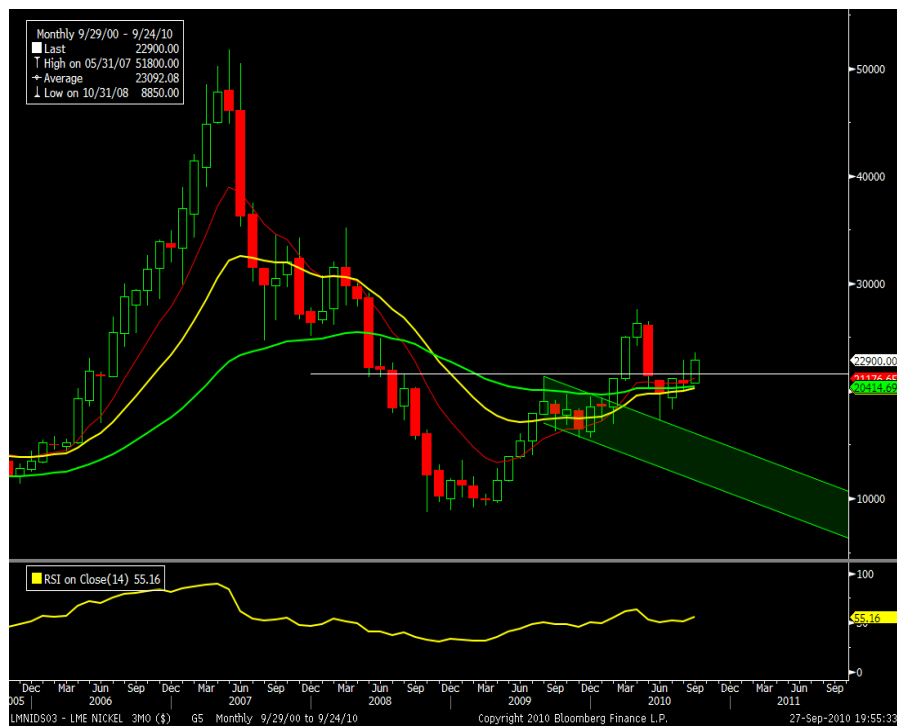
**Strategy:** Buy

**Recommendation:** Buy at \$21500-22000 targeting \$26500 then \$29000 with stop loss at \$18000

MCX: Buy in the range 1000 - 1020 targeting 1220 then 1280 with stop loss 870

Also in monthly chart '*cup with handle*' chart formation is spotted this is again a bullish reversal chart pattern. Though the prices traded below the neckline after the upside breakout yet the pattern still holds good as prices took the support of upper trend line of the handle's channel pattern.

The momentum oscillator RSI (14) is at 0.55 levels showing upside potentials for the commodity. For the coming quarter we expect nickel to remain upside and thus recommend buying.



Technical levels	Support 2	Support 1	Resistance1	Resistance 2
LME	17000	20800	27500	32800
MCX	920	980	1300	1420

## ZINC

### PRICE PERFORMANCE:

Zinc prices rose by 25 percent in the third quarter of 2010 before ending at \$2247/tonne on LME, thereby erasing all the losses it made in second quarter. So virtually, zinc prices have gone no where from April 2010 to September 2010. In the Indian markets prices ended at ₹100.50/Kg.

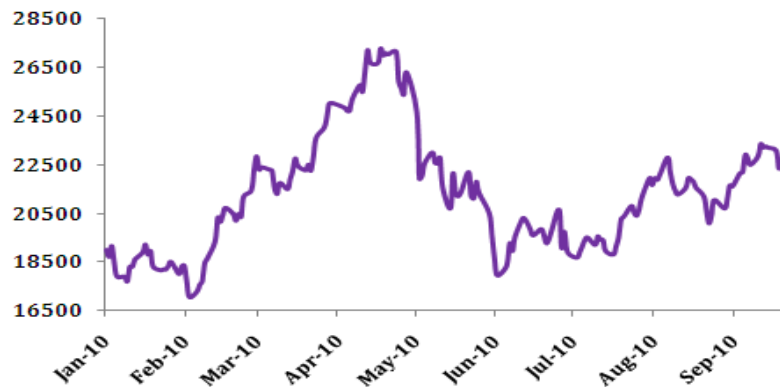
Zinc prices ended at \$2,247/ tonne on LME and at ₹.100/kg on MCX. Zinc prices have gone no where from April 2010 to September 2010.

Period	LME	MCX
Q3 2010	25.36%	24.75%
Q2 2010	-24.53%	-24.28%
Q1 2010	-07.23%	-11.29%
Q4 2009	30.02%	30.65%
Q3 2009	27.11%	23.62%
Q2 2009	17.35%	12.07%
Q1 2009	09.27%	21.99%

However year to date, zinc prices are lower by 16 percent on MCX, thereby making zinc the worst performer among the base metal pack. The fundamentals for zinc have also been weak as more and more metal is coming into the market. Also over-supply of steel, the major user industry of the metal, is witnessing cut in production and thereby is reducing demand for zinc.

Year to date, zinc prices are lower by 16 percent on MCX, thereby making zinc the worst performer among the base metal pack. Over-supply of steel, the major user industry of the metal, is witnessing cut in production and thereby is reducing demand for zinc.

**Figure.28: LME Zinc Prices (\$/Tonne)**

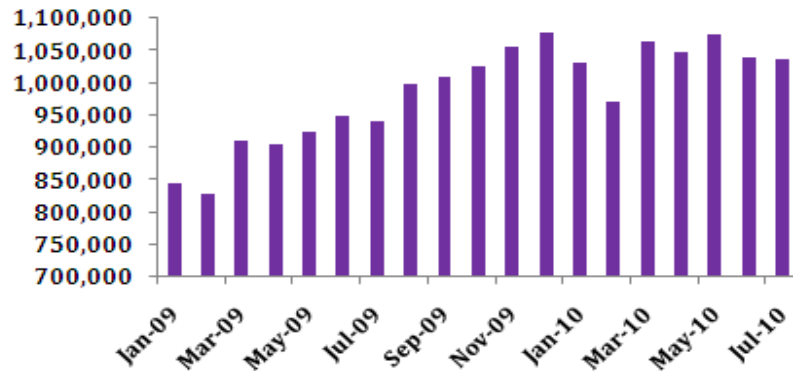


Source: Bloomberg, KCTL Research

**In the first seven months of 2010, the global refined production of zinc grew by 16 percent to 7.27 million tonnes whereas usage rose by nearly 19 percent to 7.12 million tonnes.**

**FUNDAMETALS:** : As per the International lead and zinc study group, in the first seven months of 2010, the global refined production of zinc grew by 16 percent to 7.27 million tonnes whereas usage rose by nearly 19 percent to 7.12 million tonnes. Strong demand in nations like China whose demand grew by 13 percent boosted the demand for the metal used in making steel. Demand from Japan, Korea and Europe has also improved after being battered during the crisis. But, in absolute terms, production outpaced consumption thereby bring the market into surplus of 0.51 million tonnes.

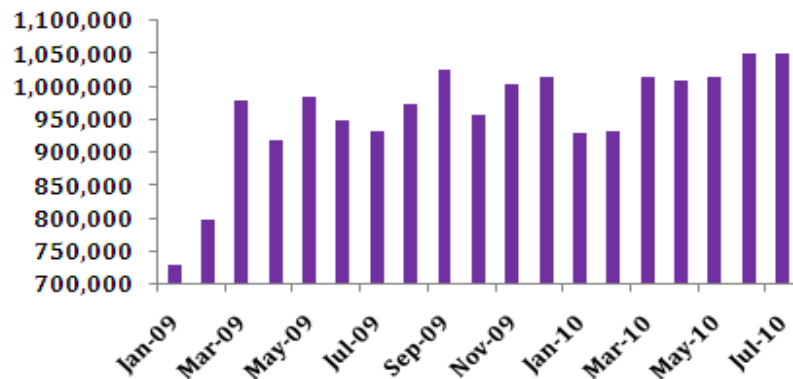
**Figure.28: World Zinc Slab Production**



Source: Bloomberg, KCTL Research

**In absolute terms, production outpaced consumption thereby bring the market into surplus of 0.51 million tonnes.**

**Figure.29: World Zinc Slab Consumption**



Source: Bloomberg, KCTL Research

In the more recent month of July, production came in at 1.03 million tonnes where as usage amounted to 1.05 million tonnes thereby falling by 2 percent and 1 percent respectively. China witnessed its production rise by 27 percent to 2.88 million tonnes in the first seven months of 2010, as the country tries to meet more of its demand from internal production than from imports.

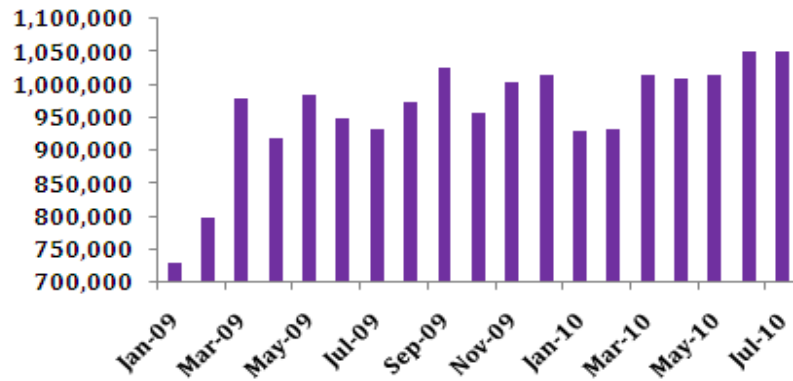
**LME inventory of Zinc stood at 618,625 tonnes. In the Chinese market, the inventory stood at 236,113 tonnes**

**INVENTORY:** LME inventory of Zinc witnessed build-up of 0.26 percent or 1,575 tonnes in the third quarter. The total stocks stands at 618,625 tonnes. However, in Shanghai warehouses the inventory declined by 28,730 tonnes or nearly 11 percent in the third quarter thereby taking the total stock to 236,113 tonnes.

However, the more recent month of September has witnessed decline of 3,925 tonnes on LME and build-up of 4,545 tonnes in the Chinese market. So there might be the case that investors were taking opportunity of prices differentials between LME and SHFE, which as per Reuters estimate amounted to 200 Yuan per tonne after import duty and local taxes.

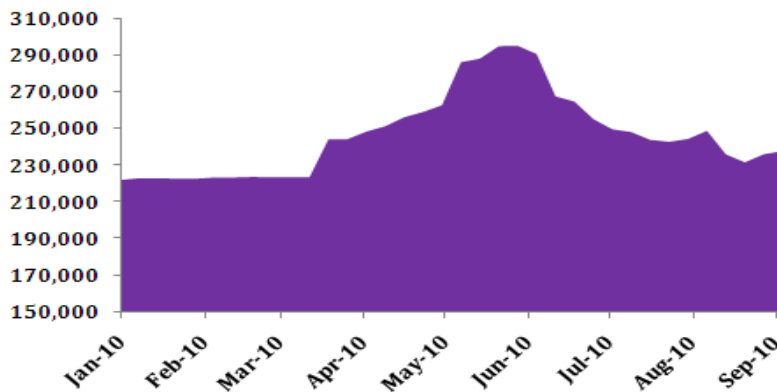
Investors might have taken opportunity of prices differentials between LME and SHFE, which as per Reuters estimate amounted to 200 Yuan per tonne after import duty and local taxes.

**Figure.30: LME Inventory - Zinc**



Source: Bloomberg, KCTL Research

**Figure.30: Zinc inventory in Chinese warehouses**

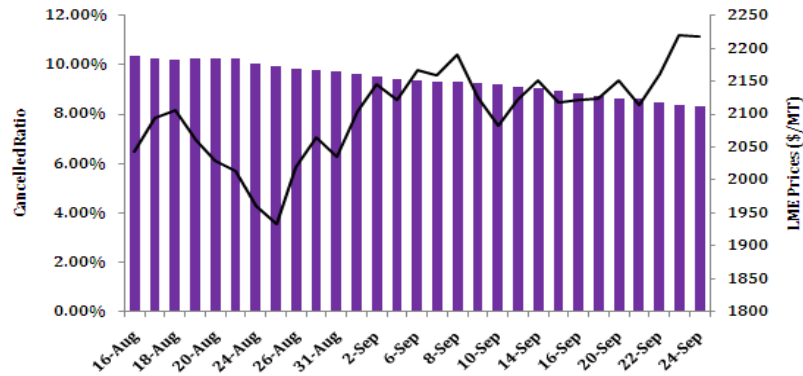


Source: Bloomberg, KCTL Research

**CANCELLED WARRANT RATIO:** The cancelled warrant ratio which was hovering around 4 percent in July bounced back strongly to 10 percent, thereby increasing the material embarked for delivery two and half times. This is again indicating strong physical demand for the material. Currently, it is at 9 percent and is the highest among all the base metals. However as the inventory draw-downs continue, the ratio has started to slowly inch downwards.

Cancelled warrant ratio which was hovering around 4 percent in July bounced back strongly to 10 percent, thereby increasing the material embarked for delivery two and half times

**Figure.31: Cancelled Warrant Ratio – Zinc**

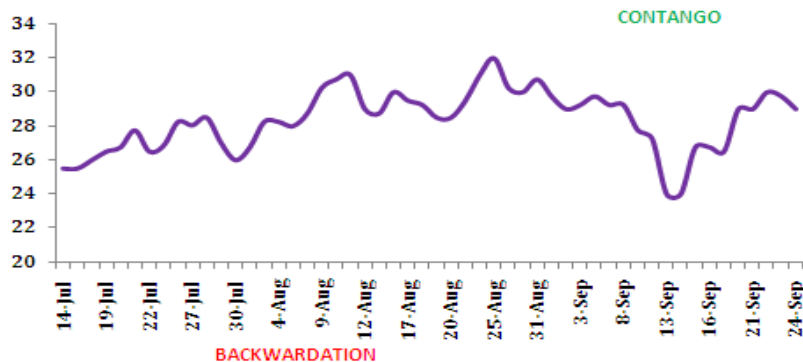


Source: Bloomberg, KCTL Research

The basis on LME has been moving strongly higher, indicating expectation of upside in prices. The contango is close to \$30/ tonne which is again highest among the base metal pack.

Basis on LME has been moving strongly higher, indicating expectation of upside in prices. The contango is close to \$30/ tonne which is again highest among the base metal pack.

**Figure.32: Basis (LME 3mt Fwd – LME Spot)**



Source: Bloomberg, KCTL Research

**Japan's largest refined zinc producer is planning to shut its smelter in late October for maintenance.**

**Enough capacity on stream in China and any increase in prices will encourage companies to produce more. This will put a cap on prices**

**OUTLOOK:** Mitsui Mining & Smelting Co, Japan's largest refined zinc producer is planning to shut its smelter in late October for maintenance. The company whose production has already dropped by 1 percent to 113,200 tonnes in the six months till September may see the production even decline by larger quantum in the second half.

Reports have been suggesting that most of the smelters in China are operating at close to 70 percent of their capacity levels. This indicates that there is enough capacity on stream and any increase in prices will encourage companies to produce more. This will put a cap on prices. However, demand for steel, the major user industry of zinc, is robust in emerging economies as countries infrastructure along with other construction activity picks up, but again cut in production of steel continues to remain concern for zinc prices.

According to EIU, in the European Union, consumption levels are forecast to rebound in 2010 after the collapse in 2009, rising 17.6 percent to 2.2 million tonnes, driven by the revival in steel output. However, consumption growth is likely to fall sharply to just 2.3 percent in 2011 and 1.1 percent in 2012 in response to fiscal and monetary tightening. Low level of growth will ensure that European Union consumption will remain below the levels registered over the few years.

**TECHNICALS:**

**View:** Bullish

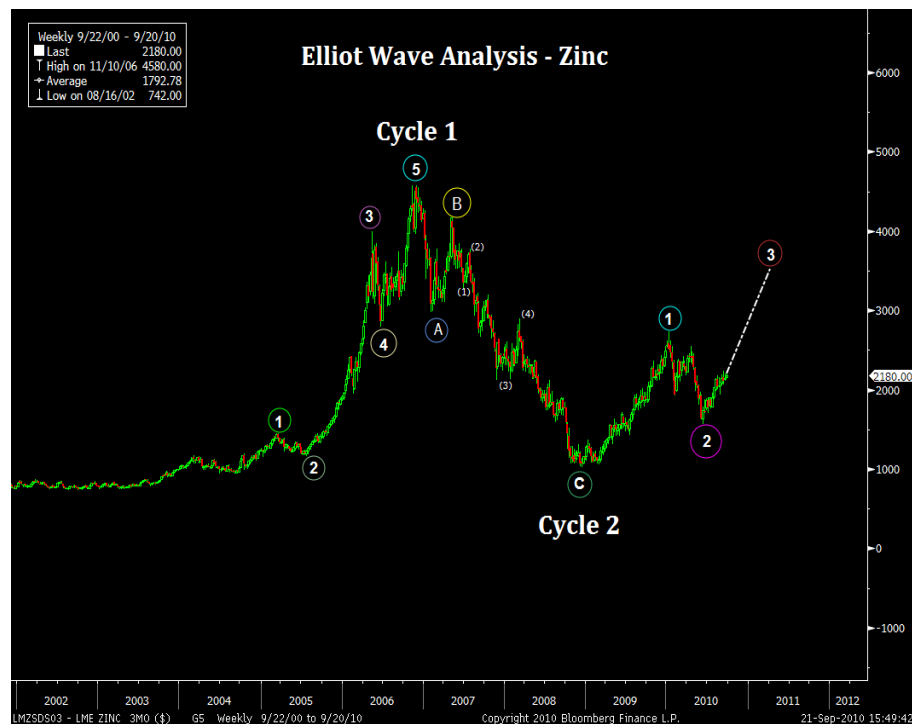
**Strategy:** Buy

**Recommendation:**

LME Zinc: Buy in the range 2050-2070 targeting 2620 and then 2810 with stop loss 1735

MCX Zinc: Buy 93-95 targeting 115 and then 120 with stop loss of below 80

Zinc- Mini- MCX: Buy 1st lot at 96-98, 2nd 90-92 targeting 115 then 120 with stop loss below 80



**Recent wave:** Minor wave 5 is expected to end around \$2299 or it can extend till \$2408 levels.

**Description:** As per the analysis currently market is in minor wave 5 of intermediate (1), which is expected to terminate around \$2299 or it can extend till 2408 levels. Thus, if market makes a top out near \$2408 or \$2999 levels confirms the end of intermediate wave (1) of primary wave 3. Hereafter a lower correction is expected considered as intermediate wave (2) can extend its correction till \$2210 or till \$2090 levels. The downside potential would be till \$1951 levels sustain above is expected to resume its uptrend. We expect prices to see a correction before resuming its uptrend and recommend buying at dips.

**Strategy:** Buy

**Recommendation:**

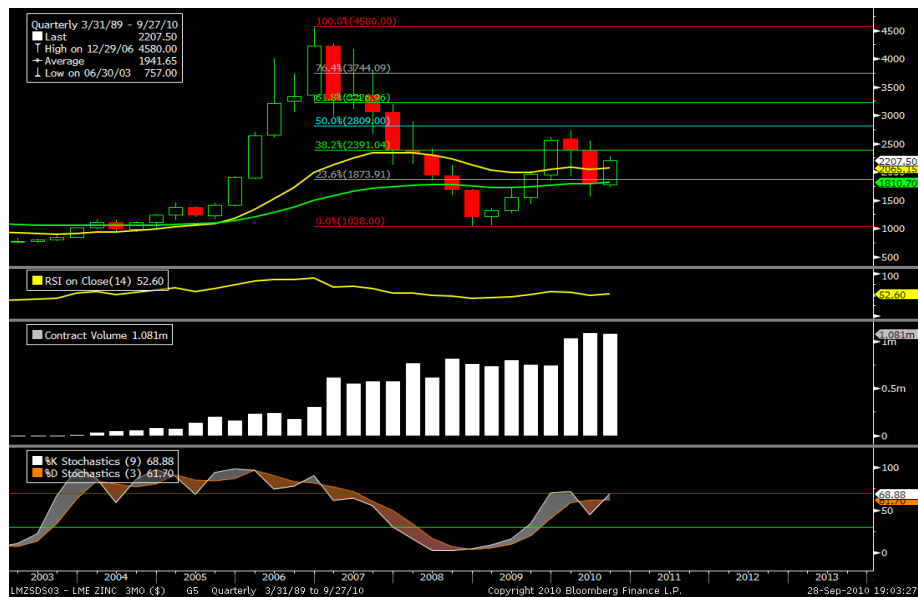
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Last to last quarter **zinc** prices witnessed a heavy correction downside of 32.5% from the previous close of 2375. However, the prices took a support of short term **EMA (45)** and bounce back. **Volume** levels are increasing from the last quarter indicating entrance of bulls into the market at support levels. For this quarter, a **long white candle stick** is spotted suggesting that prevailing bull trend will continue into the market. RSI (14) is at 0.52 levels indicating upside potentials of the prices.

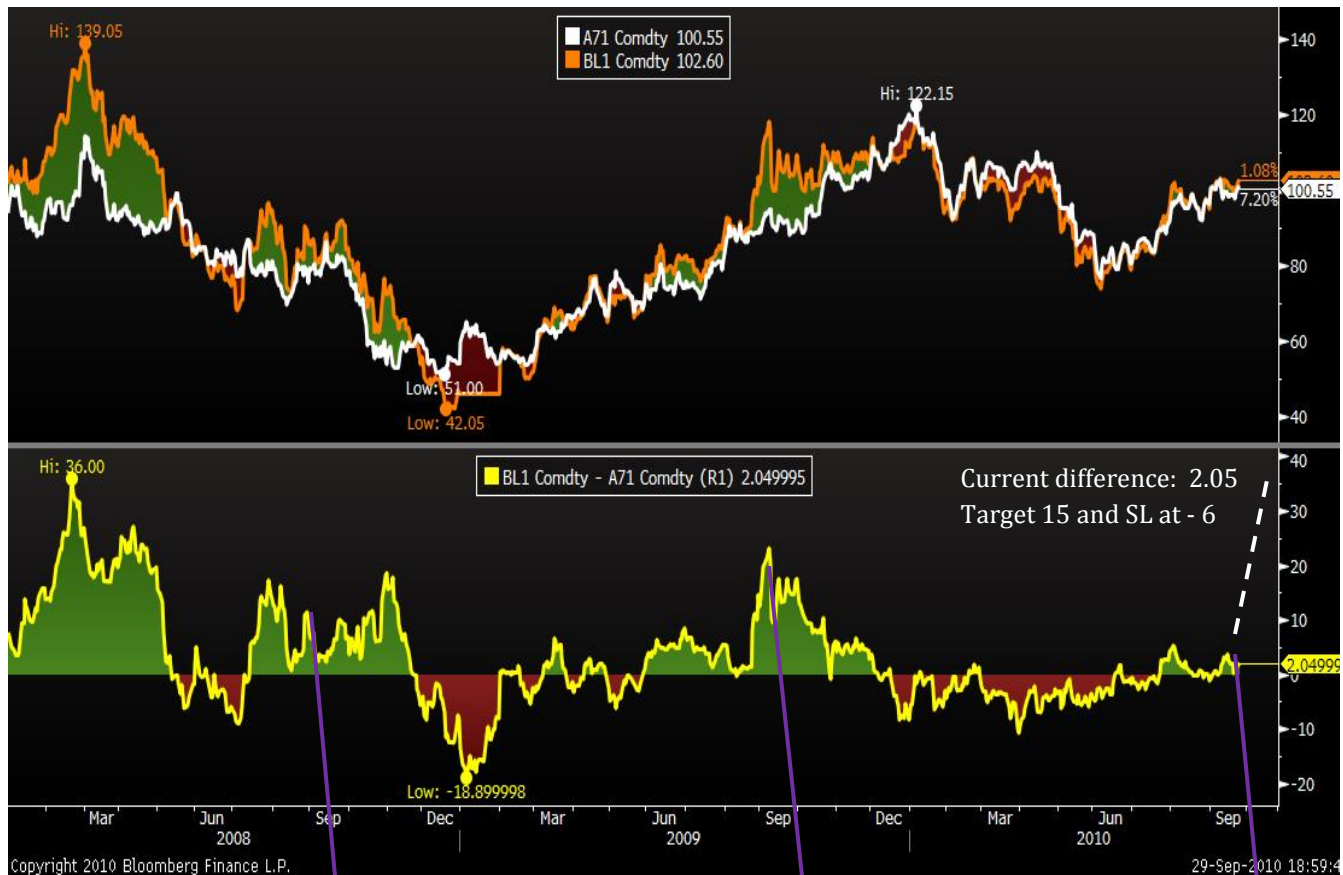
For the coming quarter we expect zinc prices to move higher and recommend buying.



Technical levels	Support 2	Support 1	Resistance 1	Resistance 2
LME	1565	1700	2620	2810
MCX	65	74	115	125

## LEAD – ZINC SPREAD

The lead-zinc spread has historically provided good opportunity for trading as both have nearly the same price quote. Availability of mini contracts in the Indian markets have seen more and more investors taking opportunity of this spread, which provides good money making opportunity along with limited risk. The fundamentals of lead have an upper hand over the zinc and thereby the ratio might increase.



September 2008

September 2009

September 2010

**STRATEGY: BUY LEAD  
and SELL ZINC**

**STRATEGY:** The current difference is at 2.05. Both history and fundamentals suggest that the spread has the potential to go up to 15 levels. So the strategy here is to buy lead and sell zinc.

**NOTE: We have assumed Sep 24, 2010 as the end of quarter for the preparation of this report.**

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