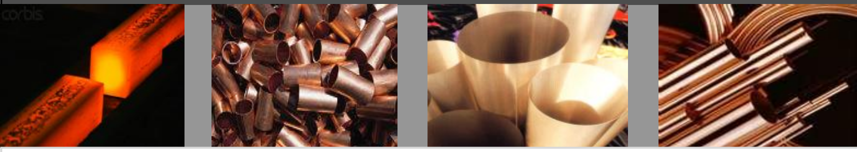
KARVY COMTRADE LIMITED



# Metals Weekly

A Weekly Report on Base Metals

## PERFORMANCE SNAPSHOT

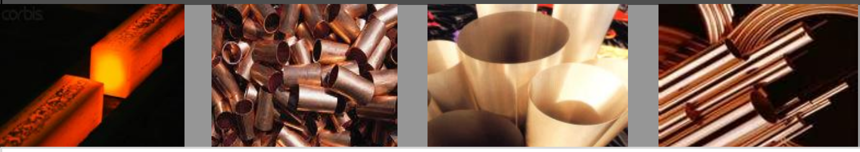
| Exchange | Commodity | Open | High | Low | Close | Close % Change | Volume | Volume % Change | Open Interest | Open Interest % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| LME 3-mth Forward (USD/tonne) | Copper | 6890 | 6892 | 6235 | 6280 | -9.50 | 147,105 | -19.96 | 3,308 | 21.98 |
| | Zinc | 1930 | 1930 | 1641 | 1641 | -15.24 | 66,078 | -25.71 | 2,132 | -19.64 |
| | Lead | 1820 | 1830 | 1591 | 1607 | -13.14 | 30,713 | 15.23 | 1,159 | -7.28 |
| | Nickel | 21050 | 21051 | 17949 | 17950 | -15.93 | 32,609 | 30.73 | 960 | 7.26 |
| | Aluminium | 2031 | 2036 | 1880 | 1881 | -7.93 | 104,129 | -26.12 | 2,493 | -54.43 |
| MCX Futures (Rs./Kg) | Copper | 321.6 | 322.9 | 298.2 | 298.8 | -6.93 | 56,749 | -87.81 | 4,705 | -78.36 |
| | Zinc | 88.85 | 90.05 | 78.85 | 79.45 | -10.83 | 7,011 | -79.31 | 721 | -86.01 |
| | Lead | 85.5 | 86.4 | 76.5 | 76.65 | -10.09 | 11,141 | -67.19 | 950 | -84.81 |
| | Nickel | 987 | 993.5 | 857 | 861.6 | -12.61 | 32,098 | -62.63 | 2,219 | -81.88 |
| | Aluminium | 94.35 | 95.7 | 89.35 | 89.7 | -4.98 | 1,278 | -82.68 | 234 | -85.63 |

## MARKET RECAP

- In the previous week, metal prices registered a fall higher than that of the entire May months fall. Manufacturing growth slowed across the globe in May, be it China, US or Europe as the pace of new orders eased amid growing uncertainty over what damage Europe's debt crisis may do to the fragile economic recover. Rise in dollar index devastated the investment in all other financial instruments as investors flee to safer haven like dollar and gold
- ***Freeport-Mc Moran Copper & Gold Inc. and Codelco***, the world's two largest copper producers, stated concerns as China plans to curb its economy, that might threaten to reduce demand for the metal after prices slumped 15% in the two months
- ***The real estate sales in the Beijing, Shanghai and Shenzhen provinces of China*** has slowed down by around 70% in the past month after the government suggested measures to slow down the property bubble along with tightening of monetary policy
- ***Japanese factory output rose less than expected in April***, suggesting that growth in manufacturing will slow in coming months as the benefits of robust exports to fast-growing Asian economies may be moderating
- ***The political turmoil in Japan pertaining to their Prime Ministers future*** caused some unrest in the economy—curbing the growth expectations for this nation. The resignation weakened the currency and might sap demand ahead
- ***ECB forecasts around $109.2 billions of write-down*** in their loans and securities and thus added signs that the region's economic recovery will be hampered. The financial crisis has dragged Euro to four-years low against the Greenback

## ECONOMIC INDICATORS

- ***Construction spending*** was $869.1 billion in April 2010, 2.7% above March 2010, but 10.5% below April 2009
- ***The ISM manufacturing*** ticked to 59.7 from prior of 60.4, while expected of 59. The improvement in data releases could not support any gains in the metals due to bigger news to follow in the economy
- ***The new orders for manufactured goods*** in April rose 1.2% from March, to $420.1 billion. Shipments increased 0.6%, to $422.3 billion; unfilled orders rose 0.4%, to $801.2 billion; and, inventories increased 0.5%, to $521.7 billion
- ***Non-farm payroll jobs*** in May surged 431,000, following a 290,000 boost in April, and 208,000 gains in March. April's spike came in much lower than the consensus forecast for a 540,000 jump
- ***The unemployment rate*** slipped to 9.7% from 9.9% in April, coming in below the market forecast for 9.8%
- ***Pending home sales*** extended their surge through April, up 6.0% following an upward revised 7.1% jump in March. Y/Y, the index is up 22.4%





## INDUSTRIAL UPDATES

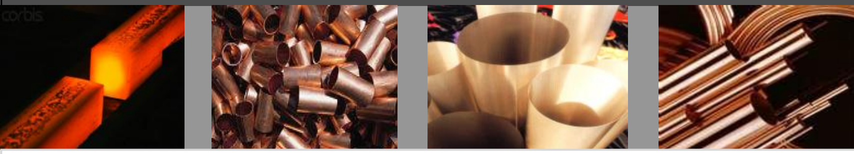
- ***Xstrata Plc and employees at its Montreal copper refinery*** reached a tentative agreement on the new 3- year labor deal. The current labor agreement at the facility expired on May 30th. The plant produces about 370,000 tonnes of copper cathodes
- ***Namibia's Skorpion Zinc mine produced 150,400 tonnes of special high grade zinc*** as rising prices from 2008 slump boost output. 2009 mine output was 1.5% below target as production was hit by power shortages and mechanical breakdowns
- ***China imported 19,140 tonnes of nickel in March 2010***, considerable increase of 56.6% compared with that of 12,225 tonnes in February in response to the decreased imports in February, due to Chinese Lunar New Year. The imports from Japan in March maintained February levels but the imports from Australia and Russia increase compared to in February
- ***Japan's refined zinc exports for April fell 36%*** from a year earlier to 8,433 tonnes, with China accounting for the largest share, Ministry of Finance data stated, with Taiwan and Indonesia also being the key markets for Japan's zinc exports
- ***Alcoa Inc has reached a tentative agreement*** with the United Steelworkers union on a new 4-year labor contract at 10 of the producer's manufacturing locations in the US. The new agreement, subject to ratification by USW members, addresses key points in negotiations that began on May 17
- ***Breakwater Resources Ltd received approval from Chilean regulatory officials*** to reopen the Estatuas zinc mine following completion of the investigation of a fatal accident that occurred May 1. The Toronto-based mining company had shut its mine at the Toqui property in Chile pending a probe over the death of an employee at the mine

## OUTLOOK

- ***Australia's proposed new mining tax*** will not boost global prices of commodities, but will push investment overseas. The iron ore and coal mines owners are fierce opponents of the new 40% tax on mining profits
- ***Several Chinese lead smelters had conducted maintenance work*** on their refined lead production facilities which was suppose to reduce China's refined lead supply and give support to refined lead prices
- ***The data release from the US includes*** Consumer Credit, Wholesale Inventories, Trade Balance, Advance Retail Sales, Business Inventories, Initial Jobless Claims, and Continuing Claims. As per the Bloomberg expectations, a few data suggest improvement from the prior levels while others are disconcerting, thus actual would be worth looking at
- The base metal complex still look vulnerable to global economic turmoil and thus move on a fragile path where recovery is unlikely in the near term while prices are probable to fall further. Despite the data looking quite supportive; decelerating manufacturing activities pressurize over supplies in the market with demand to lower in major consuming nations, like China, US and Europe. The rise in dollar index for the second consecutive week would be another cautious factor to look for—snatching the appeal for currency denominated commodities as alternative investment avenues. Prices are at crucial levels and any further off-putting news can drag them to multi-months lows

| Indices | Last Week | This Week | % Change |
|---|---|---|---|
| Dow Jones Ind. Avg. | 10136.63 | 9931.97 | -2.02% |
| S&P 500 Index | 1089.41 | 1064.88 | -2.25% |
| FTSE 100 Index | 5188.43 | 5126.00 | -1.20% |
| Nikkie 225 | 9762.98 | 9901.19 | 1.42% |
| Shanghai Composite | 2655.77 | 2553.59 | -3.85% |
| Sensex | 16863.06 | 17117.00 | 1.51% |

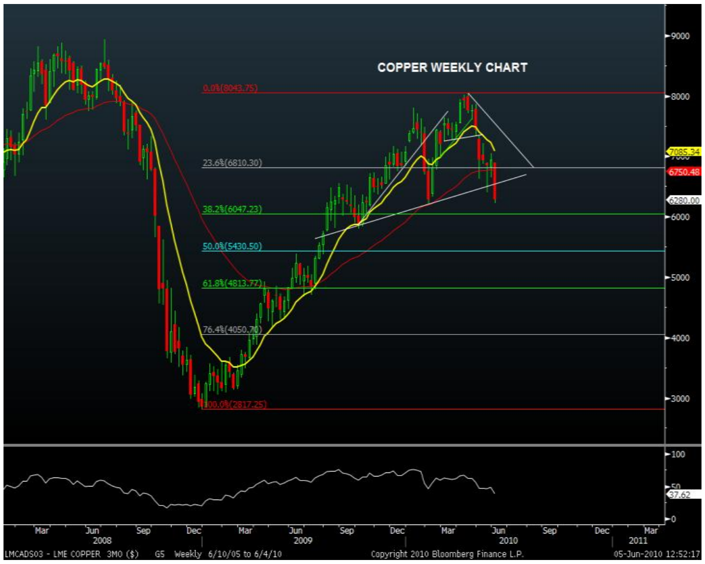
| Currency | Last Week | This Week | % Change |
|---|---|---|---|
| Dollar Index | 86.48 | 88.233 | 2.03% |
| EUR/USD | 1.2273 | 1.1967 | -2.49% |
| GBP/USD | 1.4458 | 1.4454 | -0.03% |
| USD/INR | 46.355 | 46.845 | 1.06% |



# Metals Weekly

A Weekly Report on Base Metals

## TECHNICAL PREFACE




| | | | | |
|---|---|---|---|---|
| LME 3-Forward | S | $6047 | R | $ 66550 |
| MCX- June | S | 315 | R | 330 |

***COPPER JUNE MCX: Sell in the range 298-300 targeting 282 with stop loss above 306.***

### LME COPPER

- Copper 3 month LME prices fell by 9.5 % to close the week at $6280. Market has broken crucial trend line support at $6531 suggesting bearish signal may continue for week ahead. However, market may take a higher correction before resuming the downtrend. Market has closed well below the previous week's candle suggesting the selling pressure may continue. The momentum indicator, RSI slide down from 0.46 to 0.37 suggesting lower potential. However, the market is holding a crucial Fibonacci retracement support at $6047 (38.2% of $8043-$2817move) breaks and sustain below prices may touch $5788 then $5430 levels. Likewise, on the higher side, market is witnessing the Fibonacci retracement resistance at $6810 (23.6% of $8043- $2817 move) levels. We expect market will trade lower and recommend selling at pullbacks
- **Recommendation:** Copper- 3month LME: Sell at $6410 TP $6200 then $6050 with stop loss above $6620


| | | | | |
|---|---|---|---|---|
| LME 3-Forward | S | $17200 | R | $20507 |
| MCX- June | S | 823 | R | 930 |

***NICKEL JUNE MCX: Sell in the range of 900-910 targeting 870 then 850 stop loss above 930***

### LME NICKEL

- Nickel 3 month LME prices fell by 15.5 % and finally settled at $17950 levels. We expect market to take a higher correction before resuming the down fall. However, the market has broken a crucial Fibonacci retracement support at $18281 (50% moves of 27713 -8850) suggesting breaks and sustain below the same likely prices to trade lower. Moreover, the RSI move down from 0.49 to 0.38 suggesting selling pressure may continue. Furthermore, it's trading below the (13, 22, 45) weekly EMA supporting bearish view. However, market is witnessing a trend line support at $17517 breaks the same likely prices to test $17200 then $16690 level. Likewise, on the higher side market is witnessing 38.2% Fibonacci retracement resistance at $20507 (50% moves of $27713 -$8850). Overall, from above analysis we expect prices to trade lower and recommend selling at pullbacks for the week
- **Recommendation:** Nickel- 3month LME: Sell in the range of 18850 targeting 17900 then 17400 stop loss above 19500

## TECHNICAL PREFACE


| | | | | |
|---|---|---|---|---|
| LME 3-Forward | S | $1720 | R | $1490 |
| MCX- June | S | 66 | R | 82 |

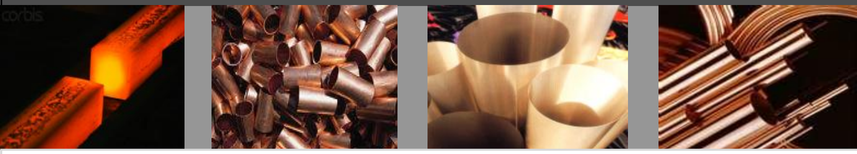
**LEAD**


| | | | | |
|---|---|---|---|---|
| LME 3-Forward | S | $1430 | R | $1760 |
| MCX- June | S | 70 | R | 85 |

**ZINC**

| | | | | |
|---|---|---|---|---|
| LME 3-Forward | S | $1942 | R | $2170 |
| MCX- June | S | 82 | R | 93 |

**ALUMINIUM**

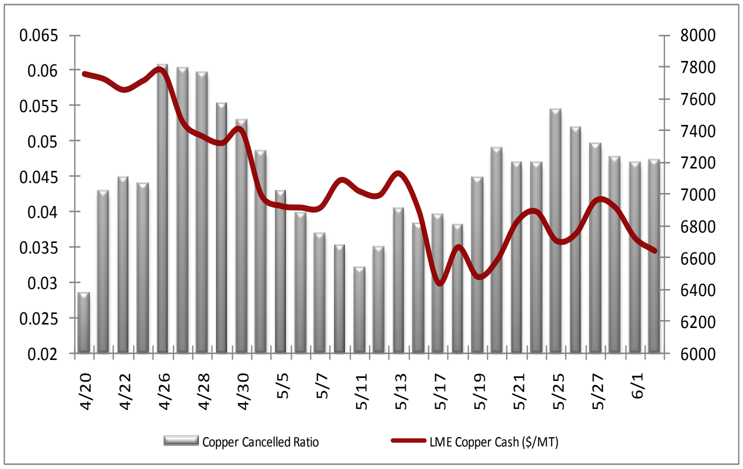


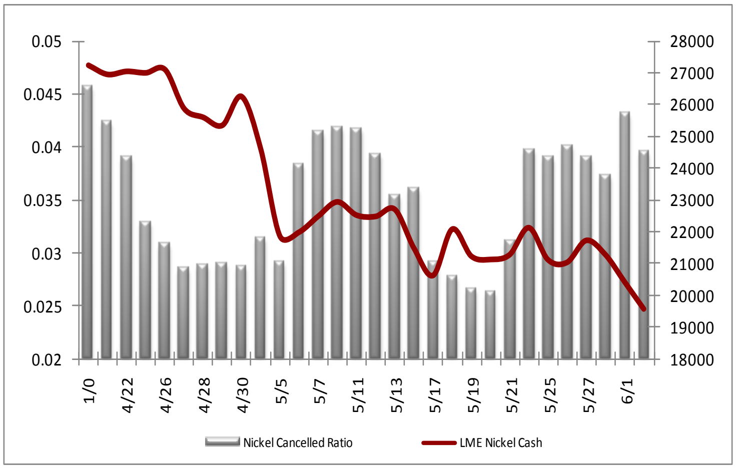
# Metals Weekly

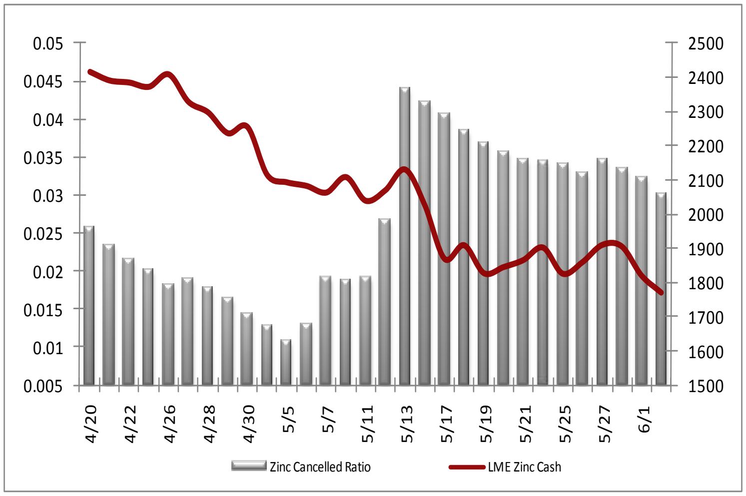
A Weekly Report on Base Metals

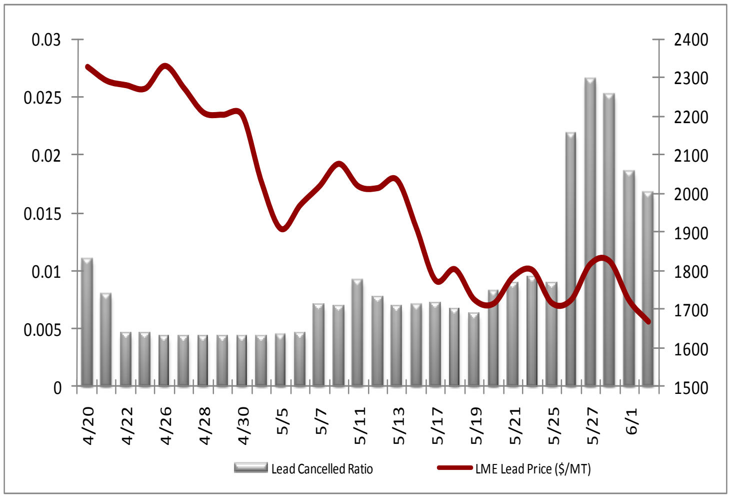
## INVENTORY UPDATE

***The reporting period***, for a day's stock movement in and out of LME registered warehouses is from 16.30 of the previous day until 16.30 on the day to which the stock report refers. The stock report is then released for the market everyday at 9.00 of the following day. In India, we get the report at 14:30 IST. ***Cancelled tonnage*** represents tonnage waiting for the owner's instructions to the warehouse company for removal from the warehouse, or possibly re-issue of warrants. These warrants are no longer freely available for trading. ***Cancelled warrants ratio*** represents the percentage of cancelled tonnage from the total closing stock, suggesting the amount of inventory actually marked for delivery on daily basis.



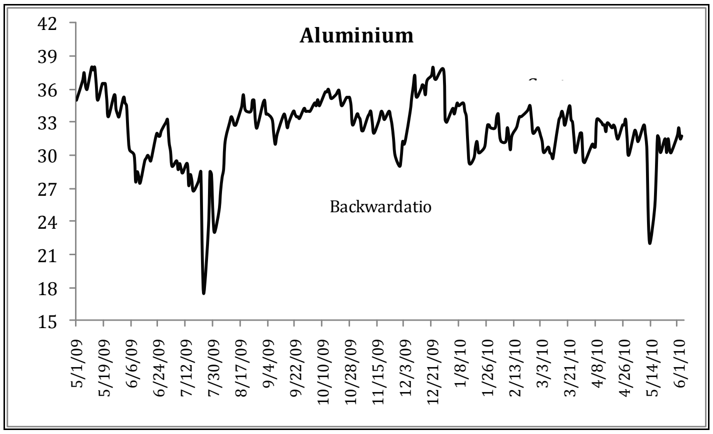



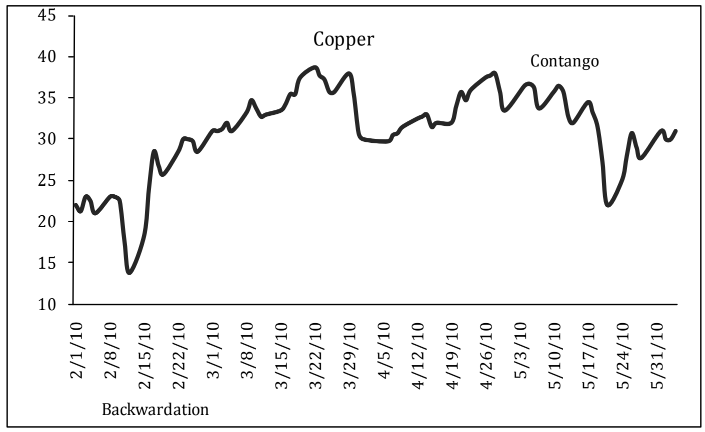



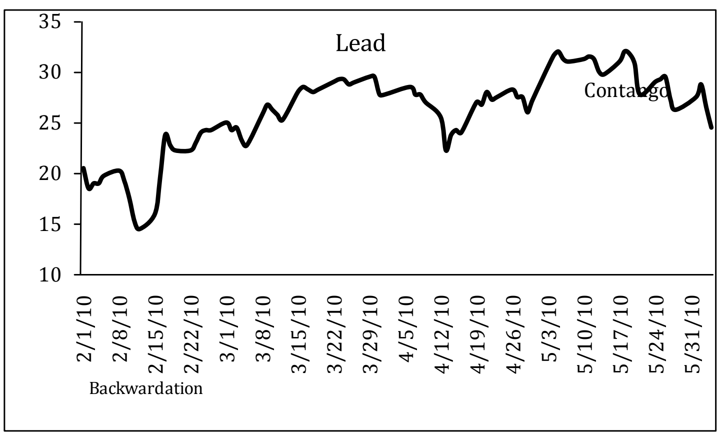

| LME WAREHOUSE STOCKS (In tonnes) | | | | |
|---|---|---|---|---|
| Commodity | Previous week | This week | Change | % Change |
| Copper | 476725 | 473000 | -3725 | -0.78% |
| Zinc | 619000 | 617350 | -1650 | -0.27% |
| Aluminium | 4561400 | 4532075 | -29325 | -0.64% |
| Lead | 190600 | 191925 | 1325 | 0.70% |
| Nickel | 138504 | 135942 | -2562 | -1.85% |

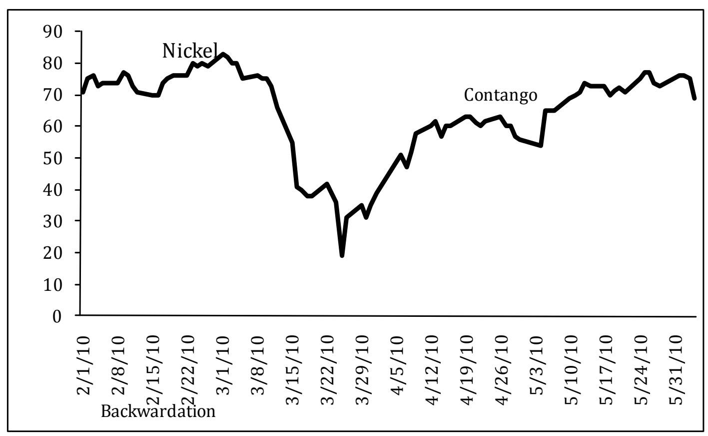
## BASIS CHARTS

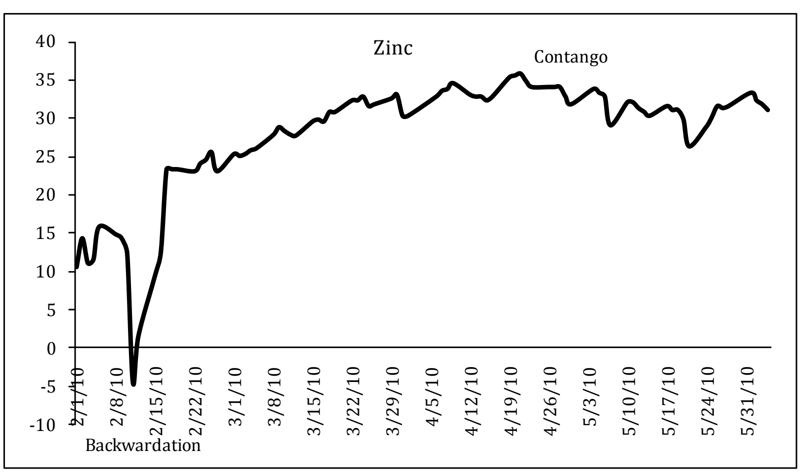
***Backwardation*** is a market where spot prices exceed future prices while ***Contango*** is the opposite, where future prices exceed spot prices. We have, here, considered ***LME Cash prices*** and **LME 3-month forward** contract. Contango seems to be an obvious condition in the market as future prices tend to be higher because of cost-of-carry involved. The scale is: $/tonne.

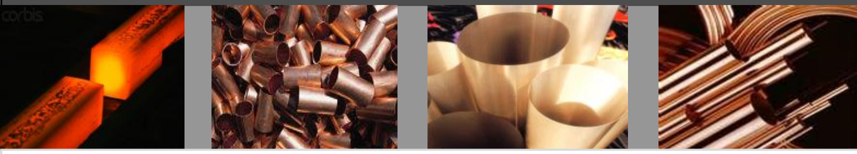






## COMEX MARKET PERFORMANCE

| PRICES (USD/LB) | | | | |
|---|---|---|---|---|
| Commodity | Previous Week | This Week | Change | % Change |
| Copper | 309.7 | 281.95 | -27.75 | -8.96% |

| WAREHOUSE STOCKS (In tonnes) | | | | |
|---|---|---|---|---|
| Commodity | Previous week | This week | Change | % Change |
| Copper | 101632 | 102110 | 478 | 0.47% |

## Commodity Futures Trading Commission (CFTC) Report- Copper

***According to the US CFTC data,*** the market's movement was higher last week, while we saw heavy fall in the long and short positions in Non-commercials sector. The overall spread in non-commercial sector fell by 5.66% to 17,932 positions from the prior 19,007. However, in the commercial sector, long positions rise by 0.74% while short positions rose by 3.78%. Among the total group, the long positions fell by 0.35% while the short positions rose by 0.24%. The market is expecting high volatility as the change in long and short is almost equated. This suggests that investors try to buy and hold for very short duration owing to high volatility in the market.

| CFTC Report - Copper (In contracts) | | | | |
|---|---|---|---|---|
| Non-Commercial | 5/25/2010 | 6/1/2010 | Change | % Change |
| Long | 32592 | 32767 | 175 | 0.54% |
| Short | 28609 | 27456 | -1153 | -4.03% |
| Spreading | 19007 | 17932 | -1075 | -5.66% |
| Commercial | | | | |
| Long | 65569 | 66056 | 487 | 0.74% |
| Short | 66089 | 68590 | 2501 | 3.78% |
| Total | | | | |
| Long | 117168 | 116755 | -413 | -0.35% |
| Short | 113705 | 113978 | 273 | 0.24% |

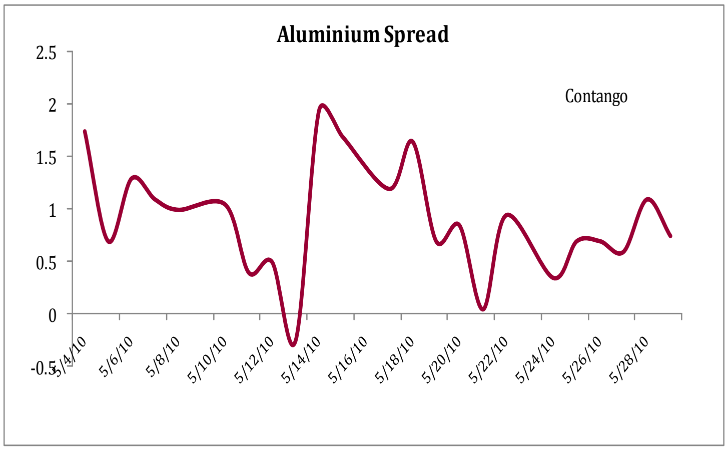
## SHANGHAI MARKET PERFORMANCE

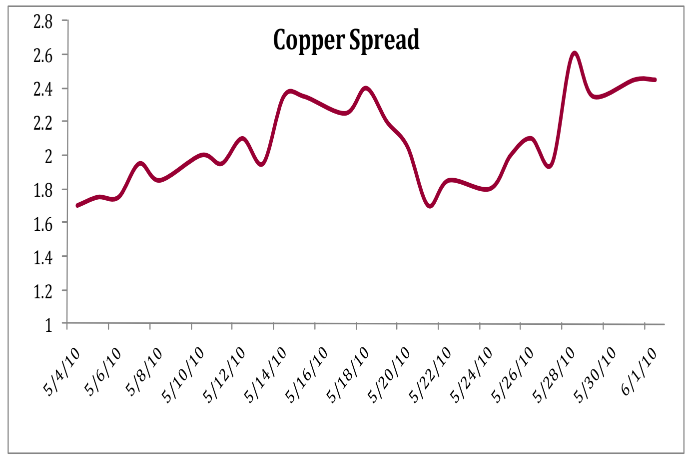
| PRICES (CNY/MT) | | | | |
|---|---|---|---|---|
| Commodity | Previous Week | This Week | Change | % Change |
| Copper | 55720 | 56210 | 490 | 0.88% |
| Zinc | 15705 | 17995 | 2290 | 14.58% |
| Aluminum | 15105 | 16515 | 1410 | 9.33% |

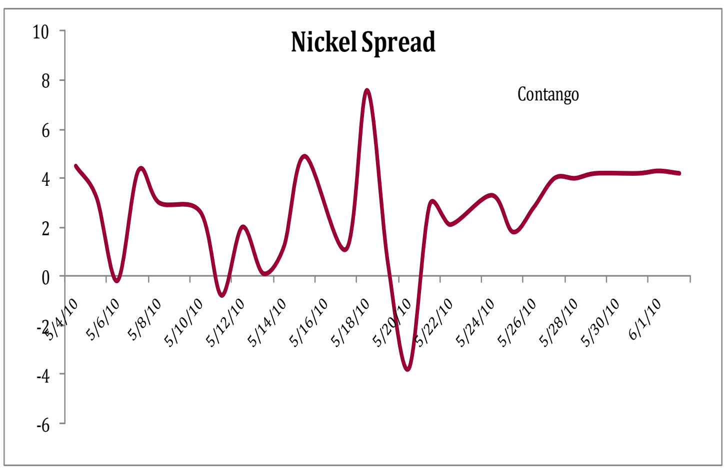
| WAREHOUSE STOCKS (In tonnes) | | | | |
|---|---|---|---|---|
| Commodity | Previous week | This week | Change | % Change |
| Copper | 157698 | 152724 | -4974 | -3.15% |
| Zinc | 295234 | 295454 | 220 | 0.07% |
| Aluminium | 494688 | 496240 | 1552 | 0.31% |

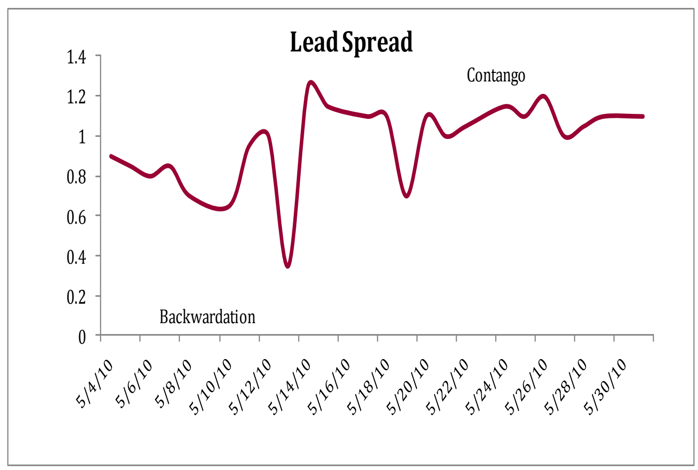
# CALENDAR SPREAD

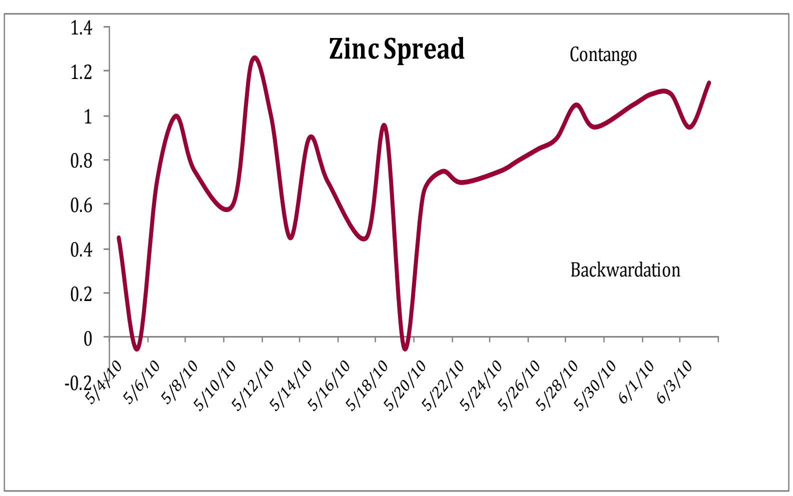
**Calendar Spreads** is the difference between the two futures contracts, far-month-contract and near-month-contract. For Copper, we have considered June '10 and August '10 at MCX while for other 4 metals, June'10 and July'10 contracts at MCX have been taken into account for calculating calendar spreads.

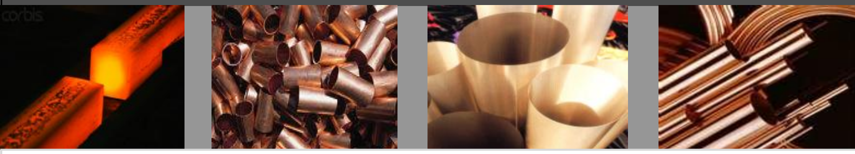


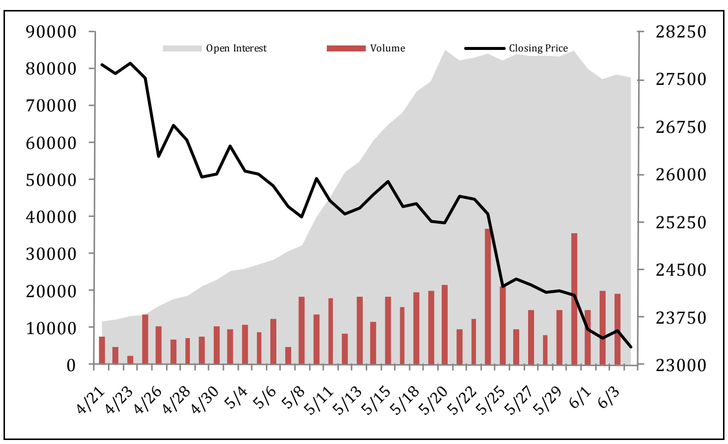





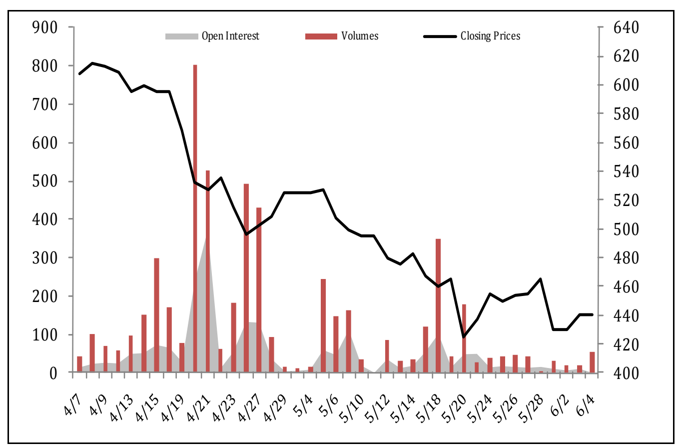
## STEEL

| Commodity | Contracts | Open | High | Low | Close | Close % Change | Volume | Volume % Change | Open Interest | Open Interest % Change |
|---|---|---|---|---|---|---|---|---|---|---|
| Steel NCDEX (Rs/tonnes) | June | 24200 | 24370 | 22710 | 23290 | -3.64% | 104490 | 1.22% | 77620 | -6.84% |
| | July | 24700 | 24760 | 23300 | 23700 | -3.62% | 35030 | 93.11% | 21030 | 74.23% |
| | August | 25000 | 25150 | 23350 | 24120 | -3.40% | 2280 | 6.05% | 1780 | 66.36% |

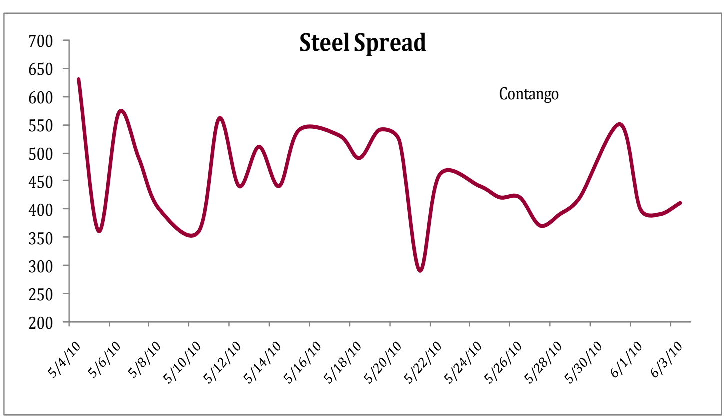
- The active steel June futures contract continued their sell-off for the previous week as well due to lackluster demand and upcoming monsoon season. Prices lost 3.64% to settle at Rs.23,290/tonnes
- The steel prices may soften in June as the demand is weakening due to the cyclical monsoons. Moreover, with looming worries in the global economy, steel prices across the world, especially Europe, has started to ease—effects seen in the domestic front as well
- Steel secretary Atul Chaturvedi said, "Prices of steel are likely to come down in June due to softening demand in the international market, mainly due to European crisis. The onset of the monsoon will also have its impact on the prices as construction activity slows down during this period"
- The markets are weighed down by the poor sales of finished steel products in India and abroad. Despite reduction in prices on a frequent basis the sales of finished steel are dreary
- ***Week ahead we expect Steel Long NCDEX prices to move in range of Rs.22,500-24,000/tonnes bias is on downside***



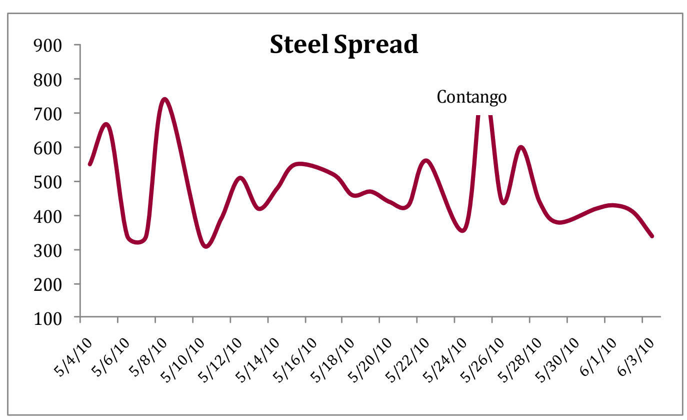

NCDEX- Steel Long PVO chart




LME- 3-month Forwards Steel Billets




NCDEX Steel (July- June Calendar Spread)




NCDEX Steel (August- July Calendar Spread)

## DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

| Date Time | Region | Event | Period | Survey | Prior |
|---|---|---|---|---|---|
| 06/07/2010 15:30 | GE | Factory Orders MoM (sa) | APR | -0.40% | 5.00% |
| 06/08/2010 00:30 | US | Consumer Credit | APR | -$2.0B | $2.0B |
| 06/08/2010 11:30 | GE | Trade Balance | APR | 15.0B | 17.2B |
| 06/08/2010 11:30 | GE | Imports SA (MoM) | APR | -3.00% | 11.00% |
| 06/08/2010 11:30 | GE | Exports SA (MoM) | APR | -2.00% | 10.70% |
| 06/08/2010 15:30 | GE | Industrial Production MoM (sa) | APR | 0.70% | 4.00% |
| 06/08/2010 15:30 | GE | Industrial Prod. YoY (nsa wda) | APR | 12.40% | 8.60% |
| 06/09/2010 02:30 | US | ABC Consumer Confidence | 6-Jun | - - | -44 |
| 06/09/2010 19:30 | US | Wholesale Inventories | APR | 0.50% | 0.40% |
| 06/10/2010 | CH | Trade Balance (USD) | MAY | $8.20B | $1.68B |
| 06/10/2010 | CH | Exports YoY% | MAY | 32.00% | 30.50% |
| 06/10/2010 | CH | Imports YoY% | MAY | 44.40% | 49.70% |
| 06/10/2010 11:30 | GE | Consumer Price Index (MoM) | MAY F | 0.10% | 0.10% |
| 06/10/2010 12:00 | IN | Primary Articles WPI YoY | 29-May | - - | 16.89% |
| 06/10/2010 12:00 | IN | Fuel Power Light WPI YoY | 29-May | - - | 14.14% |
| 06/10/2010 17:15 | EC | ECB Announces Interest Rates | 10-Jun | 1.00% | 1.00% |
| 06/10/2010 18:00 | US | Trade Balance | APR | -$41.0B | -$40.4B |
| 06/10/2010 18:00 | US | Initial Jobless Claims | 5-Jun | 448K | 453K |
| 06/10/2010 18:00 | US | Continuing Claims | 29-May | 4620K | 4666K |
| 06/10/2010 23:30 | US | Monthly Budget Statement | MAY | -$140.0B | - - |
| 06/11/2010 07:30 | CH | Producer Price Index (YoY) | MAY | 6.70% | 6.80% |
| 06/11/2010 07:30 | CH | Consumer Price Index (YoY) | MAY | 3.00% | 2.80% |
| 06/11/2010 07:30 | CH | Retail Sales (YoY) | MAY | 18.60% | 18.50% |
| 06/11/2010 07:30 | CH | Industrial Production (YoY) | MAY | 17.00% | 17.80% |
| 06/11/2010 | IN | Industrial Production YoY | APR | - - | 13.50% |
| 06/11/2010 18:00 | US | Advance Retail Sales | MAY | 0.20% | 0.40% |
| 06/11/2010 19:25 | US | U. of Michigan Confidence | JUN P | 74.6 | 73.6 |
| 06/11/2010 19:30 | US | Business Inventories | APR | 0.50% | 0.40% |

**Prepared By:**

| | | |
|---|---|---|
| **Vinita Goyal** | Fundamental Analyst | vinita.goyal@karvy.com |
| **Vinod** | Technical Analyst | vinodtp@karvy.com |

To unsubscribe please mail us at **commodity@karvy.coms**