



METALS WEEKLY

A Weekly Report on Base Metals



OUTLOOK

In the last week, strong price appreciation, was not supported by higher volumes. On a week-on-week both volumes and open interest have declined on LME. So there might be consolidation initially which might negate this impact and then prices may move higher. Trade surplus of China is also expected to decline indicating strong import growth on the back of strong domestic demand. Industrial production in Germany, UK and India is expected to improve and may support prices to move higher.

TECHNICAL RECOMMENDATIONS									
Commodity	Contract	S3	S2	S1	CLOSE	R1	R2	R3	Recommendations
LME Copper	3M-Fwd	7020	7220	7500	7646	7800	8040	8150	Buy 7530-7550 TP 7850 SL 7340
MCX Copper	Nov-10	333	344	350	359.15	365	372	387	Buy 351-353 TP 365 SL 344
LME Lead	3M-Fwd	1950	2040	2100	2168	2250	2295	2400	Buy 2110 TP 2247 SL 2010
MCX Lead	Sep-10	90.50	93.40	97.50	101.45	105	109	112	Buy 97-98.50 TP 105-107 SL 94.50
LME Nickel	3M-Fwd	20208	20520	20990	21600	22100	22450	22700	Sideways
MCX Nickel	Sep-10	940	969	988	1019.70	1037	1062	1088	Buy at 1000-1005 TP 1040 SL 976
LME Aluminum	3M-Fwd	2010	2085	2120	2147	2220	2270	2330	Buy 2130 TP 2220 SL 2080
MCX Aluminum	Sep-10	92.75	95.00	97.00	100	104	106.50	109	Buy 99 TP 103.50 SL 96.80
LME Zinc	3M-Fwd	1951	2040	2100	2151	2220	2310	2372	Sideways
MCX Zinc	Sep-10	90.50	94.40	97.30	100.55	103.50	105.80	108.00	Sideways

*NOTE: The calls shown above are purely WEEKLY Recommendations

Key Economic Events this Week

Date Time	Region	Event	Period	Survey	Prior
09/07/2010 15:30	GE	Factory Orders MoM (sa)	JUL	0.50%	3.20%
09/08/2010 11:30	GE	Current Account (EURO)	JUL	11.5B	12.9B
09/08/2010 15:30	GE	Industrial Production MoM (sa)	JUL	1.00%	-0.60%
09/09/2010 09:30	IN	India Local Car Sales	AUG	--	158764
09/09/2010 18:00	US	Trade Balance	JUL	-\$47.0B	-\$49.9B
09/09/2010 18:00	US	Initial Jobless Claims	4-Sep	470K	472K
09/10/2010	CH	Trade Balance (USD)	AUG	\$26.80B	\$28.73B
09/10/2010	IN	Industrial Production YoY	JUL	7.80%	7.10%
09/10/2010 19:30	US	Wholesale Inventories	JUL	0.40%	0.10%

For all the data releases; go to *last page of the report*



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PERFORMANCE SNAPSHOT

Exchange	Commodity	Open	High	Low	Close	Close % Change	Volume	Volume % Change	Open Interest	OI % Change
LME 3-mth Forward (USD/tonne)	Copper	7475	7750	7360	7646	2.51	125,448	-38.04	1,304	-64.48
	Zinc	2090	2194	2060	2151	2.67	55,500	-39.10	1,653	-71.61
	Lead	2085	2196	2044	2168	3.73	21,830	-30.07	984	-31.19
	Nickel	21050	22125	20605	21600	2.61	21,751	-39.41	656	-58.79
	Aluminium	2056	2176.75	2035	2147	4.32	90,382	-35.22	3,634	-43.33
MCX Futures (₹/Kg)	Copper	351.2	362.5	346.8	359.55	2.54	463,032	-20.37	39,375	69.04
	Zinc	97.5	102.2	95.45	100.4	3.03	117,323	-8.50	4,855	16.62
	Lead	97.05	101.9	94.65	101.2	3.79	79,602	-21.32	3,517	16.11
	Nickel	996	1033.7	967	1017.4	2.30	276,284	-16.63	11,691	19.28
	Aluminium	96.4	101.05	95	100	3.79	32,494	-8.01	2,674	26.19

MARKET OVERVIEW

- Base metals moved strongly higher on the back of positive economic data from US and China. Strong equity markets also boosted optimism and supported prices to move higher.
- Aluminium was the top gainer as it continued to witness decline in inventories and increase in contango on LME also supported higher prices. Nickel continued to underperform as it was the only base metal to witness increase in inventories for second consecutive week
- Copper inventories witnessed draw-downs in LME, Shanghai and COMEX warehouses, indicating strong physical demand for the metal
- After witnessing correction in the last week, major equity markets across the globe ended higher with gains of anywhere between one to four percent

SHANGHAI MARKET PERFORMANCE

PRICES (CNY/MT)				
Commodity	Previous Week	This Week	Change	% Change
Copper	57710	59770	2060	3.57%
Zinc	16705	17375	670	4.01%
Aluminum	15150	15350	200	1.32%

COMEX MARKET PERFORMANCE

PRICES (USD/LB)				
Commodity	Previous Week	This Week	Change	% Change
Copper	336.4	349.35	12.95	3.85%



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Commodity Futures Trading Commission (CFTC) Report- Copper

According to the US CFTC data of copper, non-commercial side of the market witnessed increase in long positions and unwinding of short positions, both supporting prices to move higher. However on the commercial side, companies' unwound positions as preference for taking money off the table increased in an uncertain economic environment. Overall, unwinding from both long and short side was witnessed in the last week of the August.

CFTC Report - Copper (In contracts)				
Non-Commercial	8/24/2010	8/31/2010	Change	% Change
Long	36304	39392	3088	8.51%
Short	26890	26162	-728	-2.71%
Spreading	18981	17512	-1469	-7.74%
Commercial				
Long	72217	64771	-7446	-10.31%
Short	76927	75360	-1567	-2.04%
Total				
Long	127502	121675	-5827	-4.57%
Short	122798	119034	-3764	-3.07%

INVENTORY DETAILS

LME WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	400100	397675	-2425	-0.61%
Zinc	623100	622150	-950	-0.15%
Aluminium	4445600	4426825	-18775	-0.42%
Lead	192150	191400	-750	-0.39%
Nickel	118860	120354	1494	1.26%

COMEX WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	99490	95046	-4444	-4.47%

SHANGHAI WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	110582	105917	-4665	-4.22%
Zinc	231568	236040	4472	1.93%
Aluminium	490765	490589	-176	-0.04%



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ECONOMIC INDICATORS REVIEW

- On the economic data front, US personal spending rose after remaining stable in the prior month. This was also supported by improving consumer confidence
- Unemployment rate in the Euro-zone remain unchanged whereas in US the non-farm payrolls declined and pushed the unemployment rate to 9.6% from 9.5%
- Dollar index lost one percent, despite slew of positive economic data from US. This was largely because of preference for risky assets and movement away from safe-haven assets. Currencies like Dollar and Yen are considered as safe haven

Equity Indices	Last Week	This Week	% Change
Dow Jones Ind. Avg.	10150.65	10447.93	2.93%
S&P 500 Index	1064.59	1104.51	3.75%
FTSE 100 Index	5201.56	5428.15	4.36%
Nikkei 225	8991.06	9114.13	1.37%
Shanghai Composite	2610.74	2655.39	1.71%
Sensex	17998.41	18221.43	1.24%

Currency	Last Week	This Week	% Change
Dollar Index	82.918	82.015	-1.09%
EUR/USD	1.2763	1.2896	1.04%
GBP/USD	1.5529	1.5452	-0.50%
USD/INR	46.8875	46.64	-0.53%

OUTLOOK

- Base metal witnessed strong price appreciation, but this is not supported by higher volumes. On a week-on-week basis volumes have declined by an average 30-40% on LME. Open interest have also declined anywhere between 30-70%. All this indicates that the rally was on the back of short covering and the participation on the move upwards has been less
- Market participants were expecting most of the economic data to turn negative last week, given the state of economic conditions especially in US. However the data turned out to be better than expected supporting the view expressed by Fed Chairman that the economy is set to grow in the second half of 2010
- On the economic data front, they are very few data releases lined up this week with the major being industrial production data from Germany, India and UK. Industrial activity in all the three regions is expected to improve
- In US, initial jobless claims are expected to decline and trade deficit may improve after touching \$49 billion in the prior month, the highest since October 2008. On the other hand, China's trade surplus might decline as imports growth remain higher owing to strong domestic demand
- Overall, we at KCTL, expect the base metals to consolidate their gains initially and then move higher and so advice buying at lower levels



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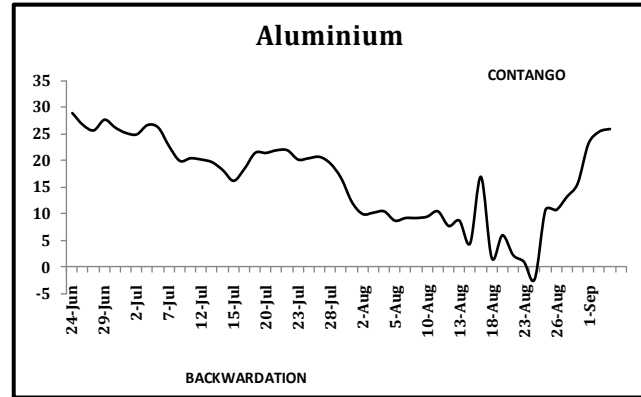


ALUMINIUM

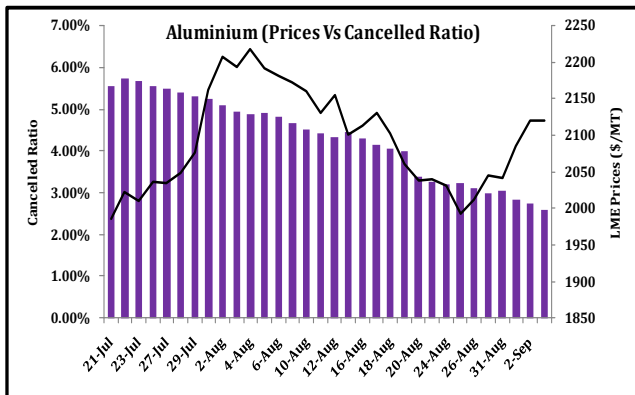
United Rusal, World's largest aluminium producer in the first half of 2010, company's output of alumina, semi finished material used to make the aluminum, fell 1% to 3.7 million tonnes and the output of primary aluminium rose 1% to 2 million tonnes. The company expects that the imports of China will increase as most of the domestic production is unprofitable owing to rising wages and increasing power tariff.

BASIS CHART

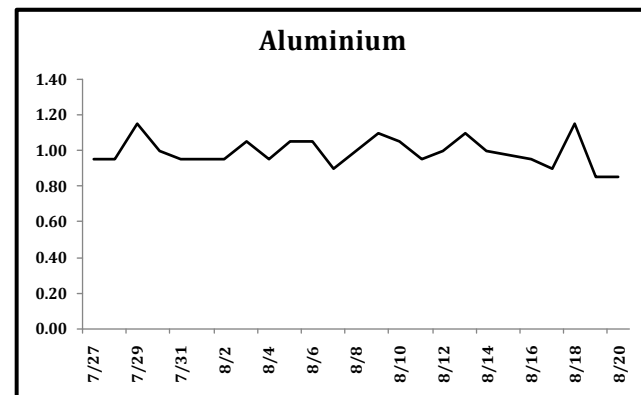
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



CANCELLED WARRANT RATIO ON LME



CALENDAR SPREAD ON MCX





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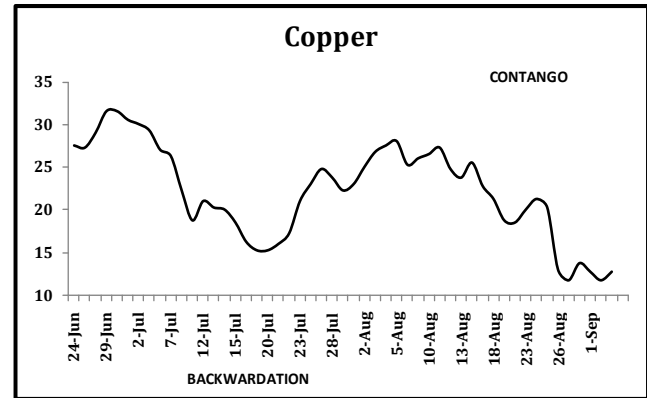


COPPER

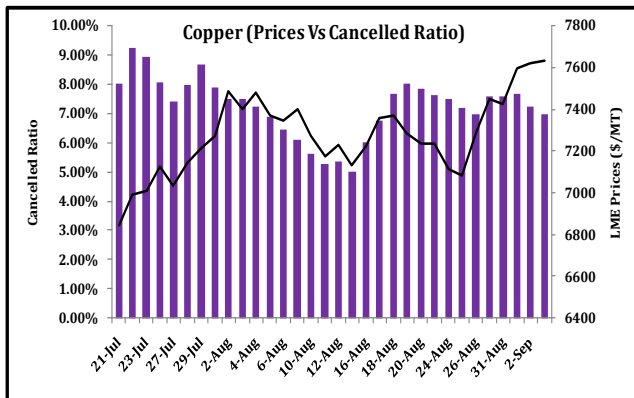
Chile, the world's largest copper producing nation, witnessed its output rise by 6.3% to 454,178 tonnes from a year earlier. This is after drop of 0.60% witnessed in June. However, going forward production from Escondida in Chile, World's largest mine, may drop nearly 10% next year owing to lower ore grades, as reported by BHP Billiton.

BASIS CHART

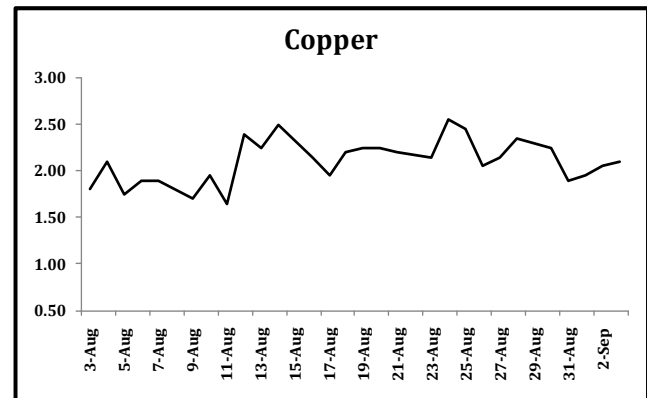
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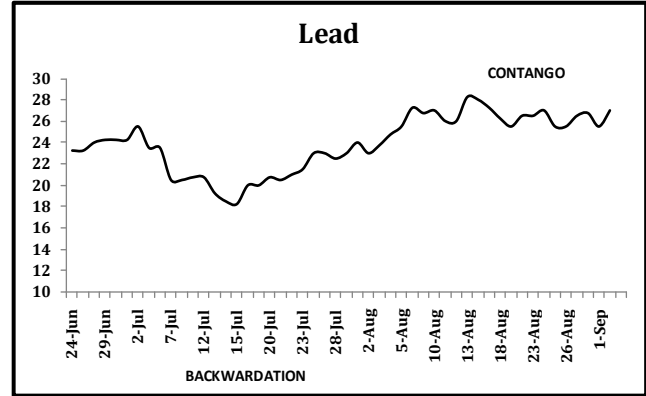
LEAD

China, World's largest car market, reported a robust 60% increase in automobile sales for the month of August. This is in sharp contrast to growth of around 15% witnessed in July.

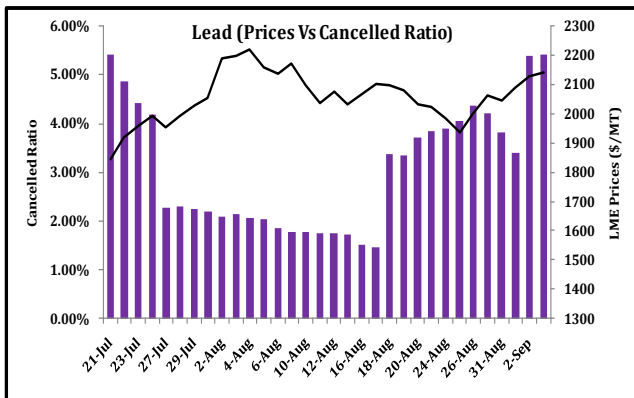
In the developed nations like US, France and Spain, the demand is subdued owing to tough economic conditions and expiry of incentives which has boosted sales previously.

BASIS CHART

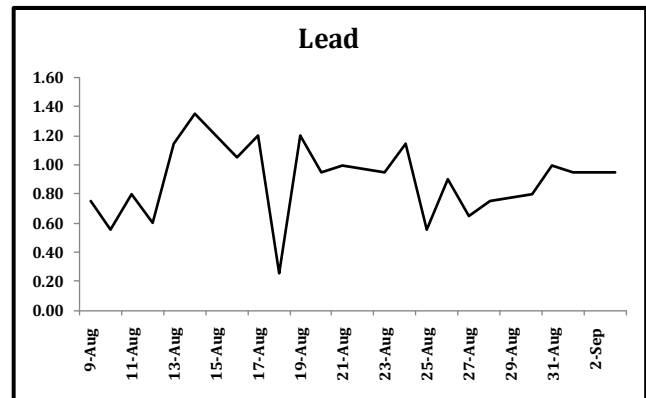
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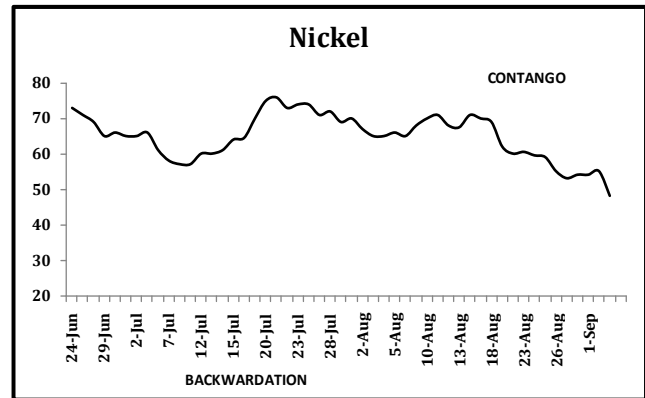


NICKEL

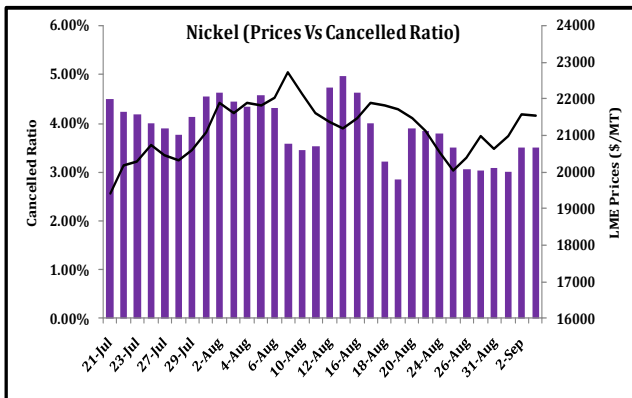
Nickel export duty has been proposed by Russia's economy ministry. The duty will remove excess profit if the price is above \$15,000 - \$17,000 per tonne. However the exact formula is yet to be finalized. Earlier Russian PM has called for a review of export duty so that metal prices are more linked to the global prices. World's largest Nickel producer Norilsk Nickel is based in Russia.

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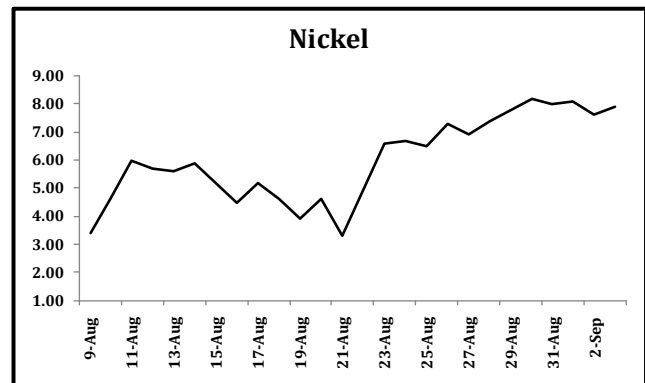
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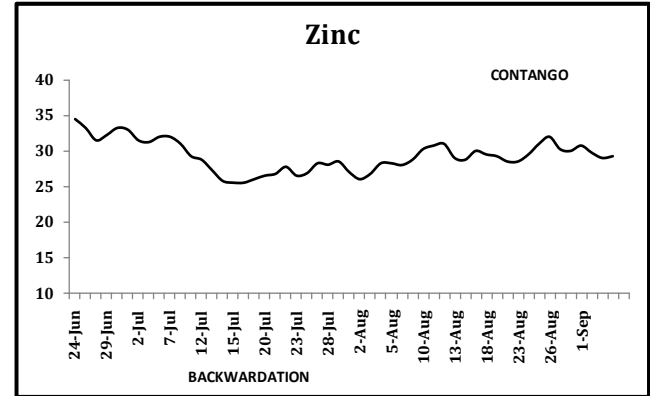


ZINC

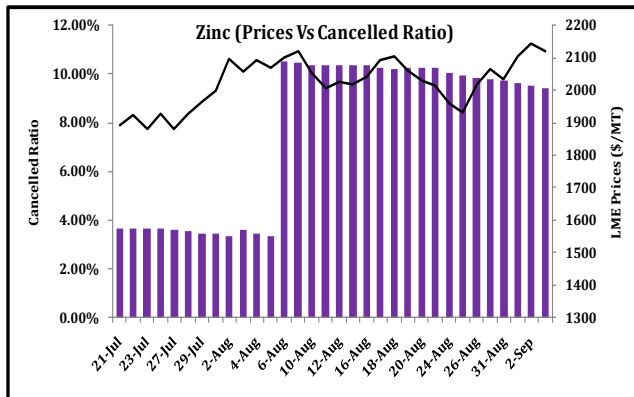
In the month of July, Zinc refined exports of Japan fell by 20% to 7,580 tonnes. This is the seventh straight month of decline. However Mitsui Mining & Smelting Co, Japan's biggest refined zinc producer, is planning to shut its smelter for about 20 days from start of October owing to maintenance of plant. The company plans to produce 114,200 tonnes till September 2010.

BASIS CHART

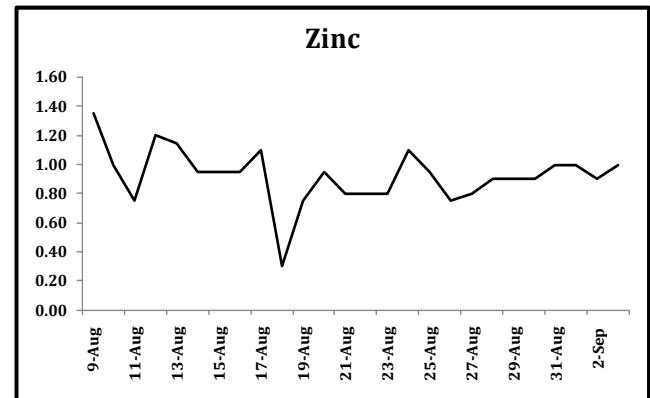
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DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date	Time	Region	Event	Period	Survey	Prior
09/07/2010	15:30	GE	Factory Orders MoM (sa)	JUL	0.50%	3.20%
09/08/2010	11:30	GE	Trade Balance	JUL	13.0B	14.1B
09/08/2010	11:30	GE	Imports SA (MoM)	JUL	0.10%	1.90%
09/08/2010	11:30	GE	Current Account (EURO)	JUL	11.5B	12.9B
09/08/2010	11:30	GE	Exports SA (MoM)	JUL	0.00%	3.80%
09/08/2010	14:00	UK	Industrial Production (MoM)	JUL	0.40%	-0.50%
09/08/2010	15:30	GE	Industrial Production MoM (sa)	JUL	1.00%	-0.60%
09/08/2010	23:30	US	Fed's Beige Book	23-Apr		
09/09/2010	09:30	IN	India Local Car Sales	AUG	--	158764
09/09/2010	11:30	GE	Consumer Price Index (MoM)	AUG F	0.00%	0.00%
09/09/2010	11:30	GE	CPI - EU Harmonized (MoM)	AUG F	0.00%	0.00%
09/09/2010	12:00	IN	Fuel Power Light WPI YoY	28-Aug	--	12.71%
09/09/2010	12:00	IN	Food Articles WPI YoY	28-Aug	--	10.86%
09/09/2010	14:00	UK	Total Trade Balance (GBP/Mln)	JUL	£3300	£3260
09/09/2010	18:00	US	Trade Balance	JUL	-\$47.0B	-\$49.9B
09/09/2010	18:00	US	Initial Jobless Claims	4-Sep	470K	472K
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09/10/2010		CH	Exports YoY%	AUG	34.50%	38.10%
09/10/2010		CH	Imports YoY%	AUG	27.00%	22.70%
09/10/2010	19:30	US	Wholesale Inventories	JUL	0.40%	0.10%

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