



# METALS WEEKLY

A Weekly Report on Base Metals



## OUTLOOK

GDP growth data for the third quarter from China will be released and the expectation is that the growth will moderate to 9.5 percent. However, market seems to have already discounted the fact that the Chinese growth will moderate and any positive surprise on higher side might in fact fuel rally. Other data releases in the form of industrial production and retail sales are expected to continue growing at prior levels. From US, industrial production data and building permits are expected to come in higher while the housing starts are expected to decline. Building permits indicates the probable future demand and thereby might support prices.

Divergent movements in the equity markets are being witnessed. This is not new and some markets will continue to outperform the other but in past couple of weeks the direction itself is changing with one market higher by nine percent where as the other lower by a percent. This might not be sustainable in the short run however in long run this is bound to happen. Overall, the bias still remains on the positive side, given the expectation of positive economic data. However the divergence in the equity markets and the mixed market internals of the base metals will remain an area of concern.

TECHNICAL RECOMMENDATIONS									
Commodity	Contract	S3	S2	S1	CLOSE	R1	R2	R3	Recommendations
<a href="#">LME Aluminum</a>	3M-Fwd	2261	2317	2346	2375	2431	2488	2517	<b>Sideways</b>
MCX Aluminum	Oct-10	99.70	102.0	103.4	104.8	107.1	109.4	110.8	<b>Sideways</b>
<a href="#">LME Copper</a>	3M-Fwd	7896	8031	8221	8412	8546	8681	8871	<b>Buy at 8400-20 TP 8520/8680 SL 8225</b>
MCX Copper	Nov-10	359.3	363.3	369.4	375.6	379.5	383.5	389.6	<b>Buy at 373-374 TP 377/84 SL 370</b>
COMEX Copper	Oct-10	359.9	365.8	374.9	383.9	389.9	395.8	404.9	<b>Buy at 380-81 TP 394 SL 371</b>
<a href="#">LME Lead</a>	3M-Fwd	2092	2181	2295	2409	2498	2587	2700	<b>Buy at 2380-90 TP 2470/2530 SL 2320</b>
MCX Lead	Oct-10	95.20	98.3	102.2	106.15	109.2	112.3	116.2	<b>Buy at 104.5-105 TP 108/110 SL 102</b>
<a href="#">LME Nickel</a>	3M-Fwd	22360	23020	23465	23910	24570	25230	25675	<b>Sideways</b>
MCX Nickel	Oct-10	1004.1	1030.8	1048.0	1065.2	1091.9	1118.6	1135.8	<b>Sideways</b>
<a href="#">LME Zinc</a>	3M-Fwd	2146	2216	2312	2408	2478	2547	2643	<b>Buy at 2375-85 TP 2460/2505 SL 2320</b>
MCX Zinc	Oct-10	96.98	99.3	102.6	106.0	108.3	110.6	113.9	<b>Buy at 104-105 TP 108/111 SL 102</b>
Steel Long NCDEX	Nov-10	24583	24667	24733	24800	24883	24967	25033	<b>Sideways</b>

\*NOTE: The calls shown above are purely WEEKLY Recommendations

## Key Economic Events this Week

Date Time	Region	Event	Period	Survey	Prior
18/10/2010 18:45	US	Industrial Production	SEP	0.20%	0.20%
19/10/2010 18:00	US	Housing Starts	SEP	580K	598K
19/10/2010 18:00	US	Building Permits	SEP	575K	569K
21/10/2010 07:30	CH	Real GDP YoY	3Q	9.50%	10.30%
21/10/2010 07:30	CH	Industrial Production (YoY)	SEP	14.00%	13.90%
21/10/2010 07:30	CH	Fixed Assets Inv Urban YTD YoY	SEP	24.60%	24.80%
21/10/2010 19:30	US	Philadelphia Fed.	OCT	1.8	-0.7

For all the data releases; [click here](#)



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A Weekly Report on Base Metals



## PERFORMANCE SNAPSHOT

Exchange	Commodity	Open	High	Low	Close	Close % Change	Volume	Volume % Change	Open Interest	OI % Change
LME 3-mth Forward (USD/tonne)	Aluminium	2425	2459	2373.75	2377	-1.78	131,907	-16.32	7,349	21.71
	Copper	8330	8490	8165	8400	1.08	152,868	-19.28	1,886	-56.60
	Lead	2284.75	2473	2270.25	2425	6.73	35,227	-18.43	1,498	-25.84
	Nickel	24400	24785	23680	24040	-1.48	23,932	-26.02	526	-33.50
	Zinc	2288	2451	2285.25	2423	5.81	67,794	-2.73	1,458	-28.25
MCX Futures (₹/Kg)	Aluminium	106.75	107.95	104.3	104.5	-2.11	44,184	6.20	3,403	4.13
	Copper	370	377.3	367.2	374.8	1.38	476,105	-9.21	36,767	6.59
	Lead	101.3	108.25	101.25	105.8	4.65	111,256	0.80	3,218	-37.86
	Nickel	1089	1101.4	1057.5	1063.9	-2.13	296,526	-2.03	16,730	65.51
	Zinc	101.55	107.15	101.55	105.75	4.39	148,015	0.93	4,698	-28.89

## MARKET OVERVIEW

- Most of the base metal prices ended higher on the back of weakness in the dollar index and better than expected data like Japan's machinery orders and improving business confidence index
- LME Inventory changes seem to be driving the underperformer and outperformer among the base metal pack. Last week's underperformer, lead, outperformed this week, as inventory on LME witnessed u-turn and declined. Nickel underperformed this week, as inventory increased as against decline in the previous week
- Equity markets performance remained mixed with Indian and Japanese markets witnessing profit booking whereas Shanghai-Chinese market outperformed and clocked in gains of more than 8 percent. This was on the back of better than expected economic data and buying support after a long holiday in the domestic market. Other equity markets, however, largely consolidated

## SHANGHAI MARKET PERFORMANCE

PRICES (CNY/MT)				
Commodity	Previous Week	This Week	Change	% Change
Copper	60700	62970	2270	3.74%
Zinc	17775	18885	1110	6.24%
Aluminum	15670	16035	365	2.33%

## COMEX MARKET PERFORMANCE

PRICES (USD/LB)				
Commodity	Previous Week	This Week	Change	% Change
Copper	376.65	383.45	6.8	1.81%



# METALS WEEKLY

A Weekly Report on Base Metals



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

According to the US CFTC data of copper, on the non-commercial side, shorts increased by higher amount than longs, similar was the situation on the commercial side as well indicating bias on the lower side. However this data is only till Oct 12, 2010 and thereby give the higher price movement in the past 4 day's might have fuelled short covering. Overall, both the long and short positions increased however shorts outpaced the longs.

CFTC Report - Copper (In contracts)				
Non-Commercial	10/5/2010	10/12/2010	Change	% Change
Long	51583	52794	1211	2.35%
Short	27184	28726	1542	5.67%
Spreading	17496	18559	1063	6.08%
Commercial				
Long	67855	70002	2147	3.16%
Short	94481	97325	2844	3.01%
Total				
Long	136934	141355	4421	3.23%
Short	139161	144610	5449	3.92%

## INVENTORY DETAILS

LME WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	372000	371025	-975	-0.26%
Zinc	611725	608250	-3475	-0.57%
Aluminium	4331600	4313975	-17625	-0.41%
Lead	198400	197700	-700	-0.35%
Nickel	123222	124056	834	0.68%

COMEX WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	82702	78424	-4278	-5.17%

SHANGHAI WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	94174	103510	9336	9.91%
Zinc	258934	282406	23472	9.06%
Aluminium	488790	488638	-152	-0.03%



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## ECONOMIC INDICATORS REVIEW

- In India, industrial production in the month of August grew at a modest 5.60 percent as against growth of more than 15 percent witnessed in the prior month. The data however is being very volatile in the past few months and thereby it would be very difficult to draw any conclusion looking at one month's data. The WPI inflation also came in higher at 8.6 percent and is indicating continued upward pressure on prices
- China's trade surplus declined as a result of moderating growth in both exports and imports. However the foreign exchange reserves rose to a new high and thereby might lead to a continued pressure on currency appreciation. Property prices in the domestic market continue to move higher and thereby alleviated fears of significant fall in prices which might impact the banking sector, leading to a rally in its domestic market

Equity Indices	Last Week	This Week	% Change
Dow Jones Ind. Avg.	11006.48	11062.78	0.51%
S&P 500 Index	1165.15	1176.19	0.95%
FTSE 100 Index	5657.61	5703.37	0.81%
Nikkie 225	9588.88	9500.25	-0.92%
Shanghai Composite	2738.74	2971.16	8.49%
Sensex	20250.26	20125.05	-0.62%

Currency	Last Week	This Week	% Change
Dollar Index	77.325	77.041	-0.37%
EUR/USD	1.3939	1.3977	0.27%
GBP/USD	1.596	1.5992	0.20%
USD/INR	44.435	44.105	-0.74%

## OUTLOOK

- GDP growth data for the third quarter from China will be released and the expectation is that the growth will moderate to 9.5 percent. However, market seems to have already discounted the fact that the Chinese growth will moderate and any positive surprise on higher side might in fact fuel rally in the base metal prices. Other data releases in the form of industrial production and retail sales are expected to continue growing at prior levels
- From US, industrial production data and building permits are expected to come in higher while the housing starts are expected to decline. Building permits, indicates the probable future demand and thereby might support prices
- Market internals for all base metals are mixed and thereby the divergent performance might continue. This along with LME inventory may continue to decide the outperformance and thereby aluminium might continue to underperform
- Divergent movements in the equity markets are also being witnessed. This is not new and some markets will continue to outperform the other but in past couple of weeks the direction itself is changing with one market higher by nine percent where as the other lower by a percent. This might not be sustainable in the short run however in long run this is bound to happen
- Overall, the bias still remains on the positive side, given the expectation of positive economic data. However the divergence in the equity markets and the mixed market internals of the base metals will remain an area of concern



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A Weekly Report on Base Metals



## ALUMINIUM

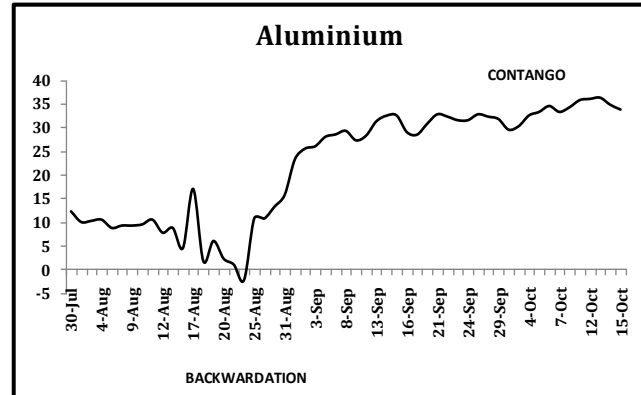
In the third quarter CY10, Vedanta's ramped up production resulted in output growing by 35 percent to 162,000 tonnes at its Jharsuguda smelter.

Inventory on LME is now been declining for eighth consecutive weeks. However the cancelled ratio is also slowly inching downwards and thereby might become an area of concern.

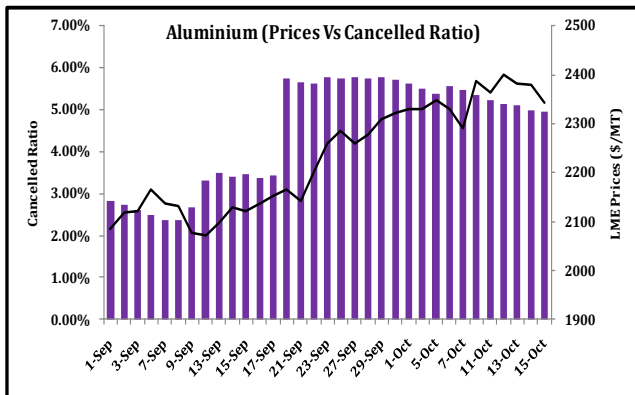
As per the market internals, on a weekly basis prices fell where as open interest increased (on both LME and MCX) thereby indicating short positions and this might lead to continued underperformance of Aluminium in the coming week as well.

## BASIS CHART

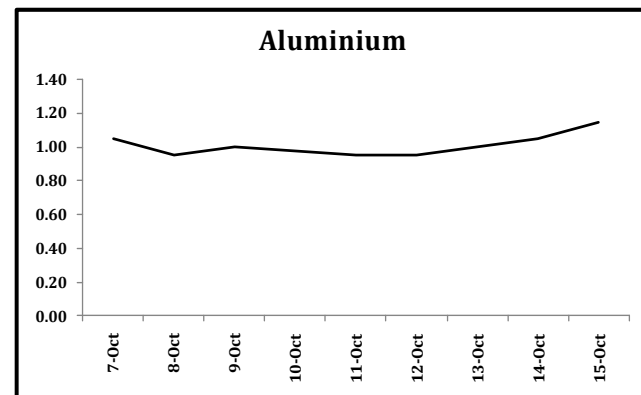
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



## CANCELLED WARRANT RATIO ON LME



## CALENDAR SPREAD ON MCX





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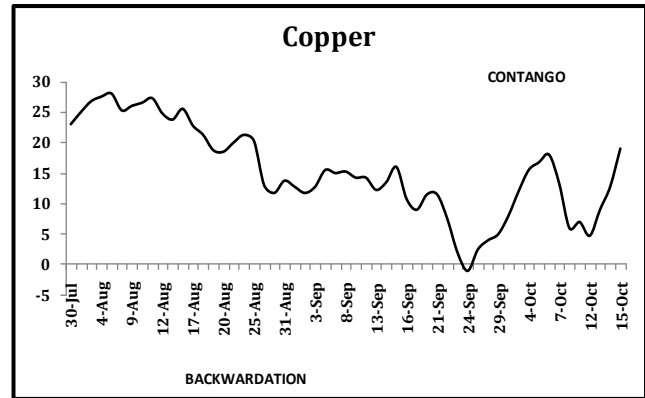
## COPPER

Reports indicated that some factories in China have been forced copper output to the extent of 40 percent as the government continue with its drive to curb energy consumption. The user industries of metal like the makers of pipes and wires have been asked to cut power usage to the extent of 60 percent.

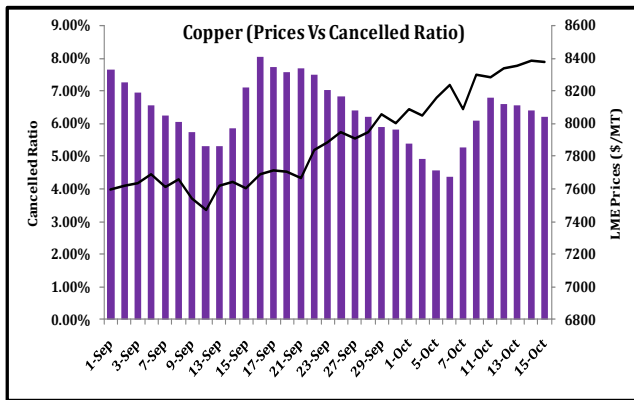
Rio Tinto, world's third largest mining company, reported 19 percent decline in copper output to 159,700. The fall in mined output was largely owing to falling ore grades.

## BASIS CHART

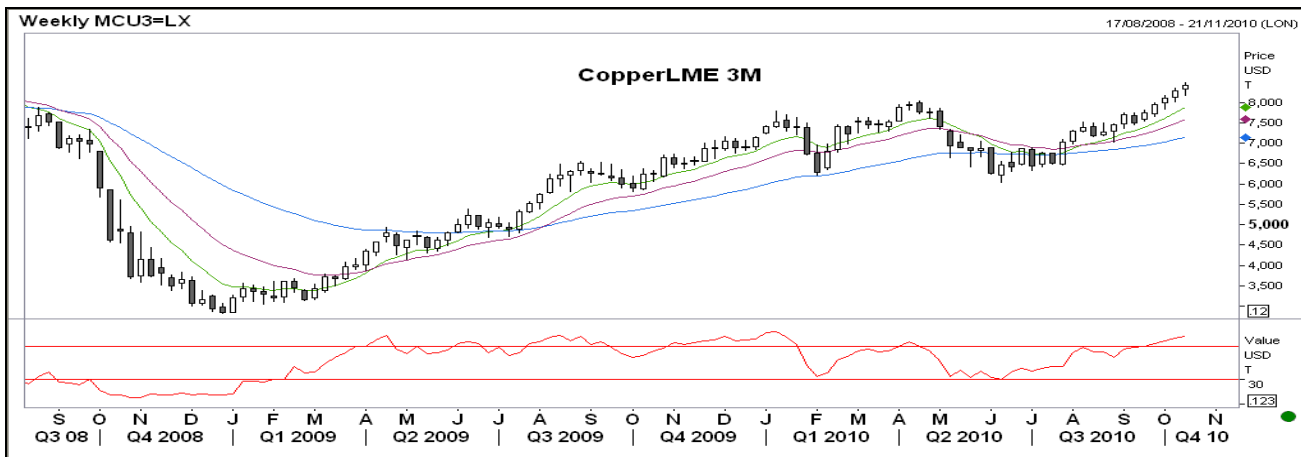
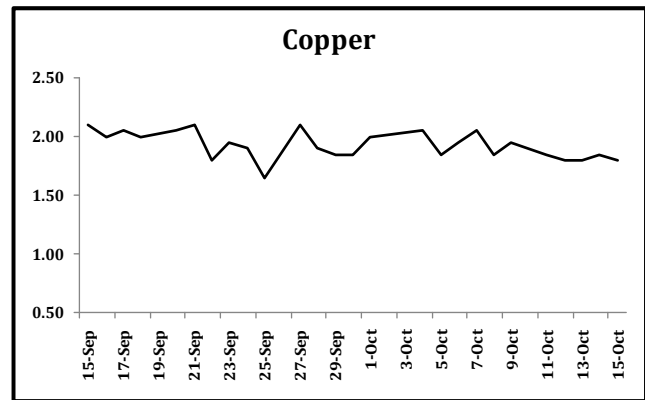
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}

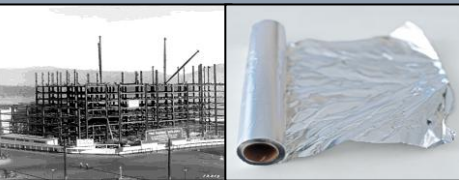


## CANCELLED WARRANT RATIO ON LME



## CALENDAR SPREAD ON MCX





# METALS WEEKLY

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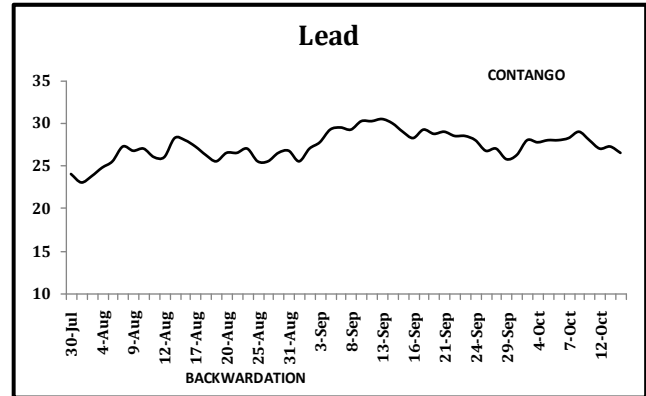


## LEAD

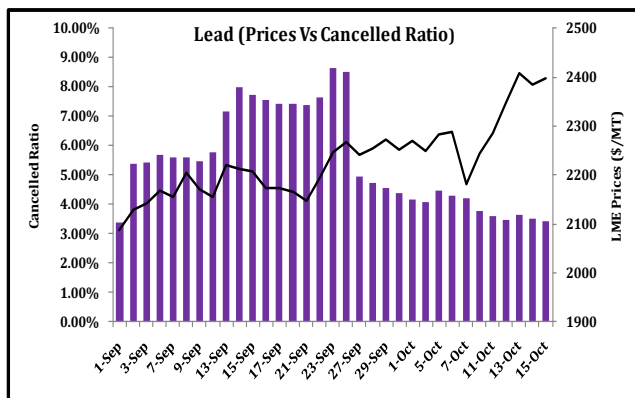
According to International lead and zinc study group (ILZSG), World demand for lead is expected to rise by 11 percent to 9.55 million tonnes in 2011 whereas the output is expected to rise by 5.8 percent to 9.64 million tonnes. Though the growth pace of production is declined, the market is expected to continue to remain in surplus to the extent of 90,000 tonnes.

## BASIS CHART

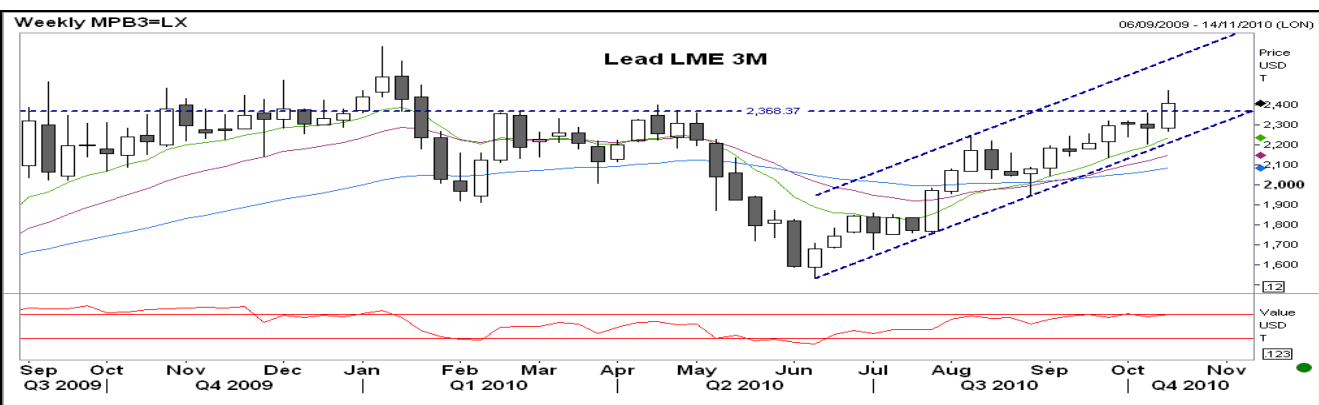
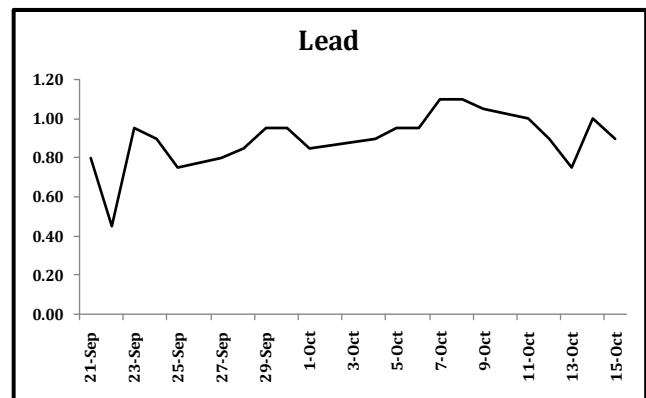
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



## CANCELLED WARRANT RATIO ON LME



## CALENDAR SPREAD ON MCX



**TECHNICALS:** Lead prices traded higher last week. It made a high of 2473 and settled at 2408.5 levels. It was up by 6.7% on last week. Lead is witnessing crucial support at 2368 levels which are the highs of the previous swings. We expect prices to trade on higher levels on sustained above 2368 levels. It is witnessing trend channel formation on the upper side allowing the prices to trade higher. As per the principle of Fibonacci retracement lead has breached the resistance at 2417 levels which is 76.4% retracement of the range (1535.95-2689.59) and is unable to sustain above these levels. Only on sustain above these levels can expect the prices to test its origin point of 2689 levels in the near future. The momentum indicator RSI is trading at 0.70 levels and showing higher potential for the markets to trade higher. **Conclusion:** We recommend buying at support levels for the coming week.



# METALS WEEKLY

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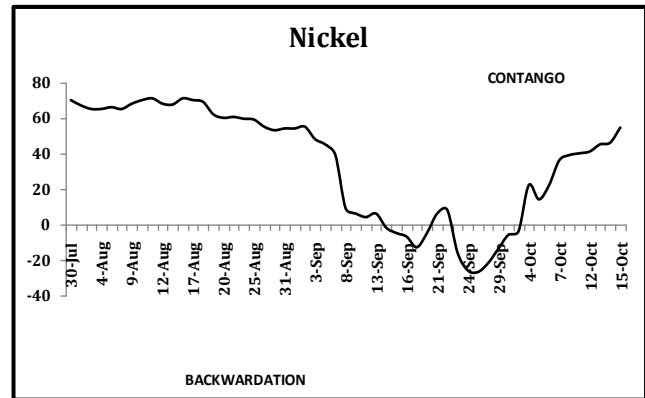


## NICKEL

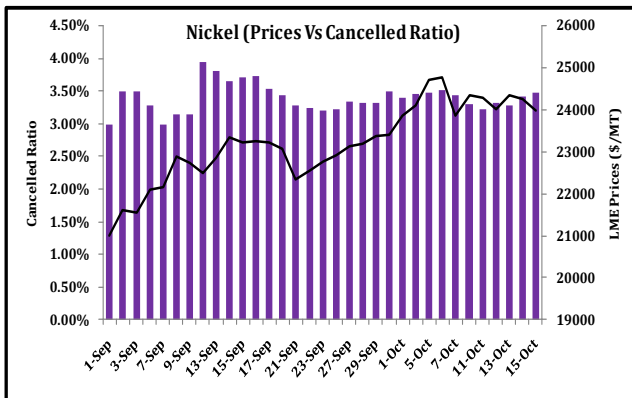
Mincor Resources, an Australian miner, is planning to acquire nickel projects as it ramps up its production. The company is targeting production between 13,500 tonnes and 14,500 tonnes this year (ending in June 30, 2011) and between 15,000 tonnes and 16,000 tonnes in the following 12 months.

### BASIS CHART

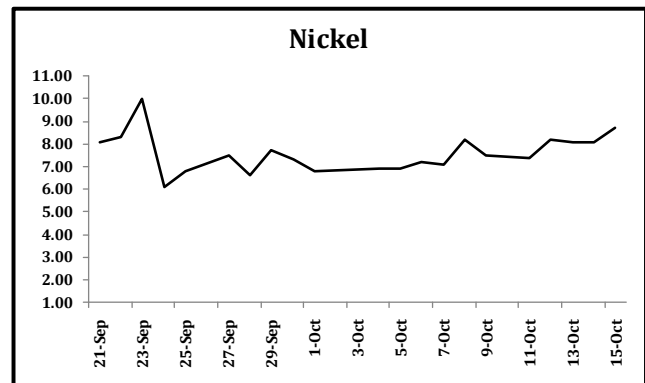
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX





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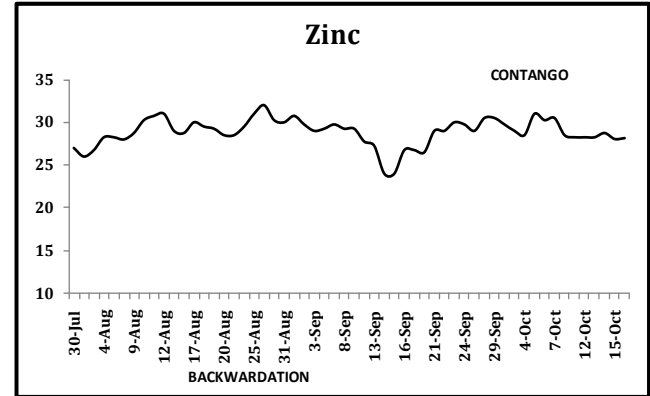


## ZINC

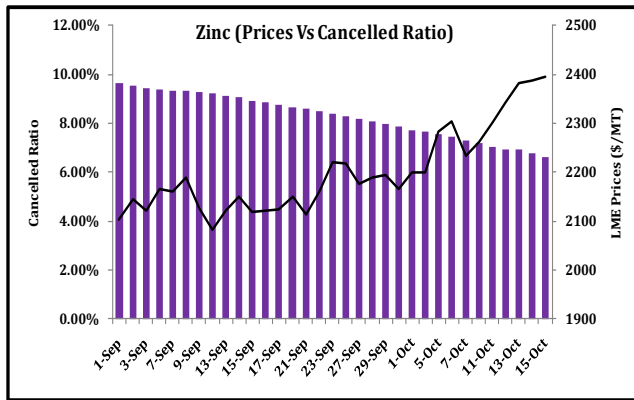
According to International lead and zinc study group (ILZSG), world demand for zinc is expected to rise by 6.3 percent to 13.07 million tonnes in 2011 whereas the output is expected to rise by 5.6 percent to 13.23 million tonnes. Growth pace of output is declined, but the market is expected to continue to remain in surplus to the extent of 233,000 tonnes.

### BASIS CHART

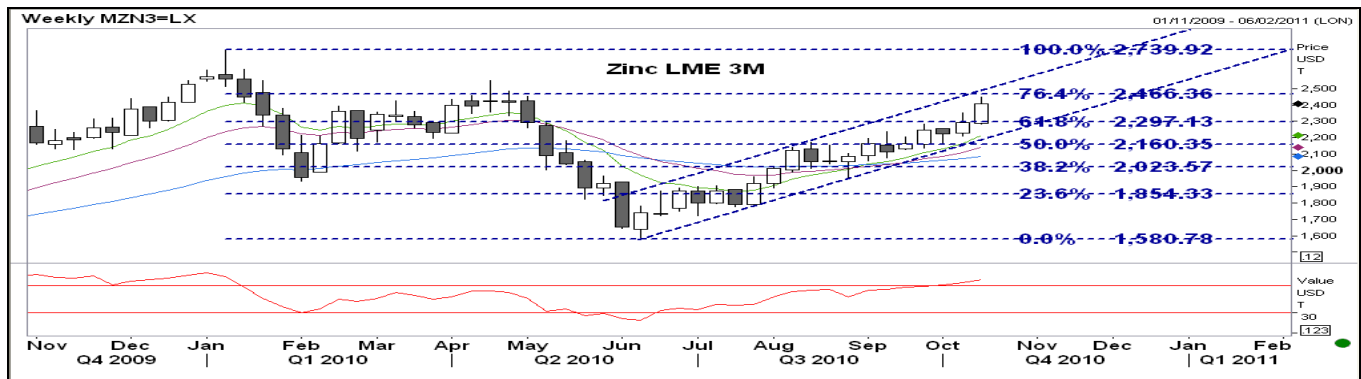
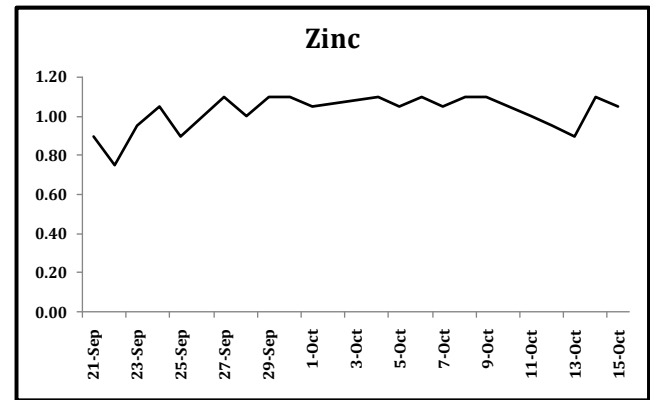
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX



**TECHNICALS:** Last week, zinc prices traded higher. It made a high of 2451 and settled at 2408 levels, up by 5.8%. The principle of Fibonacci retracement states that zinc is witnessing crucial resistance at 2462 levels which is 76.4% retracement of the range (1577.95-2735.42) levels. So we expect the limit on the higher side. On breach above 2462 levels prices can test the origin point of 2735 levels in the coming weeks. Zinc is witnessing upper trend channel formation and crucial resistance is seen at 2505 levels. The momentum indicator RSI (14) is trading at 0.79 levels showing higher potential for the markets to trade higher. We expect prices to trade higher and recommend buying at support levels. **Conclusion:** We recommend buying at support levels for the coming week.



# METALS WEEKLY

A Weekly Report on Base Metals



## DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date	Time	Region	Event	Period	Survey	Prior
18/10/2010	18:30	US	Total Net TIC Flows	AUG	--	\$63.7B
18/10/2010	18:30	US	Net Long-term TIC Flows	AUG	--	\$61.2B
18/10/2010	18:45	US	Industrial Production	SEP	0.20%	0.20%
18/10/2010	18:45	US	Capacity Utilization	SEP	74.80%	74.70%
18/10/2010	19:30	US	NAHB Housing Market Index	OCT	14	13
19/10/2010	13:30	EC	ECB Euro-Zone Current Account SA	AUG	--	-3.8B
19/10/2010	14:30	EC	Construction Output SA MoM	AUG	--	-3.10%
19/10/2010	14:30	GE	ZEW Survey (Current Situation)	OCT	64	59.9
19/10/2010	14:30	EC	ZEW Survey (Econ. Sentiment)	OCT	-2	4.4
19/10/2010	14:30	GE	ZEW Survey (Econ. Sentiment)	OCT	-7	-4.3
19/10/2010	18:00	US	Housing Starts	SEP	580K	598K
19/10/2010	18:00	US	Housing Starts MOM%	SEP	-3.00%	10.50%
19/10/2010	18:00	US	Building Permits	SEP	575K	569K
19/10/2010	18:00	US	Building Permits MOM%	SEP	0.70%	1.80%
20/10/2010	11:30	GE	Producer Prices (MoM)	SEP	0.20%	0.00%
21/10/2010	07:30	CH	Real GDP YoY	3Q	9.50%	10.30%
21/10/2010	07:30	CH	Consumer Price Index (YoY)	SEP	3.60%	3.50%
21/10/2010	07:30	CH	Retail Sales (YoY)	SEP	18.50%	18.40%
21/10/2010	07:30	CH	Industrial Production (YoY)	SEP	14.00%	13.90%
21/10/2010	07:30	CH	Fixed Assets Inv Urban YTD YoY	SEP	24.60%	24.80%
21/10/2010	13:00	GE	PMI Manufacturing	OCT A	54.6	--
21/10/2010	13:00	GE	PMI Services	OCT A	54.9	--
21/10/2010	13:30	EC	PMI Composite	OCT A	53.7	--
21/10/2010	13:30	EC	PMI Manufacturing	OCT A	53.2	--
21/10/2010	13:30	EC	PMI Services	OCT A	53.7	--
21/10/2010	18:00	US	Initial Jobless Claims	40467	455K	462K
21/10/2010	18:00	US	Continuing Claims	40460	4410K	4399K
21/10/2010	19:30	EC	Euro-Zone Consumer Confidence	OCT A	-11	-11
21/10/2010	19:30	US	Leading Indicators	SEP	0.30%	0.30%
21/10/2010	19:30	US	Philadelphia Fed.	OCT	1.8	-0.7
22/10/2010	13:30	GE	IFO - Business Climate	OCT	106.5	106.8
22/10/2010	13:30	GE	IFO - Current Assessment	OCT	110	109.7
22/10/2010	13:30	GE	IFO - Expectations	OCT	102.9	103.9



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