November 20, 2010

KARVY COMTRADE LIMITED

METALS WEEKLY

A Weekly Report on Base Metals

OUTLOOK

China raised reserve ratio for banks by 50 bps, this might not be enough to bring down inflation. So even an interest rate hike could follow but timing would be difficult to anticipate and the rate hike if materializes could send another round of sell-off. Reiterating --- the timing would be difficult to anticipate.

Data releases are going to be truncated in the week ahead (key data's only on 23rd and 24th) as some International markets observe holiday on 25th on account of Thanksgiving Day. Existing home sales in US along with durable goods orders are expected to decline and house prices may also remain stable. However the GDP growth may be revised upwards and new home sales might come in modestly higher. Euro-zone's industrial new orders are expected to contract along with declining PMI data. So largely, the data is expected to come in negative for base metal prices. Dollar index might continue to move higher unless some concrete announcement from Euro zone regarding the bailout provides some support to Euro. Overall, we expect base metal prices to remain on the lower side, but the losses might be limited as strong buying interest might creep in at lower levels. Also copper might continue to outperform the base metal pack given its relatively strong fundamentals.

TECHNICAL RECOMMENDATIONS

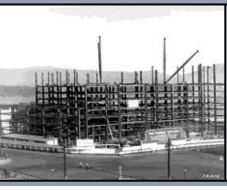
Commodity	Contract	S3	S2	S1	CLOSE	R1	R2	R3	Recommendations
LME Aluminum	**Fwd**	1940	2062	2161	2260	2382	2504	2603	**Sell at 2300-50 TP 2169/2090 SL 2450**
MCX Aluminum	**Nov-10**	92.5	96.6	99.7	102.9	107.0	111.1	114.2	**Sell at 105.5-106 TP 100.5 SL 108.5**
LME Copper	**Fwd**	7214	7567	7985	8404	8757	9110	9529	**Sideways**
MCX Copper	**Nov-10**	345.5	356.6	370.7	384.8	395.9	407.0	421.1	**Sideways**
LME Lead	**Fwd**	1761	1955	2116	2277	2471	2666	2826	**Sell at 2350-90 TP 2225/2150 SL 2510**
MCX Lead	**Nov-10**	84.7	91.9	97.4	102.8	110.0	117.2	122.7	**Sell at 107.5-108.5 TP 101/99 SL 112**
LME Nickel	**Fwd**	17917	19183	20517	21850	23117	24383	25717	**Sideways**
MCX Nickel	**Nov-10**	885.8	921.9	958.9	996.0	1032.0	1068.1	1105.1	**Sideways**
LME Zinc	**Fwd**	1637	1828	1994	2160	2350	2541	2707	**Sell at 2250-90 TP 2105/2025 SL 2390**
MCX Zinc	**Nov-10**	78.6	86.0	92.3	98.6	106.0	113.4	119.7	**Sell at 103.5-104.5 TP 99/95 SL 107.5**
Steel Long NCDEX	**Dec-10**	23193	23727	24213	24700	25233	25767	26253	**Sideways**

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

Key Economic Events this Week

Date Time	Region	Event	Period	Survey	Prior
23/11/2010 14:30	EC	PMI Composite	NOV A	53.6	53.8
23/11/2010 14:30	EC	PMI Manufacturing	NOV A	54.4	54.6
23/11/2010 14:30	EC	PMI Services	NOV A	53.2	53.3
23/11/2010 20:30	US	Existing Home Sales	OCT	4.48M	4.53M
24/11/2010 15:30	EC	Industrial New Orders SA (MoM)	SEP	-2.50%	5.30%
24/11/2010 19:00	US	Durable Goods Orders	OCT	0.00%	3.30%
24/11/2010 20:25	US	U. of Michigan Confidence	NOV F	69.5	69.3
24/11/2010 20:30	US	House Price Index MoM	SEP	0.00%	0.40%
24/11/2010 20:30	US	New Home Sales	OCT	315K	307K

For all the data releases; click here




METALS WEEKLY

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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)	Aluminium	2394.5	2406	2185	2260	-5.99	208,095	30.92	3,972	-22.81
	Copper	8590.25	8691.75	7920	8404	-2.45	255,468	-8.45	2,334	-36.77
	Lead	2465	2505.25	2150	2277	-9.64	43,078	3.46	875	-43.95
	Nickel	22475	23050	20450	21850	-3.66	39,240	38.82	635	-61.95
	Zinc	2340	2376	2019.5	2160	-9.77	148,133	27.03	2,218	-33.59
MCX Futures (₹/Kg)	Aluminium	106.95	108	100.75	102.85	-4.33	43,608	25.25	1,919	-7.96
	Copper	389.65	392.9	367.7	384.8	-1.23	607,795	23.74	21,478	-12.96
	Lead	111.8	111.8	99.15	102.8	-8.30	119,224	23.82	3,030	-25.30
	Nickel	1026.5	1031	957.9	996	-2.79	298,532	45.93	10,475	-25.01
	Zinc	107.1	107.1	93.4	98.6	-8.32	222,038	51.70	7,156	1.02

MARKET OVERVIEW

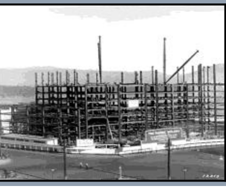
- Sovereign issues in the Euro zone along with tightening fears in China continued to weigh on market and thereby base metal prices ended with losses of anywhere between three to ten percent. The gains in the Indian markets were however limited as weakness in the rupee supported prices
- The top loser among the pack was zinc and its underperformance can be understood from the fact that it has relatively weak fundamentals compared to other base metals. Copper outperformed and ended with losses of only close to two percent as ongoing strike in Collahuasi mine in Chile continued to support prices
- On London Metal Exchange, inventories of zinc, lead and aluminium rose while copper and nickel stocks continue to witness draw-downs. Warehouses in China witnessed build-up of copper and zinc stocks

SHANGHAI MARKET PERFORMANCE

PRICES (CNY/MT)				
Commodity	**Previous Week**	**This Week**	**Change**	**% Change**
Copper	65420	63190	-2230	-3.41%
Zinc	19350	17505	-1845	-9.53%
Aluminum	16240	16160	-80	-0.49%

COMEX MARKET PERFORMANCE

PRICES (USD/LB)				
Commodity	**Previous Week**	**This Week**	**Change**	**% Change**
Copper	388.85	383.3	-5.55	-1.43%





Commodity Futures Trading Commission (CFTC) Report- Copper

According to the US CFTC data on copper, liquidation across the segments was seen. On the non-commercial side, long-unwinding was more visible while on the commercial side hedgers seem to have anticipated rise in price and thereby de - hedged there selling positions. Overall, both longs and shorts declined as participants might have got onto sidelines on the back of fears of monetary tightening in China.

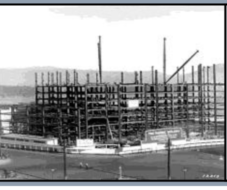
CFTC Report - Copper (In contracts)				
Non-Commercial	**11/9/2010**	**11/16/2010**	**Change**	**% Change**
Long	55566	49986	-5580	-10.04%
Short	25477	24026	-1451	-5.70%
Spreading	17705	15385	-2320	-13.10%
Commercial				
Long	72427	69716	-2711	-3.74%
Short	107310	98920	-8390	-7.82%
Total				
Long	145698	135087	-10611	-7.28%
Short	150492	138331	-12161	-8.08%

INVENTORY DETAILS

LME WAREHOUSE STOCKS (In tonnes)				
Commodity	**Previous week**	**This week**	**Change**	**% Change**
Copper	362775	359825	-2950	-0.81%
Zinc	631875	634275	2400	0.38%
Aluminium	4252550	4302125	49575	1.17%
Lead	202775	204075	1300	0.64%
Nickel	130356	130104	-252	-0.19%

COMEX WAREHOUSE STOCKS (In tonnes)				
Commodity	**Previous week**	**This week**	**Change**	**% Change**
Copper	74285	73146	-1139	-1.53%

SHANGHAI WAREHOUSE STOCKS (In tonnes)				
Commodity	**Previous week**	**This week**	**Change**	**% Change**
Copper	115423	126736	11313	9.80%
Zinc	300848	303429	2581	0.86%
Aluminium	485420	475633	-9787	-2.02%





ECONOMIC REVIEW

- Third quarter GDP growth of Japan came in at 0.9 percent as against expectation of 0.4 percent in the prior quarter. However the economy continues to remain in deflationary situation and the GDP deflator came in at -2 percent indicating continuing declining prices. The equity markets of Japan, Nikkei, however has outperformed most of the other major markets given the continued support from the government
- Indian equity markets underperformed most of the other markets and ended with losses of more than 3 percent. Fears of political instability might have prompted investors to book profit. Weak equity markets also sent the rupee lower by 1.03 percent
- On Friday, People's Bank of China raised reserve requirement by 50 bps. Higher reserves will reduce the liquidity in the system and thereby might curb inflation. Inflation for October came in at 4.4 percent, highest in 25 months and way above the comfort level of 3 percent
- Sovereign issues in the Euro-zone cropped up again and the yields of Euro-nations like Ireland made new highs as investors speculated that the default might be in the offing. However reports later indicated that European Central Bank and IMF might come to rescue and provide bailout to Ireland banks. In Ireland, unemployment rate is at 13 percent and the governments budget deficit is close to 30 percent of GDP thereby indicating the vulnerability of the nation

Equity Indices	Last Week	This Week	% Change
Dow Jones Ind. Avg.	11192.58	11203.55	0.10%
S&P 500 Index	1199.21	1199.73	0.04%
FTSE 100 Index	5796.87	5732.83	-1.10%
Nikkie 225	9724.81	10022.39	3.06%
Shanghai Composite	2985.44	2888.57	-3.24%
Sensex	20156.89	19585.44	-2.84%

Currency	Last Week	This Week	% Change
Dollar Index	78.082	78.504	0.54%
EUR/USD	1.3691	1.3673	-0.13%
GBP/USD	1.6114	1.5979	-0.84%
USD/INR	44.83	45.29	1.03%

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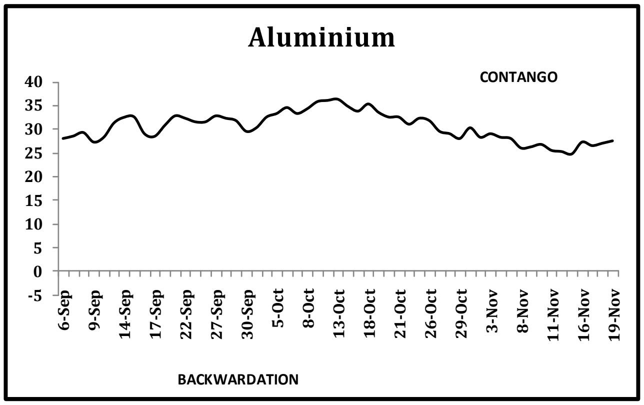
ALUMINIUM

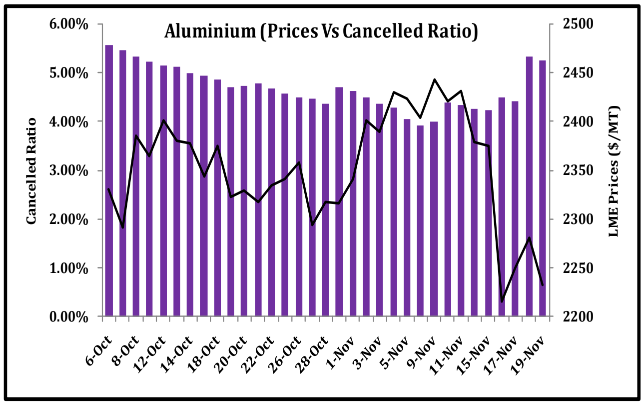
China, both the World's largest consumer and producer of aluminium, will sell 1,10,00 tonnes of aluminium ingots on Nov 23 and Nov 24. The sale will be done from the stocks held at state reserves. Inflation in China is above the comfort of the central bank and thereby many commodities are being auctioned to stem the prices.

After witnessing declining stocks for three consecutive week's, stocks on the London Metal Exchange rose by more than 50,000 tonnes thereby capping the prices gains. However given the indication from cancelled warrant ratio, stocks might continue to decline in the coming week.

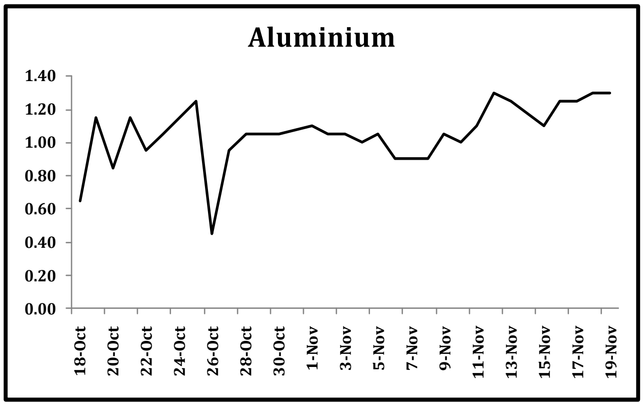
BASIS CHART
(LME 3 MTH FWD–LME CASH PRICES) {$/Tonnes)

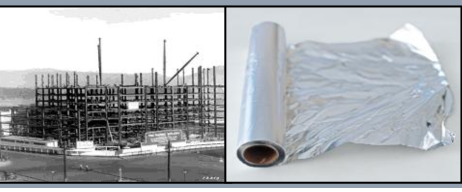


CANCELLED WARRANT RATIO ON LME



CALENDAR SPREAD ON MCX





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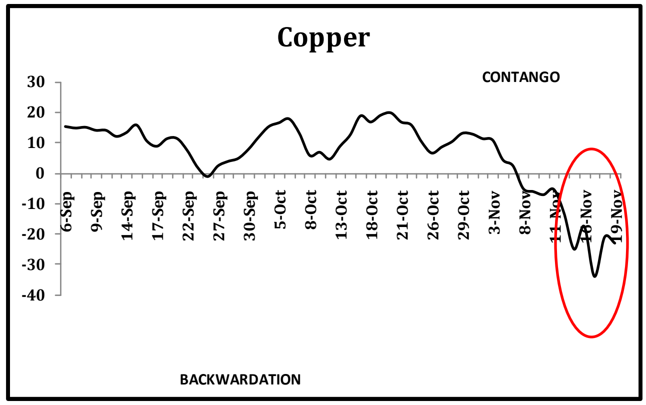
COPPER

Reports indicated that World's largest producer of copper, Codelco, will increase the charge on copper cathode sales to Japan by 31 percent with effect from next year. This marks the second consecutive annual increase and comes on the back of higher demand. The addition is made to the spot price of London Metal Exchange to cover the shipping and insurance cost.

The stocks on LME declined continues to decline for ten consecutive days now and the cancelled warrant ratio is moving higher indicating that the inventories might continue to decline in the near term.

BASIS CHART
(LME 3 MTH FWD–LME CASH PRICES) {$/Tonnes)



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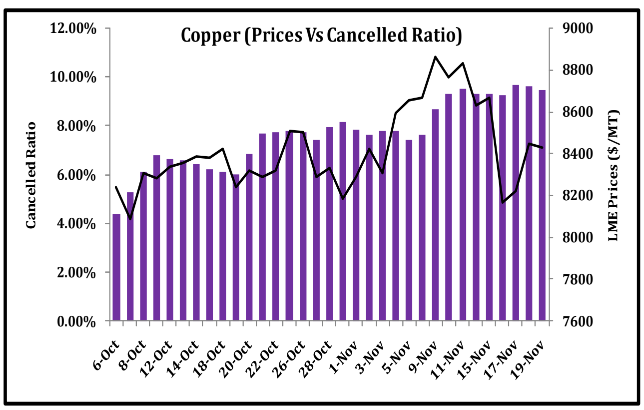

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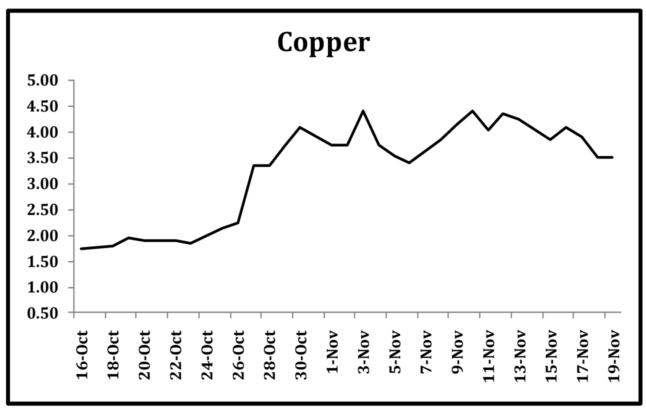
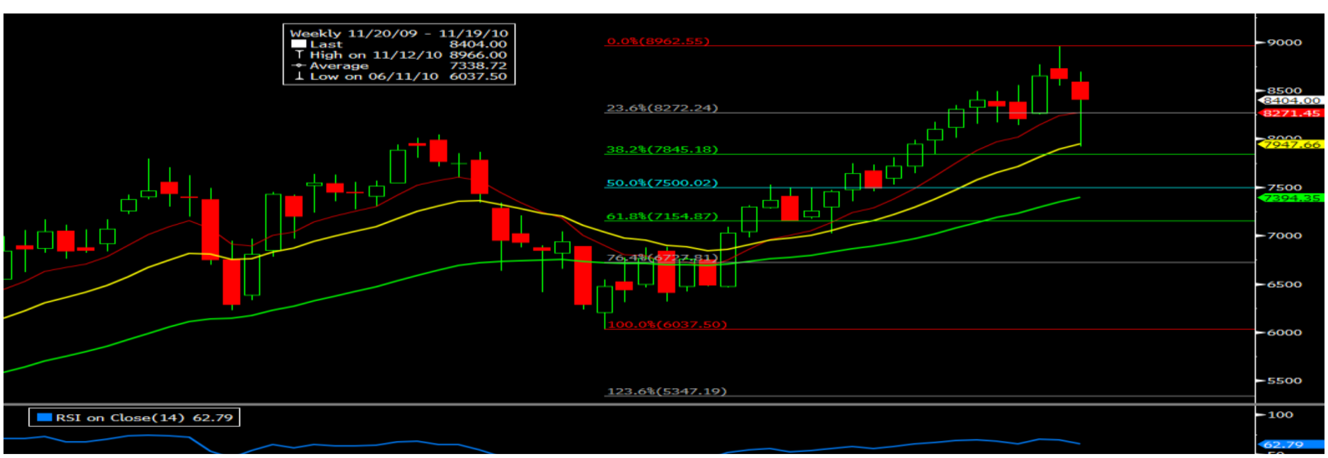
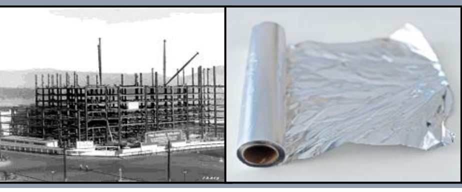




TECHNICALS: Copper prices tumbled down initially and recovered at the end though closed in red. It made a high of 8691.75 and low of 7920 before settling at 8404 levels. It was the outperformed the base metal pack and is only down by 2.5%. The principle of Fibonacci retracement states that copper is witnessing crucial support at 7845 levels which is 38.2% retracement of the range (6037.5-8962.55). So we expect prices to remain limited for the down trend. The momentum indicator RSI 14 weekly is trading at 0.627 levels showing higher potential for the markets to trade lower side. As prices are trading well above the short term and the midterm EMA's of (9, 18, 45) suggesting down trend is limited. We expect prices to trade sideways to lower for the coming week.



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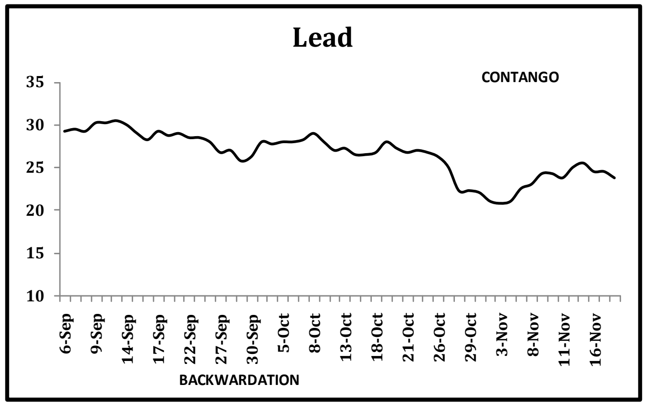
LEAD

Lead has relatively strong fundamentals compared to zinc and that's the reason the spread between lead and zinc most of the times remain in favour of lead. This spread currently stands at 4.2 and made a high of 6.5 during the week. In the near term, zinc prices might move higher than lead as a result of short covering but that might give a good entry point. So the strategy should be to buy lead and sell zinc at the difference of close to 3.5 targeting 6.5 and stop loss at 2.

BASIS CHART
(LME 3 MTH FWD–LME CASH PRICES) {$/Tonnes)



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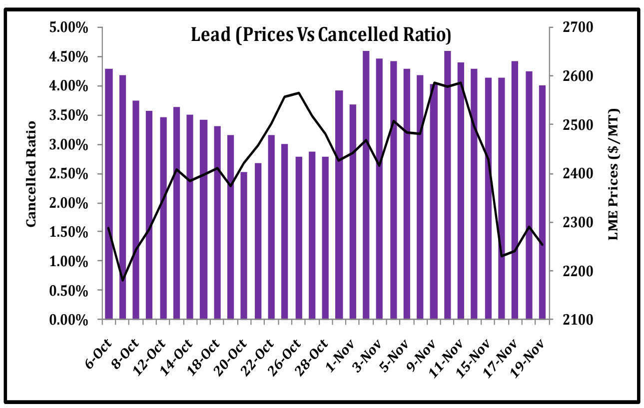

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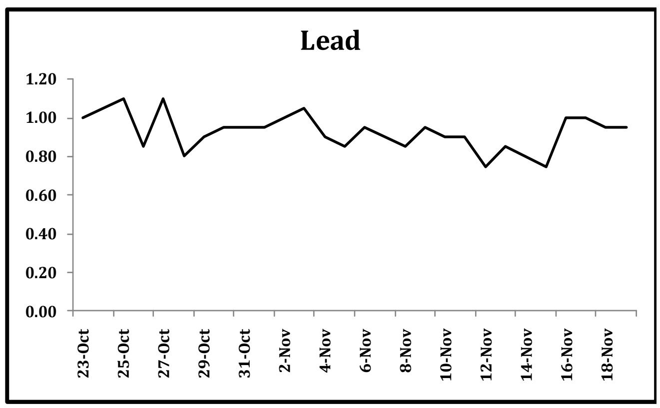

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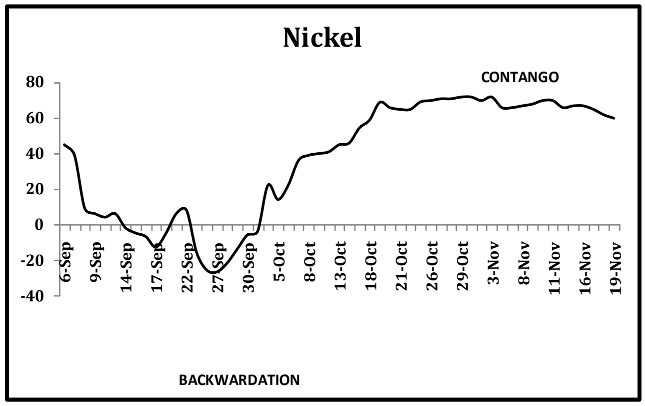
NICKEL

After witnessing rising stocks for five consecutive weeks, inventory on London Metal Exchange declined this week. Declining stocks helped nickel to end its underperforming streak. However prices were not able to move higher, as macro factors like fears of tightening in China and sovereign issues in the Euro-zone took its toll on all commodity prices.

BASIS CHART
(LME 3 MTH FWD–LME CASH PRICES) {$/Tonnes)



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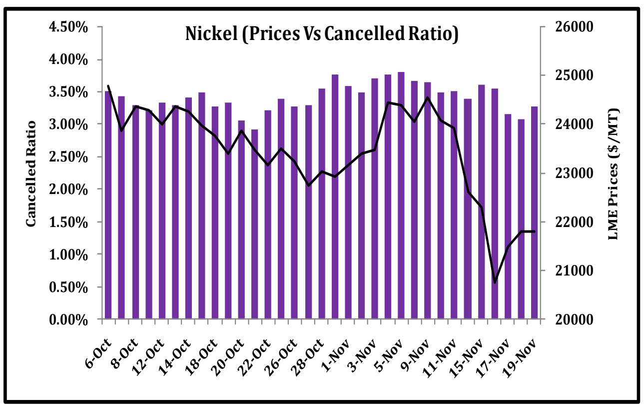

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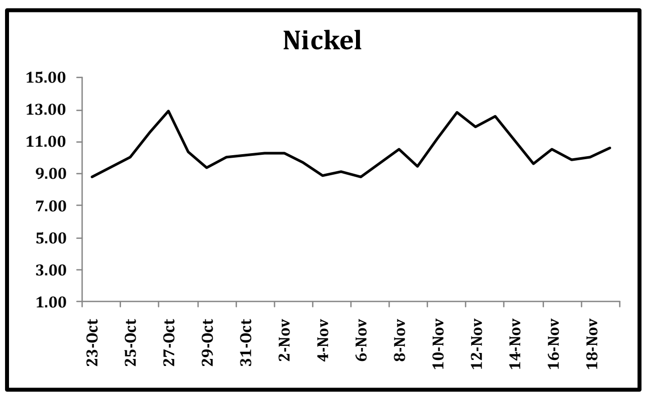

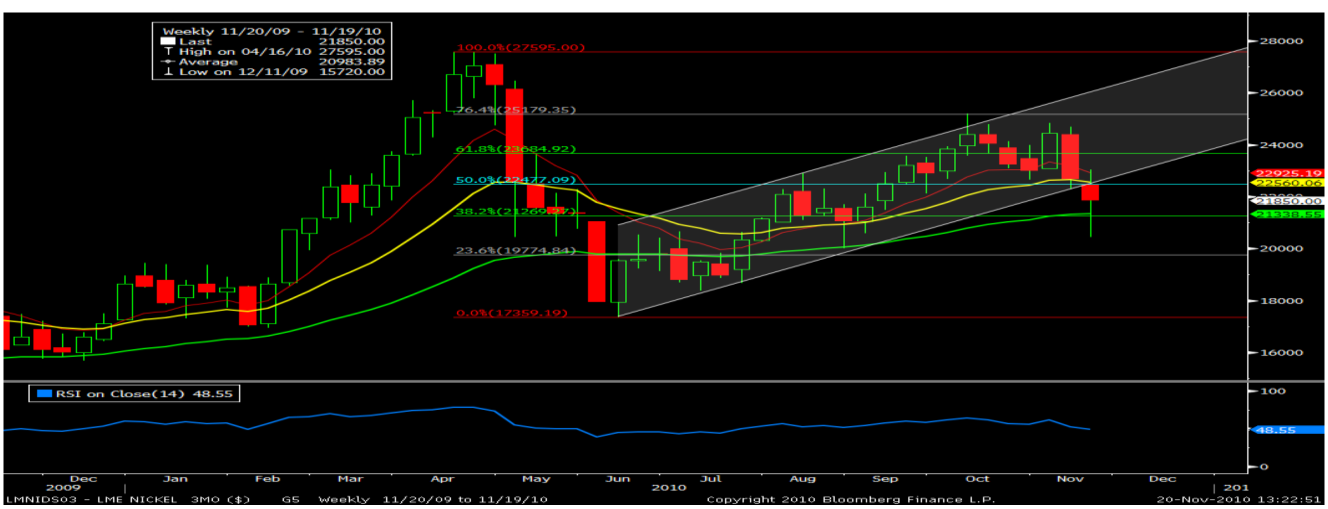

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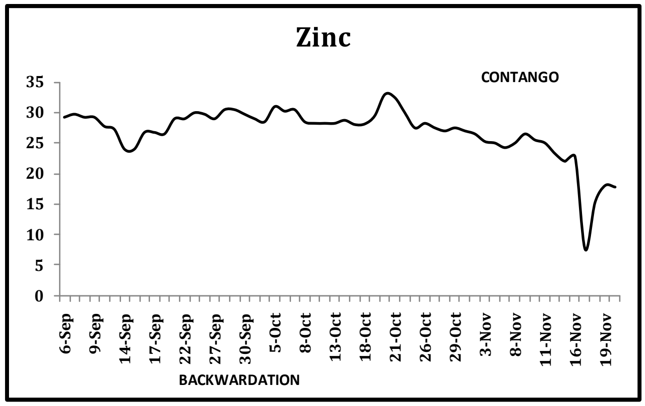
ZINC

Zinc was the top loser among the base metal pack. Given the relatively week fundamental, market participants seems to be more preferring to zinc compared to other base metals. On a weekly basis stocks on London Metal Exchange rose by 2,400 tonnes as against decline of 1,325 tonnes in the previous week. Warehouses in China also witnessed build-up of 2,581 tonnes thereby marking eighth consecutive weekly increase.

BASIS CHART

(LME 3 MTH FWD–LME CASH PRICES) {$/Tonnes)



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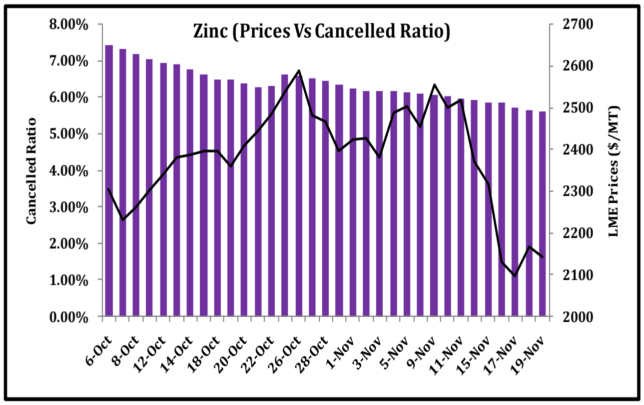

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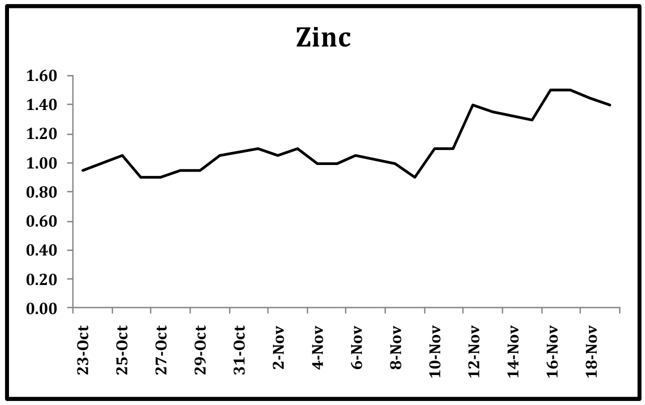
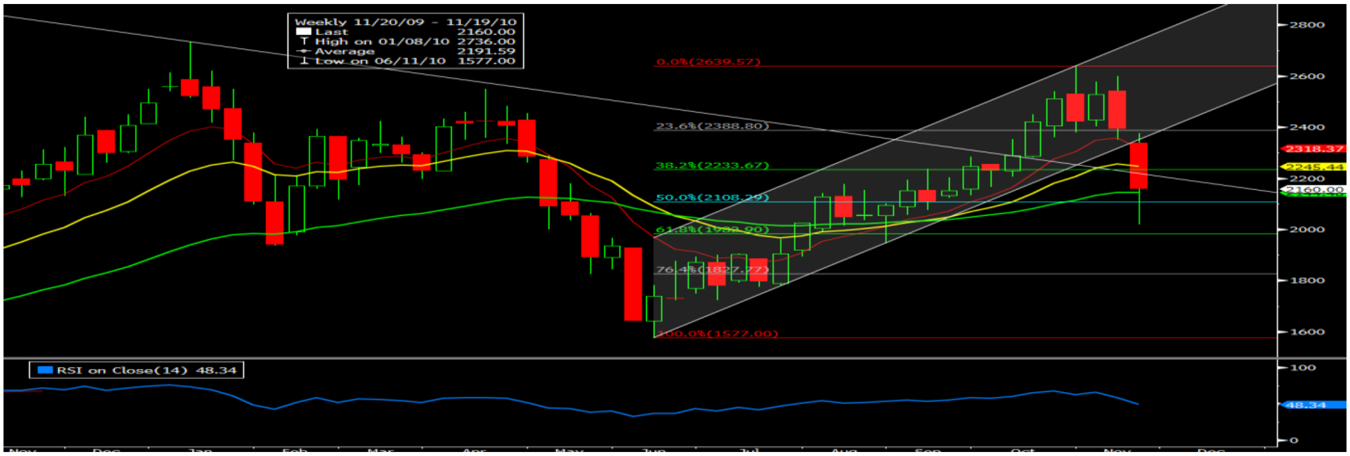
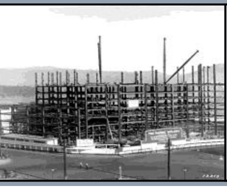




TECHNICALS: Zinc prices traded completely lower on last week and continued the previous week's trend. It made a high of 2376 levels and low of 2019.5 before settling at 2160 levels. It was the under performer among base metal pack and ended down by 9.7%. Zinc has breached down from the trend channel formation which was witnessing on the upper side. The principle of Fibonacci retracement states that Zinc has breached and unable to sustain below the support at 2108 levels which is 50% retracement of the range (1577-2639) levels. Market still has the potential to trade down side and test 1982 levels which is 61.8% retracement of the above same range. The momentum indicator RSI 14 is trading at 0.483 levels showing higher potential for the markets to trade lower side. As market is trading well below the short term and midterm EMA's of (9, 18, 45) also suggesting the prices to trade lower for the coming week. However a mild correction on the upper side is expected before resuming its down trend.





DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date Time	Region	Event	Period	Survey	Prior
22/11/2010 19:00	US	Chicago Fed Nat Activity Index	OCT	-0.24	-0.58
22/11/2010 20:30	EC	Euro-Zone Consumer Confidence	NOV A	-11	-11
23/11/2010 12:30	GE	GFK Consumer Confidence Survey	DEC	5.1	4.9
23/11/2010 12:30	GE	GDP s.a. (QOQ)	3Q F	0.70%	0.70%
23/11/2010 14:00	GE	PMI Manufacturing	NOV A	56.8	56.6
23/11/2010 14:00	GE	PMI Services	NOV A	55.8	56
23/11/2010 14:30	EC	PMI Composite	NOV A	53.6	53.8
23/11/2010 14:30	EC	PMI Manufacturing	NOV A	54.4	54.6
23/11/2010 14:30	EC	PMI Services	NOV A	53.2	53.3
23/11/2010 19:00	US	GDP QoQ (Annualized)	3Q S	2.40%	2.00%
23/11/2010 19:00	US	Personal Consumption	3Q S	2.50%	2.60%
23/11/2010 20:30	US	Existing Home Sales	OCT	4.48M	4.53M
23/11/2010 20:30	US	Existing Home Sales MoM	OCT	-1.10%	10.00%
23/11/2010 20:30	US	Richmond Fed Manufacturing Index	NOV	7	5
24/11/2010 14:30	GE	IFO - Business Climate	NOV	107.5	107.6
24/11/2010 14:30	GE	IFO - Current Assessment	NOV	110.4	110.2
24/11/2010 14:30	GE	IFO - Expectations	NOV	104.7	105.1
24/11/2010 15:00	UK	GDP (QoQ)	3Q P	0.80%	0.80%
24/11/2010 15:30	EC	Industrial New Orders SA (MoM)	SEP	-2.50%	5.30%
24/11/2010 19:00	US	Durable Goods Orders	OCT	0.00%	3.30%
24/11/2010 19:00	US	Personal Income	OCT	0.40%	-0.10%
24/11/2010 19:00	US	Personal Spending	OCT	0.50%	0.20%
24/11/2010 19:00	US	Initial Jobless Claims	20-Nov	435K	439K
24/11/2010 19:00	US	Continuing Claims	13-Nov	4275K	4295K
24/11/2010 20:25	US	U. of Michigan Confidence	NOV F	69.5	69.3
24/11/2010 20:30	US	House Price Index MoM	SEP	0.00%	0.40%
24/11/2010 20:30	US	New Home Sales	OCT	315K	307K
24/11/2010 20:30	US	New Home Sales MoM	OCT	2.40%	6.60%

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