



# METALS WEEKLY

A Weekly Report on Base Metals



## OUTLOOK

Base metal prices are expected to continue to trade higher on the back of strong demand and expectation of positive economic data. Increase in stocks of all the base metals is just year end phenomenon as participants reduce their positions towards the end of the year. But demand continues to remain strong as data like Chinese imports and housing numbers from US is indicating so. In the market internals, though volumes are on the lower side, open interest is increasing indicating continuation of higher movement.

US GDP growth of third quarter is expected to be revised upwards. A whole host of housing data is also due to be released and the expectation is that both existing as well as new home sales have picked up. The consumer confidence is also expected to come in higher as tax cuts might have boosted sentiment of the consumers. Bank of Japan is expected to keep the interest rate unchanged. Japan has already announced cut of 5 percent in the corporate tax and the market might look at any major announcement that might come in from the monetary policy side. Overall, we expect base metal prices to remain on the higher side.

TECHNICAL RECOMMENDATIONS									
Commodity	Contract	S3	S2	S1	CLOSE	R1	R2	R3	Recommendations
<a href="#">LME Aluminum</a>	Fwd	2216	2255	2295	2335	2374	2413	2453	Buy 2285-2300 TP 2405/2500 SL 2200
MCX Aluminum	Dec-10	102.6	103.4	104.8	106.1	107.0	107.8	109.2	Buy 104-104.5 TP 108/ 111 SL 101.5
<a href="#">LME Copper</a>	Fwd	8573	8752	8911	9070	9248	9426	9585	Sideways
MCX Copper	Feb-11	404.8	408.5	413.9	419.4	423.1	426.8	432.2	Sideways
<a href="#">LME Lead</a>	Fwd	2246	2302	2361	2420	2475	2531	2590	Buy 2370-85 TP 2505 SL 2300
MCX Lead	Dec-10	104.8	106.1	108.2	110.4	111.7	113.0	115.1	Buy 108-108.5 TP 112/115 SL 106
<a href="#">LME Nickel</a>	Fwd	23390	23712	24356	25000	25322	25644	26288	Buy 24650-750 TP 25300 SL 24035
MCX Nickel	Dec-10	1054.9	1071.5	1101.2	1131.0	1147.5	1164.1	1193.8	Buy 1118-22 TP 1135/1155 SL 1097
<a href="#">LME Zinc</a>	Fwd	2046	2125	2200	2275	2354	2433	2508	Buy 2200-30 TP 2390 SL 2109
MCX Zinc	Dec-10	96.1	98.4	101.1	103.8	106.2	108.5	111.2	Buy 102-2.5 TP 108 SL 99.6
Steel Long NCDEX	Jan-10	24713	25037	25503	25970	26293	26617	27083	Buy 25800 TP 26450 SL 25400

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

## Key Economic Events this Week

Date Time	Region	Event	Period	Survey	Prior
22/12/2010 19:00	US	GDP QoQ (Annualized)	3Q T	2.80%	2.50%
22/12/2010 20:30	US	Existing Home Sales	NOV	4.75M	4.43M
23/12/2010 19:00	US	Initial Jobless Claims	18-Dec	420K	420K
23/12/2010 20:25	US	U. of Michigan Confidence	DEC F	74.5	74.2
23/12/2010 20:30	US	New Home Sales	NOV	300K	283K

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



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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	2318	2374	2295	2335	1.17	133,448	-3.04	71,031	3524.03
	Copper	9020	9267.5	8930.25	9070	0.89	172,238	-30.70	38,382	578.01
	Lead	2400	2472.5	2358	2420	1.26	26,734	-26.07	13,704	1203.90
	Nickel	24035	25001	24035	25000	4.25	30,075	12.36	11,376	1577.88
	Zinc	2275	2358	2204	2275	0.04	98,032	-14.75	22,322	1717.75
MCX Futures (₹/Kg)	Aluminium	104.4	106.45	104.25	106.15	2.12	31,453	-26.26	2,122	-16.36
	Copper	412.6	421.4	412.25	419.3	1.78	468,168	-25.90	33,357	-3.70
	Lead	108.6	110.85	107.4	110.45	2.22	73,986	-29.62	5,994	42.44
	Nickel	1088	1134.3	1088	1132.6	4.38	208,167	-10.75	8,834	22.29
	Zinc	103.05	105.85	100.8	103.85	1.22	138,689	-15.29	8,781	13.46

## MARKET OVERVIEW

- Short covering along with better than expected economic data sent base metal prices higher. Housing data and decline in initial jobless claims from US boosted sentiment. Approval of tax cuts by US also supported prices to trade higher
- Nickel, was the top performer among the base metal pack, as it ended the week the gains of more than 4 percent as it witnessed the minimal increase in inventories among all the base metals. Zinc underperformed the pack as massive stock build-up was seen (for complete details go to Page 8)
- **Co-incidentally the out performer and under performer of the year 2010 are also the same (Nickel and Zinc). As the year comes to an end, all the base metals witnessed increase in stocks, though of varying degree**

### SHANGHAI MARKET PERFORMANCE

PRICES (CNY/MT)				
Commodity	Previous Week	This Week	Change	% Change
Copper	66190	67370	1180	1.78%
Zinc	17855	18340	485	2.72%
Aluminum	15945	16240	295	1.85%

### COMEX MARKET PERFORMANCE

PRICES (USD/LB)				
Commodity	Previous Week	This Week	Change	% Change
Copper	410.5	415.3	4.8	1.17%



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

According to the US CFTC data on Copper, across the segments positions increased. On the non-commercial side speculators increased long positions heavily, as tight supply might have prompted them to do so. On the commercial side however, producers used the life-time high prices to hedge there positions. Users also increased there purchases though to a lower extent. Overall, both long and short positions increased with bias on the long side.

CFTC Report - Copper (In contracts)				
Non-Commercial	12/7/2010	12/14/2010	Change	% Change
Long	53567	58287	4720	8.81%
Short	27135	28019	884	3.26%
Spreading	16221	16895	674	4.16%
Commercial				
Long	69090	69972	882	1.28%
Short	101401	104818	3417	3.37%
Total				
Long	138878	145154	6276	4.52%
Short	144757	149732	4975	3.44%

## INVENTORY DETAILS

LME WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	348625	361400	12775	3.66%
Zinc	630725	699450	68725	10.90%
Aluminium	4274025	4287600	13575	0.32%
Lead	204375	207600	3225	1.58%
Nickel	131184	131862	678	0.52%

COMEX WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	67539	64621	-2918	-4.32%

SHANGHAI WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	115964	127836	11872	10.24%
Zinc	299425	303476	4051	1.35%
Aluminium	452371	444699	-7672	-1.70%



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## ECONOMIC REVIEW

- Federal Reserve from US in its meet left interest rate unchanged at 0.25 percent. Also the amount of bond buying or the so called quantitative easing was only maintained at previous announced level of \$600 billion
- Economic data from US has been coming largely positive in the past few days given the supportive measures taken by the government. Housing starts increased while the building permits declined The initial jobless claims came in better than expected at 420K mark, one of the lowest in the recent times
- Euro-zone data continued to remain mixed with IFO expectations from Germany increasing while the overall euro-zone data remained slightly weaker. This itself is indicating divergence among the euro-nations
- IMF indicated that Spain might come out of the crisis without any rescue package thereby alleviating fears which increased after credit rating agency Moody's indicated possible downgrade. The EU nations however meet to come out with a permanent mechanism for the problem but largely yielded no results
- In India, central bank left both the repo rate and reverse repo rate in its mid-quarter policy review. However given the tight liquidity conditions, as banks borrow more than a trillion rupee on daily basis under the Liquidity Adjustment Facility of RBI, the central bank cut the Statutory Liquidity Ratio by 1 percent. Also it announced bond purchases to the extent of 48,000 Crore. Rupee however ended largely flat for the week

Equity Indices	Last Week	This Week	% Change
<b>Dow Jones Ind. Avg.</b>	11410.32	11491.91	0.72%
<b>S&amp;P 500 Index</b>	1240.40	1243.91	0.28%
<b>FTSE 100 Index</b>	5812.95	5871.75	1.01%
<b>Nikkie 225</b>	10211.95	10303.83	0.90%
<b>Shanghai Composite</b>	2841.04	2893.74	1.85%
<b>Sensex</b>	19508.89	19864.85	1.82%

Currency	Last Week	This Week	% Change
<b>Dollar Index</b>	79.377	80.104	0.92%
<b>EUR/USD</b>	1.3414	1.3226	-1.40%
<b>GBP/USD</b>	1.5778	1.5802	0.15%
<b>USD/INR</b>	45.105	45.0575	-0.11%



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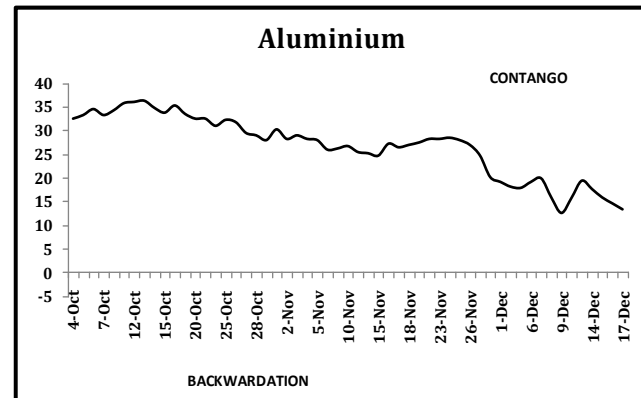
## ALUMINIUM

World's top maker of Aluminium, Russia based Rusal expect aluminum prices to be around \$2400-2500/tonne on the back of strong demand. It expects demand to grow by 8 percent.

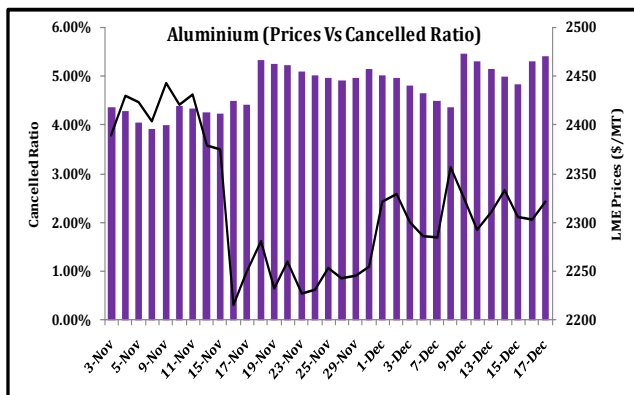
China reported decline in aluminum production in November. Production declined by 14 percent to 1.18 million tonnes thereby marking third consecutive monthly decline. The country is gearing up to meet its energy saving requirements and thereby uneven power supply has taken its toll on production.

## BASIS CHART

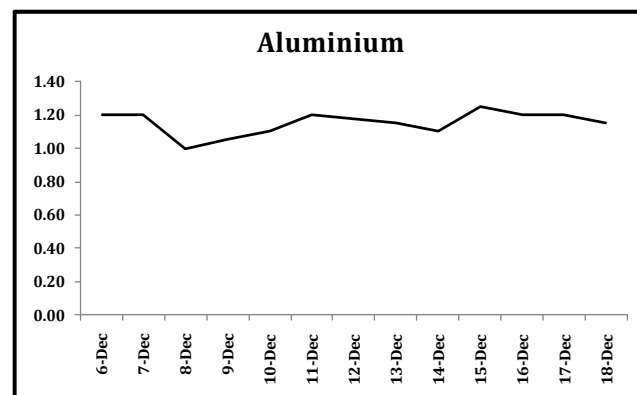
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



## CANCELLED WARRANT RATIO ON LME



## CALENDAR SPREAD ON MCX



**TECHNICALS:** Aluminium prices traded marginally higher on last week's trading sessions. It made a high of 2374 and low of 2295 before settling at 2335 levels, up by 1.1%. The closing of the weekly candle renders indecisive movements for the coming week. Aluminium is witnessing **"TREND LINE"** support at 2285 levels. On sustain above is likely to remain higher for the coming week. Prices are witnessing **"TREND LINE"** resistance at 2385 levels. Only on beach and sustained trade above is likely to remain higher. The principle of **Fibonacci retracement** states that prices has breached the resistance at 2340 levels which is 23.6% of the range (1828-2499) levels and unable to sustain above. Only on sustained trade above is likely to remain higher and potential for the markets to test 2499 levels for the near future. The momentum indicator **RSI 14 Weekly** is trading at 0.560 levels showing higher potential for the prices to trade on north ward direction. As prices are trading well above the Short term and Midterm **EMA's** of (8, 21, 34) suggesting bullish trend is still intact. We recommend buying at the support levels for the coming week.



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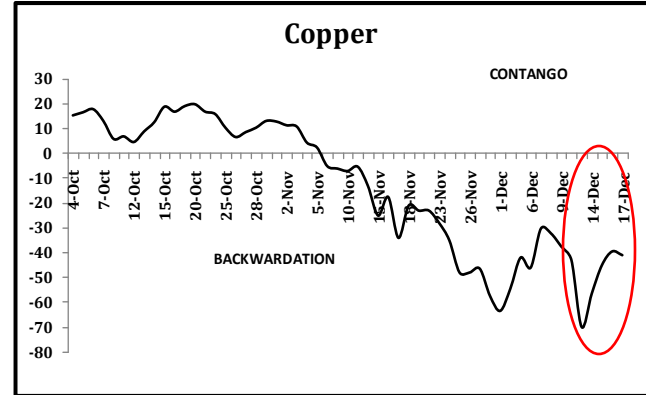
## COPPER

Holdings of Exchange Traded Fund backed by copper zoomed to 595 tonnes as against 20-25 tonnes witnessed in the past few days. Though still at a nascent stage, a rise in investment demand might increase the holdings of the ETF's.

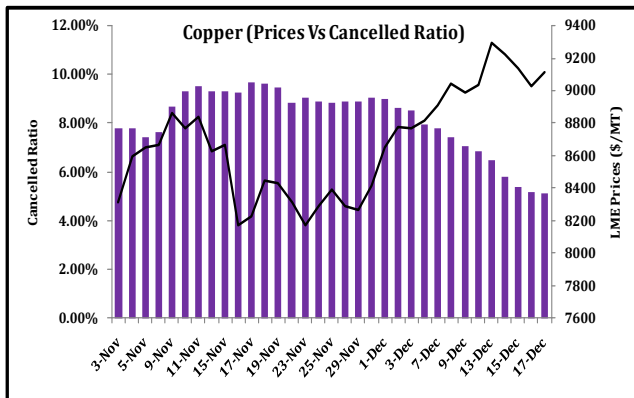
A report indicated that nearly 90 percent of the total stocks on LME are held by a single company. Stocks however witnessed build-up this week, as life time high prices and year end might have prompted some sellers to deliver stocks.

### BASIS CHART

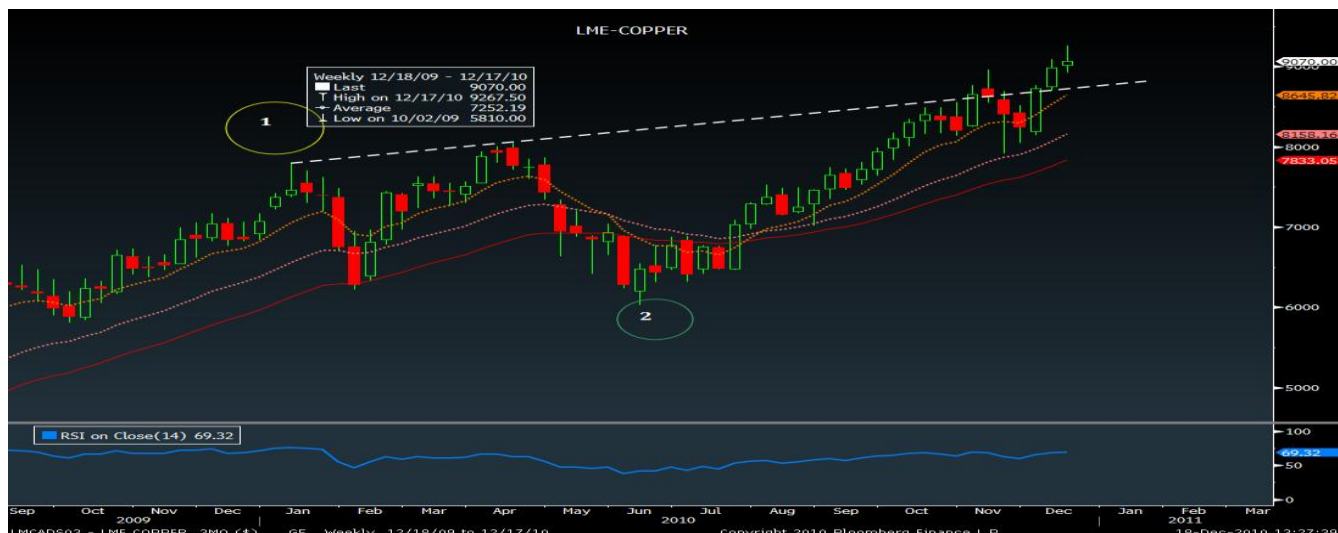
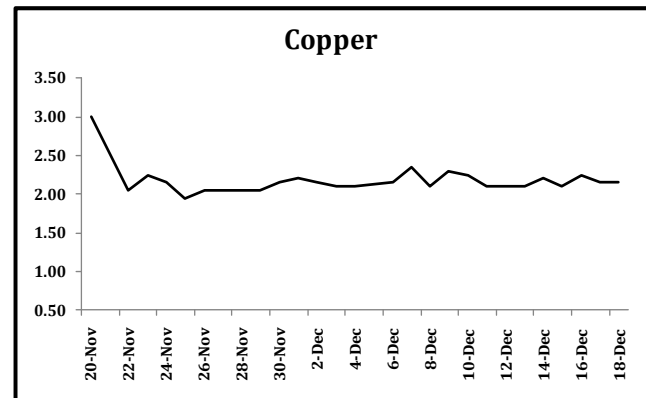
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### CALENDAR SPREAD ON MCX





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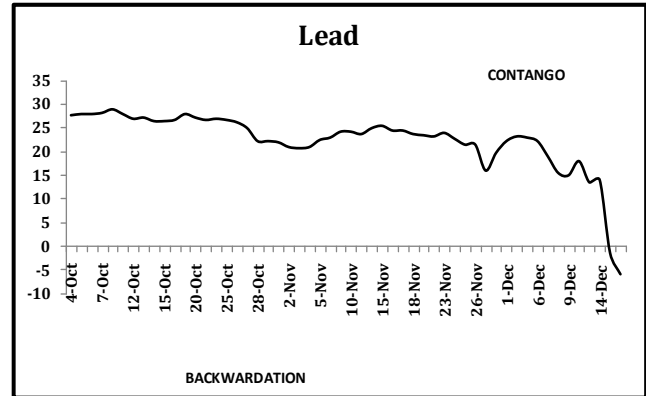
## LEAD

Stocks rose for second consecutive week on London Metal Exchange. Total stocks increased by 3,225 tonnes to 207,600. In China production rose by 29.5 percent to 448,000 tonnes. In the first nine months of 2010, output rose by 9.2 percent to 3.95 million tonnes.

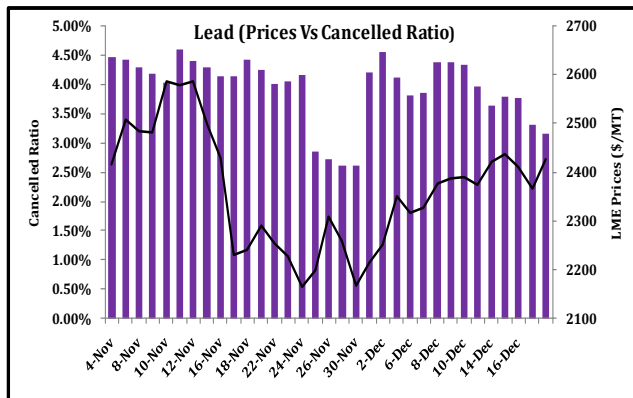
Automobile sales in China also grew by 27 percent in November to 1.7 million tonnes. Given the strong automobile demand in nations like China and India, demand for lead, metal used in batteries is expected to remain strong.

## BASIS CHART

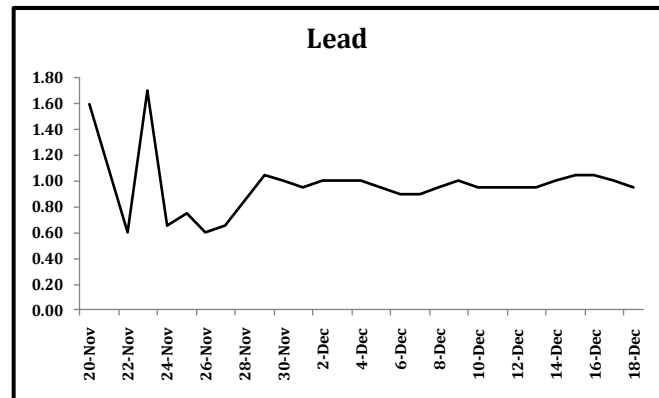
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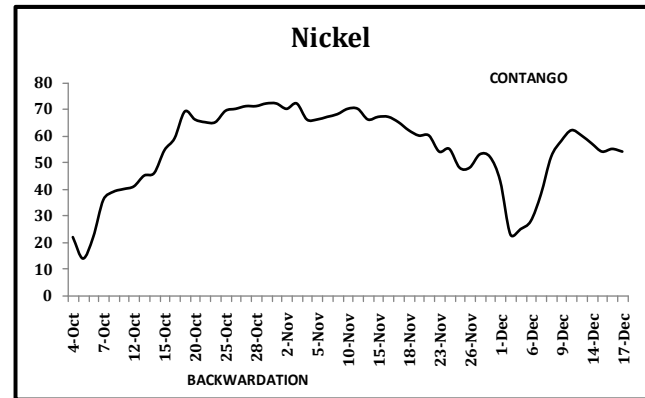


## NICKEL

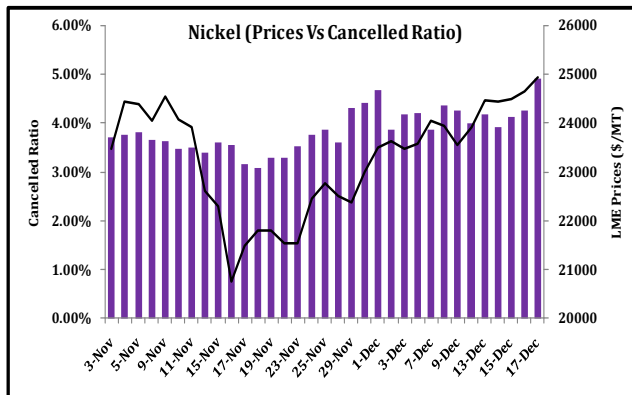
Nickel was the top performer among the base metal pack as stocks increase were only marginal. Report from the London Metal Exchange indicated that one firm controls anywhere between 50 and 79 percent of the total stocks available on London Metal Exchange. Stocks also rose for a second consecutive week to the extent of 630 tonnes.

### BASIS CHART

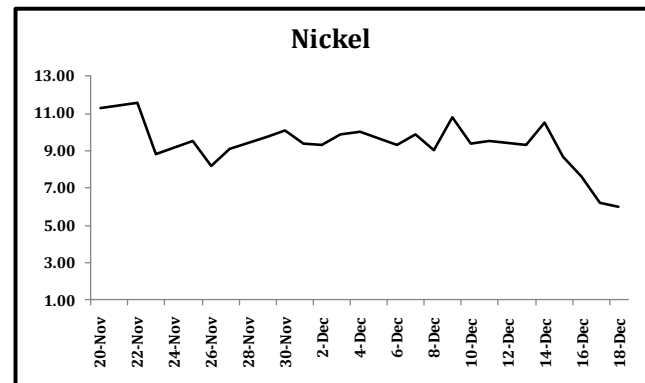
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX



**TECHNICALS:** Nickel prices traded completely higher on last week's trading sessions. It made a high of 25001 and low of 24035 and settled higher at 25000 levels up by 4.2%. It was the top performer among all the base metals. The closing of the weekly candle renders bullish trend to be continued for the coming week. Nickel has breached the "TREND LINE" resistance at 24350 levels; sustained trade above is likely to remain higher. The principle of **Fibonacci retracement** states that Nickel is witnessing resistance at 25180 levels which is 76.4% of the range (17366-27595) levels and has the potential for the markets to test the origin point of 27595 levels in the near future. The momentum indicator **RSI 14** weekly is trading at 0.610 levels and showing higher potential for the prices to trade on the north ward direction. The **moving average** principle states bullish trend is still intact as prices are trading well above the short term and midterm EMA's of (8, 21 & 34) levels. The **Volume** indicator analysis also suggesting bullish trends as volumes have substantially increased on previous week from 26766 to 30075 contracts. We recommend buying at the support levels for the coming week.



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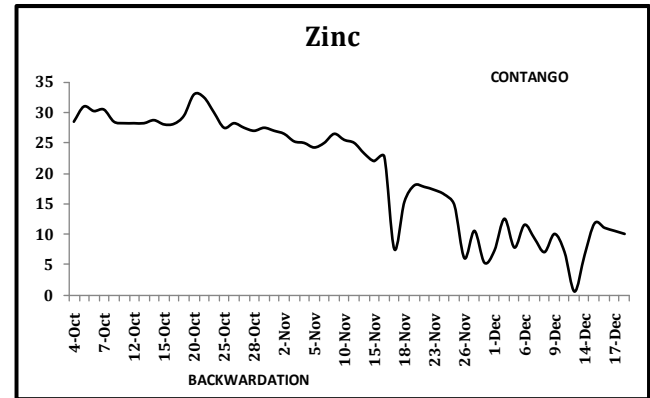
## ZINC

Inventory on Chinese warehouse witnessed increase of 4,051 tonnes thereby marking second consecutive week of increase. On LME too, stocks witnessed a massive build-up of 68,680 tonnes or 11 percent thereby taking the total stock to 699,450 tonnes.

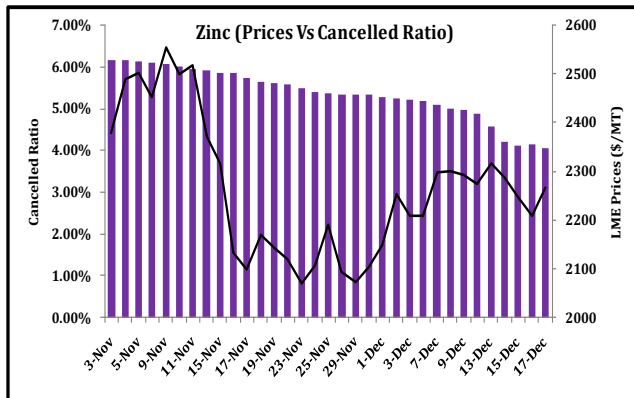
Huge increase in stock lead to underperformance of zinc as it ended the week flat on LME and modest gains on MCX.

### BASIS CHART

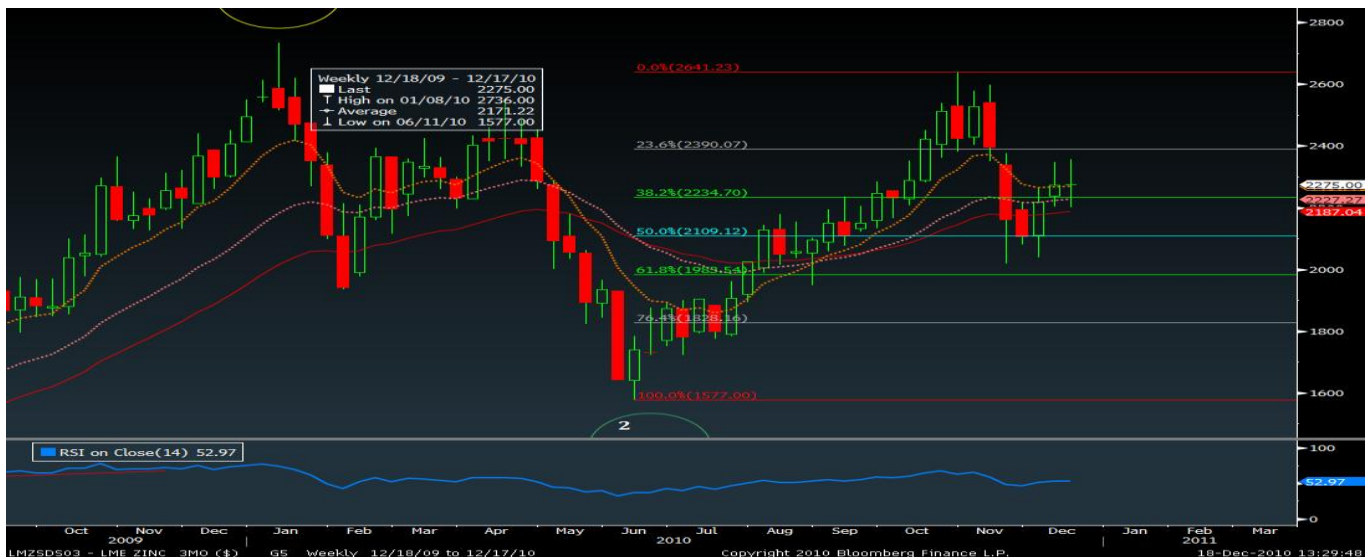
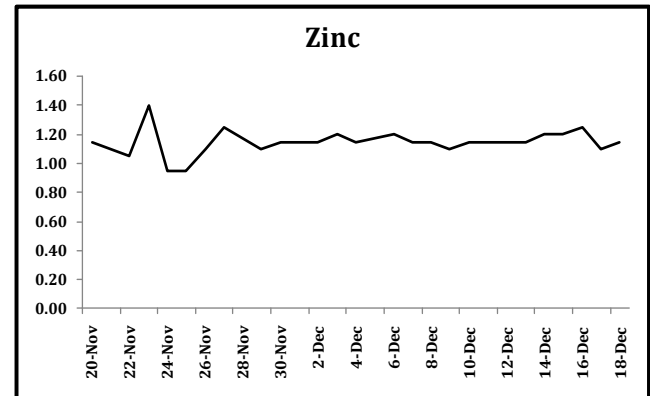
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### CALENDAR SPREAD ON MCX





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A Weekly Report on Base Metals



## DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date	Time	Region	Event	Period	Survey	Prior
20/12/2010	12:30	GE	Producer Prices (MoM)	NOV	0.30%	0.40%
20/12/2010	14:30	EC	ECB Euro-Zone Current Account SA	OCT	--	-13.1B
20/12/2010	19:00	US	Chicago Fed Nat Activity Index	NOV	0	-0.28
20/12/2010	20:30	EC	Euro-Zone Consumer Confidence	DEC A	-9	-9.4
21/12/2010		JN	BOJ Target Rate	21-Dec	0.10%	0.10%
22/12/2010	12:30	GE	Import Price Index (MoM)	NOV	0.50%	-0.20%
22/12/2010	15:00	UK	GDP (QoQ)	3Q F	0.80%	0.80%
22/12/2010	15:00	UK	Current Account (BP)	3Q	-8.5B	-7.4B
22/12/2010	19:00	US	GDP QoQ (Annualized)	3Q T	2.80%	2.50%
22/12/2010	19:00	US	Personal Consumption	3Q T	2.80%	2.80%
22/12/2010	20:30	US	Existing Home Sales	NOV	4.75M	4.43M
22/12/2010	20:30	US	Existing Home Sales MoM	NOV	7.20%	-2.20%
22/12/2010	20:30	US	House Price Index MoM	OCT	-0.20%	-0.70%
23/12/2010	19:00	US	Durable Goods Orders	NOV	-0.70%	-3.30%
23/12/2010	19:00	US	Personal Income	NOV	0.20%	0.50%
23/12/2010	19:00	US	Personal Spending	NOV	0.50%	0.40%
23/12/2010	19:00	US	Initial Jobless Claims	18-Dec	420K	420K
23/12/2010	19:00	US	Continuing Claims	11-Dec	4106K	4135K
23/12/2010	20:25	US	U. of Michigan Confidence	DEC F	74.5	74.2
23/12/2010	20:30	US	New Home Sales	NOV	300K	283K
23/12/2010	20:30	US	New Home Sales MoM	NOV	6.00%	-8.10%

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