

METALS WEEKLY

A Weekly Report on Base Metals



OUTLOOK

China, the largest consumer of metals, would release some of the key data this week. The economy is expected to have grown at 9.4 percent in the Q4 as against 9.6 percent in the prior quarter indicating marginal moderation in growth. Sustainability of growth is important, especially in case of China. Slower growth might in fact be positive as it would lead to decline in inflation and the data is expected to indicate so. Other indicators like industrial production and retail sales are expected to indicate continued double digit growth.

Housing data from US, in the form of housing starts, building permits and existing home sales are expected to improve as consumers might have taken advantage of lower interest rates amid improving economic conditions. From Euro zone ZEW survey's and IFO numbers are expected to come in positive. On the fundamental front, supply disruption owing to natural calamities like floods and cyclone would continue to linger the markets. Overall, largely positive economic data and probable supply disruptions is expected to send base metal prices higher.

TECHNICAL RECOMMENDATIONS									
Commodity	Contract	S3	S2	S1	CLOSE	R1	R2	R3	Recommendations
LME Aluminum	Fwd	2378	2417	2444	2472	2510	2549	2576	Buy at 2400-30 TP 2525/2580 SL 2320
MCX Aluminum	Jan-11	108.5	110.0	111.1	112.1	113.6	115.1	116.2	Buy at 110.5-111 TP 114/117 SL 108
LME Copper	Fwd	8979	9140	9395	9650	9811	9971	10226	Buy at 9500-50 TP 9750/10000 SL 9300.
MCX Copper	Feb-11	418.2	423.7	434.3	444.9	450.3	455.8	466.4	Buy at 437-40 TP 449.5/456 SL 432
LME Lead	Fwd	2505	2540	2610	2680	2715	2750	2820	Buy at 2640 TP 2730/2820 SL 2570
MCX Lead	Jan-11	114.7	116.3	119.3	122.3	123.9	125.5	128.5	Buy at 120-121 TP 125/128.5 SL 117
LME Nickel	Fwd	22220	23021	24448	25875	26676	27477	28904	Buy at 25200-300 TP 27600 SL 24000
MCX Nickel	Jan-11	1020.2	1053.6	1117.4	1181.2	1214.6	1248.0	1311.8	Buy at 1150-55 TP 1188/1220 SL 1125
LME Zinc	Fwd	2256	2306	2381	2457	2506	2556	2631	Buy at 2400-20 TP 2550 SL 2330.
MCX Zinc	Jan-11	104.7	106.4	109.0	111.6	113.2	114.9	117.5	Buy at 110-111 TP 115 then 117 SL 108
Steel Long NCDEX	Feb-11	26540	27280	27950	28630	29360	30100	30780	Buy at 27800-900 TP 29000 SL 27100.

*NOTE: The calls shown above are purely WEEKLY Recommendations

Key Economic Events this Week

Date Time	Region	Event	Period	Survey	Prior
19/01/2011 19:00	US	Housing Starts	DEC	550K	555K
19/01/2011 19:00	US	Building Permits	DEC	555K	530K
20/01/2011 07:30	CH	Industrial Production (YoY)	DEC	13.50%	13.30%
20/01/2011 07:30	CH	Real GDP YoY	4Q	9.40%	9.60%
20/01/2011 20:30	US	Existing Home Sales	DEC	4.90M	4.68M
20/01/2011 20:30	US	Philadelphia Fed.	JAN	22	24.3

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	2515	2521	2455	2472	-1.83	124,849	-24.85	2,367	-58.76
	Copper	9430	9715.75	9300	9650	2.50	162,051	-19.52	2,847	-12.16
	Lead	2642	2680.15	2575	2680	1.17	30,686	-36.11	806	-31.17
	Nickel	24150	26050	23822	25875	6.92	35,729	40.03	1,045	127.17
	Zinc	2427	2480	2355	2457	0.49	81,002	-26.10	1,482	-15.07
MCX Futures (₹/Kg)	Aluminium	113.65	114.1	111.55	112.1	-1.41	34,998	-21.19	3,149	-2.60
	Copper	432.5	445.2	429.15	444.85	2.95	519,096	-26.25	34,138	11.39
	Lead	121	122.5	117.9	122.25	1.16	90,637	-31.04	7,492	4.17
	Nickel	1104	1184.2	1087	1181.2	7.04	285,328	23.17	9,165	-5.26
	Zinc	109.9	112.25	108	111.55	0.81	119,179	-24.85	6,602	-9.19

MARKET OVERVIEW

- Base metal prices ended higher with gains of anywhere between one to seven percent, with the exception of aluminum which ended down by nearly two percent. Easing concerns about the peripheral European nations and continued improving economic data from US sent prices base metals higher
- The top performer among the base metal pack was Nickel which ended with gains of 7 percent after reports indicated alert in New Caledonia, World's largest nickel deposits, for a possible cyclone and thereby fears of supply disruption supported prices. Aluminium underperformed the entire base metal pack owing to massive build-up of stocks on London Metal Exchange
- Except for Nickel, volumes this week were on the lower side for all the base metals on both MCX and LME. Open interest however varied for different metals

SHANGHAI MARKET PERFORMANCE

PRICES (CNY/MT)				
Commodity	Previous Week	This Week	Change	% Change
Copper	69790	70150	360	0.52%
Zinc	18895	18775	-120	-0.64%
Aluminum	16690	16555	-135	-0.81%

COMEX MARKET PERFORMANCE

PRICES (USD/LB)				
Commodity	Previous Week	This Week	Change	% Change
Copper	427.25	440.35	13.1	3.07%



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Commodity Futures Trading Commission (CFTC) Report- Copper

According to **US CFTC data on Copper**, long unwinding along with short build-up continued on the non-commercial side. Life-time high prices however seem to have deterred purchases by hedgers, especially user industries. Overall, the bias remained on the short side as both long unwinding along with short build-up was witnessed.

CFTC Report - Copper (In contracts)				
Non-Commercial	1/4/2011	1/11/2011	Change	% Change
Long	61858	61530	-328	-0.53%
Short	30245	31423	1178	3.89%
Spreading	17716	17617	-99	-0.56%
Commercial				
Long	69780	67938	-1842	-2.64%
Short	104737	104139	-598	-0.57%
Total				
Long	149354	147085	-2269	-1.52%
Short	152698	153179	481	0.32%

INVENTORY DETAILS

LME WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	379525	376225	-3300	-0.87%
Zinc	700975	709725	8750	1.25%
Aluminium	4272400	4435000	162600	3.81%
Lead	209700	210975	1275	0.61%
Nickel	136896	136302	-594	-0.43%

COMEX WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	64776	65375	599	0.92%

SHANGHAI WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	132166	132647	481	0.36%
Zinc	316066	321093	5027	1.59%
Aluminium	442601	434020	-8581	-1.94%



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ECONOMIC REVIEW

- Peripheral European nations, Portugal, Spain and Italy, successfully raised money through bond issuances though at a higher yields. This eased the concerns that nations like Portugal might require a bailout. However the issue seems to be resolved only for the time being and long term concerns continue to loom. Euro thereby rallied by 3.73 percent and supported commodity prices. Fitch however downgraded Greece to Junk status on the last day of the week
- Despite largely positive economic data from US, dollar remained under pressure because of strength in Europe and not because of weakness in US economy. In fact, data like industrial production and capacity utilization continue to come in above expectation. Better than expected economic data also sent the equity markets to 30 month highs
- World's largest consumer of metals, China raised reserve ratio by 50 bps to 19 percent as nation continues to take measures to curb inflation which came in at 5.1 percent in the month of November, way above the comfort level of 3 percent
- Indian equity markets continue to underperform most of the other global majors and Asian peers for a second consecutive week, owing to strong domestic headwinds. Inflation came in at 8.43 percent as against 7.5 percent in the prior month thereby raising expectation of further monetary tightening in the coming monetary policy review. This sent the equity markets lower and third quarter results also disappointed. Rupee however ended largely flat as weakness in the dollar was offset by the weakness in the equity markets

Equity Indices	Last Week	This Week	% Change
Dow Jones Ind. Avg.	11674.76	11787.38	0.96%
S&P 500 Index	1271.50	1293.24	1.71%
FTSE 100 Index	5984.33	6002.07	0.30%
Nikkie 225	10541.04	10499.04	-0.40%
Shanghai Composite	2838.80	2791.34	-1.67%
Sensex	19691.81	18860.44	-4.22%

Currency	Last Week	This Week	% Change
Dollar Index	81.012	79.064	-2.40%
EUR/USD	1.2907	1.3388	3.73%
GBP/USD	1.5548	1.587	2.07%
USD/INR	45.385	45.365	-0.04%

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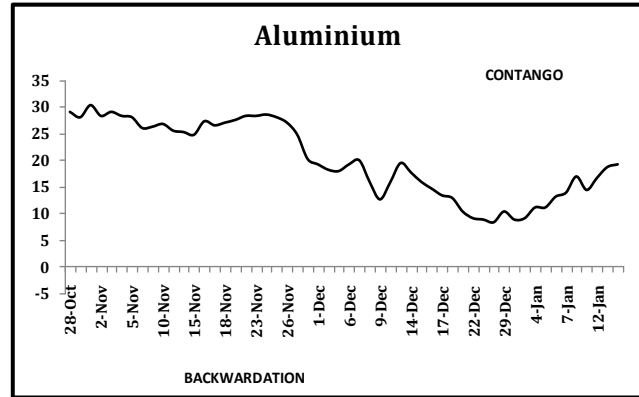
ALUMINIUM

Aluminum stocks rose by 162,600 tonnes or 3.8 percent on London Metal Exchange thereby taking the total stock to 44,35,000 tonnes. Rising stocks lead to underperformance of aluminum prices. However stocks might again start to decline as cancelled warrant ratio seem to be stabilizing and demand from sectors like electronics continue to remain strong.

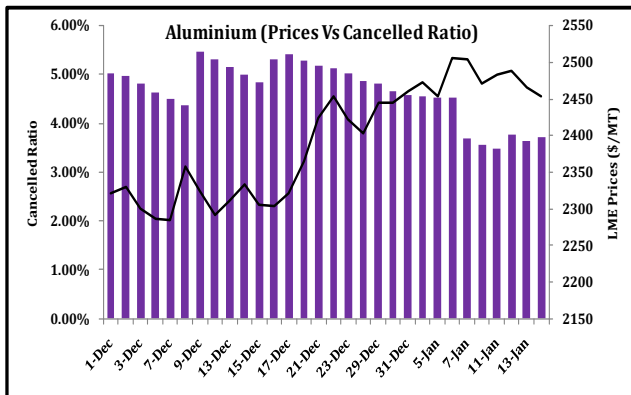
On the industry front, Alcoa reported better than estimated results and the company expects the growth of demand by 12 percent.

BASIS CHART

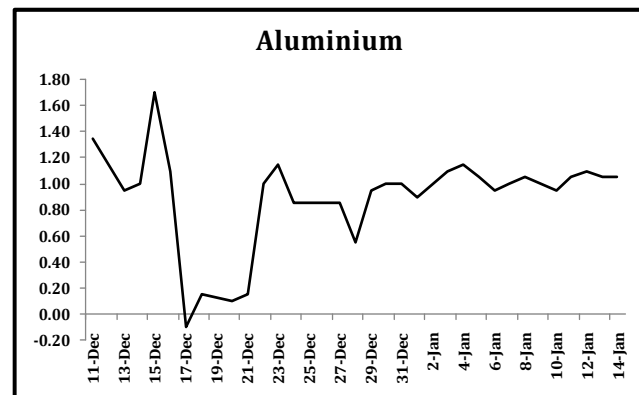
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}

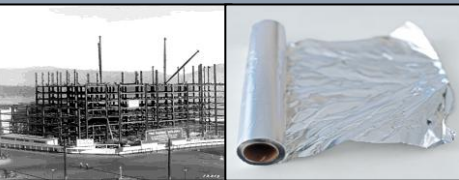


CANCELLED WARRANT RATIO ON LME



CALENDAR SPREAD ON MCX





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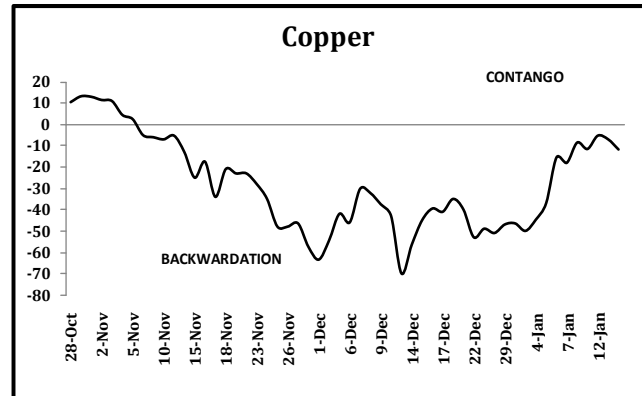
COPPER

Chile based Escondida, world's largest copper mine, would adopt a new royalty scheme that raises taxes. The Chilean government is seeking funds as the country rebuilds after devastating quake.

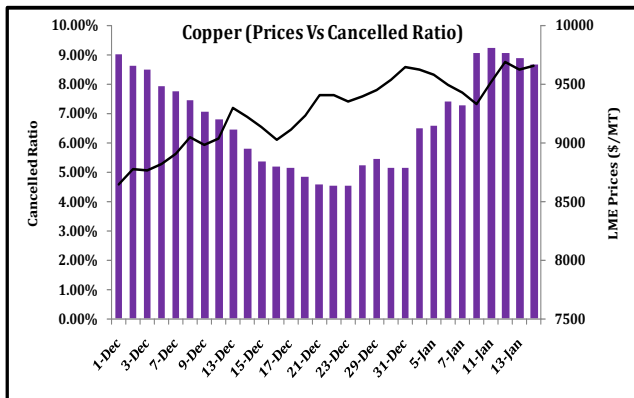
The cancelled warrant ratio continues to remain strong. Current at 9 percent on LME it is the highest among all the base metals and thereby is indicating that stocks might continue to witness draw-downs.

BASIS CHART

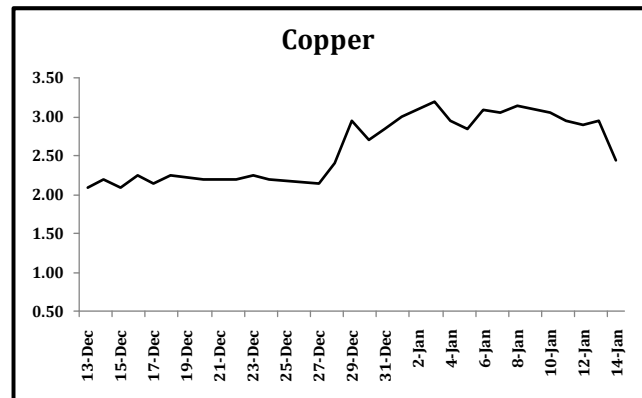
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



CANCELLED WARRANT RATIO ON LME



CALENDAR SPREAD ON MCX



TECHNICALS: Copper prices traded completely higher on last week by reversing the previous trend. It made a high of 9715.75 levels and low of 9300 settled higher at 9650 levels. It was up by 2.5% on last week. Closing of the weekly candle renders bullish movements for the coming week. Copper is witnessing crucial resistance at 9754 levels (previous week high). On sustained trade above is likely to trade upside and remain higher. Copper is witnessing **"Trend Channel"** formation on the higher side allowing the prices to trade on north ward direction. Prices are trading within the trend channel since many weeks. A significant breakout on the higher side will confirm further bullish trend. Prices are witnessing upper trend channel resistance at 9915 levels. The **"Moving Average"** principle suggesting bullish trend as prices are trading well above the short term and midterm EMA's of (8, 21 & 34). The momentum indicator **"RSI 14"** weekly is trading at 0.721 showing higher potential. We expect prices to trade higher and recommend buying at the support levels for the coming week.



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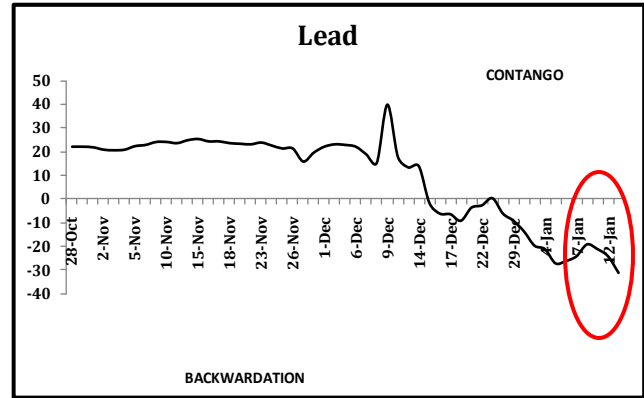
LEAD

Lead market continues to remain in backwardation and spot prices are trading at a premium to forwards owing indicating tight supply conditions.

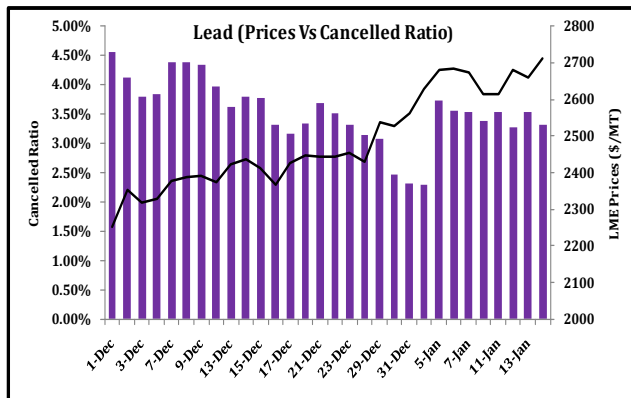
The calendar spread on MCX (difference between Feb and Jan contract) has also moved into backwardation. Historically there have been very few periods when this spread moved in negative. So we expect the spread to move higher as Feb contract has more short positions and thereby price appreciation going forward might be more visible in the far month.

BASIS CHART

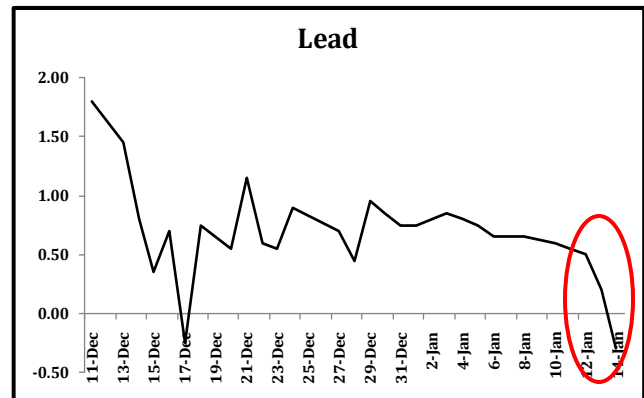
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CALENDAR SPREAD ON MCX





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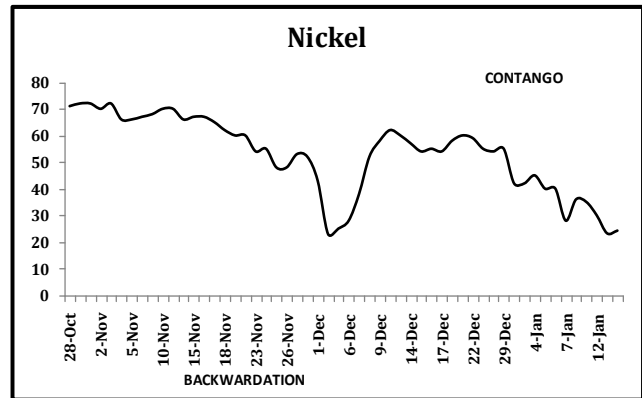
NICKEL

Nickel was the top performer among the base metal pack as it ended with gains of more than 8 percent on the back of reports of supply disruption. Nickel was in fact the only base metal to witness increase in all the three, price, volume and open interest on LME, indicating strength in the market and continuation of up move.

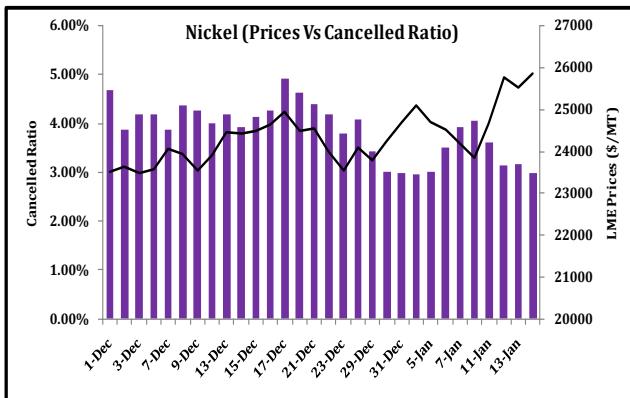
New Caledonia, World's largest nickel deposits, was on alert owing to cyclone and thereby concerns about supply continue to remain.

BASIS CHART

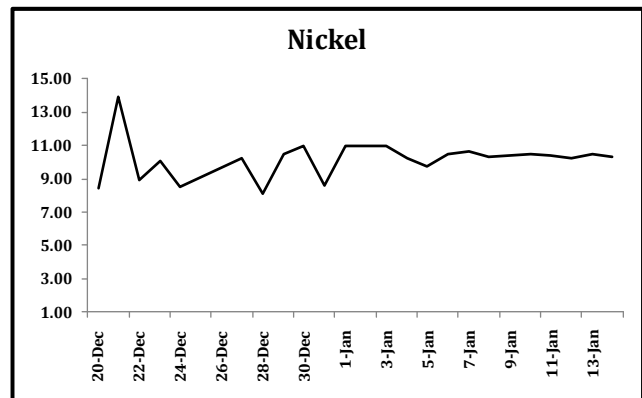
(LME 3 MTH FWD-LME CASH PRICES) (\$/Tonnes)



CANCELLED WARRANT RATIO ON LME



CALENDAR SPREAD ON MCX



TECHNICALS: Nickel prices traded completely higher on last week by reversing the previous trend. It made a low of 23822 levels then high of 26050 levels and settled higher at 25875 levels. Closing of the weekly candle renders bullish trend is still intact for the coming week. Prices have surpassed the resistance of 25200 levels (previous swing highs) on sustained trade above would lead the prices to trade further higher. Nickel is witnessing resistance at 27600 levels (previous swing highs) on sustained trade above is likely to extend further gains. The principle of Fibonacci Retracement states that prices has breached the resistance of 25223 levels which happens to be 38.2% retracement of the range (8850-51800) on sustained trade above is likely to trade higher. The "Moving Average" principle also suggests upside movements as prices are trading well above the short term and midterm EMA's of (8, 21 & 34). The "Volume Indicator" analysis suggests bullish view for the coming week as volumes have increased from 25515 to 35729 contracts. The momentum indicator **RSI 14** weekly is trading at 0.621 levels showing higher potential. We expect prices to trade higher and recommend buying at the lower levels.



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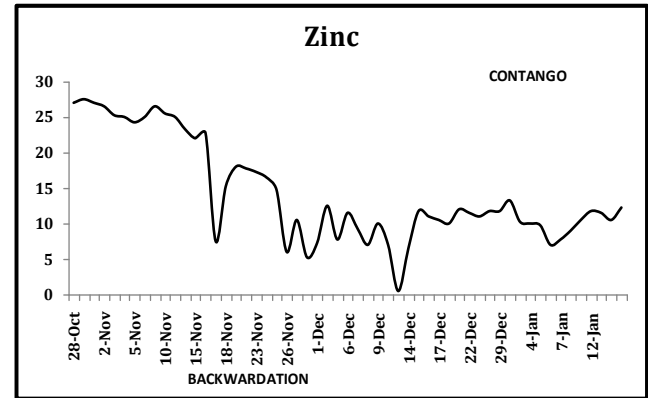
ZINC

As expected, stocks this week increased by 8,750 tonnes on LME. The cancelled warrant ratio continues to remain at lower levels thereby indicating that stocks might continue to witness build-up ahead as well.

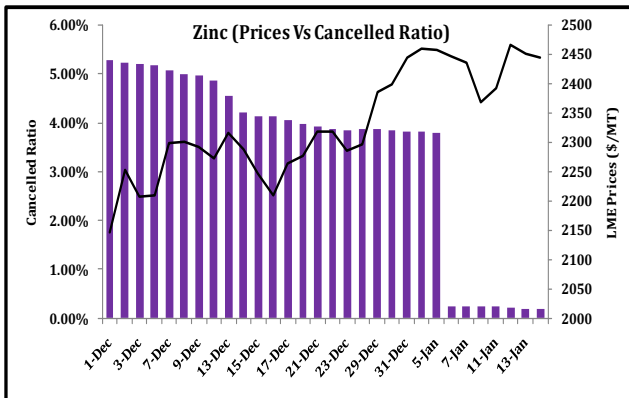
Despite increasing stocks and declining cancelled warrant ratio, prices continue to move higher tracking other base metals. In the week ahead as well, the same trend is expected to continue.

BASIS CHART

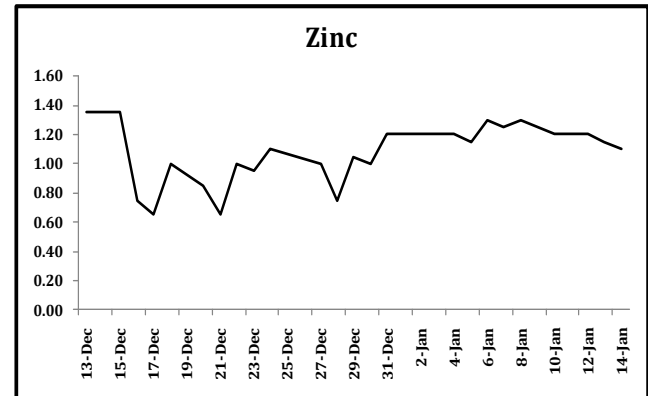
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



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CALENDAR SPREAD ON MCX





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DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date	Time	Region	Event	Period	Survey	Prior
18/01/2011	07:30	CH	Actual FDI (YoY)	DEC	11.20%	38.20%
18/01/2011	15:00	UK	CPI (MoM)	DEC	0.60%	0.40%
18/01/2011	15:30	GE	ZEW Survey (Current Situation)	JAN	83.4	82.6
18/01/2011	15:30	EC	ZEW Survey (Econ. Sentiment)	JAN	--	15.5
18/01/2011	15:30	GE	ZEW Survey (Econ. Sentiment)	JAN	7	4.3
18/01/2011	19:00	US	Empire Manufacturing	JAN	12	10.57
18/01/2011	19:30	US	Total Net TIC Flows	NOV	--	\$7.5B
18/01/2011	19:30	US	Net Long-term TIC Flows	NOV	--	\$27.6B
18/01/2011	20:30	US	NAHB Housing Market Index	JAN	17	16
19/01/2011	14:30	EC	ECB Euro-Zone Current Account SA	NOV	--	-9.8B
19/01/2011	19:00	US	Housing Starts	DEC	550K	555K
19/01/2011	19:00	US	Building Permits	DEC	555K	530K
19/01/2011	19:00	US	Housing Starts MOM%	DEC	-0.90%	3.90%
19/01/2011	19:00	US	Building Permits MOM%	DEC	2.00%	-4.00%
20/01/2011	07:30	CH	Real GDP YoY	4Q	9.40%	9.60%
20/01/2011	07:30	CH	Consumer Price Index (YoY)	DEC	4.60%	5.10%
20/01/2011	07:30	CH	Producer Price Index (YoY)	DEC	5.60%	6.10%
20/01/2011	07:30	CH	Industrial Production (YoY)	DEC	13.50%	13.30%
20/01/2011	07:30	CH	Retail Sales (YoY)	DEC	18.80%	18.70%
20/01/2011	07:30	CH	Fixed Assets Inv Urban YTD YoY	DEC	24.90%	24.90%
20/01/2011	12:30	GE	Producer Prices (MoM)	DEC	0.50%	0.20%
20/01/2011	19:00	US	Initial Jobless Claims	15-Jan	425K	445K
20/01/2011	19:00	US	Continuing Claims	8-Jan	4000K	3879K
20/01/2011	20:30	EC	Euro-Zone Consumer Confidence	JAN A	-12	-11
20/01/2011	20:30	US	Existing Home Sales	DEC	4.90M	4.68M
20/01/2011	20:30	US	Existing Home Sales MoM	DEC	4.60%	5.60%
20/01/2011	20:30	US	Leading Indicators	DEC	0.60%	1.10%
20/01/2011	20:30	US	Philadelphia Fed.	JAN	22	24.3
21/01/2011	14:30	GE	IFO - Business Climate	JAN	110	109.9
21/01/2011	14:30	GE	IFO - Current Assessment	JAN	113.4	112.9
21/01/2011	14:30	GE	IFO - Expectations	JAN	106.5	106.9



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