



# METALS WEEKLY

## A Weekly Report on Base Metals



### OUTLOOK

Key data releases from China, world's largest consumer of metals, are going to make the coming week crucial for base metal prices. China's trade surplus is expected to contract on the back of stronger import growth thereby indicating strong domestic demand. However the inflation is expected to zoom to 5.4 percent for the month of January as against 4.6 percent in the prior month. This might raise concerns about the further hike in interest rates and thereby lead to correction in base metal prices.

Market internals in the form of open interest did not witness much change and volumes were also on the lower side on London Metal Exchange. Japanese economy is expected to have contracted by half a percent in the last quarter of 2010 and thereby the Bank of Japan would maintain interest rate at 0.1 percent. Euro-zone ZEW surveys are however expected to come in higher however inflation in UK might accelerate. From US, manufacturing numbers are expected to indicate continue growth though at a moderate pace. Housing data however is expected to come in mixed as improving economic conditions might have lead to increase in housing starts with decline in building permits. Overall, the first couple of days of the week would be crucial and might determine the direction for base metal prices.

TECHNICAL RECOMMENDATIONS									
Commodity	Contract	S3	S2	S1	CLOSE	R1	R2	R3	Recommendations
<a href="#">LME Aluminum</a>	Fwd	2346	2408	2452	2495	2557	2619	2662	Buy at 2450-70 TP 2575 SL 2400
MCX Aluminum	Feb-11	108.0	110.2	112.1	113.9	116.2	118.4	120.3	Buy at 112-113 TP 117 SL 110
<a href="#">LME Copper</a>	Fwd	9491	9664	9813	9961	10135	10308	10457	Sideways
MCX Copper	Feb-11	436.5	444.0	451.1	458.1	465.7	473.2	480.3	Sideways
<a href="#">LME Lead</a>	Fwd	2348	2407	2483	2560	2618	2677	2753	Buy at 2500-30 TP 2650 SL 2420
MCX Lead	Feb-11	108.5	110.9	114.3	117.8	120.1	122.5	125.9	Buy at 116-117 TP 122 SL 113
<a href="#">LME Nickel</a>	Fwd	26367	26953	27627	28300	28887	29473	30147	Sideways
MCX Nickel	Feb-11	1199.5	1225.5	1258.8	1292.1	1318.1	1344.1	1377.4	Sideways
<a href="#">LME Zinc</a>	Fwd	2271	2339	2402	2465	2533	2601	2664	Buy at 2400-40 TP 2540/90 SL 2320
MCX Zinc	Feb-11	104.7	107.3	109.8	112.4	115.0	117.6	120.1	Buy at 110-111 TP 115 SL 108.5
Steel Long NCDEX	Feb-11	24010	25270	26030	26790	28050	29310	30070	Sideways

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

### Key Economic Events this Week

Date Time	Region	Event	Period	Survey	Prior
14/02/2011 07:30	CH	Trade Balance (USD)	JAN	\$11.30B	\$13.10B
15/02/2011 07:30	CH	Producer Price Index (YoY)	JAN	6.20%	5.90%
15/02/2011 07:30	CH	Consumer Price Index (YoY)	JAN	5.40%	4.60%
15/02/2011 19:00	US	Empire Manufacturing	FEB	15	11.92
16/02/2011 19:00	US	Housing Starts	JAN	537K	529K
16/02/2011 19:00	US	Building Permits	JAN	570K	635K
16/02/2011 19:45	US	Industrial Production	JAN	0.60%	0.80%

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	2541.5	2575.25	2470	2495	-1.81	123,396	-34.01	2,938	1.87
	Copper	10040	10160	9838	9961	-0.89	161,146	-23.44	3,013	14.91
	Lead	2585	2600	2465	2560	-0.93	30,302	-24.54	691	-9.20
	Nickel	28330	28800	27540	28300	-0.18	35,410	-2.46	1,048	13.79
	Zinc	2501	2538	2407	2465	-1.64	70,809	-17.42	1,372	-14.09
MCX Futures (₹/Kg)	Aluminium	115.7	116.6	112.5	113.9	-1.68	32,576	29.84	1,714	12.69
	Copper	464.8	466.2	451.6	458.1	-1.38	474,260	7.98	27,571	-25.06
	Lead	118.55	119	113.2	117.8	-0.67	92,309	15.10	3,320	2.09
	Nickel	1296	1310.8	1251.5	1292.1	-0.15	262,769	25.72	9,742	-23.10
	Zinc	114.2	115.05	109.9	112.35	-1.53	110,864	1.64	3,670	-20.72

### MARKET OVERVIEW

- Base metal prices ended lower with average losses of one percent on the back of monetary tightening concerns in China. People's bank of China raised interest rates by 25 bps to combat inflation which continues to remain on the higher side. However largely positive data from US limited the downside
- Aluminium was the top loser among the base metal pack as it ended with losses of nearly two percent on the back of increasing stocks on London Metal Exchange. Nickel was the relatively outperformer among the base metal pack as it ended largely flat
- Chinese markets opened after a weak long holiday and prices were under pressure and buying seems to have moderated as higher prices deter purchases. Copper on SHFE closed higher by 1.09 percent while zinc and aluminium closed with gains of close to half a percent

### SHANGHAI MARKET PERFORMANCE

PRICES (CNY/MT)				
Commodity	Previous Week	This Week	Change	% Change
Copper	73540	74340	800	1.09%
Zinc	18900	18985	85	0.45%
Aluminum	16755	16800	45	0.27%

### COMEX MARKET PERFORMANCE

PRICES (USD/LB)				
Commodity	Previous Week	This Week	Change	% Change
Copper	457.1	453.1	-4	-0.88%



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

According to **US CFTC data on Copper**, both long and short positions witnessed build-up with bias on the long side on the non-commercial side. On the commercial side, producers seem to be using life time prices to hedge their produce and thereby short positions increased by 5.7 percent. Overall, both long and short positions increased.

CFTC Report - Copper (In contracts)				
Non-Commercial	2/1/2011	2/8/2011	Change	% Change
Long	57306	63087	5781	10.09%
Short	32595	33627	1032	3.17%
Spreading	17224	13116	-4108	-23.85%
<b>Commercial</b>				
Long	67515	67951	436	0.65%
Short	95663	101181	5518	5.77%
<b>Total</b>				
Long	142045	144154	2109	1.48%
Short	145482	147924	2442	1.68%

### INVENTORY DETAILS

LME WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	394150	396725	2575	0.65%
Zinc	710075	709075	-1000	-0.14%
Aluminium	4530975	4599450	68475	1.51%
Lead	289275	295050	5775	2.00%
Nickel	132798	131112	-1686	-1.27%

COMEX WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	73684	76709	3025	4.11%

SHANGHAI WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	134298	144197	9899	7.37%
Zinc	326210	326620	410	0.13%
Aluminium	429884	431356	1472	0.34%



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### ECONOMIC REVIEW

- On the last day of Chinese New Year holiday, People's Bank of China raised interest rate by 25 bps. This is the third interest rate hike since October 2010 and is a measure to combat inflation which continues to remain above the comfort level
- Bank of England left interest rates unchanged at 0.50 percent. Despite inflation being on the higher side the central bank did not raise interest rates as fourth quarter GDP data indicated contraction of the economy. Higher inflation is also expected to be largely driven by food items. Manufacturing data also largely indicated moderation thereby sending the GBP lower by 0.65 percent
- US equity markets continue to move higher as they ended with gains of one and half percent. Initial jobless claims declined to 383K, there lowest level in 30 months thereby boosting sentiment. Michigan confidence also indicated improving confidence thereby sending the dollar index higher by half a percent
- In India, Central Statistics Organization estimates indicate that the economy would grow at 8.6 percent in the fiscal year 2011. Industrial production numbers of December month however indicated that growth moderated to 1.6 percent as against 2.6 percent in the prior month. The drag came in from capital goods sector which contracted
- Indian equity markets continue to underperform other global majors as foreign institutional investors pull out money. Headwinds like inflation and governance issues are also leading to decline in stocks market. Rupee thereby depreciated by 0.2 percent

Equity Indices	Last Week	This Week	% Change
<b>Dow Jones Ind. Avg.</b>	12092.15	12273.26	1.50%
<b>S&amp;P 500 Index</b>	1310.87	1329.15	1.39%
<b>FTSE 100 Index</b>	5997.38	6062.90	1.09%
<b>Nikkie 225</b>	10543.52	10605.65	0.59%
<b>Shanghai Composite</b>	2798.96	2827.33	1.01%
<b>Sensex</b>	18008.15	17728.61	-1.55%

Currency	Last Week	This Week	% Change
<b>Dollar Index</b>	78.044	78.44	0.51%
<b>EUR/USD</b>	1.3581	1.3554	-0.20%
<b>GBP/USD</b>	1.6111	1.6006	-0.65%
<b>USD/INR</b>	45.6	45.685	0.19%



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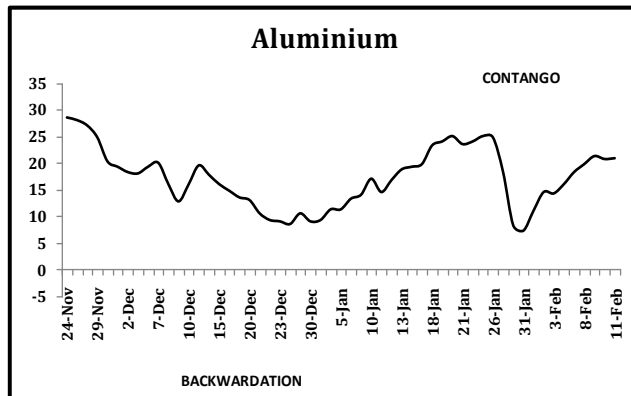
### ALUMINIUM

Australia's Alumina Inc. has moved to spot market index for pricing of Alumina from now on. Alumina, the raw material used in the second stage of aluminium production. The pricing historically has been between 10-17 percent of Aluminium prices prevailing on the London Metal Exchange.

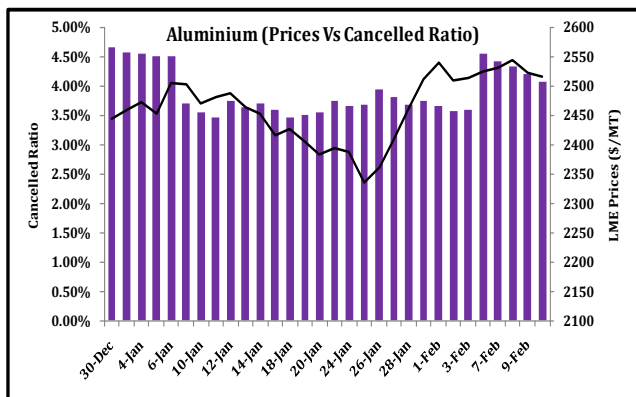
Aluminium prices underperformed other base metals on the back of increasing stocks. However the cancelled warrant ratio continues to remain at average levels and thereby it might largely follow other base metals going ahead.

### BASIS CHART

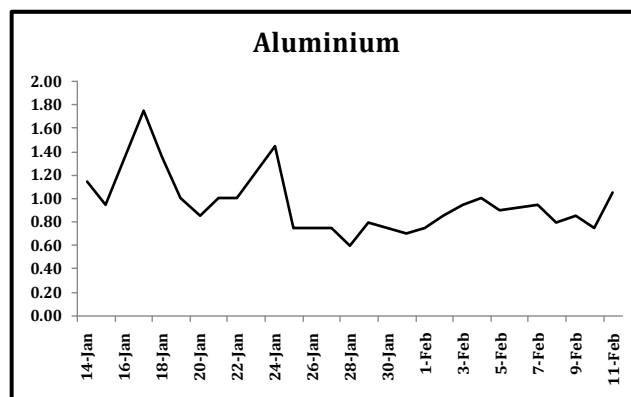
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}

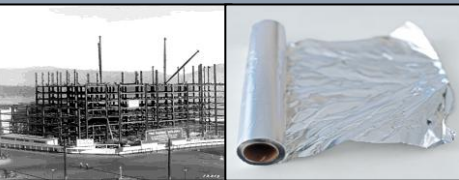


### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX





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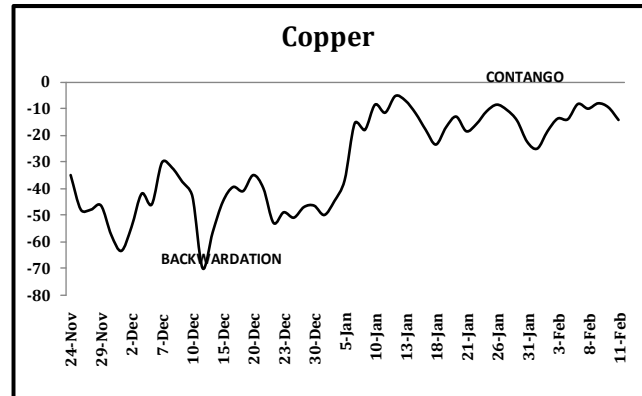
### COPPER

Xstrata's mined copper production in 2010 came in at 913,500 tonnes as against 907,000 tonnes in the prior year. However the output of finished product, copper cathode declined by 1.5 percent to 715,799. Supply of copper is not able to catch up with the demand growth and thereby is supporting prices to trade at an all time high.

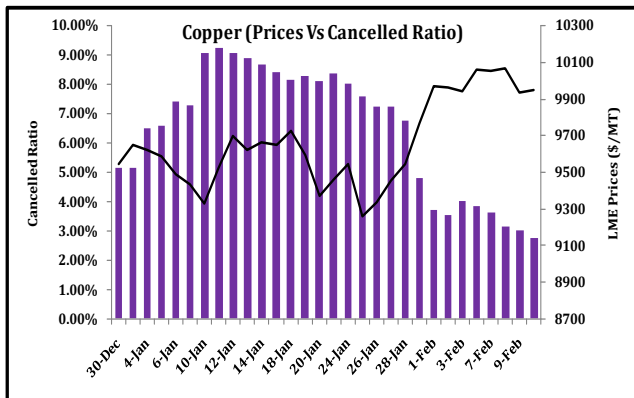
The decline in cancelled warrant ratio is indicating that stocks might continue to witness increase in inventory on LME in the near term.

### BASIS CHART

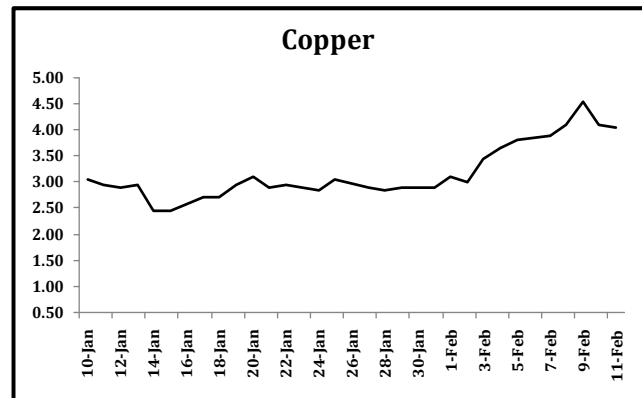
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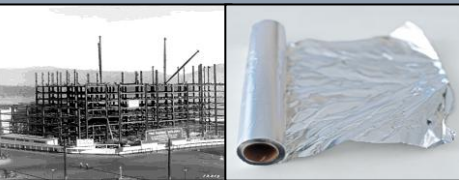


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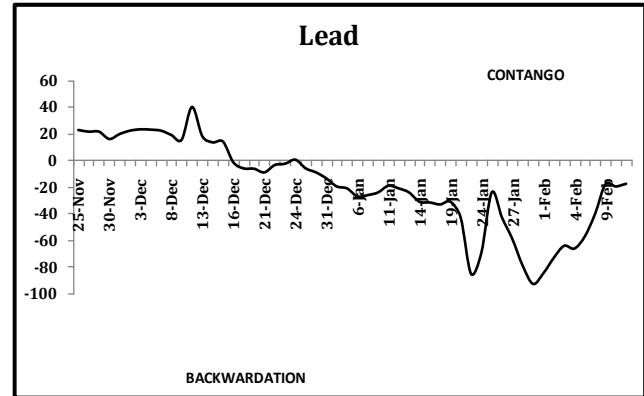
### LEAD

India's automobile sales grew by 26 percent in the month of January, to their highest level ever thereby putting an end to concern that demand might decline after the interest rate hikes.

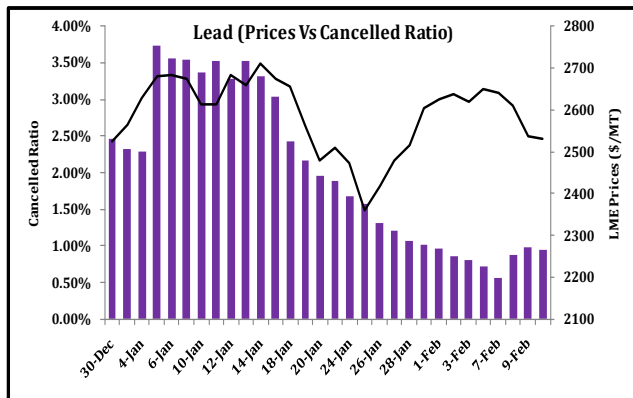
Decline in open interest on London Metal Exchange along with late rebound in prices is indicating short covering. What has been the area of concern for prices is that stocks at 295,050 tonnes are at the highest level since 1995.

### BASIS CHART

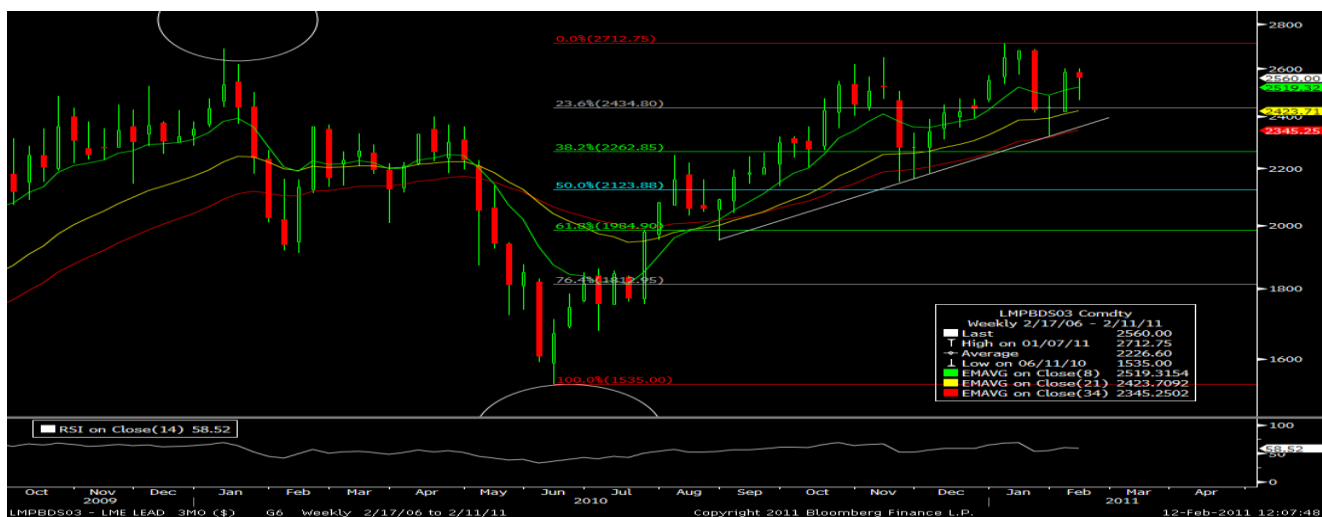
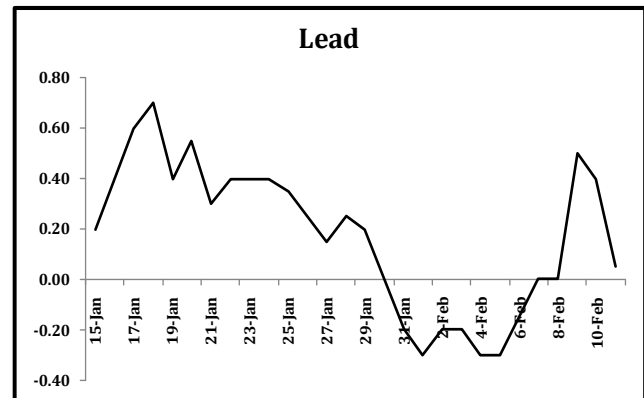
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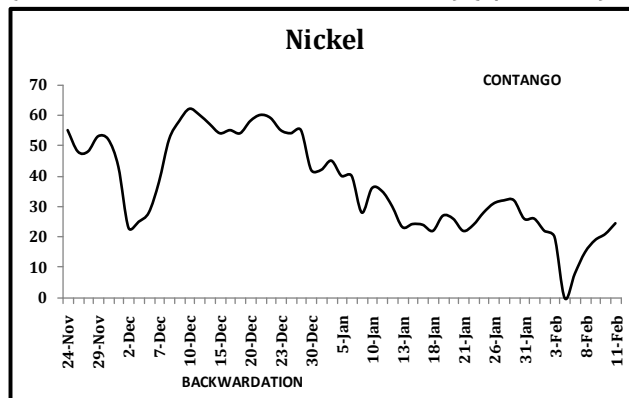


### NICKEL

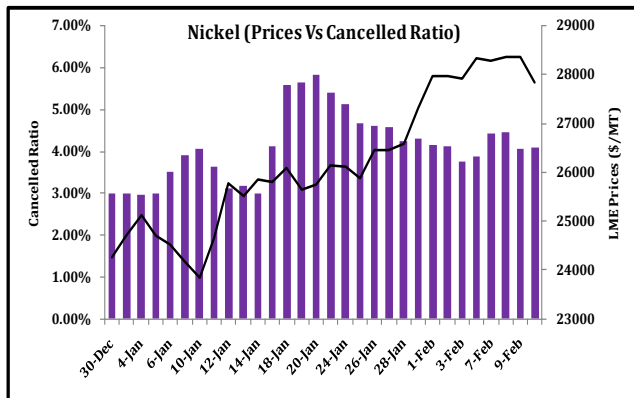
Nickel prices continue to remain resilient and thereby ended the week largely flat. Nickel stocks on LME declined for fifth consecutive week thereby taking the total stocks to 131,112 tonnes. The cancelled warrant ratio also continues to remain at average levels thereby indicating that stocks might continue to witness draw downs. Open interest however decline indicating profit booking at higher levels.

### BASIS CHART

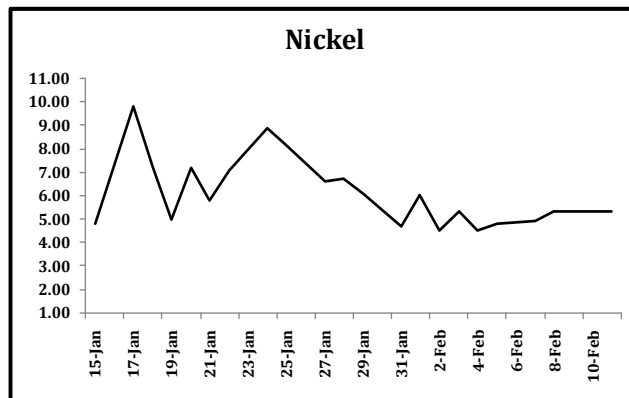
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX



**TECHNICALS:** Nickel prices traded flat on the last week with a minor change of -0.1 per cent. It made a low of \$27540 levels and high of \$28800 levels before settling the week at \$28300 levels. The weekly candle renders **"LONG LEGGED DOJI"** formation and if prices breach the candle stick low of \$27540 levels may expect trend reversal and prices may remain lower for the short term. However, the last week's low has been a crucial support as it has reversed from the swing high and ended at the midpoint. If market sustain above the support levels may see prices trading higher. Prices are witnessing **"Trend Line"** support at \$27500 levels which is also need to be looked upon. Another technical tool, **"Fibonacci Projections"** states that prices are witnessing crucial resistance of \$28300 levels which is 100% projections of the range \$17375-25200-20450 levels. Only on breach and sustained trade above would lead the prices to further highs and has the potential to test 30140 levels which is 123.6% projections of the above mentioned range. The **"Moving Average"** principle suggesting bullish trend is still intact as prices are trading well above the short and medium term EMA's of (8, 21 & 34). The momentum indicator **"RSI 14"** weekly closed at 0.693 levels and showing higher potential. **Since the technical indicators are portraying a mixed picture we would not prefer to take any positions.**



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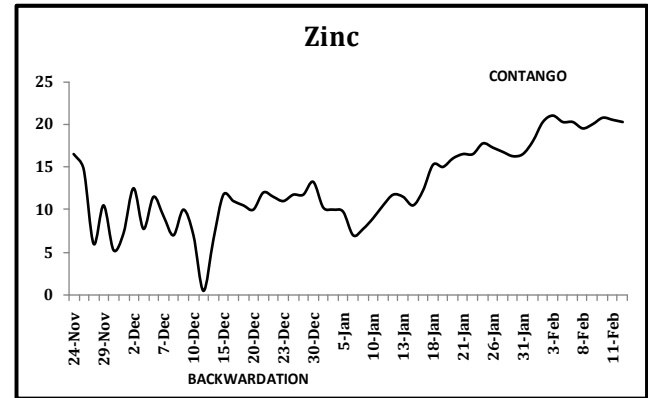
### ZINC

Port strike at Peru's central Andes initially supported zinc prices to move higher. However in the later half of the week reports indicated that the strike has ended thereby putting pressure on zinc prices.

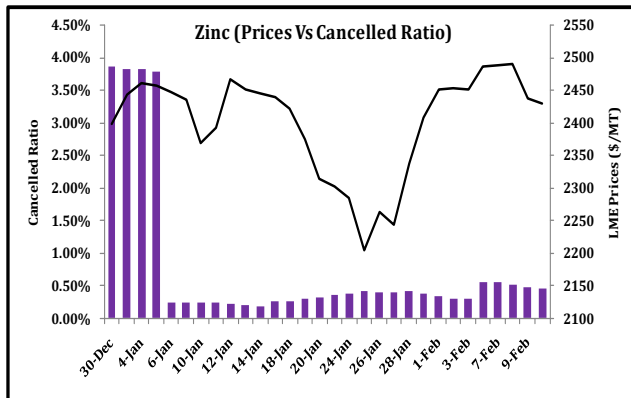
The country produced 1.47 million tonnes of zinc and 261,902 tonnes of lead in 2010 and mining generates nearly 60 percent of the country's revenue.

### BASIS CHART

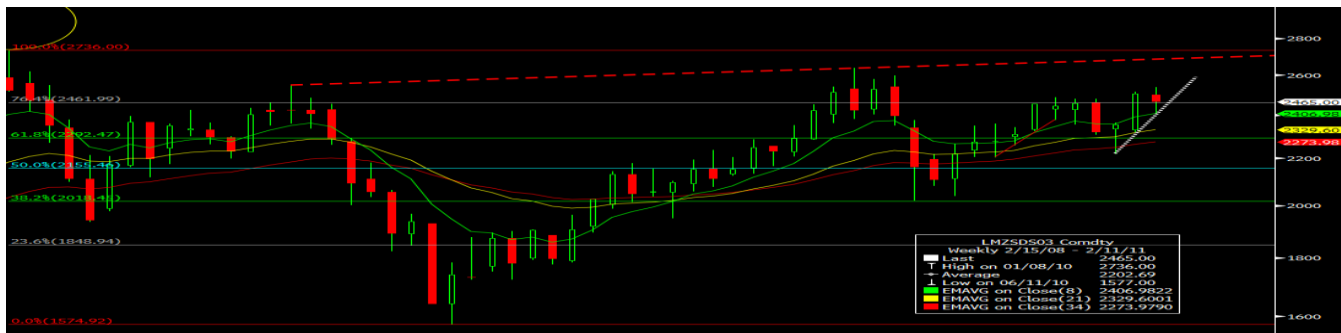
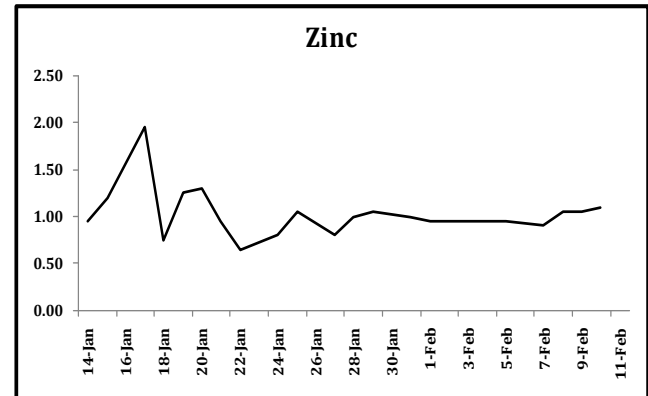
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX



**TECHNICALS:** Zinc prices initially traded higher then lost all the gains and closed marginally lower on last week by reversing the previous trend. It made a high of 2538 levels and low of 2407 levels before settling at 2465 levels. It was down by 1.6% on last week. Closing of the previous candle renders indecisive movements for the coming week. Prices are witnessing **"Inverted Head & Shoulder"** pattern formation in the weekly chart. The neck line for the formation is at 2690 levels. Only on breach and sustained trade above would confirm the bullish trend and may expect the prices to trade on the higher side for the short term. However if prices does not breaks the neckline then a minor correction on the downside may be expected. Prices are witnessing crucial **"Trend Line"** support at 2405 levels. On sustained trade above is likely to remain higher. The principle of **"Fibonacci Retracement"** states that prices have settled above 76.4% retracement of the range 1575-2736 levels suggesting bullish trend and has potential for the prices to test the origin point of 2736 levels. The **"Moving Average"** principle suggesting upside movements as prices are trading well above the short and medium term EMA's of (8, 21 & 34). The momentum indicator **"RSI 14"** weekly closed at 0.577 levels and showing indecisiveness. However, we expect prices to trade sideways higher and recommend buying at lower levels with strict stop losses.



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### DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date	Time	Region	Event	Period	Survey	Prior
14/02/2011	05:20	JN	GDP Annualized	4Q P	-2.00%	4.50%
14/02/2011	05:20	JN	Gross Domestic Product (QoQ)	4Q P	-0.50%	1.10%
14/02/2011	07:30	CH	Trade Balance (USD)	JAN	\$11.30B	\$13.10B
14/02/2011	07:30	CH	Exports YoY%	JAN	22.50%	17.90%
14/02/2011	07:30	CH	Imports YoY%	JAN	27.00%	25.60%
14/02/2011	12:00	IN	Monthly Wholesale Prices YoY%	JAN	8.10%	8.43%
14/02/2011	15:30	EC	Euro-Zone Ind. Prod. sa (MoM)	DEC	-0.20%	1.20%
15/02/2011	07:30	CH	Producer Price Index (YoY)	JAN	6.20%	5.90%
15/02/2011	07:30	CH	Consumer Price Index (YoY)	JAN	5.40%	4.60%
15/02/2011	10:00	JN	Industrial Production (MoM)	DEC F	--	3.10%
15/02/2011	12:30	GE	GDP s.a. (QOQ)	4Q P	0.50%	0.70%
15/02/2011	15:00	UK	CPI (YoY)	JAN	4.00%	3.70%
15/02/2011	15:30	EC	Euro-Zone GDP s.a. (QoQ)	4Q A	0.40%	0.30%
15/02/2011	15:30	GE	ZEW Survey (Current Situation)	FEB	83	82.8
15/02/2011	15:30	EC	ZEW Survey (Econ. Sentiment)	FEB	--	25.4
15/02/2011	15:30	GE	ZEW Survey (Econ. Sentiment)	FEB	20	15.4
15/02/2011	15:30	EC	Euro-Zone Trade Balance sa	DEC	--	-1.9B
15/02/2011	19:00	US	Empire Manufacturing	FEB	15	11.92
15/02/2011	19:00	US	Import Price Index (MoM)	JAN	0.80%	1.10%
15/02/2011	19:00	US	Advance Retail Sales	JAN	0.50%	0.60%
15/02/2011	19:30	US	Total Net TIC Flows	DEC	\$40.0B	\$39.0B
15/02/2011	19:30	US	Net Long-term TIC Flows	DEC	--	\$85.1B
15/02/2011	20:30	US	Business Inventories	DEC	0.70%	0.20%
15/02/2011	20:30	US	NAHB Housing Market Index	FEB	16	16
15/02/2011		JN	BOJ Target Rate	15-Feb	0.10%	0.10%
16/02/2011	19:00	US	Housing Starts	JAN	537K	529K
16/02/2011	19:00	US	Building Permits	JAN	570K	635K
16/02/2011	19:45	US	Industrial Production	JAN	0.60%	0.80%
16/02/2011	19:45	US	Capacity Utilization	JAN	76.40%	76.00%
17/02/2011	00:30	US	Minutes of FOMC Meeting			
17/02/2011	19:00	US	Consumer Price Index (MoM)	JAN	0.40%	0.50%
17/02/2011	19:00	US	Initial Jobless Claims	12-Feb	400K	383K
17/02/2011	19:00	US	Continuing Claims	5-Feb	--	3888K
17/02/2011	20:30	EC	Euro-Zone Consumer Confidence	FEB A	-11	-11.2
17/02/2011	20:30	US	Leading Indicators	JAN	0.30%	1.00%
17/02/2011	20:30	US	Philadelphia Fed.	FEB	20.9	19.3



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