



# METALS WEEKLY

A Weekly Report on Metals



## OUTLOOK

Economic data from major economies like US and Germany is pointing towards improving economic conditions. So the stimulus provided in the developed nations seems to be working and thereby is leading to rebound in the economic activity. In the week ahead, data from China, world's largest consumer of metals, is expected to indicate moderation in growth along with slight moderation in consumer prices as well. The modest decline in CPI may not deter on-going monetary tightening process as it still continues to remain above the comfort levels, but we are not expecting aggressive rate hikes in the near term and thereby it might not deter demand for metals significantly.

Bank of England is expected to maintain interest rate unchanged at 0.5 percent however any other announcements and indications would be keenly watched especially after the European Central Bank's reversal in stance last week, wherein for the first time it indicated some hike might be in the offing. Industrial production from UK and Germany is also expected to come in higher indicating continued acceleration in industrial activity. Dollar index might continue to remain under pressure as Fed continues to indicate that policy rates might remain low. Overall, all these factors are expected to support base metal prices to remain on the higher side.

**RISK FACTOR:** The major risk factor that might send base metal prices lower is the ongoing geo-political tensions in the Middle East. Significant increase in oil prices are being seen as threat to economic recovery and thereby might lead to risk aversion and send prices of assets like equities and industrial metals lower.

TECHNICAL RECOMMENDATIONS*									
Commodity	Contract	S3	S2	S1	CLOSE	R1	R2	R3	Recommendations
<a href="#">LME Aluminum</a>	Fwd	2469	2507	2553	2600	2637	2675	2721	Buy at 2550-90 TP 2675 SL 2480
MCX Aluminum	Mar-11	112.4	113.7	115.0	116.3	117.7	119.0	120.3	Buy at 115.5-116 TP 118/120 SL 114
<a href="#">LME Copper</a>	Fwd	9440	9572	9734	9895	10028	10160	10322	Buy at 9780-9850 TP 10200/450 SL 9530
MCX Copper	Apr-11	435.0	440.2	444.3	448.3	453.6	458.8	462.9	Buy at 442-45 TP 455/469 SL 432
<a href="#">LME Lead</a>	Fwd	2368	2434	2532	2630	2697	2763	2861	Buy at 2560-2600 TP 2712/90 SL 2480
MCX Lead	Mar-11	108.2	111.0	114.7	118.4	121.2	124.0	127.7	Buy at 117-118 TP 122/124 SL 113.5
<a href="#">LME Nickel</a>	Fwd	26937	27477	28139	28800	29341	29881	30543	Buy at 28600-700 TP 30120 SL 27500
MCX Nickel	Mar-11	1235.5	1255.9	1277.7	1299.6	1319.9	1340.3	1362.1	Buy at 1280-86 TP 1320/32 SL 1275
<a href="#">LME Zinc</a>	Fwd	2331	2389	2425	2461	2520	2578	2614	Sideways
MCX Zinc	Mar-11	105.7	108.0	109.6	111.3	113.6	115.9	117.5	Sideways
<a href="#">Steel NCDEX</a>	Mar-11	26620	26840	27110	27390	27600	27820	28090	Sideways
<a href="#">MCX Iron Ore</a>	Mar-11	6259	6639	6849	7058	7439	7819	8029	Trading range 7100-6600
<a href="#">ICEX Iron Ore</a>	Mar-11	7869	7922	8009	8096	8149	8202	8289	Trading range 8150-7990

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

## Key Economic Events this Week

Date Time	Region	Event	Period	Survey	Prior
09/03/2011 17:30	GE	Industrial Production MoM (sa)	JAN	1.80%	-1.50%
10/03/2011 17:30	UK	BOE ANNOUNCES RATES	10-Mar	0.50%	0.50%
10/03/2011 19:00	US	Trade Balance	JAN	-\$41.2B	-\$40.6B
11/03/2011 07:30	CH	Industrial Production (YoY)	FEB	13.00%	--
11/03/2011 07:30	CH	Consumer Price Index (YoY)	FEB	4.80%	4.90%
11/03/2011 20:25	US	U. of Michigan Confidence	MAR P	76.8	77.5

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	2560	2628	2544	2600	1.36	148,380	-1.93	3,431	50.02
	Copper	9750	9999	9705	9895	1.38	192,221	-28.25	2,755	-27.54
	Lead	2520	2665	2500.5	2630	4.47	40,353	-32.12	1,079	-8.79
	Nickel	28200	29220	28018	28800	2.16	31,206	-29.91	771	-18.24
	Zinc	2491	2542.5	2448	2461	-1.20	72,134	-30.77	1,645	-1.38
MCX Futures (₹/Kg)	Aluminium	116.2	117.75	115.1	116.3	0.30	20,378	378.92	1,479	44.29
	Copper	450.1	454.75	445.45	448.3	-0.52	421,871	285.84	21,879	50.92
	Lead	115.95	120.3	113.8	118.4	2.33	71,369	442.11	2,850	53.56
	Nickel	1287.6	1318.4	1276.2	1299.6	1.07	198,079	312.12	7,735	98.44
	Zinc	113.1	114.2	110.25	111.3	-2.02	85,776	407.88	5,680	235.10

## MARKET OVERVIEW

- Reports of peace talk along with strong economic data supported base metal prices to end largely on the higher side. However within the pack divergence was witnessed as couple of them ended lower while other ended with gains of anywhere between half to four percent on London Metal Exchange
- Gains in the Indian markets were however limited while losses increased as rupee appreciated owing to strong rally in the domestic equity markets
- Lead was the top gainer among the base metal pack as automobile sale numbers from US and India came in higher than expected. Zinc was the top loser among the base metal pack as inventory increased by more than 10 percent on LME and nearly 2 percent on Chinese warehouses

## SHANGHAI MARKET PERFORMANCE

PRICES (CNY/MT)				
Commodity	Previous Week	This Week	Change	% Change
Copper	71710	73590	1880	2.62%
Zinc	18835	18840	5	0.03%
Aluminum	16800	16720	-80	-0.48%

## COMEX MARKET PERFORMANCE

PRICES (USD/LB)				
Commodity	Previous Week	This Week	Change	% Change
Copper	443.6	447.2	3.6	0.81%



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

According to **US CFTC data on Copper**, short covering supported prices to move higher in the last week or so thereby leading to decline in short positions on the non-commercial side. However given the volatile prices, activity on commercial side remained tepid with modest changes. Overall, exit from positions both long and short continued this week as well.

CFTC Report - Copper (In contracts)				
Non-Commercial	2/22/2011	3/1/2011	Change	% Change
Long	53809	50320	-3489	-6.48%
Short	30579	23701	-6878	-22.49%
Spreading	11328	11022	-306	-2.70%
<b>Commercial</b>				
Long	70177	70162	-15	-0.02%
Short	98711	98113	-598	-0.61%
<b>Total</b>				
Long	135314	131504	-3810	-2.82%
Short	140618	132836	-7782	-5.53%

## INVENTORY DETAILS

LME WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	416825	425300	8475	2.03%
Zinc	708375	719225	10850	1.53%
Aluminium	4610875	4606200	-4675	-0.10%
Lead	294575	291500	-3075	-1.04%
Nickel	130422	129858	-564	-0.43%

COMEX WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	82900	83271	371	0.45%

SHANGHAI WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	158101	157765	-336	-0.21%
Zinc	335096	341046	5950	1.78%
Aluminium	423890	420059	-3831	-0.90%



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## ECONOMIC REVIEW

- Employment report from US indicated acceleration in job additions. Non-farm payrolls increased by 192K in the month of February as against 36K in the prior month and expectation of 174K, thereby even supporting to send the unemployment to decline to 8.9 percent. Weekly Jobless claims declined to the lowest levels in 34 months adding to the improving labour market conditions
- Factory orders accelerated in US and vehicle sales picked up indicating improving industrial activity and strong demand from consumers respectively. All this is indicating broad-based improvement in the economic conditions in the world's largest economy thereby also sending its equity markets higher
- European Central Bank left interest rate unchanged at 1 percent but hinted that it might soon raise interest rates given the higher level of inflation and keeping the bond buying program unchanged. This along with positive economic data from Germany supported euro to rally by 1.7 percent
- Indian equity markets outperformed most of the other global majors as benchmark equity indices ended with gains of more than 4 percent. Union Budget 2011-12 indicated that the economy might grow at 9 percent and the government aimed at bringing the fiscal deficit down to 4.6 percent as against 5.1 percent in the current fiscal year. Since expectation was quite low, relief rally was witnessed in Indian markets. Strong equity markets sent the Indian rupee appreciating by 0.74 percent thereby limiting the gains of commodity prices in Indian markets
- Dollar index declined to three month lows, on the back of rebound in the currencies like Euro and GBP. Also the fact that US might be the last economy to increase interest rates also weighed on the currency. For the week, dollar index ended down by 1.1 percent at 76.40

Equity Indices	Last Week	This Week	% Change
Dow Jones Ind. Avg.	12130.45	12169.88	0.33%
S&P 500 Index	1319.88	1321.15	0.10%
FTSE 100 Index	6001.20	5990.39	-0.18%
Nikkie 225	10526.76	10693.66	1.59%
Shanghai Composite	2878.57	2942.31	2.21%
Sensex	17700.91	18486.45	4.44%

Currency	Last Week	This Week	% Change
Dollar Index	77.275	76.407	-1.12%
EUR/USD	1.3754	1.3987	1.69%
GBP/USD	1.6118	1.6269	0.94%
USD/INR	45.325	44.9875	-0.74%



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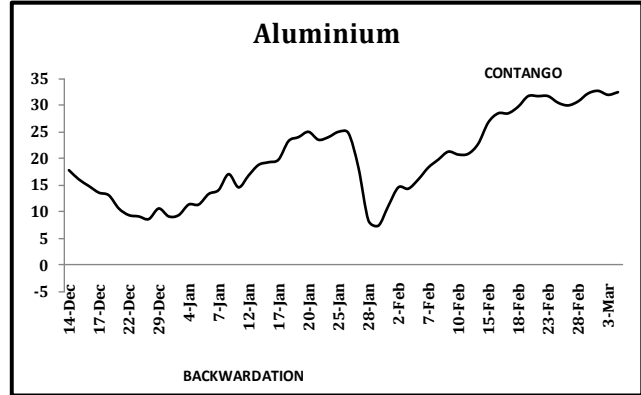


## ALUMINIUM

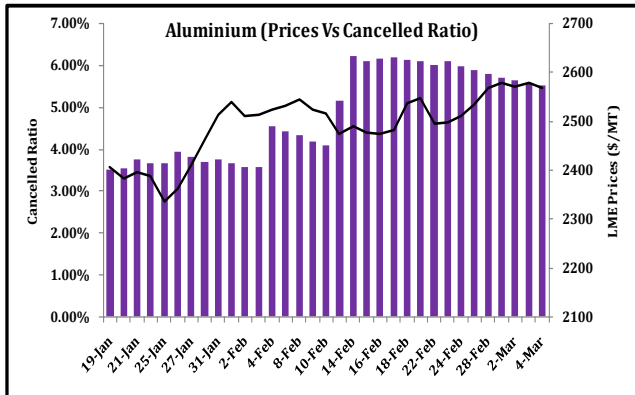
China's non-ferrous Metal Association indicated that China might produce 20 million tonnes of aluminium this year as against the capacity of 25 million tonnes. This indicates a growth of 24 percent in production and 14 percent in capacity. Production took a hit after energy supply was in deficit in the past couple of months indicating when the production capacity of 1 million tonnes was lost. So some of this might be re-starting and thereby production might pick up.

## BASIS CHART

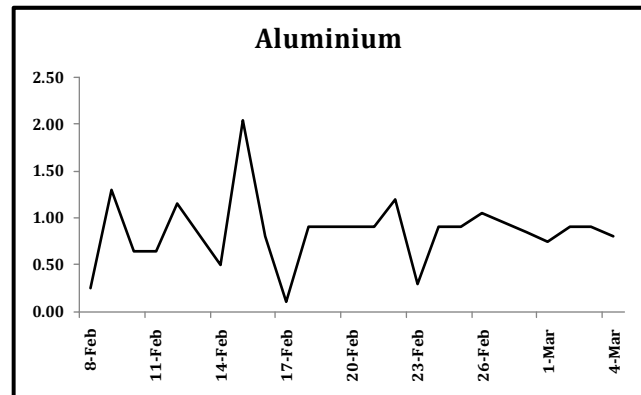
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}

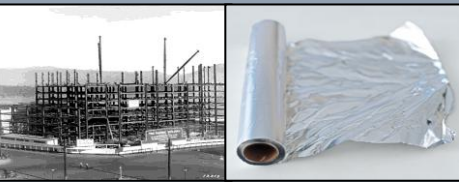


## CANCELLED WARRANT RATIO ON LME



## CALENDAR SPREAD ON MCX





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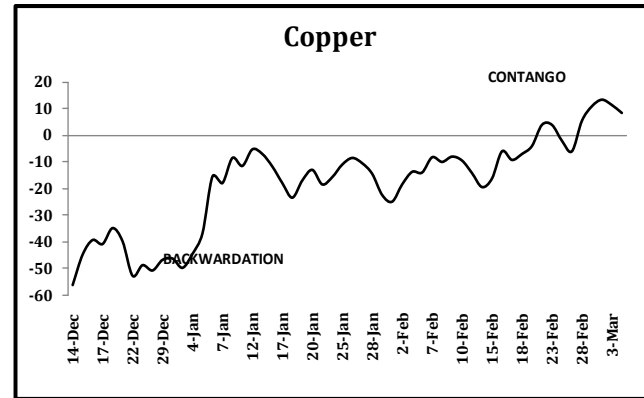


## COPPER

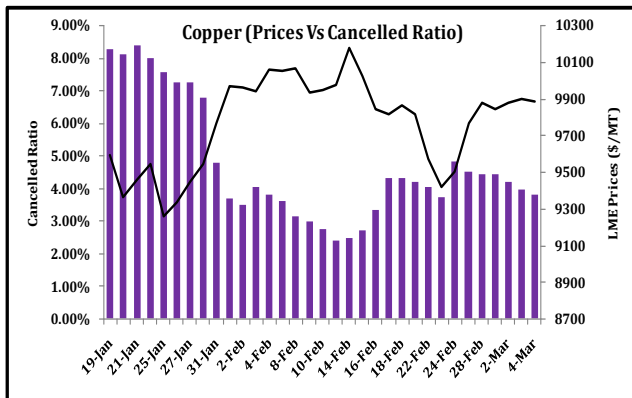
Continued increase in inventory is the biggest concern for copper prices and thereby is leading to underperformance of prices. Inventory on London Metal Exchange witnessed net build-up for the fifth consecutive week. Total stocks at also is at the highest level since August 2010. The cancelled warrant ratio however continues to remain at lower levels indicating that stocks might continue to witness build-up in the near term. Copper output in Africa's largest copper producer Zambia, rose to 92,925 tonnes in the month of January thereby registering a growth of nearly 60 percent from year earlier.

## BASIS CHART

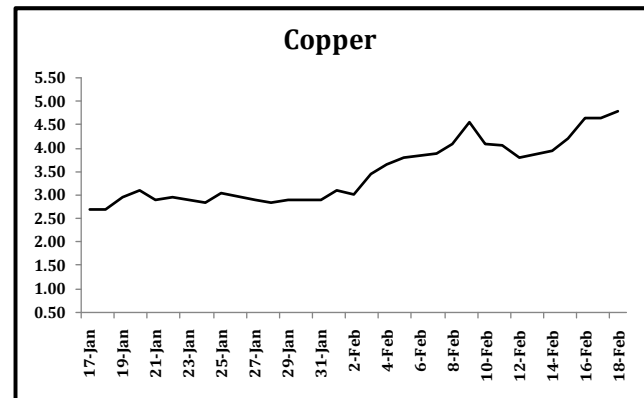
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



## CANCELLED WARRANT RATIO ON LME



## CALENDAR SPREAD ON MCX



**TECHNICALS:** Copper prices traded higher on last week by reversing the previous trend. It made a low of 9705 then high of 9999 and settled at 9895 levels. It was up by 1.4% on last week. Closing of the candle renders upside movements for the coming week. Prices are witnessing "Rising Three" candle stick formation on the weekly chart suggesting bullish trend. Prices are witnessing crucial support at 9700 levels (previous swing lows). On sustained trade above is likely to remain higher. Prices are witnessing trend channel formation on the higher side and prices are hovering within the trend channel from the past several weeks suggesting range bound movements. The principle of Fibonacci retracement states that prices are witnessing crucial support at 9655 levels which is 23.6% retracement of the range (7920-10190) levels. On sustained trade above is likely to trade higher and test the origin point of 10190 levels. The Moving Average principle suggesting upside movements and after witnessing support of short term 8 week's EMA prices are moving towards the northward direction and also prices are trading well above the medium term EMA's of (21 & 34). The momentum indicator RSI 14 weekly closed at 0.680 levels and showing higher potential for the coming week. However a mild correction on the lower side may be expected before resuming its uptrend. **Conclusion:** We expect prices to trade higher and recommend buying at the lower levels.



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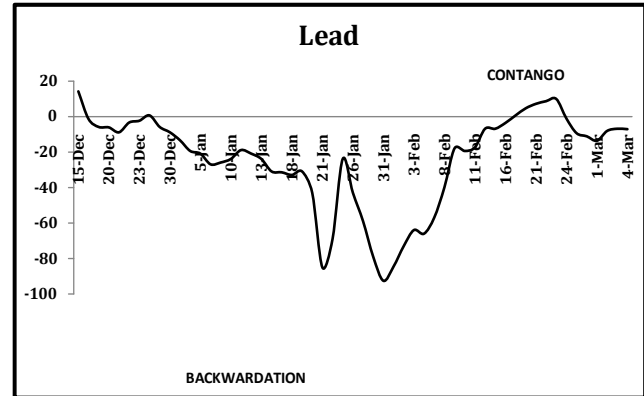
## LEAD

Automobile sales in US picked up indicating strong demand for consumer durables. Total vehicle sales in the month of February rose to 13.38 million as against 12.53 million in the prior month. Preliminary numbers from Indian companies also indicated strong sales thereby supporting lead price to trade higher.

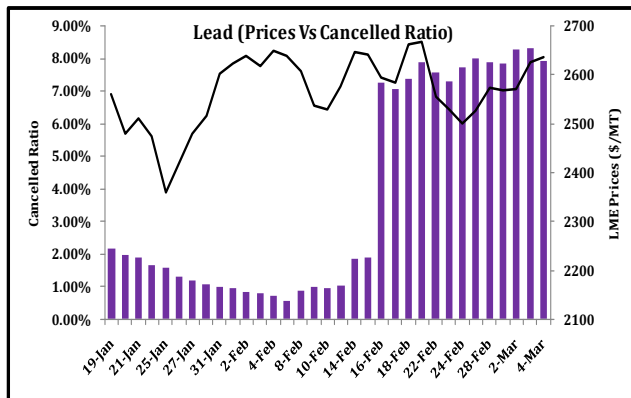
The cancelled warrant ratio continues to rise and currently stands at 8.5 percent of total stocks, the highest among the base metal pack thereby stocks might continue to witness decline in the near term.

## BASIS CHART

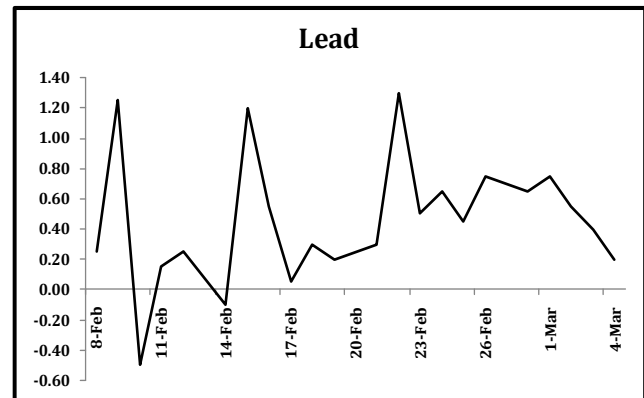
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



## CANCELLED WARRANT RATIO ON LME



## CALENDAR SPREAD ON MCX





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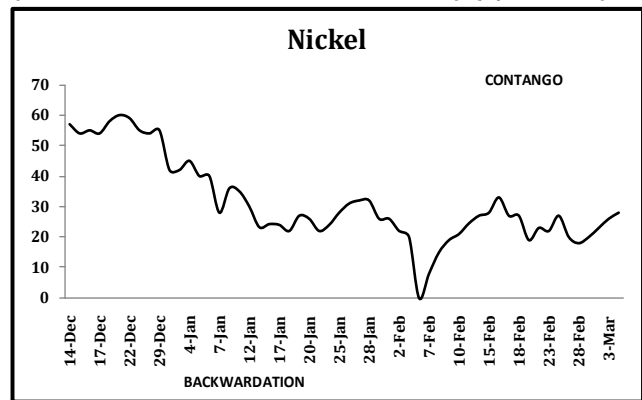
## NICKEL

Norilsk nickel, World's largest producer of nickel, indicated that output at South Africa plant would reach 20,000 tonnes next year as against current production of 6,000 tonnes.

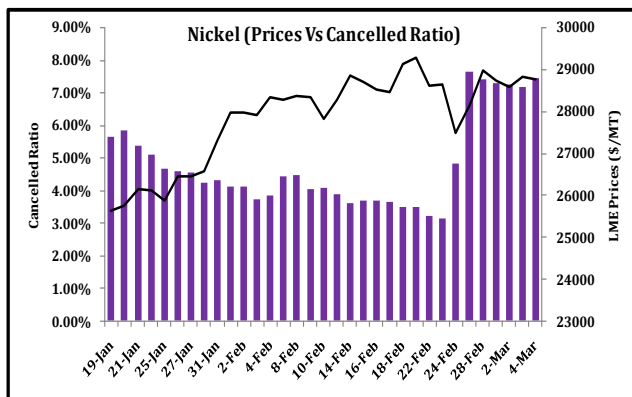
The cancelled warrant ratio continues to remain higher indicating that stocks might continue to witness decline in the near term and thereby would support prices to trade higher. The calendar spread continues to remain at average levels

### BASIS CHART

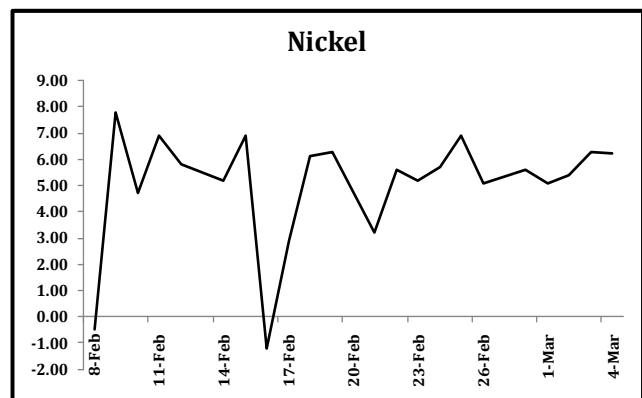
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX



**TECHNICALS:** Nickel prices traded higher on last week by reversing the previous trend. It made a low of 28018 then high of 29220 and settled at 28800 levels. Closing of the candle renders indecisive movements for the coming week. Prices are witnessing key support at 28000 levels (previous swing lows). On sustained trade above would guide the prices to further highs. The principle of Fibonacci Projections states that prices are witnessing crucial support at 28200 levels which is 100% projections of the range 19545-25200-20450 levels. On sustained trade above is likely to test 30120 then 31260 levels which are 123.6% and 138.2% projections of the above mentioned range. Prices are also witnessing key support at 28000-27600 levels (previous swing highs). 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 is trading at 0.675 levels and showing higher potential. However a mild correction on the lower side may be expected before resuming its uptrend. **Conclusion:** We expect prices to trade higher and recommend buying at lower levels for the coming week.



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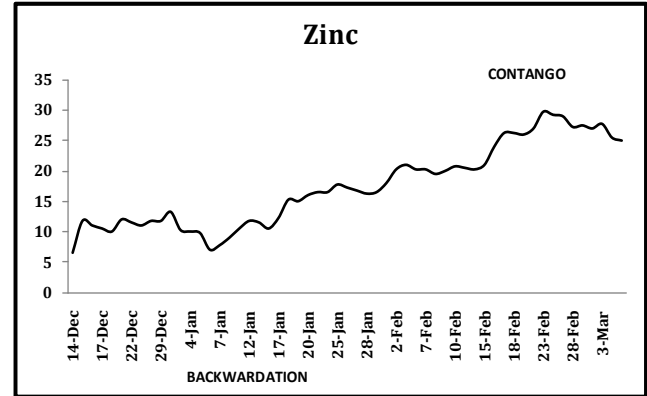
## ZINC

Zinc underperformed the entire base metal pack as it ended down by 2 percent on MCX largely owing to increase in inventory.

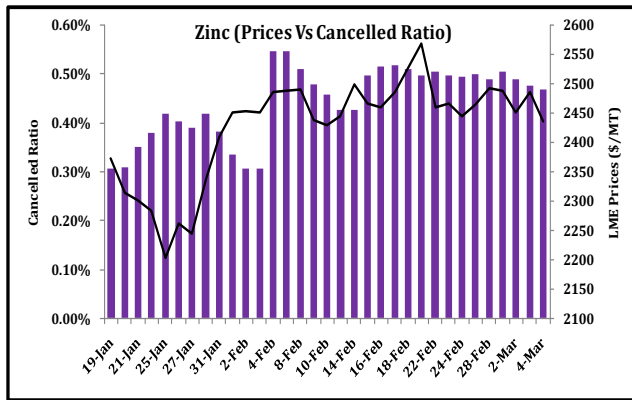
The cancelled warrant ratio at half a percent of total stock continues to remain the lowest among all the base metals. Given the lower level of cancelled warrant ratio, inventory movement might continue to remain tepid and thereby might limit the gains for the metal.

### BASIS CHART

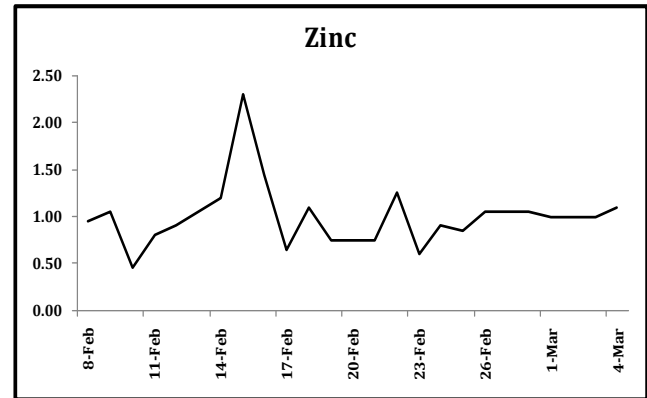
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX





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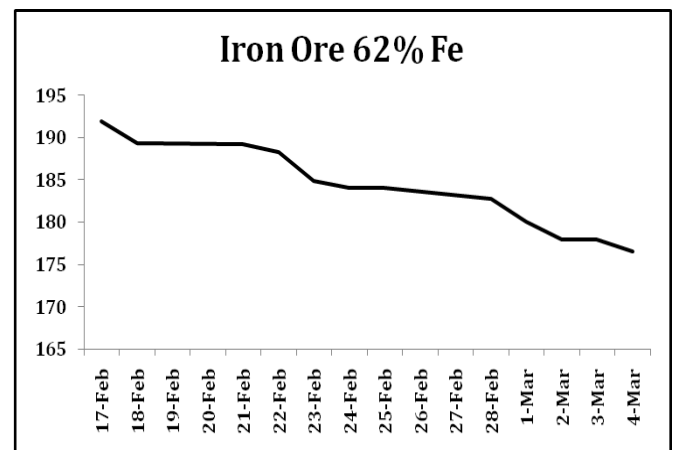
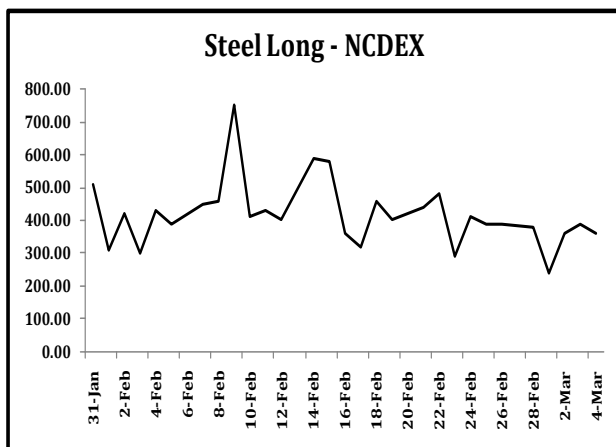


## STEEL & IRON ORE

Commodity	Exchange	Contract	Open	High	Low	Close	% Change	Volume	Change	Open interest	% Change
IRON ORE	MCX	Mar-11	7610	7610	7020	7058	-7.18%	270	-4.26%	16	14.29%
	ICEX	Mar-11	7975	8115	7975	8096	0.56%	424	77.60%	12	-41.67%
IRON ORE (\$/DMT)	THE STEEL INDEX		177.9	177.9	176.6	176.6	-4.25%	-	-	-	-
STEEL LONG	NCDEX	Mar-11	27480	27540	27050	27390	-0.04%	67,390	-48.99%	78,560	-5.39%

- Iron ore prices, ended down by 4.25 percent (the steel index) on the back of weak demand from China. Higher prices have deterred purchases by Chinese steel makers
- In Indian market too, prices fell by owing to increase in export duty. Higher export duty along with increase in freight rates by railways by Rs.300 per tonne sent prices in the domestic market lower
- India, world's third largest exporter, increased export duty on iron ore prices in the Budget 2011-12. The rate of export duty for all types of iron ore has been increased and also unified at 20 percent ad valorem. The reason that propelled government to increase export duty is to increase the availability of material for domestic producers
- **Steel long prices** on NCDEX continue to consolidate and ended largely unchanged at 27,390/tonne and might continue to do so in the coming week as on the back of subdued spot market activity. Calendar spread continues to remain in the range of 350-400/tonne
- Overall, given the weak demand from China and increase in export duty, iron prices might continue to remain under pressure

### CALENDAR SPREAD





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## DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date	Time	Region	Event	Period	Survey	Prior
08/03/2011	16:30	GE	Factory Orders MoM (sa)	JAN	2.50%	-3.40%
09/03/2011	17:30	GE	Industrial Production MoM (sa)	JAN	1.80%	-1.50%
09/03/2011	20:30	US	Wholesale Inventories	JAN	1.00%	1.00%
10/03/2011	07:30	CH	Trade Balance (USD)	FEB	\$5.00B	\$6.45B
10/03/2011	07:30	CH	Exports YoY%	FEB	26.00%	37.70%
10/03/2011	07:30	CH	Imports YoY%	FEB	32.50%	51.00%
10/03/2011	13:30	GE	Exports SA (MoM)	JAN	0.60%	0.50%
10/03/2011	13:30	GE	Imports SA (MoM)	JAN	3.90%	-2.30%
10/03/2011	13:30	GE	Current Account (EURO)	JAN	11.0B	17.6B
10/03/2011	13:30	GE	Trade Balance	JAN	12.8B	11.9B
10/03/2011	15:00	UK	Industrial Production (MoM)	JAN	0.40%	0.50%
10/03/2011	15:00	UK	Manufacturing Production (MoM)	JAN	0.60%	-0.10%
10/03/2011	17:30	UK	BOE ANNOUNCES RATES	10-Mar	0.50%	0.50%
10/03/2011	19:00	US	Initial Jobless Claims	5-Mar	378K	368K
10/03/2011	19:00	US	Continuing Claims	26-Feb	3750K	3774K
10/03/2011	19:00	US	Trade Balance	JAN	-\$41.2B	-\$40.6B
11/03/2011	00:30	US	Monthly Budget Statement	FEB	-\$240.5B	--
11/03/2011	07:30	CH	Producer Price Index (YoY)	FEB	6.90%	6.60%
11/03/2011	07:30	CH	Industrial Production (YoY)	FEB	13.00%	--
11/03/2011	07:30	CH	Consumer Price Index (YoY)	FEB	4.80%	4.90%
11/03/2011	07:30	CH	Fixed Assets Inv Urban YTD YoY	FEB	23.50%	--
11/03/2011	07:30	CH	Retail Sales (YoY)	FEB	18.90%	--
11/03/2011	11:00	IN	Industrial Production YoY	JAN	--	1.60%
11/03/2011	13:30	GE	Consumer Price Index (MoM)	FEB F	0.50%	--
11/03/2011	19:00	US	Advance Retail Sales	FEB	0.80%	0.30%
11/03/2011	20:25	US	U. of Michigan Confidence	MAR P	76.8	77.5
11/03/2011	20:30	US	Business Inventories	JAN	0.70%	0.80%

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