



# METALS WEEKLY

A Weekly Report on Metals



## OUTLOOK

Chinese inflation numbers for the month of June came in at 6.4 percent as against 5.5 percent in the prior month. So Chinese central banks rate hike in the week gone by might have been a pre-emptive step in anticipation of higher inflation. In the coming week GDP numbers for the second quarter is expected to indicate moderation in growth, but that would be positive as the central bank might go slow on tightening. Industrial production numbers would remain in focus. India's industrial production is expected to indicate higher growth. In US also industrial activity along with Michigan confidence is expected to improve.

On the fundamental front, production at Freeport's Grasberg copper mine in Indonesia would continue to remain disrupted as workers strike will extend into second week after talks between company and workers broke down. Also weather conditions in key copper producing region in Chile continues to remain challenging thereby concerns about supply would linger. Overall, base metal prices might witness some correction initially after higher than anticipated Chinese inflation numbers. However given the supply concerns and expectation of higher industrial production numbers, base metal prices might recover.

| TECHNICAL RECOMMENDATIONS*    |         |       |        |        |        |        |        |        |                                       |
|-------------------------------|---------|-------|--------|--------|--------|--------|--------|--------|---------------------------------------|
| Commodity                     | Series  | S3    | S2     | S1     | CLOSE  | R1     | R2     | R3     | Recommendations                       |
| <a href="#">LME Aluminium</a> | Fwd     | 2370  | 2429   | 2482   | 2535   | 2594   | 2653   | 2706   | Trading Range 2600-2450               |
| MCX Aluminium                 | July-11 | 106.0 | 108.3  | 110.3  | 112.3  | 114.5  | 116.8  | 118.8  | Trading Range 109-114                 |
| <a href="#">LME Copper</a>    | Fwd     | 9073  | 9242   | 9451   | 9661   | 9830   | 9999   | 10209  | Buy at 9500-550 TP 9940/10100 SL 9270 |
| MCX Copper                    | Aug-11  | 409.6 | 416.1  | 424.9  | 433.7  | 440.1  | 446.6  | 455.4  | Buy at 428-429 TP 438/442 SL 421      |
| <a href="#">LME Lead</a>      | Fwd     | 2599  | 2628   | 2673   | 2719   | 2747   | 2776   | 2821   | Buy at 2670 TP 2820 SL 2590           |
| MCX Lead                      | July-11 | 116.1 | 117.2  | 118.7  | 120.2  | 121.3  | 122.4  | 123.9  | Buy at 117-118 TP 121.5/124 SL 114    |
| <a href="#">LME Nickel</a>    | Fwd     | 21903 | 22464  | 23177  | 23890  | 24451  | 25012  | 25725  | Buy above 24665 TP 26500 SL 23600     |
| MCX Nickel                    | July-11 | 983.6 | 1006.2 | 1035.3 | 1064.5 | 1087.0 | 1109.6 | 1138.7 | Buy above 1081 TP 1120/1142 SL 1049   |
| <a href="#">LME Zinc</a>      | Fwd     | 2260  | 2304   | 2330   | 2356   | 2400   | 2444   | 2470   | Trading Range 2280-2420               |
| MCX Zinc                      | July-11 | 100.6 | 102.3  | 103.6  | 104.8  | 106.5  | 108.2  | 109.5  | Trading Range 101-107                 |
| <a href="#">Steel NCDEX</a>   | July-11 | 29570 | 29810  | 30220  | 30630  | 30870  | 31110  | 31520  | Buy at 30400-450 TP 31200 SL 30040    |

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

## Key Economic Events this Week

| Date Time        | Region | Event                       | Period | Survey | Prior  |
|------------------|--------|-----------------------------|--------|--------|--------|
| 07/12/2011 11:00 | IN     | Industrial Production YoY   | MAY    | 8.70%  | 6.30%  |
| 07/13/2011 07:30 | CH     | Industrial Production (YoY) | JUN    | 13.10% | 13.30% |
| 07/14/2011 18:00 | US     | Advance Retail Sales        | JUN    | 0.00%  | -0.20% |
| 07/15/2011 18:00 | US     | Empire Manufacturing        | JUL    | 5      | -7.79  |
| 07/15/2011 18:45 | US     | Industrial Production       | JUN    | 0.30%  | 0.10%  |
| 07/15/2011 18:45 | US     | Capacity Utilization        | JUN    | 77.00% | 76.70% |
| 07/15/2011 19:25 | US     | U. of Michigan Confidence   | JUL P  | 72.5   | 71.5   |

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 | 2510   | 2600    | 2488   | 2535   | 1.28           | 126,110 | -15.91          | 4,281         | -19.41      |
|                               | Copper    | 9475   | 9789.75 | 9411   | 9661   | 2.29           | 188,561 | -16.93          | 4,467         | -6.92       |
|                               | Lead      | 2673   | 2730    | 2656   | 2719   | 1.68           | 36,498  | -30.79          | 717           | -66.46      |
|                               | Nickel    | 23200  | 24299   | 23025  | 23890  | 3.87           | 22,830  | -27.65          | 939           | -37.23      |
|                               | Zinc      | 2358   | 2417.75 | 2348   | 2356   | -0.38          | 75,596  | -34.03          | 1,400         | -64.96      |
| MCX Futures (₹/Kg)            | Aluminium | 111.85 | 114.75  | 110.5  | 112.3  | 0.49           | 30,170  | 144.19          | 2,647         | -11.14      |
|                               | Copper    | 426.75 | 437.8   | 422.55 | 433.65 | 1.82           | 507,625 | 71.26           | 28,384        | -10.01      |
|                               | Lead      | 119.35 | 120.9   | 118.3  | 120.15 | 1.01           | 72,518  | 106.89          | 4,984         | 17.94       |
|                               | Nickel    | 1040   | 1080.4  | 1028.7 | 1064.5 | 2.56           | 201,121 | 79.21           | 7,111         | 9.77        |
|                               | Zinc      | 105.7  | 107     | 104.05 | 104.8  | -0.43          | 79,989  | 61.53           | 4,391         | 44.44       |

## MARKET OVERVIEW

- Base metals continued to move higher for second consecutive week as concerns on the supply front along with signs of economy improving supported prices to move higher. Non-farm payrolls data from US however played the spoiler as it came in weaker than anticipated thereby leading to trimming some of the gains
- Nickel was the top gainer among the base metal pack as it ended with gains of nearly 4 percent on LME and 2.5 percent on MCX. Zinc however underperformed and was the only metal to end in red. Huge increase in stocks on London Metal Exchange weighed on prices
- Volume on LME were on the lower side, might have been owing to shortened week, while on MCX they picked up in the latter half of the week. Except for zinc all the other metals witnessed draw-down of stocks from London Metal Exchange

## SHANGHAI MARKET PERFORMANCE

| PRICES (CNY/MT) |               |           |        |          |
|-----------------|---------------|-----------|--------|----------|
| Commodity       | Previous Week | This Week | Change | % Change |
| Copper          | 70080         | 71960     | 1880   | 2.68%    |
| Zinc            | 17555         | 17955     | 400    | 2.28%    |
| Aluminum        | 17300         | 17560     | 260    | 1.50%    |

## COMEX MARKET PERFORMANCE

| PRICES (USD/LB) |               |           |        |          |
|-----------------|---------------|-----------|--------|----------|
| Commodity       | Previous Week | This Week | Change | % Change |
| Copper          | 429.2         | 440.25    | 11.05  | 2.57%    |



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

According to US CFTC data on Copper, both the commercial side and non-commercial side of the market seem to have taken opposite view of the market. On the non-commercial side, long positions increased by nearly 37 percent while more producers seem to have hedged their output thereby leading to increase in short positions. Overall, short positions still outpaced long positions.

| CFTC Report - Copper (In contracts) |           |          |        |          |
|-------------------------------------|-----------|----------|--------|----------|
| Non-Commercial                      | 6/28/2011 | 7/5/2011 | Change | % Change |
| Long                                | 29596     | 40534    | 10938  | 36.96%   |
| Short                               | 19591     | 21571    | 1980   | 10.11%   |
| Spreading                           | 14514     | 14304    | -210   | -1.45%   |
| <b>Commercial</b>                   |           |          |        |          |
| Long                                | 67785     | 67922    | 137    | 0.20%    |
| Short                               | 73573     | 86511    | 12938  | 17.59%   |
| <b>Total</b>                        |           |          |        |          |
| Long                                | 111895    | 122760   | 10865  | 9.71%    |
| Short                               | 107678    | 122386   | 14708  | 13.66%   |

## INVENTORY DETAILS

| LME WAREHOUSE STOCKS (In tonnes) |               |           |        |          |
|----------------------------------|---------------|-----------|--------|----------|
| Commodity                        | Previous week | This week | Change | % Change |
| Copper                           | 463450        | 461850    | -1600  | -0.35%   |
| Zinc                             | 860750        | 879725    | 18975  | 2.20%    |
| Aluminium                        | 4487600       | 4440225   | -47375 | -1.06%   |
| Lead                             | 318600        | 308300    | -10300 | -3.23%   |
| Nickel                           | 106836        | 104370    | -2466  | -2.31%   |

| COMEX WAREHOUSE STOCKS (In tonnes) |               |           |        |          |
|------------------------------------|---------------|-----------|--------|----------|
| Commodity                          | Previous week | This week | Change | % Change |
| Copper                             | 80204         | 80063     | -141   | -0.18%   |

| SHANGHAI WAREHOUSE STOCKS (In tonnes) |               |           |        |          |
|---------------------------------------|---------------|-----------|--------|----------|
| Commodity                             | Previous week | This week | Change | % Change |
| Copper                                | 90089         | 89498     | -591   | -0.66%   |
| Zinc                                  | 400768        | 401865    | 1097   | 0.27%    |
| Aluminium                             | 254617        | 238894    | -15723 | -6.18%   |



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### ECONOMIC REVIEW

- US Non-farm payrolls data from US indicated job addition of 18,000, the slowest pace in nine months. This pushed even the unemployment rate to 9.2 percent in the month of June as against 9.1 percent in the prior month. This came in sharp contrast to the expectation and even the ADP employment report. Other economic data like factory orders and jobless claims came in better than expected
- Moody's downgraded Portugal's credit rating four levels to Ba2 from Baa1 (i.e., junk status) with a negative outlook. The credit rating agency warned that the country may need a second round of rescue funds before it can return to capital markets. Just two months prior Portugal got a €78-billion aid package. This kept the Euro under pressure and it ended lower with losses of nearly 2 percent. Amid all this ECB raised interest rates by 25 bps to 1.50 percent and indicated that it would provide support to Portugal if required
- Chinese Central Bank raised interest rates by 25 bps thereby marking third hike this year. Inflation is at the highest level since 2008 and the rate hike gave even an indication that the June numbers are going to be higher. Central bank thereby continues with the monetary tightening efforts
- Equity markets largely remained buoyant and ended with average gains of half a percent. Bond prices moved higher with yield on US 10 year bond yield declining by nearly 16 bps. Weak employment report supported yields to move to the lowest level in a month as concerns about economic recovery re-emerge

| Equity Indices      | Last Week | This Week | % Change |
|---------------------|-----------|-----------|----------|
| Dow Jones Ind. Avg. | 12582.77  | 12657.20  | 0.59%    |
| S&P 500 Index       | 1339.67   | 1343.80   | 0.31%    |
| FTSE 100 Index      | 5989.76   | 5990.58   | 0.01%    |
| Nikkie 225          | 9868.07   | 10137.73  | 2.73%    |
| Shanghai Composite  | 2759.36   | 2797.77   | 1.39%    |
| Nifty               | 5627.20   | 5660.65   | 0.59%    |

| Currency     | Last Week | This Week | % Change |
|--------------|-----------|-----------|----------|
| Dollar Index | 74.349    | 75.179    | 1.12%    |
| EUR/USD      | 1.4526    | 1.4265    | -1.80%   |
| GBP/USD      | 1.6074    | 1.6059    | -0.09%   |
| USD/INR      | 44.5825   | 44.3275   | -0.57%   |

| Bond Yields         | Last Week | This Week | Change (in bps) |
|---------------------|-----------|-----------|-----------------|
| US 10 year bond     | 3.1823    | 3.0268    | -15.6           |
| German 10 year bond | 3.034     | 2.829     | -20.5           |
| India 10 year bond  | 8.358     | 8.347     | -1.1            |



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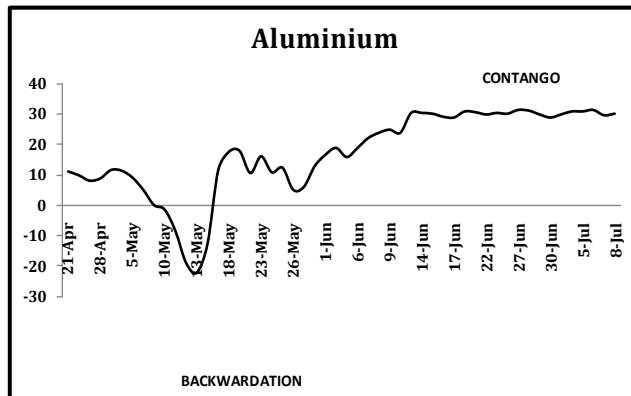
## ALUMINIUM

India's, NALCO, National Aluminium Co Ltd sold 1,500 tonnes of aluminium billets at \$150 per tonne premium over the average LME cash price.

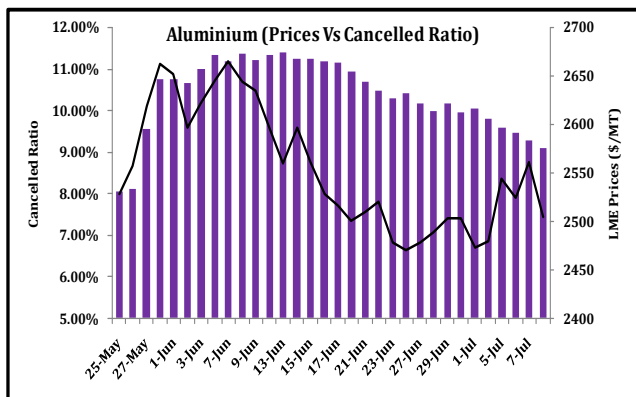
Company's tender serve as a global benchmark for deciding the premium and last month it sold 6,000 tonnes of aluminium ingots at a premium of \$103 per tonne. Higher premium indicates well off take for the metal in the physical market.

### BASIS CHART

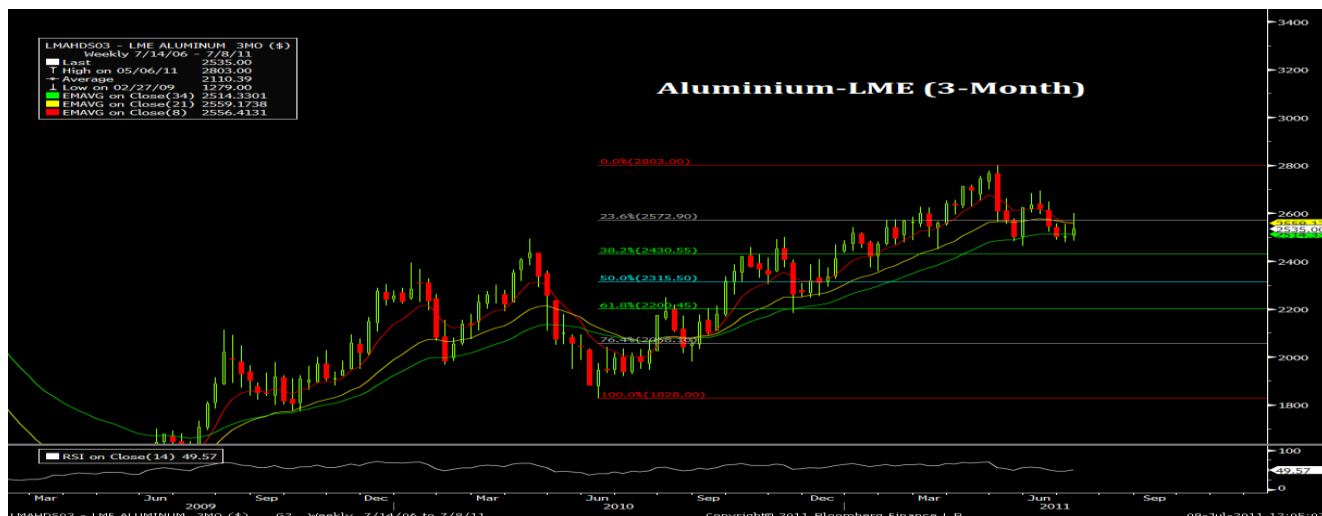
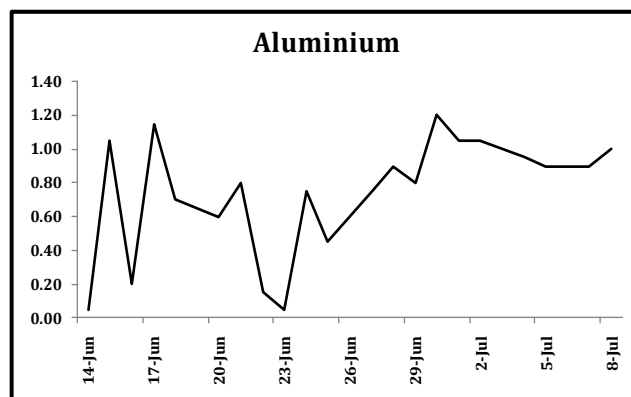
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}

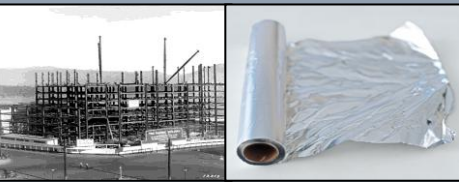


### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX





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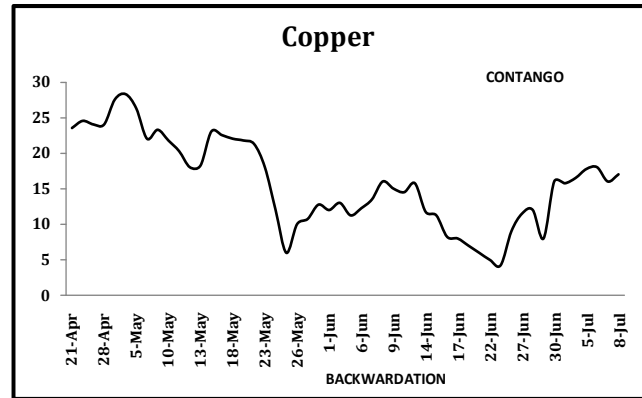
## COPPER

Chile, largest copper producing nation, forecast snow in high-altitude areas in the Atacama Desert. This is region where Codelco and BHP Billiton Ltd. run copper mines. Also expected one day strike in the Codelco on July 11, has raised expectation of lower output.

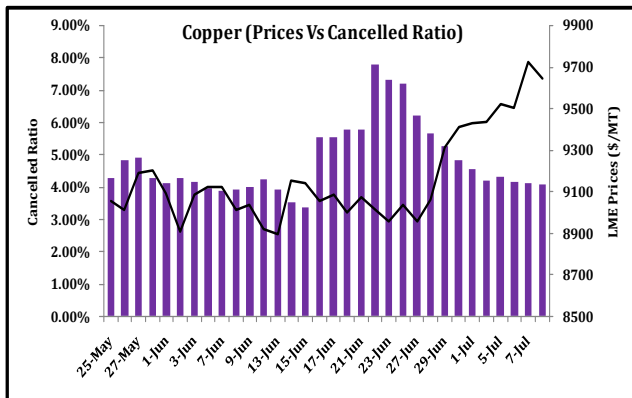
Given the ongoing concerns on the supply side, global copper market deficit might widen further which as of now is being projected at 377,000 tonnes by ICSG.

### BASIS CHART

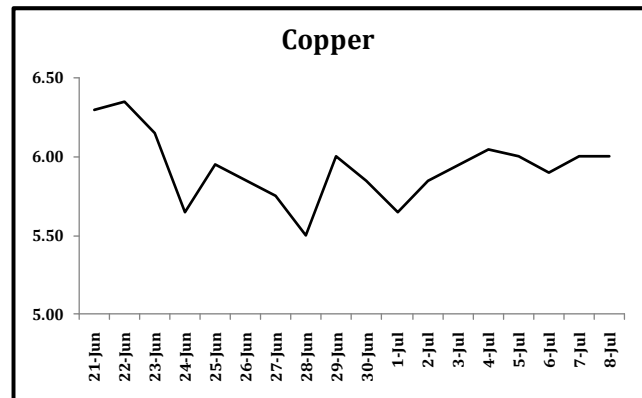
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX



**TECHNICALS:** Copper prices traded higher on last week by continuing the previous trend. It made a low of 9411 then high of 9789.75 and settled at 9661 levels. It was up by 2.30% on last week. Closing of the candle renders upside potential for the coming week. Prices have made a breakout on the higher side after a long consolidation. Prices are witnessing resistance at 9944.75 levels. On breach and sustained trade above would lead the prices to further highs. Prices have made a Trend Channel breakout on the higher side allowing the prices to trade upside. On the lower side prices are witnessing Trend Line support at 9020 levels. Only on breach and sustained trade below would confirm the downtrend. The Moving Average principle suggesting upside potential as prices are trading well above the short and medium term EMA's of (8,21&34) weeks. Another momentum indicator RSI 14 Weekly is trading at 0.576 levels and suggesting upside potential. However a mild correction on the lower side may be expected before resuming its uptrend.



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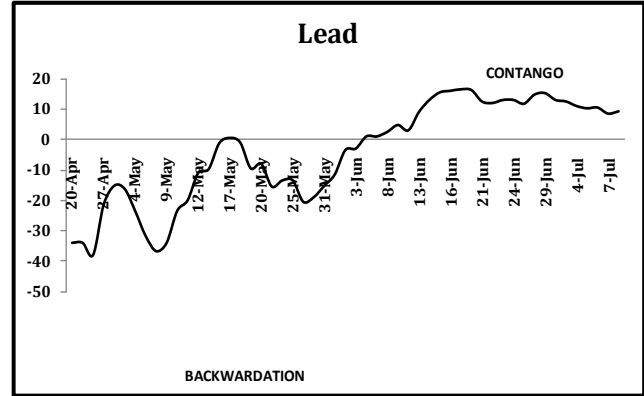
## LEAD

Lead stocks from London Metal Exchange continued to witness draw-downs. In the week gone by; stocks declined by 10,300 tonnes thereby taking the total inventory to 308,300 tonnes, lowest level since April 2011.

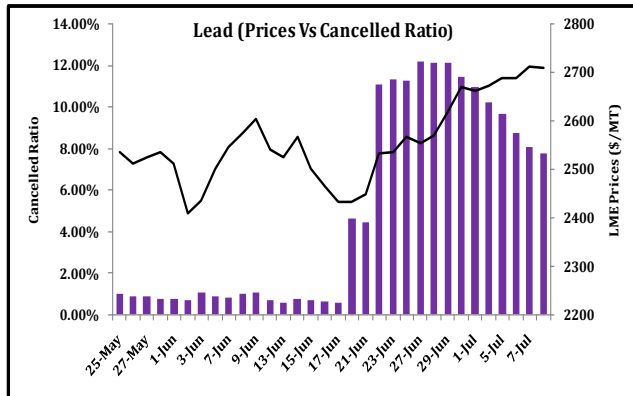
After the huge draw-downs, the cancelled warrant ratio has moved lower, but still continues to remain above the average levels of 7 percent of total stocks thereby indicating that draw-downs might continue in the near term.

## BASIS CHART

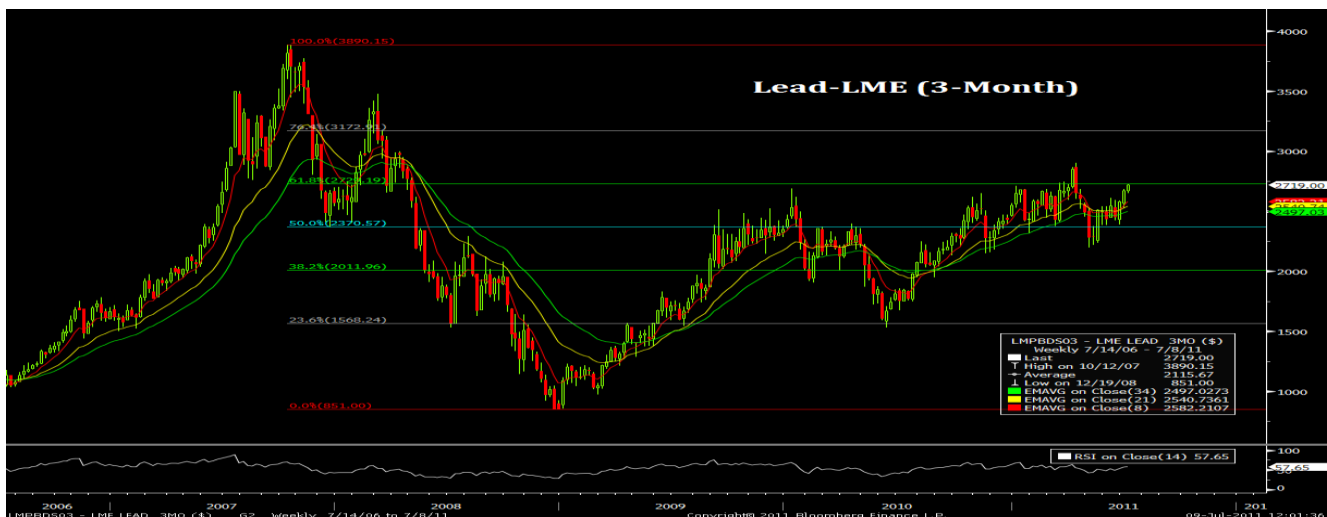
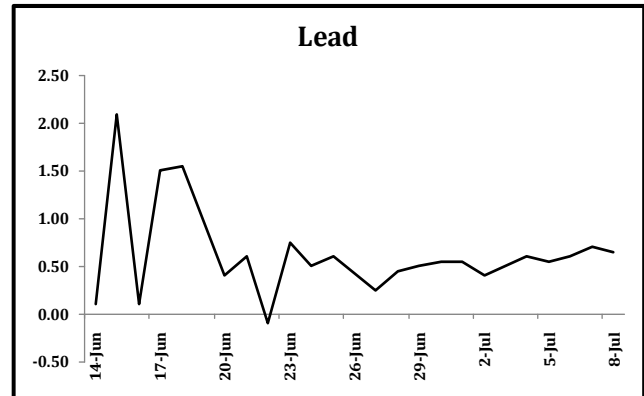
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## CANCELLED WARRANT RATIO ON LME



## CALENDAR SPREAD ON MCX





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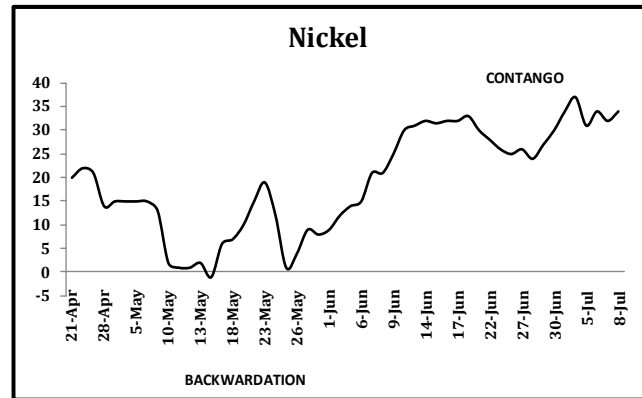


## NICKEL

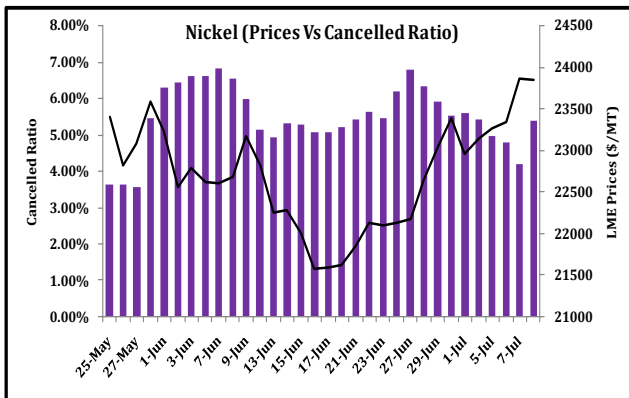
Zambia's Munali nickel mine has resumed underground operations. The operations were suspended in June due to some ventilation issues. The mine is expected to produce around 56,000 tonnes of nickel concentrate in 2011. But the cancelled warrant ratio has moved higher and the stocks might continue to witness draw-downs in the near term.

### BASIS CHART

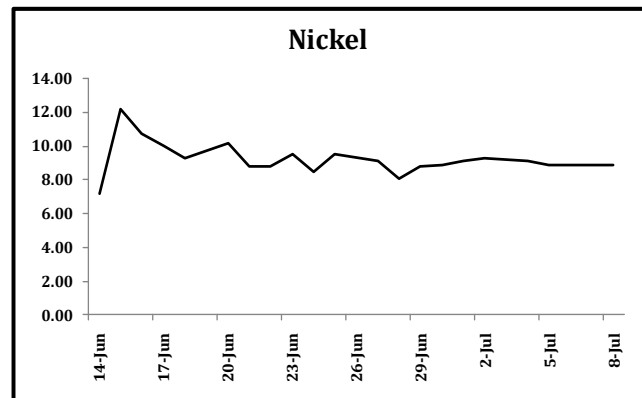
(LME 3 MTH FWD-LME CASH PRICES) (\$/Tonnes)



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX



**TECHNICALS:** Nickel prices settled at 23890 levels in the week gone by. Closing of the candle renders indecisive movements for the coming week. The principle of Fibonacci Retracement states that prices are witnessing resistance at 24665 levels which is 23.6% retracement of the range 9250-29425 levels. On breach and sustained trade above is likely to trade further higher side. Prices are witnessing Trend line resistance at 24360 levels. Prices are also witnessing resistance of EMA's (21&34) at 24360 levels. Only on breach and sustained trade above is likely to trade further higher side. Prices are witnessing Trend Channel formation on the higher side. Only a significant break out on the higher side would confirm further bullish trend. Incase prices fail to breach on the higher side we may expect limited gains. The momentum indicator RSI 14 Weekly is trading at 0.476 levels and suggesting higher potential. **Conclusion:** Based on all the above parameters we expect prices to witness stiff resistance in the range 24350-24665 levels. Only on breach and sustained trade above is likely to trade further higher side.



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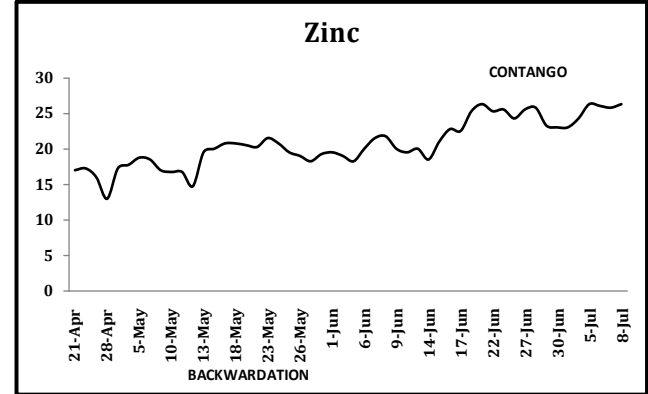
## ZINC

Zinc prices underperformed the entire base metal pack as it ended lower with losses of half a percent. It was the only base metal to witness build-up of stocks.

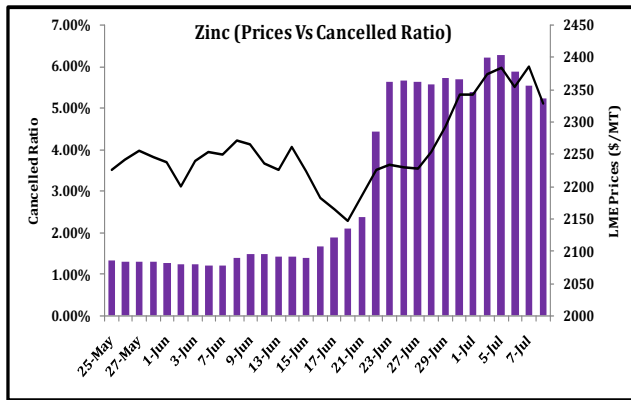
Inventory on London Metal Exchange witnessed build-up of 18,975 tonnes thereby taking the total stocks to 879,725 tonnes. Cancelled warrant ratio however continues to remain at reasonable levels of 5 percent of total stocks.

### BASIS CHART

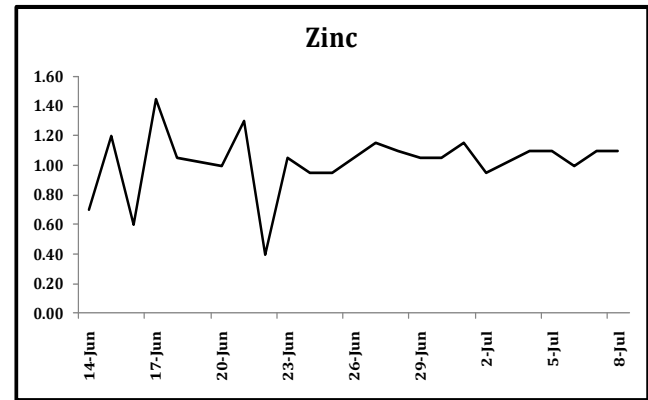
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



### CANCELLED WARRANT RATIO ON LME



### CALENDAR SPREAD ON MCX





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## STEEL LONG NCDEX

| Commodity         | Exchange        | Contract | Open  | High  | Low   | Close | Close % Change | Volume (in lots) | Volume % Change | Open interest (in lots) | OI % Change |
|-------------------|-----------------|----------|-------|-------|-------|-------|----------------|------------------|-----------------|-------------------------|-------------|
| IRON ORE (\$/DMT) | THE STEEL INDEX |          | 167.7 | 167.7 | 171.2 | 171.2 | 2.64%          | -                | -               | -                       | -           |
| STEEL LONG        | NCDEX           | Jul-11   | 30350 | 30700 | 30050 | 30630 | 0.79%          | 45,460           | -41.30%         | 44,670                  | -0.16%      |

After consolidating for past couple of weeks, steel prices on NCDEX moved higher as it ended with gains of 0.8 percent at 30,630/tonne. Both volumes and open interest declined thereby indicating upside might remain capped. Iron ore prices also moved higher after declining as demand might be picking up from Chinese mills. Iron ore prices moved higher by 2.6 percent at \$171.2/Dry Metric Tonne. Market has moved into backwardation as Ghaziabad prices trade at a premium of 100/tonne. Ahead also higher iron ore prices along with concerns about power shortages might keep the steel prices supportive.

## DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

| Date       | Time  | Region | Event                         | Period | Survey   | Prior    |
|------------|-------|--------|-------------------------------|--------|----------|----------|
| 07/12/2011 | 11:00 | IN     | Industrial Production YoY     | MAY    | 8.70%    | 6.30%    |
| 07/12/2011 | 11:30 | GE     | Consumer Price Index (MoM)    | JUN F  | 0.10%    | 0.10%    |
| 07/12/2011 | 14:00 | UK     | CPI (MoM)                     | JUN    | 0.20%    | 0.20%    |
| 07/12/2011 | 18:00 | US     | Trade Balance                 | MAY    | -\$44.1B | -\$43.7B |
| 07/12/2011 |       | JN     | BOJ Target Rate               | 12-Jul | --       | 0.10%    |
| 07/13/2011 | 07:30 | CH     | Industrial Production (YoY)   | JUN    | 13.10%   | 13.30%   |
| 07/13/2011 | 07:30 | CH     | Real GDP (YoY)                | 2Q     | 9.30%    | 9.70%    |
| 07/13/2011 | 07:30 | CH     | Retail Sales (YoY)            | JUN    | 17.00%   | 16.90%   |
| 07/13/2011 | 10:00 | JN     | Industrial Production (MoM)   | MAY F  | --       | 5.70%    |
| 07/13/2011 | 11:30 | GE     | Wholesale Price Index (MoM)   | JUN    | -0.20%   | 0.00%    |
| 07/13/2011 | 14:30 | EC     | Euro-Zone Ind. Prod. sa (MoM) | MAY    | 0.40%    | 0.20%    |
| 07/13/2011 | 18:00 | US     | Import Price Index (MoM)      | JUN    | -0.60%   | 0.20%    |
| 07/13/2011 | 23:30 | US     | Monthly Budget Statement      | JUN    | -\$65.0B | -\$57.6B |
| 07/14/2011 | 14:30 | EC     | Euro-Zone CPI (MoM)           | JUN    | 0.00%    | 0.00%    |
| 07/14/2011 | 18:00 | US     | Advance Retail Sales          | JUN    | 0.00%    | -0.20%   |
| 07/14/2011 | 18:00 | US     | Initial Jobless Claims        | 9-Jul  | 412K     | 418K     |
| 07/14/2011 | 18:00 | US     | Continuing Claims             | 2-Jul  | 3675K    | 3681K    |
| 07/14/2011 | 19:30 | US     | Business Inventories          | MAY    | 0.80%    | 0.80%    |
| 07/15/2011 | 14:30 | EC     | Euro-Zone Trade Balance sa    | MAY    | -3.3B    | -2.9B    |
| 07/15/2011 | 18:00 | US     | Consumer Price Index (MoM)    | JUN    | -0.10%   | 0.20%    |
| 07/15/2011 | 18:00 | US     | Empire Manufacturing          | JUL    | 5        | -7.79    |
| 07/15/2011 | 18:45 | US     | Industrial Production         | JUN    | 0.30%    | 0.10%    |
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| 07/15/2011 | 19:25 | US     | U. of Michigan Confidence     | JUL P  | 72.5     | 71.5     |

### PREPARED BY:

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# METALS WEEKLY

## A Weekly Report on Metals



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