



METALS WEEKLY

A Weekly Report on Metals



OUTLOOK

Volatility is expected to come back in the week ahead as some of the key economic data along with probable announcement in Jackson Hole from Fed Chairman would be the major determinant for market movements. US economic growth in the second quarter might be revised downwards further to levels of 1.1 percent as weak labour market would continue to weigh on economic growth. Richmond Fed manufacturing activity index is expected to indicate contraction in activity after decline witnessed in Empire and Philadelphia Fed activity in the previous week. New home sales Manufacturing activity numbers from Euro zone are also due be released and the expectation is that the numbers would indicate slowdown in activity even in some of the major nations like Germany as well. Industrial new orders might also indicate moderation in activity and ZEW survey numbers largely would indicate weak sentiment among the consumers and businesses.

Bond yields of the developed nations like US and German continue to decline further indicating expectation of weak economic prospects and thereby increasing preference for less risky assets. The same logic is also supporting the dollar as well, which continues to move higher despite all the trouble US has been facing. Also markets keenly await the conference by Fed Chairman at Jackson Hole on Friday, and given the weak economic conditions, markets are awaiting any measures that the Fed might take. Overall, given the expectation of largely weak economic data, base metal prices are expected to remain under pressure and as said volatility could be seen.

TECHNICAL RECOMMENDATIONS*									
Commodity	Series	S3	S2	S1	CLOSE	R1	R2	R3	Recommendations
LME Aluminium	Fwd	2215	2269	2312	2355	2409	2463	2506	Sell at 2420-440 TP 2315 SL 2510
MCX Aluminium	Aug-11	101.9	103.8	105.2	106.7	108.6	110.5	111.9	Sell at 108-109 TP 104/101 SL 111
LME Copper	Fwd	8358	8529	8677	8825	8996	9167	9315	Sell at 8950 TP 8600/8450 SL 9225
MCX Copper	Aug-11	385.8	391.0	396.9	402.9	408.1	413.3	419.2	Sell at 404-406 TP 395/387 SL 414
LME Lead	Fwd	2122	2203	2253	2302	2384	2465	2515	Sell at 2330-50 TP 2220/2140 SL 2420
MCX Lead	Aug-11	100.7	103.0	104.8	106.5	108.8	111.1	112.9	Sell at 107-108 TP 99 SL 111
LME Nickel	Fwd	20015	20566	20886	21205	21757	22308	22628	Sell at 21400-500 TP 19200 SL 22600
MCX Nickel	Aug-11	919.1	941.0	955.8	970.5	992.5	1014.4	1029.2	Sell at 980-990 TP 945/910 SL 1020
LME Zinc	Fwd	2069	2111	2152	2193	2234	2276	2317	Sell at 2230-250 TP 2100 SL 2320
MCX Zinc	Aug-11	93.1	94.9	97.3	99.6	101.5	103.3	105.7	Sell at 100.5-101.5 TP 95/92 SL 104.5
Steel NCDEX	Sep-11	29180	29370	29630	29900	30080	30270	30530	Range 30400-29500

*NOTE: The calls shown above are purely WEEKLY Recommendations

Key Economic Events this Week

Date Time	Region	Event	Period	Survey	Prior
23/08/2011 13:30	EC	PMI Manufacturing	AUG A	49.5	50.4
23/08/2011 14:30	GE	ZEW Survey (Current Situation)	AUG	85	90.6
23/08/2011 19:30	EC	Euro-Zone Consumer Confidence	AUG A	-12.4	-11.2
23/08/2011 19:30	US	New Home Sales	JUL	312K	312K
24/08/2011 14:30	EC	Industrial New Orders SA (MoM)	JUN	0.40%	3.60%
26/08/2011 18:00	US	GDP QoQ (Annualized)	2Q S	1.10%	1.30%
26/08/2011 19:25	US	U. of Michigan Confidence	AUG F	56	54.9

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	2405	2420	2323	2355	-1.88	219,480	-22.17	6,257	15.40
	Copper	8869.5	9019.25	8700	8825	-0.45	196,729	-48.28	2,368	-45.85
	Lead	2368	2416	2285	2302	-3.28	43,998	-51.82	1,218	-9.91
	Nickel	21600	21989	21118	21205	-0.91	30,579	-52.37	661	-38.05
	Zinc	2183	2234.5	2152	2193	0.73	77,240	-57.45	1,653	-58.75
MCX Futures (₹/Kg)	Aluminium	108	109	105.65	106.65	-1.61	26,274	-15.62	1,934	5.45
	Copper	402.4	407.3	396.15	402.9	0.16	415,981	-38.33	17,745	3.86
	Lead	108.5	109.4	105.35	106.5	-1.34	66,920	-31.36	2,907	23.02
	Nickel	977	999.7	963	970.5	-0.78	177,422	-43.73	7,662	16.39
	Zinc	98	100.95	96.75	99.6	1.43	63,667	-44.85	2,369	-15.63

MARKET OVERVIEW

- After trading in a subdued range at the start of the week, volatility re-emerged as concerns about economic growth continue to remain. Base metals prices ended largely on the lower side with losses of anywhere between half to three percent, with the exception of zinc which ended higher. Indian rupee continued to remain under pressure there limiting the losses of metal prices in Indian markets
- Lead was the top loser among the base metal pack as it ended lower with losses of more than three percent on LME. Increase in stocks by more than three percent on London Metal Exchange weighed on prices. Zinc was the top gainer among the base metal pack as it ended with gains of close to a percent
- Except for zinc and nickel, which witnessed modest decline in stocks, all the other base metals continue to witness build-up in stocks for London Metal Exchange

SHANGHAI MARKET PERFORMANCE

PRICES (CNY/MT)				
Commodity	Previous Week	This Week	Change	% Change
Copper	67080	66400	-680	-1.01%
Zinc	16800	16650	-150	-0.89%
Aluminum	18050	17415	-635	-3.52%

COMEX MARKET PERFORMANCE

PRICES (USD/LB)				
Commodity	Previous Week	This Week	Change	% Change
Copper	400.95	398.25	-2.7	-0.67%



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Commodity Futures Trading Commission (CFTC) Report- Copper

According to US CFTC data on copper, unwinding of positions continued. On the non-commercial side, unwinding of both long and short positions were declined. On the commercial side however users of the metal seem to have used the recent decline in prices to hedge some of their requirement. Overall, both the long and short positions declined but cut in shorts was outpaced by long positions.

CFTC Report - Copper (In contracts)				
Non-Commercial	8/9/2011	8/16/2011	Change	% Change
Long	34375	27568	-6807	-19.80%
Short	23514	21674	-1840	-7.83%
Spreading	12032	13369	1337	11.11%
Commercial				
Long	66705	71675	4970	7.45%
Short	76240	72565	-3675	-4.82%
Total				
Long	113112	112612	-500	-0.44%
Short	111786	107608	-4178	-3.74%

INVENTORY DETAILS

LME WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	461775	463475	1700	0.37%
Zinc	879150	873200	-5950	-0.68%
Aluminium	4564225	4669850	105625	2.31%
Lead	308525	318050	9525	3.09%
Nickel	103590	103212	-378	-0.36%

COMEX WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	83319	85050	1731	2.08%

SHANGHAI WAREHOUSE STOCKS (In tonnes)				
Commodity	Previous week	This week	Change	% Change
Copper	120819	112014	-8805	-7.29%
Zinc	400450	421192	20742	5.18%
Aluminium	149424	140693	-8731	-5.84%



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ECONOMIC REVIEW

- Japanese economy contracted by 0.3 percent in the second quarter of 2011. The economy though continued to contract, it came in better than prior quarter's decline of 0.9 percent. Concerns however remain as to growth ahead might not pick-up strongly as global woes might reduce the demand for its exports. Yen has also been getting stronger thereby might create further pressure on Yen
- Housing data along with manufacturing numbers from US indicated decline in activity. Regional manufacturing numbers like the empire manufacturing and Philadelphia Fed manufacturing indicate contraction in activity. Housing sector also continue to remain weak as all the three housing starts, building permits and existing home sales declined
- India's inflation numbers for the month of July indicated slight moderation in prices pressure. WPI inflation though slowed to 9.22 percent from 9.4 percent, manufacturing inflation accelerated to 7.49 percent from 7.43 percent. So RBI might continue with its tight monetary stance
- Euro zone economic data indicated weak economic conditions. GDP of the region grew by a modest 0.2 percent as larger countries like German and France also witnessed slower growth. French and the German presidents also rejected to increase the quantum of rescue fund which currently stands at 440 billion Euros

Equity Indices	Last Week	This Week	% Change
Dow Jones Ind. Avg.	11269.02	10817.65	-4.01%
S&P 500 Index	1178.81	1123.53	-4.69%
FTSE 100 Index	5320.03	5040.76	-5.25%
Nikkie 225	8963.72	8719.24	-2.73%
Shanghai Composite	2593.17	2534.36	-2.27%
Nifty	5072.95	4845.65	-4.48%

Currency	Last Week	This Week	% Change
Dollar Index	74.607	74.009	-0.80%
EUR/USD	1.4248	1.4397	1.05%
GBP/USD	1.6278	1.6465	1.15%
USD/INR	45.3375	45.7475	0.90%

Bond Yields	Last Week	This Week	Change (in bps)
US 10 year bond	2.2548	2.0623	-19.3
German 10 year bond	2.333	2.105	-22.8
India 10 year bond	8.269	8.264	-0.5



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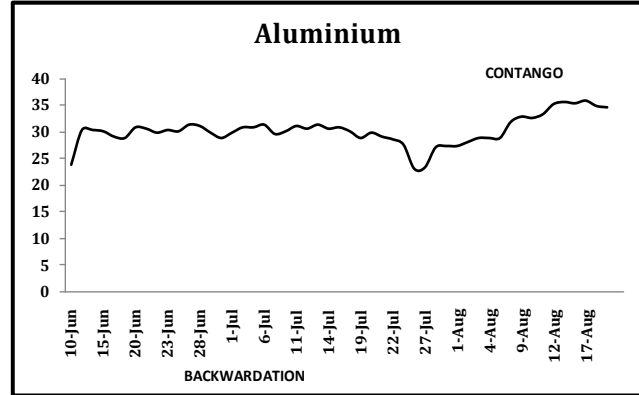
ALUMINIUM

Premiums of aluminium in the spot market in Midwest US have declined by nearly 15 percent indicating moderation in demand for the metal. Premiums now stand at near 8 cent/lb as against record premium of 9.5 cent/lb in the month of May.

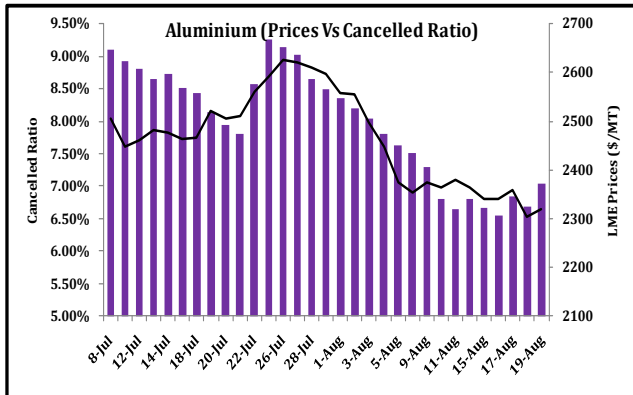
Inventory on London Metal Exchange increased by more than a lakh tonne and is accompanied by decline in premiums indicating that demand is subdued for the metal.

BASIS CHART

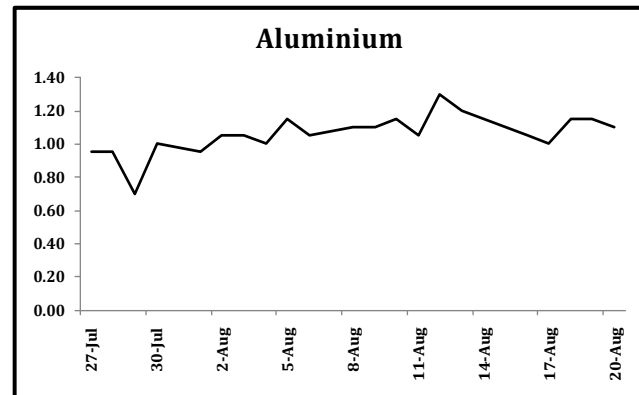
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}

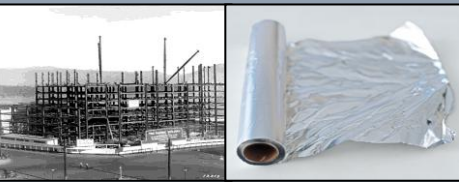


CANCELLED WARRANT RATIO ON LME



CALENDAR SPREAD ON MCX





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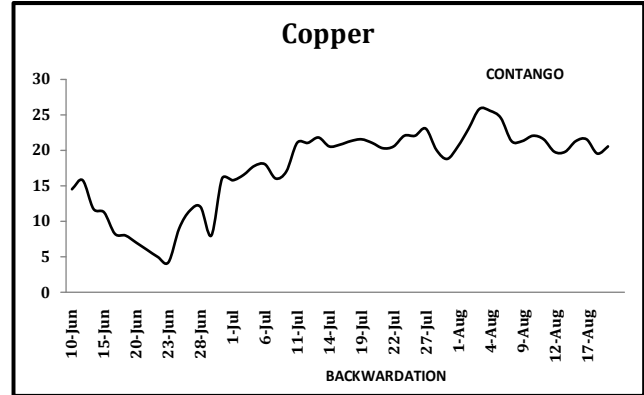
COPPER

Labor union at Chile's Collahuasi, threatened to stage a one-day stoppage on September 2. This is in demand to hire back fired workers. So concerns on the supply side might creep back.

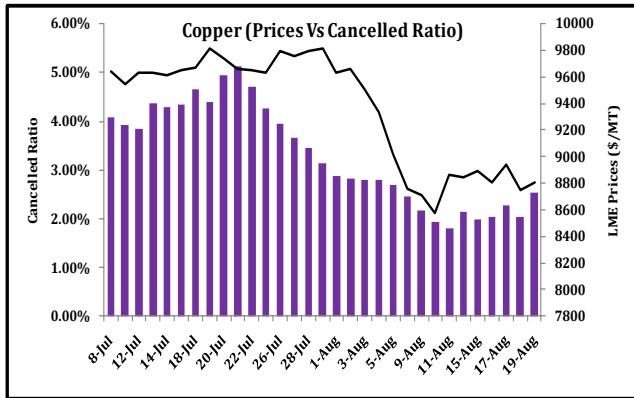
However the focus currently is on the demand side given the weakness in the global growth. Cancelled warrant ratio stands at close to two percent of total stocks indicating bias for build-up but it has been uneven in the past few days.

BASIS CHART

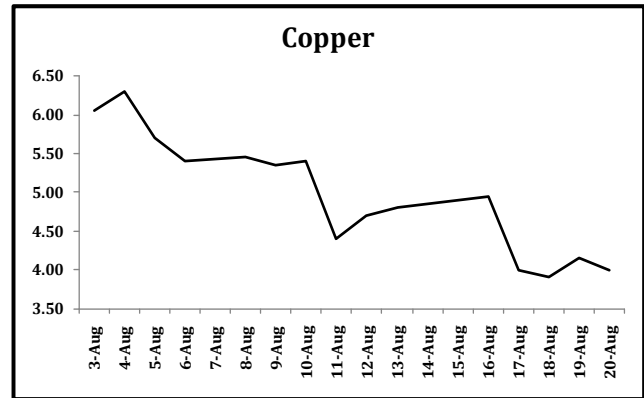
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



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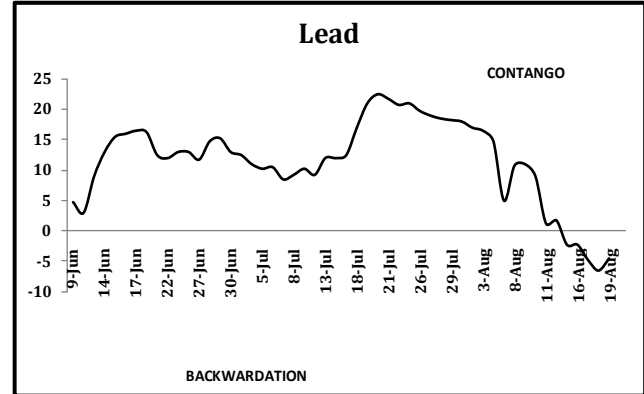
LEAD

On the fundamental front, China is planning to tighten controls over production of recycled lead. The plants that can produce less than 30,000 tonnes a year would be under the curb before 2013.

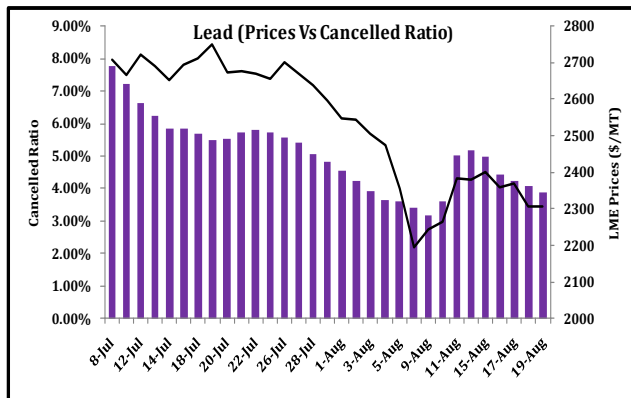
Despite concerns on the supply side the demand side continues to remain weak and thereby is not translating into price increase. In fact, stocks increased by more than three percent on LME.

BASIS CHART

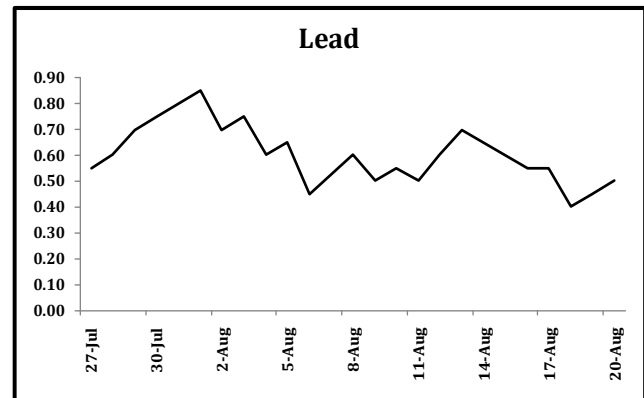
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



CANCELLED WARRANT RATIO ON LME



CALENDAR SPREAD ON MCX



TECHNICALS: LME Lead 3M prices traded lower on last week by reversing the previous trend. After making high of 2416 and low of 2285 it settled at 2302 levels, down by 3.28%. Closing of the candle renders downside potential for the prices. The principle of Fibonacci retracement states that prices are witnessing resistance at 2381 levels which is 38.2% retracement of the range 1535-2904 levels. On sustained trade below is likely to test 2220 levels. Prices are witnessing resistance at 2420 levels (previous swing highs) and trade below is likely to remain lower. At the same time prices are witnessing crucial support at 2200 levels (previous swing lows). Prices are witnessing probable **Head & Shoulder pattern** on the weekly chart and ended the week above the neckline. Only on breach and sustained trade below the neckline would confirm further down trend. The momentum indicator RSI 14 Weekly is trading at 0.412 levels and suggesting lower potential. **Conclusion:** Based on all the above mentioned constraints we from KCTL Research expect prices to trade lower and recommend selling on pull backs.



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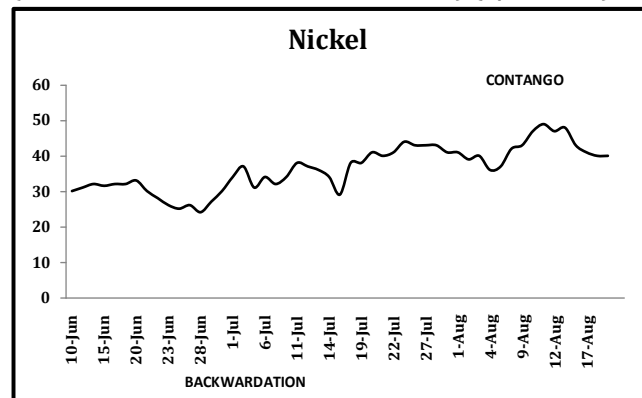
NICKEL

Reports indicated that Ramu Nickel project in New Guinea's has been given go ahead by the Supreme Court. Clearance for the initial operations to begin next month has been given. The project is expected to produce close to 31,150 tonnes of nickel a year.

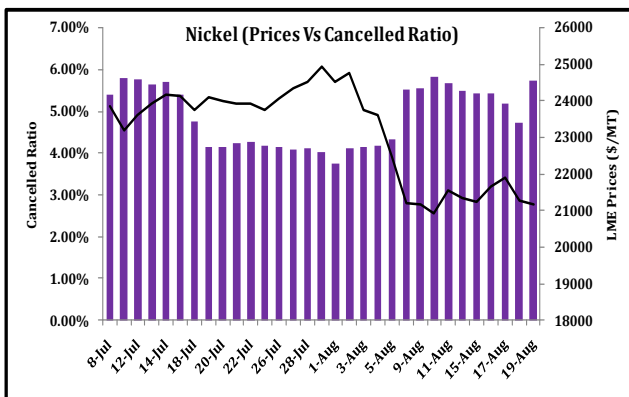
Cancelled warrant ratio though has moved higher and thereby draw-down of stocks might be witnessed, but concerns on the growth front might put a cap on prices.

BASIS CHART

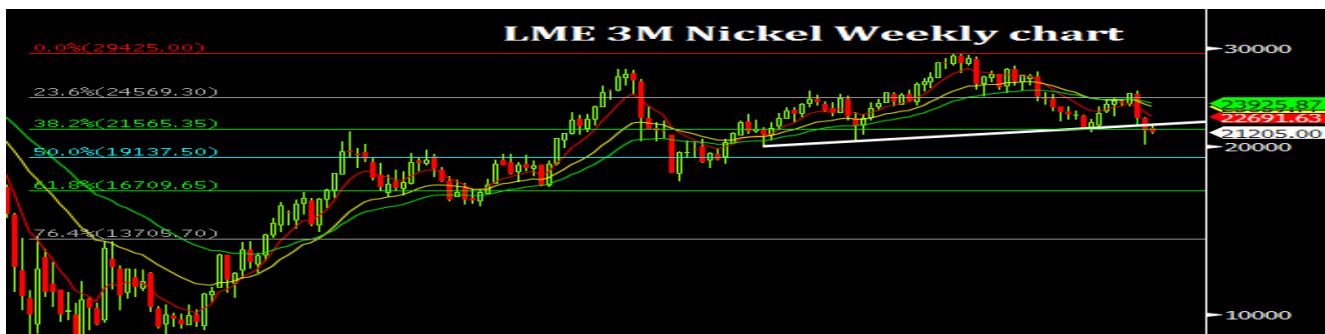
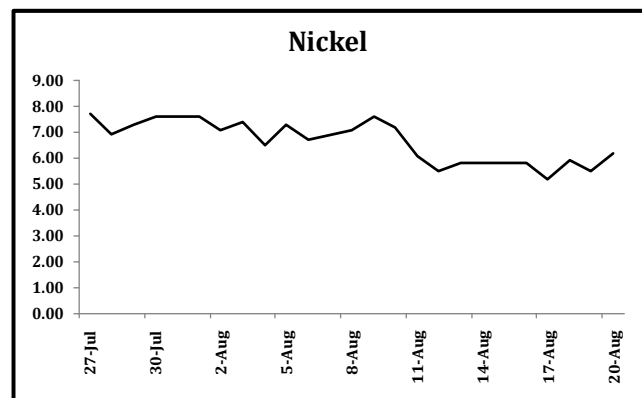
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



CANCELLED WARRANT RATIO ON LME



CALENDAR SPREAD ON MCX



TECHNICALS: LME Nickel prices traded marginally lower in the week gone by with as much as 1% loss. It made a high of 21989 and a low of 21118 before settling at 21205 levels. Last week we had discussed about a Head & Shoulder pattern on the weekly chart and market moved as per our expectation. This time prices are trading lower after witnessing Neckline resistance at 21920 levels. Simultaneously prices are witnessing resistance at 21565 levels which is 38.2% retracement of the range 8850-29425 levels. On sustained trade below is likely to escort the prices on the lower side and potential to test 19135 levels of the above mentioned range. The momentum indicator RSI 14 Weekly is trading at 0.381 levels and suggesting lower potential. The Moving Average principle also suggesting lower potential as prices are trading well below the short and medium term EMA's of (8,21&34) weeks. However a mild correction on the higher side may be expected before resuming its down trend. Based on all the above parameters we from KCTL Research expect prices to trade lower and recommend selling at resistance levels.



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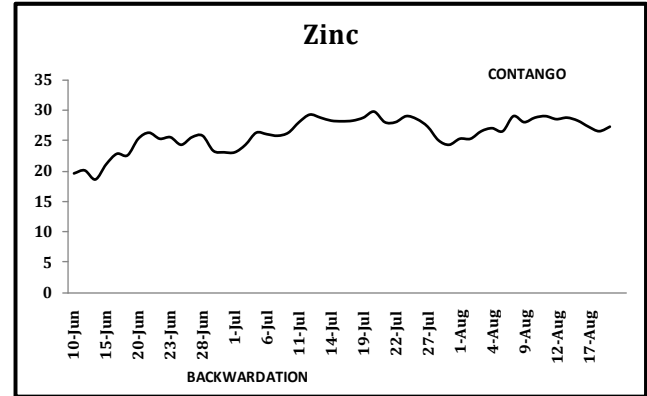
ZINC

Zinc was the top performer among the base metal pack as it ended with gains of more than a percent. Basis on LME however is stabilizing near the average levels of \$25/tonne.

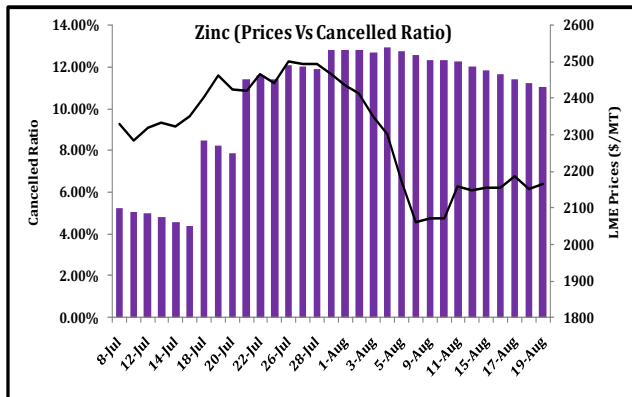
Outperformance of zinc over lead sent the spread between the two declining to 7 levels from 10. In the near term, lead might continue to underperform but the spread might rebound from levels of 6.

BASIS CHART

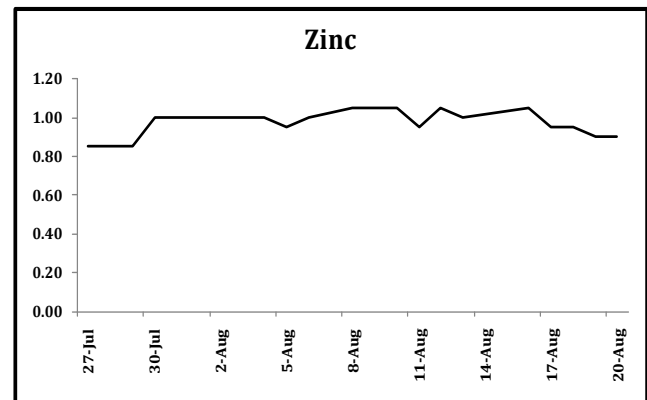
(LME 3 MTH FWD-LME CASH PRICES) {\$/Tonnes}



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		175.7	177.3	175.7	177.3	0.80%	-	-	-	-
STEEL LONG	NCDEX	Sep-11	29920	30000	29550	29900	0.10%	44,930	40.80%	36,080	51.22%

Steel long prices largely consolidated and ended flat on NCDEX. Steel Long September contract on NCDEX ended with at 29,900/tonne, up by 0.10 percent. Volumes were on the higher side along with increase in open interest was witnessed. Iron ore prices also ended higher with modest gains of 0.8 percent at \$177.3/Dry Metric Tonne. Concerns on the supply front supported iron ore prices. Rio Tinto suspended operations at two mines in Australia but later however resumed operations. Overall, steel prices might continue to largely consolidate.

DATA RELEASES SCHEDULED FOR THE WEEK AHEAD

Date	Time	Region	Event	Period	Survey	Prior
23/08/2011	08:00	CH	HSBC Flash China Manufacturing PMI	AUG	--	48.9
23/08/2011	13:00	GE	PMI Manufacturing	AUG A	50.6	52
23/08/2011	13:00	GE	PMI Services	AUG A	52	52.9
23/08/2011	13:30	EC	PMI Composite	AUG A	50	51.1
23/08/2011	13:30	EC	PMI Manufacturing	AUG A	49.5	50.4
23/08/2011	13:30	EC	PMI Services	AUG A	50.9	51.6
23/08/2011	14:30	GE	ZEW Survey (Current Situation)	AUG	85	90.6
23/08/2011	14:30	EC	ZEW Survey (Econ. Sentiment)	AUG	--	-7
23/08/2011	14:30	GE	ZEW Survey (Econ. Sentiment)	AUG	-26	-15.1
23/08/2011	19:30	EC	Euro-Zone Consumer Confidence	AUG A	-12.4	-11.2
23/08/2011	19:30	US	New Home Sales	JUL	312K	312K
23/08/2011	19:30	US	Richmond Fed Manufacturing Index	AUG	-7	-1
24/08/2011	13:30	GE	IFO - Business Climate	AUG	111	112.9
24/08/2011	13:30	GE	IFO - Current Assessment	AUG	119.8	121.4
24/08/2011	13:30	GE	IFO - Expectations	AUG	102.8	105
24/08/2011	14:30	EC	Industrial New Orders SA (MoM)	JUN	0.40%	3.60%
24/08/2011	18:00	US	Durable Goods Orders	JUL	2.10%	-2.10%
24/08/2011	19:30	US	House Price Index MoM	JUN	0.20%	0.40%
25/08/2011	18:00	US	Initial Jobless Claims	20-Aug	405K	408K
25/08/2011	18:00	US	Continuing Claims	13-Aug	3700K	3702K
25/08/2011	09/01	GE	Import Price Index (MoM)	JUL	0.30%	-0.60%
26/08/2011	14:00	UK	GDP (QoQ)	2Q P	0.20%	0.20%
26/08/2011	18:00	US	GDP QoQ (Annualized)	2Q S	1.10%	1.30%
26/08/2011	18:00	US	Personal Consumption	2Q S	0.20%	0.10%
26/08/2011	18:00	US	GDP Price Index	2Q S	2.30%	2.30%
26/08/2011	19:25	US	U. of Michigan Confidence	AUG F	56	54.9



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**PREPARED BY:****Sundeep Jain****Fundamental Analyst**sundeep.jain@karvy.com**Sandeep K****Technical Analyst**sandeepkumar.k@karvy.com

To unsubscribe please mail us at commodity@karvy.com

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