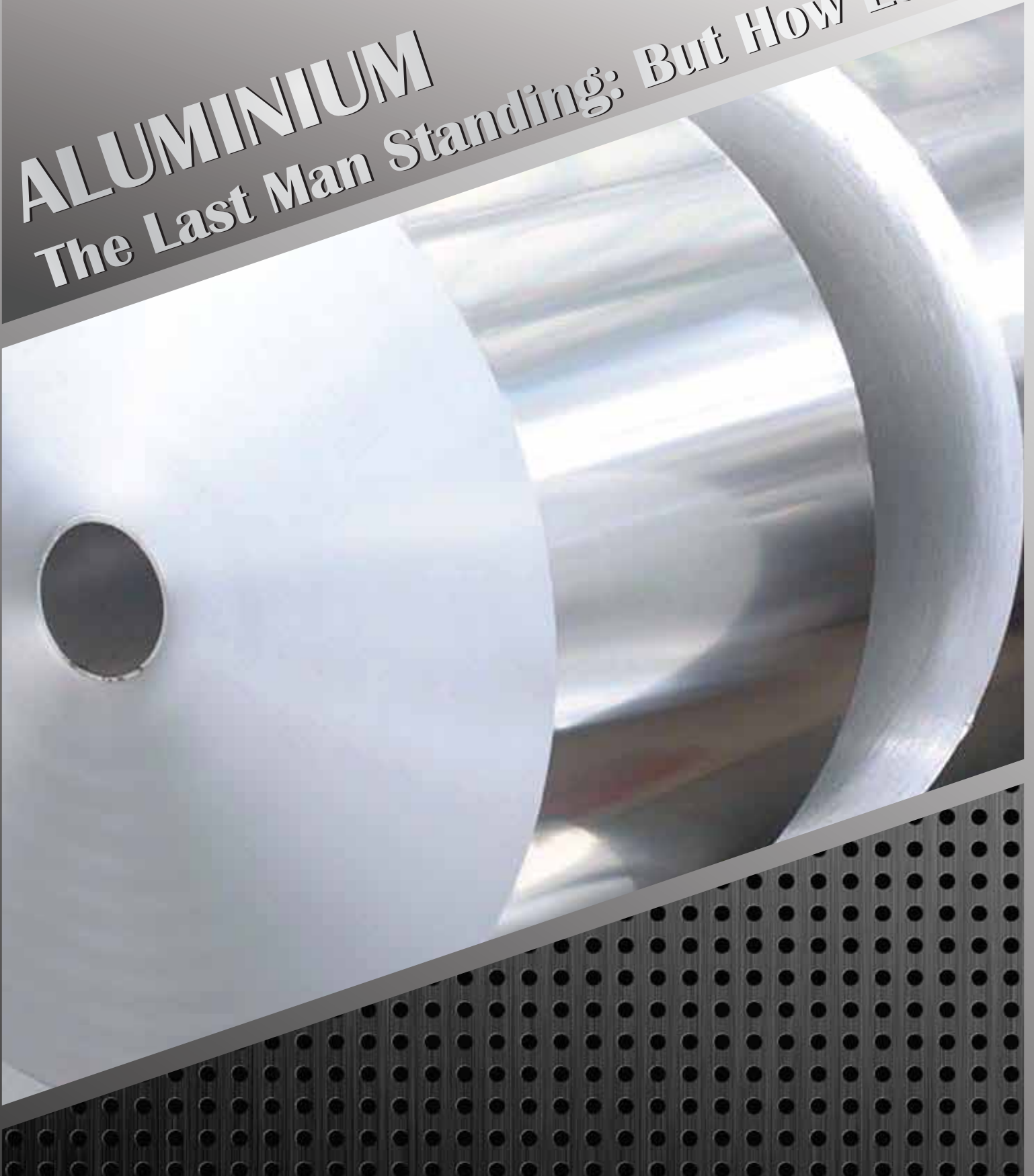
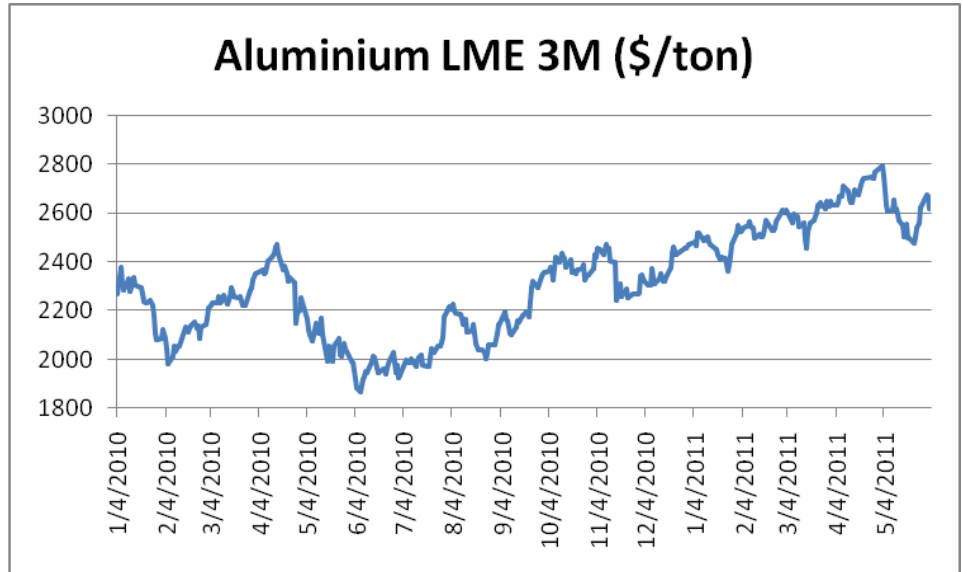


# ALUMINIUM

The Last Man Standing: But How Long?



**ALUMINIUM**

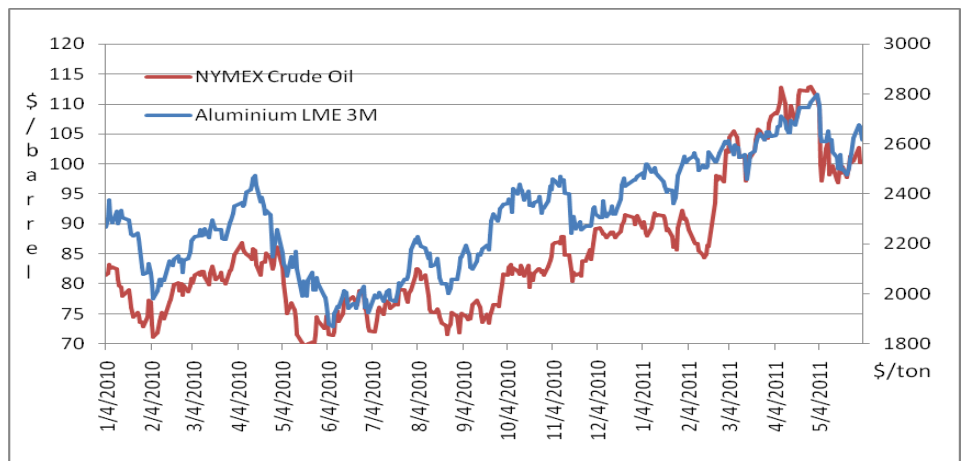


Source : Reuters, NB Research

Aluminium has been a silent performer this year, providing an absolute return of over 7.5 percent from January 2011, much like the tortoise in the race with the hare. Slowly but steadily the price performance of aluminium has been encouraging investors in the recent past. Despite the weakness in the overall base metals complex, the counter has been able to hold on to its levels, on the back of some strong fundamental factors.

With long-term global growth story intact, we expect aluminium prices to soften and follow the broad metals complex going forward, as changing global financial dynamics are expected to weigh on the prices of this metal in near term.

**Aluminium & Crude Oil**



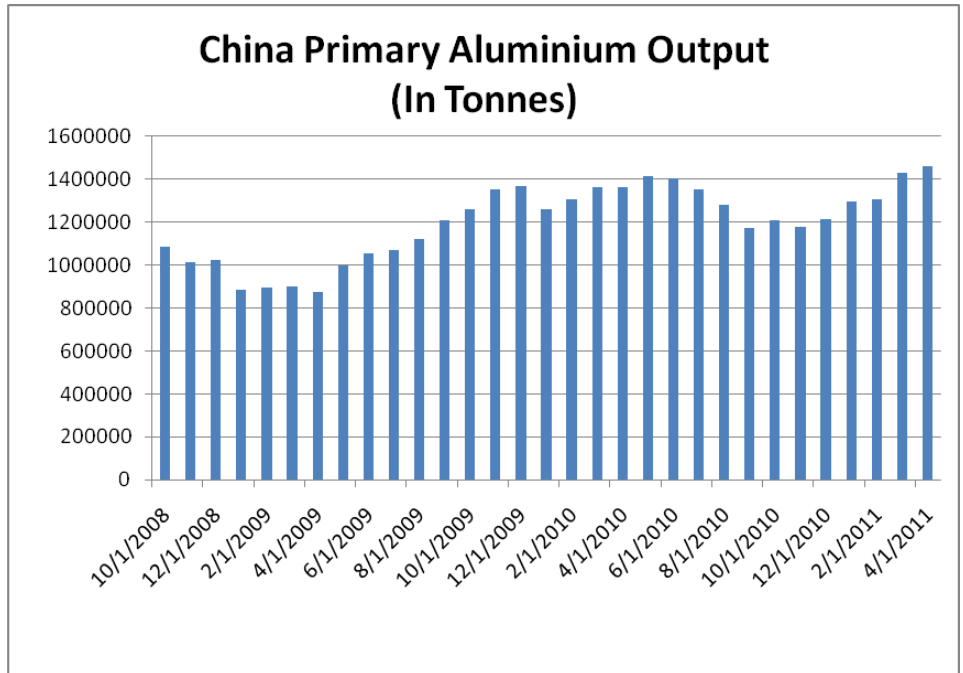
Source : Reuters, NB Research

The price of oil, as a proxy for energy costs (which are the largest component of aluminium smelters cost) is an important driver of aluminium prices in recent times. Besides, the conflicts in the Middle East region and North African nations like Libya and Yemen have had an indirect impact on the prices of aluminium. The tensions arising out of the conflicts in the Middle East nations added some risk premium to the prices of crude oil, resulting in its prices rising up to \$115 per barrel.

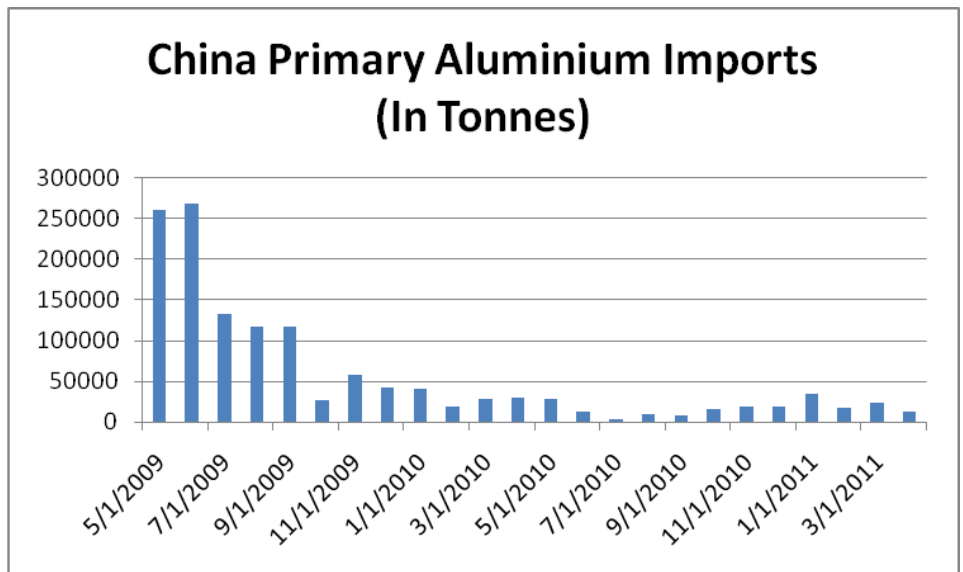
Oil being a product used in the production process of primary aluminium, a rise in input cost supported prices of aluminium despite of weakness in the overall non-ferrous complex.

Going forward, we expect crude oil prices to soften "**DEMAND DESTRUCTION - CRUDE OIL**" and, hence, we feel that easing input costs may result in the softening of aluminium prices as well.

**Aluminium Trade - China**



Source : Reuters, NB Research



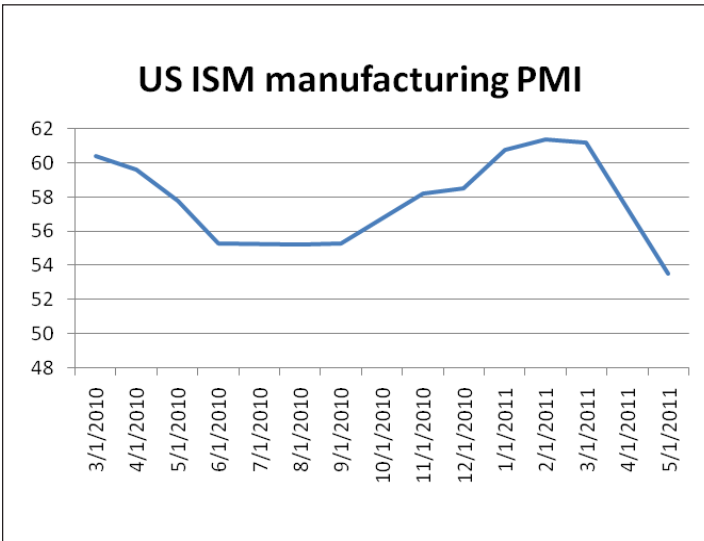
Source : Reuters, NB Research

Primary aluminium imports by China were down 44 percent in April 2011 from March 2011. Also, when compared to April 2010, the imports in April 2011 were down 56 percent. Total imports in the first four months of 2011 were down by almost 25 percent from the corresponding period in 2010. **We do not expect any major improvement in Chinese aluminium import numbers since the country is on a monetary tightening mode.**

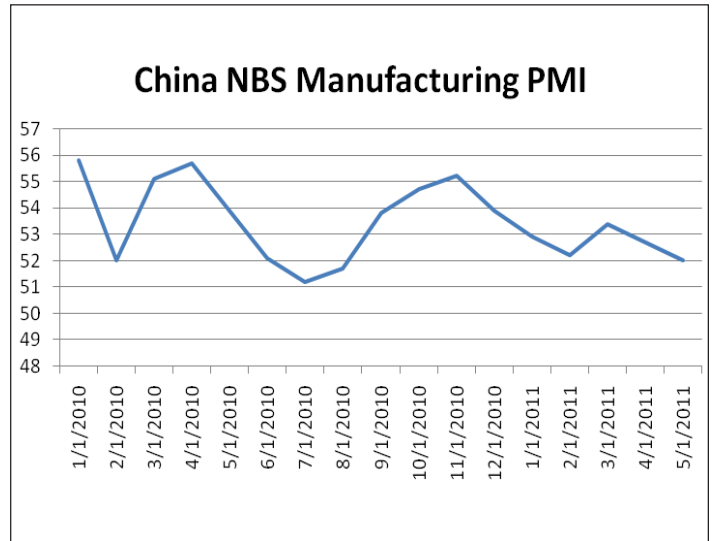
**Increased Chinese output may add to the downward pressure.** China primary aluminium output rose to record levels, increasing by 2 percent in April 2011 over March 2011, following a 9 percent rise in the previous month. Thus, aluminium prices may suffer with the prospect of increasing supply.

Hence, with rising output and dropping imports, we clearly see a slowdown in the demand for the metal from China, the highest global consumer.

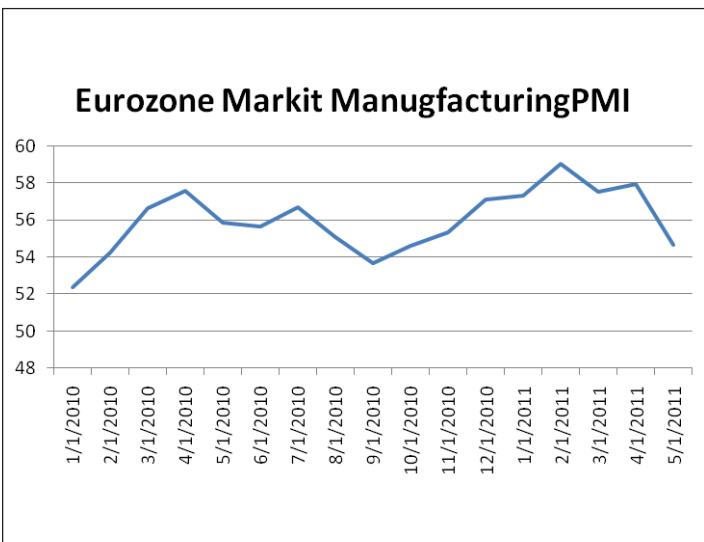
**Economic Scenario - USA, Euro Zone and China.**



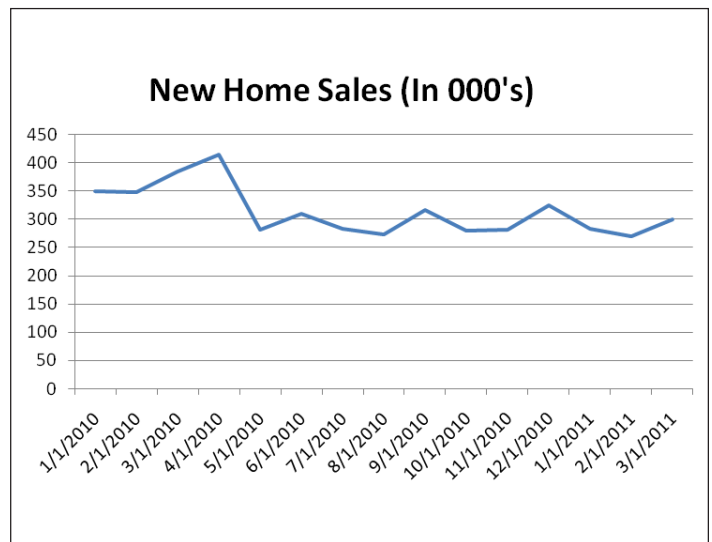
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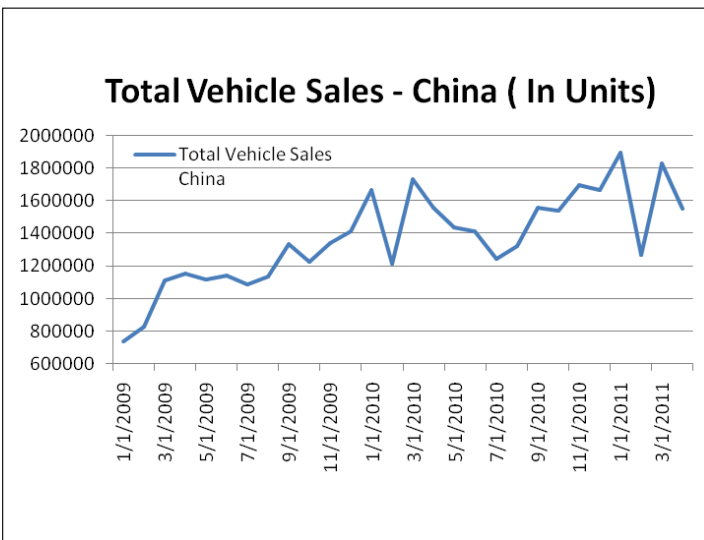
Source : Reuters, NB Research



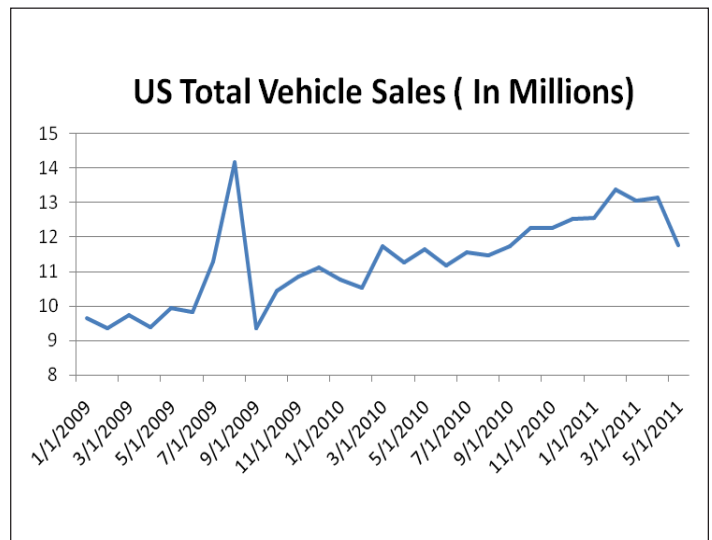
Source : Reuters, NB Research



Source : Reuters, NB Research



Source : Bloomberg, NB Research



Source : Bloomberg, NB Research

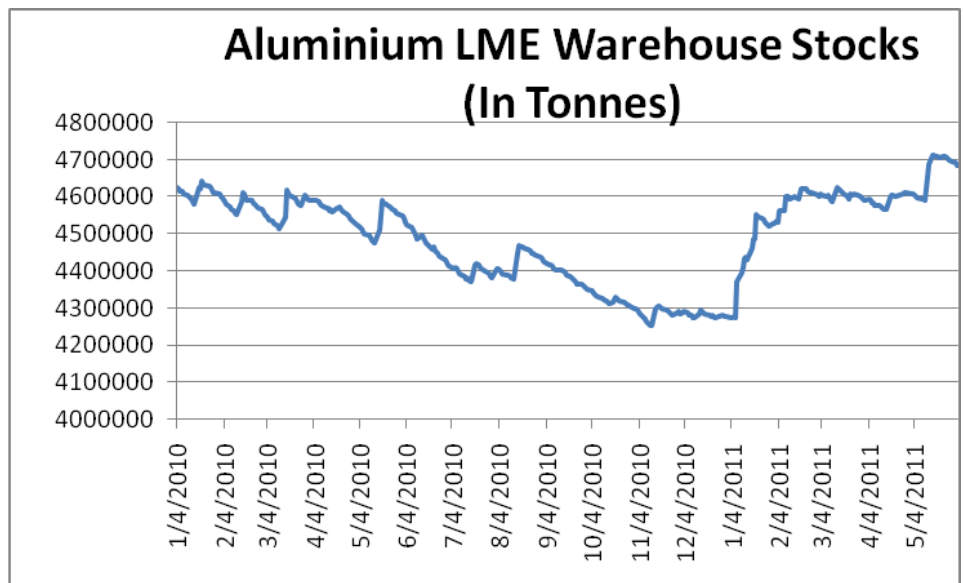
Economic data from key nations have not been encouraging for investors. **PMI surveys confirm that industrial demand is weakening, thus undermining the prices of base metals.**

The US ISM Manufacturing PMI data for May grew at its slowest pace in two years. In China too, the PMI growth rate slowed down in previous months.

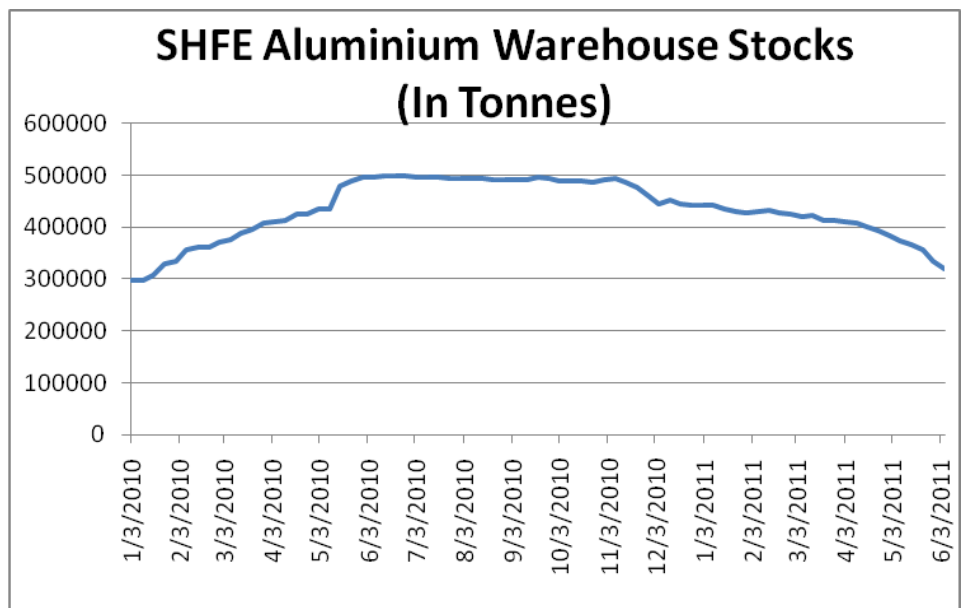
The housing scenario in USA is still not out of the woods. The US New Home Sales data is yet to counted among the recession-free sectors. Adding to new home sales figures, the total vehicle sales in China and the US too are showing signs of a slowdown in their latest releases.

Over half of the total aluminium produced globally is used in the transportation and construction sectors. Hence, any slowdown in these sectors may subsequently result in a price reversal in aluminium.

**Aluminium LME Warehouse Stocks**



Source : Reuters, NB Research



Source : Reuters, NB Research

LME aluminium warehouse stocks have risen by almost 10 percent since the start of this year, indicating low physical demand from key consuming regions. However, aluminium stocks held at Shangahi warehouses have been going down since the past one year, mainly due to the sharp fall in imports of the metal by China.

## Outlook

Factors such as the possible slowdown in the Chinese economy, increasing output and reduced imports by China, slowdown in manufacturing activity across the globe, dip in Chinese and US vehicle sale numbers and most importantly, easing oil prices and production costs, could weigh down heavily on this base metal, forcing aluminium prices to drop back to \$2,450-2,470 per tonne on the LME and Rs 108-110 per kg on MCX.

Technical Outlook



MCX- Aluminium Daily Chart dated 2nd June, 2011

**OBSERVATION:**

- In above Aluminium Daily chart, prices are holding on to the 50 DMA near 118 levels.
- But prices have already breached the immediate trend line Support and are trading side-ways.
- The MACD is lying below Zero line, which indicates weakness in the counter.
- The Stochastic is moving flat, which infers that upside is mostly done.

**CONCLUSION:**

- Thus prices can turn down on breaching the 50 DMA at 118 on closing basis
- The Prices can halt at the near target of 116.65 in immediate term and 112.15 levels in short term.

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