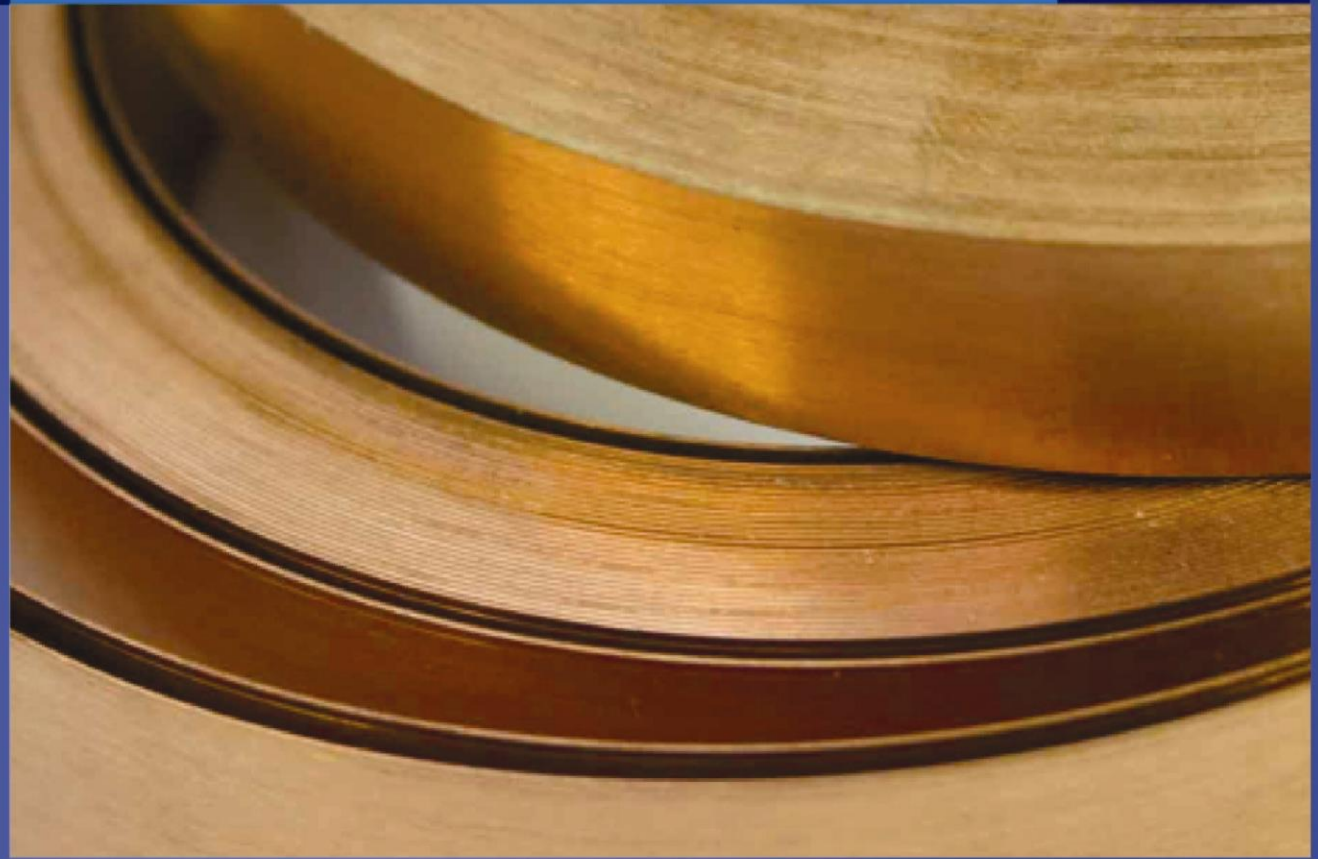


Quarterly Report On:

BASE METALS

Date: 7th October 2011

A VALUE PROPOSITION
A VALUE PROPOSITION
A VALUE PROPOSITION
A VALUE PROPOSITION



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Quarter Review

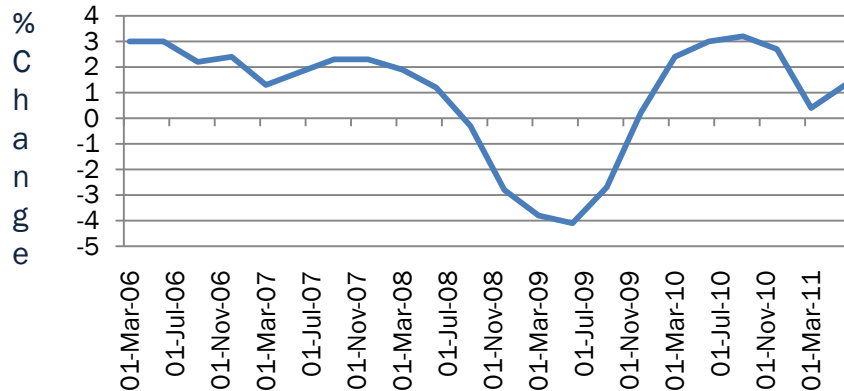
- ✓ Base Metals price witnessed their worst quarterly performance since the financial crisis of 2008. After testing or nearing its all time high levels at the start of the year, base metals prices have corrected by more than 30% since then.
- ✓ Slowing imports from China coupled with slow industrial manufacturing activities across the globe was one of the main reasons for such a steep fall.
- ✓ Despite of supply concerns from major mines of Copper in Indonesia and Chile in the previous quarter, we have not seen any buying at any price levels in the previous quarter.
- ✓ Weak economic data points mainly with respect of industrial output, manufacturing activities and housing market led to a rapid price correction.
- ✓ European debt crisis led by Greece has been one of the important event with respect to price correction in all the riskier asset class including metals. Much talks about Greece being default in its payments and its spill-over effect on the other European banks and nations have led to a series of downgrading by a few credit rating agencies. These events hurt investor sentiments, thus leading to a fall in prices of riskier assets.
- ✓ US debt was also being downgraded by S&P to AA+ from AAA adding to the woes of investors.
- ✓ And lately a rapid surge in the US dollar against major trading currencies of the globe enforced many fund managers to pull out their money from dollar denominated assets like precious metals, base metals and energies.

GLOBAL ECONOMIC SCENARIO

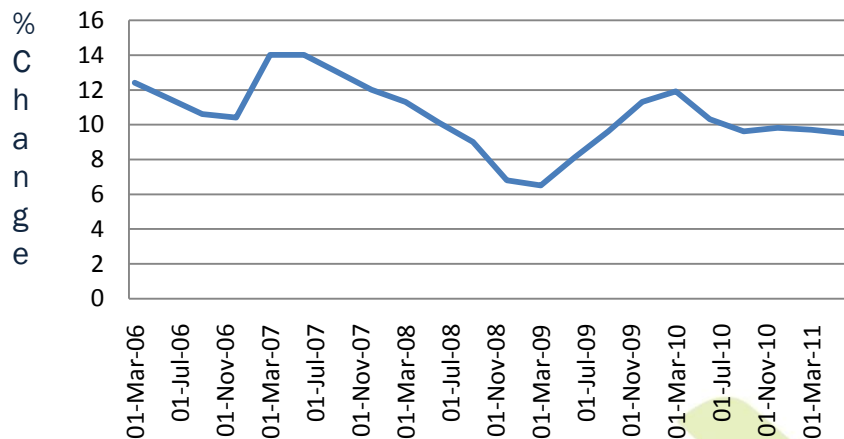


World Economic Scenario - GDP

US GDP (y-o-y)



China GDP (q-o-q)

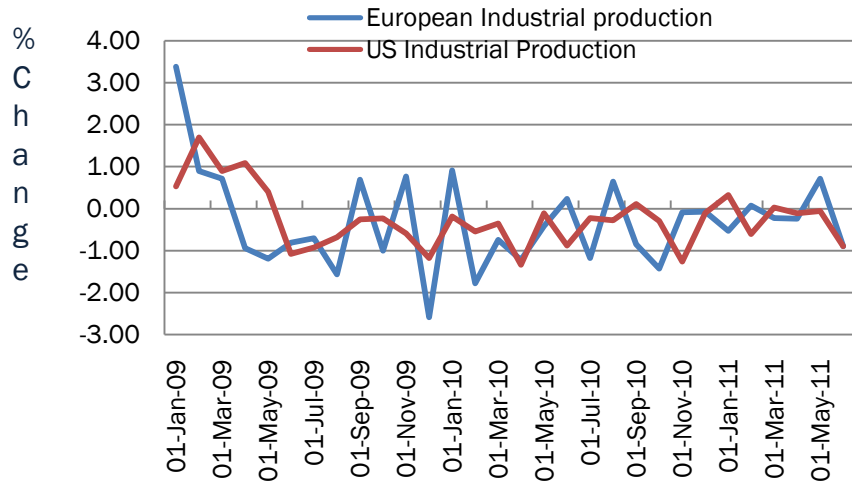


- ✓ Recovery in the West on track.
- ✓ Growth of Emerging Nations a Concern.
- ✓ Inflation still a concern in emerging nations, thus compromising growth

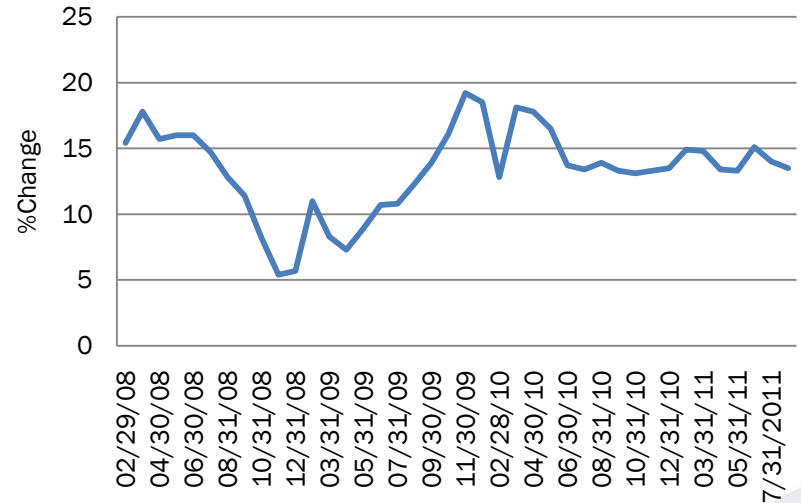
- ✓ Inflation (CPI) above 6 percent a major concern in the world's top metal consumer: China.
- ✓ Growth rate in the US improving after the end of additional quantitative easing

World Economic Scenario - IP

EZ and US Industrial Production Growth



China's Industrial Output

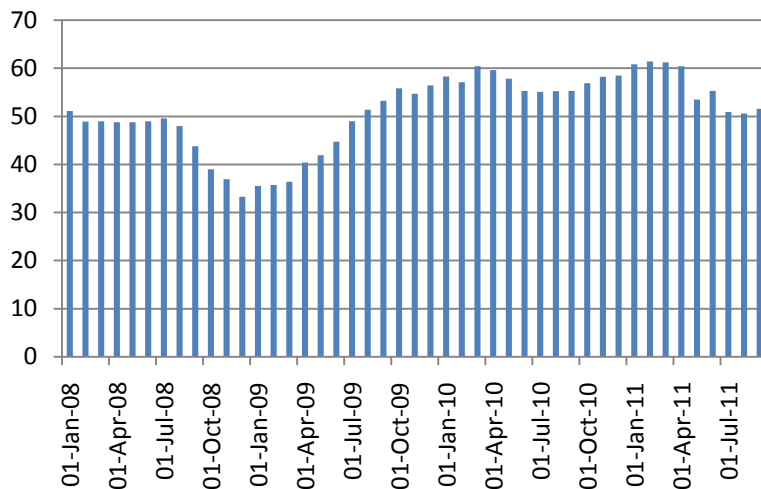


Source: Reuters, NB Research

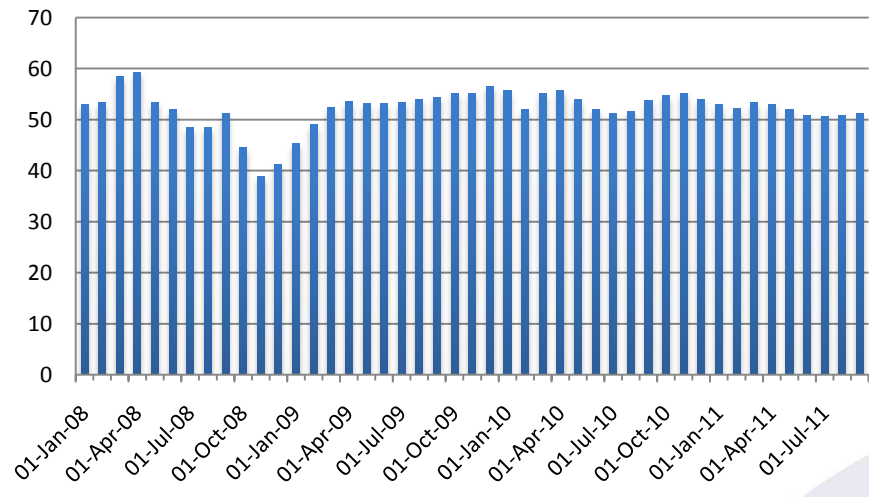
- ✓ Global Industrial Production showing signs of slowdown
- ✓ Industrial Output in the US -0.9% in the latest release.
- ✓ Euro showing signs of slowing, a negative industrial production seen after reporting positive growth in May 2011
- ✓ China IP growth going strong, though slowing to 13.5 percent after showing a constant 15 percent growth in previous months.

World Economic Scenario – PMI Numbers

US ISM Manufacturing PMI



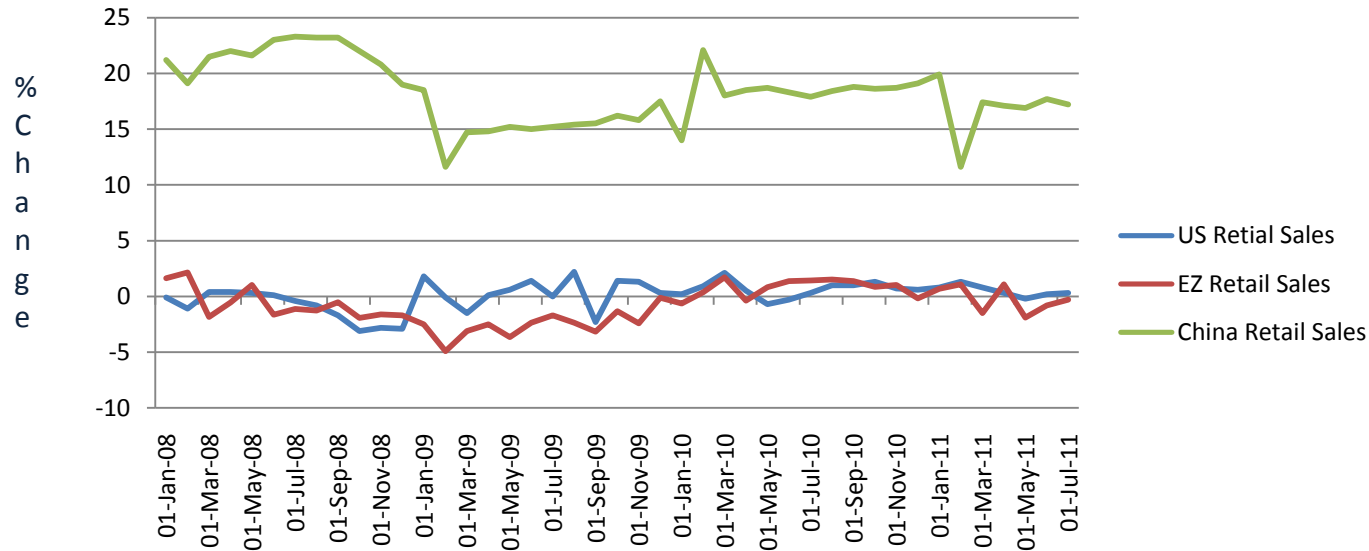
China NBS Manufacturing PMI



Source: Reuters, NB Research

- ✓ Global PMI Numbers showing signs of contraction in manufacturing activities.
- ✓ US ISM-Manufacturing PMI close to 50 levels, almost at the verge of contraction after above 60 levels seen in the second quarter
- ✓ Chinese NBS – PMI also tells a similar story as US, however HSBC China PMI data is less than 50 which reveals that the manufacturing activity in China is already in contraction mode.

World Economic Scenario – Retail Sales



Source: Reuters, NB Research

- ✓ Retail Sales growth sluggish in US and the Euro zone. Close to unchanged in the month of August. US Retail Sales recorded a marginal rise of 0.3 percent and that of Euro zone was recorded at -0.3 percent.
- ✓ Chinese Retail Sales growth constantly in two-digits since early 2010. August 2011 retail sales was recorded at 17 percent in China.

World Economic Scenario – Vehicle Sales

US Total Vehicle Sales

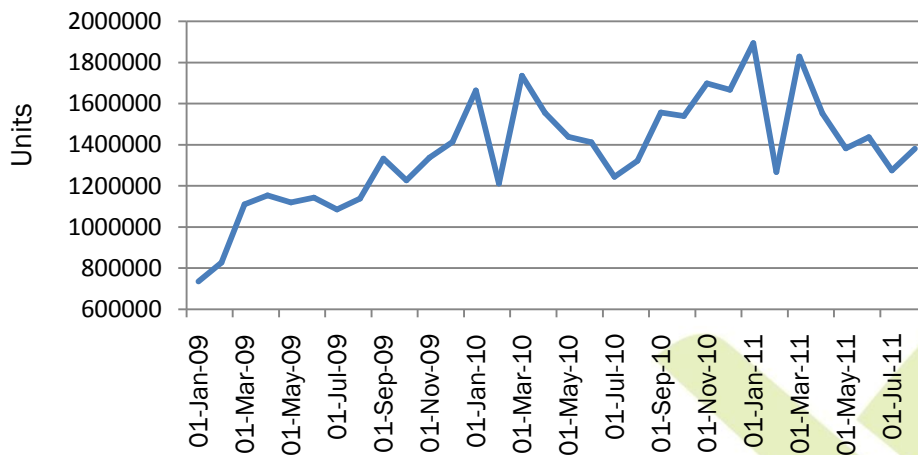


✓ Vehicle Production and Sales across the globe has been very strong.

✓ Total Vehicle sales in US recorded 13.10 million units in September 2011 which is almost the average selling units since the start of the year 2011.

✓ Vehicle Sales in China have been in declining mode since November 2010. The unit sales are almost 17 percent lower in August 2011 compared to unit sales in January 2011.

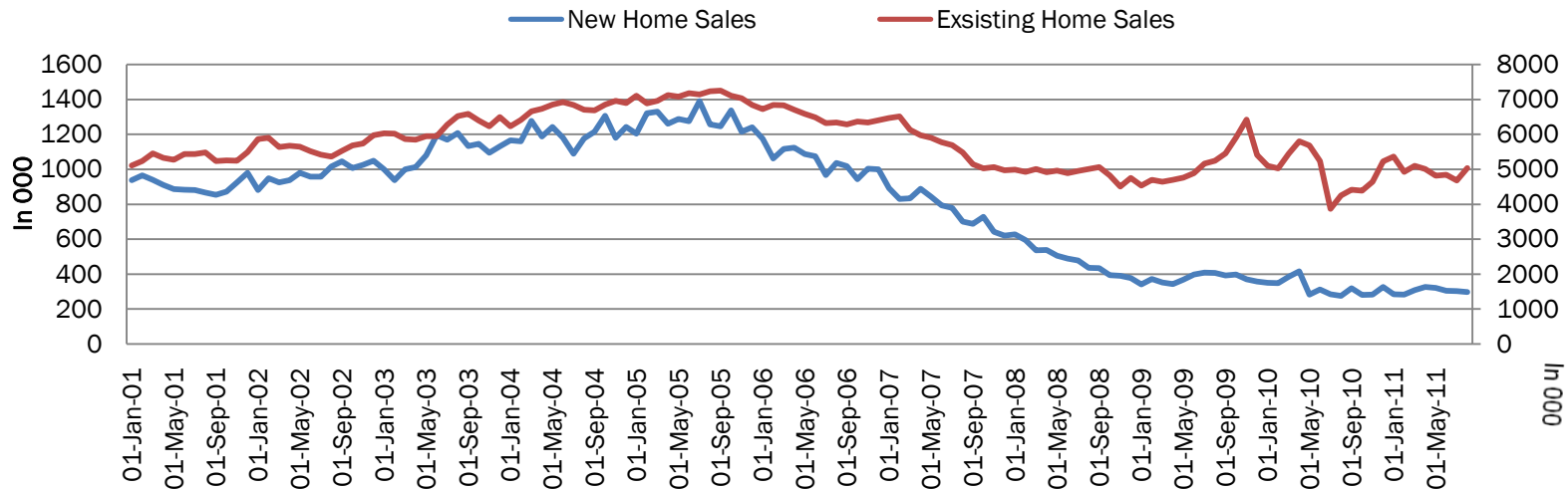
Total Vehicle Sales China



✓ Level of vehicle sales can be directly correlated to metals such as Aluminium and Lead. Hence, with slowing vehicle sales in China, price pressures on the above metals was inevitable.

Source: Reuters, Bloomberg NB Research

US Housing Market

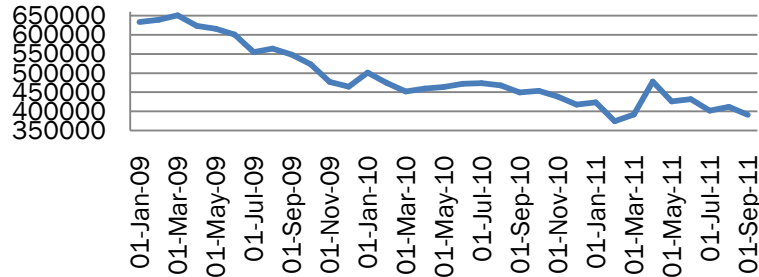


Source: Reuters, NB Research

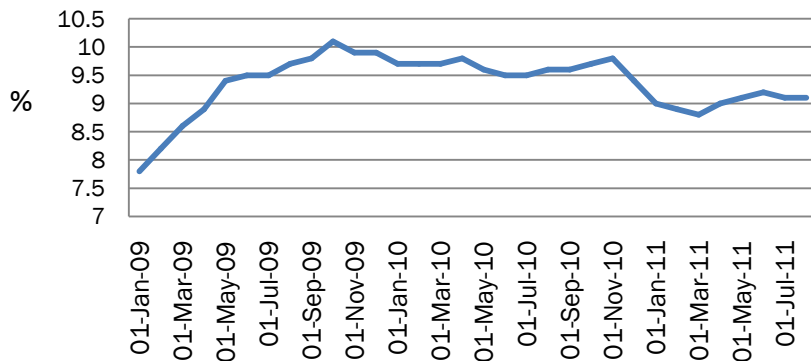
- ✓ Housing Market still weak in the US. New Home Sales and Existing Home Sales constantly declining on a monthly basis.
- ✓ Sales and prices of new U.S. homes fell in August 2011 despite historically low mortgage rates, underscoring the difficulties policymakers face in efforts to boost the moribund housing sector. The New home sales were recorded 15 percent lower in August 2011 to that in January 2011.
- ✓ Sales of previously occupied homes in the U.S. rose in August to the highest level in five months but remained weak from a historical perspective as the sputtering housing market fails to propel the economy.
- ✓ Monetary tightening measures in China trying to control speculative housing market.

US Employment Scenario

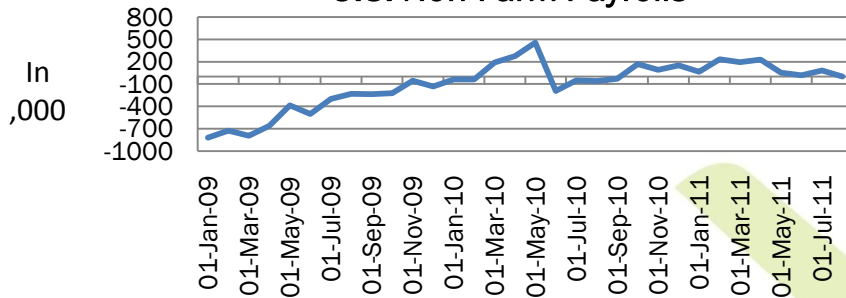
U.S. Weekly Jobless Claims



U.S. Unemployment Rate



U.S. Non-Farm Payrolls



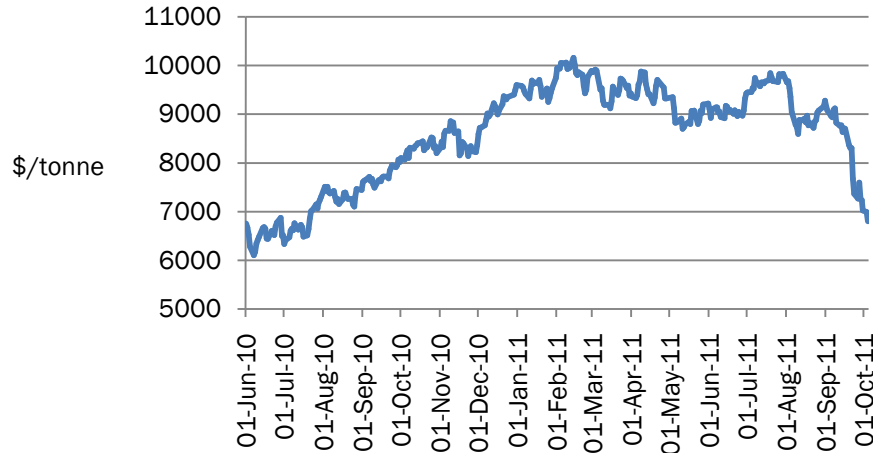
- ✓ Employment situation still not out of the woods
- ✓ The unemployment rate in the US again climbed above 9 percent in August 2011.
- ✓ Unemployment has exceeded 8 percent since February 2009, the longest stretch of such elevated joblessness since monthly records began in 1948.
- ✓ New US claims for unemployment benefits rose modestly last week but hovered near levels normally associated with improving labor market conditions, a hopeful sign for the struggling economy.
- ✓ US Non-farm payrolls so published numbered a flat reading in August 2011. However, a modest 55,000 growth in jobs is projected for September 2011.

BASE METALS QUATERLY
PERFORMANCE

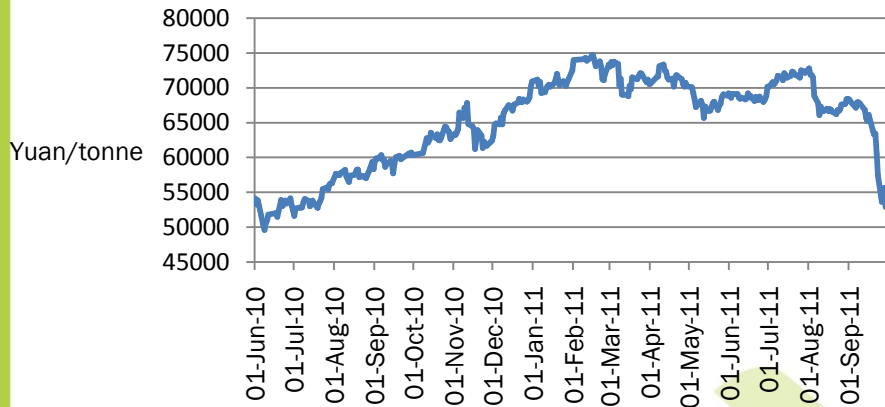


Copper

LME 3M Copper Price



SHFE Copper Price

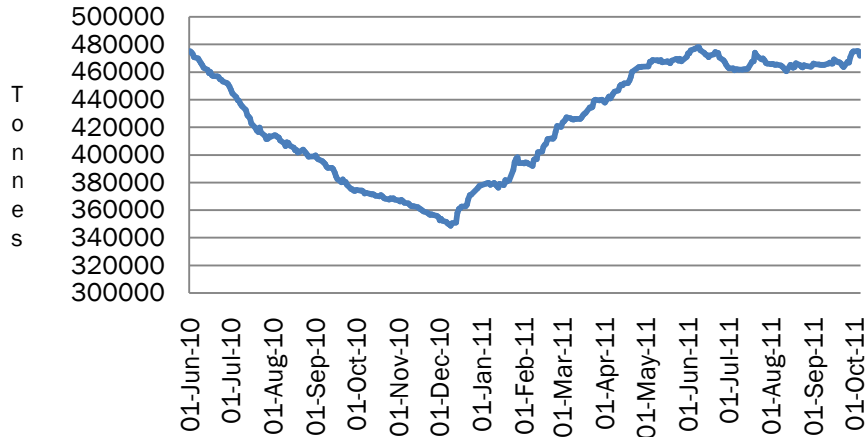


Review:

- ✓ Copper prices fell by more than 35 percent since the all time high level of \$10200 per tonne on LME. Copper prices went as low as \$6800 per tonne on LME
- ✓ In absolute terms Copper provided a negative 25 percent return to investors in the previous quarter
- ✓ On Shanghai Futures Exchange too copper prices have corrected by 21 percent in the previous quarter.
- ✓ Adjusted to the 17 percent VAT in China. The arbitrage window between LME and SHFE prices is once again seen in positive territory

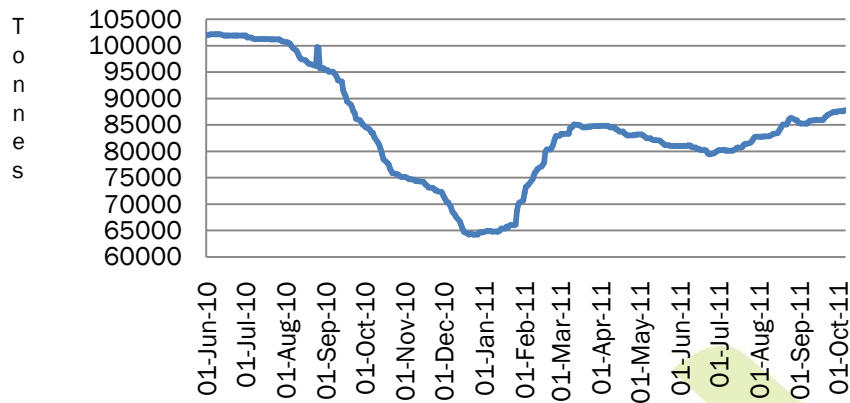
Copper Warehouse Stocks

LME Copper Stocks



- ✓ Copper Stocks held at major LME and Shanghai exchange warehouses are almost seen in a tight range since the start of the previous quarter
- ✓ Copper Stocks at LME warehouses have gone up by a negligible 2 percent since end of July 2011
- ✓ Copper stocks at COMEX warehouses are up by 10 percent since the end of July 2011.
- ✓ Lack of major drawdown in this quarter in major exchange warehouses display a weak physical demand for the metal globally.

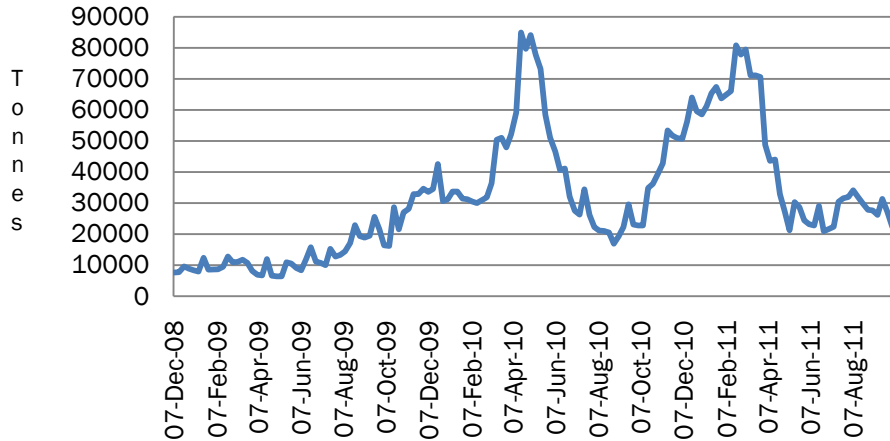
COMEX Copper Warehouse Stocks



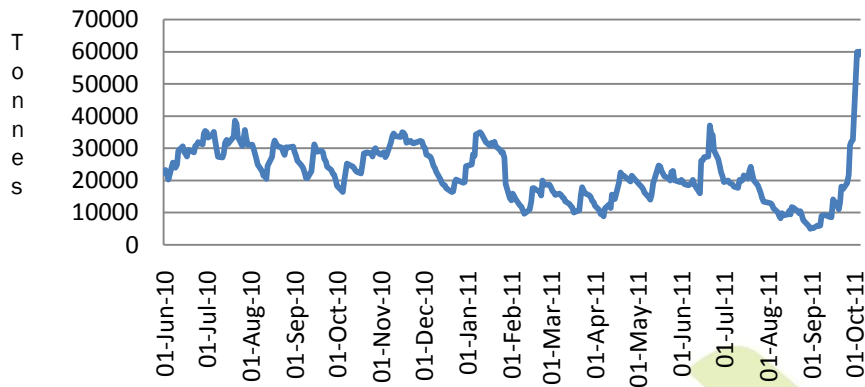
Source: Reuters, NB Research

Copper Warehouse Stocks

Shanghai Weekly Copper Stocks



LME Copper Cancelled Warrants

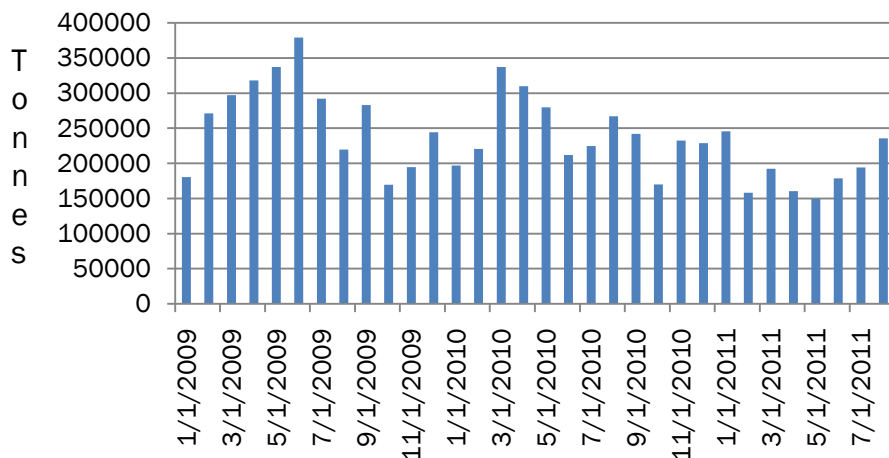


Source: Reuters, NB Research

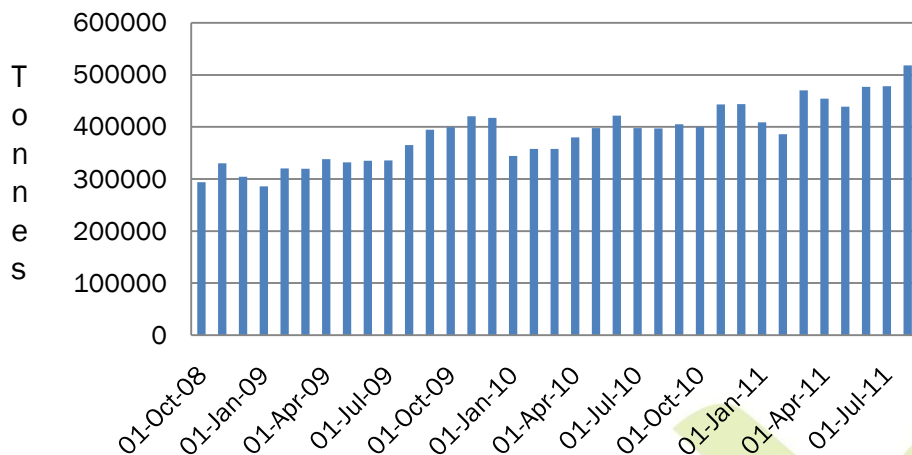
- ✓ Copper stocks held at shanghai warehouses is also showing a similar trend.
- ✓ Copper Stocks at SHFE monitored warehouses have gone up by 30 percent since the end of July 2011
- ✓ However, the cancelled warrants in copper have surged quite significantly.
- ✓ The amount of copper cancelled warrants on LME stand at 60000 tonnes. This is above 12 percent of the total warrants of the exchange.

China Copper Imports & Output

China Refined Copper Imports



China Refined Copper Output



Source: Reuters, NB Research

- ✓ China Copper Imports in the month of August 2011 stood at 235509 tonnes, showing some signs of improvement. However still low considering the price levels and imports of 2009.
- ✓ Profitable arbitrage window between copper traded on LME and Shanghai have encouraged many traders to make the most out of the trade.
- ✓ China refined copper surged by 8 percent in August 2011 over July 2011. The trend in the refined copper output data reveals that the metal is well supplied in Chinese local markets.
- ✓ Apparent demand for refined copper surged 18.8 percent (m-o-m) in August and 14.4 percent from a year earlier Reuters calculations based on official Chinese data showed.

Major Market Developments

- ✓ China produced 3,123,000 tonnes of refined copper in the first seven months of the year, up 14.6 percent from the same period last year, according to the National Bureau of Statistics. Output of mined copper rose by 16.4 percent over the same period to reach 740,000 tonnes.
- ✓ The world refined copper market saw a deficit of 146,000 tonnes in January to May, compared with a deficit of 162,000 tonnes in the same period last year, the International Copper Study Group (ICSG) said in its latest monthly bulletin.
- ✓ Copper output in Chile, the world's No. 1 producer, totalled 373,498 tonnes in July, down 18 percent from the same month last year, government statistics agency INE said. The July copper output figure was substantially below June copper output of 426,477 tonnes, reported by the INE last month.
- ✓ Chile's giant Collahuasi copper mine expects to produce around 500,000 tonnes of copper this year, with output stabilising around 600,000 tonnes in coming years as it seeks to implement an expansion plan, the operator's chief executive said.
- ✓ Copper output in Zambia, Africa's top producer of the metal, declined by about 5 percent in the first five months of 2011 from the year before as mines scaled down production due to heavy rain, the central bank said. Copper output dropped to 308,777 tonnes for January to May from 326,877 tonnes in the same period last year, it said.
- ✓ South Korea's metals stockpiling agency plans to launch a physical copper exchange-traded fund in the fourth quarter, the latest effort to create a simple-to-use vehicle for the metal that would appeal to a wide range of investors and the first of its kind in Asia.

Demand – Supply Scenario

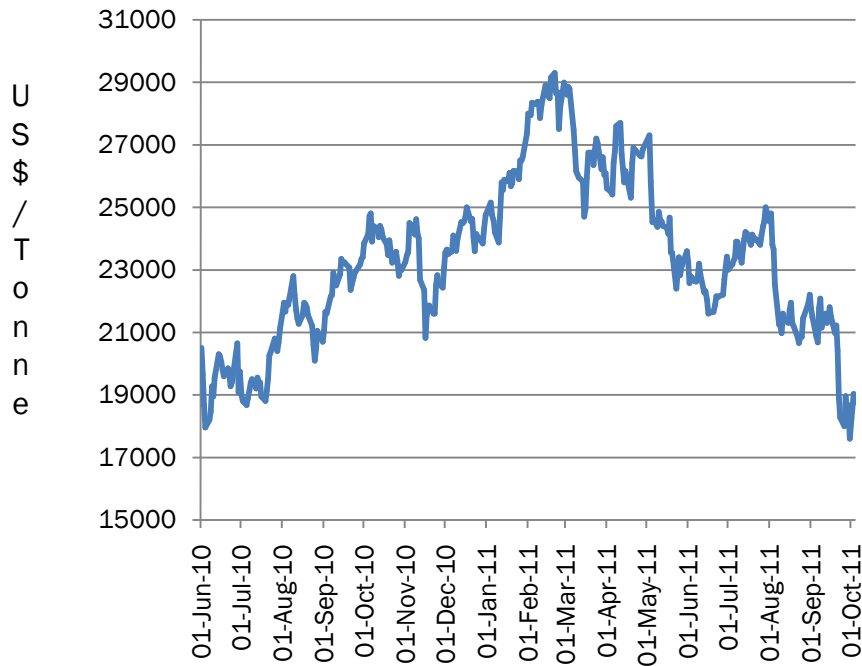
| (In 000 tonnes) | Refined Production | Refined Consumption | Surplus / Deficit |
|-----------------|--------------------|---------------------|-------------------|
| 2009 | 18,276 | 18,101 | 175 |
| 2010 | 19035 | 19386 | -351 |
| 2011(F) | 19676 | 19676 | 0 |
| 2012(F) | 20840 | 20392 | 448 |

Source: ICSG, NB Research

- ✓ The demand – supply situation is not showing a very good signal
- ✓ According to International Copper Study Group (ICSG), in its latest bulletin it does not predict any deficit for the metal for 2011, however, it expect copper market to remain in a surplus for 2012
- ✓ Consumption growth for the red metal is not expected to be that significant as the production growth for the current year. The refined production is expected t grow at 3.3 percent. Whereas, the consumption is expected to grow marginally by 1.5 percent in 2011.
- ✓ INSG had previously forecasted a deficit for the red metal. However, looking at the current market conditions they have revised it to a balanced market for the current year.

Nickel

LME Nickel Price



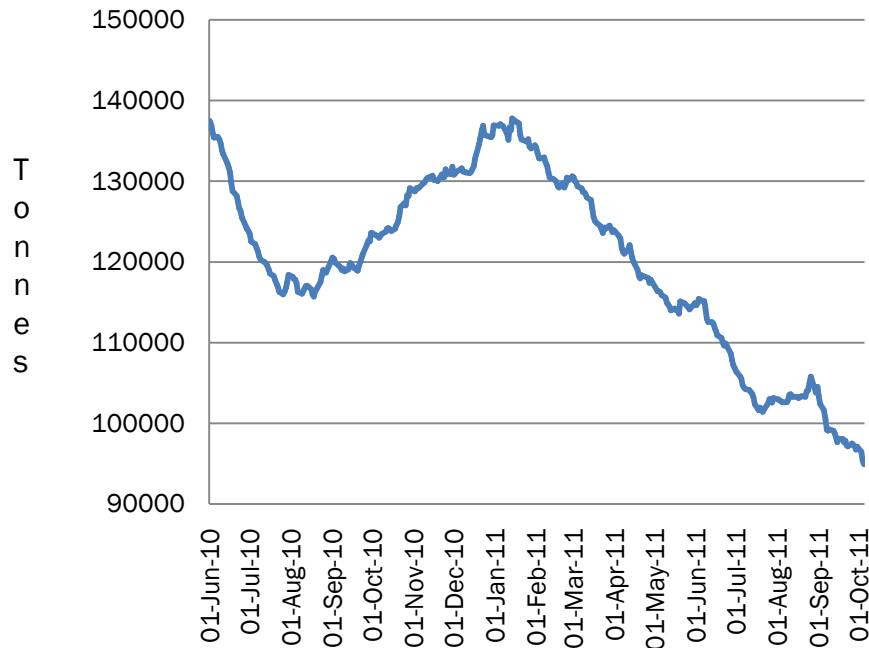
Source: Reuters, NB Research

Review:

- ✓ LME 3M Nickel price traded below \$18000 per tonne after reaching almost \$30000 per tonne at the start of the year
- ✓ Nickel prices have fallen by more than 25 percent since the start of the previous quarter.
- ✓ On MCX nickel prices traded below Rs.900 per Kg as European debt worries dragged the metal lower.

Nickel Warehouse Stocks

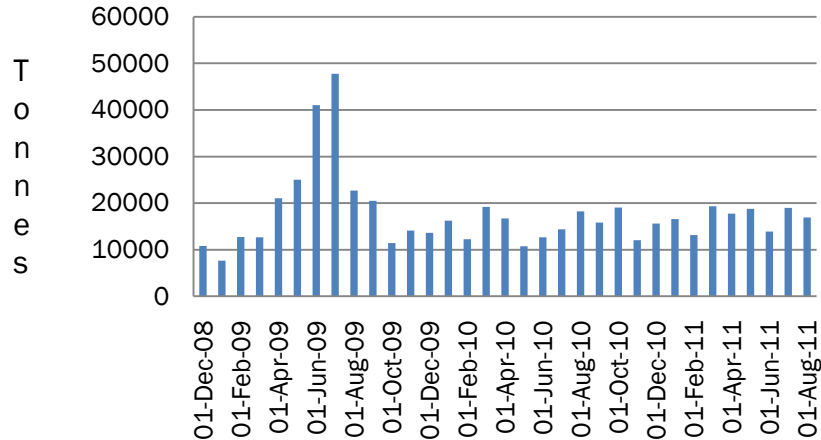
Nickel LME Stocks



- ✓ The general downtrend in LME nickel stocks in evidence since around the start of the year came to a halt in late July, reflecting slower seasonal demand.
- ✓ A slight upwards bias continued in August and inventories reached 105,780 tonnes on Aug. 26, before ending the month at 104,502 tonnes from 103,098 tonnes at the end of July.
- ✓ LME nickel stocks have declined by more than 9 percent since the start of the previous quarter and have declined by 30 percent since the start of the year.
- ✓ At the end of last month, LME nickel stocks amounted to around 24 days of demand.

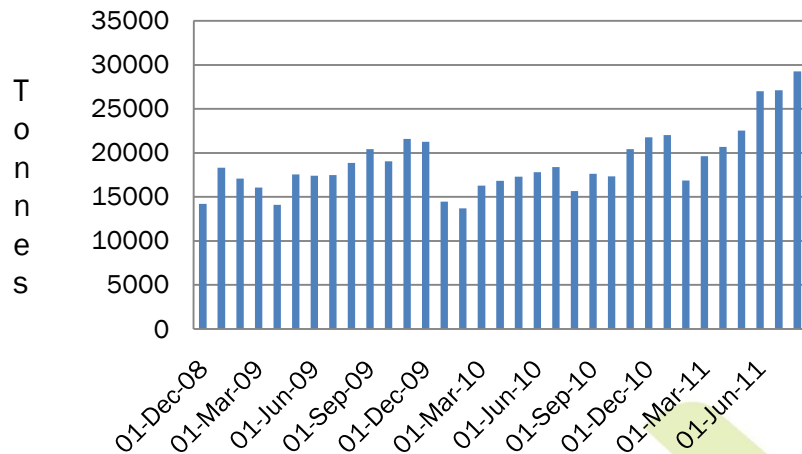
China Nickel Imports & Output

China Refined Nickel Imports



- ✓ China August 2011 Refined Nickel Imports stood at 16,902 tonnes which was 10 percent lower than in July 2011.
- ✓ On a y-o-y basis the imports have also shown a similar trend. Imports declined by 7 percent on a (y-o-y) basis.
- ✓ Chinese refined nickel output is showing an upward trend. Nickel imports in August 2011 were 8 percent higher on a (m-o-m) basis and 86 percent higher on a (y-o-y) basis.

China Refined Nickel Output



- ✓ The preliminary apparent consumption level of 43.4Kt nickel represents a 42% y/y increase. Given that the premium of Chinese nickel prices versus LME has averaged just under \$4000/t in both August and September so far, from closer to \$3000/t in July, such a price signal points towards continued support for the inflow of refined nickel given a flirtation with the import arbitrage.

Major Market Developments

- ✓ China produced 162,230 tonnes of refined nickel in the first seven months of the year, up 45.7 percent from the same period last year, according to the National Bureau of Statistics.
- ✓ China's production of nickel pig iron, a low-cost alternative to refined nickel, should increase to at least 300,000 metric tons next year from an expected 260,000 tons this year, according to a chief analyst at Beijing Antaika Information Development Co. Nickel pig iron production should account for almost 60 percent of China's total primary nickel output this year, according to Antaika.
- ✓ It is forecasted that world's stainless steel (crude) production in 2011 will be about 34 million tonnes (up 6.25% from 2010), for which 1.6 to 1.65 million tonnes of nickel is required. Based on this, nickel demand for the first half was, by calculation, some 800,000 tonne level, meaning that the first half market balance was a little short in supply.
- ✓ Australia's Panoramic Resources expects to lift its annual nickel production by 40 percent to 25,000 tonnes in two years and said it expected that China's Jinchuan Group would be a ready buyer of the extra tonnage.
- ✓ Australia's Minara Resources, resumed full production runs following repair work at its Murrin Murrin ore processing plant, trimmed its full-year production guidance. Minara, 71 percent-owned by Glencore International, cut its guidance to 29,000-32,000 tonnes of nickel in 2011 from between 33,000 and 37,000 tonnes.

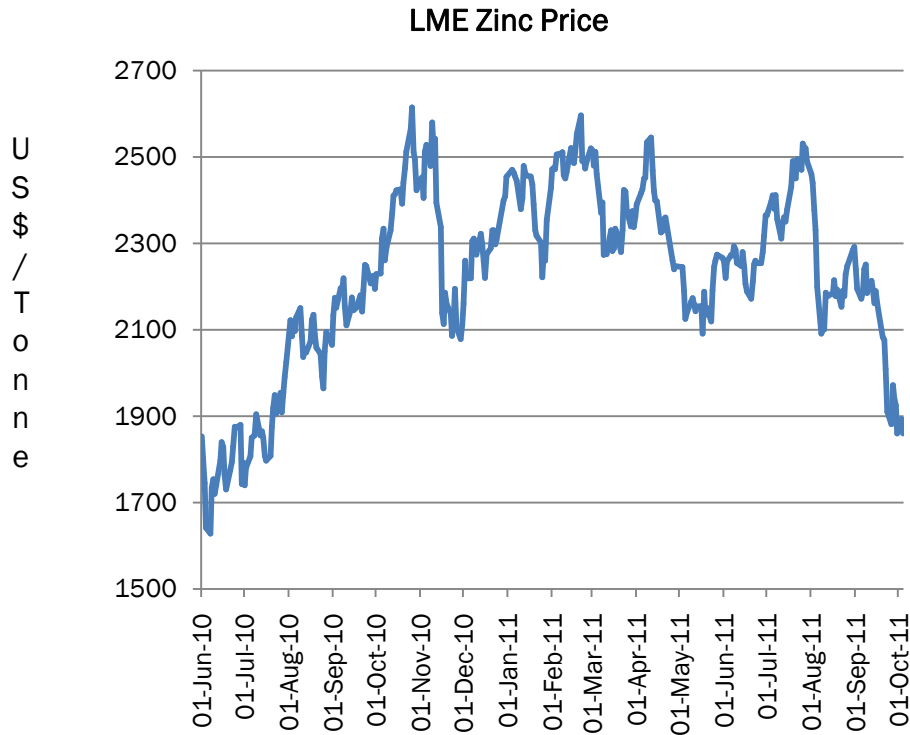
Demand – Supply Scenario

| Year | Production (In Million Tonnes) | Consumption (In Million Tonnes) | Surplus / Deficit (In Million Tonnes) |
|----------|--------------------------------------|---------------------------------------|--|
| 2009 | 1.32 | 1.24 | 0.08 |
| 2010 | 1.44 | 1.48 | -0.04 |
| 2011 | 1.60 | 1.57 | 0.03 |
| 2012 (F) | 1.74 | 1.67 | 0.07 |

- ✓ Nickel market was in a deficit of 40000 tonnes in 2010 and INSG estimates it to show a surplus of 30000 tonnes for 2011.
- ✓ Refined production increased from 1.44 million tonnes to 1.60 million tonnes which is expected to outpace demand growth
- ✓ Restarting of nickel production operations at VALE is expected to lead to some fresh supplies in the next year.
- ✓ For the year 2012, INSG expects nickel to be in a small surplus of 70,000 tonnes.

Source: INSG, NB Research

Zinc



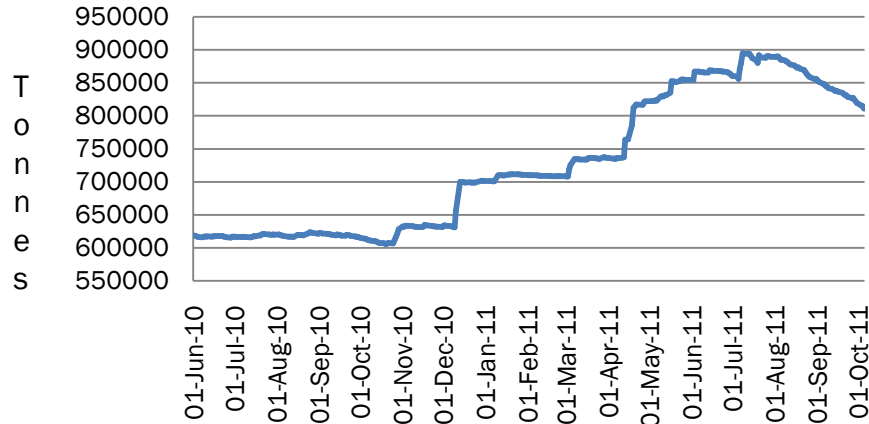
Source: INSG, NB Research

Review:

- ✓ Zinc, the only metal in the base metals complex to provide negative return to investors from the previous two quarters.
- ✓ On an absolute basis, zinc prices have dropped more than 21 percent since the start of the previous quarter
- ✓ Zinc being the metal in a massive surplus, and high supplies prices have failed to sustain upper levels.

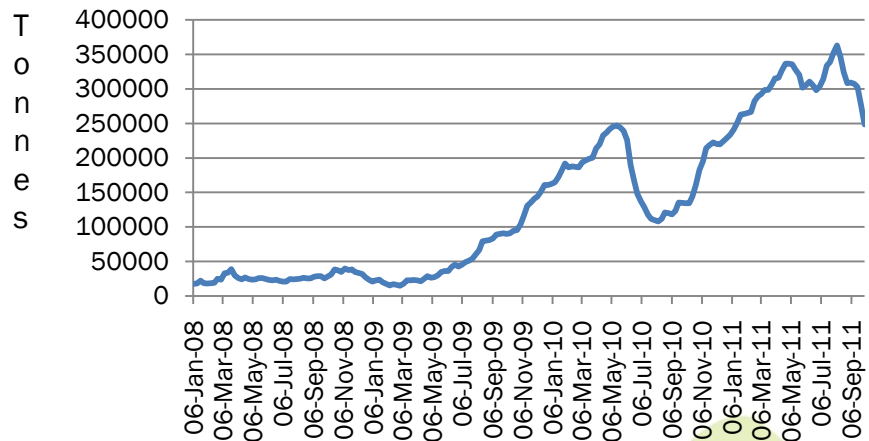
Zinc Warehouse Stocks

LME Zinc Stocks



- ✓ LME Zinc stocks had shown a continuous built in the recent past. However, they are showing a declining trend this quarter.
- ✓ Zinc stocks monitored at LME warehouses have declined by more than 5 percent the previous quarter.

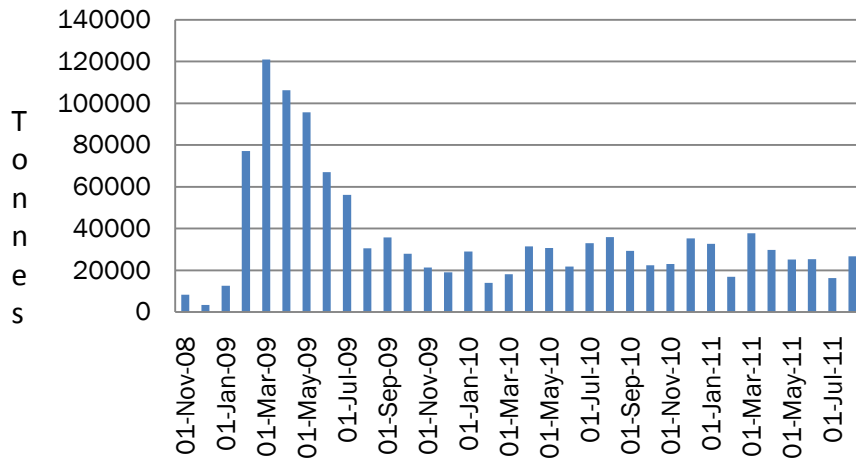
Shanghai Weekly Zinc Stocks



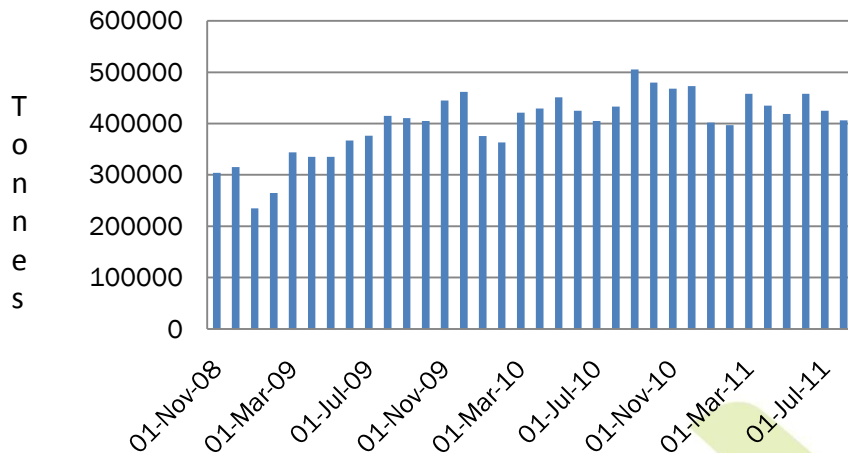
- ✓ In July 2011 Zinc stocks at reported Shanghai warehouses had more than doubled since second half of 2010. However, Shanghai weekly stocks have declined by 7 percent since then.
- ✓ Refined production/supply being upbeat have ideally lead to this situation for zinc stocks.

China Zinc Imports & Output

China Refined Zinc Imports



China Refined Zinc Output



✓ August 2011 China Refined Zinc Imports stood at 25,685 tonnes which were 65 percent higher on a (m-o-m) basis.

✓ On a y-o-y basis however, the imports have been on the lower side than the previous year. August 2011 imports recorded 25 percent rise from August 2010.

✓ China refined zinc output displayed a marginal 4 percent fall in August 2011 over the previous month and around 6 percent lower over the previous year.

✓ An expected fall in the rate of growth of Chinese apparent demand to 2.1 percent in 2011 is likely to have been partially influenced by the destocking of unreported inventories after a build-up of stock in 2010,""In 2012, Chinese apparent usage is forecast to rise by 5.7 percent." According to Reuters.

Major Market Developments

- ✓ Western world commercial stocks of zinc were 1.373 million tonnes or 10.1 weeks of demand at the end of June, up from 1.356 million or 10.5 weeks the previous month and 1.163 million tonnes or 10.0 weeks at the end of 2010.
- ✓ China produced 2,997,000 tonnes of refined zinc in the first seven months of the year, up 6.7 percent from the same period of last year, according to the National Bureau of Statistics. Output of mined zinc rose by 10.7 percent over the same period to reach 2,249,000 tonnes.
- ✓ The global zinc market was in surplus by 223,000 tonnes in the first half of 2011, the latest monthly bulletin from the International Lead and Zinc Study Group (ILZSG) showed.
- ✓ Japan's zinc output will climb in 2012 as smelters run at full capacity to meet recovering demand from the auto and construction industries after the earthquake and tsunami, amid a forecast for a global deficit.
- ✓ Terramin Australia said the processing plant at its Angas lead-zinc mining operation was fully operating after repairs following an electrical incident. It said the loss of output meant it had cut its full-year production forecast by 4 percent to 45,000 tonnes of zinc concentrate.
- ✓ In 2010, China mined 3.7 million tonnes of zinc, accounting for 30 percent of world mine output, according to figures from the International Lead and Zinc Study Group (ILZSG).

Demand – Supply Scenario

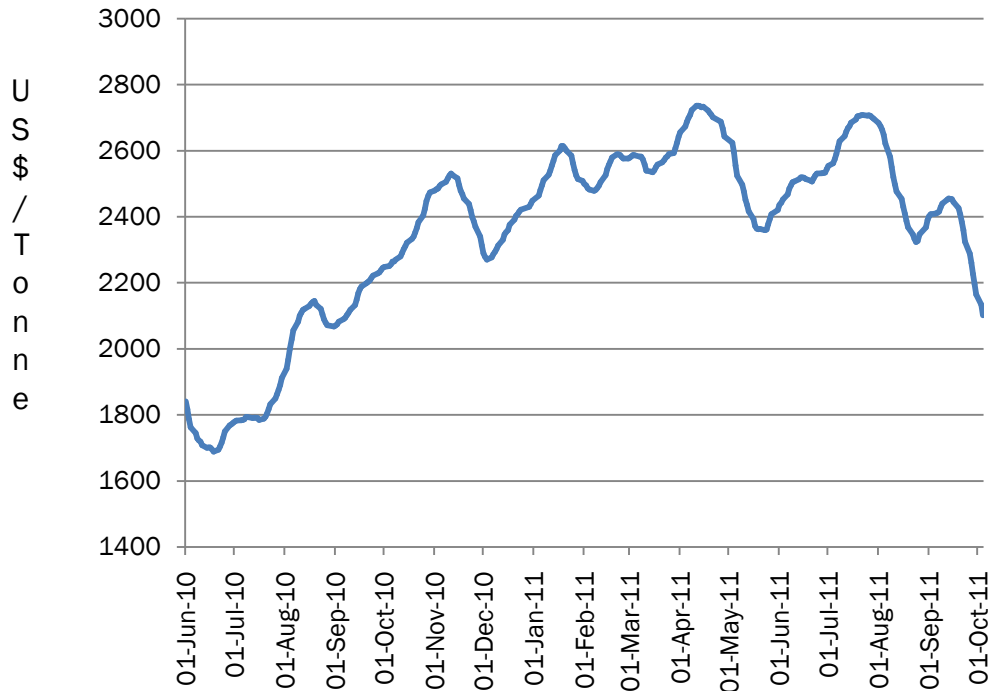
| Year | Production (In 000 tonnes) | Consumption (In 000 tonnes) | Surplus / Deficit (In 000 tonnes) |
|-------------|----------------------------------|--------------------------------|--|
| 2008 | 11,766 | 11,505 | 261 |
| 2009 | 11,281 | 10,845 | 436 |
| 2010 | 12,868 | 12,579 | 289 |
| 2011 (F) | 12876 | 12559 | 317 |

Source: ILZSG, NB Research

- ✓ According to ILZSG, Zinc market was in a surplus of 2,89,000 tonnes in the year 2010.
- ✓ For the year 2011 the surplus is projected to be at 3,17,000 tonnes.
- ✓ For the year 2012, zinc surplus is expected to narrow down to 1,35,000 tonnes
- ✓ Higher refined zinc metal output in China, India and Peru was the primary driver behind a rise in global production.
- ✓ Slowing European and Chinese consumption can be attributed to such a negative total consumption growth in zinc.

Lead

LME Lead Price



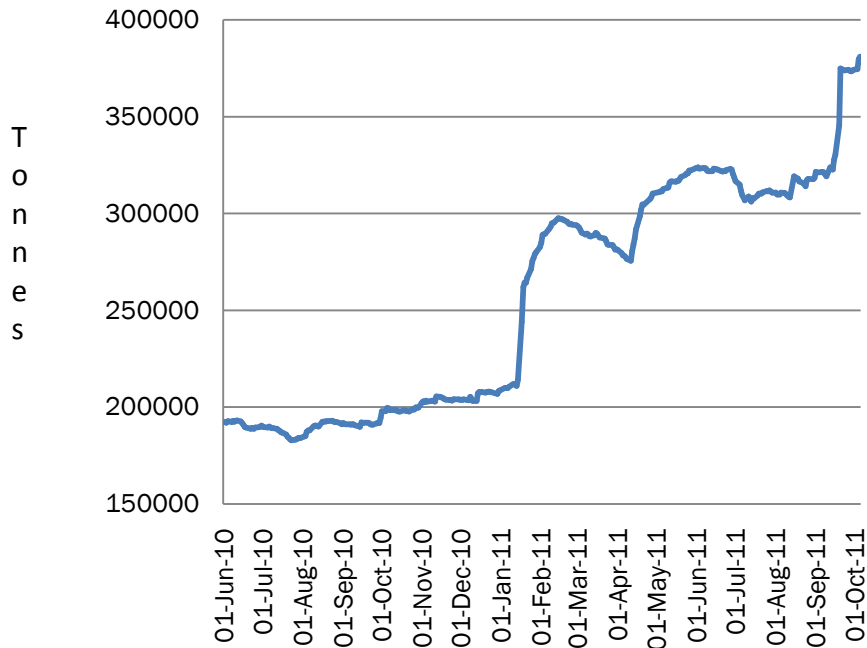
Source: Reuters, NB Research

Review:

- ✓ LME 3M fell to trade below \$2100 per tonne on LME which is reported more than 15 percent fall in the previous quarter.
- ✓ As seen in zinc, lead prices too have been under pressure from the previous two quarters.
- ✓ Crackdown on Chinese lead-acid battery makers by Chinese authorities can be attributed to this fall in Lead prices

Lead Warehouse Stocks

LME Lead Warehouse Stocks

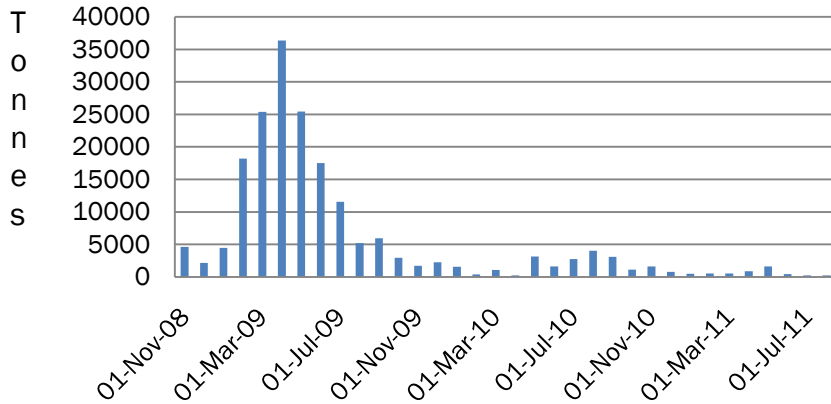


Source: Reuters, NB Research

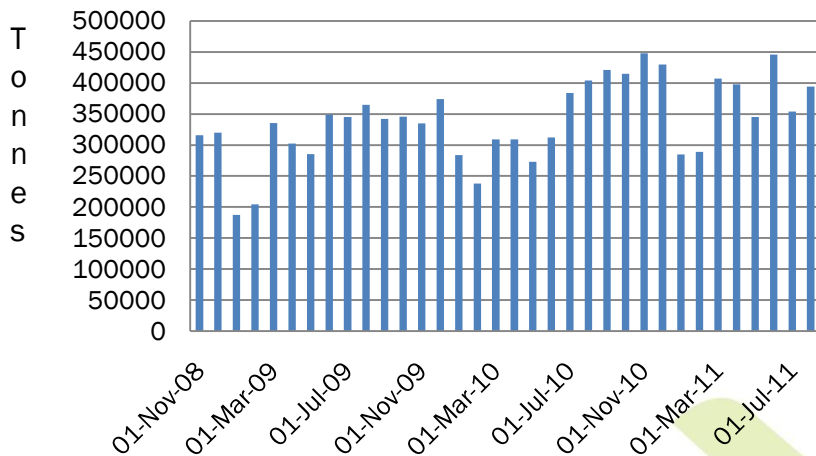
- ✓ LME Lead inventories have shown a continuous built in its exchange monitored warehouses from previous two quarters.
- ✓ LME lead stocks finished August at 318,250 tonnes, up from 310,675 tonnes a month earlier, reversing July's decline.
- ✓ At the end of August they equated to more than 12 days of demand. Western world commercial stocks of lead were 556,500 tonnes or 5.7 weeks of demand at the end of June, down from 562,400 tonnes or 5.7 weeks the previous month and up from 448,000 tonnes or 4.0 weeks at the end of 2010.

China Lead Imports & Output

China Refined Lead Imports



China Refined Lead Output



- ✓ China Refined Lead Imports stood at 258 tonnes which the lowest imports recorded since mid-2008.
- ✓ Over the past couple of year Chinese imports of the metal has gone down substantially given a massive metal import policy by China in the year 2009.
- ✓ Chinese refined Lead output was seen under pressure at the start of the year. However, gradually it is again into an uptrend. Chinese refined lead output was around 11 percent higher in August 2011 over the previous month
- ✓ According to ILZSG, Chinese apparent demand is forecast to rise by 7.4 per cent in 2011 and by 6 per cent in 2012.

Major Market Developments

- ✓ Western world commercial stocks of lead were 556,500 tonnes or 5.7 weeks of demand at the end of June, down from 562,400 tonnes or 5.7 weeks the previous month and up from 448,000 tonnes or 4.0 weeks at the end of 2010.
- ✓ China produced 2,657,000 tonnes of refined lead in the first seven months of the year, up 20 percent from the same period last year, according to figures from the National Bureau of Statistics. Lead mine output rose by 25.3 percent over the same period to reach 1,367,000 tonnes.
- ✓ China has ordered local governments to phase out a total 2.04 million tonnes of aluminium, copper, lead and zinc smelting capacity in 2011 as part of a multi-year plan to crack down on energy-intensive and polluting industries, raising the target by 13 percent from an earlier one set in May. The new lead smelting closure target is now 660,900 tonnes a year from a previous target of 585,500.
- ✓ Shanghai environmental-protection authorities said a battery factory operated by U.S.-based Johnson Controls Inc. that they ordered to suspend operations last month will remain closed through the end of the year, along with 14 more plants that also use lead.
- ✓ Australia-listed Bass Metals said that its newly commissioned Fosseys zinc and lead mine in Tasmania was operating at an average rate of 30,000 mt/month last month, close to its planned throughput rate of 400,000 mt/year.
- ✓ Twenty-six of 97 lead-acid battery makers were shut down or demolished and 55 are being idled for safety checks, accounting for more than 80% of all battery plants in the province of Anhui in China.

Demand – Supply Scenario

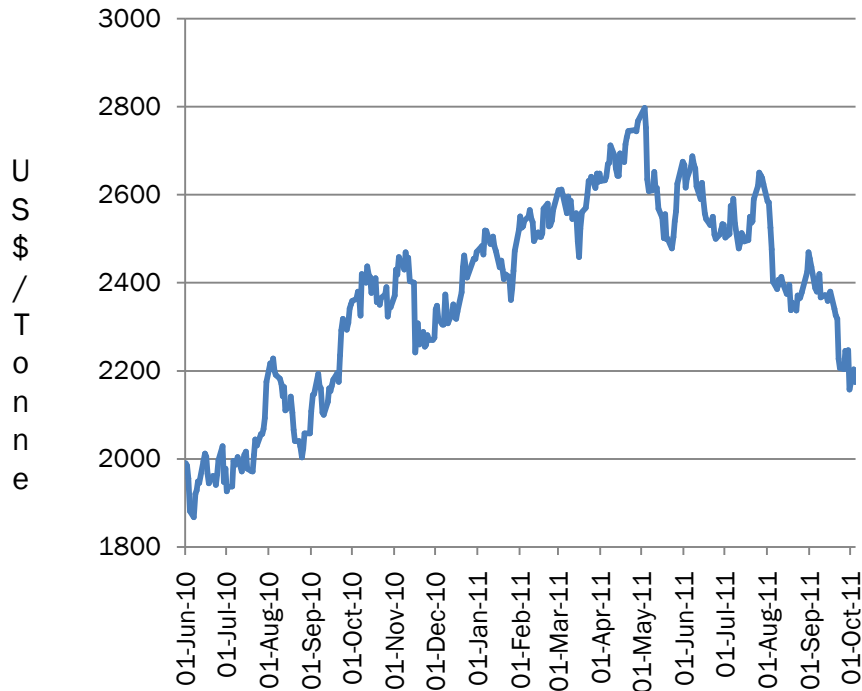
| Year | Production (In 000 tonnes) | Consumption (In 000 tonnes) | Surplus / Deficit (In 000 tonnes) |
|----------|----------------------------------|--------------------------------|--|
| 2008 | 9,061 | 9,048 | 13 |
| 2009 | 8,992 | 8,935 | 57 |
| 2010 | 9,604 | 9,569 | 35 |
| 2011 (F) | 9,938 | 9,750 | 188 |

Source: ILZSG, NB Research

- ✓ According to ILZSG, Lead market was in a surplus of 35,000 tonnes in the year 2010.
- ✓ For the year 2011, ILZSG have forecasted the metal to be in a surplus of 1,88,000 tonnes and a surplus of 97,000 tonnes for 2012.
- ✓ A rise in world refined lead metal output of 3.5% was primarily a consequence of higher production in China.
- ✓ However once again due to slower growth rate in lead consumption the production outpaced the consumption. Lower Chinese imports and crackdown of lead-acid battery manufacturers can be held responsible for this situation.

Aluminium

LME Aluminium Price



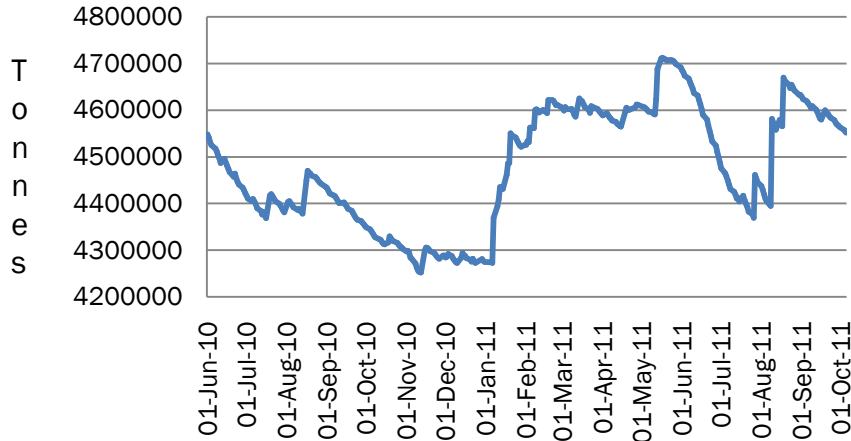
Source: Reuters, NB Research

Review:

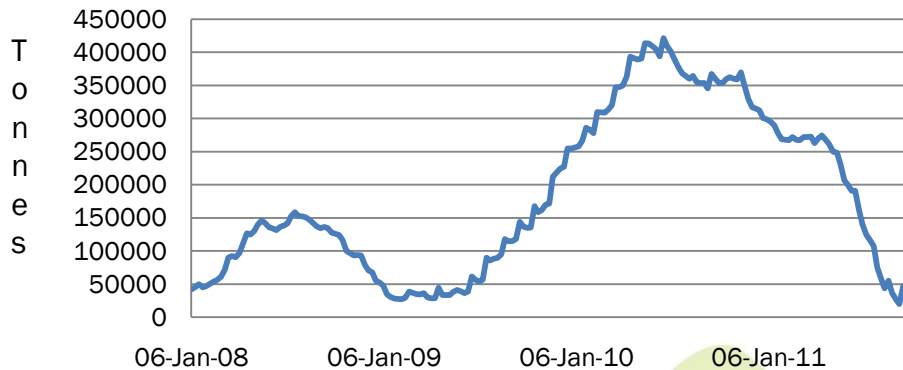
- ✓ Aluminium prices fell to as low as \$2157 after reaching to a high of \$2797 this year. It has corrected by more than 22 percent.
- ✓ It provided an absolute negative return of above 13 percent to the investors this quarter.
- ✓ However, due to the substitution effect the price fall in aluminium was not as steep as seen in other base metals.

Aluminium Warehouse Stocks

LME Aluminium Stocks



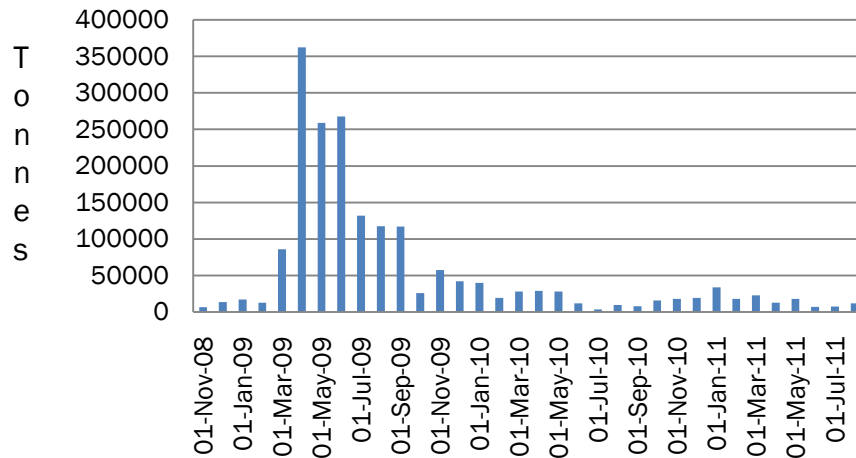
Shanghai Aluminium Weekly Stocks



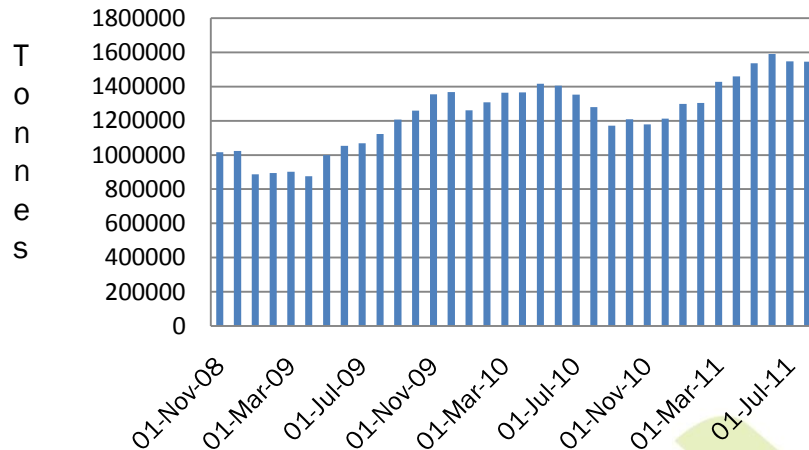
- ✓ Aluminium stocks have not much changed this quarter
- ✓ Aluminium stocks monitored at LME warehouses have gone up by almost 2 percent.
- ✓ Aluminium stocks held at Shanghai warehouses have shown a reverse trend. Stocks have fallen by more than 78 percent at Shanghai warehouses this quarter.
- ✓ Total exchange stocks were at 4.628 million tonnes at the end of July, equating to around 38 days of demand. Of the end July total, some 4.446 million tonnes were held in LME-registered warehouses, down from 4.488 million a month earlier.

China Aluminium Imports & Output

China Aluminium Imports



China Aluminium Output



- ✓ China Refined Aluminium Imports stood at 11,078 tonnes which is almost half of that in January 2011.
- ✓ On a y-o-y basis the imports also recorded a slowdown. Imports look weak after a high imports of metal recorded by china in 2009.
- ✓ Refined Aluminum output rose by more than 19% this year. China is world's largest refined primary aluminium producer.
- ✓ Chinese output has been steadily high leading to a surge in the apparent demand consumption of aluminium in the region.

Source: Reuters, NB Research

Major Market Developments

- ✓ China's aluminium smelters may keep imports of raw material alumina under yearly contracts low next year as prices rise and domestic production increases, industry sources said.
- ✓ Demand for aluminium is slowing but not dramatically, with Asia holding up well, North America flat and Europe faring worst, a Rio Tinto Alcan executive said.
- ✓ Japanese shipments of aluminium products fell to their lowest level since January 2010, hit by slowing exports to Southeast Asia and China and a slower-than-expected pick up in domestic demand, an industry group said.
- ✓ “Aluminium is the metal in which all your money should be in” according to CRU, an independent research company. According to CRU, Chinese stockpiling had boosted copper prices for a long time but copper consumption is threatened by three factors – declining Chinese consumption, aluminium substitution and mine constraints.
- ✓ China produced 8,643,000 tonnes of primary aluminium in the first half of the year, up 5.6 percent from the same period last year, according to the National Bureau of Statistics. Output of alumina rose by 17.8 percent over the same period to 17,486,000 tonnes.
- ✓ China will add 1 million tonnes a year of alumina capacity, the state planning agency said in a statement, adding to its status as world's largest producer. The National Development and Reform Commission has approved Shanxi Tongde Aluminium Company's plan to build a 1 million-tonne-per-year alumina refinery in Baode county in Shanxi province in the north, a statement posted on the commission website showed

Demand – Supply Scenario

| Year | Total Primary Aluminium Production (In 000 tonnes) | Total Primary Aluminium Consumption (In 000 tonnes) | Surplus / Deficit |
|----------|--|---|-------------------|
| 2009 | 37669 | 34306 | 3363 |
| 2010 | 42166.67 | 40378.67 | 1788 |
| 2011 (F) | 46805 | 45840 | 965 |

Source: CRU, WBMS, NB Research

- ✓ According to CRU, an independent research company, World Aluminium Demand – Supply surplus narrowed down in the year 2010.
- ✓ According to WBMS, the surplus is expected to narrow down to 9,65,000 tonnes for the year 2011.
- ✓ Growth in Chinese apparent consumption is likely to further narrow down in the surplus in the market.
- ✓ With US vehicle production being robust we can expect aluminium consumption to be strong in 2011 as well.

OUTLOOK



The Road Ahead

- ✓ The price levels of base metals which we are witnessing are mainly due to the worsening debt crisis of the euro zone led by Greece. We feel that irrespective of the outcome of Greece default, there will be some stability in financial markets. And once again the risk-appetite is likely to support the prices of metals.
- ✓ We feel that at current prices levels of metals we would again see surging Chinese imports. Though a short-term slowdown in manufacturing activities in China, the long-term Chinese growth outlook still looks gloomy.
- ✓ With stabilizing crude oil prices, we feel the inflationary concerns in emerging nations are likely to ease. Thus, we do not expect any rapid interest rate hikes from emerging nations like China and India.
- ✓ We have seen some improvement in the US initial weekly jobless claims hinting towards a bright picture ahead for the US employment scenario. Also, to create more jobs in the economy is in the top of the priorities for US officials.
- ✓ Chinese GDP growth is still strong, though slowing, but with no further monetary tightening measures by the country, we expect to report a strong growth in coming quarters if not immediately.
- ✓ The US housing market is still not out of the woods. We feel some further policy changes are required to boost private participation in the housing space of the US.

Quarterly Price Outlook:

- ✓ Copper prices are expected to test \$7500-\$7600 per tonne on LME. Smelters are finding business for copper at a \$100 premium indicating a strong demand for the metal at current rates. Hence, any downside in prices should be used as a good value buying in copper.
- ✓ Nickel prices are expected to test \$20500-\$21000 per tonne on LME until next quarter. As continuously declining warehouse inventories and low demand for its substitute NPI at current price level are expected to support prices.
- ✓ Zinc prices are also expected to test \$2050-\$2070 on LME. Japanese smelters are running at full capacity to meet recovering demand from the auto and construction industries after the earthquake and tsunami, in that region.
- ✓ Lead prices are expected relatively underperform in the coming quarter. We feel that the crackdown in lead-acid battery makers in China coupled with surging LME inventory levels are likely to pressurize prices at upper levels. We expect zinc to trade at a premium over Lead. We do not expect Lead prices to trade beyond \$2025-\$2050 on LME.
- ✓ Aluminium being relatively immune from the recent fall in broad base metals complex is expected to show its strength. At current prices, 30-40 percent of global production is either loss-making or close to breakeven. That applies to some Chinese producers and some plants in Europe and the US. We expect aluminum prices to test \$2325-\$2350 until next quarter.

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