

Quarterly Report On:

BASE METALS

Date: 6th July 2011

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Quarter Review

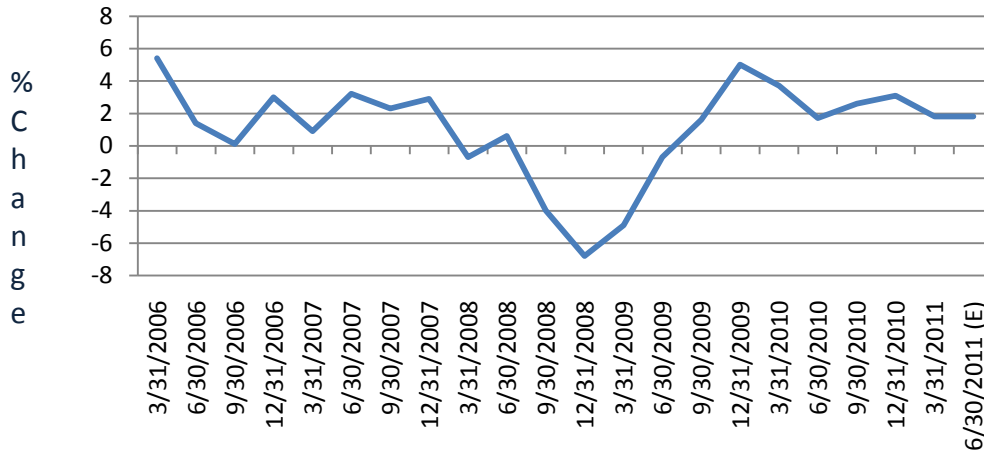
- ✓ Base metals prices gave up all its gains in the second quarter of the calendar year after testing multi-month high levels seen in the previous quarter.
- ✓ Reduced demand outlook from China, and considerable reduction in import of key industrial metals pressurized prices at higher levels.
- ✓ Weak economic numbers including Manufacturing PMI, Industrial Production, Retail sales from across the globe added further pressure on the prices of base metals.
- ✓ Events such as Euro zone debt worries, monetary tightening measures by China, Massive Earthquake in Japan raised questions over future global economic outlook thus directly raising concerns over future demand for base metals.
- ✓ The most important factor leading to high metals prices in the quarter preceding this was the US led QE2 phenomenon. Now as we near the end of this event , there are no further signs of additional quantitative easing (QE3). Thus, with no fresh liquidity being infused, the prices of metals took a breather this quarter.
- ✓ The only positive factor this quarter for global economy has been the easing crude oil prices. Crude oil prices were an important factor leading high inflationary pressures in the emerging nations. Hence, forcing many to raise interest rates in that response. Now, with easing crude oil prices we believe that monetary tightening stance of developing nations would ease, thus adding growth optimism in global economy led by emerging nations.

GLOBAL ECONOMIC SCENARIO

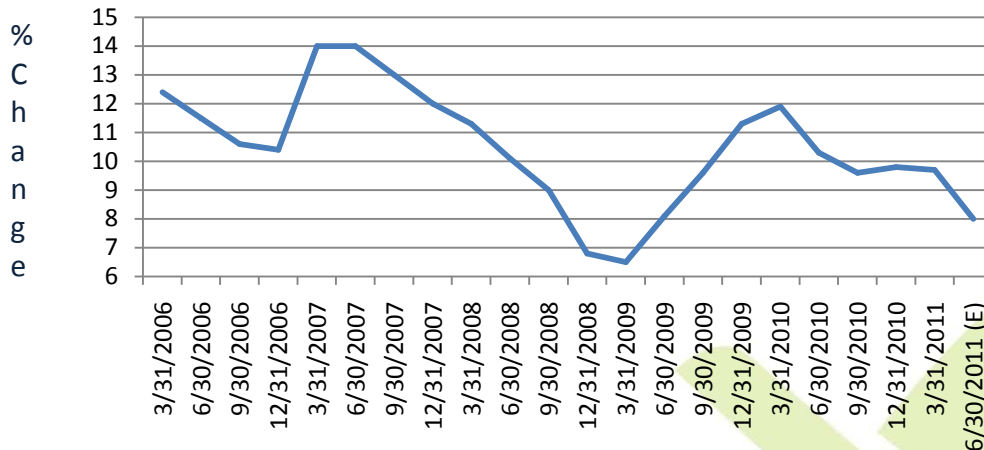


World Economic Scenario - GDP

US GDP Growth



China GDP

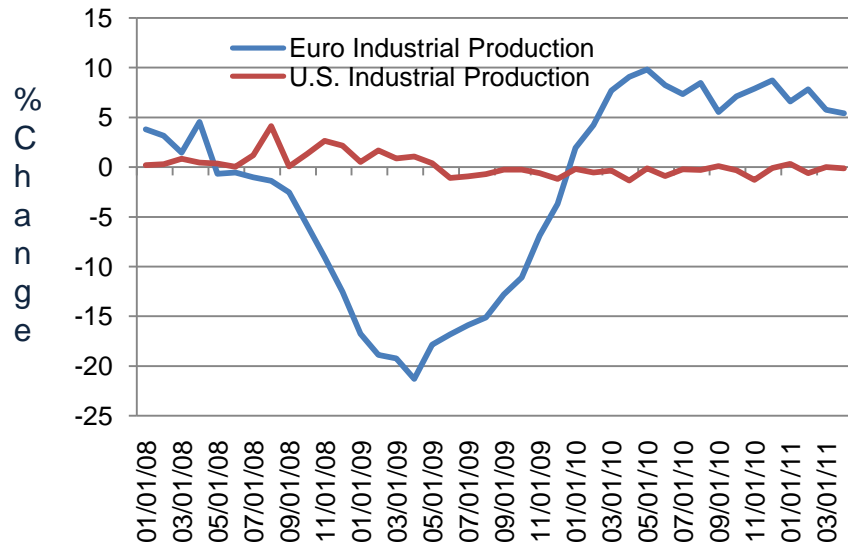


- ✓ Slow and Steady growth seen in the west.
- ✓ Emerging nations growth data showing the lag impact of the monetary tightening measures.
- ✓ We expect a moderate GDP growth for China in 2011 based on a number of steps taken by Chinese officials to curb excess liquidity.
- ✓ US expected to grow moderately as the lag impact of QE2 may lead to some growth in the region.

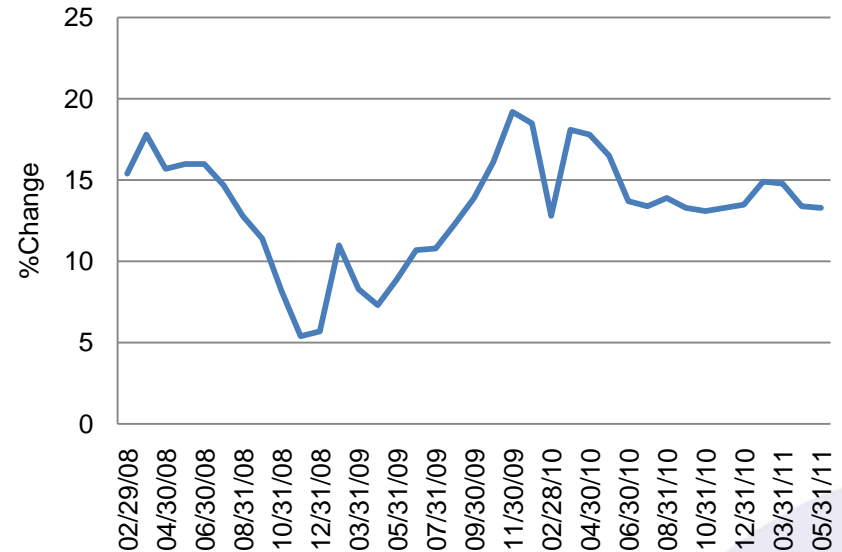
Source: Reuters, NB Research

World Economic Scenario - IP

U.S. and EZ Industrial Output Growth



China's Industrial Output

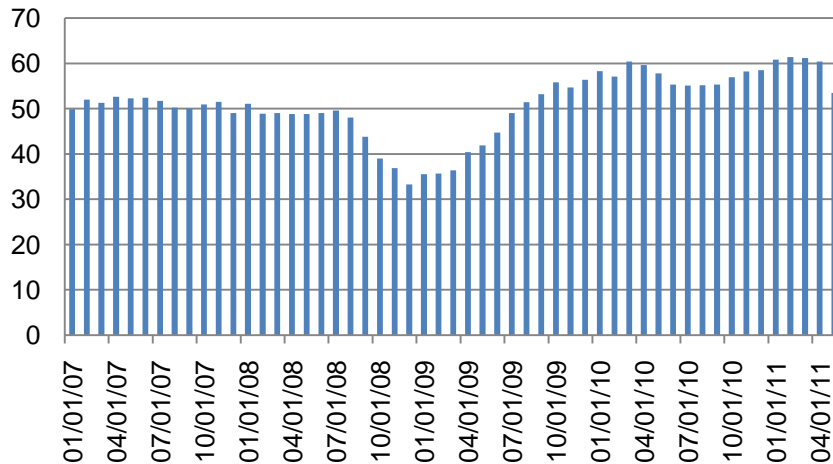


Source: Reuters, NB Research

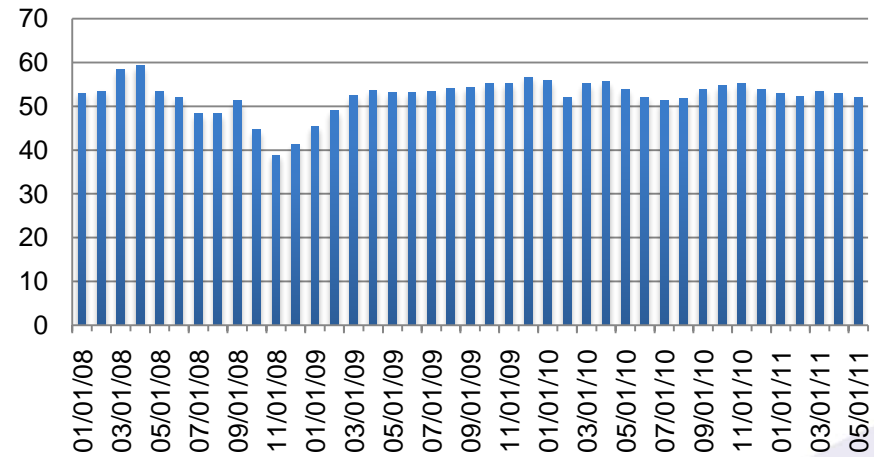
- ✓ Global Industrial Production showing signs of slowing.
- ✓ Industrial Output in the US close to zero. Showing no signs of improvement since the start of the year.
- ✓ Euro showing signs of slowing, Industrial Production growth recorded at 2.5 percent in June 2011 a sharp decline in growth rate after above 5 percent growth in previous data releases
- ✓ China IP growth still holding on to its own. Showing consistent growth over the months. The latest release indicated better than expected Industrial Production data.

World Economic Scenario – PMI Numbers

U.S. ISM - PMI



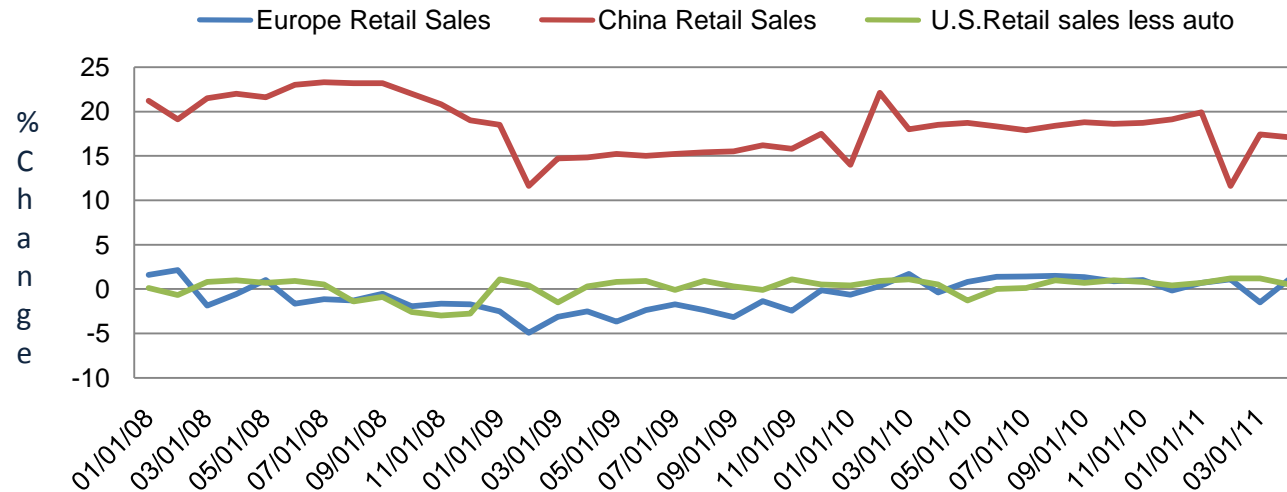
China NBS - PMI



Source: Reuters, NB Research

- ✓ Global PMI Numbers showing signs of slowing. The Global Manufacturing PMI (Purchasing Managers' Index) fell to 52.3 in June, down from 53.0 in May and well below February's near-series record high
- ✓ US ISM-Manufacturing PMI gained some ground in June after a sharp decline in May. The data recorded 60 point plus growth in the US in the previous months preceding May.
- ✓ Chinese NBS – PMI recorded close to 50, indicating manufacturing activity marginally in expansion mode. But gradually slowing.

World Economic Scenario – Retail Sales

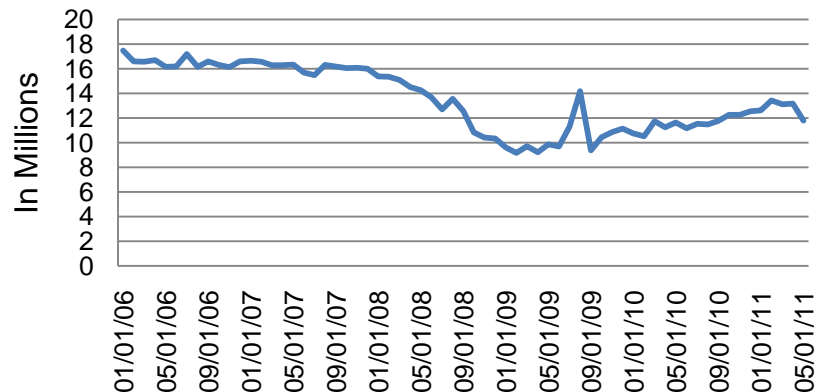


Source: Reuters, NB Research

- ✓ Retail Sales growth sluggish in US and the Euro zone. Retail sales have slowing down considerably in the US. US retail sales in May recorded a negative growth rate.
- ✓ Euro Zone retail sales data still not encouraging hence, causing concerns over growth in consumption.
- ✓ Chinese Retail Sales growth constantly in two-digits since early 2010. June 2010 retail sales recorded above 16 percent rise.

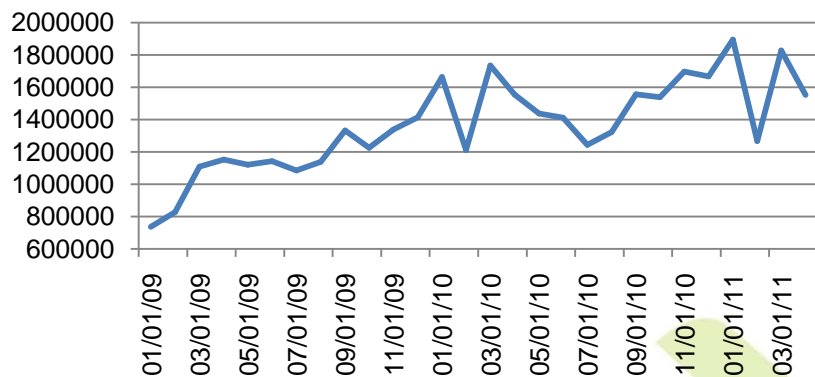
World Economic Scenario – Vehicle Sales

Total Vehicle Sales - US



- ✓ Vehicle Production and Sales across the globe though slowing but has been still strong.
- ✓ Total Vehicle sales in US recorded 13.44 million units in June 2011 which is a 14 percent decline from the start of the year.
- ✓ Sales growth in China's automobile sector will likely fall short of the industry's annual forecast after sales declined in May over a year ago for a second consecutive month.

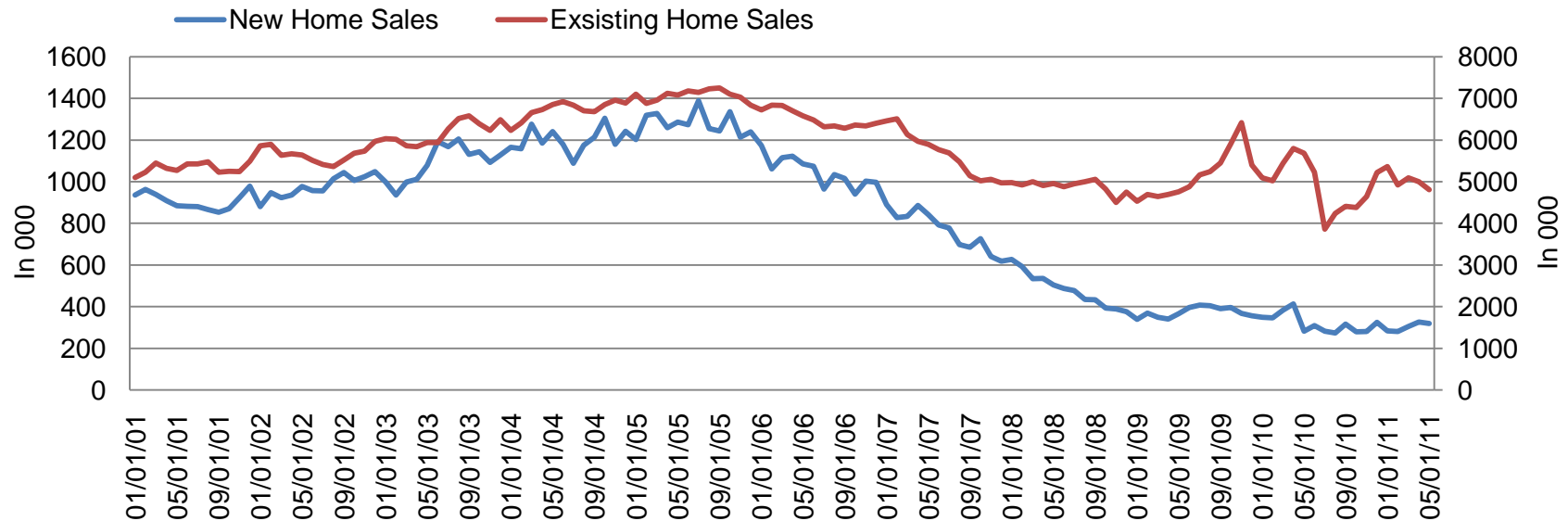
Total Vehicle Sales - China



- ✓ Total vehicle sales in China, the world's largest auto market, reached 1.38 million units in May, down 3.98% compared with the same month a year earlier
- ✓ Slowing vehicle sales have been the factor leading to price reversal specially in Aluminium

Source: Reuters, Bloomberg NB Research

US Housing Market

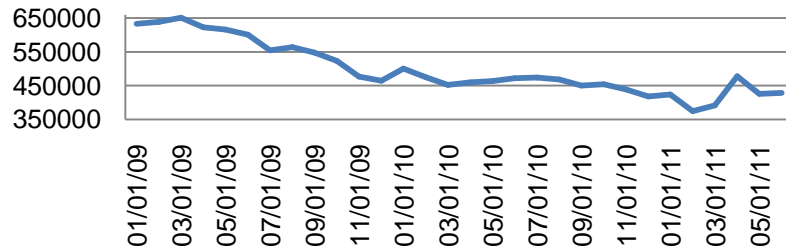


Source: Reuters, NB Research

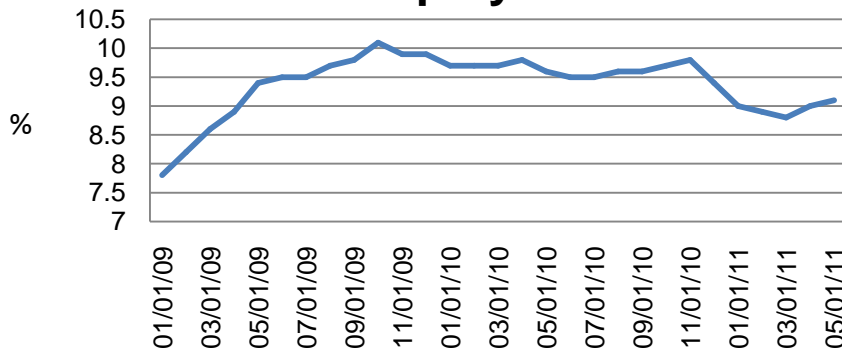
- ✓ Housing Market still weak in the US. New Home Sales and Existing Home Sales constantly declining on a monthly basis.
- ✓ New US home sales fell 2.1 percent in May, official data showed, offering more evidence of an lingering real estate crisis.
- ✓ Builders in US are struggling to compete with existing homes as foreclosures add to the overhang of unsold properties and drive down prices.
- ✓ Monetary tightening measures in China still trying to control speculative housing market. Monetary tightening measures having an overall impact including its housing sector.

US Employment Scenario

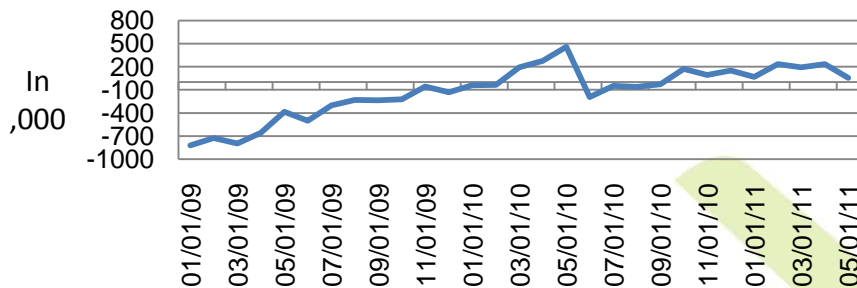
U.S. Weekly Jobless Claims



U.S. Unemployment Rate



U.S. Non-Farm Payrolls



- ✓ Employment situation in the US back to the crisis level after some improvement seen in the previous months
- ✓ The unemployment rate in the US jumped back to 9.1 percent after less than 9 percent rate seen in previous months.
- ✓ Decreasing unemployment in the economy was the upmost objective of the Federal reserve as they introduced the \$600 billion bond buying program.
- ✓ Jobless claims in decreasing mode on a weekly basis.
- ✓ US Non-farm payrolls in positive territory after being under pressure in 2010.

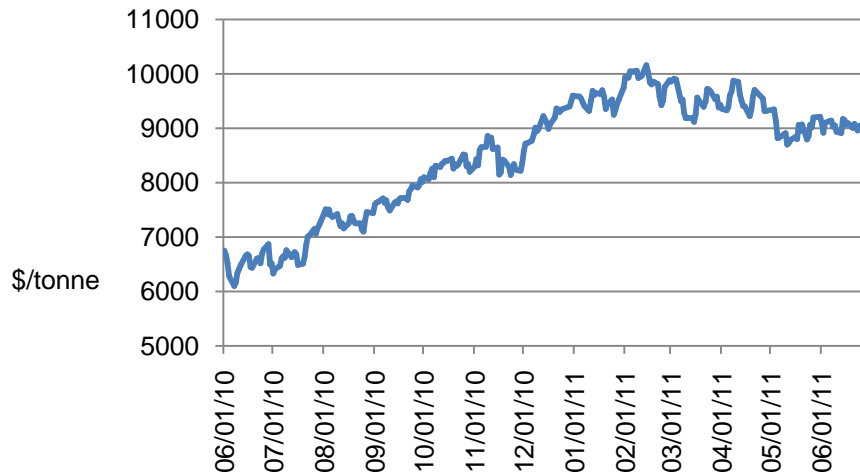
Source: Reuters, NB Research

BASE METALS QUATERLY PERFORMANCE

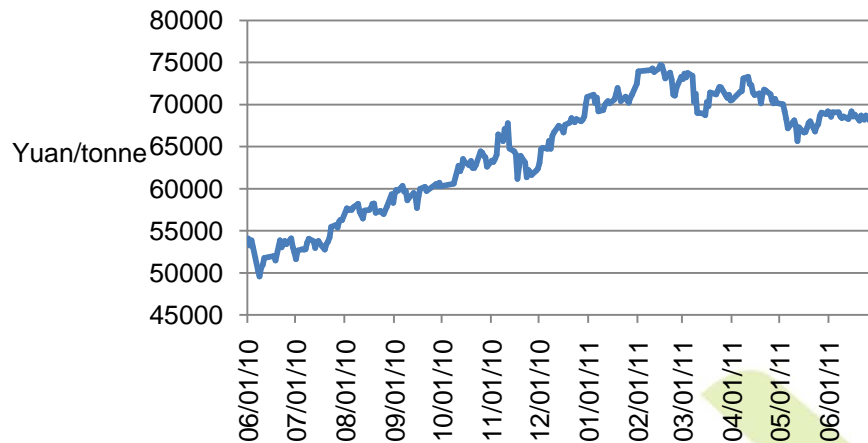


Copper

LME 3M Copper Price



SHFE Copper Price



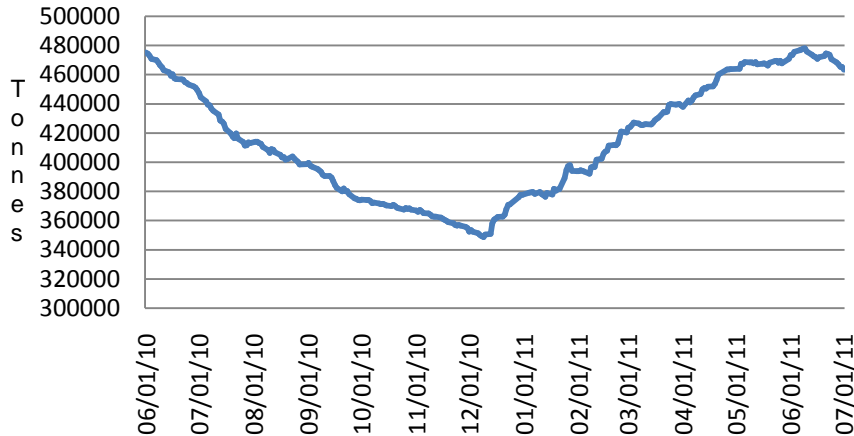
Source: Reuters, NB Research

Review:

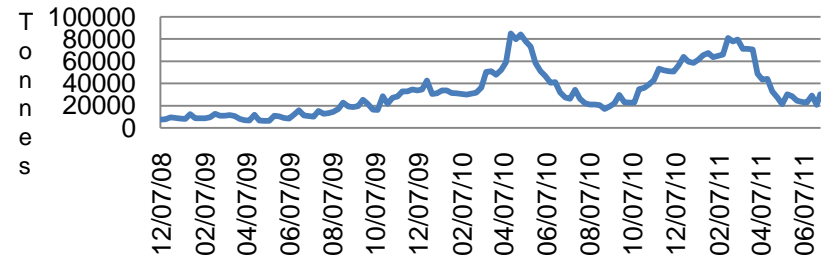
- ✓ Copper prices were seen under pressure since the start of the quarter,
- ✓ Copper prices traded below \$8700 per tonne but bounced back sharply from those levels..
- ✓ In absolute terms, this quarter Copper has given a negative 3 percent to the investors.
- ✓ And a negative 5 percent return since the start of the year.
- ✓ Monetary tightening measures by china, resulted into a slowing demand for the metal from China. This was a major factor affecting copper prices this quarter.

Copper Warehouse Stocks

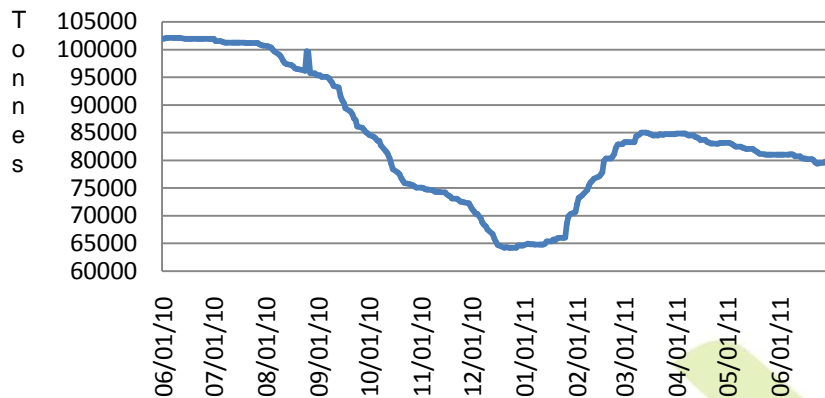
LME Copper Stocks



Shanghai Weekly Copper Stocks



COMEX Copper Warehouse Stocks

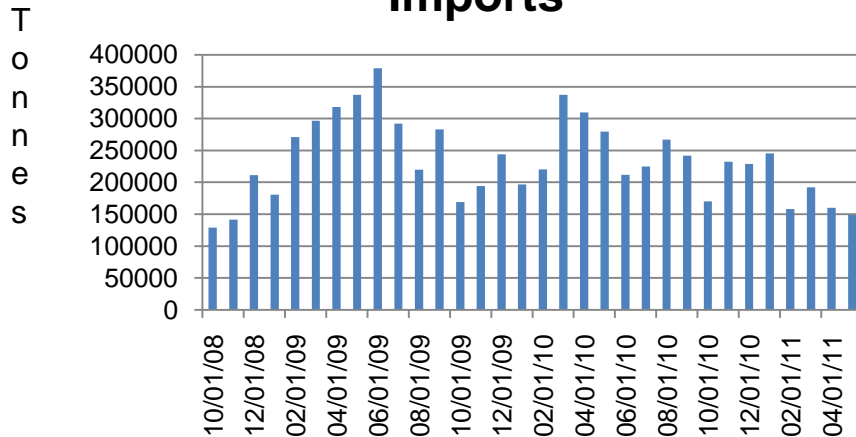


Source: Reuters, NB Research

- ✓ As seen in the previous quarter. Copper stocks held at LME warehouses are in an upward mode.
- ✓ Copper Stocks at LME warehouses have gone up by almost 6.5 percent in this quarter.
- ✓ On the other hand copper stocks held at major Shanghai warehouses are declining on a weekly basis. Copper stocks at shanghai are down by almost 70 this quarter
- ✓ Slowing copper imports by China was a major factor behind such inventory draw down in China.

China Copper Imports & Output

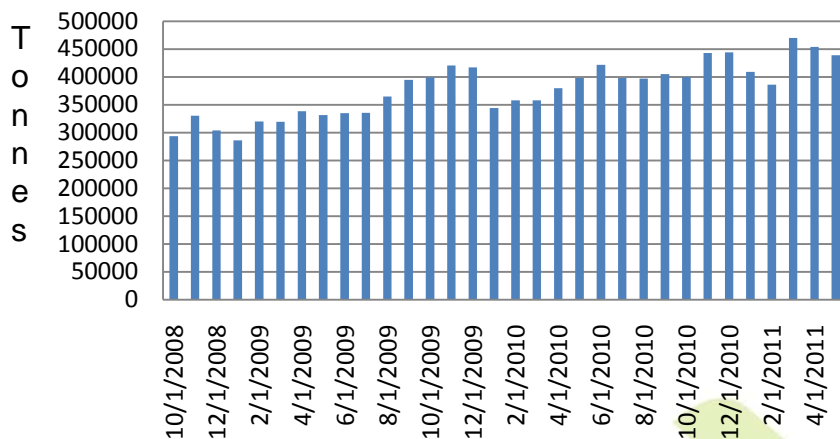
China Refined Copper Imports



✓ China Copper Imports in the month of May stood at 149235 tonnes, down by 7 percent from the previous month and around 46 percent from the previous year. Slowing imports by China, has been a trend since the start of the year.

✓ Non-profitable arbitrage window between copper traded on LME and Shanghai exchanges not encouraging imports of the red metal.

China Refined Copper Output



✓ China refined copper output has been marginally down in the last couple of months. But has been steady above 400000 tonnes per month. China's refined copper output in May stood at 439000 tonnes.

✓ China's apparent demand for refined copper dropped 2.1 percent in May from the previous month and 13.5 percent from May 2010, Reuters calculations based on official Chinese data showed.

Source: Reuters, NB Research

Major Market Developments

- ✓ Copper output in Japan will tumble in the first-half of this financial year with two major smelters hit by last month's massive quake, while unscathed Sumitomo Mining plans 60 days of regular plant maintenance, which it said will cut its output by 23 percent from a year earlier.
- ✓ Copper output in Zambia rose by 4.1 percent in the first quarter of 2011 and is expected to continue to rise as new projects start production, the central bank said. January to March copper output increased to 204,597 tonnes in the first quarter of 2011 from 196,466 tonnes in the same period last year.
- ✓ China's refined copper output may rise in the second half of this year from the first six months, boosted by high treatment and refining charges, industry sources said.
- ✓ Chile's Codelco , said its output in the first quarter rose 8.1 percent year-on-year due to better ore grades, breaking the downward trend seen by other top copper miners. Codelco's first-quarter output was 414,000 tonnes, up from the 383,280 tonnes in the same quarter in 2010. .
- ✓ Thousands of contract workers at El Teniente mine, Chile's No. 4 copper operation, a downed tool in a peaceful wage protest that is not hurting output but has stoked fears of violence. The strike weakened but the company struggled to normalise output.
- ✓ China plans to close down 291,000 tonnes of outdated copper smelting capacity this year as part of a wider crackdown on 18 heavy and polluting industries, the country's industry ministry said. .
- ✓ China's Xiangguang Copper completed an expansion in April that has lifted annual refining capacity up 70 percent to 600,000 tonnes, a company manager said. Before the expansion Xiangguang Copper, the biggest privately held copper smelter in China, had 350,000 tonnes of refining capacity

Demand – Supply Scenario

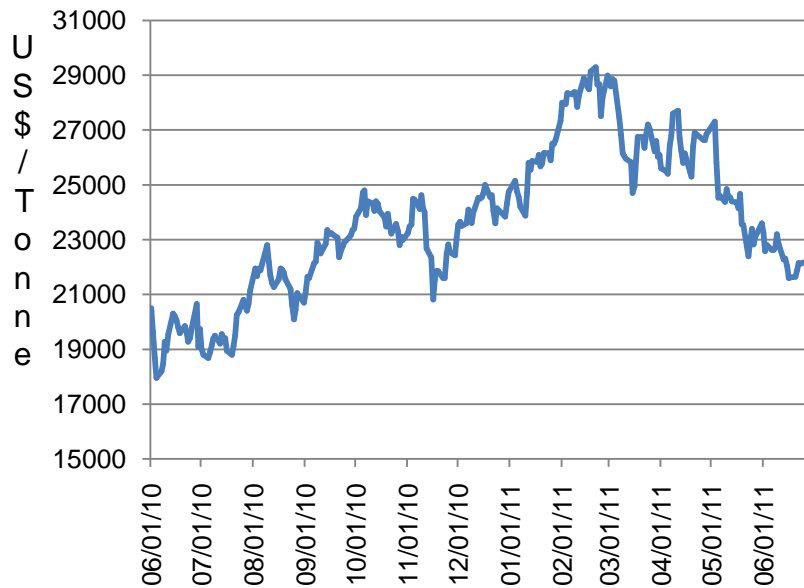
(In 000 tonnes)	Refined Production	Refined Consumption	Surplus / Deficit
2008	18,201	18,039	162
2009	18,276	18,101	175
2010	19,049	19,356	-307
2011 (F)	19,724	20,102	-378

Source: ICSG, NB Research

- ✓ The demand – supply situation is still strong for the metal but deficit expected to narrow down from the previous forecasts.
- ✓ According to International Copper Study Group (ICSG), copper market was in a deficit of 3,07,000 tonnes in the year 2010.
- ✓ Refined Copper consumption for the red metal is expected to increase by almost 4 percent for the current year, while refined production is expected to increase by 3.5 percent
- ✓ INSG expects copper market to remain tight and the deficit for the year 2011 is expected to be at 3,78,000 tonnes narrowing from the previous quarter forecast of 4,35,000 tonnes.

Nickel

LME Nickel Price



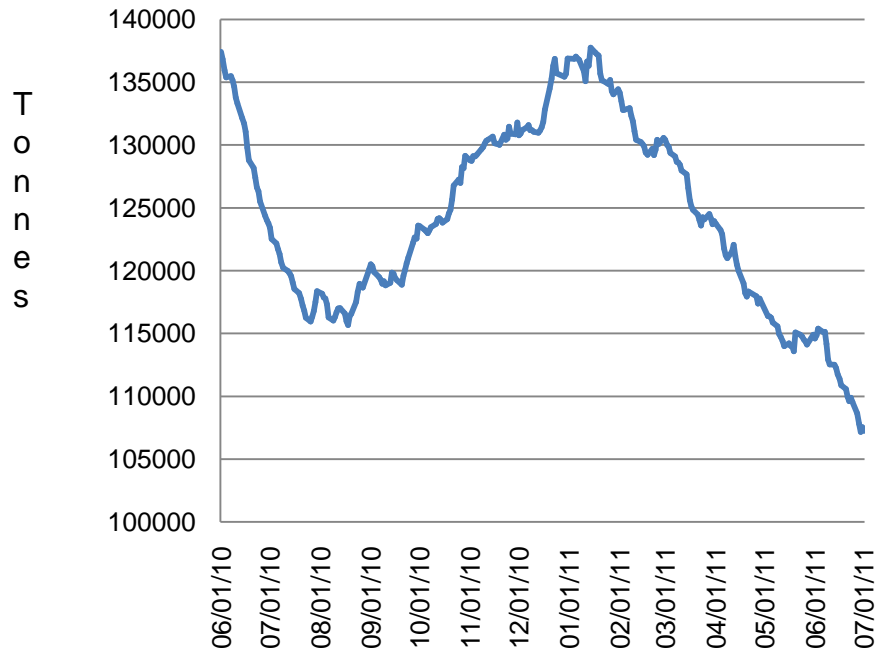
Source: Reuters, NB Research

Review:

- ✓ Nickel has been worst hit among base metals this quarter. Prices have come down by 13 percent since the start of the quarter.
- ✓ LME 3M Nickel price traded at a high of \$29425 per tonne since the start of the year and even traded below \$21200.
- ✓ Since the start of the year Nickel has not been holding on to its prices levels and hence, posting a 10 percent decline this year.
- ✓ On MCX it traded below Rs.1000 per kg but bounced back on renewed supply concerns.

Nickel Warehouse Stocks

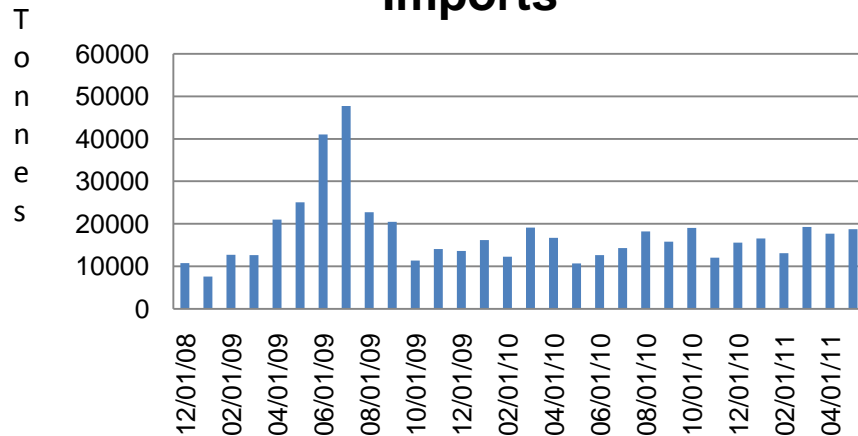
Nickel LME Stocks



- ✓ Nickel stocks held at LME warehouses has been in declining mode this quarter the same scenario seen in the previous quarter
- ✓ Nickel stocks posted a decline of around 13 percent since April 2011 and .21.5 percent decline since January 2011
- ✓ An historical inverse correlation between prices and stocks have been negated by the prices performance of Nickel since the start of the year.

China Nickel Imports & Output

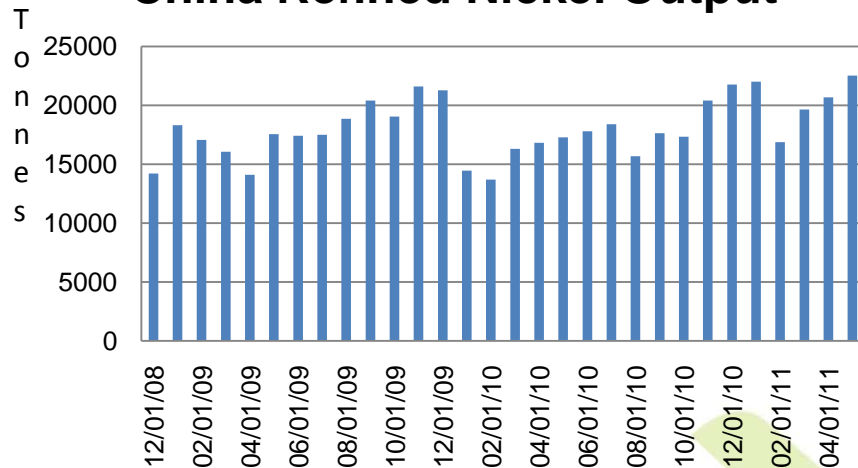
China Refined Nickel Imports



✓ China Refined Nickel Imports in May stood at 18,735 tonnes which was 5 percent higher from the previous month and around 43 percent higher from the previous year

✓ On a y-o-y basis the imports have been on the higher side this quarter than the previous one.

China Refined Nickel Output



✓ Refined Nickel Output too show the same trend with refined nickel output rising 9 percent in May 2011 following a m-o-m increase since the start of the quarter.

✓ According to Reuters, China's Implied demand for Nickel was UP by 1.7 percent in May 2011 from April 2011 and up by 78.9 percent from May 2010.

Major Market Developments

- ✓ China's imports of refined nickel will drop sharply as new nickel-pig-iron projects come online in the next two years, boosting production of the cheaper replacement by as much as a quarter this year and doubling it by 2013, industry watchers said
- ✓ BHP Billiton said a shortage of hydrogen has halted output temporarily at its Kwinana nickel refinery in Western Australia. Production at the plant was halted in March 2010 due to a hydrogen shortage and last December by a lack of nitrogen gas. Both hydrogen and nitrogen are key ingredients in the nickel refining process.
- ✓ Pacific Metals Co, Japan's largest ferro-nickel producer, said it expects output to plunge to 8,305 tonnes in the April-September first half, down 59 percent from the same period last year due to damage to its plant from the March 11 earthquake
- ✓ Vale has started nickel production at its Onca Puma operation in Brazil's state of Para, the company said in a securities filing. The nominal production capacity is 53,000 metric tonnes of nickel contained in ferronickel.
- ✓ Stainless steel production accounts for around two-thirds of nickel demand. Stainless buyers have been holding off making purchases. "In the next couple of months people have sufficient (stainless steel) inventories in warehouses to hold off buying," said Peter Fish of steel consultancy MEPS International.

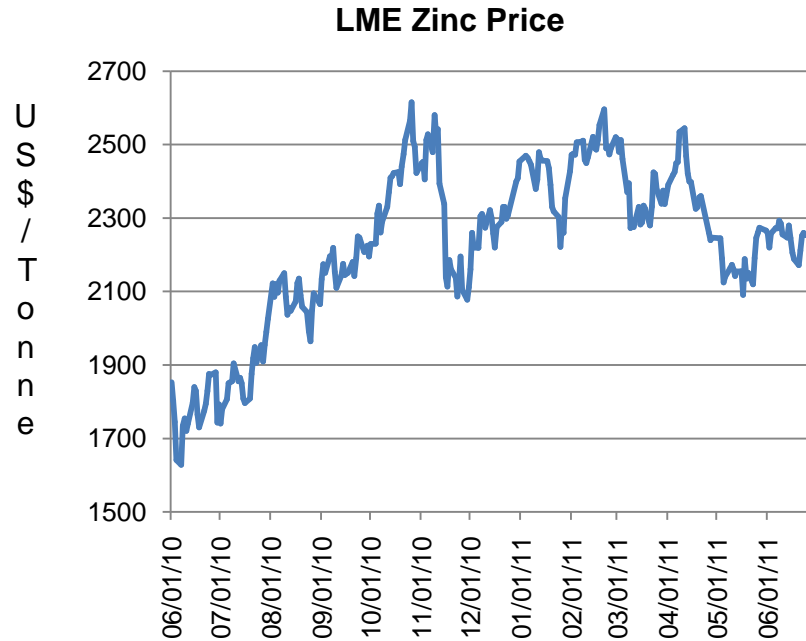
Demand – Supply Scenario

Year	Production (In Million Tonnes)	Consumption (In Million Tonnes)	Surplus / Deficit (In Million Tonnes)
2008	1.377	1.28	0.097
2009	1.32	1.24	0.08
2010	1.43	1.43	-
2011 (F)	1.6	1.54	0.06

Source: INSG, NB Research

- ✓ Nickel market was a balanced market in the year 2010, before being estimated at a 10,000 tonnes deficit.
- ✓ Refined production is expected to increase from 1.43 million tonnes to 1.60 million tonnes.
- ✓ Restarting of nickel production at VALE mine in Ontario, is expected to lead growth in nickel supplies in coming months.
- ✓ For the year 2011, we expect nickel to be in a small surplus of 60,000 tonnes.

Zinc



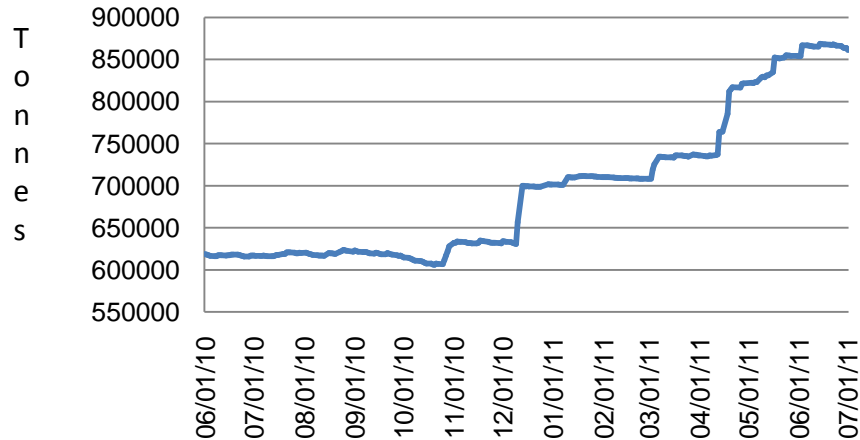
Source: INSG, NB Research

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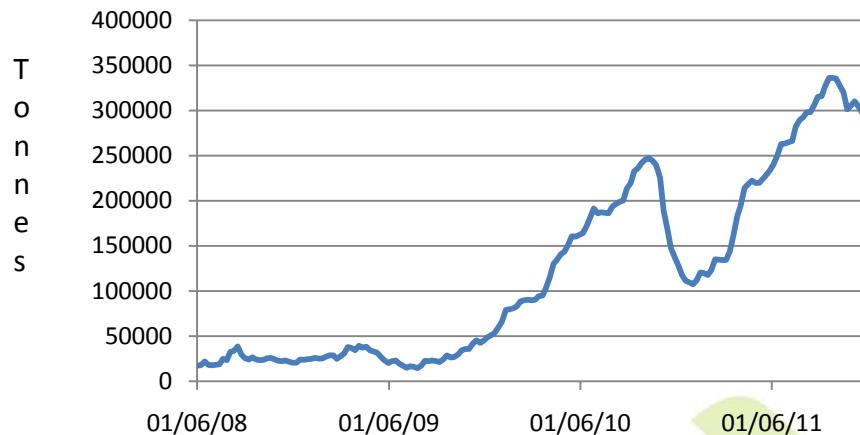
- ✓ Zinc, the only metal in the base metals complex to provide negative return to investors in an absolute terms since January 2011.
- ✓ On an absolute basis, zinc prices have dropped more than 4.6 percent this quarter and 7.6 percent this year
- ✓ Easing supply disruptions from Japan added further pressure on zinc prices leading to such fall in prices.

Zinc Warehouse Stocks

LME Zinc Stocks



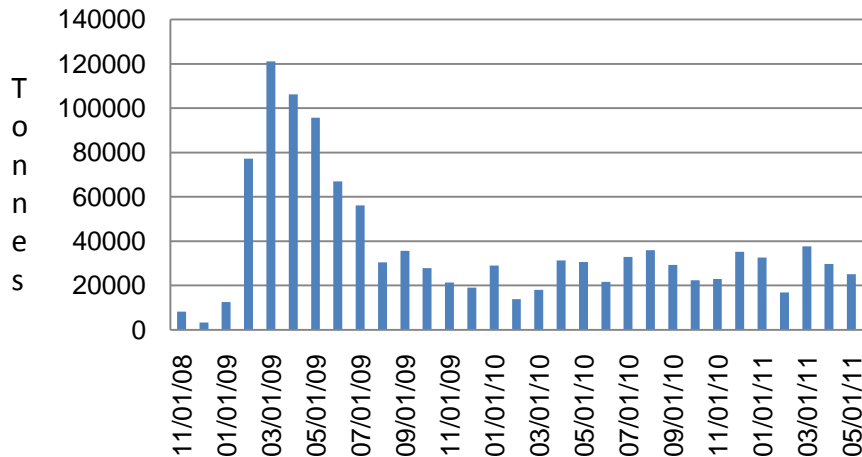
Shanghai Weekly Zinc Stocks



- ✓ Zinc stocks have shown a continuous built in the recent past.
- ✓ Zinc stocks monitored at LME warehouses have gone up by around 16 percent this quarter.
- ✓ Zinc stocks at reported Shanghai warehouses have more than doubled since second half of 2010.
- ✓ Refined production/supply being upbeat have ideally lead to this situation for zinc stocks.

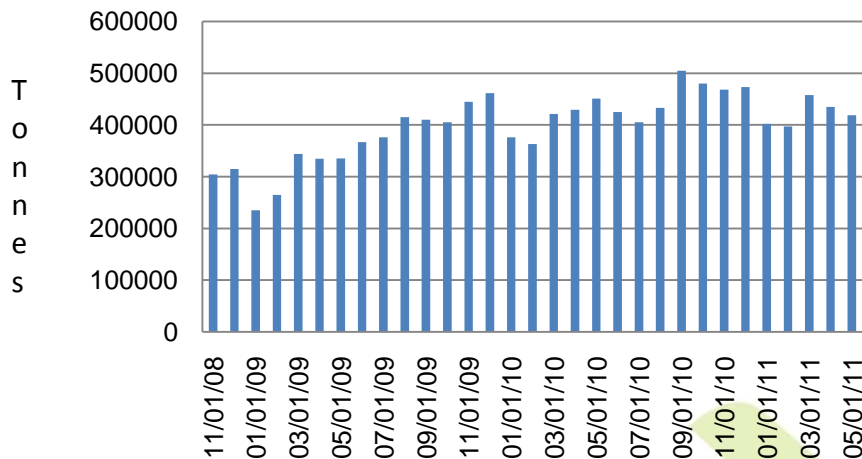
China Zinc Imports & Output

China Refined Zinc Imports



- ✓ China May Refined Zinc Imports stood at 25101 tonnes which was a sharp decline from March 2011.
- ✓ On a y-o-y basis the imports have eased in the previous couple of months.
- ✓ Refined May Zinc output stood at 419000 which is a 3 percent decline from the previous month. But is still strong.
- ✓ With the growth of Chinese production putting a slump in import demand in the shade. With net imports were 15 percent down from April, a tad lower domestic output of zinc resulted in apparent demand growth of -0.6 percent, based on Reuters calculations.

China Refined Zinc Output



Major Market Developments

- ✓ A strike at Sumitomo Corp's San Cristobal zinc-lead-silver mine in Bolivia continued to halt output and exports on with no talks in sight. Work resumed at the mine on April 4 following the 12-day strike, the union and operating company said.
- ✓ Mitsui Mining and Smelting plans to boost zinc production at two factories in western Japan, a company official said, after operations at its Hachinohe zinc smelter were halted by the earthquake and tsunami that hit northeastern Japan on March 11.
- ✓ Bulgaria's largest zinc and lead smelter, KCM, will keep its metals output target unchanged in 2011 on hopes of stable conditions on the global markets, a senior official said. KCM expects to produce 73,000 tonnes of zinc and up to 65,000 tonnes of lead.
- ✓ Mitsui Mining and Smelting Co, Japan's top zinc smelter, said it plans to produce 15.9 percent less zinc in the April-September first half than in the same period last financial year. The company said the decline reflected the impact from the massive earthquake and tsunami on March 11 that forced Mitsui Mining to shut operations at its Hachinohe zinc smelter. Mitsui said earlier it plans to resume operations by early June at Hachinohe.
- ✓ China's top planning ministry, the National Development and Reform Commission, plans to close down 337,000 tonnes of zinc smelting capacity this year as part of a crackdown on 18 heavy and polluting industries.

Demand – Supply Scenario

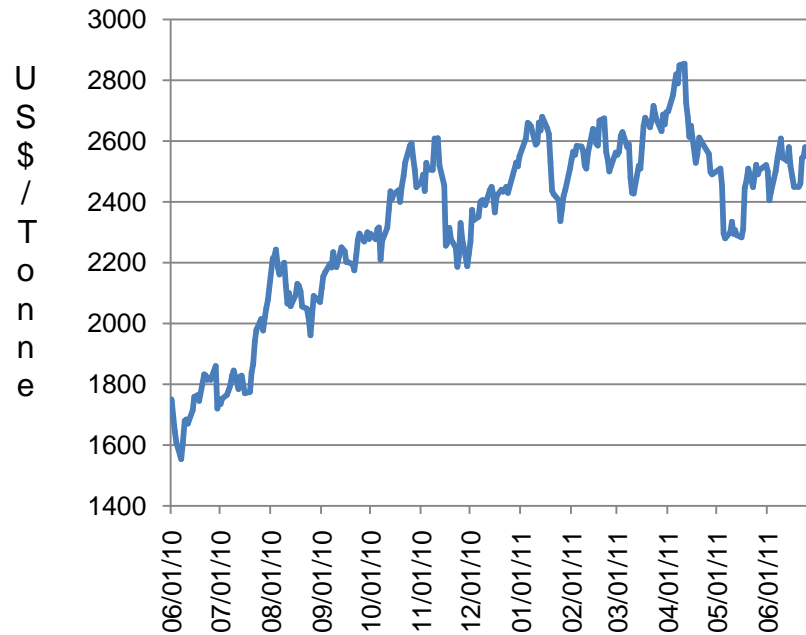
	Production (In Million Tonnes)	Consumption (In Million Tonnes)	Surplus / Deficit (In Million Tonnes)
2008	11.655	11.436	0.219
2009	11.263	10.818	0.445
2010	12.860	12.602	0.258
2011 (F)	13.59	13.39	0.200

Source: ILZSG, NB Research

- ✓ According to ILZSG, Zinc market was in a surplus of 2,58,000 tonnes in the year 2010.
- ✓ In April 2011 metal surplus exceeded demand by 178kt with reported inventories rising by 202kt.
- ✓ World zinc mine output increased by 3.9% with increases in Australia, China and Mexico more than balancing falls in Ireland and Peru.
- ✓ Higher refined zinc metal output in China, India and Peru was the primary driver behind a rise in global production of 11%.
- ✓ An increase in European usage of refined zinc metal of 17.2%. This combined with an increase in Chinese apparent demand of 34.4% resulted in an overall expansion in global usage of 18%.

Lead

LME Lead Price



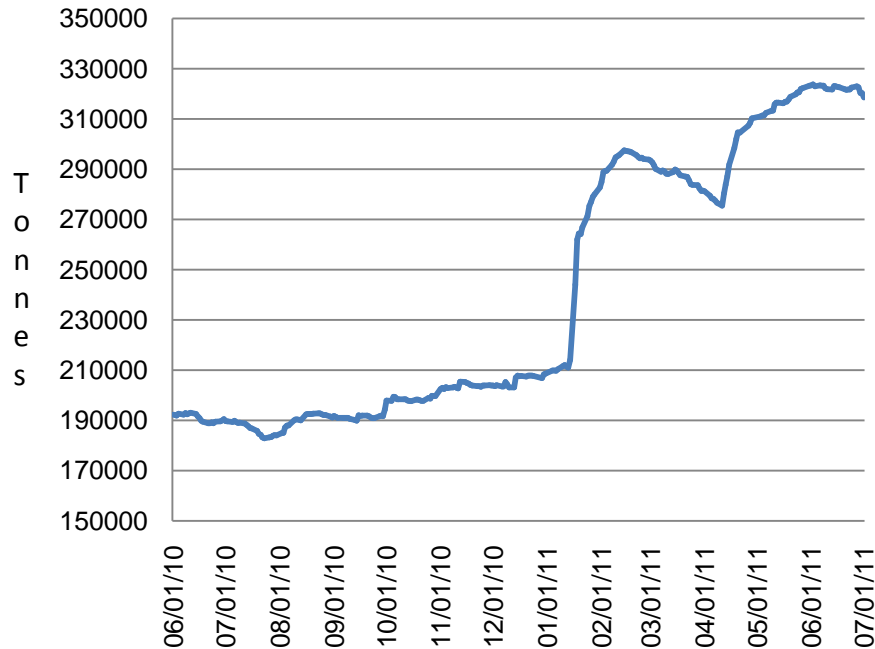
Source: Reuters, NB Research

Review:

- ✓ LME 3M Lead Price managed to trade above \$2700 per tonne being another favored metal to trade.
- ✓ Lead started its year with prices being on the higher side and its ending its quarter with almost the same prices
- ✓ Strong Car Sales across the globe kept prices of Lead upbeat at major exchanges.

Lead Warehouse Stocks

LME Lead Warehouse Stocks

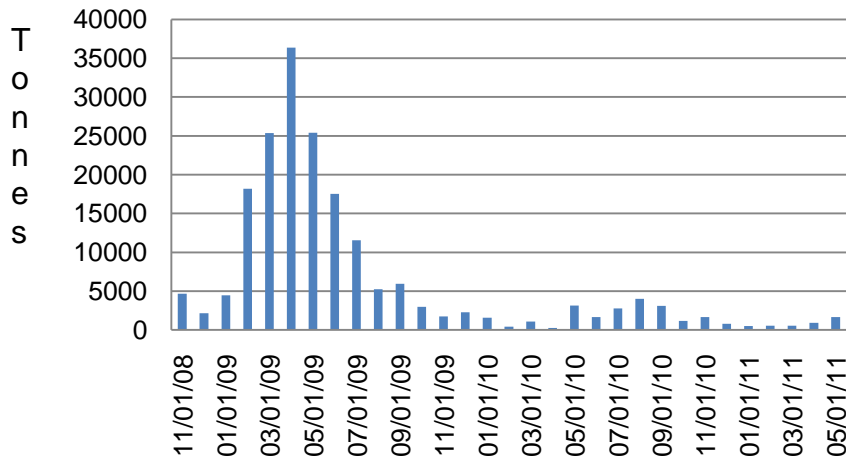


Source: Reuters, NB Research

- ✓ As in case of Zinc, Lead too have shown a continuous built in its exchange monitored inventory in the recent past.
- ✓ Lead stocks monitored at LME warehouses have gone up by around 13.30 percent this quarter.
- ✓ Increasing lead stocks indicate a weak physical off-take for metals which has still not been reflected in prices.

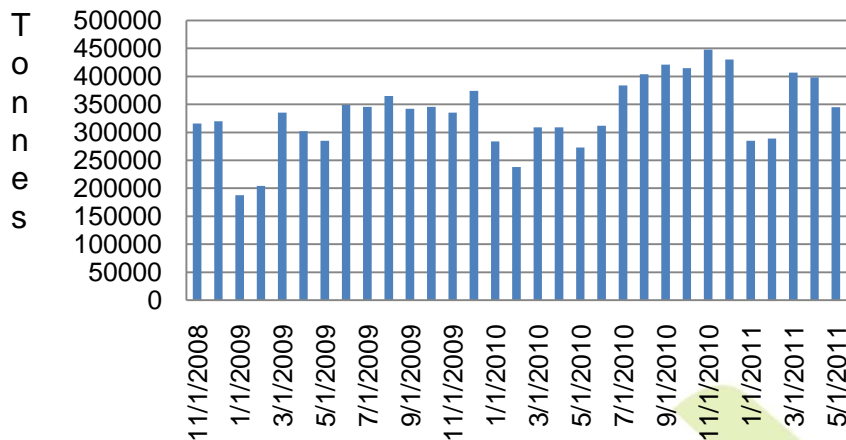
China Lead Imports & Output

China Refined Lead Imports



- ✓ China May Refined Lead Imports stood at 1640 tonnes which was about 90 percent higher of that in April 2011.
- ✓ 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 has been under pressure starting this year. And has shown a similar trend in the previous quarter. However on a y-o-y basis it is showing an improvement in output figures

China Refined Lead Output



- ✓ According to Reuters, based on Chinese Imports-Exports, Stock Levels, Output. Implied demand for lead in the month of May 2011 was 26.5% higher in China, with smaller increases in the US and Europe.

Source: Reuters, NB Research

Source: Reuters, NB Research

Major Market Developments

- ✓ Lead-acid battery production in China's Zhejiang province, which accounts for one-fifth of the country's output, will be slow to recover amid tough pollution curbs, keeping demand for the metal low.
- ✓ Lead could be headed lower on potential loss of demand from the Chinese battery sector. According to the Chinese Battery Industry Association, 95% of the country's battery makers are failing to meet the environmental and safety standards set by the government.
- ✓ Bulgaria's largest zinc and lead smelter, KCM, will keep its metals output target unchanged in 2011 on hopes of stable conditions on the global markets, a senior official said. KCM expects to produce 73,000 tonnes of zinc and up to 65,000 tonnes of lead.
- ✓ Ivernia Inc said it expects to place its flagship Magellan lead mine in Western Australia under full care and maintenance for an indefinite period. It will also lay off about 83 percent of related workforce amid environmental concerns surrounding the mine.
- ✓ China's top planning ministry, the National Development and Reform Commission, plans to close down 585,500 tonnes of lead smelting capacity this year as part of a wider crackdown on 18 heavy and polluting industries.

Demand – Supply Scenario

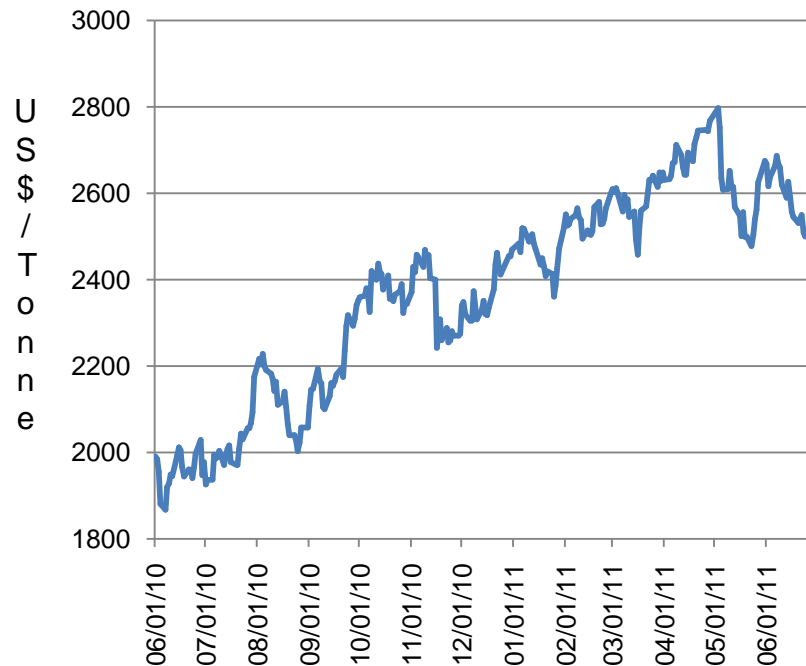
(In 000 tonnes)	Production	Consumption	Surplus / Deficit
2008	8,653	8,648	5
2009	8,867	8,791	76
2010	9,455	9,418	37
2011 (F)	9,760	9,752	8

- ✓ According to ILZSG, Lead market was in a surplus of 37,000 tonnes in the year 2010.
- ✓ In April 2011 metal supply exceeded demand by 74kt with reported inventories rising by 126kt.
- ✓ World lead mine production in was 11% higher compared to the same period in 2010. This was primarily due to higher output in Australia and China.
- ✓ A rise in world refined lead metal output of 14% was primarily a consequence of higher production in China.
- ✓ Usage of lead increased 3.9% and 6.9% in Europe and the United States respectively. Global usage of refined lead metal increased by 12.3%. This was principally due to an increase in Chinese apparent demand of 26.5%.

Source: ILZSG, NB Research

Aluminium

LME Aluminium Price



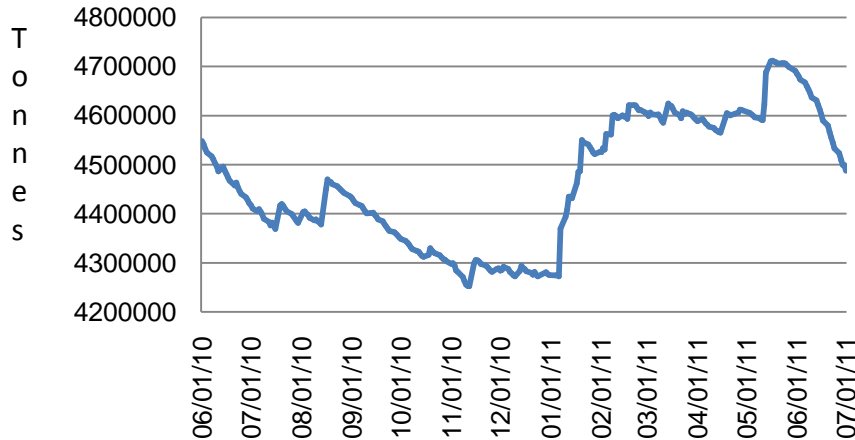
Source: Reuters, NB Research

Review:

- ✓ Aluminium was again a preferred base metal for the investors from a semi-annual perspective. But, recently with easing crude oil prices, aluminium prices edged lower.
- ✓ This quarter aluminium provided a negative 4 percent return to the investors, while it is the only metal which have been positive this year.
- ✓ High copper prices also supported prices of Aluminium on talks the substitution effect, but now with easing copper and crude oil prices aluminium prices too weakened tracking broad base metals complex.

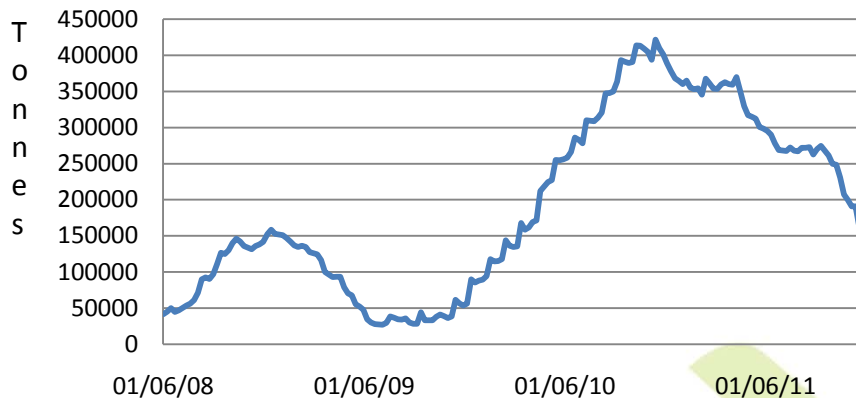
Aluminium Warehouse Stocks

LME Aluminium Stocks



- ✓ Aluminium stocks have shown a declining trend this quarter
- ✓ Aluminium stocks monitored at LME warehouses have gone down by more than 2 percent in the previous quarter.
- ✓ Aluminium stocks held at Shanghai warehouses have shown a reverse trend. A drawn of over 40 percent have been recorded in the previous quarter.

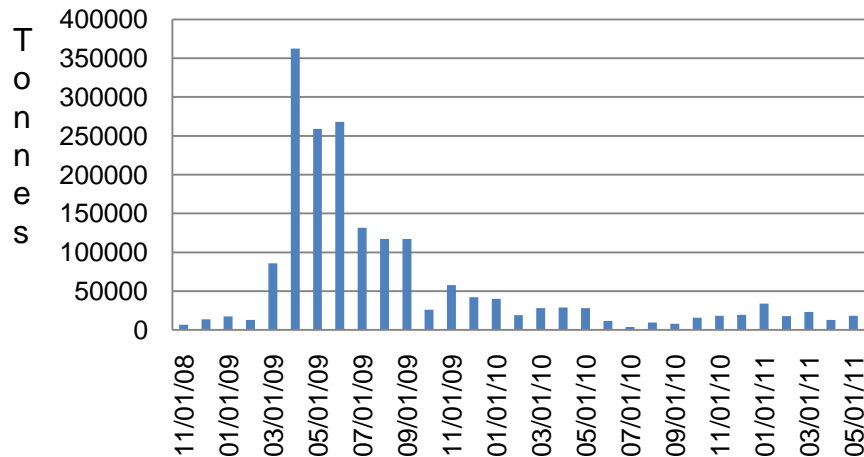
Shanghai Aluminium Weekly Stocks



- ✓ Total exchange stocks were at 5.024 million tonnes at the end of May, equating to around 41 days of demand. Of the end May total, some 4.691 million tonnes were held in LME warehouses, up from 4.611 million a month earlier.

China Aluminium Imports & Output

China Aluminium Imports

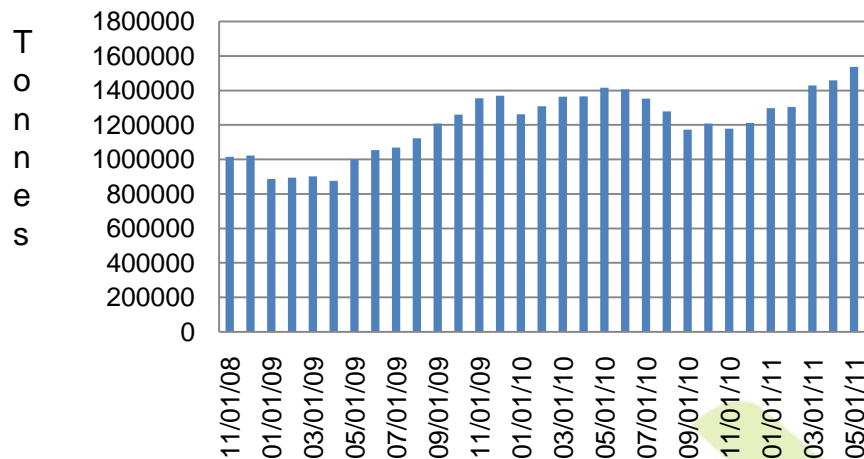


✓ China Refined Aluminium Imports stood at 18,135 tonnes in May 2011 which was almost half of that seen in January 2011.

✓ On a y-o-y basis the imports also recorded a slowdown. Imports look very low after a high imports of metal recorded by china in 2009.

✓ Refined Aluminum output has been steadily increasing in the previous quarter. After a small fall seen in February 2011, refined aluminium output growth by China has been positive.

China Aluminium Output



✓ Demand for primary aluminium appeared to rise 3.9 percent in May 2011 from April 2011 and 18.3 percent from May 2010, mainly because of growth in China's own vast production, which far outweighed a big fall in imports., based on Reuters calculations.

Major Market Developments

- ✓ China, the world's top aluminium market, will continue to see a surplus in the next five years as output exceeds consumption, cutting profits for smelters, an official of the China Nonferrous Metals Industry Association said
- ✓ China has decided to halt plans to build new aluminium plants in the country to tackle serious over-capacity in the industry, the official China Securities Journal reported, citing Su Bo, a vice industry minister.
- ✓ Daily average primary aluminium output in April rose to 70,400 tonnes from 69,800 tonnes in March, provisional figures from the International Aluminium Institute (IAI) showed. Daily average primary aluminium output in China rose to 48,400 tonnes in April, compared with 45,600 tonnes in March.
- ✓ The annual rate of primary U.S. aluminium production increased 13.6 percent to 1,965,172 tonnes in April from 1,729,662 tonnes in April 2010, and grew by 3.8 percent from March's annual production rate of 1,906,619 tonnes, the Aluminum Association said in its latest report.
- ✓ China's Ministry of Industry and Information Technology said it will close 600,000 tonnes of outdated aluminium smelting capacity by the end of the year. The move is part of a wider crackdown on 18 heavy and polluting industries.
- ✓ Estimated aluminium stocks at the Japanese ports of Yokohama, Nagoya and Osaka rose by 17,900 tonnes, or 8.9 percent, to 219,100 tonnes at the end of April from a month earlier, according to trading house Marubeni Corp. An official at the company said that while deliveries to users picked up later in April, weak domestic demand could push up stocks in May.

Demand – Supply Scenario

000 tonnes	Total Primary Aluminium Production	Total Primary Aluminium Consumption	Surplus / Deficit
2009	37669	34306	3363
2010	42166.67	40378.67	1788
2011 (F)	46805	45800	1005

Source: CRU, NB Research

- ✓ According to CRU, an independent research company, World Aluminium Demand – Supply surplus narrowed down in the year 2010. And expected to further narrow down in 2011
- ✓ While the primary aluminum global production recorded a growth of about 12 percent in 2010 over 2009. The demand grew by 17.7 percent in the same period. And in the year 2011, it is expected to grow by 13 percent.
- ✓ Growth in Chinese apparent consumption is likely to support aluminum prices.
- ✓ However with slowing automobile sales across the globe, we do not see further contraction in the surplus for the metal.

OUTLOOK



The Road Ahead

- ✓ We do not expect any major rise in prices of base metals in the coming quarter based on weak current demand outlook from China and US.
- ✓ New home sales in U.S. near to its multi year low, so despite recovery in U.S, housing industry continues to remain sluggish which tends to weigh on prices of base metals.
- ✓ One more important event to be watch out for during next quarter is the lag impact of rollback or withdrawal of second round of quantitative easing (QE2) by U.S. We do not expect any fresh round of Quantitative Easing (QE3) by the United States of America until next year.
- ✓ Global Manufacturing PMI numbers are weak and also in China it is close to a contraction which may add downward pressure on base metals.
- ✓ On the other hand, the positive factor for selected base metals this quarter can be easing crude oil prices. High crude oil prices were a major factor for denting growth in emerging nations. Now with no fresh QE3 and easing crude oil prices, it is likely that the inflationary pressures on emerging nations will ease resulting into high growth scenario in those regions.
- ✓ China accounts for almost 40 percent of the total global base metals consumption. Hence, if there is no further monetary tightening measures announced by China. We may see buying in base metals at lower levels. Hence, we feel that the coming quarter is a period of consolidation for base metals

Quarterly Price Outlook:

- Copper prices are expected to fall again upto \$9000 per tonne until next quarter.
- Nickel prices may test again test levels of \$22500 to \$22000 per tonne on account of rising supplies in the next quarter.
- Zinc may be supported after Japanese earthquake due the reconstruction demand from its steel sector were seen supporting prices. We expect zinc to be an outperformer based on current prices levels. We expect zinc prices to test \$2530-2550 per tonne on LME
- Tracking broader base metals complex, looking at current price levels and falling automobile sales growth across the globe. We feel lead prices to drop back to \$2550-2570 per tonne on LME
- Easing energy cost and crude oil prices is expected to make way for aluminium prices as well. We expect aluminum prices to drop back to \$2430-2450 per tonne on the LME.

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