

# SPOT PRICE ANALYSIS



The base metals pack on the LME declined in the last month on the back of favorable economic data from the US increased concerns regarding the QE tapering by the Federal Reserve. Additionally, weak manufacturing data from the major economies hinted towards slowdown scenario of the global economic growth thereby acting as a negative factor for the prices. Further, strength in the US Dollar Index (DX) and mixed market sentiments exerted downside pressure on the prices. On the domestic front, depreciation in the Rupee prevented sharp fall in the prices.



## Aluminum

LME Aluminum prices declined around 6.4 percent during the month of Nov'13. Prices plunged mainly on account of rise in total primary aluminum production which reached to 4.24 million tonnes in Oct'13, as per the International Aluminum Institute (IAI). The rise in production was at an all time high level since January 1973. Aluminum production rose around 4 percent in Oct'13 as compared to Sep'13. China remained the major contributor for share rise in the global aluminum production. The country

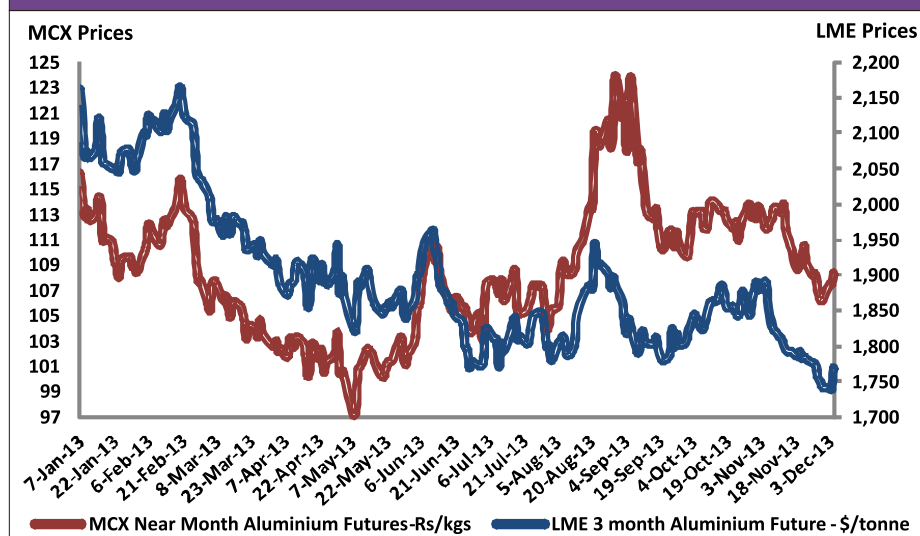
contributed around 46 percent or 1.95 million tonnes in Oct'13 to the world primary aluminum production. Additionally, rise in LME aluminum inventories around 2 percent from 5375725 in Oct'13 tonnes to 5470425 tonnes in Nov'13 exerted downside pressure on the prices.

However, sharp downside in the prices was restricted due to decline in daily average primary aluminum output in Oct'13. As per IAI, daily average primary aluminum output excluding China fell to 65,300 tonnes in Oct'13 from 66,600 tonnes in

Sep'13, while the drop in output was for the fourth consecutive month. The fall was mainly due to production cuts in east and central Europe, North and South America along with temporary shutdown in one of two pot lines at Mazaden smelter in Saudi Arabia, according to IAI data. The agency also published that between July and November this year; companies announced production curtailment of 1.4 million tonnes this year which had already shown effects of these cuts on daily average primary aluminum output. The latest report by IAI shows that a fall of 3 percent production was seen in Oct'13 year-on-year output to 65,000 tonnes per day which is at the lowest daily production rate since Feb'10. On a regional basis, output levels in Oct'13 dropped by 14 percent year-on-year in Russia, 9 percent in Latin America and 4 percent in North America during the same period.

Another major factor which prevented downside movement in prices was major shift in the supply side excluding China. LME warehouses rules which were proposed in July'13 and got confirmed in Nov'13 catalyzed around 15 percent drop in US and European physical premiums. Along with fall in LME prices since the beginning of the year,

LME & MCX Aluminium Price Movement





an additional 1.7 million tonnes of smelting capacity ex-China fell into loss making territory on top of 1 million tonnes per year capacity which was already seen in beginning of the year.

Also, global aluminum markets are expected to face deficit in 2014, but these figures are indicated excluding data from the Chinese economy. As per the Barclays Capital estimates global market balance is assumed to shift to 275,000 tonnes of deficit in the current year for first time since 2006-07. In mid-2013, the bank was

forecasting a surplus of 1.2 million tonnes. This factors along with decline in Shanghai inventories of 6.5 percent in Nov'13 restricted sharp downside movement in the aluminum prices.

Apart from the demand supply fundamentals, macroeconomic scenario also exerted downside pressure on the prices. After positive economic data in the US in the last month it led to increase in concerns regarding the QE tapering by the Federal Reserve which acted as a negative factor. Further, unfavorable manufacturing data from major global

economies added downside pressure to the prices. Additionally, strength in the US Dollar Index (DX) continued with downside movement in the prices.

In the Indian markets, aluminum prices corrected around 5.7 percent in November 2013 but sharp downside was prevented due to depreciation in the Indian Rupee. Further, from the demand perspective concerns have eased as a result of positive GDP data from the country has increased expectations of rise in demand for the metal. As per the Economic Intelligence Unit (EIU) report, aluminum growth is expected to increase by 6 percent to 1.8 million tonnes in the current year.

**Outlook**

During the coming month, we expect aluminum prices to trade higher on the back of expectations of deficit in the global aluminum market. Further, cut in production from major producers will support an upside in the prices. Additionally, favorable economic data from the major global economies will lead to estimates of rise in demand for the metal which will support an upside in the prices. However, sharp upside in prices will be restricted as a result of concerns regarding the QE tapering by the Federal Reserve.



**LME Aluminium v/s LME Inventories**

