

SPOT PRICE ANALYSIS



The base metals pack traded on a negative note for the month of June '13 on the back of rise in risk aversion in the global market sentiments. Markets witnessed downside pressure on the back of favorable economic data from the US that raised concerns that Federal Reserve will pullback its stimulus measures, thereby leading to strength in the Dollar Index and adding downside pressure on dollar-denominated commodities. Further, rise in the US and Euro Zone unemployment rate exerted downside pressure on the prices.

Apart from that, rising trend of LME inventories also acted as a negative factor for prices. On a quarterly basis, prices on the LME declined during both quarters of Q12013 and Q22013. For Q22013, Nickel was the worst performer, with a fall of around 18 percent, followed by Copper with a drop of more than 10 percent. Overall, base metal LME inventories were hovering around a 10 year high during the Q22013, and acted as the major reason for fall in prices. In the

Indian markets, the Q12013 of the current calendar year saw a downtrend in the base metals pack. However, during the Q22013, sharp depreciation in the Rupee to the tune of 10 percent helped cushion sharp fall in metal prices on the MCX.

Sharp downside in the prices was cushioned on account of decline in average production to 126,700 metric tons for the month of May from 127,000 metric tons in April. Further, daily average production of primary aluminum output excluding China also fell to 68,100 tonnes in May when compared to 68,400 tonnes in April as the per the IAI report.

Aluminum

Aluminum prices on the LME witnessed a sharp decline of almost 7 percent in the last month and the metal tested a monthly low of \$1758/tonne. Although aluminum prices opened the month of July '13 on an upbeat note and tested a high of \$1852/tonne, prices could not remain steady around those levels and slipped below the \$1800/tonne mark.

Additionally, we saw LME aluminum inventories gaining around 5 percent on a monthly basis and stood at 54,50,175 tonnes on 28th June 2013, as against 51,98,375 tonnes on 31st May 2013. On a quarterly basis, inventories rose around 4.2 percent in Q22013.

On a year to date basis, prices fell sharply by more than 14 percent as a result of concerns over global economic growth coupled with rising trend in inventories. Even strength in the Dollar Index to the tune of 4.5 percent acted as a negative factor. For the Q22013, prices have plunged around 7 percent in dollar terms.

On the domestic bourses, prices dropped 2.6 percent in the last month, but sharp fall in prices was prevented on account of Rupee depreciation. The domestic currency weakened by more than 5 percent in the month of June '13. In the current year, prices fell by 8.8 percent on the MCX, and

further downside was cushioned as a result of depreciation in the Rupee. For the second quarter of the current year, prices gained 0.9 percent taking cues from sharp depreciation of around 10 percent.

Fundamental Factors that Pressurized Aluminum Prices

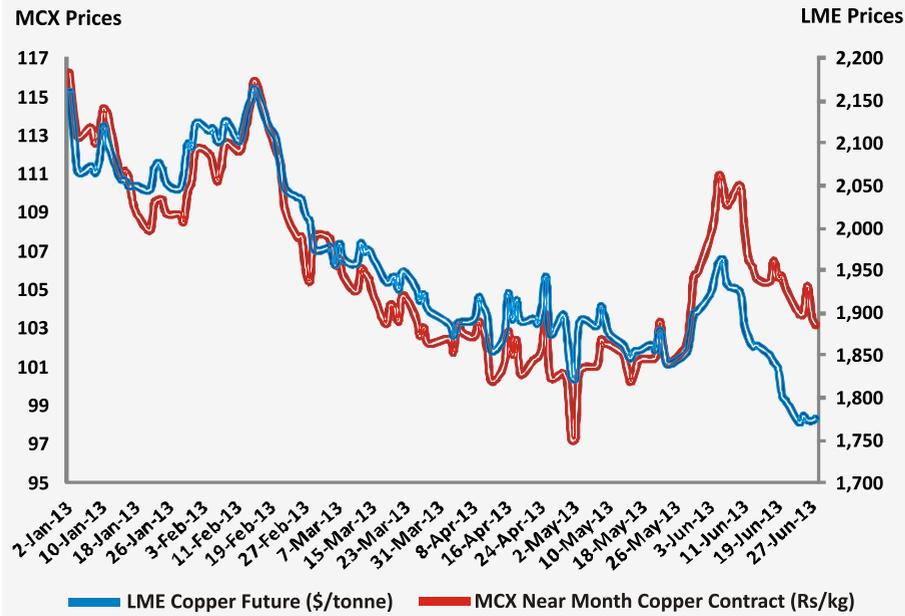
Major reason for the downside in aluminum prices was witnessed during the month of June '13, as a result of increase in global aluminum production to 2.112 million tonnes in the month of May '13. Production of aluminum rose when compared to revised figures of 2.052 million tonnes for the month of April '13. Thus, there was a surplus in the market on account of excess production and adding downside pressure on prices.

Further, slow economic growth in China hampered demand for the metal. Chinese Gross Domestic Product (GDP) also grew at a slower pace and played a major role in consumption of base metals and thereby led to concerns for demand from the Chinese economy.

Apart from that, China's daily production increased to 57,000 tonnes in the month of May '13 as against a previous rise of 56,900 tonnes in April '13. Total production stood at 1.766 million tonnes for the month of May '13 with respect to 1.707



LME AND MCX ALUMINIUM PRICE MOVEMENT



million tonnes a month ago according to the data published by the International Aluminum Institute (IAI).

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Additionally, IAI report showed that Europe produced 2.38 million tonnes of chemical grade alumina between January 2012 and June 2013 and contributes around one third of total chemical alumina production over the world. This factor also prevented sharp fall in the prices.

Outlook

In the coming month, we expect aluminum prices to trade on a negative note on the back of expectations that China's economy will grow at slow pace after slow growth in the country's GDP data.

Further, forecast that Chinese economy will not be able to meet the target of 7.5 percent growth in this year will exert downside pressure on prices. In the domestic markets, prices will witness downside pressure as a result of appreciation in the Rupee. Indian Rupee will appreciate on account of measures taken by the Reserve Bank of India (RBI) along with increase in margin by Securities Board of India (SEBI).

Additionally, expectations of more measures be the central banks will support the Rupee and act as a negative factor for prices. Hence, we recommend Sell MCX Aluminium July between 109 - 110, SL - 113.50, Target - 103/102 (CMP - 107.60)



LME ALUMINIUM v/s LME INVENTORIES

