

Weekly Aluminium Price Outlook and Strategy

Decision enabling cash market analysis & price outlook

For the week beginning Oct 30, 2013

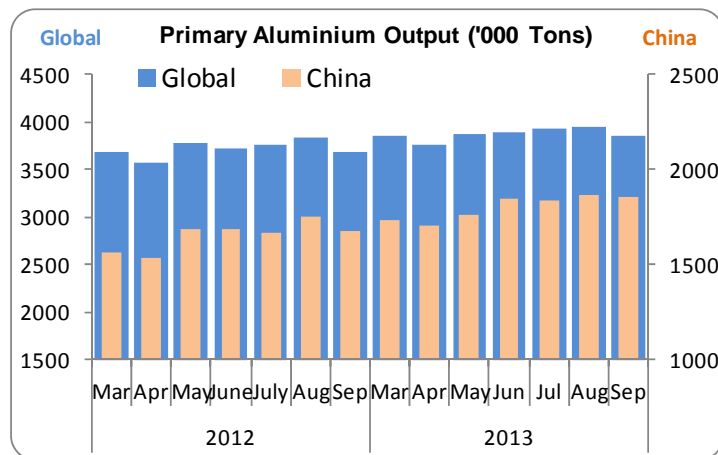
Report Summary				
LME / SHFE / MCX on Oct 29 , 2013	LME 3M: USD 1879 (+0.11%)			
	SHFE 3M: CNY 14455 (+0.63%)			
	MCX Oct'13: INR 112.8 (+0.36%)			
Fundamental Summary	Price drivers			Impact on Price
	Rising manufacturing activity in China			Bullish
	Flattering economic momentum in US			Bearish
	Falling output in ROW and rising Chinese output			Mixed
	Slower Chinese purchase moving forward			Bearish
	Continuance of Stimulus by US FED			Bullish
	Falling spot premium in Western Market			Bearish
	Sum up			Mixed to Positive
Technical Summary	<ul style="list-style-type: none"> ➤ Corrective rise is evident on the chart after placing low at USD 1749. ➤ Swing based resistance is expected around USD 1980. 			
Price Outlook Summary	Concisely, price is likely to stay above USD 1825 and inch higher towards USD 1950 in the forthcoming few weeks.			
	Concisely, Initial weakness in the price is likely to be restricted above INR 109 and then INR 114 is possible again in the coming few weeks.			
Price Ranges	0 – 2 weeks		0 – 1 month	
	Range	Price Bias	Range	Price Bias
	1810-1950	Positive	1770-1980	Positive
Procurement Strategy (LME-Cash)	<p>Oct '13 buying requirements were completed at an average price of USD 1747.50 compared to the monthly average of USD 1760.38 per ton.</p> <p>50% of Nov'13 buying requirements was completed at USD 1790 on Oct 16th 2013.</p> <p>Another 50% of Nov'13 buying requirements was completed at USD 1800 on Oct 23rd 2013.</p>			
Turnaround point	A sustain daily close below USD 1810 shall negate the initial gains and then metal is likely to consolidate for further extended period.			

Market Analytics

LME Aluminium traded on a positive note during the last week trade at LME as better than expected growth in Chinese manufacturing sector and below expected data from US labor market fuelling thoughts of delay in QE tapering by US Fed raised investors optimism resulting upward movement in prices. However, rising money rates in Chinese market fuelling concerns of possible liquidity squeeze in the country and signs of flatter growth in US capped any significant gains in prices during the week. In addition, falling global output and production suspension at new Alcoa plant in Saudi Arabia further lent support to prices

Global output – falling production in west and rising output in China

- ✓ As per the data released by the International Aluminium Institute, global aluminium output data paints two very different trends in China and the rest of the world. While production in the rest of the world fell for the third month running with the downtrend becoming more pronounced as capacity curtailments start to bite, Chinese production has continued its rising trend since May 2013.
- ✓ There is currently little tension between these divergent production trends with China doing its thing and the rest of the world doing its. But that is not to say that this stability is durable. The parallel universe that is China is not quite as separate from the rest of the world as Alcoa and other non-Chinese producers would like to believe.
- ✓ Cutbacks announced since the start of this year now total 1.2 million tons with Russian giant United Company Rusal last week detailing more drastic curtailments than previously expected. Through a combination of mothballing some plants and reducing amperage at others, the company now plans to take around 648 KT offline, equivalent to 15 percent of group production in 2012.
- ✓ The latest data from the International Aluminium Institute (IAI) shows that aluminium production outside of China in Sept '13 declined for second straight month to below 2 million tons (lowest level since March 2013). However, Chinese output remained at high levels of 1.86 million tons during the month (a marginal decline of 5 KT compared to August 2013 output)
- ✓ While western nations are assenting to production cut backs, Asian region (particularly China) are pouring water on the effort of major producers in west to bring supply/demand in balance and let to uptick in prices.
- ✓ **At inventory front**, as per the data released by International Aluminium Institute (IAI) global unwrought aluminium inventories in September fell to its new historical low of 2.130 million tons, a decline of around 106 KT from a revised 2.236 million tons in August.
- ✓ Such a sharp decline in inventories further indicates of greater adherence to capacity cuts announced by major smelters in western nations.



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- ✓ Low prices of metal squeezing smelters margins and leading to negative margins for some of the producers and recent decline metal premiums for spot delivery in US and Europe is forcing companies to tap their inventories instead of producing at negative margins.

LME New proposal – an update

- ✓ The London Metal Exchange (LME) board on Friday had already arrived to a decision on whether to overhaul its controversial warehousing network which is plagued by backlogs, however, it has indicated to reveal the decision later.
- ✓ In July, the LME proposed new rules to overhaul the delivery system from next April that would force warehouses to release more stocks once the wait-time breaches 100 days.
- ✓ The LME has been caught in the middle of criticism of the proposed new rules from both major producers and end-users of the metal.
- ✓ Consumers, including brewer MillerCoors LLC and aluminium products maker Novelis, want drastic changes to warehousing rules to bring down the spot premium they pay to get metal.
- ✓ However, producers are worried that drastic changes could unleash the stocks onto the market, hitting a price that is already languishing.
- ✓ Until consumers re-enter the market and until there is some clarity about what difference the LME proposals will make to immediate availability of material, there is little in the way of near-term support. Premium in other regions, where LME warehousing and stock financing are not such a large part of the market, most notably Asia, are much more stable for now at least. Meanwhile in a scenario of fall in premiums and lower prices of metal at LME, smelter economics are becoming even more challenging.
- ✓ At another front, China is expected to retain ban on overseas commodity exchanges setting up warehouses in the country, dashing expectations for London Metal Exchange warehouses in the newly launched Shanghai free trade zone. The ban was issued by the China Securities and Regulatory Commission (CSRC) in 2008.

Economy

Summary of global macro and market themes

- ✓ FOMC meet likely to remain a non-event – The two-day Federal Open Market Committee is likely to conclude with continuation of its current bond buying program at the pace of US dollar 85 billion per month amidst lackluster economic releases and fragile economic growth. The 16-day government shutdown would also weaken the GDP numbers and hence the Fed may avert any near term tapering. Further, any development over the next Fed Chairman after Ben S Bernanke might fuel volatility in global financial markets.
- ✓ The European Summit is also likely to remain under limelight wherein increasing allegation over US spying and surveillance might mar the transatlantic trade relations and result in further economic weakness.
- ✓ The Chinese Manufacturing PMI might inch up marginally however the weakness in the HSBC private PMI number is likely to support increasing risk aversion and might weaken the riskier assets. The Bank of Japan is also likely to continue with its bond buying program and support loose monetary policy.

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Economic update and preview

- ✓ The Federal Open Market Committee will conclude its two-day policy meeting today. However, given the two-week government shutdown which have affected the economic outlook and macroeconomic data released in last one-week giving an indication of flattering economic momentum in US, we expect US Fed to keep its easy monetary policy intact for next 3-4 months.
- ✓ The US industrial production for the month of September remained weak while the consumer confidence faded amidst growing concerns over the fiscal cliff and recent government shutdown. In the coming week, we expect the US housing and labor releases might continue to remain tepid. Scheduled non-farm payrolls numbers would also be delayed and instead of this week, the monthly labor report will be released in the coming week.
- ✓ From euro-zone we may continue to witness slight weakness in the economic activity. German retail sales are likely to remain at a blend along with the consumer prices; however the euro-zone confidence numbers might continue to drag investor's sentiments after a slower PMI growth and stagnant unemployment. The industrial sentiments might also plummet along with business climate. The Spanish government is also due to release its GDP and current account which may fuel volatility at the mid of the week.
- ✓ On the other hand, the euro-zone consumer prices might continue to remain at a blend amidst continuation of loose monetary policy by the ECB. Further, the European Summit in this week is also likely to remain at risk as concerns of US spying the EU leaders might warn the transatlantic trade talks.
- ✓ The major release during the current week from China would be the state and the private manufacturing PMI numbers. Although the state manufacturing numbers might inch up marginally weakness in the private PMI number might result in increasing risk aversion by global investors which might keep the riskier assets under check.

Upcoming key economic releases

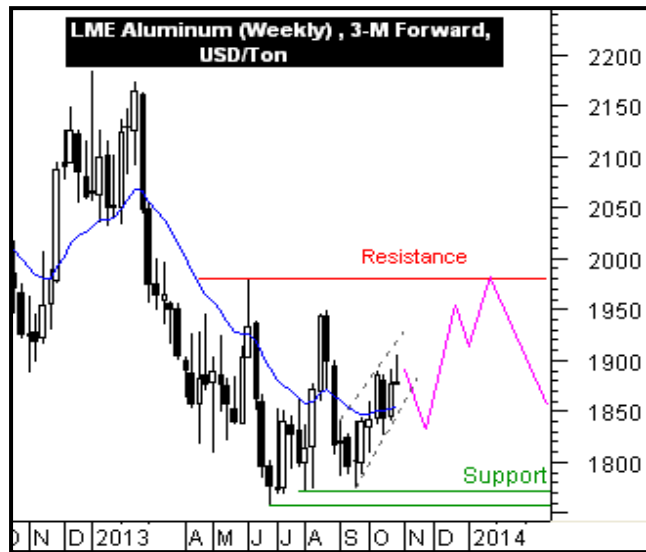
Calendar – Key Economic & Other Fundamental Data			
Event	Date	Expected Value	Current Value
FOMC Statement (US)	30 Oct	--	--
Monetary Policy Statement (Japan)	31 Oct	--	--
Manufacturing PMI (China)	01 Nov	51.2	51.1
ISM Manufacturing PMI (US)	01 Nov	55.3	56.2
Non-Manufacturing PMI (China)	03 Nov	55.8	55.6
ISM Non-Manufacturing PMI (US)	05 Nov	53.2	54.4
Advance GDP q/q (US)	07 Nov	2.5 %	2.5 %
Trade Balance (China)	08 Nov	15.8 B	15.2 B

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Chartist view on LME Aluminum Cash

A. Chart Analysis: Mixed to Positive

- ✓ Long term weakness in the LME Aluminum price is intact while in the short term market is consolidating for past few months.
- ✓ On the upside resistance at USD 1980 would be a turnaround in the long term.
- ✓ On the downside, short term low has been posted at USD 1775 and now support is expected around USD 1825.
- ✓ Momentum indicator is also exhibiting mixed behavior indicating directionless price movement.



B. Elliott Wave Perspective: Corrective

- ✓ On Elliott Perspective our preferred view is that the high of USD 1949 is culmination of Minor corrective wave 'a' and whole development since low of USD 1758 (June 2013) is a flat and hence retest of USD 1950/1980 remains open as a objective of leg 'c' before turning negative again.

Concisely, price is likely to stay above USD 1825 and inch higher towards USD 1950 in the forthcoming few weeks.

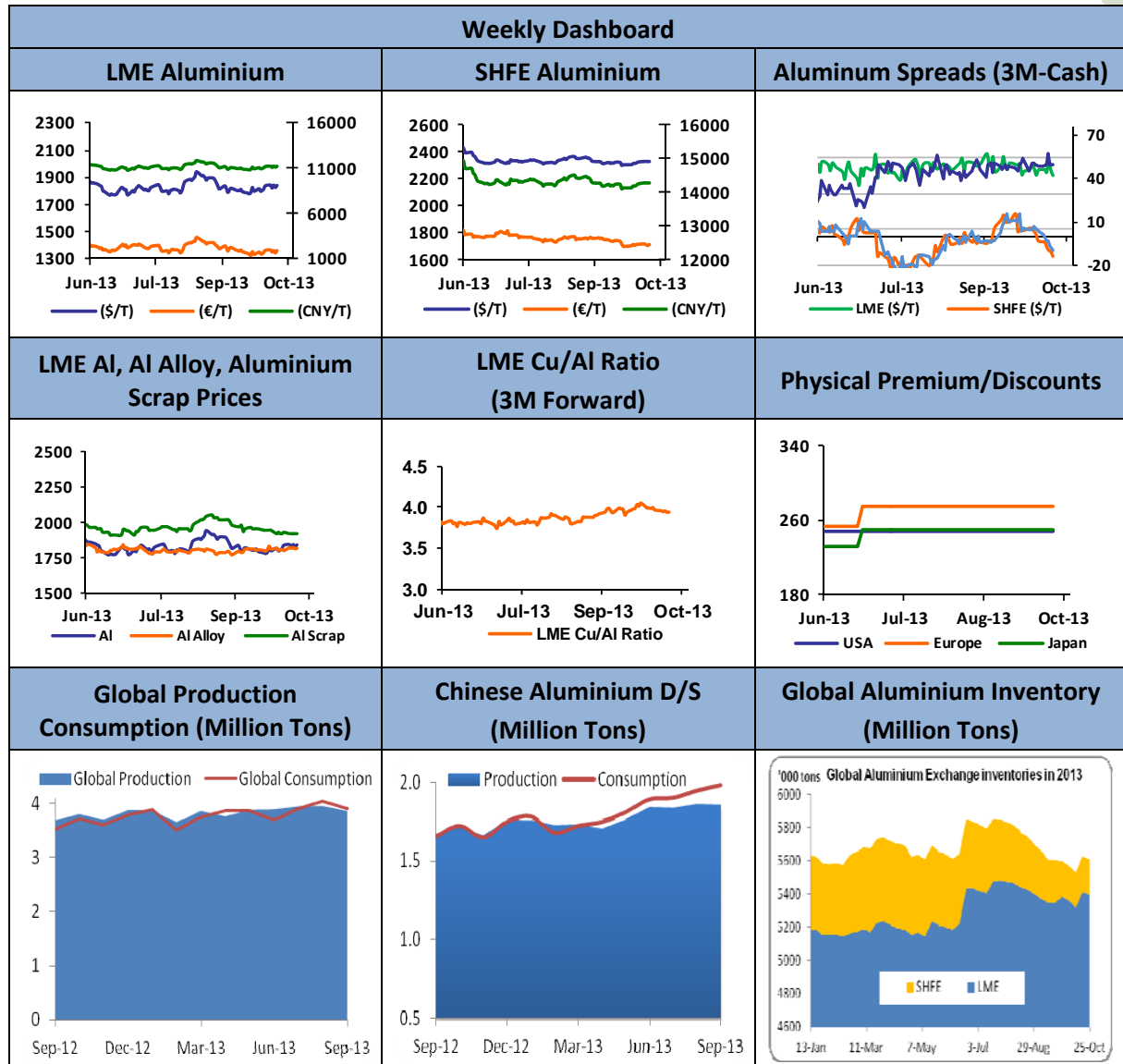
Chartist view on MCX Aluminum Futures Continuation Chart

- ✓ MCX Aluminum futures price is seen hovering around 18-pd EMA for the past few sessions.
- ✓ On Daily chart **Bearish Engulfing Body** is evident and hence resistance at INR 114.55 is crucial and possibility of testing INR 111.50 is likely in the coming week.
- ✓ On the downside range of INR 111-109.15 is crucial sustaining below the same deeper correction towards INR 104 is likely.
- ✓ On the weekly chart, price oscillator has moved below average and hence negative bias in the price action cannot be ruled out.
- ✓ However, on the downside chart pattern suggest that support of INR 109.15 is likely to hold.



Concisely, Initial weakness in the price is likely to be restricted above INR 109 and then INR 114 is possible again in the coming few weeks.

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Facts and Figures Digest

Market and details	29-Oct -13	22-Oct -13	Change	%Change
LME Aluminium Cash (USD/Ton)	1838	1833	4.75	0.26
LME Aluminium 3M-Forward (USD/Ton)	1879	1877	2.00	0.11
LME Aluminium 15M-Forward (USD/Ton)	1989	1993	-3.50	-0.18
LME Aluminium 27M Forward (USD/Ton)	2080	2086	-5.75	-0.28
Changjiang Spot Prices (CNY/Ton)	14520	14470	50	0.35
SHFE 3M Futures (CNY/Ton)	14455	14365	90.00	0.63
Stocks LME (Tons)	5389975	5401975	-12000	-0.22
Stocks SHFE (Tons)	210590	214627	-4037	-1.88
MCX Oct'13 Futures	112.8	112.4	0.40	0.36
MCX Nov'13 Futures	114.45	114.2	0.25	0.22
LME Aluminium Futures Open Interest *	747923 #	736471	11452	1.55

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LME Aluminium Call Option Open Interest *	104384 #	87977	16407	18.65
LME Aluminium Put Option Open Interest *	77473 #	70830	6643	9.38
* LME Open Interest is released with a lag of one day, # Data as on 28th Oct 2013.				

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