

Interest in base metals diminish

- Namita Naik

The manufacturers' willingness to buy base metals diminished recently, due to deep worries on the expansion of Greece's debt crisis to the whole of Europe. Non-ferrous metals are expected to plunge further amid growing concerns about the euro zone's prospects coupled with uncertainty surrounding China's exit from stimulus policies. However, the retreat may be short-lived, due to a boom in infrastructure construction and automobile consumption. Even the Chinese government's policy to tighten banks' credit caused financial pressures that led to a cautious procurement especially in zinc due to anticipated oversupply.

While globally, automotive and the construction sectors are major drivers, in India majority of the demand is accounted for by the power transmission

sector, followed by the automobile industry. Accounting for nearly 68 percent of India's aluminium production, the electrical, automotive and construction sectors are the key end-users of the metal. The electrical sector contributes the highest with 36 percent, while the construction and automotive sectors account for 10 percent and 22 percent, respectively. The consumption pattern for aluminium in these sectors is different in domestic market when compared to the rest of the world. The consumption of aluminium in the automobile and construction industry is expected to rise by 10 percent each. Above all, the replacement of steel and copper by aluminium in the automobile and power transmission sectors respectively, is likely to support the aluminium demand.

Further demand growth

In India where the economy is estimated to grow at around eight percent, demand for aluminium from the power transmission segment is also likely to remain strong at around seven percent during the same period. Over the next four years, the fast

growing automotive and electrical sectors are likely to boost the use of aluminium in India at a compounded annual growth rate of 9.5 percent. It is expected that the country's aluminium consumption will rise from 1.4 million tons (MT) by 2009-10 to 2.05 MT by 2013-14. During 2002-10 period, the

consumption of aluminium rose at a compounded annual growth rate of 12 percent from 0.5 million ton to 1.4 million ton. The rise in demand is very much possible since the global aluminium industry is recovering from the lows of 2009 when the surplus was hovering around 739,000 tons due to economic slowdown. According to the data released by the UK-based World Bureau of Metal Statistics, the global surplus of aluminium plunged to 295,000 tons between January-April 2010, from a staggering 905,000 tons in the corresponding period of the previous year.

Simultaneously, China's target of eight percent growth in gross domestic product this year will ensure the copper industry remains vigorous. A drastic decline in non-ferrous metals is unlikely this year, as the trading prices of most metals are close to the cost price of China. It is seen that the country may increase its aluminium



smelting capacity by about three million tons this year, which will raise China's imports of alumina. Eventually the timing of China's stimulus policy exit remains unclear at present, with more measures, including an interest rate hike, in the pipeline. However, market experts said that demand would bounce back in the long run, as China is building a high-speed railway network and experiencing a boom in automobile consumption, which will buoy demand for most non-ferrous metals like aluminum and copper. China, which accounts for about 25 percent of global demand and one of the world's major importers of non-ferrous metals like zinc and refined copper, its demand will significantly influence these metals' international trading price. According to Transamine, a leading global service provider of raw material sourcing, global auto production will rise 20 percent in 2010, mainly driven by China, with the nation's auto sales forecast to rise 25 percent to 17 million units.

On a recovery path

The investors buying interest reignited during the week due to a weaker dollar and inventories data, despite worries about recovery in the US. The concern in the markets has been that the trend is towards slower growth and less of a bounce off the bottom that you typically get.

Moreover, the business activity in the US Midwest grew more than expected, suggesting a stronger demand outlook for the metal and spurring month-end buying. Base metals in July, climbed up as a weaker dollar and improving fundamentals supported prices, but gains were capped by concerns about US economic recovery and metals demand. The industrial metal copper prices extended, posting the largest weekly gain since late February, as fund money piled into the market amid an improving economic outlook,

undisturbed by European bank stress test results.

In July, the dollar hit an 11-week low versus the euro, making dollar-priced metals cheaper for European investors, while European and Asian shares, seen by some as a proxy for economic growth, turned higher. "A surge in the euro/dollar on month-end flows gave the complex a lift. There were some good earnings reports from automakers, and supply news was bullish," said an analyst referring to stocks in LME warehouses. Stocks of copper in LME warehouses rose above 555,000 tons in February, their highest since 2003. They now stand at around 431,500 tons. LME copper for three-month delivery CMCU3 ended kerb at US\$ 7,296.50 a ton, a jump above US\$ 7,230.50. It set a high at US\$ 7,329, last seen in April. The red metal also benefited from month end buying as some funds sought extra yield before they close their July books. The Vedanta group-owned, Hindustan Zinc Ltd (HZL), raised price of zinc by Rs 2500 a ton to Rs 1, 01, 500 while keeping lead prices unchanged at Rs 97, 600 a ton, according to an official from the company. HZL, the country's largest producer of zinc and lead, reviews product prices based on benchmark London Metal Exchange trends.

The three-month delivery of

aluminium CMAL3 on LME settled at US\$ 2,138 a ton in July. The stocks of aluminium at LME warehouse remained at 4,385,300 tons. The galvanising metal zinc CMZN3 was bid at US\$ 1,996 a ton from US\$ 1,955. Aluminium and zinc touched US\$ 2,113 and US\$ 2,005 a ton respectively, their highest since mid-May. The zincs stocks on LME remained at 620,350 tons. The three-month delivery of tin CMSN3 on LME closed at US\$ 19,675 from US\$ 19,525 a day before, while its stocks at LME ware house remained at 15000 tons. The three-month delivery of nickel CMNI3 at LME closed at US\$ 20,675 from US\$ 20,405 a ton and the stocks remained at 117,498 tons. The battery material lead CMPB3 too edged up and ended at US\$2,050 from US\$ 2,018. Earlier in the session, nickel saw US\$ 2,057 - a two-and-a-half-month high. Its stocks on LME warehouse remind at 184150 tons. According to the International Lead and Zinc Study Group, zinc supplies will exceed demand with a global surplus of 418,000 tons in 2010. Zinc output is forecast by the organisation to rise to 12.5 million tons while demand will reach 12.1 million tons this year.

