

From Research Desk

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Scrip	Recommendation	Last Close	Stop loss	Target
Aluminium	Buy around 118.00-118.50	118.50	108	150+

IMV Commodity Research Desk

Aluminium

Aluminium prices gained momentum for the second consecutive month in October 2016 and gained more than 16% percent on the MCX division.

Brighter demand prospects by the major producer companies spurred buying in the light metal. NovelisInc, the world's largest maker of rolled aluminium products, sees demand for the metal growing 4-5 percent in 2017, boosted by sales to carmakers and can manufacturers. Asia would be the leader in both automobiles and cans demand growth due to population growth and increasing environmental awareness.

Besides, Aluminium stocks in China's five major markets fell for three consecutive weeks ending October 31 and are likely to remain near multi-year low for the foreseeable future citing low shipments from northwest China.

Scenario at Shanghai and LME warehouses is no different. Over the year, Shanghai aluminium stocks have plunged by a whopping 124 percent to near 85,000 tonnes whereas LME stocks declined 30 percent towards 214,000 tonnes.

But all is not well in the Aluminium market as rising Chinese production has become a cause of concern for other producing countries. Data from the International Aluminium Institute (IAI) showed World Aluminium production in Sep'16 was 4.9 million tonnes, of which China produced at least 2.8 million tonnes.

The next largest producing region was the Gulf Cooperation Council (GCC), with output of 426,000 tonnes, 70 to 80 per cent of which must find a market outside the region. GCC is political and economic alliance of six Middle Eastern countries namely Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman. Emirates Global Aluminium, a member of GCC and one of the world's top 10 aluminium producers, openly expressed distress regarding the chronic oversupply from China and added that they don't expect good prices for the next couple of years.

Daily average primary aluminium output hit a record high in September, to 164,600 tonnes from 159,800 in the prior month. Primary reason being, surge in total Chinese output for the month to 2.75 million, the highest in 15 months. In line with the same, total global primary aluminium production increased to 4.937 million tonnes, up 1.2 percent from the same month last year, but North American output fell 11 percent to 325,000 tonnes.

Rising Chinese production in turn has given way to more exports. China exported 390,000 metric tons of unwrought aluminium, rising by 10.6 percent on year-on-year basis in Sep '16. This was preceded by yearly rises of 20.4% and 9.3%, respectively, in August and July.

Overall, declining stocks kept afloat the light metal in Oct'16 while rising Chinese supply bothers global investors.

Demand dynamics in India

A report released by NITI Aayog 'Metals in the world economy – Case of Aluminium Industry in India' indicates that major players such as National Aluminium Company, Hindalco and Vedanta are pursuing brownfield and greenfield projects to more than double the domestic production in the next few years. Demand is expected to grow at an annualised rate of 5.5 per cent per annum.

The per capita consumption of aluminium in India is, however, quite low at 1.4 kg compared to the world average of 8 kg, thus providing room for improvement in demand in the coming years. Prices of Indian aluminium are, however, closely linked to global prices and hence influenced by the demand-supply dynamics in the overseas market.

Aluminium prices are expected to go up in the next couple of months. The shutdown of a few high-cost plants and a gradual increase in global demand are an advantage.

Rusal expects global demand for aluminium to rise by 5.7 percent for 2016.

The transportation segment is expected to account for 40 percent of this demand, followed by construction, power and electrical sectors. The more stringent emission norms in the transportation sector — both in the US and in China — are expected to further increase the demand for aluminium.

Technical Aspect



On seeing monthly chart, Aluminium gave a fresh breakout above 113 level with volume and we will expect sharp upside move in days to come. It made a low of 93.00 in October 2015 and jumped sharply to a fresh high of 119.30 mark. A trend line breakout above 113 indicated positive momentum in Aluminium while RSI and MACD indicate strength on charts. Along with it Aluminium is trading above 21DEMA and 55DEMA which is at 109.80 and 109.20 respectively. Upside target will expect more than 40 points in Aluminium i.e. $113 + 40 = 153$. So traders can buy and accumulate Aluminium at current market price and add more lot in panic around 114---113 with stop loss below 108.00 on closing basis for the upside target of 153.

Recommendation – (Positional): Buy Aluminium or Aluminium mini around 118.50---118.00 or at CMP. Add more lot around 114---113.00. Stop loss 108.00. Target 153+++

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