commodities buzz

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Precious metals surge

Bullions: Too fast a rise

Following the RBA, the Bank of England raised interest rates by another 0.25% yesterday. The University of Michigan's preliminary index of consumer sentiment slid to 92.3 this month from 93.6 in October. This has put the dollar on the back foot against the other currency majors lifting the prices of metals.

Further, speculation that China will diversify its foreign exchange reserves that have now reached the $1 trillion mark has triggered the fall in the dollar. The focus is now on inflationary concerns and the slowing economy. The European short-term government bond yields rose above the long-term yields for the first time in more than six years, increasing the concern of the European Union region moving into a recession. Clearly, there are more reasons to own gold.

In the other news, SEBI has amended the much-awaited Custodian of Securities Act that will now enable gold ETFs to hit the market shortly. And, any launch of the gold ETF would create an incremental demand of 10%. Having said that, yesterday’s move was too fast to digest by the market and probably a correction cannot be ruled out. Caution is advised, but long-term investors can accumulate gold on every dip.

Crude oil: Range-bound moves

Crude oil jumped over 2% yesterday, supported by the OPEC supply cuts and a drop in fuel stocks in the USA. OPEC is lowering its output and some members have said the group may cut supplies further in December. The cutback comes as the demand for oil is nearing its seasonal peak in the northern hemisphere due to the approaching winter.

Oil remains a threat to the demand and that's not a positive factor given the peak demand season in the USA. However, oil should see range-bound moves between $57-62.

Soybean: Madhya Pradesh mulls over stock limits

The sharp rise in soybean spot prices in recent days have started to bother the Madhya Pradesh government. The government is thinking about imposing stock limits on stockists and some MNCs. This may create some short-term negative reaction.

Soy oil: Expect some correction

The weakness in the CBOT soybean and soy oil futures last night could result in some profit taking today. The range-bound CPO futures could also contribute to the selling. The news of soybean stock limits is also negative for the counter.

Wheat: Buy on dips

The lack of news has led to a consolidation in the prices of wheat. However, as the winter season approaches we could see a sharp rise in the demand. The government's projections of a bumper harvest looks a bit premature as a lot would depend on the weather in January and February. The USDA says that India would still need to import wheat next year, albeit a lower quantity.