



Bullions to trade weaker

Bullions: Range-bound

The market is betting on more US interest rate hikes in the months to come with most analysts forecasting interest rates to touch 5.5-5.75% for the year 2006. Wall Street's biggest bond trading firms are certain that the Federal Reserve will raise interest rates this month, and are expecting another increase in August. The prices of interest rate futures listed on the Chicago Board of Trade show that investors see a 67% chance that the Federal Reserve will boost its key-lending rate to 5.5% in August. The futures show a definite likelihood that policy makers will raise the rate to 5.25% at their meeting on June 28 and 29. Just two weeks ago, there were almost no expectations for an increase in August and the prices of the futures suggested only a minority of the traders forecast higher rates this month. The speed of the turnaround shows that the investors are convinced Federal Reserve Chairman Ben S Bernanke will battle rising prices.

The home construction sector in the USA is wilting as higher interest rates deal a blow to industry hopes of extending a five-year boom, a government report is forecast to show this week. Builders started work on homes at a 1.867 million annual rate in May, close to April's 1.849 million rate, which was the slowest in 17 months. The prospects of a slower economic growth is not likely to deter Federal Reserve policy makers from extending two years of interest-rate increases because inflationary pressures are mounting and China has increased its reserve ratio by 50 basis points.

The 1.2500 level of the dollar is believed to be a good support for the euro. Any breach of this level would put some pressure on the bullions. The precious metals complex might be under some pressure in the early part of the week, but US data during the week could lift the prices of bullion. The minutes of Bank of Japan Policy Board Meeting are scheduled to be released on Tuesday, which might throw some light about the central bank's view on inflation.

Crude oil: Range-bound with a positive bias

Crude oil hovered around the \$70 a barrel mark. This indicates that the economies of the USA and China are growing fast enough to sustain the demand for fuel. The US consumer confidence rose in June for the first time in three months amid IEA forecasting an increase of 70,000 barrels a day global oil consumption, which bodes well for this counter.

Further, Francois-Xavier Deniau, the French ambassador to the UN's International Atomic Energy Agency in Vienna, said Iran has reduced cooperation with the United Nations atomic agency inspectors since the announcement of the European Union proposal, which is backed by the USA. Expect range-bound moves with a positive bias.

Copper: Sell on rise

The People's Bank of China raised the required reserve ratio for commercial lenders by 0.5%. China is stepping up efforts to cool its economy after reports showed investment, money supply and factory production accelerated in May. This measure may have some impact on the consumption, as metal buyers may find it hard to secure loans. This could have a gradual impact on the demand for metals and the acceleration of the growth in copper and other base metals demand may slow down. Hence copper should be sold on rises.

Sugar: Range-bound with a negative bias

The demand is yet to pick up and the sugar mills are in a hurry to dispose off the June quota. The lack of demand coupled with the selling pressure is resulting in a bearish undertone in the counter. The latest sowing progress of sugarcane this season is in about 44.15 lakh hectare as on June 12, as against 41.26 lakh hectare in the same period last year. The normal area under sugarcane cultivation is 43 lakh hectare. The increase in the acreage under cane in percentage terms over last year in states like Tamil Nadu is about 49.4%, Punjab 30.2%, AP 19.1%, Karnataka 10.5%, Bihar 8.7% and Maharashtra 4.0%, which is adding to the weakness in the counter. Expect range-bound movement with a negative bias.

Wheat: Range-bound

The market remained range-bound in wheat, as the demand-supply scenario remained steady. The weakness in the monsoon has restricted the downside to some extent. The demand from the south is also supporting the prices. Stockists have not been very active in the markets lately. The prices are likely to be range-bound with a negative bias.

Soybean: Revival in monsoon to put pressure

The expectation of the revival of rains could put some pressure on the prices in the coming days. As the bean prices have been dependent on the soy oil prices, the weakness in soy oil extended to the beans. The weakness on the CBOT also had some impact on the local markets on Saturday. Due to lack of any major news, the prices are expected to gradually decline over the medium term.

The Snapshot							
Commodity	Month	Closing price	%Cng	OI(000)	% Cng	View	Remarks
Gold	August	8728	0.01	5736	-0.57	Range-bound	US data, selling pressure
Crude oil	July	3215	-0.09	220.10	-0.63	Range-bound	Good demand
Copper	June	332.80	0.00	3949	2.04	Weak	Growth in demand clouded, reserve ratio increased by China
Sugar	June	1914	-0.36	11310	-17.14	Weak	Selling pressure, prospects of good crops
Wheat	June	846.20	-0.42	42550	-15.19	Range-bound	Monsoon, good demand from the south

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