commodities buzz

Visit us at www.sharekhan.com September 08, 2006

Time to be cautious in metals

Bullions: Be cautious

In line with our expectations bullions staged a sharp reversal yesterday following concerns about the tightening of interest rates. The initial US jobless claims data failed to support the counter and triggered follow-through selling aided by a strong greenback and falling oil prices.

The Bank of England (BOE) and the Bank of Japan (BOJ) have left their interest rates unchanged at 4.75% and 0.25% respectively. BOE is keeping an eye on the impact of the US slowdown before further action, while BOJ is of the view that the economy is not expanding fast enough and called for a pause in the increase in the interest rates. Though this news could arrest the fall in the metals, the sentiment is largely negative.

European Union central banks have sold 340 tonne of gold this year under CBGA. However the sale of the remaining 160 tonne on or before September 26, 2006 looks highly unlikely. Nevertheless, the gold market participants are unlikely to build large position before then. Expect further weakness in the metals and it is time to be cautious.

Crude oil: Time to book profit

Crude oil slipped below $67 per barrel yesterday as expected and touched a low of $66.80. The oil inventory numbers failed to support the counter as gasoline inventories doubled to touch 206.8 million barrels. Crude oil stocks, despite registering a decline on week-on-week basis, are still 11.44% above the 5-year seasonal average and distillates are more than 10% above the 5-year average. The refinery utilisation rate has increased by 0.6% to 93.6%.

We foresee $65-66 as a support zone for crude oil. Firstly, EU will meet Iran officials today for further negotiations and secondly, the OPEC is more likely leave its output unchanged. These should keep the prices of oil above $65 for some time to come. It is time to book some profit.

Soybean: Range-bound

The spot and futures markets were steady yesterday on the news that the duty on palm oil will be back at 100% from November 1, 2006. The strength in soy oil provided some support to soybean. The mild bounce on the CBOT also helped the prices to remain steady. The upmove is expected to be small as the global inventory levels are good. The production estimates are very good and the USDA is expected to revise its estimates further from the last month's estimates.

Soy oil: Little upside

The soy oil prices bounced back a little on the news of a duty hike to 100% in palm oil from November 1, 2006. The demand is expected to increase for palm oil, as the market participants would like to stock as much as possible before the hike. On the CBOT, the soy oil prices closed in the red. The large stockpiles and good weather are weighing on the markets.

Wheat: 0% duty till December

The 0% duty structure would be valid till the end of this calendar year for the private players. However, this move by the government has upset the farmer's lobby. The underlying fundamentals would restrict any sharp downfall. The wheat prices on the CBOT have also been moving up on concerns of lower world production.