commodities buzz

Visit us at www.sharekhan.com February 28, 2007

Scary day for financial markets

Copper: Down on China jitters

Yesterday turned out to be one of the scariest days for most of the financial markets as China's stocks fell by over 9% (the first time in almost ten years) on concern that a government crackdown on investments will slow down the investment growth. Interestingly the severe reaction was in response to the decision of China's highest ruling body, the State Council, to approve a special task force to clamp down on illegal activities in the market. As such the market remained virtually unfazed on Monday when the nation's central bank ordered the lenders to set aside 10% of their deposits from February 25, up from 9.5% earlier.

The shivers in the Chinese stock market spilled over to the commodities markets as the nation is the leading global consumer for many of the commodities. LME warehouses showed a net outflow of 2,400 tonne with Rotterdam recording a huge outflow of 2,075 tonne. The cancellation rate accelerated again on 4,450 tonne of fresh cancellations (around 60% of it at Rotterdam and the rest at US warehouses). The US durable goods order data (January) threw a downside surprise as it showed a decrease of 7.8% against the forecast of 3.2% while even the orders for non-defence capital goods fell by 6%. The demand for primary metals fell by 1.5% and that for machineries fell by 9.3%. On the positive side, the housing data was better than expected as home resales rose to a 6.46 million annual rate from December's 6.27 million annual pace. However, the median home price fell 3% year on year in January while the inventories of unsold homes rose 2.9% at the end of January. Moreover as the weather factor doesn't affect the existing home sales as such, the overall housing picture doesn't appear to be quite rosy.

The red metal was pressurised when crude oil dipped below $60.50 on the China factor. However the metal staged some recovery as crude oil topped $62 with traders' focus turning back to US crude stocks and production snags. It was observed that the fall in base metals was not as sharp as in bullion as the funds are long mainly in bullion. A five-and-a-half year US consumer confidence was ineffectual in bailing out the dollar. The dollar tumbled against both the euro and the yen but the fall against the yen was very severe. The dollar lost almost 500 pips from its high two days back to the low registered yesterday while the dollar/yen dipped below 118.00. The situation was aggravated as the carry trades unwound, benefiting the yen. The impact on the carry trade could seriously affect the hugely leveraged positions of the global funds which in turn could lead to a sharp correction in the financial markets. This is putting base metals under risk (though less than the share markets). However, if the Chinese market recovers and the dollar/yen appreciates to a comfortable level, the red metal could advance. Stocks, spreads and fundamentals are constructive.

Other base metals: Tracking copper

Aluminium: The metal closed slightly lower along with copper. The cash-to-three- month spread has come down by $4 to $39. The headline figure of the stocks showed a massive jump yesterday on the fresh warranting of 14,975 tonne yesterday. Support is coming from the options play as the $3,000 call option is being eyed. Good support at $2,800.

Zinc: The metal recovered from the low of $3,485 along with copper. Backwardation has shrunk by $3 and stands at $2 now but forwards show easing spreads. The metal is likely to follow copper and needs to take out the $3,700 resistance to further its upward march.

Nickel: The metal made yet another life-time high yesterday as the global stocks remained pretty low and cancelled tonnage stood over 40%. The cash-to-three-month spread has tightened by $25 to $3,400 which could see some fresh warranting activities. If the sentiments turn negative for the complex, it may show correction to $40,000-$40,100. The next psychological resistance lies at $42,000.

Sharekhan Commodities Pvt. Ltd.
A-206, Phoenix House, 2nd Floor, Senapati Bapat Marg, Lower Parel, Mumbai - 400013, India.

Precious metals: Uncertain day ahead

Gold prices in New York fell by as much as 4% after the US stock markets fell like ninepins. In sympathy, gold April futures fell $20.90--about 3%--to $666.30 an ounce at one time in electronic trading on the Comex division of the New York Mercantile Exchange. In the spot market the price touched as low as $659.30, almost $30 down compared to the previous price of $660.

The metal fell $2.60, or 0.4%, to $687.20 in floor trading that ended at 1:30pm. The metal closed at a nine-month high yesterday. The US equities tumbled the most since September 2002, in the aftermath of the largest drop in a decade in Chinese equities. Simultaneously the sentiment was weak in most emerging markets.

In India on MCX, the effect was subdued since the shocks began coming after the trading was closed. Gold April fluctuated between Rs9,865 and Rs9,685 before closing at Rs9,807. Silver March swung between Rs21,135 and Rs20,621 before closing at Rs20,946.

The crash of the stock markets is likely to cast some more shadow on the metal markets today. Though gold and silver have nothing to do with the stocks, investors at large are likely to stay away from the markets.

Gold April is likely to find resistances at Rs9,869 and Rs9,905 while supports may come in at Rs9,721 and Rs9,649. Silver March contract, which enters its tender/delivery period tomorrow, is likely to witness highs of Rs21,084 and Rs21,111 while the supports may come in at Rs20,802 and Rs20,701.

Soy bean: Some correction expected

Spot and futures were down due to weakness in product prices amid stable supplies. On the National Commodity and Derivatives Exchange, April soy bean contract was at Rs1,475.05 per 100kg, down Rs8.55 from the previous close. In the spot markets, around 75,000 bags (1bag = 90kg) of soy bean arrived in Madhya Pradesh. The crop was selling in the mandis (markets) at Rs1,375-1,410 per 100kg and the plant delivery rates were Rs1,450-1,475 per 100kg. In Maharashtra, 55,000 bags of soy bean arrived in the mandis and in Rajasthan 10,000 bags arrived.

Soy oil: Weak international cues

Soy oil futures were down due to weakness in Malaysian crude palm oil markets. Some profit booking ahead of the Union Budget because of fears of reduction in customs duties on edible oils also kept sentiment down in soy oil. On the Bursa Malaysia Derivatives, the benchmark May crude palm oil futures closed at 1,951 ringgits per tonne (Rs24,583), down 24 ringgits. In the spot markets, refined soy oil sold at Rs425 per 10kg (inclusive of value added tax), up Re1 from the previous close.

Chana: Some demand before Holi

All chana contracts on National Commodity and Derivatives Exchange ended down over 1% as traders booked profits after recent gains. Reports that state-run agencies may import 200,000 tonne pulses have also dampened sentiment. About 15-20 trucks (one truck = 9 tone) arrived in the Delhi market. Prices could edge up in Madhya Pradesh as new crop arrivals dwindle ahead of Holi, the Hindu festival of colours, which falls on March 4.

Pepper: Choppy trade

Spot prices of both garbled and ungarbled grades ended flat due to weak demand. Futures prices were choppy. April contract on National Commodity and Derivatives Exchange moved between Rs12,565 and Rs12,810 per 100kg before settling around Rs12,732.