Copper rallies on strike threats

Copper: Rallies on strike threats, stocks and stability in the financial markets

Copper extended its Wednesday's rally as the stable global financial markets put the immediate supply concerns on the top priority of the traders. Looming strike threats at various companies in South America amid continuously falling LME stockpiles dominated the theme of the trading yesterday. LME stock data was supportive as the net outflow was 800 tonne while the fresh registration was 300 tonne at Busan, Korea. Outflows were concentrated in the European and the US warehouses, and New Orleans led the tally with a figure of 1,775 tonne.

Cancellations accelerated once again as 3,600 tonne got cancelled which improved the cancelled ratio to 8.94% from 6.80%. The LME cash-to-3 month spread remained unchanged at $84(b). COMEX stocks continued the downtrend as the headline figure sunk by another 673 short tonne. The metal got a good support from the news that China's industrial production (May) growth clocked 18.1% yoy as against the forecast of 17%. The April reading stood at 17.40%. However this kind of exploding growth is likely to lead to monetary tightening, given the fact that the nation's inflation accelerated in May to 3.4%, the highest in more than two years. US data released yesterday turned out to be favourable as core PPI (mom) was in line with the expectations though the y-o-y reading was on the higher side. US treasury notes didn't show any negative reaction to the data which helped the US stocks also. So the factors were in line for a rally and the red metal rallied all the way to $7,525 form its day's low of $7,250. The metal closed with a gain of $161 at $7,456 on the LME while the COMEX copper closed with a gain of more than 5 cents a pound at $3.3665. Firm nickel complex added to the bullish sentiments. Rallying crude oil on falling US refinery utilisation in the peak gasoline demand season, Iran's nuclear stand and OPEC ruling out boosting the supplies also lent a good support to the metals yesterday.

This morning it has been reported that China's factory and property investment surged in May which further supports the case of inevitable hikes in interest case. On the strike front it has been reported that the planned (scheduled for Friday) strike at Grupo Mexico's nine mining sites including Cananea, Mexico's largest copper mine, has been called off for the time being after it was declared illegal by authorities. The representatives are seeking lawyers' opinions regarding the legality of the strike. However strike threats still pose a supply concern as the contract workers at the five divisions of Codelco have decided to go on strike on Wednesday. Strike threat looms in Peru also where the first shift of unionised workers at Southern Copper Corp.'s Ilo smelter and refinery in Peru unanimously voted in favour of strike action yesterday in line with the workers at Cuajone and Toquepala mines. Kishore Kumar, chief executive of India's leading copper producer Sterlite Industries, said that the nation might become a net importer of copper in the next three to four years because of rising demand and slow production growth. He added that at present we have a surplus of 0.5 million tonne for exports but the situation is likely to change in the coming few years as demand is rising, as supplies are not keeping pace with it.

Today's Shanghai weekly stock report would be crucial for the direction in the short term. Traders expect a build-up of 7,000-9,000 tonne today which is likely to put a downward pressure on the prices. Trading is likely to be volatile and choppy today and it won't be easy for the bulls to take out $7,500 level today. Support is expected at $7,350/$7,200 while resistance would come at $7,500.

Aluminium and zinc are expected to follow the red metal. The light metal did pretty well yesterday as it took out the $2,730 resistance to hit the day's high at $2,754 on surging copper. However it closed off the high at $2,730. The resistance would be expected again at $2,730/$2,760 while the support should come at $2,700. Zinc is pressurized by the continuous fresh registrations at Dubai warehouse. It received 3,575 tonne yesterday which marked the third straight day of inventory gain. The rising stockpiles and decelerating cancellations are affecting the cancelled ratio, which has come down to 9.29% from over 12% reported in the first week of June. The metal is likely to face resistance around $3,720 while support could be expected at $3,600.

Nickel: Technical buying boosts the metal

The metal rallied yesterday on technical buying from $40,000 level and hit the day's high at $42,375 before it closed with a gain of $1,995 at $41,800. The metal was set for a rebound yesterday once the target of $39,000 level has been achieved and funds' longs have been liquidated. LME stockpiles gained 78 tonne, however cancellations were also up as 186 tonne moved to the cancelled category. The cancellations took the cancellation higher to 5.13% from 4.05%, which however is still low. The LME cash-to-3 month spread tightened by $70 to $720(b). If copper holds and the financial markets continue to be stable, the metal can regain the level of $43,000. However LME stocks would be closely monitored by the traders. Support expected at $40,000. CVRD said that its Goro nickel mine on the French Pacific island of New Caledonia would start production in 2009, later than expected as the company will have a slow ramp-up process in order to minimize the risks.

Gold: Still weak

As has been repeatedly talked by Commodities Buzz, gold is moving listlessly this week. So far it has spent all the four days within the $645-55 band and it would not be surprising, it ends the week today within the same groove. Yesterday was another such day; gold fell down during the London trading hours, to as low as $645.50 but then rose smartly in New York trading, as the US Dollar showed signs of weakness. The weakness appeared in the wake of the PPI numbers. The prices paid to US producers rose more than forecast in May, reflecting a fourth consecutive jump in fuel costs that might foreshadow a broader pickup in inflation. The 0.9% increase followed a 0.7% rise in April, the Labor Department said yesterday in Washington.

A separate Labor Department report showed the number of Americans filing claims for unemployment benefits held at 311,000 for a second week, signaling a buoyant labor market. The four-week average, a less volatile measure, rose to 311,250.

Gold prices also derived support from strong commodity prices. Copper rose to a one-week high in New York on concern that supplies will be disrupted as metal workers threaten strikes in Chile, Peru and Mexico. Contract workers at Chile's state-owned Codelco, the world's largest producer, plan to strike June 20, and employees at the Collahuasi mine threatened to walk off during wage talks. The metal also derived strength on signs of economic growth in China, the world's largest copper consumer. China's government reported industrial production unexpectedly accelerated in May. Output rose 18% from a year earlier after gaining 17% in April. Simultaneously, copper futures for September delivery climbed 7.25 cents, or 2.2%, to $3.3885 a pound on the Comex division of the New York Mercantile Exchange. The price earlier reached $3.422, the highest since June 6.

Yet another commodity in strong gear was crude. Oil traded near a nine-month high in New York as a drop in US refinery processing raised concern that gasoline supplies may be inadequate and after Iran said it wasn't willing to suspend its nuclear programme. Iran, the second-largest oil producer in the Organization of Petroleum Exporting Countries, said suspending its atomic research isn't justified. The USA alleges Iran is developing nuclear weapons. Consequently, the contract rose $1.39, or 2.1%, yesterday to its highest close since September 5.

The forecast continues to be mixed. On one side, though crude oil continues to be strong, on the other, we have the risk of something going wrong with the economic indicators that are about to pour in during the day. If they bolster the greenback aggressively, gold may tank. Being Friday, the day may throw ugly surprises as well. If that happens, a plunge to $645 is not ruled out.

Guar seed: Weakness due to monsoon progress

News of some shortfall in monsoon during the June1-13 period helped guar prices to recover a bit. However, demand remains very low at the moment. With rains expected to hit Rajasthan, prices are expected to fall some more. This is due to the fact that with first showers farmers immediately begin the sowing process, increasing the chances of earlier arrivals. The counter is expected to remain weak for near term.

Soy oil: Sentiments weak

Subdued demand and weakness in overseas markets pushed refined soy oil prices down in domestic markets. The government has postponed the plan to revise duty on imported edible oil. This created some upward movement yesterday. CPO futures remained dull on second consecutive day amidst expectation of a sharp fall in palm oil export figures for June 1-15 coupled with follow-though selling pressure. The crude soy oil CIF prices of July shipment declined on the third consecutive day at $815 per tonne as compared to $822 per tonne.

Chana: Demand very poor

The arrivals in Delhi and Bikaner were steady at 40-50 motors and 1,000 bags respectively against the previous day's arrivals. Prices were higher in Delhi and Indore by Rs5-10, whereas it eased by Rs5-10 in Bikaner, Kanpur and Akola, while the market was closed in Latur due to Amabassya. Monsoon has progressed now in some parts of south Konkan and Maharashtra. Higher prices have attracted strong selling. One of the most important reasons for the selling is rising warehouse stocks. This has been exerting some psychological pressure on the market participants. Import plans by NAFED of about 35-40,000 tonne have also impacted the market.

Pepper: Long liquidation

Some recovery was witnessed yesterday at lower levels after two days of sharp fall in pepper prices. However, the prices remained very volatile throughout the day. The fall in Indian pepper prices have made the crop very competitive in the international markets. A major part of the fall was due to FMC's decision to retain the position limits at the lower levels. The recovery is by no means an indication of a major upswing. Demand situation remains subdued. Major buyers like USA and EU are having a wait-and-watch stance.

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