Copper and zinc battered on fund selling

Copper: Falls on speculative selling

Copper started the day on a bearish note as the pressure from the previous day's huge rise in the LME stocks and less than 50 US ISM manufacturing index continued the next day. It was widely expected that the metal would retest the psychological support at $5,500 per tonne, the breaching of which would take the red metal lower to re-examine the $5,430 technical support. There was a short spike on the 850 tonne fall in the LME stocks. However, the news of the Red Kite management (a respected London based $1 billion metals trading firm that called copper a good buy in January) losing over 20% of its capital in the first three weeks of January and Cerro Colorado workers expecting a new offer from the company gave the bears and the momentum players an upper hand to sell aggressively. The red metal hit a 10-month low of $5,250 though it clawed its way up (probably on some profit booking by the shorts at the important support level and the encouraging factory orders and jobs report) despite the surging US Dollar to end at $5,340. The latest Comex CFTC report shows that the non-commercial sellers added (looking for the $5,000 level) 611 shorts and the non-commercial buyers added 400 longs to their exposures while the open interest showed an increase of 653 contracts. The latest from Cerro is that the workers have accepted the sweetened offer of the company and the proposed strike has been called off. The fact that copper is moving dangerously close to the figure of $5,000 and the Chinese lunar year holiday begins on February 17 could possibly see the restocking begin in a big way only in the next month. This could make copper very vulnerable to further selling. Moreover, the support from Asia is likely to be weaker as most of the buyers could defer buying amid the possibility of the metal falling further to pick it at a cheaper price. The next significant technical support on the MCX lies around Rs230.

Soybean: Gradual improvement

The prices of soybeans have been range-bound for a long time now. The prices should improve gradually as the mustard crop begins to arrive in the market from February onwards. The millers and extractors have been purchasing in the spot market. The sentiments on the CBOT too have been turning positive. The planted area of soybeans is likely to fall sharply this year in the USA, given the price relationship with corn. This has provided support to the soybean market.

Soy oil: International cues positive

The domestic soy oil prices are expected to gain, as the prices of the CBOT soy oil and the BMD palm oil have turned positive. The American soy export data has given support to the CBOT soy oil prices. Domestically too the millers and extractors have started buying in the spot markets. However, the momentum is still not very positive.

Pepper: Sell overdone

The selling on Thursday was an overreaction as exporters have signed deals with the overseas buyers for shipments in February and beyond without taking the subsidy into consideration. However, the prices of pepper are expected to remain choppy, as traders would like to book profits at higher levels and buy on dips.

Wheat: Government to sell in open market

The government has announced that it would release 400,000 tonne of wheat under the open market sale scheme in February and March to cool the prices. The announcement has turned the market sentiment weak and the market is likely to remain soft. Farmers have sown wheat over a record 28.2 million hectares so far in the current *rabi* season that commenced October 1, up from 26.4 million hectares in the year ago period. The area under wheat cultivation this year has exceeded the normal sown area by over 2 million hectares. The sowing is almost over in the country and the farmers in Gujarat have even started harvesting the crop.

Chana: Sell on rise

The pullback in the prices of chana has been primarily due to short covering. However, the overall sentiment in the spot markets is weak as the arrivals are likely to begin soon. The acreage under cultivation for pulses has increased to 13.8 million hectares from 13.3 million hectares in the year ago period. The sown area of chana as of February 1, 2007 stood at 8.32 million hectares as against 7.6 million last year. This is an increase of about 8%.

Nickel and zinc: Zinc battered on technical selling

Zinc was the worst performer of the day and lost over 9% by the time the session ended. The metal was subjected to massive technical selling triggered by the sharp losses in copper amid reports of the improving supply-demand equation, as Zinc is likely to be surplus this year. Though the metal appears to be oversold and has got a support at $3,000, the support could be breached as the metal had a momentary dip to $2,990 and bearish copper only adds to the downside pressure.

Nickel was the most impressive metal in the complex and the only metal to end with gains. The metal is well supported by the extremely low global stocks despite Xtsrata's deal with the union. If the weakness in copper and zinc becomes more pronounced and the LME stocks improve, it could drift lower to test the $35,000 support. However, instead of selling, it is advisable to pick longs at suitable levels in case of dips till the downside trend becomes evident.

Bullion: Likely to resume upward movement

Sometimes the markets behave in an irrelevant manner and that's what seems to have happened during the past week. Gold took a beating even as the US January non-farm payrolls fell far short of the expected number. The same was the case with University of Michigan consumer confidence, which was remarkably lower than what was being guessed by the pundits. While Gold in the spot quoted at $646.45 an ounce in the New York market, silver figured at $13.34 dollars an ounce.

Gold closed almost at the lowest level of the day while silver lost over 35 cents per ounce.

The prognosis is good; the precious metals may resume their bullish advance, at least during the earlier part of the week. With the crude oil price continuing to show great bullishness, gold still seems to be a good buy. Friday's scale down must be seen as an opportunity to buy rather than a reason to sell.

Gold is likely to encounter resistances at Rs9,439 and Rs9,498 while it may find stable supports at Rs9,318 and Rs9,250. Silver, the sister metal, may feel the resistances at Rs19,790 and Rs19,844 while the supports may come in at Rs19,601 and Rs19,540.