commodities buzz

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Base metals recover

Copper: Trichet and crude oil save the day for copper

Copper started the day on a soft note with Wednesday's selling pressure spilling over to yesterday's trading. The falling euro and weak crude oil prices on Wednesday's crude inventory emboldened the funds to sell the red metal aggressively and copper slipped to its key support point. The euro slipped lower on the ECB's decision (though widely anticipated) to hold its benchmark rate steady at 3.5%. However the hawkish comments of ECB President Jean-Claude Trichet (that the inflation rates are likely to increase later this year making it very likely that the ECB will raise rates in March and could go for one more hike after March) helped the euro to surge past $1.3000. Almost at the same time the prices of crude oil that were drifting lower rose above $58 per barrel on the cold weather story coming into focus again and the OPEC cut impacts (as seen from the data from tanker tracker Lloyds MIU). The US wholesalers' inventories decreased by 0.5% (as against a forecast of 0.5% gains) while the wholesale sales surged by 1.8% in December. The wholesalers' stocks of durable goods--meant to last three or more years--decreased 0.4% in December and the durable goods sales rose 1.1%. The auto inventories dropped 2.8% in December; while sales in this sector rose 2.9%. The data was suppportive for copper. The factors were just right for copper to rally off the lows making a sort of double bottom around the $5,250 region. Still there is a risk of reading too much in the double-bottom recovery as the same trend was seen last month but later the red metal succumbed to CTAs selling. Another round of a sell-off could always come if the rise in the stocks of the European and US warehouses eclipses the drawdown in Asia. With firm crude oil prices and the strengthening euro, if copper sustains above $5,430 it could move up towards $5,500 and beyond. A move above $5,600 would definitely make the scenario more interesting.

Xstrata Plc said the production of copper cathodes at the refinery has been hurt by a cyclone and the production for the month would be down slightly as the tropical Cyclone Nelson has caused delays to its rail operations.

Other base metals: Bouncing off the lows

Aluminium slipped lower to a fresh low of $2,614. However the metal staged a splendid rally giving the best performance in the complex to end with gains. If it sustains above $2,700, it could move higher.

Zinc like copper made a double bottom by recovering from a low of $3,000 to close at $3,130. Boliden AB said a shortfall of zinc would continue this year as steel producers have increased purchases after running down inventories in 2006. The metal is likely to track copper during the day.

Nickel was once again the target of speculative selling by the funds on a huge build-up and dropped to its support at $34,500 before it recovering along with the other metals. The cash to the 3-month backwardation, though still tight, has reduced drastically from $3,600 to $2,600, thus increasing the chances of further selling if the complex turns soft. The cancelled tonnage has also come down (likely to favour the sellers) to 17.24%, which is substantially lower from 45% seen in the last week of January.

Bullion: Appears bullish

Iran's comments that if the USA were to attack Iran, the country would respond by striking US interests all over the world, gave a good fillip to the gold market during the New York session. The yellow metal went up from $648 per ounce to $660 and at one point hit a high of $662.4. The white metal moved in tandem with gold and went up from $13.60 per ounce to $13.80.

Rising from the low of Rs9,355 gold rose to Rs9,504 in the domestic market before closing at Rs9,482. Silver followed suit and scaled a high of Rs20,220, thus breaking above both the resistances forecasted yesterday (Rs20,101 and Rs20,194). Predictions don't come that better that often.

Since tensions over Iran's nuclear programme have traditionally provided good support to gold, the market on Friday should stay bullish. With the crude prices hovering above the crucial $60 per barrel mark there are fewer worries

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for the precious metals investors today. It is a day to create longs. Caution is warranted only during the New York session, which is notorious for turning turtle, especially on Fridays.

The forecast for the day indicates that gold for April delivery is likely to hover around the resistances at Rs9,533 and Rs9,589 and there are supports at Rs9,426 and Rs9,379. Silver for March delivery should face resistances at Rs20,212 and Rs20,301 while the supports should come in at Rs20,004 and Rs19,909.

Soybean: Sentiments subdued

The spot and futures prices of soybeans were down on the weakness in the product prices amid stable supplies. Around 75,000 bags (1bag=90kg) of soybeans arrived in the wholesale markets of Madhya Pradesh, down 5,000 bags from Wednesday. In Maharashtra, around 50,000 bags of soybeans arrived while in Rajasthan the arrivals were around 15,000 bags.

Soy oil: Weak spot market

Soy oil was weak throughout the day, as crude palm oil futures on the Bursa Malaysia Derivatives and edible oil prices in the other markets were down due to a fall in the crude oil rates. The slack demand for edible oils in the spot market and weak soybean prices also kept the sentiment negative for soy oil. In the spot market, refined soy oil was traded at Rs436 per 10 kg (inclusive of value-added tax), down Rs5 from Wednesday.

Pepper: Range-bound

Exporters are adopting a wait-and-watch stance before any big commitments. This is expected to keep the prices of pepper in a range for some more time. The demand from overseas buyers has slowed due to Vietnam offering pepper at $2,600 (Rs114,671) per tonne compared with the Indian price of $3,100 (Rs136,723) per tonne. Exporters and domestic buyers are waiting for fresh supplies from Vietnam to gather momentum from early March.

Wheat: Arrivals to gather momentum

On Friday the government announced that it would release 400,000 tonne of wheat under the open market sale scheme in February and March to cool off the prices. According to the second estimates released by the agriculture ministry earlier this week, India is likely to produce 72.5 million tonne of wheat this year compared with 69.4 million tonne in 2006. The stockists have been liquidating old wheat stocks before the new arrivals begin, anticipating a fall in the prices.

Chana: Sell on rise

The demand for chana has been very sluggish. Most of the dal mills have already made their purchases and are hence sitting on the sidelines. In Indore, the prices of chana closed Rs15 softer at Rs2,270 per 100 kg. Most of the bulk buyers and stockists are waiting for the new crop to arrive.