commodities buzz

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Guar seed trading sideways

Guar seed: Trading sideways

Guar seed and guar gum spot prices are seen moving sideways in the week ahead. Higher prices are expected to see some profit booking and buying is expected at lower levels. Optimistic monsoon forecast should exert some pressure at higher levels too. However, most traders are expecting monsoon this year to be on the same line as last year's. Both gum and seed should be range-bound.

Soy bean: Late recovery

Soy bean futures finished mixed with the front-month contract closing almost 2% lower ahead of the expiry on Friday. The May soy bean futures ended higher, gaining strength from firm soy oil futures. The India Meteorological Department's weather forecast that predicted normal south-west monsoon this year gave rise to negative sentiment. Arrivals were steady at 30,000-35,000 bags (1 bag = 90kg) in Madhya Pradesh. Spot soy bean prices in most wholesale markets of Madhya Pradesh, the main centre, were steady at Rs1,540-1,555 per 100kg.

Soy oil: Palm oil pulls soy oil

Refined soy oil futures rose yesterday, tracking a spike in Malaysian crude palm oil futures. Malaysian crude palm oil futures rose sharply today after falling for two consecutive sessions on expectations of a rise in demand and talk of strong export data. The benchmark July contract closed at 2,231 ringgits a tonne, up 71 ringgits over the previous close. In the spot market of Indore, soy oil prices were quoted at Rs460-466 per 10kg, up Rs3-4.

Mustard: Soy gives boost

Strong soy oil and palm oil were instrumental in pushing mustard prices too. Arrivals in Rajasthan were low at 190,000-230,000 bags (1 bag = 100kg) compared with 240,000-280,000 bags in the previous day. Lower arrivals in the spot market boosted the prices too. Spot mustard prices in Rajasthan were at Rs2,015-2,025 per 100kg, up Rs35.

Copper: Ends lower on China's interest rate hike scare

Yesterday was quite volatile for the financial markets across the globe as the phenomenal gross domestic product (GDP) growth of China led to concerns that the nation would increase the interest rate, thereby tightening the monetary policy further. The market feared yet another meltdown like the "Yen carry trade episode" witnessed this year. The scare sent the Chinese share market down by over 7% which triggered panic and speculative selling in the metals complex and copper fell below $7,800 from the day's high of $8035 within no time. Thus spectacular growth of China which otherwise would be considered positive turned out to be the very reason behind the huge slide yesterday. However the same data rescued the metal, and a bout of bargain hunting and positive LME stock data (a net outflow of 1,500 tonne) helped the metal recover. The leading indicator data came in line with the expectation but jobless claims were on the higher side. Copper fell once again after the data and this time it slid all the way to $7,721 on LME and $3.5255 a pound on the COMEX. The market was choppy around $3.54. However bargain hunting lifted the metal off its low and it closed at $7,825 on LME ($3.5950 on COMEX) and remained well above the pivotal $3.55 on COMEX despite Philadelphia Fed Survey data coming lower than expected.

Lack of clarity in the matter of the Grasberg dispute is adding to the choppiness in the base metals complex. Today the talks between the management and the workers' representatives would be concluded. It has been reported that mining operations are back to normal as about 3,000 Papuan staff have returned to work, while the company has called in other workers to replace about 2,000 Papuan employees still striking. If that is the case, the resolving of the ongoing stand-off shouldn't impact the prices much. This morning Asian stocks have recovered from yesterday's sell-off as the losses are now being considered to be overdone though China could hike its interest rates in the next two to three days. China's copper production in March has been reported lower than in February which should support the metal. The tremendous support that the metal is getting at the lower levels (around $7,800) should continue though the upside could be capped at $8,100 till some fresh data or news enthuses the funds though the metal is widely expected to visit last year's highs. The whole base metals complex is hinging a lot on copper and strength in this counter would largely determine the direction of the other metals.

Gold: Evenly balanced

As predicted yesterday, volatility marked the day. The precious metals markets went in a tizzy, right in the morning--something unusual--and the prices fluctuated wildly. Though for a post mortem, the prices don't show great fluctuation, owing to the fact that the band was narrow enough at $680.20-689.70, but within this band the prices created as much havoc as they could.

The prices began falling right during the Hong Kong market session, after the news of faster than expected growth in China in the first quarter triggered worries among traders that the government will have to take measures to slow down its economy, reducing demand for metals. Spot gold price dropped more than $5 an ounce to close at their lowest level in a week, as the Beijing's National Bureau of Statistics reported that China's gross domestic product grew 11.1% in the first three months of the year, quickening from a 10.4% pace of growth in the final quarter of 2006.

The news, which should have been actually read as very positive, was treated as negative on renewed concerns that rapid growth may lead to higher interest rates.

As can be understood, this is complete misreading of the affairs. A strongly growing economy needs more base metals, and even if the government was to reduce the money supply by increasing the rates by 27 basis points, it looks too farfetched to visualise how drastically this will lower the demand for copper and other base metals.

In fact, the real reason for the fall was that the rise in the gold markets and other financial markets had become unsustainable and every asset class was looking for a correction. After all, during last thirty days gold had added more than $30 to itself, and that was a great cause for worry. Not surprising, the agitated traders were looking for a lead, and when that materialsed, gold also took beating.

Owe it to this factor that today the markets are looking normal; the Asian stocks are on a better keel, the Dow Jones is steady and Nikkei placid like a large lake.

The forecast remains difficult. On one side, we have crude which has lost further ground and on the other, we have the US Dollar that is treading the pits. There is a strong case for dollar revival, for the authorities that manage the dollar are not used to sitting back and relaxing while their currency is being taken to gallows. They are bound to react; the question is when will they. Will their be a pro-dollar statement/news/economic indicator today, or will it come along during the next week?

At this hour the best policy is to wait and watch and see how the markets unfold. The picture may become clearer by the time London market comes alive.