



## Market sells copper at "exaggerated prices"

### Copper: Market sells at "exaggerated prices"

Despite putting up a good show in Asian trading hours, copper didn't find the same support from the buyers in LME and COMEX sessions. During Asian hours the metal had touched \$7,900. However, a build-up of 300 tonne in LME warehouses amid no fresh cancellations slowed down the advance of the metal, prompting the traders to sell and book profits as they considered the prices to be somewhat exaggerated. The metal lost \$227 in the day from its high of \$7,927 to close with a small gain of \$25 at \$7,730 on LME and \$3.5420 on COMEX.

LME warehouse at St Louis was the only warehouse to receive the metal and it recorded an inflow of 1,600 tonne. Outflows were observed in all the three active continents. The cancelled ratio slipped lower to 7.43% from 8.19% earlier and this could limit the outflow in the coming days. The LME cash-to-three-month spread tightened by \$16.50 to \$64.50(b), reflecting the supply tightness in the near term. US data was somewhat mixed for the metal as retail sales came higher than forecast but the empire state manufacturing was lower than expected.

It has been reported that China's Q12007 is expected to show a growth of 10.4% in the report to be released by China's statistics bureau on April 19. This would be the fifth straight quarter when the economy grew by more than 10%. The news is positive for the base metals. CRU International said that the demand for refined copper in China may rise by 10% this year, faster than in 2006, as the nation expands its electricity generation capacity. It has added that it doesn't rule out the possibility of copper rising above \$8,800 in a few months. Sumitomo Electric Industries said that the demand from manufacturers and investors may drive a 14% rise in copper prices in the second half of the year, and the metal may average \$7,000 a tonne or \$3.18 a pound, in the six months ended December 31 (so far average cash price this year has been \$6,163 a tonne on the LME this year). On the Grasberg front, it has been reported that Freeport's executives would meet the workers' group for talks today ahead of the protest rally tomorrow to demand higher wages. Supply concerns at Grasberg are keeping the prices supported as the situation over there is considered to be sticky. Xstrata

has reported that two delayed shipments of copper concentrate in Argentina were being transported to port on trucks after floods damaged a rail line. The quantity of the delayed metal is supposed to be small, hence the news shouldn't affect the prices much. Yesterday the market was rife with the stories of China's smelters buying the metal on behalf of SRB and SRB's audit fuelled the speculation that it could start restocking in August. However nothing was confirmed and the metal took a hit later.

Overall the metal has got good fundamentals and it is poised to take out the \$8,000 resistance but in the mean time, it is possible that we can see some correction to \$7,500. Today's US data of housing starts, CPI and industrial production would be closely watched by the traders.

### Aluminium: Range-bound

The metal traded in a narrow band of \$34 to close \$8 lower at \$2,822. Alcoa reported that part of a Tennessee smelter may be shut for several months after lightning hit an electricity substation serving the factory. However the news was ignored as the red metal failed to boost the complex. LME warehouses showed an outgo of 950 tonne while the cancelled ratio remained low hovering over 2%. The cash-to-three-month spread eased further by \$3 to \$34.25(c). The light metal would depend a lot on copper and if the latter is firm, it could rise again to test \$2,900 resistance.

### Gold: May touch \$700

Spot gold saw a high of \$696.10 and a low of \$684.60 during the past 24 hours. In India the prices on the MCX were somewhat subdued owing to the rise in the rupee, yet gold futures for June delivery swung between Rs9,596 and Rs9,507 before closing at Rs9,560, thus losing Rs11 over the previous close. Silver May contract saw a high of Rs20,004 and a low of Rs19,612 before closing at Rs19,828, again losing slightly more than Rs100 over the previous close.

Doubtlessly the most important factor for the current rise is the weakness in the US Dollar; the weakness is even more pronounced since it happens to be almost across the board. Every single basis point off the USD index brings more investors to gold markets. Every single basis point added to the euro against the greenback also lures gold bulls.

For Private Circulation only

Sharekhan Commodities Pvt. Ltd.

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

The rise in the price is also attracting actual physical buyers who had been so far waiting on the sidelines for the prices to fall, but have now thrown caution to wind and taken to actual purchases. They need to purchase for the season for enhanced gold sales in India is upon them. Either they purchase now or see the imbalance in their jewellery inventory once the customers begin to come in.

Given all these factors, there is very little which stands in the way of gold right now while it begins its march to summit \$700. Indeed the figure may be easily breached today itself in the intra-day run of the prices. Gold is also very ably supported in its quest by crude, which is steadfastly holding on to its \$64 level.

However it is one thing to attain the glory and quite another to hold on to it. So may be the case with the gold; it may have difficulty holding on above that number. So don't be surprised if gold breasts the tape at \$700 and then suddenly collapses, like a long distance runner who has taxed his body beyond its resources.

Of course the going may not be entirely smooth; it is a matter of time before there is some bullish news on the US dollar front; after all even a worm raises its head if threatened, and here we have the US dollar and the world's most powerful nation behind it. It is a matter of time before some queer economic data or some economy manager from the USA comes out openly in support of the dollar and thus acts as a dampener for gold.

#### Soy bean: Range-bound

Soy bean prices were weak due to slack soy oil prices and good monsoon forecast. However, in the spot markets arrivals have almost dried up due to reluctance of stockists to sell. Around 35,000-40,000 bags arrived in spot markets of Madhya Pradesh. Spot soy bean prices in most wholesale markets of Madhya Pradesh, the main centre, were steady at Rs1,570 per 100 kg. The May contract was Rs1,571 per 100kg, down Rs6.65.

#### Soy oil: International cues nullify duty cut impact

The reports of expectations of good monsoons exerted downward pressure on most summer commodities including the soy complex, as it would improve crop prospects for the coming season. However, in international market, Malaysian crude palm oil futures closed higher on good export data for

the first half of April and cut in import duties on palm oil by India. The benchmark July contract closed at 2,250 ringgits a tonne, up 50 ringgits from the previous close.

#### Mustard: Lower levels to generate buying

Mustard futures closed lower in conjunction with the trend in soy oil futures. Arrivals in Rajasthan were 280,000-340,000 bags (1 bag = 100kg). Spot mustard prices in Rajasthan were at Rs2,035-2,040 per 100kg, down Rs5. However, low production estimates of mustard seed will keep prices supported.

#### Guar seed: Good monsoon forecast prompts selling

Guar seed and guar gum futures on National Commodity and Derivatives Exchange closed over 2% down after reports of normal monsoon forecast for 2007 by the India Meteorological Department. However, steady spot rates and good export demand figures will limit the fall in prices of guar seed and gum. Prices, in rupees per 100kg, and open interest position in tonne, at 5pm on the NCDEX, compared with Saturday's levels are as follows.

Contract	Price	Change	Open Interest	Change
Guar seed				
Apr	2,029	(-)44	5,990	(-)1,270
May	2,097	(-)49	71,400	(-) 8,290
Guar Gum				
Apr	4,900	(-)164	960	(-)250
May	5,095	(-)147	6,130	(-)430

#### Pepper: Sharp fall prompts buying

Pepper prices recovered yesterday after a few days of weakness. The expectation of tight supply situation going forward prompted buying at lower levels. Banks in Vietnam are also extending loans to dealers to stock the commodity on expectations of supply getting tight further. Malabar garbled pepper prices of May contract, in rupees per 100kg, at 5:30pm compared with their previous closing price:

#### Grade Malabar Garbled

	Today	Change
NCDEX	16,137	520
NMCE	15,298	677
Spot		
Garbled	15,100	200
Ungarbled	14,500	200

#### For Private Circulation only