



Metals under pressure due to equity slump

Copper: US equity slump weighs on the metal

Sub-prime mortgage sector woes returned to haunt the US equities as the Mortgage Bankers Association (MBA) reported yesterday that mortgage delinquencies rose to 4.95% in the fourth quarter, the highest level since the second quarter of 2003. MBA added that 13.33% of sub-prime borrowers were behind on payments, the highest rate in almost five years. Lower retail sales also added to the equity slide though some retailers said that cold weather could have affected the sales. The sub-prime debacle stoked the concerns about the bet on risky assets once again and the yen rallied sharply against the USD, suggesting further unwinding of the yen carry trades which put further pressure on equities and metals. The LME three-month forward closed with a loss of \$45 at \$6,220.

Considering its fundamentals, the red metal is on firm footing. LME warehouses recorded a net outgo of 1,300 tonne across the three locations. The headline figure fell below 200,000 tonne for the first time since January 24 and stands at 199,725 metric tonne now. Rotterdam witnessed fresh registration of 1,000 tonne. Cancelled tonnage surged again as 4,100 tonne moved into the cancelled category, taking the cancelled ratio to 8.7%. The cash-to-three-month backwardation tightened to \$20 (a gain of \$14) despite the dip in the metal prices whereas the spreads of forwards remained unchanged.

The copper market today is likely to take cues from the USD/JPY movements and the global equity markets. However the fact that the metal's fundamentals are intact is likely to lend good support to the metal. Thus the downside could be limited.

Precious metals: In bear grip

As predicted yesterday, the gold market continued to search for some meaningful direction and in the end when the direction was found, the precious metal was seen going southwards. Gold for April delivery fell by 90 cents to close at \$649.40 an ounce on the Nymex. Silver moved during the past 24 hours from a high of \$13.09 to \$12.62 an ounce.

On the currency markets, the dollar has been extending its southward journey after the Commerce Department reported

that US retail sales rose just 0.1% in February after no gain in January.

The yen rallied across the board, with global borrowers unwinding carry trade positions on fears about fall-out from the US sub-prime mortgage market. The euro was last up 0.1%, while the dollar was down 1% vs the yen.

In India on MCX, gold's near month contract moved listlessly between Rs9,392 and Rs9,307 before closing at Rs9,327, almost Rs50 lower than the previous closing. Silver's near month contract lost almost Rs200 before closing at Rs19,266.

So what lies ahead for Wednesday? Bearish sentiment seems to be underwritten all over the precious metal markets. The turbulence in the stock markets is likely to get reflected in the precious metal markets today. With Dow Jones down 2%, it seems inevitable that both gold and silver lose out too.

Yet another bearish factor is the slow but steady decline in crude oil prices. Tuesday witnessed a price that was the lowest in six weeks, tallying a four-session loss of more than 6% and giving back earlier gains as a steep drop in the US stock market raised concerns that demand for oil will weaken.

Gold may tumble down to lower depths in coming days if the support at \$645 is broken and the tumbledown may begin today itself. For the present day, Gold April may find resistances at Rs9,345 and Rs9,379 while the supports may be pretty much at lower levels, at Rs9,240 and Rs9,169. Silver May may have resistances at Rs19,309 and Rs19,401 while the supports may come in at Rs19,101 and Rs18,809.

Soy bean: Buy on dips

Spot soy bean prices in most wholesale markets of Madhya Pradesh were up yesterday due to good demand from mills amid sluggish supplies. Supplies are low today as trading in Madhya Pradesh's largest wholesale market in Indore is dull due to local polls. Overnight rains in some parts of the state are also hampering smooth movement of the commodity.

Soy oil: GM exemption till December 31

Soy oil prices remained range-bound with positive bias in spite a sharp rally in bean prices. The market is awaiting

the palm oil conference, which is going to take place in Indonesia this week. The government today extended the exemption on genetically modified soy oil imports from regulatory clearances until December 31, the Directorate General of Foreign Trade said. GM soy oil imports without clearance from the Genetic Engineering Approval Committee was to end on March 31.

Chana: Rains cause for concern

Chana futures on National Commodity and Derivatives Exchange ended up yesterday on fears of crop damage because of the recent rains accompanied by hailstorm in Rajasthan as well as Madhya Pradesh. Rain in Madhya Pradesh is a little cause for concern as the crop there is under harvest. Rain in Rajasthan may not cause crop

damage, but has certainly dampened the sentiment besides creating hurdles in loading operations in spot market. However, the medium-term bearish outlook may create selling pressure at higher levels.

Mustard: Buying in spot

Mustard prices closed higher yesterday on buying by stockists. Mustard prices could remain firm in the next couple of days as fears of crop damage due to hailstorms and rains that have hit parts of Rajasthan in the last couple of days. Arrivals in Rajasthan today were estimated at between 170,000 bags and 200,000 bags of 100kg each. In Kota, auction price of mustard also opened firm at Rs1,675-1,700 per 100kg, up Rs30 compared to Monday's close.

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