



Correction to continue in metals

Bullion: Correction to continue

Despite the US federal budget deficit widening in October to \$49.3 billion from \$47.3 billion a year ago, bullion continued to fall. Japan's Q3 gross domestic product (GDP) at 2% against an expectation of 1% has triggered talks of a rate hike. There was hardly any news impacting the precious metals, but the weaker base metals induced selling pressure in gold.

As the DJ-AIG commodity index is due for rebalancing, the higher metal weightage in the index makes this a more significant index in terms of its impact on the metals market. The annual rebalancing of this commodity index would re-rate the commodity prices. As a result, the base metals are likely to witness selling pressure in the next two months and the spillover of the volatility might induce some weakness in the precious metals. However any correction should provide yet another buying opportunity for the long-term investors.

Crude oil: Weakness to persist

Crude oil futures floundered yesterday extending their previous day's losses in the absence of a clear catalyst to push the prices higher amid a forecast for warmer weather this week. Crude for December delivery was down 90 cents at \$58.69 in electronic trading. The contract fell almost 3% on Friday

after the International Energy Agency trimmed its 2006 growth forecast for global oil demand. We continue to maintain a negative bias in this counter. Expect the prices to traverse in the current range.

Soybean: Buy on dips

Soybean prices continued to move up on account of hectic buying and restricted supply. The buffer stocks with extraction units are decreasing, as the 2006-07 oil year did not start with large opening stocks and the prices of soybean have been steady for the last couple of years. The farmers are also holding on to their stocks, as they expect the prices to go up further.

Soy oil: Bullish

The CBOT soy oil moved up sharply last night and the CPO futures too have been trading higher this morning. The drop in the oilseed production in 2006-07 has kept the soybean prices steady at higher levels. The November 1-15 export data for Malaysian palm oil would give further direction to the vegetable oil sector.

Wheat: Buy on dips

The prices of wheat rose sharply as arrivals weakened. The prices in the spot market have already breached the Rs1,160 per quintal level. The sowing of wheat is progressing well as the prices have stayed high. The weather in January would determine the crop size.