Copper above $8,000

Copper: Rallies on supply concerns and US housing data

The news that the Freeport management has declined to meet the workers for negotiation and the unexpected upside surprise in US housing data prompted the funds to buy copper aggressively. The metal rallied $365 in the day from its low of $7,765 on the LME ($3.4960 per pound on COMEX) and closed sharply higher with a gain of $319 at $8,049. As such the metal was seen drifting lower in the initial hours of the LME session despite quite bullish LME stock data as the market was apprehensive about the sharp rise in the prices in the last two weeks and traders were wary of a possibility of settlement at Grasberg. However the news of no talks with the workers boosted the sentiments and good housing numbers triggered a stunning rally which saw the metal taking out the psychological resistance at magical $8,000 number. The lower than expected industrial data was ignored by the traders.

The monstrous rally would have run into buy stops placed around $7,950 and the furious short covering (as the non-commercials despite reducing the net shorts were heavily short overall) along with fresh buying took the prices all the way to $8,100 on the LME and to $3.6970 on the COMEX. It has been reported that about 3,000 members from a labor group comprising mostly Papuan employees at Freeport McMoRan Copper & Gold Inc.'s Indonesian unit will protest today until April 20 in the town of Timika for advancement opportunities and sufficient benefits. The company said that operations at its Grasberg copper and gold mine are continuing as normal. Traders would be keeping a close watch on the developments at Grasberg, as it is second largest mine next only to Escondida, Chile.

US housing data showed an improvement for the second straight month which is sending mixed signals to the market, as the analysts are divided over whether the worst for the sector is over. However, economists are still skeptical, as what lurks behind the data is not that rosy. Yesterday's gain in the housing data has come unexpectedly from the midwest which showed the lowest reading in February in the last 16 years. However the south region, which accounts for about half the nation's home building, showed a 3% decline, even both northeast and west registered a decline.

LME warehouses recorded a dip of 2,575 tonne with no inflows at all. The cancellation rate accelerated as 2,900 tonne got cancelled which lifted the cancelled ratio from 7.43% to 7.73%. The LME cash-to-three-month spread tightened by $0.50 further to $65(b). The metal is on firm ground and is well positioned to move further up in due course of time. The situation at Grasberg would play a significant role in influencing the prices in the short term.

Soy bean: Dragged by product prices

Fall in soy oil prices dragged the soy bean prices too. Sluggish demand in spot markets due to good inventories with millers was also a dampener. Spot soy bean prices in most wholesale markets of Madhya Pradesh were steady at Rs1,550-1,570 per 100kg. The May contract was Rs1,566.00 per 100kg, down Rs8.45.

Soy oil: Rising rupee a downer

A sharply appreciating rupee has raised the fears of higher import in the short term. Yesterday, the rupee touched an intra-day high of Rs41.63 per $1 before closing at Rs41.96. A strong rupee makes imports cheaper and India is one of the largest importers of edible oils. In the international market, Malaysian crude palm oil futures erased gains made on Monday on profit booking. The benchmark July contract closed at 2,203 ringgits a tonne, down 47 ringgits over the previous close.

Mustard: Other oilseeds put pressure

Weakness in the other oilseeds, primarily the soy complex, contributed to the weakness in mustard too. This was despite the fact that arrivals in Rajasthan were low at 240,000-280,000 bags (1 bag = 100kg) compared to 280,000-340,000 bags on Monday. Spot mustard prices in Rajasthan were at Rs2,010 per 100kg, down Rs15-30.

Guar seed: Rising rupee a concern too

Expectations of a fall in exports due to rupee gains also pressurised the guar complex. The market reacted on expectations that due to the appreciation of the rupee against the dollar, exports of guar gum may suffer. The first detailed report about monsoon by the Indian Meteorological Department, which is expected in the next few days, would give a better direction to the prices. The prices, in rupees per 100kg, and open interest position in tonne, on the NCDEX, compared with Monday’s levels are as follows.

Contract	Price	Chg	Open Interest	Chg
Guar seed				
Apr	2,011	-21	4,510	-1,480
May	2,088	-12	66,840	-4,560
Guar gum				
Apr	4,938	19	815	-145
May	5,072	-27	5,885	-245

Pepper: Under selling pressure

Pepper futures dropped as selling was witnessed at higher levels and on reports that Vietnam is cutting rates. The news that Vietnam is cutting offer rates to $3,150 (Rs132,142) per tonne for 550GL grade from $3,300 (Rs138,434) triggered the selling. The Indian Rupee gaining strength against the US Dollar also brought the commodity under pressure. On the NMCE, the May contract slipped to Rs14,582 from Rs15,298, while the June contract fell to Rs15,070 compared with Rs15,708 per 100kg.

Following are the Malabar garbled pepper prices of the May contract, in rupees per 100kg, compared with their previous closing prices.

Grade Malabar Garbled

	Today	Change
NCDEX	15,512	623
NMCE	14,582	716
Spot		
Garbled	14,800	-300
Ungarbled	14,200	-300

Aluminium: $70 up with copper

The light metal benefited from the surging copper and closed with a gain of $70 despite a build-up of 5,325 tonne at LME warehouses. Production disruption at Alcoa's Tennessee smelter could have attracted the focus of the traders when the whole base metals complex was running strong. The $2,900-$2,930 area is still proving to be a challenge to the metal and yesterday also its day's high was $2,899 only. The cancelled ratio ticked lower to 2.18% from the previous day's 2.34% on a huge build-up. The cash-to-three-month spread tightened by $1.75 and stands at $32.50(c) presently. The outlook is bullish for the metal but it needs to clear $2,930 first. It is likely to follow the red metal in the short term.

Zinc: Sharply up on fund buying

The rallying metal took out the strong resistance at $3,700 as it ran through the 200-DMA at $3,635 yesterday. It closed sharply higher at $3,720 with a whopping gain of $220. LME data was supportive as the LME warehouses recorded a net outflow of 950 tonne while its cancelled ratio remained almost steady at 12.34%. The cash-to-three-month spread improved by $7.50 to $9(c). A downtrend in LME stocks is slowly getting established and the metal could hit $4,000 in the next few months as many traders still believe that China, the biggest consumer of the metal, is going to remain a net importer only.

Nickel: Rallying copper and LME stock data embolden bulls

The metal had been suffering from vertical fatigue for the last few sessions as it had failed to spark buying interest despite the LME stocks ticking lower continuously. However a drop of 252 tonne in LME warehouses yesterday and rallying copper enthused the buyers and the metal recorded a stellar gain of $2,200 in the day. It closed with a gain of $2,200 at $4,8400. The cancelled ratio (though slightly down from the previous 35.11%) is still quite high at 33.88%. The backwardation increased by $50 to $2,475 and the April to three-month spread is showing the maximum tightness with the spread at $2,350(b). The metal being able to sustain at such high prices is leading to higher revised forecast. Steel production in China is to continue on the higher side and is supportive for the metal.

Gold: In consolidation phase

What happened yesterday in the precious metals markets was not unexpected. The market first went up, taking cue from all the bullish signals, like the weaker dollar and stronger oil, but then became a victim of profit booking. Prices above $685 are always going to lure the sellers, indeed they may even induce some short selling, for gold has not stayed above this level for long during the course of the past twenty years. Those who have observed gold staying below $600 for decades simply get tempted to short at current prices.

So we had the spectacle of gold going up from $686.10 in the spot market to $695.10, gaining a whole $9, but then witnessing profit booking to end up at more or less the same level. Silver mirrored the moves and travelled from $13.88 to $14.11 during the mid New York session, before plunging to almost the same levels.

In India too on the MCX it was lot of sound and fury but not much substance. The June Gold contract saw a high of Rs9,550 and a low of Rs9,501, before closing at Rs9,520, thus recording a loss of Rs40 over the previous close. Silver May saw a high of Rs19,815 and a low of Rs19,600 before closing at Rs19,693.

The prognosis for the day is nothing much to write about. The precious metals are likely to remain within the $682-89 range (at 8.30am the price is hovering around $689). With the British Pound quoting at $2 and with the euro well placed above the 1.35 level, things are not bearish for both the precious metals. Crude has also been providing a good support from $63+ level. So the chances of falling gold are minimal; the only questions are whether it will rise, and how much. This depends on the news that is going to percolate during the day.

What is likely to keep the trading low key is the fact that the day is not going to be awash with the economic indicators. The Mortgage Bankers' Association purchase applications index is due during the late afternoon and the compiles various mortgage loan indexes and the Energy Information Administration's weekly information on petroleum inventories in the USA is due late in the evening. Both indicators, it has been observed in the recent past, are not really spiking up the market, as they used to in the past. The EIA's level of inventories usually helps determine prices for petroleum products, but with crude already above $63, more cannot be expected from the indicator today.

All in all an uneventful day ahead.