



## Copper sharply up

### Copper: Sharply up on positive economic data

After Monday's sell-off, copper witnessed good support from Asia despite the continuously lower drifting crude oil that could have triggered another bout of selling. However, a spate of news and data with most of them being positive for copper perked up the sentiments and the red metal made a run towards \$5,800. Copper closed near the day's high at \$5,749. Crude oil did a U-turn when the International Energy Agency revised upward its 2007 world oil demand estimate due to the growth in China and the Middle East. The US Dollar lost against the euro on good economic reports from Germany and the Euro zone. A jump in the December US trade deficit (after a contraction last month), on rising energy imports and the demand for Chinese goods, weakened the dollar further and euro/dollar remained comfortably above 1.3. The LME stock data was favourable and it recorded a fall of 2,800 tonne. In an interesting development the LME warrant cash banding report showed dominant long positions with concentration of 50-80% of the total LME copper stocks (excluding the cancelled tonnage) though the positions depict two-day old data which might not be valid presently. It is observed that surprisingly the LME cash to 3-month contango came down yesterday to \$25.25 from \$38.50 on the previous day. Now the cash to 3-month contango stands at \$31 while even the long dated spreads have tightened. The explanation could lie in the possibility of the encouraging Chinese demand. Dominant long positions would be closely watched. The stock analysis shows that the cancelled tonnage stands at 4.40%, which is the lowest in the last eight days. As a result this could limit the outflows in the days ahead unless significant fresh cancellations are made. The gain in the LME stocks in February has been just 1,425 tonne. Copper must have run into a lot of buy-stops above \$5,700 thus extending its correction rally towards \$5,800. The move from \$5,800 to \$5,950 could be the toughest move, as the red metal would have to wade through a herd of opportune sellers who are likely to exploit the higher levels of the corrective rally as an opportunity to sell. The currency movements for the day should favour copper. The risk is seen from crude oil, as the weekly inventory data would be released today. Still playing from the long side if the LME stocks dip/register a moderate rise seems to be a better idea. Selling above \$5,900 with stop losses above \$6,000-6,100 could be a more yielding strategy.

### Bullion: Listless trading ahead

Gold futures closed higher on Tuesday, gaining strength from a falling dollar after the US trade deficit hit record levels. The US trade deficit widened by 5.3% in December, reaching \$61.2 billion, exceeding even the consensus forecast of \$59.5 billion. As a result, gold for April delivery traded as high as \$673.70 an ounce, the contract's strongest intra-day level since early August, before closing at \$668.50 an ounce on the New York Mercantile Exchange.

The trading pattern was similar in India. On the MCX gold for April delivery moved between Rs9,609 and Rs9,512 before closing at Rs9,531, up Rs16 for the day. Silver for March delivery swung between Rs20,348 and Rs20,022 before closing at Rs20,223.

The market is likely to remain undecided today. With crude oil unable to give a clear direction, gold for April delivery may face resistances at Rs9,589 and Rs9,621 while the supports may come in at Rs9,477 and Rs9,403. Silver for March delivery is expected to follow suit and face resistances at Rs20,299 and Rs20,398 while the supports come in at Rs20,101 and Rs20,012.

### Crude oil: Booster from IEA

The International Energy Agency said that the world oil demand will grow by 1.55 million barrels a day in 2007, 300,000 barrels a day more than its previous estimate and nearly twice the rate of growth seen in 2006. The agency also added that but for a global economic slowdown, the oil demand growth will again outpace the growth in new oil supplies in three years in the 2003-2004 period, which saw the prices rise to record levels. Crude oil got an additional push from the reports of problems at a couple of refineries. Sunoco's Marcus Hook refinery was shut and there was a fire at Valero Energy Corp's Delaware City refinery. However, there were reports that all the processing units were up and running except the FCC unit, which is likely to be up latest by early Wednesday. The report could support crude oil above \$58 though breaching the \$60 psychological resistance could be tough especially on inventory day. With the cold snap about to end, traders are expected to be more focused on gasoline rather than on the distillates.

### Other base metals: Firm complex

Zinc breached the \$3,200 resistance and recorded a high of \$3,225 before settling above \$3,200. A close above \$3,200 sets a positive note for the metal as it shakes off some of the technical weakness. The cash to 3-month contango has reduced from \$17.5 to \$8.50 and spread tightening is witnessed across long-dated contracts.

Nickel gained over \$1,000 on the strength in the base metals complex and global stocks still being low. It completely ignored the fifth consecutive rise in the LME stocks, which increased by a miniscule 18 tonne. The metal hit a high of \$36,203 and closed above \$36,000, which is a positive sign. The cash to 3-month backwardation has increased to \$2,290 from \$1,950 observed earlier.

Aluminium had a strong run yesterday on supply concerns due to escalating violence in the Republic of Guinea and a drop in the LME stocks. It registered a high of \$2,822 and closed at \$2,820. The metal now eyes the \$2,850 resistance from which it had earlier turned back twice. A move above \$2,850 could trigger many buy stops. The WC banding report shows that the short squeeze persists.

### Soybean: Stable

The spot and futures prices of soybeans were up on the improvement in the product prices amid sluggish supplies. On the National Commodity and Derivatives Exchange, soybeans for March delivery were quoted at Rs1,434 per 100kg, up Rs7 for the day. There has been a slight slowdown in the arrivals as the farmers and stockists are holding on to their produce in anticipation of a rise in the prices. Further, heavy overnight rains in some interior regions of Madhya Pradesh also prevented the farmers from bringing their produce to the markets.

### Soy oil: Buying at lower levels

Some reports of damage to the standing mustard crop in India's main growing state of Rajasthan due to the recent rains and hailstorms kept the buyers interested in soy oil. The steady CPO prices also helped the domestic soy oil prices.

### Wheat: Export ban till December 31, 2007

The government has banned exports of all varieties of wheat including the high value Durum, a commerce ministry notification said. The ban will remain in force until December 31, 2007. The agriculture ministry has estimated this year's wheat output at 72.5 million tonne. However, the output could be lower than the estimate if wide fluctuations in the temperatures take place during the grain filling stage of the crop.

### Chana: Short covering before expiry

Most chana futures on the National Commodity and Derivatives Exchange ended higher because of short covering. The near-month February contracts remained strong throughout the session on expectation of very low deliveries on the expiry of the contract on February 20. The February contract closed at Rs2,489 per 100kg, up Rs61 from Monday, with a 3,160 tonne fall in the open interest, indicating covering of short positions. Similarly, the most active March contract closed at Rs2,146, up Rs31, with a 2,900 tonne fall in the open interest.

### Mustard: Some news of crop damage

The spot and futures prices of mustard seeds were up on firm soy oil prices. Some reports of damage to the standing mustard crop in India's main growing state of Rajasthan due to heavy rains over the weekend also kept the sentiment positive in mustard seeds. Around 10,000-12,000 bags of mustard seeds arrived in the wholesale markets of Rajasthan.

Events Watch				
Date	Location	Description	Forecast	Previous
14/02/07	US	ABC Consumer Confidence (February 12)	-	-1.0
14/02/07	US	MBA Mortgage Application (February 10)	-	-0.2%
14/02/07	US	DOE Crude Oil Inventory (February 9)	1050 K	-449 K
14/02/07	US	DOE US Gasoline Inventory	1900 K	2600 K
14/02/07	US	DOE Distillate Inventory	-4.3 mIn Brl	-
14/02/07	US	DOE Refinery Utilization (February 9)	0.15%	0.28%
14/02/07	UK	Bank of England Quarterly Inflation Report	-	-
14/02/07	US	January Retail Sales ex-autos	0.30%	0.30%
14/02/07	US	January Advanced Retail Sales	5.00%	3.00%
14/02/07	US	Fed Chairman Bernanke Testifies	-	-
14/02/07	Japan	Q4 GDP y-o-y	3.80%	0.80%
14/02/07	Japan	Q4 GDP q-o-q	0.90%	0.20%

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