commodities
buzz (metal & energy)

Visit us at www.sharekhan.com December 12, 2011

Base metals surge on European accord

"The spike in dollar-borrowing costs won't stabilize so easily."

Makoto Noji, a senior debt and currency strategist in Tokyo at SMBC Nikko Securities Inc., a unit of Japan's second-biggest banking group by market value

"While the fiscal compact is a step in the right direction, it's not aimed at addressing the immediate issue of the sovereign debt crisis which is threatening to plunge the euro-zone into a deep recession."

John Kyriakopoulos, Sydney-based head of currency strategy at National Australia Bank Ltd.

Commodities—European debt agreement, US data fail to lift the markets

- Euro Leaders' Fiscal Union Pact Leaves Next Step to ECB
- Most EU nations agree to closer fiscal ties
- EU Leaders Drop Demands for Investor Write-Offs in Bailouts
- French Banks' Ratings Cut By Moody's
- German Inflation Slows as Crisis Damped Demand
- Merkel Says Croatia Entry Shows EU Exerts 'Pull' Even in Crisis
- China's central bank plans to set up $300 billion of funds to invest overseas
- India: Growth to slow down to 7.5 per cent
- India Factory Output Drop Drives Currency Lower
- China Industrial Production Growth Hits More Than 2-Year Low
- China's export growth slumps to lowest since 2009
- U.S. Stocks Rise on Consumer Confidence, European Debt Agreement
- China November Copper Imports Rise to 20-Month High on Price
- Copper Traders Reduce Bets on Price Decline, CFTC Data Shows
- Gold Traders Increase Bets on Price Rise, CFTC Data Shows
- Silver Traders Increase Bets on Price Rise, CFTC Data Shows
- Iran Says Crude Demand May Fall in Second Quarter
- China's November Crude Imports Increase on Higher Refinery Runs
- Crude Oil Traders Increase Bets on Price Rise, CFTC Data Shows

Much-awaited EU summit failed to impress European bond traders, though the US equities and most of the commodities shot up aided by the news that China's PBoC is considering investing $300 Billion in overseas assets. Italian bonds settle lower; Euro's performance was lackluster as the common currency closed lower on weekly closing basis.

EU leaders announced that the Union would lend 200 Billion Euros to the IMF that in turn would use the said funds to help out the beleaguered nations in the European Union. The Union members agreed for a "fiscal compact" wherein the budgets of the nations would be scrutinized by a central European authority. Similarly, the nations vowed for tight deficit controls. He UK decided to go it alone, as the nation didn't like the idea of surrendering its sovereignty to a central authority. Out of the proposed 200 Billion Euros, 150 Billion Euros would be donated by the European Zone nations; where as the rest of the funds would come from the rest of the 10 EU members. The proposed mechanism would require parliament approval of respective nations. Needless to say, that such a mechanism is likely to voted down if referendums are held in these nations. The EU passed on the buck to the ECB for further assistance, which implies that the ECB should start bond-buying program, however the ECB is not willing to the onus of sorting out this European mess. Also, Germany's Apex court's stand would be crucial for going ahead with the proposed mechanism. In our opinion, Europe's efforts, though sincere, don't address the debt problems adequately at all. It is once again smoke and mirror scenario, which can lead to short spurts in risk assets, but rallies would be short-lived.

China's data continue to point to a slowdown as the nation's exports growth and industrial production fell to at least two-year low. India's growth forecast has been slashed as factory's output shrank for the first time in 28 months.

Sharekhan
Your guide to the financial jungle

Sharekhan Ltd, Regd Add: 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400 042, Maharashtra. Tel: 022 - 61150000. BSE Cash-INB011073351; F&O-INF011073351; NSE – INB/INF231073330; CD - INE231073330; MCX Stock Exchange: CD - INE261073330 DP: NSDL-IN-DP-NSDL-233-2003; CDSL-IN-DP-CDSL-271-2004; PMS INP000000662; Mutual Fund: ARN 20669. Sharekhan Commodities Pvt. Ltd.: MCX-10080; (MCX/TCM/CORP/0425); NCDEX -00132; (NCDEX/TCM/CORP/0142)

Today commodities are on defensive and so are the European markets. Only bright spot in the whole global macro scenario is the US. The nation's data are somewhat better than expected of late.

Commodities should trend lower in the given scenario, however the US equity traders are determined to push the major averages higher as "Santa Claus" rally materializes. This can distort the picture in short-term, hence commodities can hold ground in short-term, but fundamental outlook remains bearish.

Despite rallying US markets, we see that the Euro is flirting with 1.32 level against the US Dollar, which indicates pessimism on parts of the Euro bulls.

Asia Watch - India Factory Output Drop Drives Currency Lower

India's industrial output shrank for the first time in 28 months, pushing stocks and the rupee lower on concern faltering growth will force the central bank to suspend its fight against the fastest inflation in BRIC nations.

Production at factories, utilities and mines fell 5.1 percent from a year earlier in October, the government reported today. The slide exceeded the median of 24 estimates in a Bloomberg News survey for a 0.7 percent drop. Output was down 3.3 percent from September, the third decline in four months.

China's Weakest Export Growth Since 2009 Raises Odds of More Easing by Wen - China's export growth slowed to the weakest pace since 2009, making the government more likely to further ease policies to sustain the expansion of the world's second-largest economy.

Overseas shipments rose 13.8 percent in November from a year earlier, the customs bureau said yesterday. Excluding distortions in January and February each year, that was the least since export growth resumed in December 2009. The trade surplus narrowed to $14.5 billion from $17 billion the previous month. Import growth slowed to 22.1 percent.

Europe's debt crisis is capping exports just as Premier Wen Jiabao's campaign to curb prices cools output. China may further lower reserve requirements for banks, reduce taxes for smaller companies, and boost spending on infrastructure, public housing and social welfare to spur growth after inflation fell to a 14- month low, HSBC Holdings Plc said.

We don't think that China would really be aggressive in stimulating its economy as the nation would first try to anchor the inflationary expectations, which means that inflationary pressure has to trend lower on a sustainable basis. One-month data is not enough to declare victory over inflation.

Germany's top central banker cooled speculation that the European Central Bank will extend its role as European leaders pressed their case that a new fiscal accord will deliver the region from its two-year-old debt crisis.

Bundesbank President Jens Weidmann told the Frankfurter Allgemeine Sonntagszeitung that while the new accord represents "progress," the onus is on governments rather than the Frankfurt-based ECB to resolve the crisis with financial backing. German Finance Minister Wolfgang Schaeuble said euro- area policy makers would now focus on implementing the Dec. 9 pact to strengthen budget rules as quickly as possible.

Euro Undermined as Draghi Undoes Trichet Rates - Foreign-exchange strategists are slashing their forecasts for the euro at the fastest pace this year as European Central Bank President Mario Draghi's interest- rate cuts remove one of the currency's pillars of support.

Since Nov. 3, when Draghi began to undo the rate increases implemented earlier this year by his predecessor, Jean-Claude Trichet, analysts have reduced end-of-2012 estimates for the euro to $1.32 from $1.40, based on the median of 40 forecasts in a Bloomberg survey as of last week. It has weakened versus every major currency except the Swiss franc since then, after gaining against 12 of the 16 this year prior to that.

Europe Watch—Bundesbank Cools ECB Bond-Buying Talk as EU Leaders Promote Fiscal Accord

Date	Country - Region	Data	Period	Survey	Actual	Prior	Revised
12/9/11	Germany	Exports (MoM)	Oct	-1.3%	-3.6%	0.9%	1%
12/9/11	Germany	Imports (YoY)	Oct	0.3%	-1.0%	-0.8%	-0.5%
12/9/11	Germany	Current Account (euro)	Oct	14B	10.3B	15.7B	16B
12/9/11	Germany	CPI(MoM)	Nov F	0%	0%	0%	-
12/9/11	Germany	CPI(YoY)	Nov F	2.4%	2.4%	2.4%	-
12/9/11	Germany	Trade balance	Oct	15B	11.6B	17.4B	17.3B
12/12/11	Germany	WPI(MoM)	Nov	-	0.7%	-1%	-
12/12/11	Germany	WPI(YoY)	Nov	-	4.9%	5%	-

US Watch—Bank Credit Highest Since Before Lehman as U.S. Growth Continues

Date	Country - Region	Data	Period	Survey	Actual	Prior	Revised
12/9/11	US	Trade Balance	Oct	-$43.9B	-$43.5B	-$43.1B	-$44.2B
12/9/11	US	U. of Michigan confidence	Dec P	65.8	67.7	64.1	-

Financial institutions increased commercial and industrial loans by an average annual pace of almost 10 percent in the third quarter, the highest since the comparable quarter in 2008, compared with a 1.7 percent decline in the past four years, according to Fed data. The latest numbers show loan growth of 15 percent, seasonally adjusted, in October and 6.1 percent in November.

The resumption in lending means a projected fourth-quarter pickup in gross domestic product may be sustained next year even amid Europe's sovereign-debt crisis, said Robert McTeer, former Federal Reserve Bank of Dallas president. He predicts the central bank's policy group, which has moved to push down long- term interest rates and pledged to keep its benchmark federal funds rate near zero through mid-2013, probably won't approve new monetary easing at its Dec. 13 meeting.

Market watch - Euro Falls as Moody's Rating Warning Shows Debt-Crisis Concern; Yen Gains

The euro fell to the lowest this month versus the dollar after Moody's Investors Service said it will review ratings for all European Union countries, citing a failure to produce "decisive" measures to end the debt crisis.

The dollar and yen strengthened against all the other major currencies as investors sought the safest assets amid concern European nations' borrowing costs are rising. Sweden's krona depreciated as European stocks declined, damping demand for higher-yielding investments. China's Yuan gained after the central bank set the strongest reference rate in a month and signaled the currency will be allowed to trade more freely.

Base metals summary

All the base metals except aluminium closed higher Friday on European accord, the US consumer confidence data and talks of China investing in overseas assets. Aluminium closed unchanged.

Despite the Friday rally, only lead and nickel were up on weekly closing basis.

China's imports data released Saturday is supportive for the complex per se as the nation's copper imports rose to 20-month high, and crude oil imports rose too. However, it is to be noted that imports rose mainly on lower prices. Copper has rallied since then, hence going forward the data might not be that strong. Also, slowdown in China would limit the upside in the complex.

So overall, we look for the complex to trade in a wide range in December; there would be occasional rallies triggered mostly by external factors, however upside would be capped. The complex is likely to decline further in medium-term as Europe fails to offer any concrete solution to its debt problems.

Aluminium - Stock build-ups weighing on the counter

LME 3-month closed unchanged at $2165. The light metal was down 3.05% on the week.

Weekly aluminum inventories gained 6,948 tons to 184,363 tons, the highest since July, according to a survey of 20 warehouses in Shanghai, Guangdong, Jiangsu and Zhejiang provinces.

Aluminium is being weighed down by hefty build-ups at LME warehouses; China's inventories are in rising trend, which again is keeping the metal in check. Hence, the light metal is not able to take advantage of rising production cost.

China's aluminium production stayed low in November and copper output fell again, on energy and raw material supply issues and flagging demand. Primary aluminium output averaged 45,900 tpd in November, up only 0.6% from October and 13% beneath June's record, according to the national statistics bureau. Output in December is likely to be even lower after China increased its domestic power tariffs yet again from this month. This is the third time China has raised power rates this year. The increase by an average of 0.026 Yuan per kwh would raise the average cost of producing aluminium by more than $60 per tonne, leading to further reduction utilization rates, Barclays Capital analysts said. Production of primary aluminium grew 9.9% year-on-year to 16.02 million tonne for the eleven months, the statistics bureau said. For all of November, output grew 13.4% year-on-year to 1.377 million tonne. China's copper production dropped for a third consecutive month in November with scrap supply remaining tight and concentrate supply continuing to be disrupted by mining strikes. Daily output of refined copper fell to 14,933 tonne, down 1.3% from October, according to the national statistics bureau today. Output for the whole of November was 448,000 tonne, up 9.3% from a year earlier, and for the eleven months was up 16.3% at 4.78 million tonne. (Metal Bulletin PLC.)

Support is at Rs 107/ Rs 104.50. Resistance is at Rs 109.25.

Copper - Up 1.36%

LME 3-month copper closed with a gain of $105 at $7815. The metal was down 0.95% on the week.

Copper stockpiles monitored by the Shanghai Futures Exchange rebounded from the lowest level since July 2009. Inventories gained for the first time in five weeks, adding 15,057 metric tons to 72,712 tons, according to a survey of 10 warehouses in Shanghai, the exchange said on its website. Metal in bonded warehouses dropped 551 tons to 8,288 tons.

Copper imports by China, the biggest consumer, advanced to the highest level in 20 months in November as stronger local prices than in London prompted traders to increase buying. Inbound shipments of the refined metal, copper alloy and products gained 18 percent to 452,022 metric tons from 383,507 tons in October, according to Bloomberg calculations based on data posted on the website of the General Administration of Customs. That's the highest level since March 2010, according to Bloomberg data.

Hedge-fund managers and other large speculators decreased their net-short position in New York copper futures in the week ended Dec. 6, according to U.S. Commodity Futures Trading Commission data. Speculative short positions, or bets prices will fall, outnumbered long positions by 2,632 contracts on the Comex division of the New York Mercantile Exchange, the Washington-based commission said in its Commitments of Traders report. Net-short positions fell by 676 contracts, or 20 percent, from a week earlier. Miners, producers and other commercial users were net-long 7,724 contracts, down 1,882 contracts, or 20 percent, from the previous week.

Support is at Rs 405.30/ Rs 399. Resistance is at Rs 413.50/ Rs 418.

Nickel - Up 1.63%

LME 3-month nickel closed with a gain of $300 at $18600. The alloying metal was up 4.84% last week.

Fundamentals of the metal are not encouraging due to expectations of large surplus next year. However, in short-term the prices might see some support on account of the metal trading below NPI cost and encouraging cancellation figures.

Support is at Rs 948/ Rs 938. Resistance is at Rs 966/ Rs 981.

Zinc - Up 0.90%

LME 3-month zinc closed with a gain of $18 at $2003. The galvanizing metal was down 2.38% on the week.

Zinc stockpiles climbed 5,009 tons to 373,906 tons, based on a survey of 15 warehouses in Shanghai, Guangdong and Zhejiang, while those for lead gained 1,233 tons to 44,343 tons.

Support is at Rs 103.25/ Rs 102. Resistance is at Rs 106.50.

Lead - Up 2.94%

LME 3-month lead closed with a gain of $62 at $2165. The battery metal was up 2.60% on the week.

SHFE weekly inventories rose over 1000 tonne.

Lead is benefiting on rising cancellations, which indicates tight supply in Asia, however European crisis is likely to affect the exports to the region, hence upside from here is likely to be limited.

Support is at Rs 109/ Rs 108. Resistance is at Rs 111.25/ Rs 113.50.

Precious metals summary

The complex was slightly higher Friday in line with rise in most of the other commodities and the Euro. However, despite the up tick witnessed Friday, the complex closed lower on weekly closing basis.

Speculators have increased their net long positions last week as per the data published by CFTC.

Fundamentals of gold are supportive as Europe grapples with the festering debt problem amid possibility of further debasement of the paper currencies by the central bankers. However, gold can become the victim of its own success as the metal is likely to used for raising funds as the European banks face Dollar funding stress.

Gold - Up 0.19%

Spot gold closed with a gain of $3.33 at $1711.60. The yellow metal was down 2% last week.

Hedge-fund managers and other large speculators increased their net-long position in New York gold futures in the week ended Dec. 6, according to U.S. Commodity Futures Trading Commission data. Speculative long positions, or bets prices will rise, outnumbered short positions by 159,711 contracts on the Comex division of the New York Mercantile Exchange, the Washington-based commission said in its Commitments of Traders report. Net-long positions rose by 4,918 contracts, or 3 percent, from a week earlier. Miners, producers, jewelers and other commercial users were net-short 201,500 contracts, an increase of 7,955 contracts, or 4 percent, from the previous week.

Dollar funding stress and risk aversion could dent the shine of the metal, though fundamentals are supportive.

A decisive breach of support at $1665 would be very bearish for the metal. Resistance is at $1710.

Silver – Up 1.64%

Spot silver closed with a gain of $0.52 at $3222. The white metal was down 1.13% on the week.

Hedge-fund managers and other large speculators increased their net-long position in New York silver futures in the week ended Dec. 6, according to U.S. Commodity Futures Trading Commission data. Speculative long positions, or bets prices will rise, outnumbered short positions by 12,630 contracts on the Comex division of the New York Mercantile Exchange, the Washington-based commission said in its Commitments of Traders report. Net-long positions rose by 536 contracts, or 4 percent, from a week earlier. Miners, producers, jewelers and other commercial users were net-short 22,519 contracts, an increase of 1,831 contracts, or 9 percent, from the previous week.

Silver is in danger of tumbling to $29 level in near-term. Support is at Rs 55500. Resistance is at Rs 58000.

Energy complex summary

The complex closed mixed as crude oil closed higher tracking the equities, while natural gas fell on ample supply speculation.

Upside in crude oil is likely to be limited from current levels as slowdown in the emerging markets and European crisis remain in focus. Support could come from Iran's sanction issue. However, crude oil is vulnerable if the equities tumble.

Natural gas is likely to decline further as the bears maintain an edge in momentum selling on account of ample supplies. Although the counter is likely to fall below $3 (Rs 159 level) eventually, it seems oversold in short-term.

Crude oil – Up 1.08%

Crude oil closed with a gain of $1.07 at $99.41. The counter was down 1.53% last week.

Global demand for crude oil may decline in the second quarter of 2012 and OPEC members need to be vigilant, Tehran Times reported, citing Mohammad Ali Khatibi, Iran's governor to the group. The oil market is currently "balanced," Khatibi said, according to the report published in the daily. The Organization of Petroleum Exporting Countries is scheduled to meet in Vienna on Dec. 14 to review output and set targets for 2012.

Crude-oil imports by China, the world's second largest user of the commodity, rose in November from a month earlier as refiners completed seasonal maintenance and increased run rates to alleviate a domestic diesel shortage. Net purchases increased 13 percent to 5.51 million barrels a day last month from 4.89 million barrels a day in October, according to data from the General Administration of Customs. That's up 11 percent from the 4.97 million barrels a day of net imports in November 2010.

Hedge-fund managers and other large speculators increased their net-long position in crude-oil futures in the week ended Dec. 6, according to Commodity Futures Trading Commission data. Managed money bets that prices will rise, in futures and options combined, outnumbered short positions by 202,735 futures, the Washington-based regulator said in its weekly Commitments of Traders report. Net long positions rose by 8,040 contracts, or 4.13 percent, from a week earlier. Producers, merchants, processors and users were net short 131,875 futures, a decrease of 2,098, or 1.57 percent, from the previous week. Swaps dealers were net short 122,786 futures, up 16,718, or 15.8 percent, from the previous week.

Support is at Rs 5135/ Rs 5040. Resistance is at Rs 5235.

Natural gas – Down 4.04%

Natural gas closed with a loss of $0.14 at $3.317. The counter fell 7.45% last week.

Support is at Rs 171/ Rs 166. Resistance is at Rs 182.

Home