

## Commodity prices slump on Dollar strength

Prices of international commodities slumped sharply in the last week as strength in the US dollar put pressure on prices. A stronger dollar makes dollar-denominated commodities look expensive and unattractive for holders of other currencies. Along with the stronger dollar, debt woes in the Eurozone raised concern over the strength and pace of the global economic recovery. Economic data from the US in the first-half of the week was disappointing and led to risk aversion in the financial markets. Lower risk appetite for higher-yielding and riskier investment assets led to selling pressure in commodities. The first week of February has been one of almost constant risk aversion sales, which has wiped out the start to 2010. Sentiment has been soured on worries that China may tighten its monetary policy, the US may crack down on elements of bank trading and sovereign debt worries in the Eurozone.

The concerns about sovereign debt contagion in the Eurozone - Greece, Portugal, Ireland and Spain have unsettled markets, and raised the possibility of a double dip in the economy. This weekend's G7 meeting will be critical next week for the markets as it depends on the developments and measures. Also, activity from the world's biggest consumer of metals may tail off next week on account of Chinese New Year which begins on 14th February. This is a period when base metal prices typically weaken. If risk aversion continues to set its tone in the financial markets in the next week then international commodity prices could face further downside pressure.

### Economic Update

The US Dollar strengthened almost 1% in the last week as investors shunned riskier assets. Economic data from the US indicated that nonfarm payroll employment in January fell 20,000 following a revised 150,000 drop in December. The unemployment rate declined to 9.7% from 10% in December. Though the unemployment rate in the US showed a decline, financial markets could continue to remain risk averse on increased concern about rising government deficits in southern Europe and poor economic data from the US. Doubts over Greece's ability to pay its debts extended to Spain, Portugal and eastern European countries will also continue to remain bearish. In the coming week too, financial markets will continue to remain concerned over the strength and pace of the global economic recovery.

### Base Metals

The base metals complex was hit hard by another wave of widespread risk aversion liquidation and selling across the financial spectrum. This resulted in new across the board multi-month lows in the base metals complex. Base metals reverted to the downside after a tentative upside attempt on positive inventory data was more than negated by renewed dollar strength, putting prices, particularly copper, back on course to

retest multi-month lows. Copper, the leader of the base metals pack declined almost 7% as strength in the dollar coupled with concerns over economic recovery pushed prices lower. The red metal touched a low of \$6225 in the last week despite steady inventories on the LME. Tin prices lost the most as they slumped 11.5% in the LME last week. Inventories of tin on the LME gained 1.7% and this acted as an additional bearish factor other than strength in the dollar and selling pressure across the board.

### Bullion

Spot Gold prices lost 1.4% in the last week as strength in the dollar made the yellow metal look unattractive for holders of other currencies. Gold prices take cues from the movement in the dollar. Also, risk aversion in the markets led to a sell-off in commodities across the board. Spot Gold prices have slipped below the crucial \$1100/oz mark and touched a low of \$1043/oz in the last week. Spot Silver prices on the other hand declined a whopping 6.5% in the last week. Silver prices declined more than gold as the metal not only takes cues from gold and the dollar but also from the base metals as silver is used for industrial purposes. Hence, the white metal slipped sharply in the last week touching a low of \$14.63/oz.

### Energy

Crude oil prices declined more than 1% in the last week and touched a low of \$69.50/bbl as a stronger dollar exerted pressure on prices. Markets remain concerned over the demand situation of crude oil due to global economic progress. Oil prices could continue to face downside pressure as poor fundamentals coupled with concern over global economic recovery could add pressure on the downside. If worries over debt situation in the Eurozone continue to dominate financial markets then demand for riskier investment assets could decrease, leading to downside pressure on crude oil prices.

### Fundamental Outlook

The US dollar could continue to trade with a positive bias as risk aversion in the financial markets could lead to increased demand for the low-yielding dollar. Concerns over the economic front could lead to selling pressure in higher-yielding and riskier investment assets. Economic instability has led to concerns over demand for commodities. A stronger dollar could continue to exert pressure on prices of Gold, Base Metals and Crude Oil. Demand concerns in the case of crude oil could be bearish. In the case of base metals, the absence of Chinese players during the New Year period could lead to downside pressure on prices.

**Sr Research Analyst (Commodity) - Reena Walia Nair**

## Bullion

### MCX April Gold

Last week, Gold prices opened the week at 16292 initially moved sharply higher, breaking both the resistances, but finally found strong resistance at 16815 levels. Later prices fell sharply lower, breaking both the supports, made a low of 15963 and finally ended the week with a loss of Rs.31 to close at 16286.

**Trend : Neutral**

**Trading Levels:**

This week market is expected to find very good support at 16150-16130 levels. And strong support is seen at 15980-15950 levels.

Trading below 15950 would lead to lower prices initially towards 15835 then 15682 and then finally towards the major support at 15500.

Resistance is observed in the range of 16430-16460 and strong resistance is seen at 16610-16640.

Trading above 16650 would lead to higher prices initially towards 16706 then 16937 and then finally towards the major resistance at 17120.

**Recommendation:** Neutral

### MCX March Silver

Last week, Silver prices opened the week at 25560 initially moved sharply higher, but found strong resistance at 26340 levels. Later prices fell sharply lower breaking both the supports, made a low of 23610 and finally ended the week with a huge loss of Rs.1176 to close at 24324

**Trend : Neutral**

**Trading Levels:**

This week market is expected to find good support at 24000-23950 levels. And strong support is seen at 23650-23600 levels.

Trading below 23600 would lead to lower prices initially towards 23420 then 23190 and then finally towards the major support at 22700 levels.

Resistance is observed in the range of 24840-24880 and strong resistance is seen at 25300-25350.

Trading above 25350 would lead to higher prices initially towards 25650 then 25980 and then finally towards 26420.

**Recommendation:** Neutral

### MCX February Copper

Last week, Copper prices opened the week at 310.50 initially moved higher and as expected found strong resistance at 319.45 levels. Later prices fell sharply lower breaking both the supports, made a low of 290.90 and finally ended the week with a loss of Rs.11.5 to close at 299.95.

**Trend : Neutral**

**Trading Levels:**

This week market is expected to find good support in the range of 295-293 levels. And strong support is seen at 287-285 levels.

Trading below 285 would lead to lower prices initially towards 282 then 278 and then finally towards 272 levels.

Resistance is observed in the range of 301.50-303 levels and strong resistance is seen at 311-313 levels.

Trading above 313.50 would lead to higher prices initially towards 319 then 322 and then finally towards the major resistance at 329 levels.

**Recommendation:** Neutral

### MCX February Crude

Last week, Crude prices opened the week at 3374 initially moved sharply higher breaking both the resistances, but finally found resistance at 3592 levels. Later prices fell sharply lower, made a low of 3275 and finally ended the week with a marginal loss of Rs.4 to close at 3374.

**Trend : Neutral**

**Trading Levels:**

This week market is expected to find good support in the range of 3335-3315 levels. And strong support is seen at 3250-3240 levels.

Trading below 3240 would lead to lower prices initially towards 3183 and finally towards the major support at 3074.

Resistance is observed in the range of 3420-3440 levels and strong resistance is seen at 3480-3500.

Trading above 3500 would lead to higher prices initially towards 3530 then 3580 and then finally towards 3618.

**Recommendation:** Neutral

**Sr. Technical Analyst (Commodities) - Samson P**