Commodity View -2013

January 2013

Commodities, Year Gone by and Year Ahead

Year 2012:

Commodities performed extraordinarily in last five years but the decade long rally, especially in metals and energy sectors, looked like reaching a saturation stage in 2012. Thus, on one hand some commodities scored their new all-time high prices while on the other hand, few lost their shine and direction to trade in an indecisive range. In Indian market, currency disparities played key role in deciding the ultimate price. For example, Gold, after reaching all-time highs in September, 2011 never really took-off in 2012 in international markets like COMEX & London bullion market but traders and investors in India were more than delighted when Gold prices crossed Rs 33000/10g mark in local markets. This happened with almost all the commodities which are import based.

Year 2013:

Enter 2013! New year, new hopes and new forecasts. All eyes are now on how commodities will perform this year. Here is the segment wise brief on our estimates and outlook for 2013.

COMMODITY	HIGHLIGHTS	TREND	STRATEGY
	BULLION		
Gold	'Safe haven' appeal likely to fall as major economies are expected to show some signs of recovery this year. Indian Government's measures to bring down Gold consumption will hamper local demand in long run. Currency disparities will play major role in deciding the ultimate price in Indian market.	Down	Crucial support is at $1600, below which fall may be seen towards $1520 & then $1400. Important resistance is at $1800. **Trading range in Indian markets likely to be Rs 27,000-33,000.**
Silver	Physical demand is likely to retain its pace since silver is extensively used in electronics & other industries. Currency disparities will bring in unexpected volatility but investment appeal may increase this year & we may see small rallies in between.	Sideways	$26 is important support at COMEX. **Trading range likely to be Rs 51,000-65,000 at MCX.**
	BASE METALS		
Copper	Worldwide demand looking to remain higher. New leadership in world's largest consumer China is likely to be supportive for housing sector & core industries There is no hurdle in supplies at present but contingent factors like production halt due to mine strikes, accidents & maintenance must be considered	UP	**Rs 435-425 is good range to buy.** A break above Rs 470 will pave the way for Rs 500-530 levels. Rs 405 is crucial support

Nickel	Supply is likely to remain on higher side this year which gets reflected in rising LME inventories. But increase in demand due to parity with substitutes will save the prices from falling further.	UP	Rs 930-910 levels will attract buying. **Overall range likely to be Rs 880-1,200 for the year**.
	ENERGY		
Crude Oil	Geo-political tensions aside, demand in India & China will keep a check on falling crude oil prices for this year too. Despite a huge glut of crude oil, a revival of demand may be seen in US this year along with supply threats arising over conflicts within OPEC on various policies.	UP	NYMEX Crude may trade back above $100 this year. **Trading range at MCX likely to remain between Rs 4,800-5,700**.
Natural Gas	A clear shift towards consumption of natural gas in many countries strengthens the outlook. Less vulnerable to geo-political tensions makes it attractive. Advanced production technologies will show their impact this year with US on the verge of an extensive export strategy which will bring gas as a main stream fuel to drive the world economy.	UP	NYMEX gas may reach $7 this year. **Prices at MCX may see a stretch between Rs 140-320 this year.**

Agri-commodities

Some of the agricultural commodities have outperformed gold this year as far as returns are concerned. Good buying sentiments were witnessed in commodities like Cardamom and Soybean initially this year which fell later on due to steps taken by FMC to curb volatile movements in the segment like banning trading in commodities like guar and hiking margin of some high-volatile commodities like pepper and soya on regular intervals depending on their price movements.
But commodities like chilli and jeera saw some selling sentiments.

COMMODITY	HIGHLIGHTS	TREND	STRATEGY
	Spices		
Pepper	Bearish on weak demand for the Indian produce in the export market and the increase in imports of cheaper produce from Sri Lanka and Vietnam. Pepper shipments from India to the international market were being quoted at $8,475-$8,600 a ton. Production for 2013 is projected at 316,832 tn.	Down	Trading range for the coming year could be Rs 39,200-28,800. Best strategy could be **selling on rise**.
Chilli	Expected to remain negative for short and medium term as a result of higher production, lower domestic and export demand, fresh arrivals and increase in the production estimates. The total chilli production in the country is estimated at 2.90-3 crore bags this year against 2.80 lakh bags of the last year.	Down	Crucial resistance is Rs 6,800, above which rally may be seen towards Rs 7,950. Support is at Rs 5,800-5,520. **Buying may be initiated above Rs 6,800.**
Cardamom	Lack of domestic and export markets are making cardamom markets bearish both in spot and futures. The production is also low. An export target of 4,000 tons has been fixed by the Spices Board of India for 2012-13 crop year.	Sideways	Trading range for the coming year could be Rs 820-1500. **Buying on dips could be the best strategy.**
Turmeric	Low supply, pick up in domestic demand and exports are expected to help turmeric prices to move further Exports and consumption are likely to increase further in line with 2012, givin a push to the commodity prices.	Up	Can **buy and accumulate in the range of Rs 6,200-6,000**. Trading range for the coming year could be Rs 6,000-9,000
Jeera	Jeera (Cumin Seed) showing bearish trend in both spot and future markets in India due to lower demand. Rise in exports may help Jeera prices to move up in near future. India's production for 2013 is estimated at 55,000 tons against 43,000 tons projected for the year 2012. The country's domestic consumption and exports in 2013 is estimated at 43,000 tons and 25,000 tons respectively.	Up	Trading range could be Rs 15,000-12,300. **Selling on rise could be the strategy for the coming year.**

Oil and Oil seeds			
Soy Complex	Significant rise in the supply of edible oils Cheaper edible oil prices are expected to pressurize the prices of soy bean in India. Better production prospects in Brazil and Argentina are expected to pull down soy bean prices in the international market.	Down	Trading range could be Rs 2,850-3,500. Low risk traders are suggested to stay away from the market.
Others			
Sugar	Bearish on higher output and subdued demand India's sugar mills have produced 4.91 million ton sugar in the 2012-13 sugar seasons till Dec 15. The production is up nearly 2% from 4.82 mln tn produced a year ago. Sugar supplies are estimated at 30.5 mn tn against the domestic consumption of around 22.5mln tn for 2012-13.	Down	As per the technical analysis, one can **go long around Rs 3,150-3,100. Resistance is seen at Rs 3,440-3,500.**
Chana	Due to some better production projection and estimates of higher acreage it witnessed free fall in prices in the last few months.	Sideways	Trading range could be Rs 3,700-4,250.

2013 - Major events to watch out for:

Monetary policy by RBI- There are expectations that RBI will cut interest rates to support growth and to keep a check on inflation. These decisions will have a high impact on agro commodities.

Impact of recent reforms- Government's decision to allow FDI in retail and various other reforms will come in force this year and we may see commodity prices fluctuating under impact of INR's strength/weakness. Agro commodity prices will be most affected.

Budget 2013-Being a pre-election year, Budget will obviously catch the eyes of every investor, trader and common man. Commodity prices may see some add-ons in the form of duties and taxes. Gold and Silver have already been in line of fire from finance ministry, some agro commodities may come under scan as well.

Elections-States like Madhya Pradesh, Rajasthan, Chhattisgarh, Karnataka and Delhi will vote to form new Government at the end of this year. Agro commodities having high production base in above states like chana, soybean, mustard and wheat are likely to get election based short term benefits.

India's measures to cut gold imports-The current account deficit worries are forcing to end dependency on gold. Policies to cut gold imports are likely to be implemented at regular intervals this year and we may see rising import duties and newly added taxes very soon.

US' Federal Deficit-US may face even bigger budget battles in the next two months after a "fiscal cliff" deal narrowly averted devastating tax hikes and spending cuts. The main challenge would be to raise the borrowing limit in February to close a deal. If Obama Government succeeds in closing a deal in February, Gold will tumble the most.

New policies in China-The new leadership in China is likely to frame more aggressive policies in mid of this year. Economy of China has slowed down last year due to increased labor cost and low production. Housing and core industrial sectors are expected to get revival. Base metals will be in focus amid all this restructuring as China is the world's largest consumer of copper, nickel and lead

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