

Tuesday, June 05, 2007

PRECIOUS METALS

GOLD

Gold failed to advance further on the weakness of the USD and strength in crude oil prices. However the yellow metal managed to consolidate its Friday's gains.

US dollar showed weakness against majors like Euro and Sterling amid ECB and BoE rate announcement later in the week, while Yen drew some strength from the fall in Chinese stock market. The PPI numbers from Euro zone helped the single currency to continue its firm tone against dollar as the factory gate prices rose by 0.4% m/m and 2.4% y/y. The release of US factory orders showed little market reaction as orders for April showed a small rise by 0.3% while that for March were revised upwards to 4.1% from 3.1%. April durable goods orders were also revised upwards to 0.8% from 0.6%.

Crude oil prices (WTI) continued their upward moves with a gain of nearly \$1 a barrel and closed above \$ 66 a barrel. News of a possible cyclone hitting the Persian gulf gave some uplift to prices that were trading above \$65 a barrel. Iranian president's comments on early Sunday in which he said that " a countdown button is being pressed for destruction of Israel" and condemning of the same by France and other western countries seemed to have provided some support to a buoyant buying action.

Today, releases of Services PMI are expected from all markets, US ISM Non manufacturing index being a key release. After showing a healthy bounce last month, the index is expected to show a small decline this time. However a big contribution of Service sector in the NFP number reflected healthy conditions in the sector and that could be mirrored in the index too. Also the details of talks between Bernanke, Trichet and Fukui to discuss monetary policies will be watched by the market. Gold prices in this scenario continue to experience a healthy support at \$663/65 region while it is struggling to breach a firm resistance at \$675 an ounce mark.

CURRENCIES

EUR

Euro floated higher as the expectations an interest rate hike and hawkish comments from Trichet following tomorrow's ECB meeting continued to propel it Northwards. The focus clearly is on ECB meeting after dust settled on last Friday's Non farm payrolls from the US. Yesterday's economic data release from the Euro zone also supported the rise. PPI for the month of April grew by 0.4% as against a 0.3% increase in March.

European Central Bank president Jean-Claude Trichet said recent economic developments in the euro zone are 'very encouraging' but warned that the bloc has no scope for complacency. These comments yesterday have fuelled further hopes that Trichet may continue to remain hawkish which could mean possibility of another interest rates hike during the year. However all hawkishness apart, we do not believe that ECB would deliver continuous increase in interest rates, particularly with Euro reaching new record highs against the Yen.

Prices on 04 June 2007

	Open	High	Low	Close
DGCX				
Gold	676.00	679.20	674.60	676.10
Aug 07				
EUR/USD	134.61	135.00	134.38	134.97
Jun 07				
GBP/USD	198.34	199.24	198.31	199.05
Jun 07				
COMEX				
Gold	676.90	679.50	674.20	676.30
Jun 07				
Silver	1373.0	1385.0	1368.5	1374.5
Jul 07				
GLOBEX				
EUR/USD	1.3449	1.3507	1.3439	1.3495
Jun 07				
GBP/USD	1.9817	1.9927	1.9812	1.9901
Jun 07				
USD/JPY	82.04	82.43	82.04	82.24
Jun07				
SPOT				
Gold	670.80	673.90	668.00	670.50
Silver	13.67	13.79	13.60	13.68
EUR/USD	1.3443	1.3499	1.3431	1.3491
GBP/USD	1.9821	1.9927	1.981	1.9915
USD/JPY	122.04	122.11	121.52	121.71

(Source: Reuters)

Economic Data Yesterday

Data	Actual	Expected
EZ PPI mm	0.4	0.3
EZ PPI yy	2.4	2.3
US Dur Gds XT -R	1.9	0.0
US Durable gds R	0.80	0.60
US New ords R XD	0.80	0.00
US Factory Ords	0.3	0.7

(Source: Reuters)

Therefore we would expect to see some moderation in Trichet's hawkishness. Today we await the release of services PMI from all major euro zone economies. More important would be the retail sales data for April month. Notwithstanding the data, the firmness in Euro could continue into tomorrow.

GBP

Pound rose up sharply higher against the USD as it cruised past the 1.99 levels. Most of the strength was attributable to the Bank of England meeting stated to happen on Thursday. Even though it is expected to be a non-event, the surprising nature of BOE compels the traders to provide for possibility of a surprise rise in interest rates.

Today we await the release of BRC retail sales data for the month of May which is expected to have grown at a healthy 2.9% per annum. This should keep Pound supported through the day along with speculation about Thursday's BOE meeting.

JPY

Yen squandered a chance to show resilience against the USD yesterday as even a 8% decline in Shanghai stock market failed to inspire any unwinding of carry trades. When the Chinese equity markets plunged, there were fears that traders could embark on a large scale unwinding of carry trades. Quite surprisingly the weakness in Chinese equity markets did not spill over into the US. The scare was only temporary and Yen quickly lost grounds to USD back again.

Yen also drew some strength from yesterday's data release which showed that the capital spending continues to remain firm as it printed 13.6% increase during the 1 qtr of 2007. For now there seems to be no unwinding of carry trades and so expect Yen to continue to remain weak.

Economic Data / Events Today

Time*	Data	Expected	Previous
07:45	IT NTC svcs PMI	54.0	53.9
07:50	FR CDAF svcs PMI	58.8	58.7
07:55	DE NTC svcs PMI	57.9	57.8
08:00	EZ RBS svcs PMI	57.1	57.0
08:00	EZ RBS comp PMI	0.0	56.9
08:30	GB CIPS svcs PMI	57.00	57.20
09:00	EZ retail sls mm	0.5	0.5
09:00	EZ retail sls yy	2.0	2.6
12:55	US Redbook mm	0.0	2.2
12:55	US Redbook yy	0.0	2.4
14:00	US ISM non-mfg	55.3	56.0

* GMT

(Source: Reuters)



IN THE INTEREST OF TIMELINESS THIS REPORT HAS NOT BEEN EDITED

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