

Thursday, June 07, 2007

## PRECIOUS METALS

### GOLD

Gold prices closed lower for a third session in a row with a total loss of nearly \$2 for an ounce. Continued soft stance of USD against majors and a small rise in crude oil prices could not help the yellow metal overcome profit booking action as it tested an intraday low near \$665 an ounce.

USD stayed at a subdued state against majors from the start of the session as the market awaited ECB interest rate decision. While Euro and Sterling gave away some of their gains by the time of decision and the successive speech by Trichet, Yen stayed firm against the greenback

Market widely ignored the release of US Non farm productivity and unit labour cost both of which showed an increase by 1% and 1.8% respectively. Concerns over the oil shipments from Oman and other Middle Eastern countries due to the approaching cyclone overshadowed the US inventory release that showed a heavy build up for gasoline.

The economic calendar is less active today with the BoE rate decision being the only major event. If the release of April wholesale inventories are in line with the expectation the same could be overlooked by the market. Gold prices however require to breach \$674 an ounce mark for further gains.

## CURRENCIES

### EUR

Euro lost some grounds yesterday after the ECB interest rate announcement came as expected. However Trichet in his post announcement speech sounded hawkish and seems to have kept the door open for further interest rate hikes in future. He dropped the words "strong vigilance" from his speech as expected. This has compelled us to believe that there would not be an interest rate hike during the next meeting. Trichet said that ECB would "closely monitor" the price risk. He acknowledged that the domestic demand would be strong, credit growth was "vigorous", liquidity ample by "all plausible measures", increasing capacity utilisation and upwards risks to wage growth. Each one of these is a way of confirming the threat of inflation. ECB also raised the projection for GDP growth in 2007 and the minimum level of projected inflation.

Today there are no economic data releases from the Euro zone. There could be some more selling off in Euro. However with inflation continuing to be the Focus of the ECB, we may be in for some more interest rate hike this year. This should keep Euro broadly underpinned making it attractive for buying.

## Prices on 06 June 2007

	Open	High	Low	Close
<b>DGCX</b>				
Gold	677.00	677.00	670.50	675.20
Aug 07				
EUR/USD	135.28	135.43	135.00	135.02
Jun 07				
GBP/USD	199.50	199.51	199.10	199.25
Jun 07				
<b>COMEX</b>				
Gold	675.30	677.30	670.20	674.60
Jun 07				
Silver	1381.5	1386.0	1364.5	1371.7
Jul 07				
<b>GLOBEX</b>				
EUR/USD	1.3526	1.3544	1.3491	1.3512
Jun 07				
GBP/USD	1.9924	1.9956	1.9906	1.9924
Jun 07				
USD/JPY	82.55	82.87	82.43	82.76
Jun07				
<b>SPOT</b>				
Gold	669.60	672.00	664.60	670.10
Silver	13.76	13.80	13.59	13.70
EUR/USD	1.3516	1.354	1.3484	1.3503
GBP/USD	1.9931	1.9957	1.9905	1.9922
USD/JPY	121.36	121.49	120.86	121.06

(Source: Reuters)

## Economic Data Yesterday

Data	Actual	Expected
JP Coincident	66.7	0.0
JP Leading ind	20.0	0.0
DE Ind ords mm	-1.2	-1.0
EZ ECB rate	4.00	4.00
US Labor cost Q1	1.8	1.2
US Prod'ty R Q1	1.0	1.1

(Source: Reuters)

## GBP

Pound held firm yesterday as the traders waited for today's BOE decision on interest rates. While it is highly likely that the BOE would leave the rates unchanged, we also need to provide for BOE's nature of surprising the markets once in a while. While it is true that the economy has been showing some signs of slackening it is still robust compared to other developed economies. This should keep the focus squarely on inflation risk. Any increase in interest rates would send GBP rocketing towards the 2.0 levels again. BOE does not release a statement if the interest rates are not changed. Therefore if the interest rates remain unchanged we could see some sell-off in pound on account of "selling the fact phenomenon". However buying would reemerge as the economy still seems to be on a strong footing and inflation risks loom large.

## JPY

Yen gained further gains yesterday in what seems to be a wave of unwinding of carry-trades. Carry-traders may have also unwound some positions ahead of the ECB and BOE interest rate meetings. The last two days of gains in Yen has been accompanied by sharp declines in Dow, which compels us to believe that the carry-trades are being unwound now. There has also been news that a couple of large investment banks have recommended their clients to unwind carry trades. While it remains to be seen if any unwinding would happen in a large scale, as of now Yen seems to be set for further gains towards 119 levels.

## Economic Data / Events Today

Time*	Data	Expected	Previous
07:00	GB Halifax h/p	0.5	1.1
07:00	GB Halifax 3m yy	10.8	10.9
11:00	GB BoE rate	5.50	5.50
12:30	US Jobless clms	310.00	310.00
12:30	US Jobless 4-wk		304.50
12:30	US Cont jobless	2.500	2.472
14:00	US Wholesale inv	0.3	0.3
14:00	US Wholesale sal		1.80
19:00	US Consumer cred	6.0	13.5
23:50	JP Bank lending	0.0	1.0
23:50	JP Mach ord m/m	4.5	-4.5
23:50	JP Money y/y	1.2	1.1

\* GMT

(Source: Reuters)



**IN THE INTEREST OF TIMELINESS THIS REPORT HAS NOT BEEN EDITED**

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**CONTACT**

Phone **+971 4 2832183** | Fax **+971 4 2832185** | Email **info@kombench.com** | Website **www.kombench.com**

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