MONTHLY NEWSLETTER
DECEMBER, 2016

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Commodity Research Report

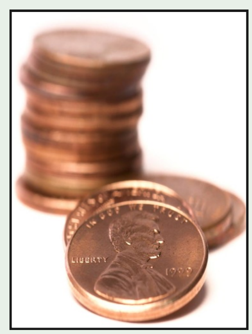
Special points of interest:

- Italy's Referendum
- FOMC Meeting
- OPEC and Non-OPEC Members Meet
- Non-Farm Payrolls

Inside this issue:

Highlights

- Gold prices closed at the lowest level in nine months as expectations for higher US interest rates continued to cloud the demand outlook for the precious metal.
- Safe haven demand for gold has been hit since the US presidential election amid expectations that increased fiscal spending and tax cuts under the Trump administration will spur economic growth and inflation.
- The minutes from the Fed's November meeting said an interest-rate increase was possible "relatively soon" if data indicated that the economy is improving. Some Fed officials explicitly called for a rate hike in December, the minutes showed.
- Investors reckon the Federal Reserve will raise interest rates at a meeting next month, and the odds of a rate increase is now at 94%, according to Fed fund futures tracked by the CME. Since gold doesn't bear interest, it works hard to compete when interest rates climb. Thus, the price of gold is expected to remain weak in the coming month.
- The US economy added 161,000 jobs in October from the prior month, the Labor Department said. The unemployment rate ticked down to 4.9% in October from 5% in September.
- the second estimate of third quarter U.S. gross domestic product rose 3.2%, up from the initial reading of a 2.9% expansion. The upbeat data added to optimism over the outlook for the U.S. economy.
- The Organization of the Petroleum Exporting Countries reached its first deal to cut oil output since 2008 - signaling its return to managing supply in world markets.
- Organization of the Petroleum Exporting Countries had agreed on a proposal by member Algeria to reduce production by around 4.5 per cent, or about 1.2 million barrels per day.
- Copper prices have risen around 22% so far this month on hopes that infrastructure plans in top consumers China and the US will bolster demand for the industrial metal.
- Investors are betting that the US president-elect's generous fiscal spend (expect close to $1trn) will drive growth and lower supplies due to China buying the metal as a yuan hedge.
- LME zinc surged to its highest in nine years last month and lead hit a five-year peak at LME and all time high at MCX, as a searing rally in metals gained steam. Zinc prices surged to $2,819.00 a ton, trading at the highest level since 2008. Lead also rose to a multi-year high, at $2,391.50 a ton.
- Investors have ploughed into metals on signs that a global recovery is gaining steam, improving the demand outlook for metals, and also as they price in more rate hikes next year.
- Fundamentals remained strong for Agri commodities as falling stocks, falling arrivals of new crop amidst rising export demand (aided by a strong dollar vs rupee) kept supporting prices. Even as sowing of Rabi crops remained good, they have been discounted in prices. Also, their arrivals are still months away. These factors could keep sentiments bullish for the entire Agri market. Demonetization of Indian currency adversely affected the cash dealing in mandis resulting in creating some bearish impact on the prices. But that remains temporary. As trading activities pick up, prices are likely to stay



Bullion

Gold bars can be held in demat through MCX.

Gold

The picture was less rosy for the precious metals complex last month. While gold and silver initially rallied from the surprise election result, the rally soon gave way to the so-called 'Trumpflation' trade – a bet on fiscal stimulus in infrastructure spending, faster rate of inflation and a more hawkish stance by the Fed. Given that inflation itself is currently very low, and that gold tends either to anticipate substantive inflation in the first instance or to respond to accelerating inflation in the second, the prevailing background low-inflationary environment means that, this time, gold looked at another important parameter, which is the prospect of rising interest rates and this was the key driver of the downward move. It is believed a December rate hike is fully priced into the markets now, and expectations of more aggressive rate rises in the horizon has cast a cloud of gloom on the precious metals complex. The odds of the Federal Reserve hiking in December are 100 per cent, up from 69 per cent a month ago, before the election, and a gauge of the dollar against its major peers surged to the highest level since at least 2005. Gold and silver have experienced losses exceeding 7% and 11% respectively since the US election. Global bond yields have climbed to 1.58 per cent in November from a record low 1.07 per cent in July, according to the Bloomberg Barclays Global Aggregate Index. Gold had its worst month in more than three years, with investors dumping bullion at the fastest pace since 2013. Assets in bullion-backed exchange-traded funds have shrunk 5.3 per cent in November, the biggest monthly drop since June of that year. India's average monthly gold import demand for domestic consumption was approximately 60 tonnes in 2015. However, this year during February to September average monthly imports stood at just 13 tonnes as compared to 60 tonnes in January and 68 tonnes in October. The slump in imports can be attributed largely to the implementation of excise duty on jewellery manufacturing, making income tax identification number (PAN card) mandatory for purchases over two hundred thousand rupees, the liquidity crisis in rural regions following three years of below normal rainfall and the government urging citizens to come clean on their undisclosed income by the end of September. Fabricators had recorded volumes lower or at best on par with last year. The precious metal might have to look for salvation, at least in terms of stemming the price fall, from the entry of physical buying since gold and silver prices have triggered key psychological levels of $1,200/oz and $16.50/oz respectively. Thus far, physical demand from China, Middle East and South East Asia has increased slightly, but it is by no means swamped by new orders, the way it was in 2013. Meanwhile, physical demand in India has been subdued by the demonetisation campaign. All in all, gold prices are at the mercy of risk appetite. Political uncertainties continue to persist, the upcoming Italian referendum as well as next year's French election. Contrast this with the relative certainty over US economic growth under President-elect Trump's proposed fiscal plans, which give rise to reflationary and higher US rates expectations into 2017.

Prices got cold feet as shine faded away from the precious metal. It was another red block on charts which drove down prices by 5.23% lower. One can see the strength of bears in the form of successive four weeks of losses with confirmation of major reversal pattern, a classic 'head & shoulder'. A neckline break below Rs.29300/10gms confirms the breakdown with follow up red bars which is considered to be bearish in coming days. Furthermore, a combination of Fibonacci extension (127.2% of March to July, 2016) with Fibonacci projection (1.618 of July, Oct, and Nov, 2016) suggests the probable targets of Rs.27500/10gms & then Rs.26500/10gms. Analyzing the pattern formation, it could be rewarding to initiate short trades on pull backs near Rs.28600-28800/10gms for the mentioned target zones. Just a word of caution– the above trade is valid as long as prices hold below Rs.29400/10gms on closing basis.

MCX Feb contract

S1	27500
S2	26500
R1	28800
R2	29400

Bullion

Silver can be polished to give shine in jewellery. Silver bars are used for imaging, electronics, jewellery, making coins, for chemical experiments as they have super conductivity and also for purifying water.

Silver

Like gold, silver was boosted by the Brexit vote in late June, but has fallen from a high of $20.81/oz in early August to $16.16/oz last month, and closed 7.87% lower month on month. The decline came on broad-based strength in the greenback, as the dollar outperformed its currency counterparts among the majors, triggering a technical break in dollar index. Even after Donald Trump won the US presidential election, it's still been a good year for silver, up 20.5% year-to-date near $16.60 per ounce. But growing optimism around a Trump presidency is creating headwinds for silver prices. Silver prices took a solid hit after Trump won the US presidential election. Investors were buoyed by hopes that Trump's planned tax cuts and infrastructure spending would resuscitate a stalling US economy. As a hedge against economic uncertainty, silver didn't shine quite as brightly as many thought it would with Trump in the White House. Fears of an unhinged President Trump were also muted around the world as the US dollar index soared. The greenback is also doing well against the yen, pound, and euro. A strong US dollar is putting downward pressure on silver prices.

The US economy looks decent, unemployment remains low, new orders for US manufactured capital goods rebounded in October, and the Federal Reserve is expected to hike interest rates at its December 13-14 policy meeting which can further press bullion prices.

Total silver supply is forecast to fall 3% to 1,012.4 Moz in 2016. The decline is expected to be driven by a 1% drop in mine production, a 0.3% fall in scrap supply and net de-hedging of 20.0 Moz. Mine production is forecast to reach 887.4 Moz this year, which is almost 6 Moz lower than 2015 and the second highest year of production on record.

The silver market is expected to be in an annual physical deficit of 52.2 Moz in 2016, marking the fourth consecutive year in which the market has realized an annual physical shortfall. This year, an expected 71.4 Moz net inflow into ETP holdings and a 61.9 Moz derivatives exchange inventory build on a year-to-date basis (end-October) have increased the impact of the physical deficit, bringing the net balance to -185.5 Moz, equivalent to approximately nine weeks of global demand. Above ground stocks, including ETP's and exchange inventories, are estimated to reach 2,640.1 Moz in 2016; a 15% increase from the previous year.

US Federal Reserve policymakers appeared confident on the eve of the presidential election that the economy was strengthening enough to warrant an interest rate rise, minutes from the Fed's early November meeting showed. The euro zone recovery has withstood economic and political uncertainty and its recovery expected to continue, partly thanks to the European Central Bank's monetary stimulus. The greenback's move has stemmed largely from expectations the Federal Reserve will raise rates at its December meeting and that it will continue raising rates if spending plans by the incoming Trump administration result in inflationary pressure on the US economy. Traders are certain that the Federal Reserve will raise rates next month, curbing the appeal of owning bullion because it doesn't provide any yield. Hence silver prices can feel the heat in December.

Silver was seen stepping in to gold's shoes as prices responded in the same manner with a monthly loss of 5.45%. A staircase built in the sideways formation in October was broken last month which dribbled down bulls to the ground. Moving forward, situation is not likely to see a turnaround and more pain seems underway. A counter move near Rs.41700-41900/kg is a good place to bet for short trades, whereas Rs.43500/kg could be considered as trend reversal point. On the target side, traders can look for Rs.39000/kg initially and prices could find major support area near Rs.37800/kg odd levels. For the trend followers, the advice would be to trade with sell on rise strategy.

MCX Mar contract

S1	39000
S2	37800
R1	41700
R2	43500

Base Metals

Copper coins were in used during the medieval period. Copper has properties of high ductility, malleability and electric conductivity, so it has become the benchmark for almost all types of wiring.

MCX Feb contract

S1	365
S2	345
R1	425
R2	448

Copper

Copper suddenly burst into life, surging 16 per cent last month as investors started to pick apart widely-held assumptions about the underlying dynamic for the metal used in everything from wiring to power grids. Till October month copper had been a laggard, climbing only 3.5 per cent at LME compared with a 55 per cent surge for zinc and 17 per cent rise for aluminium. However after hitting an 18-month high in last week of the outgoing month, the metal came under slight pressure, as the bullishness about the impact of Trump's $500 billion infrastructure plans on demand for the bellwether metal began to cool.

The concern over a wall of supply from projects commissioned in the aftermath of the financial crisis is fading just as more optimistic views on demand in China and the US emerge. During the first half of the year there were very few problems at major deposits. That changed abruptly during the third quarter, when several of the world's biggest copper miners including BHP Billiton and Freeport-McMoRan reported weak results and cut production guidance for 2017. Copper is a difficult commodity to produce, and for that reason, it's normally priced in, a 4 to 5 per cent loss of mining output each year due to disruptions. Until September, outages had run well below that level, amplifying angst about a glut of supply. That's now changed, and there are an increasing number of signals indicating a tightening market for copper. Inventories of refined metal held in London Metal Exchange warehouses have fallen 36 per cent since the end of September and Shanghai Futures Exchange copper stocks have also come down.

Most consistently negative voices on copper over the past couple of years have turned more positive; conceding the 23 MT per year market will be broadly balanced this year. As per an estimate, a 10 per cent lift in US demand for copper would see its global share rise to 9 per cent, equating to 180,000 tonnes per annum of additional metal demand. That's only equivalent to a 1.5 per cent move in China. Ultimately it will be Chinese demand that will be the biggest influence on the copper price, although positioning by big hedge funds and Chinese retail investors could move the market around in the interim.

It was a perfect storm which broke all the fencing, where prices were caught for last two years. A single November month witnessed splendid 21.39% gains, where a monthly candle looks like a vertical cliff.

Heading in to future prospects, steam is still hot and prices could mark new highs. Technical indicators such as MACD validate the momentum on weekly time frame and corrections could be used as buying opportunity. On levels part, metal could get support near Rs.365/kg as initial base, while Rs.340-345/kg would be substantial cushion zone for the long term horizon. Going forward, it is prudent to ride the bullish bandwagon on small declines as per mentioned levels as the rally could continue towards Rs.425/kg and further Rs.448/kg as a new milestone for the year 2016.

Base Metals

Zinc has resistance to non-atmospheric corrosion, which makes it instrumental for Galvanizing steel.

MCX Dec contract

S1	175
S2	167
R1	205
R2	217

Zinc

Zinc prices exploded last month to its highest in more than nine years at LME as bullish sentiment spurred a surge in the metal. It is the best performing metal among the base metals pack this year, surging 70 percent this year on fears that closures and suspensions of major mines will lead to shortages.

Global consumption of zinc exceeded supply for a seventh month in September, according to data from the ILZSG. The market in zinc is expected to see a 400,000-tonne deficit this year. But this could be offset by inventories, which in warehouses approved by the LME and ShFE stand at more than 470,000 tonnes. The global zinc market recorded marginal surplus of 54 kt during the initial nine months of 2016. But worldwide zinc market had reported a surplus of 100 kt during the entire year 2015. Global refined zinc production witnessed a decline of 1% during the initial nine-month period of 2016. The Chinese production of locally refined zinc increased marginally by nearly 0.2% when compared with 2015. The global demand for the metal witnessed a jump of 64 kt, when matched with January to September in 2015. The Chinese apparent demand totaled 4,966 kt and accounted for over 48% of the global total. The reported stock of the metal has declined by 74,000 tonnes at ShFE during the initial nine months of 2016. Also, at LME dropped by 12,400 tonnes during the month of September and accounted for 43% of the global stock of the metal. The LME stock levels at the end of September this year were 24.0 kt lower when matched with end 2015 levels. The Chinese zinc metal imports, mostly special high grade zinc increased by 44 kt during Jan-Sep '16 to 351 kt when compared with the imports during the same period last year. The imports of metal by China declined marginally to 17 kt during the month of September this year. The ILZSG's recent Portugal session revealed global demand for refined zinc metal will increase a little more than a half percent this year, to be followed by a larger increase of 2.1% in the coming year. China's renewed demand from the automotive sector will offset the decline in exports of galvanized sheet steel with demand expected to grow 1.8% this year with an additional 1.3% rise expected next year. World zinc mine production is expected to fall 5.6% this year and then recover by 5.9% next year. The most significant drop-off this year will come from India, Australia, Ireland and Peru. Global refined zinc metal output is forecast to drop 3.2% this year, but is expected to rise 2.9% next year due in part to recovery in India, Australia and Mexico.

December's holiday slowdown period could soon put a cap on Zinc rally, which has already broken into the 9 year high.

In a single sentence, 'surgical strike against bears is all that describe last month's furious rally. Prices surged leaps and bound which made the tall monthly bar on price chart. However, prices got reaction after completing double ton which led to correction in prices towards Rs.183/kg levels (38.2% of Oct lows to Nov highs). Looking ahead, weekly MACD is positive and prices are trading above its 20 & 50 DEMA (Rs.175 & Rs.168/kg) which supports the underlying strength. Reviewing the trade set up, it is viable to buy zinc near Rs.176-177/kg mark with protective stop loss of Rs.167/kg levels. On the higher zone, the initial hurdle could be seen at Rs.205/kg levels, while a breakout could lead to next projection level of Rs.217/kg mark. Hence, it would be a buy call for the coming month.

Base Metals

This light, corrosion resistant material is used to make wires and aircrafts. Soft drink cans are made of Aluminium.

Aluminium

Having seen a robust performance thus far this year, Trump's victory has catalysed further bullish sentiment in the base metals complex on the back of fiscal stimulus anticipated from the incoming administration. The market appears to be in a euphoric mood at the moment, underpinned by the 'Trumpflation' trade, which has benefited US equities, dollar and industrial commodities.

Compared to the likes of zinc, nickel and copper, aluminium price performance this year has been a relatively tame one, with a year-to-date gain of around 18%. However, while SHFE prices for the majority of base metals have traded in tandem with their LME counterparts, this has not been the case for aluminium.

While over-supply remains a key structural issue in the aluminium market, global production growth this year surprisingly has lagged behind market expectations. Having risen by an average rate of 6% in the past five years, Reuters expect aluminium production growth to stagnate in 2016, increasing by a mere 1%. Much of this is due to non-existent output growth in China. Aluminium demand has been robust this year. While primary aluminium production growth in China has slowed considerably, the country's aluminium consumption remains strong, as indicated in aluminium semis production growth. According to the National Bureau of Statistics (NBS), aluminium semis production has grown by 13.3% on a year-to-date basis as of August.

SHFE reported aluminium stocks currently stand at 83,775 tonnes, the lowest level since September 2011. This has fuelled the rally in SHFE prices this year, as market participants construed this as a sign of tightness in China. While falling SHFE inventories can be explained by strong appetite for aluminium from semis fabricators, many smelters are now selling metal to fabricators directly in liquid form as it reduces the additional costs of casting and re-melting. Reforms introduced by the LME have compelled LME warehouses to load out more metal since 2015. Subsequently, stocks in LME warehouses have more than halved to 2.12 M tonnes from their peak of 5.45 M tonnes in 2014. Total reported stocks have been falling every quarter since Q3 2014, bringing total inventories to their lowest level since Q4 2008.

A green monthly candle makes a trio of positive spell which evolved with breakout. Prices have successfully come out of the box above Rs.111/kg on monthly closing, after six months of efforts. On a larger frame, prices are in a midway of broadening triangle which is in continuation since year 2011. For a trading perspective, Rs.114/kg would act as a support for the prices in near term, though major base is at Rs.111/kg mark. Furthermore, buying is advisable on dips, whereas upside target could be seen at Rs.130/kg (high of Nov,2014) and prices can look forward to Rs.134/kg as upper trend line of broadening triangle. Overall breath is looking fine with the positive bias and buy on dips would be advisable for the coming month.

MCX Dec contract

S1	114
S2	111
R1	130
R2	134

Base Metals

Nickel

The drastic change in market's supply fundamentals on account of ban on nickel mine production by the Philippines administration led to sharp rally in nickel prices during recent months. The rally in prices was further aided by improved demand from China. Nickel registered gains of around 10 percent for the month of November. The increased infrastructure spending by Chinese administration contributed to rising nickel demand.

Chinese property values have soared in 2016, as home prices in some cities have doubled, a sign that successive waves of government stimulus may have found their mark. The housing sector accounts for about 15% of the China's steel consumption. Another source of demand, auto makers, reported that sales jumped 29% in October, the biggest gain in nearly three years. Nickel also got some positive sentiments from the rumors that Indonesia will cut the royalty charged on sales of processed and refined nickel to 2 percent. Indonesia was the world's biggest nickel ore producer before ban on export of nickel ore, though now it stands on sixth place. The cut was needed to encourage more miners to develop smelters. The royalty, paid by miners to the government, is currently 4 percent of each sale. According to recent statistics released by the International Nickel Study Group (INSG), the global nickel market has reported production deficit of 52,600 tonnes during the initial three quarters of the current year. This is in comparison with a surplus of 74,800 tonnes during the corresponding nine-month period in 2015. Also, INSG forecasts a deficit of nearly 66,000 tonnes for the whole year 2016. It foresees the nickel market to continue to remain in deficit in 2017 as well. Going into 2017, nickel's performance is dependent on two major factors- the fate of Philippines' mining ban in China and the anticipated jump in infrastructure development in the US as Donald Trump takes over as the new president of the country.

Nickel prices followed the theme of base metals complex and gained 10.30% at the end of the month. It was a good show but certainly not the mega event like other counterparts. Heading forward, prices look topped out near Rs.820/kg levels which could be seen as tough zone since year 2010 on long term charts. Furthermore, prices have choked near upper band of Bollinger on monthly time frame with negative divergence on weekly RSI, which suggests at least a pause in breath for a short term view point. For traders' fraternity, it would be a call to look for a reversal trade and to place short bets near Rs.785-795/kg levels with a level of caution above Rs.820/kg mark. On the downside, prices could correct to immediate level of Rs.745/kg and could extend further towards major base at Rs.730/kg levels. Considering the attractive risk-reward, sell on rise strategy should be followed.

Nickel bars are useful for manufacturing of various products such as coins, cutlery, magnets, ornamental and domestic objects.

MCX Dec contract

S1	745
S2	730
R1	820
R2	865

Base Metals

The Lead rod may be used for industrial applications as well as scientific experiments. It is a valuable addition to any collection of metals and chemicals.

MCX Dec contract

S1	151
S2	146
R1	170
R2	187

Lead

Lead futures jumped as much as 28 percent in the outgoing month and ended higher by Rs.22.75 or 16.60 percent at Rs.159.80/kg. Prices rallied strongly as the outlook for demand improves, mostly on Chinese industrial public works activity and also optimism that the US election victory by Donald Trump will spur infrastructure development. Lead prices played catch-up. They have lagged behind zinc's performance all of the year, but it's not a surprise that lead prices are also surging. From its January lows, lead is up around 36 per cent year-to-date. The closure of mines caused zinc prices to rally this year, but it seems like the market has ignored the fact that mine closures also affect lead supply. Global mine shutdowns over the past year and moves by lead producers to curb output in the face of low prices have tightened global supplies of the metal used to make batteries. Investors have ploughed into metals on signs of a global recovery, improving the demand outlook for metals, as well as expectations of higher interest rates. Hard assets are an attractive hedge against inflation because they tend to hold their value as rates rise. On demand and supply front, the International Lead and Zinc Study Group recently convened in Portugal to deliver its forecast for the coming year, and revealed that global demand for refined lead metal is expected to rise 2.8% this year and 1.3% in 2017. In China, strong growth in vehicle production and sales have helped to balance declining demand for lead-acid batteries in the e-bike sector where sales of lithium-ion batteries are reported to be rising. It is anticipated that Chinese lead usage will rise by 2.5% in 2016 and 1.1% in 2017. Furthermore, European usage of lead metal is expected to increase 5.3% this year after declining in 2015. This is due in part to positive performance from the automotive sector. It's important to add that lead demand in Europe is expected to remain flat next year. Pertaining to supply, global lead mine supply this year is forecast to be less than a half percent lower than in 2015, with a boost in China offset by other nations, including Australia, Mexico, India and the US. In the coming year, global lead output is expected to rise 3.3%.

With few signs of a change in lead's usage profile and little evidence of tightening supply, lead's rise has raised concerns that it has been caught up in a speculative wave sweeping across the commodities spectrum. Generally, although we are bullish for most of the metals, it seems as though the rallies over the past month have run the prices ahead of the fundamentals. We would not be surprised if consolidation sets in while the market absorbs scale-up selling.

Lead was one of the major winner in the previous month and the spectacular rally awarded investors with 16.60 percent returns, where prices rallied to their life time high at MCX. Prices surged to $2576.50/t or Rs.175.70/kg, but retreated due to profit booking at higher levels. In the process of never ending rally, prices have been pushed to an overbought territory. Going forward, wild swings are expected and counter may witness profit booking at higher levels and $2490/t or Rs.170/kg may prove to be a near term hurdle for bulls to cross. However, on technical developments, counter is making higher highs and the level of $2264/t or Rs.155/kg may cushion prices and act as medium term support for the counter. It is advisable to trade with negative bias initially, but after the correction, buying positions can be created near support mark of Rs.151/kg, for higher side targets of around Rs.187/kg as the broadly positive trend is intact. Protective stops should however be placed below Rs.146/kg mark.

Energy

Crude Oil drums are used for storage in order to facilitate transportation.

MCX Dec contract

S1	3250
S2	3090
R1	3550
R2	3650

Crude Oil

OPEC members stood up on what was described as the most important meeting in recent history and gave crude oil a fresh life after producer club and Russia cut a deal to reduce output to drain a global supply glut. Oil shot up over 10 percent and NYMEX crude surged to as high as $49.87 per barrel after output cut. The Organization of the Petroleum Exporting Countries (OPEC) agreed on Wednesday 30th November, its first oil output reduction since 2008 after de-facto leader Saudi Arabia accepted "a big hit" and dropped a demand that arch-rival Iran also slash output. The deal also included the group's first coordinated action with non-OPEC member Russia in 15 years. OPEC produces a third of global oil, or around 33.6 million bpd, and under new deal it would reduce output by around 1.2 million bpd from January 2017. That would take its output to January 2016 levels, when prices fell to over 10-year lows amid ballooning supply. This historic occasion, with OPEC member countries unified in approving the already mentioned 'Algiers Accord', saw an agreement on a new OPEC production target range. The focus was on accelerating the drawdown of the stock overhang and bringing the market rebalancing forward.

The agreement came despite huge political hurdles. Iran and Russia are effectively fighting two proxy wars against Saudi Arabia, in Yemen and Syria, and many skeptics had said the countries would struggle to find a compromise. There was rumor mongering, conflicting statements and a lot of volatility as Iran, Iraq, Libya and Nigeria were opposing the deal and have sought exemption from production freeze as their output has been hurt due to exemptions or other outages and require special conditions to be granted. Russia had previously resisted participating and instead pushed production to new records in recent months.

Elsewhere, investors in the US speculated that the oil production slowdown overseas could be good for business in the US Under incoming President Donald Trump, oil exploration is expected to be allowed off the coast of Virginia and off the coast of Florida. Artic and Antarctic exploration, banned by current President Obama, could also be allowed by the Trump White House.

The path ahead for the oil market, however, is expected to be volatile, as those who positioned for a rally unwind their trades to book profits. The possibility that OPEC will be unable to meet its commitment to cut production could also undermine prices as well. That makes the long-term path for oil more uncertain, but few expect the commodity to reach $60 a barrel soon.

Crude oil rocketed 7.10 percent or Rs.224/bbl and ended the month on strong footing at Rs.3377/bbl. Taking a look at the daily chart, previous month was a massive win for the bulls. Not only did the bulls defend the $44.80/bbl or Rs.3100-3090/bbl support level and bounced strongly, they also regained the level of $49.67/bbl or Rs.3375/bbl resistance which was previously rejected. On technical developments, prices have managed to garner support of 50 day EMA and in the bigger picture, 200 day EMA which was very strong resistance for all of 2015, has now become support this year. The fact that the 200 day moving average is trending up is a very positive sign, and that it has provided such strong support is a tell-tale sign of a bull market. Closing and sustained trading above $49.67/bbl or Rs.3440/bbl will activate the bullish trend scenario on the medium term basis, opening the way for extending the bullish wave to target next medium term resistance at $54.35 per bbl or Rs.3650 per bbl. On the flipside, as short term charts have been overbought due to strong rally some profit booking may be witnessed, but prices are expected to hold $47.50/bbl or Rs.3250 mark. For the month ahead, traders are advised to use declines to initiate fresh longs as per levels mentioned.

Energy

Gas is often used to heat industrial and commercial boilers and pressure vessels.

MCX Dec contract

S1	211
S2	200
R1	248
R2	258

Natural Gas

Natural gas re-entered the bull-run after the sharp correction of last month as forecasts showed widespread cold in US that will boost demand for the heating fuel. Gas prices are gaining ground as frigid US weather creeping into December forecasts, prompting speculation that an extended chill will cut into record stockpiles of the fuel. Rising gas exports and a slowdown in output from shale formations have stoked demand, leaving the market vulnerable to supply constraints during the winter.

The US Energy Information Administration projected year-over-year dry natural gas production in 2016 would fall for the first time since 2005 as low energy prices reduced drilling activity. EIA reduced its output projection to its monthly Short Term Energy Outlook (STEO) for 2016 to 72.34 billion cubic feet per day, down from the 72.49 bcfd it forecast last month. That compared with an all-time high of 74.14 bcfd in 2015. EIA forecast dry gas production would return to a record high in 2017, rising to 75.06 bcfd. The last time year-over-year gas production declined was in 2005 when Hurricanes Katrina and Rita slammed into the Gulf Coast, damaging energy infrastructure. In 2005, more than 20 percent of annual US dry gas output of 49.45 bcfd came from the federal waters in the Gulf of Mexico. Since then, producers have figured out how to use horizontal drilling and hydraulic fracturing and other technologies to unlock more gas trapped in shale rocks. The seven biggest US shale fields provide more than 60 percent of the nation's dry gas production, while the Gulf of Mexico accounts for just 4 percent of the total. The EIA also forecast US gas consumption would slip to 75.66 bcfd in 2016 versus the 75.97 bcfd it forecast in October. That would still top the 2015 record high for gas demand of 74.81 bcfd and would be the seventh annual record in a row.

However, if a warm November extends into a warm December, this would be a larger concern for the bullish 2017 thesis. A repeat of heating degree days from last year's warm December would result in end-March storage levels closer to 2 Tcf and keep Q4 cash prices below $3.00/mmbtu for the quarter.

It's like hot air balloon which was floating in the air when it comes to natural gas last month. Prices surged to fresh highs for the year and gained 12.50%. On technical charts, prices got the momentum above Rs.200/mmbtu range on a closing basis, which was broken after five struggling months. Moving ahead, prices are not loosing strength but could correct towards its near term support at Rs.211/mmbtu which should be considered as a buying opportunity, where only a close below Rs.200/mmbtu, the previous resistance turned support could be a possible way to depict the sign of reversal. With the current wave of momentum and considering the price set-up, it would be a buy call on declines towards mentioned support area, for the upside target of Rs.258/mmbtu, with a proactive stop loss of Rs.220/mmbtu.

Price Quotes of Metals & Energy in MCX and International Markets

PRICES OF METALS & ENERGY IN LME/ NYMEX (in US $)					
Commodity	Exchange	Contract	31.10.16 LTP	30.11.16 LTP	Change (%)
Bullions					
Gold	Spot	-	1276.75	1172.90	-8.13
Silver	Spot	-	17.879	16.472	-7.87
Aluminium	LME	3 Months	1736.50	1731.00	-0.31
Copper	LME	3 Months	4862.00	5795.00	+19.19
Lead	LME	3 Months	2063.00	2345.00	+13.67
Nickel	LME	3 Months	10425.00	11170.00	+7.15
Zinc	LME	3 Months	2462.00	2702.00	+9.75
Crude Oil	NYMEX	December	46.76	49.00	+4.79
Natural Gas	NYMEX	December	2.98	3.343	+12.18

Base Metals LME Inventories			
	As on 31st Oct 2016	As on 30th Nov, 2016	% Change
Aluminium	2141300	2149150	+0.37
Copper	320825	234825	-26.80
Lead	188700	187725	-0.52
Nickel	363558	366834	+0.90
Zinc	450800	442400	-1.86

TREND SHEET			
EXCHANGE	CONTRACT	CLOSING PRICE as on 30.11.16	EXPECTED TREND
MCX	Gold (Feb)	28197	Downwards
MCX	Silver (Mar)	40965	Downwards
MCX	Copper (Feb)	399.95	Upwards
MCX	Nickel (Dec)	768.00	Downwards
MCX	Zinc (Dec)	184.20	Upwards
MCX	Aluminium (Dec)	118.30	Sideways
MCX	Lead (Dec)	159.80	Upwards
MCX	Natural Gas (Dec)	3377	Upwards
MCX	Crude Oil (Dec)	229.60	Upwards

Agri Commodities Research Report

Indian Currency demonetization has a temporary Bearish impact on the Indian Agricultural commodity prices. With dealings in cash in the mandis getting adversely affected, the trading activities fell. This resulted in some fall in prices even as overall Fundamentals for most counters remained strong.

As the problems related to that aspect slowly fades away, trading activities return to normal. The bearish impact associated with increased arrivals of kharif crops and improved sowing of rabi crops have been discounted. Falling stocks amidst rising export and domestic demand—aided by a strong Dollar vs Rupee could be an important determinant factor for the coming weeks in supporting prices. We expect a firm trend to persist in the markets as trading activities slowly return to normal and are likely to pick up in coming

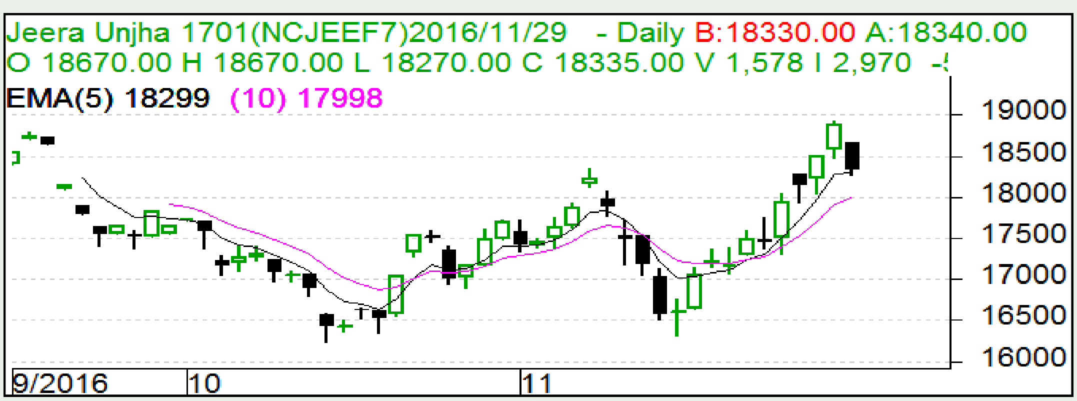
JEERA

- Prices shot up for Jeera during November by 15-20% as low stocks kept supporting the prices. Even as sowing for the new crop was reportedly very much on the higher side due to good rains received in Gujarat and Rajasthan, these factors had already been discounted in the previous months.
- The demonetization of Indian currency created a liquidity problem in the mandis as trading activities got adversely affected during the initial few days. This resulted in some fall in prices during initial half of the month – but that was not driven by any fundamental factor.
- Rates shot up during the 2nd half of the month as exports started rising. Aided by a strong Dollar vs Rupee, this was beneficial for Indian exporters. This factor, along with very low production and stocks in International markets – namely Turkey and Syria (grappling with geo-political tensions), the export demand from Gulf countries started shifting to India. Export demand from US, EU and China continued. The current low rates supported prices further. Falling stocks and the fact that new crop arrivals would be there only from next year February onwards kept overall sentiments very strong for the commodity.
- As per 3rd advanced production estimates from Gujarat, production there is expected to rise to 2.131 lakh tons in 2015-16 vs 1.97 lakh tons in 2014-15. However it is much lower than the normal production seen in 2013-14 at 3.46 lakh tons there. As per Spice Board of India data, exports for April-June 2016 rose 55% in quantity to 41000 tons vs 26529 tons same period last year.
- During December, exports are likely to pick up further ahead of the Christmas holidays. In the domestic market, slow easing of cash crunch will ensure demand starts rising here also. With arrivals and stocks on the lower side, this could ensure an overall moderate firmness for the prices (with

Falling stocks amidst rising export demand—aided by a strong Dollar vs Rupee kept trend firm for Jeera in mandis. Higher current rates could ensure temporary profit booking; but overall market sentiments likely to remain firm on expected further rise in exports.

NCDEX Jan contract

S1	17840
S2	17000
R1	19000
R2	19800



Soybean

Indian currency demonetization and slight bearish International market reports kept some pressure on prices; drop in harvest pressure in India and the US amidst rising demand in coming weeks could lend some support to the prices as a moderately firm trend is not ruled out

NCDEX Jan contract

S1	3020
S2	2880
R1	3340
R2	3460

- Soybean Prices were down in early November following government's announcement regarding demonetization. Although this move will be beneficial for the country's economy in the longer run, there will be short term bottle necks regarding cash liquidity. Also, the USDA report released this month was perceived as bearish by the global market participants. As a result sentiments weakness across all asset classes including Agricultural commodities. Domestic soybean futures even went below 3000 level during the second week of November.
- USDA's November Crop Production report indicated this year's soybean yield at a record 52.5 bushels per acre, up from last month's forecast at 51.4 bushels. As a consequence, 2016/17 soybean production was forecast 92 million bushels higher to 4.361 billion.
- USDA forecast 2016/17 soybean exports 25 million bushels higher this month to 2.05 billion based on additional supplies and strong export commitments. Indications of higher priced forward sales led USDA to raise its forecast of the 2016/17 average price to \$8.45- \$9.95 per bushel from \$8.30-\$9.80 last month.
- Given more competition from US shipments, the USDA had lowered its 2016/17 forecast of Argentine soybean exports by 400,000 metric tons this month to 9.25 million. Imports of soybean meal for several countries, including Mexico and the EU, are forecast to be moderated by higher imports of soybeans and other oilseed meals.
- The USDA reported that Indian soybean oil imports should remain robust this year due to a deficit of domestic vegetable oil production and a slow recovery in global palm oil supplies. Indian soybean oil imports for 2016/17 are forecast at 4 million tons, higher by 400,000 from last month but lower than the 4.4 million in 2015/16.
- At lower levels buying interest improved significantly since the consumption outlook is positive for the current financial year. At the same time soymeal prices turned active which lifted exporters' expectations about possibility of fresh export deals of soymeal from India. As a result prices started improving by the second fortnight of November, and the upside momentum persisted till end of the month.
- Prices in coming months shall take guidance from the planting related developments in Brazil and Argentina. As for India and US, harvest pressure will be seen dropping shortly. The current export offers of Indian soymeal has lowered and nearing offers of Argentine soymeal. This implies that Indian soymeal will gain some interest in the global export market as it is now turning attractive for the importers.
- All in all we expect soybean to show further price appreciation from current levels in December.

Crude Palm Oil

Falling inventory in domestic markets and firmness in International markets from the adverse impact of El Nino in South-East Asian countries kept supporting prices; pick up in exports, tightening supplies and rising demand could keep overall market sentiments firm in the coming weeks

- Edible oils like soya oil and palm oil were not so much adversely affected from the Demonetization news. This was because of lowering inventory in the domestic market and strong global cues.
- CPO prices were in upward trend during greater part of November. As per trade sources prolonged El Niño related dryness has affected palm plantations across South-east Asia negatively. Due to this there is a higher probability of global output of palm oil to drop for the first time in 18 years.
- The USDA had earlier reported that global palm oil market can remain tight global palm oil production for 2016/17 might fall by 1 million tons to 64.5 million with a reduction for Malaysia (to 20 million tons).
- September palm oil production was 64 percent higher than the February low as per the USDA's October report. Yet it was the lowest September output in 6 years.
- For 2016/17, there are expectations of a minor increment in the production levels while consumption might increase steadily.
- The USDA had reported that Malaysian palm oil stocks in the month of September were at a 9-year low. Trade sources say that Malaysia and Indonesia's output may drop by 10 per cent and 5 per cent, respectively in 2016-17.
- It is worth mentioning that palm inventories have fallen to the lowest in more than five years as exports had surged ahead of festivals in top consumers India and China.
- Tightening supplies have rallied prices in Malaysia for crude palm oil to a 5-year high, having risen more than 50 percent since September 2015.
- There may not be much improvement in the low level of season-ending stocks next year. This is because most of the expected rise 2016/17 production for Malaysian palm oil might be compensated by improvement in export demand, which is forecast rising to 17.5 million tons from 16.6 million in 2015/16.
- The USDA also reported that Indian soybean oil imports should remain robust this year due to a deficit of domestic vegetable oil production and a slow recovery in global palm oil supplies.
- Palm oil is relatively cheap compared to liquid oils and once the peak production goes, then there will be ample scope for the upside potential.
- So considering lower palm oil production and stocks, in addition to ringgit depreciation, palm oil market can remain upward trend in coming months.
- Overall market sentiments look firm for crude palm oil with intermittent profit booking at these higher levels. Firmness in the International markets is likely to persist for some more time—giving strong support to the domestic markets also.

NCDEX Dec contract

S1	540
S2	517
R1	580
R2	598

Mustard Seed

Improved demand for oil in the winter season, restricted supply in the mandis are lending support to the prices; even as sowing reports are good, yet falling stocks and long time for new crop arrivals with demand rising are factors that could support prices in the near term.

- Mustard seed prices have been on a strong downtrend since late July. However, the fall came to a halt only in the month of November. Early part of the month saw more of selling activity since retail demand of mustard oil and mustard oil cake could not pick up. This was because retail customers' slowdown their expenditure on account of liquidity crises, eventually keeping mustard seed prices on the lower side.
- The demonetization effect was evident in mustard market as well. Prices started improving once the impact was factored in, and when soybean started recovering.
- Reports of rape oil demand to remain stable during the winter months and ongoing marriage season kept buyers active post first fortnight of November. On the whole, improving spot market demand prospects and restricted arrivals from the supplying regions c this price contributed for the reversal from the downward trend.
- Speaking about the planting situation, withdrawal of south-west monsoon 2016 has been delayed 15 days roughly. It could mean that the planting conditions have been quite better this time.
- India's Rabi sowing has kicked off, with mustard sowing so far reported at 2.73 million ha vs 1.52 million ha a year ago. Although prices are getting supported through slower arrivals and steady offtake, the pace of good sowing is expected to keep the upside restricted in coming weeks. Since stock levels have tightened extremely, the primary direction of mustard seed will be on the upside side till December.
- As per estimate by COOIT or the Central Organization for Oil Industry and Trade, India's total production of mustard seed might reach 58 lt, higher by 8 lt compared to last year production. This estimate is however lower by the Department of Agriculture, which estimated the production at 68.2 lt in its fourth estimate in August 2016. In the first advance estimate for 2016-17, published in September, Department of Agriculture, set a production target of 85 lt.
- As per government reports, mustard production is expected to increase as most parts of North-West India and Central India have received normal to excess rainfall during the monsoon months.
- The harvest season is still far away therefore prices in next few weeks shall remain in upward trend because of stable demand outlook for rape oil and rape meal, in addition to reducing arrival number in major mandis of Rajasthan. Tightening stocks in the country will be another bullish trigger.
- We expect a moderately firm trend for the commodity in the coming weeks as demand starts rising in the mandis.

NCDEX Jan contract

S1	4640
S2	4420
R1	4980
R2	5200

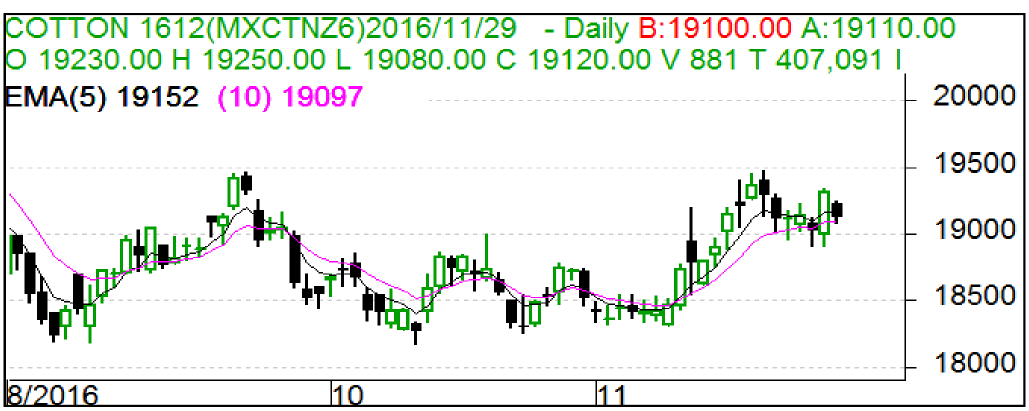
Cotton

Higher arrivals of new crop and prospects of good production in domestic and International markets kept uptrend limited for Cotton; with arrivals slowing down, expected rise in exports could ensure support to the prices in coming months; expected fall in export demand from Pakistan and China may limit gains.

NCDEX Dec contract

S1	18760
S2	18160
R1	19600
R2	20600

- Prices look set for some recovery in Cotton / Kapas in the coming weeks. With harvesting on the new crop slowly getting over, prices are at very low levels. A pick up in the winter season demand and export demand could well support prices in the coming weeks.
- On the negative side however are the production reports that shows a moderately favorable figures – both on the domestic and the international front.
- Reports from Cotton Association of India (CAI) projects kharif cotton crop is likely to be at the same level as that of last year. It has retained the cotton crop estimates for the year 2016-17 season at 336 lakh bales (of 170 kg each). As per CAI data, for the year 2015-16, cotton crop was a tad higher at 337.75 lakh bales. There is a reported decline in acreage of about 10% but the same is likely to be offset by higher yield. The projected balance sheet drawn by CAI estimated total cotton supply for the cotton season 2016-17 at 398 lakh bales, while the domestic consumption is estimated at 309 lakh bales thus leaving an available surplus of 89 lakh bales. In 2015-16, the government had estimated 30.14 million bales, against the actual 33.7million. The area under cultivation, however, has been falling. Many in Punjab, Rajasthan, Gujarat, Madhya Pradesh, Maharashtra and the south shifted to pulses and soybean from cotton, as the latter did not yield the expected return, while prices of the pulses remained high the entire year.
- The latest USDA reports too have kept trend slight down in the International markets. November 2016/17 US cotton estimates include slightly higher production and ending stocks, as a larger Texas crop is partially offset by decreases for the Southeast. Domestic mill use and exports are unchanged. US ending stocks are now estimated at 4.5 million bales, equivalent to 29 percent of total disappearance. The forecast range for the marketing year average price received by producers of 63.0 to 71.0 cents per pound is raised on both ends. The midpoint of 67 cents per pound- 6 cents above the revised 2015/16 average price of 61.2 cents - reflects activity to date. The world 2016/17 cotton estimates show larger production and ending stocks, due mainly to a 500,000-bale increase for the India crop. Forecast world consumption is virtually unchanged. World trade is raised slightly on a higher India export forecast. World stocks are now projected at 88.3 million bales.
- With the political tensions with Pakistan continuing, this could act as a dampener for a significant price rise in coming months as we generally see from December till March. Also the amount of export demand from China too is uncertain. But overall, prices are at lower levels. With new crop arrivals slowing down, a pickup in demand is expected in coming weeks. International markets have started recovering. Firmness in Dollar vs Rupee could ensure some bounceback in prices in December for cotton/kapas.



Guargum

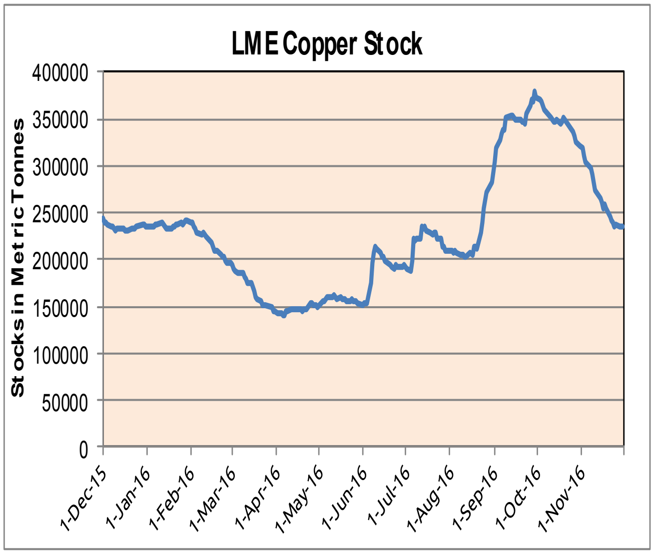
As arrivals of new crop slow down, exports start rising—supporting the falling prices. A firm Dollar vs Rupee too is helping exporters as markets look set for some more recovery in coming weeks. A firm trend in crude oil could support prices further as market sources anticipate, further fall from these low levels may not be sustainable.

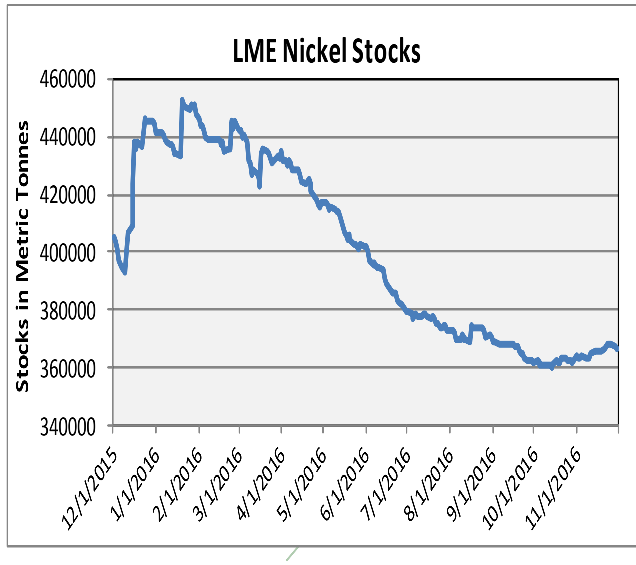
NCDEX Jan contract

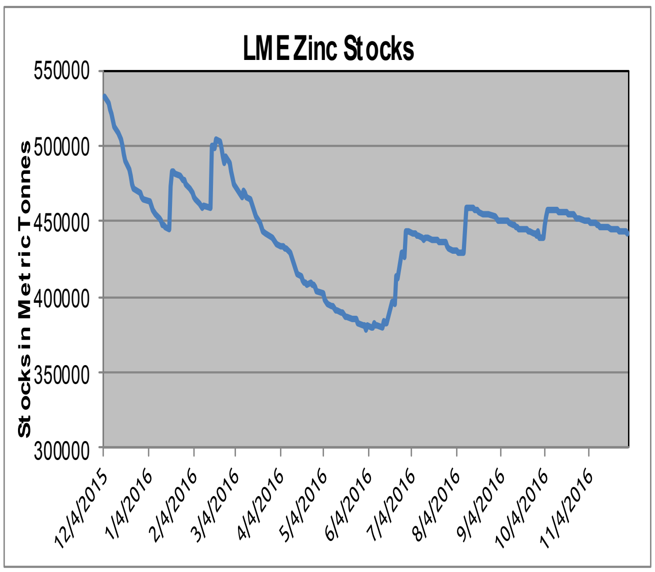
S1	3140
S2	3000
R1	3580
R2	3880

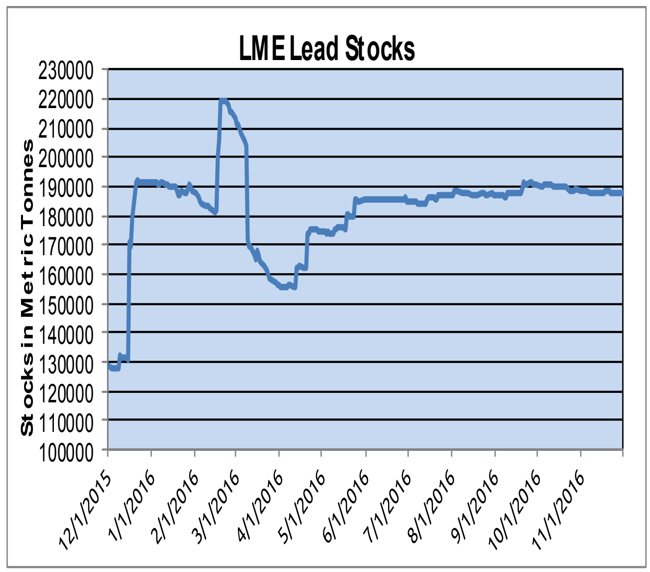
- The demonetization of Indian currency did have a bearish impact on the Guar rates also (during the initial half of November), as trading activities got adversely affected in the mandis amidst some panic situation.
- Things however normalized during the later half as prices found very strong support at these lower levels.
- Overall, for last 1 year, Guarseed has been finding strong support at the 3000 levels and Guargum at the 5000 levels. Rates have fallen significantly over last 2 years despite falling production. This year, the production is expected to be better but likely to fall short of production in normal years of monsoon.
- Lack of export demand from falling crude oil prices has been instrumental in keeping trend bearish for so long. However, traders feel that falling below these low levels would not be sustainable – and hence, we are witnessing some recovery aided by slight firmness in crude oil prices.
- Firmness in Dollar vs Rupee too is aiding the exporters and supporting prices further. The liquidity problem associated with the demonetization aspects are slowly getting over. This is expected to help improve the trading activities in coming weeks.
- The bearishness associated with the arrivals of the new crop have also been discounted. As the export demand for the new crop starts rising in coming weeks (ahead of the Christmas holidays), a firm trend is not ruled out for the counter.
- As per APEDA, in the Financial year 2015-2016 exports were at 365,097 tons vs 665,109 tons in 2014-15 – a fall of 45%. In Rajasthan, 2013-14 production was reportedly more than 28 lakh tons and 2014-15 production nearly 28 lakh tons.
- As per its 3rd Advanced estimates, 2015-16 production likely at 22,23,474 tons vs 20,83,734 tons as per its 2nd advanced estimates for the state. It has set the 2016-17 production lower at 20.80 lakh tons with acreage lower at 40 lakh ha vs 47.87 lakh ha..
- For Gujarat, as per its 3rd Advanced estimates, 2015-16 production estimated at 1.91 lakh tons vs 1.79 lakh tons in its 2nd estimate. Production in 2014-15 was 1.67 lakh tons.
- It remains to be seen however how the export demand picks up. Traders anticipate that the main reason for the fall in prices over last 2 years had been a weak demand on the export front. However with present rates being on the lower side, the exports could pick up in coming weeks ahead of Christmas holidays.
- Overall markets expect a Bullish trend for this counter in the coming weeks as exports are expected to pick up further. Prices too are at very low levels (as per market sources) and further fall may be limited. A firm Dollar vs Rupee, if aided by a rising crude oil rate, could imply some strong recovery for the counter in the coming weeks.

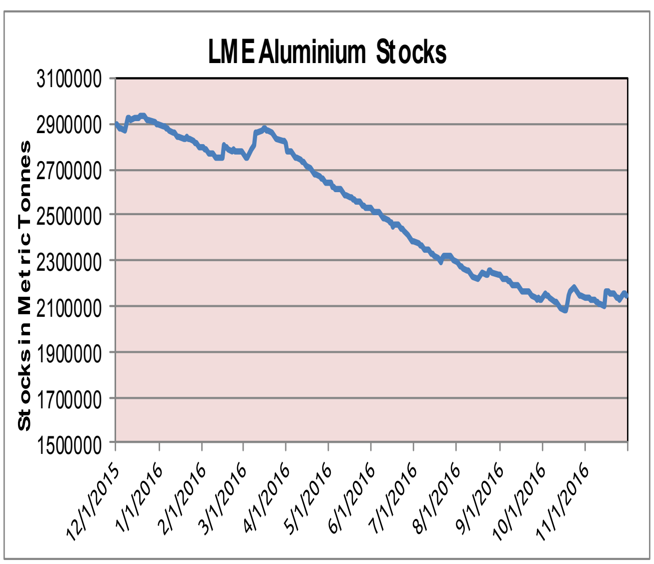
LME STOCKS POSITION





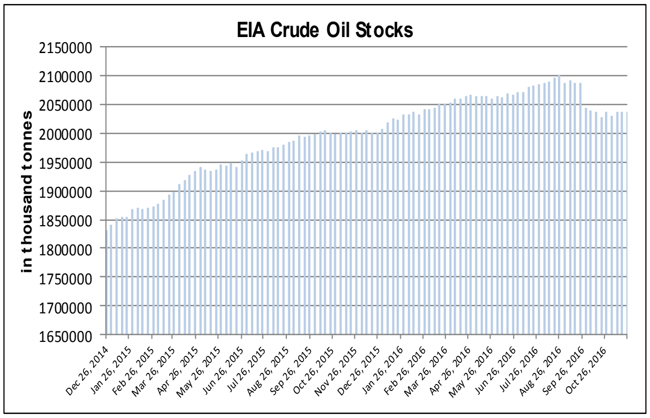


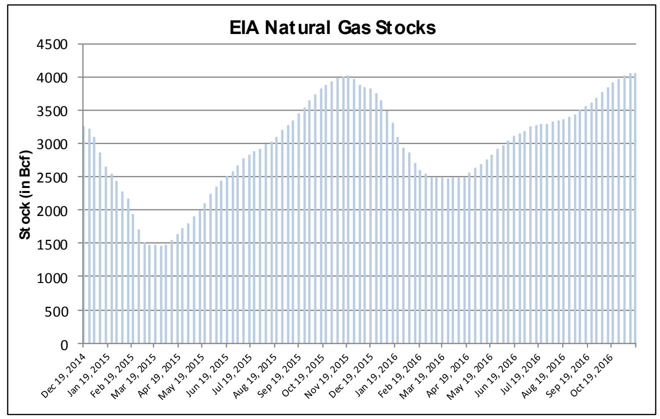




LME warehouse stocks' report illustrate the amount of inventory added or subtracted to warehouse on the previous day, thus increase/decrease in the total stock. It is one way among many ways to identify the trend in usage of material and thus can be an indicator of price.

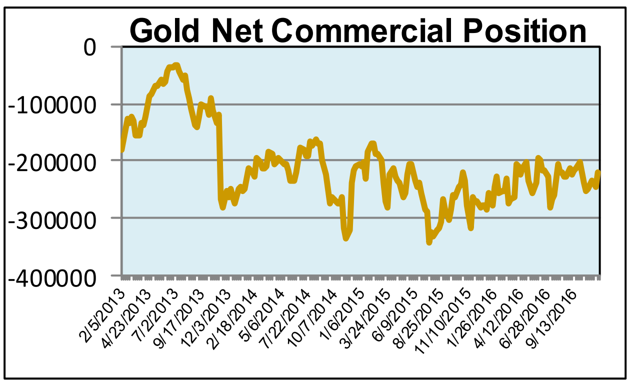
US EIA INVENTORIES

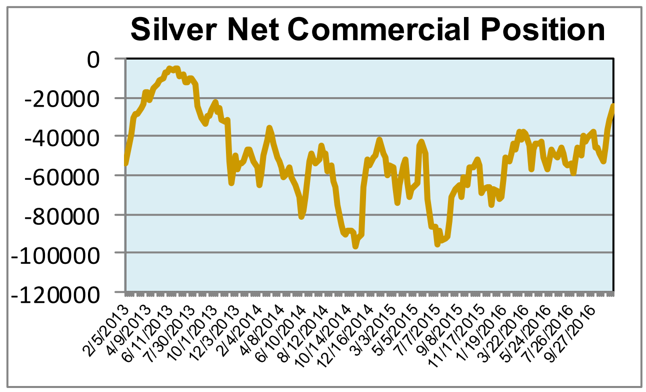


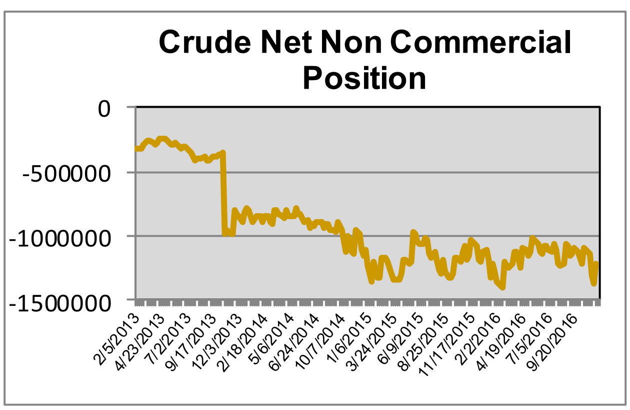


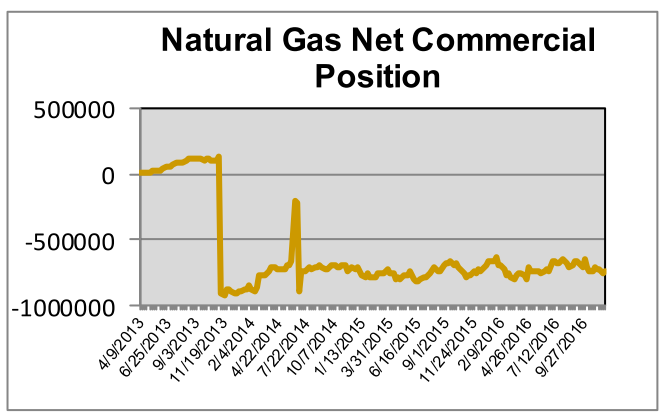
** Energy information Administration (EIA), a branch of the Department of Energy (DOE), USA releases inventory reports outlining activity in the energy sector normally on each Wednesday and Thursday. The report summarize weekly energy supplies and consumer consumption rates. The inventory reports influence the price of crude oil and energy*

CFTC POSITIONS









COT (Commitment of Traders) report: This report is released from CFTC (Commodity Future Trading Commission) of the US On each Friday it depicts the current position of commercial and non-commercial trader in the contract. The number of contracts traded by small traders is derived by subtracting the positions of larges traders and commercial hedgers

Story of the month

US Presidential election: Trump triumphs, billionaire candidate scores White House victory

- Republican Donald Trump has been elected the 45th president of the United States, pulling off the biggest upset in modern American politics with a shock defeat of Democrat Hillary Clinton who had led in the polls bringing a frenzied end to a bitter election year that has laid bare the nation's deep economic and cultural divides.
- In the end, Trump passed the magic 270-vote barrier with relative ease. The Republican crossed the line by winning Wisconsin, giving him an unassailable tally of 276.
- The Republican Party rounded off a stunning election for the party by keeping control of the U.S Senate and the House of Representatives, creating a single-party government and handing Mr. Trump a legislative advantage in Congress that will allow him to push through his agenda.
- Trump's presidency sets the stage for a series of radical policy reversals both at home and abroad and could scupper some of Barack Obama's signature achievements, including Obama care, climate change policy and the nuclear deal with Iran.
- Trump ran one of the most controversial campaigns ever sparking outrages by calling Mexican immigrants criminals and rapists, promising to build "a beautiful wall" along the Mexican border to keep illegal migrants out and temporarily ban Muslim immigrants in response to terror attacks in Europe.
- President elect Trump in his victory speech said he would rebuild American infrastructure and double U.S. economic growth promising $500 billion in additional spending on infrastructure and a total of $1 trillion over ten years to rebuild roads, bridges, airports, hospitals, and schools.
- Since Trump's victory, the US dollar has been on a tear. The U.S. Dollar index, which tracks the performance of the dollar against a basket of currencies, hit a thirteen-year high following Trump's victory.
- Investors expect Trump's proposals to boost fiscal spending, cut taxes and loosen regulation. They also believe he will accelerate economic

Sources for Monthly Report :

- http://www.reuters.com
- http://www.Kitcometals.com
- http://www.bloomberg.com
- http://www.Kitco.com
- http://www.oilngold.com
- http://www.investing.com

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