Copper could be a crucial indicator for equity markets

Devangi Gandhi

Mumbai, Feb 14: Copper prices could be a crucial indicator for determining whether the latest run in the global equity markets, among persistent concerns over economic fundamentals, will sustain.

The popular industrial metal is considered a leading economic indicator and has 90% plus positive correlation with the equity markets. After rallying more than 30% in last four months, copper prices have corrected 4% in last three days; the LME (London Metals Exchange) three-month forward is trading near $8,891 per tonne, after hitting a five-month high of $8,760 last week.

A comparison of copper prices and Sensex returns, since 2001, indicates that for most part, the direction of momentum for both converge. While there have been periods when either copper or equities deviated, the divergence didn’t sustain for more than two quarters.

After substantial correction of the order of more than 15% in both copper prices and markets, the former almost always rallied first indicating a pickup in economic activity. Equity markets followed through as the momentum in economic activity took time to translate into better earnings and market returns.

While the current rally in the Sensex started from its 2011 low in mid-December, copper prices were already on a recovery path, after dropping to a 15-month low in October 2011. In the last decade, at least on five instances, copper led the recovery in equity markets including the turnaround in markets in March 2009. After plunging by more than 6% in 2008, copper prices started to recover in early 2009.

The current rally in copper prices is largely attributed to a parallel decline in the inventories in LME warehouses seven times. Imports into China, the biggest consumer of the metal, remain robust. In January, China imported 4.13 lakh tonnes of copper, up 13.6% y-o-y and in Q4 2011, it imported 3 lakh tonnes.

However, there are concerns on whether China’s imports will sustain given its massive stockpiles. According to Goldman Sachs, imports are set to fall “sharply” over the next quarter due to high levels of restocking done since September 2011. JPMorgan too holds a negative view on the metal saying the global economy lacks “the demand spark needed to generate significant upside in the near to medium-term.”
Copper steady on weaker dollar

Reuters
London, Feb. 14

Copper was steady on Tuesday as the euro rose against the dollar after data showed Germany, Europe’s largest economy, was holding up despite the debt crisis, but signs of scant buying from top consumer China limited gains.

Three-month copper on the London Metal Exchange was $8,457 a tonne by 10:30 GMT, up 0.4 per cent from Monday’s close.

WARNING SIGNS

““There are some warning signs coming out of China... The picture of looser Chinese demand has been confirmed by the latest weekly inventory data from the Shanghai Futures Exchange (SHFE),”” Credit Suisse said in a research note.

But it added that any weakness in Chinese consumption was likely to be short-lived, given recent indications that global growth was stabilising.

Tin was at $24,790 from $25,000 at Monday’s close while zinc was at $2,069. Lead was $2,121 and aluminium was $2,222 from $2,211. Nickel was at $20,520 from $20,550.
Akzo Board Agrees to Partial Rollback of Royalty Rate to Parent

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In an unprecedented move to mollify minority shareholders, the board of Akzo Nobel India on Tuesday decided to partially roll back the royalty rates payable to its global parent but decided to wait for the completion of the merger process before finalising a crucial plan to buyback shares.

The landmark board decision saw the paints manufacturer approve a reduction of 1% in the effective royalty rates to 2% from earlier agreed rate of 3% of sales. The new rate will take effect only from October 2014. Till then the royalty applicable will remain unchanged at approximately 1% of net sales till September 2014.

"Giving due credence to sentiments expressed by some minority investors in India, we are confident that Akzo Nobel N.V. will agree to our request for royalty reduction," the company said in a written response to a query mailed by ET. The reduction is considered a major triumph for the fledgling shareholder movement started by institutional shareholders to act in concert when it comes to protecting minority investor rights.

However, on the buyback decision being strung to the completion of the merger process made a section of shareholders anxious. "They are buying time," a shareholder rued. The company seemed committed to the plan to buy shares from minority shareholders, providing them with an exit route.

"Since the merger process needs several statutory and regulatory approvals, it has been decided that we will focus on the merger first and on completion of the merger process, we will consider a buyback of shares from minority shareholders, for implementation at the earliest opportunity," the company spokesperson said.

The merger is likely to be completed in four to eight months. On February 7, Akzo won a crucial vote to merge three subsidiaries owned by its parent with itself.

The paints major meanwhile posted a 24% fall in net profit to ₹29.3 crore, but this is not comparable to the past year's corresponding quarter which had exceptional income from the sale of specialty starch business.
SC panel sets terms to 72 mines for resuming operation

Restoring greenery made mandatory

NEW DELHI: A Supreme Court-appointed committee on Tuesday recommended that mining operations in Karnataka should not be resumed until proper implementation of the Reclamation and Rehabilitation plan by lease holders.

Guilty mining lease holders in Karnataka might be required to spend a fortune for implementing recommendations of the R and R policy prepared by the Dehradun based Indian Council of Forest Research and Education (ICFRE) to prevent plundering of the environment.

The ICFRE, which studied the Sankalapuram mines in Hospet taluk in Bellary district as a model, said around Rs 4.24 crore is required to be shelled out for every lease granted to restore the greenery.

It may be noted that the Centre Empower Committee (CEC), in its report submitted to the Apex Court has found 121 mining lease holders guilty per cent of the lease area) after implementing proper R and R policy.

The cost should be borne by the lease holders only.

Though the CEC has recommended cancellation of 49 leases for severe violation of norms (removing ore outside the sanctioned areas over 10 per cent), they too have to implement the Reclamation and Rehabilitation policy.

According to the CEC, expenses for implementing the policy, is in addition to the penalty fixed by the Supreme Court.

The Apex Court which is hearing the cases pertaining to illegal mining in Karnataka is yet to decide on penalty or punishment against the guilty.

Though the mining lobby claimed that the CEC recommendations were too harsh and it would hurt mining operations in the country, officials in the government asserted that stringent measures would check flouting of norms.

DH News Service
NMDC to be told to reapply for country's largest coal block

SUDHEER PAL SINGH
New Delhi, 14 February

The coal ministry will invite a fresh application from state-owned miner NMDC Ltd for the allocation of India’s largest thermal coal block, Deocha Pachami, in West Bengal’s Birbhum district. The application, if favourably considered, could allow NMDC to float India’s largest coal mining company after Coal India, currently the near-monopoly producer.

The miner plans to rope in Coal India, which is sitting on 67-billion tonne reserves, and the West Bengal Mineral Development and Trading Corporation to float a joint venture to tap Deocha Pachami’s 19 billion tonnes of non-cooking coal reserves by investing ₹10,000 crore over three-four years.

“NMDC will be asked to apply afresh for the block under the government dispensation route after the detailed rules for coal block allocation are worked out within the next two months. Progress on the application has slowed, owing to the new legislation,” a senior coal ministry official told Business Standard. Parliament had passed an amendment to the Mines and Minerals Development and Regulation (MMDR) Act a year earlier. While the coal ministry had notified the rules for competitive bidding of coal blocks earlier this month, the details are yet to be worked out.

NMDC is hopeful of bagging the block soon. “The joint venture would be signed as soon as the block is given to us, which should happen this year. The block, when operational, would have a production capacity of 100 million tonnes per annum,” chairman N K Nanda told Business Standard. India currently produces 450 million tonnes of non-cooking coal annually.

Despite its huge reserves, Deocha Pachami has so far remained unexplored, owing to its difficult geology. The block is covered by a 300-metre bed of hard basalt rock. However, NMDC has new developed technology to break the thick rock overlaying the massive coal reserve. “Our strategy is to utilise the overburden (broken rock) in developing the road infrastructure for takeout. This would help cover a part of the huge cost of the project,” Nanda said.

According to the plan, both Coal India and NMDC would have stakes of 40 per cent each in the joint venture, while the remaining 20 per cent would be held by the West Bengal Mineral Development and Trading Corporation. The two mining majors are among the government’s top cash-rich public sector undertakings.

Coal India is sitting on cash reserves of ₹43,000 crore and coal reserves of 67 billion tonnes. The company’s production dropped 1.6 per cent to 335.9 million tonnes between April and January, compared with 341.4 million tonnes in the corresponding period of the previous year. The company plans to invest ₹10,200 crore in the next financial year to start new projects and acquire mining assets abroad.
Karnataka rakes in ₹270 cr royalty from iron ore e-auctions

During 2010-11, the Karnataka government received ₹435 crore as royalty for 33.75 million tonnes of iron ore produced and sold in the state.

MAHESH KULKARNI
Bangalore, 15 February

Despite a halt on iron ore mining in Karnataka since July last year, the state government has earned a royalty revenue of ₹270 crore, about 62 per cent of the total royalty earnings in the last financial year. With two more months in the current financial year, royalty revenues are likely to go up further.

Mining activity came to a halt in July, when the Supreme Court ordered the closure of mining and transportation of iron ore in Bellary district. Subsequently, on August 26 the apex court also ordered closure of mining in Chitradurga and Tumkur districts.

However, through its orders dated September 2 and 23, the court had permitted sale of about 25 million tonnes (mt) of iron ore from the stockpile at various leases in Bellary, Chitradurga and Tumkur districts to ensure supply of ore to domestic steel mills, sponge iron and pig iron units, in and around Karnataka. A monitoring committee comprising forest officials of Karnataka and the director of mines and geology (DMG) was constituted to supervise the sale of ore through electronic auctions.

Till January 6, the monitoring committee had conducted 18 e-auctions, through which close to 11 mt of iron ore was sold for ₹2,694 crore. On this sale, the state department of mines and geology has collected royalty of ₹269.4 crore at 10 per cent and ₹233 crore towards forest development tax (FDT) at the rate of 12 per cent.

According to the final report on the status of mining leases surveyed by the joint team of the Central Empowered Committee (CEC), the average sale price of iron ore works out to ₹2,458 a tonne. With this, the royalty receivable by the government for the sale of 25 mt of iron ore through e-auction may exceed the total royalty received by it for ore during 2010-11, sources close to the process told Business Standard.

In addition, about 700,000 tonnes of iron ore dump belonging to the state-owned Mysore Minerals Limited (MML) and lying outside its sanctioned lease boundary has also been sold for ₹79.8 crore (and the royalty, FDT payable on the sale), at ₹1,140 a tonne. Earlier, MML used to sell the over burden/waste dump at substantially lower rates.

According to information provided by the DMG to CEC, during 2010-11, the state government received ₹435 crore as royalty for 33.75 mt of iron ore produced and sold in the state. The average rate works out to ₹129 a tonne. DMG is also likely to witness a huge rise in its royalty earnings once regular mining restarts. The CEC has recommended that when the Supreme Court permits resumption of regular operations, the entire production should be sold through e-auctions, under overall supervision of the Monitoring Committee.