A STUDY ON MAJOR FACTORS AFFECTING COMMODITY MARKET WITH SPECIAL REFERENCE TO MCX

A PROJECT REPORT

Submitted

by

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COIMBATORE

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KCT BUSINESS SCHOOL
DEPARTMENT OF MANAGEMENT STUDIES
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BONAFIDE CERTIFICATE

Certified that this project titled **"A STUDY ON MAJOR FACTORS AFFECTING THE COMMODITY MARKET WITH SPECIAL REFERENCE TO MCX"** is the confide work of **Mr. V.UDAYAKUMAR** who carried out this project under my supervision. Certified further, that to the best of my knowledge the work reported herein does not from part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

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Prof. Dr. S.V.DEVANATHAN
Director

Evaluated and viva-voce conducted on 1.11.08

Examiner I

Examiner II

DECLARATION

I hereby declare that the dissertation entitled "**A STUDY ON MAJOR FACTORS AFFECTING THE COMMODITY MARKET WITH SPECIAL REFERENCE ON MCX**" submitted for the **MASTER OF BUSINESS ADMINISTRATION** degree is my original work and the dissertation has not formed the basis for the reward of any Degree, Associateship, Fellowship or any other similar titles.

V.UDAYAKUMAR

PROCON

JULY19,2008

TO WHOMSOEVER IT MAY CONCERN

THIS IS TO CERTIFY THAT MR.V.UDAYAKUMAR,FIRST YEAR MBA STUDENT OF KUMARUGURU COLLEGE OF TECHNOLOGY, COIMBATHORE UNDERWENT SUMMER PROJECTS AT OUR ORGANIZATION IN CHNNAI IN THE PERIOD OF 18-6-2008 TO 19-7-08.

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EXECUTIVE SUMMARY

The researcher has taken the project titled" A study of major factors effecting the commodity market with reference to MCX" to know the factors consideration on the commodity market. This project contains the factors mostly belongs to Americans activity. Actually this is the problem of the work environment. The major fluctuations are taken as the most fluctuation on the market. The continuous watch on the candle stick chart shows the performance of the market. The difference of closing and opening of price decides whether the major factor or not. By this continues watch of data released from American government gives the economic situation of America. It leads to decide the economic situation of America.

The importance of this project is to find the fluctuation period on the day. The investors who wants to do not want to take risk can follow this timings when Americans data release. For the fundamental analysis have to see all the factors. At this situation technical analysis is not at effective manner. For the gold, silver , crude investment the project is very effective to predict the market.

TABLE OF CONTENTS

TABLE OF GRAPHS

TABLE OF TABLES

INTRODUCTION

1.1 Introduction

India has long history of commodity futures trading, extending over 125 years. Trading was interrupted suddenly since the mid-seventies in the fond hope of ushering in an elusive socialistic pattern of society. As the country embarked on economic liberalization policies and signed the GATT agreement in the early nineties, the government realized the need for futures trading to strengthen the competitiveness of Indian agriculture and the commodity trade and industry. Futures trading began to be permitted in several commodities, and the ushering in of the 21 century saw the emergence of new National Commodity Exchanges with countrywide reach for trading in almost all primary commodities and their products.

1.2 Launch of MCX in India

A commodity futures contract is essentially a financial instrument. Following the absence of futures trading in commodities for nearly four decades, the new generation of commodity producers, processors, market functionaries, financial organizations, broking agencies and investors at large are, unfortunately, unaware at present of the economic utility, the operational techniques and the financial advantages of such trading. The Multi Commodity Exchange of India (MCX) the premier New Order Exchange in the country is, therefore, launching this Commodity Futures Education Series to provide valuable insights into the rationale for such trading, and the trading practices and regulatory procedures prevailing at the Exchange..

Commodity futures contracts and the commodity exchanges organizing trading in such contracts are regulated by the Government of India under the Forward Contracts (Regulation) Act, 1952 (FCRA or the Act), and the Rules framed thereunder. The nodal agency for such regulation is the Forward Markets Commission (FMC), situated at Mumbai, which functions under the aegis of theMinistry of Consumer Affairs; Food & Public Distribution of the Central Government Commodity includes all kinds of goods. FCRA defines "goods" as "every kind of movable property other than actionable claims, money and securities". Futures' trading is organized in such goods or commodities as are permitted by the Central Government. At present, all goods and products of agricultural (including plantation), mineral and fossil origin are allowed for futures trading under the auspices of the

commodity exchanges recognized under the FCRA. The national commodity exchanges have been recognized by the Central Government for organizing trading in all permissible commodities which include precious (gold & silver) and non-ferrous metals; cereals and pulses; ginned and un-ginned cotton; oilseeds, oils and oilcakes; rawjute and jute goods; sugar and guar; potatoes and onions; coffee and tea rubber and spices, etc.

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International commodity exchanges

World's major commodities exchanges:

NYMEX	The New York Mercantile exchange
LME	The London Metal exchange
CBOT	The Chicago Board Of Trade
TOCOM	The Tokyo Commodity exchange
CME	The Chicago Mercantile Exchange

Indian Commodity Exchanges

NMCE

MCX

NCDEX

1.3 Product profile on MCX

BULLION

SPICES

OIL& OIL SEEDS

METALS

PULSES

FIBRE

ENERGY

CERALS

PLANTATIONS

PETRO CHEMICALS

Gold Profile

- Gold is primarily a monetary asset and partly a commodity.
- More than two thirds of gold's total accumulated holdings relate to 'value for investment' with central bank reserves, private players and high-carat jewelry.
- Less than one third of gold's total accumulated holdings is as a 'commodity' for jewelry in Western markets and usage in industry.
- Gold market is highly liquid and gold held by central banks, other major institutions and retail jewelry keep coming back to the market.
- Due to large stocks of Gold as against its demand, it is argued that the core driver of the real price of gold is stock equilibrium rather than flow equilibrium.
- Economic forces that determine the price of gold are different from, and in many cases opposed to the forces that influence most financial assets.
- South Africa is the world's largest gold producer with 394 tons in 2001, followed by US and Australia.
- India is the world's largest gold consumer with an annual demand of 800 tons.

Indian Gold Market

- Gold is valued in India as a savings and investment vehicle and is the second preferred investment after bank deposits.
- India is the world's largest consumer of gold in jewellery as investment.
- In July 1997 the RBI authorized the commercial banks to import gold for sale or loan to jewellers and exporters. At present, 13 banks are active in the import of gold.
- This reduced the disparity between international and domestic prices of gold from 57 percent during 1986 to 1991 to 8.5 percent in 2001.
- The gold hoarding tendency is well ingrained in Indian society.
- Domestic consumption is dictated by monsoon, harvest and marriage season. Indian jeweller off take is sensitive to price increases and even more so to volatility.
- In the cities gold is facing competition from the stock market and a wide range of consumer goods.
- Facilities for refining, assaying, making them into standard bars in India, as compared to the rest of the world, are insignificant, both qualitatively and quantitatively.

Silver

Soft white precious univalent metallic element having the highest electrical and thermal conductivity of any metal; occurs in argentite and in free form; used in coins and jewelry and tableware and photography coins made of silver

Silver Profile

- Silver's unique properties make it's a very useful 'Industrial Commodity', despite it being classed as a precious metal.
- Demand for silver is built on three main pillars; industrial uses, photography and jewellery & silverware accounting for 342, 205 and 259 million ounces respectively in 2002.
- Just over half of mined silver comes from Mexico, Peru and United States. respectively, the first, second and fourth largest producing countries. The third largest is Australia.

- Primary mines produce about 27 percent of world silver, while around 73 percent comes as a by-product of gold, copper, lead, and zinc mining.
- The price of silver is not only a function of its primary output but more a function of the price of other metals also, as world mine production is more a function of the prices of other metals.
- The tie between silver and economic activity is strong, given that around two-thirds of total silver fabrication is in the industrial and photographic sectors.
- Often a faster growth in demand against supply leads to drop in stocks with government and investors.

Uses of silver

Silver's unique properties include its strength, malleability, ductility, electrical and thermal conductivity, sensitivity to high reflectance of light and despite it being classified as a precious metal, its reactivity which is the basis for its use in catalysts and photography.

World Markets

- London Bullion Market is the global hub of OTC (Over-The-Counter) trading in silver.
- Comex futures in New York is where most fund activity is focused

Indian Scenario

- Silver imports into India for domestic consumption in 2002 was 3,400 tons down 25 % from record 4,540 tons in 2001.
- Open General License (OGL) imports are the only significant source of supply to the Indian market.
- Non-duty paid silver for the export sector rose sharply in 2002, up by close to 200% year-on-year to 150 tons.
- Around 50% of India's silver requirements last year were met through imports of Chinese silver and other important sources of supply being UK, CIS, Australia and Dubai.

- Indian industrial demand in 2002 is estimated at 1375 tons down by 13 % from 1,579 tons in 2001. In spite of this fall, India is still one of the largest users of silver in the world, ranking alongside those Industrial giants, Japan and the United States.

- By contrast with United States and Japan, Indian industrial off take for fabrication in hardcore industrial applications like electronics and brazing alloys accounts for only 15 % and the rest being for foils for use in the decorative covering of food, plating of jewelry and silverware

- In India silver price volatility is also an important determinant of silver demand as it is for gold.

1.4 OBJECTIVES

- To find out the factors effecting the commodity market which is the factors mainly based on us dollar fluctuations
- To find the factors influence on Indian commodity market.
- To find the fluctuations on multi commodity exchange with respect to us based factors.

1.5METHODOLOGY

1.1.1 TYPE OF STUDY

The study is base on the descriptive research. This study helps to understand the major factors effecting the commodity market mostly from the us economic position.

1.1.2 DATA COLLECTION

The data collected from the secondary sources. It is from the ODIN chart and candle stick chart.

1.1.3 SAMPLE DESIGN

The sample is taken as the non ferrous metals, bullion. Because these are the metals are more volume in the market.

LONDON METAL EXCHANGE

2.1 INTRODUCTION TO LME

Established for over 130 years and located in the heart of The City of London, the London Metal Exchange is the world's premier non-ferrous metals market. It offers futures and options contracts for aluminium, copper, nickel, tin, zinc and lead plus two regional aluminium alloy contracts. In 2005 the Exchange launched the world's first futures contracts for plastics; for polypropylene and linear low density polyethylene, with the introduction of regional plastics contracts in 2007. In addition, it offers LME minis, which are smaller-sized contracts for copper, aluminium and zinc plus an index contract (LMEX).

The Exchange provides a transparent forum for all trading activity and as a result helps to 'discover' what the price of material will be months and years ahead. This helps the physical industry to plan forward in a world subject to often severe and rapid price movements. Such is the liquidity at the Exchange that the prices 'discovered' at the LME are recognised and relied upon by industry throughout the world.

The LME is a highly liquid market and in 2007 achieved volumes of 93 million lots, equivalent to $9,500 billion annually and between $35-45 billion on an average business day. Despite its London location the LME is a global market with an international membership and with more than 95% of its business coming from overseas.

Being a principal-to-principal market, the only organisations able to trade are its member firms, of which there are various categories. LME members provide the physical industry with access to the market, to the risk management tools and to the delivery mechanism. Trading takes place across three trading platforms: through open-outcry trading in the 'Ring', through an inter-office telephone market and through LME Select, the Exchange's electronic trading platform Metals in LME The London Metal Exchange is a wholly owned subsidiary of LME Holdings Limited, and is the premier global commodities exchange for non-ferrous metals and plastics. Futures contracts are traded for aluminium, copper, nickel, tin, zinc and lead, together with contracts for polypropylene and low density polyethylene. Established for over 130 years in the City of London, the London Metal Exchange (LME) has aggregate daily trades valued between $35 – 45 billion.

2.2 COMMADITIES DEALT

- Copper
- nickel
- tin
- zinc
- lead

2.3 COPPER MARKET A VIEW

Copper futures ticked to their highest level in 1 1/2 months Friday with the help of recent U.S. dollar weakness, inventory declines and chart-based momentum. Much of the influence has been the recently softer U.S. dollar, Warrants and deliverable copper were down in Shanghai in a surprise drop, and LME stocks were a little bit lower although certainly not eye-popping Once-a-week inventory data released on Fridays for the Shanghai Futures Exchange showed a fall of 1,016 metric tons to 32,401. Inventories of copper stored in London Metal Exchange warehouses fell 150 metric tons Friday, leaving them at 122,900. Much of the buying in copper and other commodities has been inflation-related, Light speculative buying occurred.

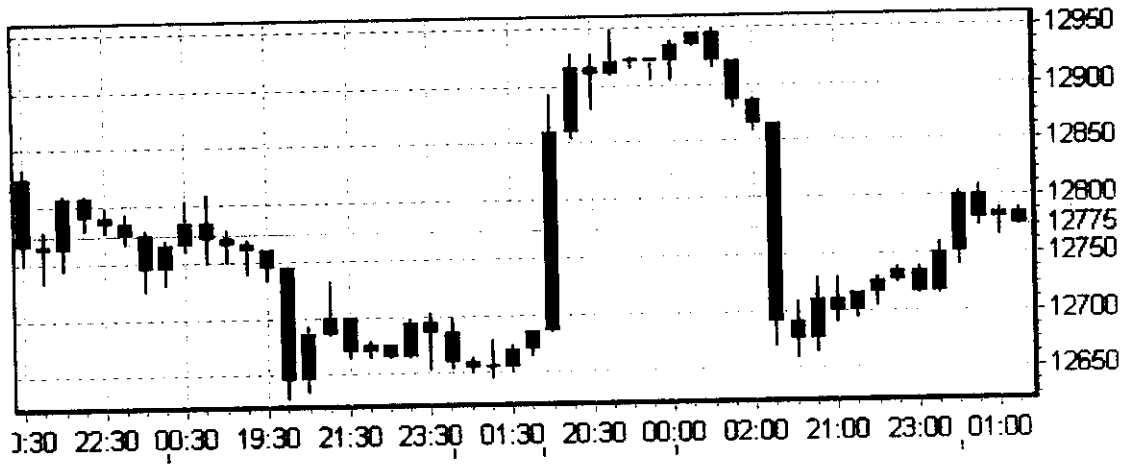
A key for the markets this week will be a European Central Bank meeting. There are expectations for a rate hike, which may prompt further weakness in the dollar. This tends to support commodities such as copper. However, such a move would also mean a slowing of the economy there, which also has demand implications for the metal.The most recent Comex inventory data, released late Thursday afternoon, were steady at 11,040 short tons. Copper inventories at LME, increased by -150 MT to 122900 MT.

The daily stochastics have crossed over up which is a bullish indication. The prices closed above short term and medium term EMA, which supports bears. MACD is heading upwards in positive region, showing increase in bullish momentum.

Technical have turned neutral to bullish and market is expected to remain positive

above 366.8 levels. If sustain above this level can see a rally towards 369.2 and 373.6, If market sustains below 362.4 can see a further fall towards 360.0 and 355.6 .

COPPER FLUCUATIONS-ODIN CHART-1



ALUMINIUM FLUCTUATIONS-ODIN CHART-2

EUROPIAN CENTRAL BANK

Euro area balance of payments (April 2008)

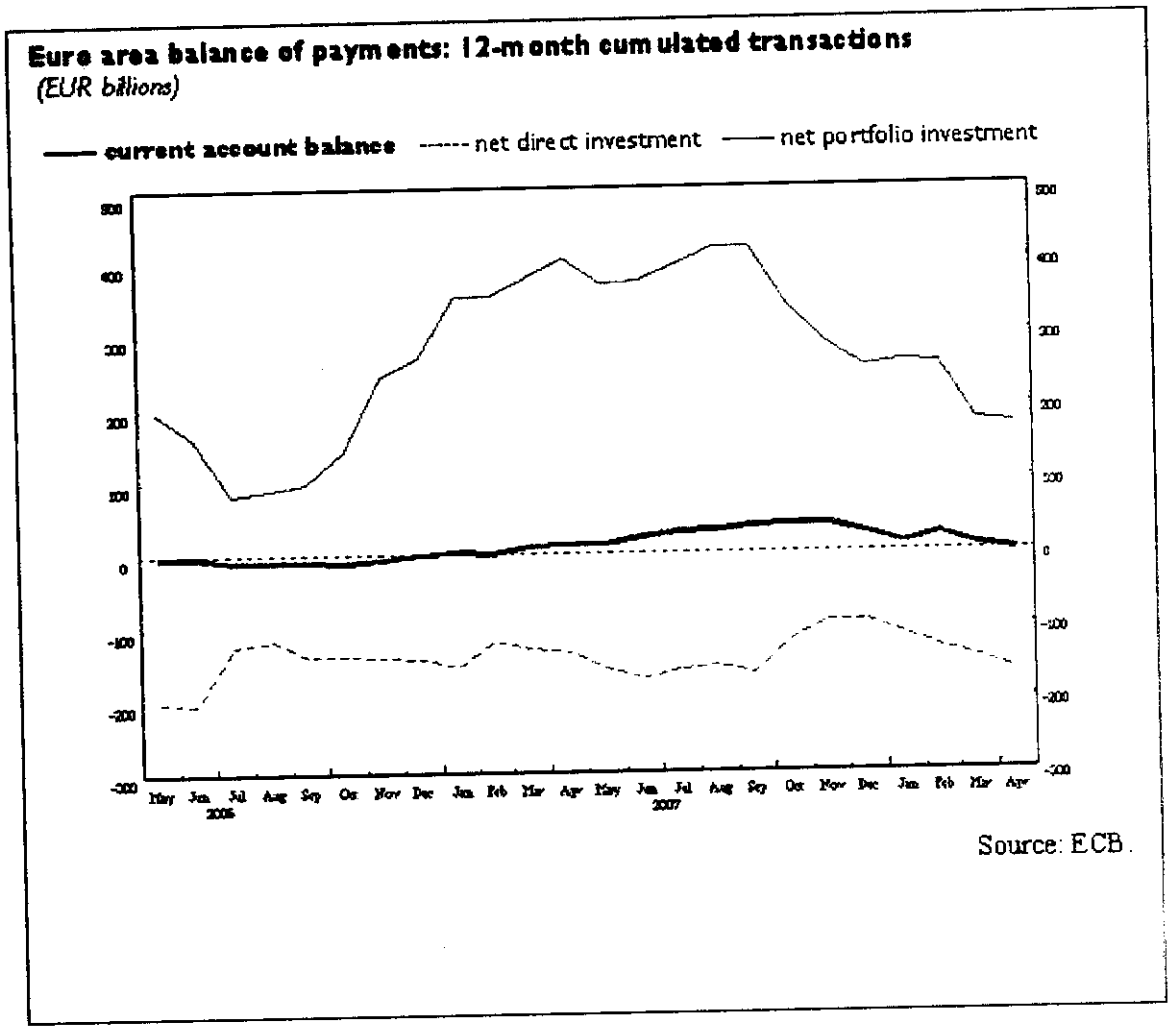
In April 2008 the working day and seasonally adjusted current account of the euro area was close to balance. In the financial account, combined direct and portfolio investment showed net outflows of EUR 24 billion.

3.1 Current account

The working day and seasonally adjusted current account of the euro area was close to balance in April 2008 (corresponding to a deficit of EUR 9.2 billion in non-adjusted terms). This reflected deficits in current transfers (EUR 7.4 billion) and income (EUR 2.1 billion), which were offset by surpluses in goods (EUR 5.9 billion) and services (EUR 3.3 billion).

The 12-month cumulated, working day-adjusted current account up to April 2008 was close to balance, compared with a surplus of EUR 10.3 billion a year earlier. This was a result mainly of the income account shifting from a surplus (of EUR 7.7 billion) to a deficit (of EUR 5.2 billion) and the deficit in current transfers increasing (from EUR 80.1 billion to EUR 89.7 billion), with these developments only partly offset by increases in the surpluses in goods (from EUR 37.5 billion to EUR 43.2 billion) and services (from EUR 45.2 billion to EUR 51.8 billion).

EURO BOP GRAPH-1



3.2 Financial account

In the financial account, combined direct and portfolio investment recorded net outflows of EUR 24 billion in April 2008, reflecting net outflows in direct investment (EUR 24 billion) and balanced portfolio investment.

The net outflows in direct investment resulted from net outflows both in equity capital and reinvested earnings (EUR 8 billion) and in other capital, mostly inter-company loans (EUR 16 billion).

P-2532

Portfolio investment recorded net outflows in equity (EUR 21 billion), which were offset by net inflows in debt instruments (EUR 21 billion), especially in money market instruments (EUR 20 billion).

Financial derivatives recorded net outflows of EUR 14 billion.Other investment recorded net inflows of EUR 63 billion, mainly as a result of net inflows in MFIs excluding the Euro system .

Reserve assets increased by EUR 3 billion (excluding valuation effects). The stock of the Eurosystem's reserve assets stood at EUR 349 billion at the end of April 2008.

In the 12-month period to April 2008 combined direct and portfolio investment showed cumulated net inflows of EUR 8 billion, compared with net inflows of EUR 268 billion a year earlier. This development resulted largely from a decline in the net inflows in portfolio investment (from EUR 401 billion to EUR 174 billion), which in turn mainly reflected a decline in net purchases of euro area bonds and notes by non-resident investors.

3.3 Current and capital accounts

The non-seasonally adjusted current account of the euro area balance of payments recorded a deficit of EUR 15.2 billion in the first quarter of 2008. This was the result of deficits in current transfers (EUR 29.0 billion) and goods (EUR 2.9 billion), which were only partly offset by surpluses in services (EUR 10.7 billion) and income (EUR 6.1 billion). The capital account recorded a surplus of EUR 5.6 billion.

The largest deficits in goods were with mainland China (EUR 25.3 billion), Russia (EUR 9.1 billion) and Japan (EUR 5.5 billion). The largest surpluses were with the United Kingdom (EUR 15.3 billion), the United States (EUR 11.6 billion) and the countries that joined the EU in 2004 and 2007 (EUR 10.8 billion). The euro area surplus in services was mainly accounted for by surpluses vis-à-vis the United Kingdom (EUR 4.4 billion) and Switzerland (EUR 2.8 billion).

The euro area surplus in income reflected surpluses with the group of "other countries" (EUR 5.4 billion), the countries that joined the EU in 2004 and 2007

(EUR 4.7 billion), and the United Kingdom (EUR 3.4 billion). These surpluses were partly offset by deficits vis-à-vis Japan (EUR 6.4 billion) and Switzerland (EUR 3.2 billion). The deficit in current transfers was predominantly vis-à-vis the EU institutions (EUR 17.1 billion) and the group of "other countries" (EUR 11.1 billion). The surplus in the capital account predominantly reflected a surplus vis-à-vis the EU institutions (EUR 7.8 billion).

The four-quarter cumulated current account of the euro area up to the first quarter of 2008 showed a surplus of EUR 7.6 billion (around 0.1 % of GDP), compared with a surplus of EUR 9.7 billion a year earlier (see Table 1b). This development was predominantly due to an increase in the current transfers deficit (from EUR 78.2 billion to EUR 91.8 billion), in particular with the EU institutions, and a decrease in the income surplus (from EUR 10.1 billion to EUR 3.4 billion), which mainly resulted from a decrease in the surplus with the group of "other countries". By contrast, the goods surplus increased from EUR 33.1 billion to EUR 44.0 billion and the services surplus increased from EUR 44.7 billion to EUR 52.1 billion. While the increase in the goods surplus stemmed largely from higher surpluses vis-à-vis the United Kingdom and the countries that joined the EU in 2004 and 2007, the increase in the services surplus mainly originated from larger net exports to the group of "other countries", the United Kingdom and Switzerland.

3.4 Financial account

In the b.o.p. financial account, combined direct and portfolio investment recorded net outflows of EUR 31 billion in the first quarter of 2008, as net outflows in direct investment exceeded net inflows in portfolio investment. Net outflows in direct investment (EUR 105 billion) were directed mainly towards the group of "other countries" (EUR 33 billion), Switzerland (EUR 24 billion) and the United States (EUR 21 billion).

Portfolio investment recorded net inflows of EUR 73 billion, mainly as a result of purchases of euro area bonds and notes by non-residents (EUR 68 billion) . Net purchases of foreign securities by euro area investors amounted to EUR 47 billion and predominantly comprised debt securities issued in the United States (EUR 33 billion), the group of "other countries" (EUR 33 billion) and the United Kingdom (EUR 32 billion). Financial derivatives recorded net outflows of EUR 15 billion.

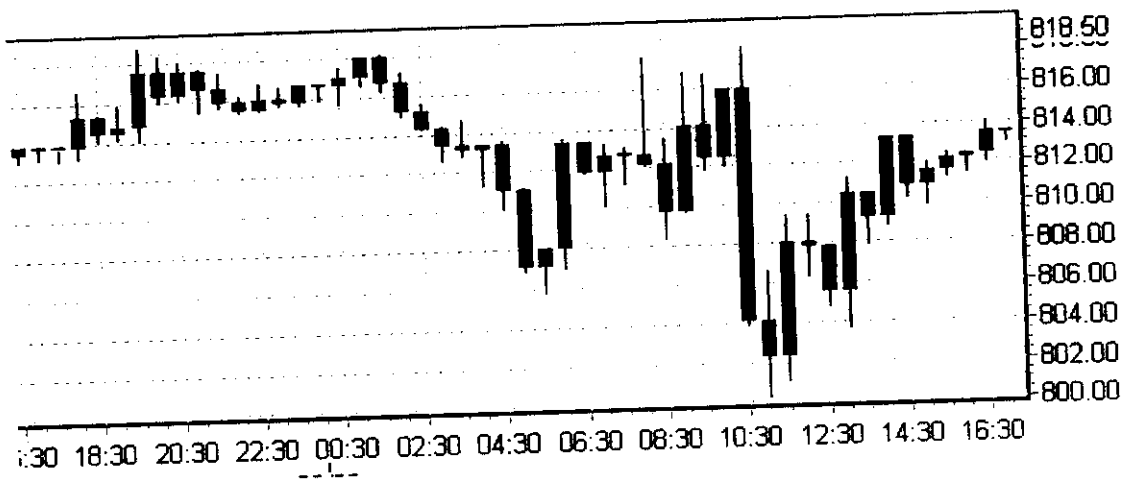
Other investment recorded net inflows of EUR 71 billion, which were mainly the result of net inflows from the United Kingdom (EUR 151 billion) and, to a lesser extent, the United States (EUR 32 billion). These inflows were partly offset by net outflows to the group of "other countries" (EUR 42 billion), Denmark (EUR 20 billion) and Hong Kong (EUR 19 billion).

International investment position at the end of the first quarter of 2008

At the end of the first quarter of 2008, the international investment position (i.i.p.) of the euro area recorded net liabilities of EUR 1,279 billion with the rest of the world (around 14% of euro area GDP). This represented a decrease in net liabilities of EUR 16 billion in comparison with the revised data for the end of the fourth quarter of 2007 (see Table 2).

The decrease in the net liability position predominantly reflected positive "other changes" (primarily revaluations on account of exchange rate and asset price changes), amounting to EUR 35 billion, mainly related to portfolio investment.

GOLD FLUCTUATIONS-ODIN CHART 3



US UNEMLOYMENT RATE

4.1 Us unemployment rate

TABLE-1

Month	Date	**Forecast Value**	50% Correct	80% Correct
0	May 2008	**5.50**	0.0	0.0
1	Jun 2008	**5.5**	0.3	0.5
2	Jul 2008	**5.6**	0.4	0.6
3	Aug 2008	**5.6**	0.4	0.7
4	Sep 2008	**5.7**	0.4	0.7
5	Oct 2008	**5.8**	0.5	0.8
6	Nov 2008	**5.9**	0.5	0.8
7	Dec 2008	**5.9**	0.5	0.9
8	Jan 2009	**6.0**	0.6	0.9

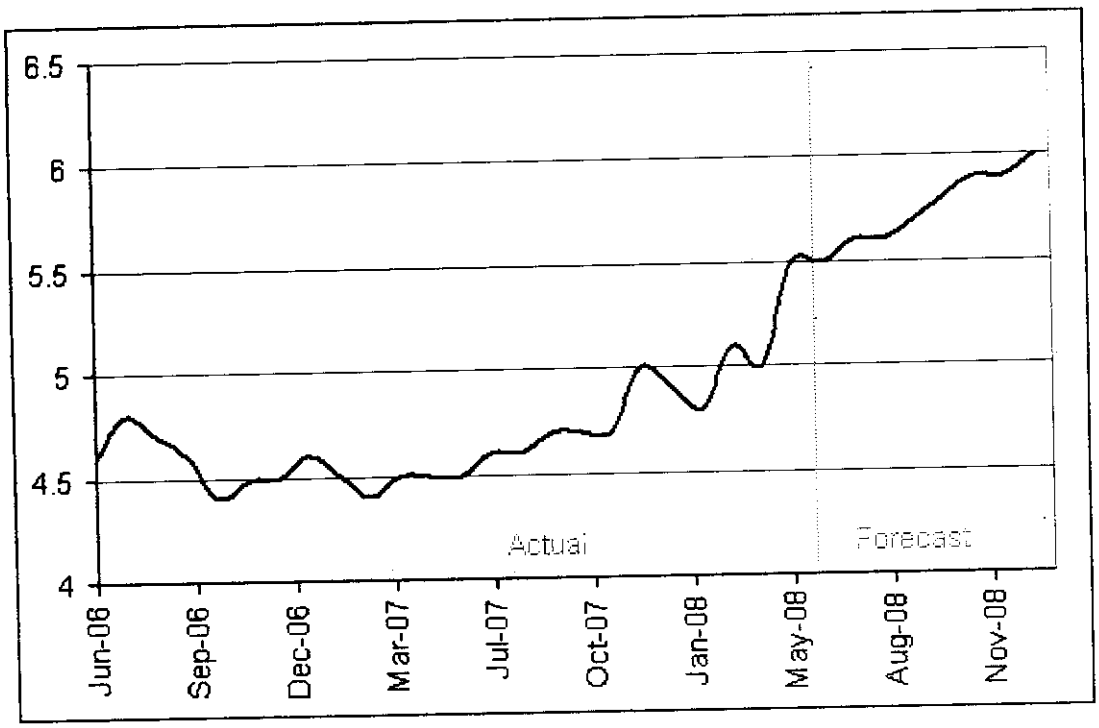
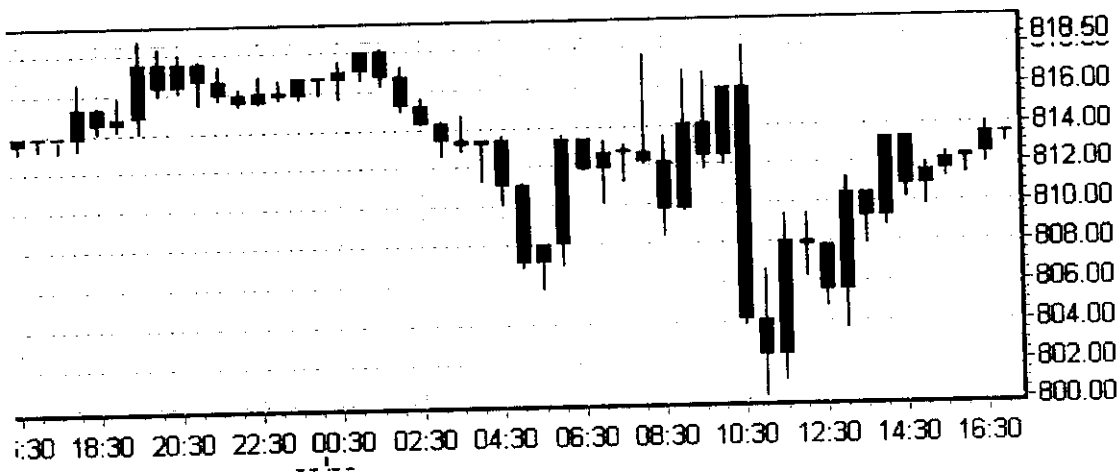


TABLE-2

All workers	4.9	5.3	5.5	5.5	5.7	0.2
Adult men	4.4	4.9	4.9	5.1	5.3	.2
Ault women	4.3	4.6	4.8	4.7	4.6	-.1
Teenagers	16.8	17.4	18.7	18.1	20.3	2.2
White	4.4	4.7	4.9	4.9	5.1	.2
Black or african American	8.8	9.1	9.7	9.2	9.7	.5

By this rate the us government spend money in us unemployed has increased by according to the season. Because of this, the us economic status get felt down. so the investment in the us dollar has reduced. This problem affects the gold and silver market also.

GOLDFLUCTUATIONS – ODIN CHART 4



CONSUMER PRICE INDEX

5.1Consumer price index an interview

A **consumer price index (CPI)** is a measure of the average price of consumer goods and services purchased by households. It is one of several price indices calculated by national statistical agencies. The percent change in the CPI is a measure of inflation. The CPI can be used to index (i.e., adjust for the effects of inflation) wages, salaries, pensions, or regulated or contracted prices. The CPI is, along with the population census and the National Income and Product Accounts, one of the most closely watched national economic statistics.

Two basic types of data are needed to construct the CPI: price data and weighting data. The price data are collected for a sample of goods and services from a sample of sales outlets in a sample of locations for a sample of times. The weighting data are estimates of the shares of the different types of expenditure as fractions of the total expenditure covered by the index. These weights are usually based upon expenditure data obtained for sampled periods from a sample of households. Although some of the sampling is done using a sampling frame and probabilistic sampling methods, much is done in a commonsense way (purposive sampling) that does not permit estimation of confidence intervals. Therefore, the sampling variance is normally ignored, since a single estimate is required in most of the purposes for which the index is used. Stocks greatly affect this cause.

The index is usually computed monthly, or quarterly in some countries, as a weighted average of sub-indices for different components of consumer expenditure, such as food, housing, clothing, each of which is in turn a weighted average of sub-sub-indices. At the most detailed level, the elementary aggregate level, (for example, men's trousers sold in department stores in the Northwest), detailed weighting information is unavailable, so elementary aggregate indices are computed using an unweighted arithmetic or geometric mean of the prices of the sampled product offers. (However, the growing use of scanner data is gradually making weighting information available even at the most detailed level.) These

indices compare prices each month with prices in the price-reference month. The weights used to combine them into the higher-level aggregates, and then into the overall index, relate to the estimated expenditures during a preceding whole year of the consumers covered by the index on the products within its scope in the area covered. Thus the index is a fixed-weight index, but rarely a true Laspeyres index, since the weight-reference period of a year and the price-reference period, usually a more recent single month, do not coincide. It takes time to assemble and process the information used for weighting which, in addition to household expenditure surveys, may include trade and tax data.

Ideally, the weights would relate to the composition of expenditure during the time between the price-reference month and the current month. There is a large technical economics literature on index formulae which would approximate this and which can be shown to approximate what economic theorists call a true cost of living index. Such an index would show how consumer expenditure would have to move to compensate for price changes so as to allow consumers to maintain a constant standard of living. Approximations can only be computed retrospectively, whereas the index has to appear monthly and, preferably, quite soon. Nevertheless, in some countries, notably in North America and Sweden, the philosophy of the index is that it is inspired by and approximates the notion of a true cost of living (constant utility) index, whereas in most of Europe it is regarded more pragmatically.

The coverage of the index may be limited. Consumers' expenditure abroad is usually excluded; visitors' expenditure within the country may be excluded in principle if not in practice; the rural population may or may not be included; certain groups such as the very rich or the very poor may be excluded. Black market expenditure and expenditure on illegal drugs and prostitution are often excluded for practical reasons, although the professional ethics of the statistician require objective description free of moral judgments. Saving and investment are always excluded, though the prices paid for financial services provided by financial intermediaries may be included along with insurance.

The index reference period, usually called the base year, often differs both from the weight-reference period and the price reference period. This is just a matter of rescaling the whole time-series to make the value for the index reference-period equal to 100. Annually revised weights are a desirable but expensive feature of an index, for the older the

weights the greater is the divergence between the current expenditure pattern and that of the weight reference-period.

5.2 Weights and sub-indices

Weights can be expressed as fractions summing to one, as percentages summing to 100 or as per mille numbers summing to 1000.In the European Union's Harmonised Index of Consumer Prices, for example, each country computes some 80 prescribed sub-indices, their weighted average constituting the national Harmonised Index. The weights for these sub-indices will consist of the sum of the weights of a number of component lower level indexes. The classification is according to use, developed in a national accounting context. This is not necessarily the kind of classification that is most appropriate for a Consumer Price Index. Grouping together of substitutes or of products whose prices tend to move in parallel might be more suitable.

For some of these lower level indexes detailed weights within them may be available, allowing computations where the individual price observations can all be weighted. This may be the case, for example, where all selling is in the hands of a single national organisation which makes its data available to the index compilers. For most lower level indexes, however, the weight will consist of the sum of the weights of a number of elementary aggregate indexes, each weight corresponding to its fraction of the total annual expenditure covered by the index. An 'elementary aggregate' is a lowest-level component of expenditure, one which has a weight but within which, weights of its sub-components are usually lacking Thus, for example: Weighted averages of elementary aggregate indexes (e.g. for men's shirts, raincoats, women's dresses etc.) make up low level indexes (e.g. Outer garments),Weighted averages of these in turn provide sub-indices at a higher, more aggregated level,(e.g. Clothing) and Weighted averages of the latter provide yet more aggregated sub-indices (e.g. Clothing and Footwear).

Some of the elementary aggregate indexes, and some of the sub-indexes can be defined simply in terms of the types of goods and/or services they cover, as in the case of such products as newspapers in some countries and postal services. which have

nationally uniform prices. But where price movements do differ or might differ between regions or between outlet types, separate regional and/or outlet-type elementary aggregates are ideally required for each detailed category of goods and services, each with its own weight. An example might be an elementary aggregate for sliced bread sold in supermarkets in the Northern region.

Most elementary aggregate indexes are necessarily 'unweighted' averages for the sample of products within the sampled outlets. However in cases where it is possible to select the sample of outlets from which prices are collected so as to reflect the shares of sales to consumers of the different outlet types covered, self-weighted elementary aggregate indexes may be computed. Similarly, if the market shares of the different types of product represented by product types are known, even only approximately, the number of observed products to be priced for each of them can be made proportional to those shares.

5.3 Estimating weights

The outlet and regional dimensions noted above mean that the estimation of weights involves a lot more than just the breakdown of expenditure by types of goods and services, and the number of separately weighted indexes composing the overall index depends upon two factors:

1. The degree of detail to which available data permit breakdown of total consumption expenditure in the weight reference-period by type of expenditure, region and outlet type.
2. Whether there is reason to believe that price movements vary between these most detailed categories.

How the weights are calculated, and in how much detail, depends upon the availability of information and upon the scope of the index. In the UK the RPI does not relate to the whole of consumption, for the reference population is all private households with the exception of a) pensioner households that derive at least three-quarters of their total income from state pensions and benefits and b) "high income households" whose total household income lies

within the top four per cent of all households. The result is that it is difficult to use data sources relating to total consumption by all population groups.

For products whose price movements can differ between regions and between different types of outlet:

- The ideal, rarely realisable in practice, would consist of estimates of expenditure for each detailed consumption category, for each type of outlet, for each region.
- At the opposite extreme, with no regional data on expenditure totals but only on population (e.g. 24% in the Northern region) and only national estimates for the shares of different outlet types for broad categories of consumption (e.g. 70% of food sold in supermarkets) the weight for sliced bread sold in supermarkets in the Northern region has to be estimated as the share of sliced bread in total consumption × 0.24 × 0.7.

The situation in most countries comes somewhere between these two extremes. The point is to make the best use of whatever data are available.

The nature of the data used for weighting

No firm rules can be suggested on this issue for the simple reason that the available statistical sources differ between countries. However, all countries conduct periodical Household Expenditure surveys and all produce breakdowns of Consumption Expenditure in their National Accounts. The expenditure classifications used there may however be different. In particular:

- Household Expenditure surveys do not cover the expenditures of foreign visitors, though these may be within the scope of a Consumer Price Index.
- National Accounts include imputed rents for owner-occupied dwellings which may not be within the scope of a Consumer Price Index

Even with the necessary adjustments, the National Account estimates and Household Expenditure Surveys usually diverge.

The statistical sources required for regional and outlet-type breakdowns are usually weaker. Only a large-sample Household Expenditure survey can

provide a regional breakdown. Regional population data are sometimes used for this purpose, but need adjustment to allow for regional differences in living standards and consumption patterns. Statistics of retail sales and market research reports can provide information for estimating outlet-type breakdowns, but the classifications they use rarely correspond to COICOP categories.

The increasingly widespread use of bar codes and scanners in shops has meant that detailed cash register printed receipts are provided by shops for an increasing share of retail purchases. This development makes possible improved Household Expenditure surveys, as Statistics Iceland has demonstrated. Survey respondents keeping a diary of their purchases need to record only the total of purchases when itemised receipts were given to them and keep these receipts in a special pocket in the diary. These receipts provide not only a detailed breakdown of purchases but also the name of the outlet. Thus response burden is markedly reduced, accuracy is increased, product description is more specific and point of purchase data are obtained, facilitating the estimation of outlet-type weights.

There are only two general principles for the estimation of weights: use all the available information and accept that rough estimates are better than no estimates.

Reweighing

Ideally, in computing an index, the weights would represent current annual expenditure patterns. In practice they necessarily reflect past expenditure patterns, using the most recent data available or, if they are not of high quality, some average of the data for more than one previous year. Some countries have used a three-year average in recognition of the fact that household survey estimates are of poor quality. In some cases some of the data sources used may not be available annually, in which case some of the weights for lower level aggregates within higher level aggregates are based on older data than the higher level weights.

Infrequent reweighing saves costs for the national statistical office but delays the introduction into the index of new types of expenditure. For example, subscriptions for Internet Service entered index compilation with a considerable time lag in some countries, and account could be taken of digital camera prices between re eightings only by including some digital cameras in the same elementary aggregate as film cameras.

The Consumer Price Index for All Urban Consumers (CPI-U) increased 1.0 percent in June, before seasonal adjustment, the Bureau of Labor Statistics of the U.S. Department of Labor reported today. The June level of 218.815 (1982-84=100) was 5.0 percent higher than in June 2007.

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) increased 1.1 percent in June, prior to seasonal adjustment. The June level of 215.223 (1982-84=100) was 5.6 percent higher than in June 2007.

The Chained Consumer Price Index for All Urban Consumers (C-CPI-U) increased 0.8 percent in June on a not seasonally adjusted basis. The June level of 125.582 (December 1999=100) was 4.2 percent higher than in June 2007. Please note that the indexes for the post-2006 period are subject to revision.

CPI for All Urban Consumers

On a seasonally adjusted basis, the CPI-U advanced 1.1 percent in June, following a 0.6 percent increase in May. The index for energy rose sharply for the second straight month, increasing 6.6 percent in June following a 4.4 percent increase in May. The increase in the energy index accounted for around two-thirds of the overall increase in the all items index in June. The index for petroleum-based energy advanced 10.0 percent and the index for energy services rose 1.5 percent. The food index rose 0.8 percent in June after rising 0.3 percent in May. The index for food at home went up 1.0 percent in June, with indexes for four of the six major grocery store food groups sharply accelerating. The index for all items less food and energy increased 0.3 percent in June, following a 0.1 percent rise in April and a 0.2 percent increase in May. Larger increases in the indexes for shelter and for tobacco and smoking products and an upturn in the apparel index contributed to the larger increase.

TABLE-3

	2007 dec	2008 Jan	2008 Feb	2008 Mar	2008 Apr	2008 May	2008 June
All items	.4	.4	.0	.3	.2	.6	1.1
Food and beverage	.1	.7	.4	.2	.9	.3	.7
Housing	.3	.2	.2	.4	.3	.5	.5
Apparel	.1	.4	-.3	-1.3	.5	-.3	.1
Transportation	1.0	.5	-.7	.7	-.7	2.0	3.8
Medical care	.3	.5	.1	.1	.2	.2	.2
Recreation	0	.2	.1	.3	-.1	.1	.1
Education and communication	.3	.4	.1	.3	.4	.4	.5
Other goods and services	.3	.4	.2	.4	.5	.4	.4
Energy	1.7	.7	-.5	1.9	0	4.4	6.6
Food	.1	.7	.4	.2	.9	.3	.8
All items less food an energy	.2	.3	0	.2	.1	.2	.3

Consumer prices advanced at a seasonally adjusted annualized rate (SAAR) of 7.9 percent in the second quarter after increasing at a 3.1 percent rate in the first three months of 2008. This brings the year-to- date annual rate to 5.5 percent and compares with an increase of 4.1 percent in all of 2007. The index for energy increased at a 29.1 percent SAAR in the first half of 2008, accounting for around half of the advance in the all items CPI-U during that period. Energy commodities increased at a 34.7 percent rate and energy services rose at a 20.1 percent rate. The food index rose at a 6.8 percent SAAR in the first half of 2008, accounting for about one-sixth of the overall CPI-U increase in the period. The food at home index increased at an 8.7 percent annual rate ithe first half of 2008, compared to a 5.6 percent increase for all of 2007. Four of the six major groups accelerated over last year. The increases ranged from annual rates of 15.5 percent for the index for cereal and bakery products to 5.2 percent for the index for meats, poultry fish and eggs.

The CPI-U excluding food and energy increased at a 2.5 percent SAAR in the second quarter after rising at a 2.0 percent rate in the first three months of 2008. The advance at a 2.3 percent SAAR over the first six months of 2008 compares with an increase of 2.4 percent in all of 2007. Deceleration in the shelter and medical care indexes and a larger rate of decline in the apparel index more than offset acceleration in the indexes for recreation, education and communication, and other goods and services. The shelter index increased at a 2.2 percent SAAR after increasing 3.1 percent in 2007 while the apparel index declined at a 1.9 percent rate after falling 0.3 percent in 2007. The annual rates for selected groups for the last seven-and-one-half years are shown below.

TABLE-4

	2001	2002	2003	2004	2005	2006	2007	2008(june)
All items	1.6	2.4	1.9	3.3	3.4	2.5	4.1	5.5
Food and beverage	2.8	1.5	3.5	2.6	2.3	2.2	4.8	6.6
Housing	2.9	2.4	2.2	3.0	4.0	3.3	3.0	4.3
Apparel	-3.2	-1.8	-2.1	-.2	-1.1	.9	-.3	-1.9
Transportation	-3.8	3.8	.3	6.5	4.8	1.6	8.3	11.9
Medical care	4.7	5.0	3.7	4.2	4.3	3.6	5.2	2.7
Recreation	1.5	1.1	1.1	.7	1.1	1.0	.8	1.5
Education and communication	3.2	2.2	1.6	1.5	2.4	2.3	3.0	4.1
Other goods and services	4.5	3.3	1.5	2.5	3.1	3.0	3.3	4.8
Energy	-13.0	10.7	6.9	16.6	17.1	2.9	17.4	29.1
Energy commodities	-24.5	23.7	6.9	26.7	16.7	6.1	29.4	34.7
Energy services	-1.5	.4	6.9	6.8	17.6	-.6	3.4	20.1
All items less energy	2.8	1.8	1.5	2.2	2.2	2.5	2.8	3.0
Food	2.8	1.5	3.6	2.7	2.3	2.1	4.9	6.8
All items less food an energy	2.7	1.9	1.1	2.2	2.2	2.6	2.4	2.3

The food and beverages index rose 0.7 percent in June. The index for food at home increased 1.0 percent, following a 0.3 percent rise in May. Four of the six major grocery store food group indexes accelerated in June. The index for fruits and vegetables, which was virtually unchanged in May, rose 2.8 percent in June. The index for fresh vegetables rose 6.1 percent in June and the indexes for fresh fruit and for processed fruits and vegetables increased 0.8 percent and 1.2 percent, respectively. The index for dairy and related products increased 1.6 percent in June after a 0.1 percent decline in May. The index for meats, poultry fish and eggs rose 0.8 percent in June after a 0.1 percent increase in May. The beef and veal index increased sharply for the second month in a row, up 1.7 percent in June after a 1.5 percent increase in May. The pork index turned up, increasing 0.6 percent in June after declining 0.8 percent the previous month. The index for eggs increased 1.4 percent in June after a 3.8 percent decrease in May and is 23.2 percent higher than in June 2007. The index for nonalcoholic beverages and beverage materials rose 0.2 percent in June after a 0.9 percent decline in May. The two decelerating groups were cereals and bakery products, increasing 0.5 percent in June after a 1.6 percent rise in May, and other food at home, up 0.4 percent in June after a 0.5 percent increase in May. The indexes for food away from home and for alcoholic beverages increased 0.5 and 0.1 percent, respectively.

The index for housing rose 0.5 percent in June, the same increase as the previous month. The index for shelter increased 0.3 percent, following a 0.2 percent rise in May and a 0.1 percent increase in April. Within shelter, the indexes for rent and owners' equivalent rent increased 0.4 and 0.3 percent, respectively. The index for lodging away from home increased 0.7 percent in June. The index for household energy registered its fifth consecutive large increase, increasing 2.1 percent in June. The index for fuel oil rose 10.4 percent for the second consecutive month and is 78.0 percent higher than in June 2007. The index for electricity, after increasing for three consecutive months, declined 0.1 percent in June. The index for natural gas increased sharply for the fifth consecutive month, rising 4.9 percent in June and is up 21.5 percent over the last 12 months. The index for household furnishings and operations was virtually unchanged in June after increasing 0.2 percent in May.

The transportation index advanced 3.8 percent in June, reflecting large increases in the indexes for motor fuel and public transportation.The index for gasoline rose

10.1 percent, accounting for slightly more than half of the total advance in the all items index, and was 32.8 percent higher than in June 2007. (Prior to seasonal adjustment, gasoline prices in June rose 7.9 percent above their previous peak level recorded in May.) The index for new vehicles turned up in June, increasing 0.2 percent after a 0.1 percent decline in May; the new vehicles index is down 1.0 percent over the last 12 months. The index for used cars and trucks declined 0.3 percent in June, the third consecutive decrease, but is up 0.7 percent over June 2007. The index for public transportation advanced 3.4 percent in June, reflecting a 4.5 percent increase in the index for airline fares. (Prior to seasonal adjustment, airline fares rose 6.7 percent and were 18.7 percent higher than a year ago.)

The index for apparel rose 0.1 percent in June following a 0.3 percent decline in May. Prior to seasonal adjustment, apparel prices declined 3.1 percent in June and are 0.2 percent lower than in June 2007. Over the last year, women's and girls' apparel prices declined 3.3 percent while prices for men's and boys' apparel rose 1.0 percent.

Medical care costs rose 0.2 percent in June, and are 4.0 percent higher than a year ago. The index for medical care commodities- prescription drugs, nonprescription drugs, and medical supplies-increased 0.1 percent in June after a 0.7 percent decline in May. The index for medical care services increased 0.3 percent in June after a 0.5 percent increase in May. This reflected a deceleration in the index for professional services, which increased 0.3 percent in June after a 0.7percent increase in May. The index for hospital and related services increased 0.4 percent in June.

The index for recreation was increased 0.1 percent in June, the same percent change as in May. Increases in the indexes for pets, pet products and services and for sporting goods more than offset declines in the indexes for video and audio, for toys, and for admissions.

The index for education and communication increased 0.5 percent in June. Educational costs rose 0.4 percent and the index for communication costs rose 0.6 percent. Within the latter category, the index for delivery services increased 2.1 percent and long distance land-line telephone charges increased 3.3 percent. These increases were partially offset by a 0.5 percent decline in the index for information technology, hardware and services.

The index for other goods and services increased 0.4 percent in June. The index for tobacco and smoking products rose 1.5 percent, accounting for over 80 percent of the increase in this group. The index for personal care increased 0.1 percent.

5.4 Brief Explanation of the CPI

The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The Bureau of Labor Statistics publishes CPIs for two population groups: (1) the CPI for Urban Wage Earners and Clerical Workers (CPI-W), which covers households of wage earners and clerical workers that comprise approximately 32 percent of the total population and (2) the CPI for All Urban Consumers (CPI-U) and the Chained CPI for All Urban Consumers (C-CPI-U), which cover approximately 87 percent of the total population and include in addition to wage earners and clerical worker households, groups such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

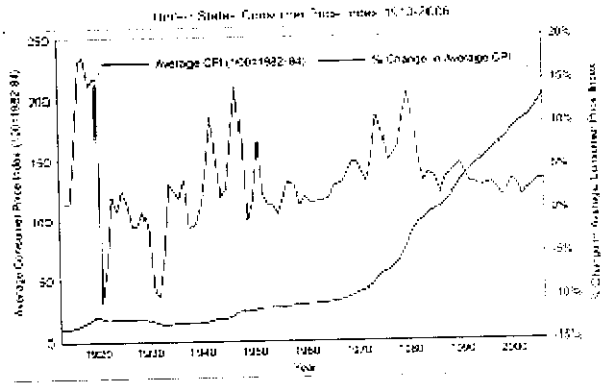
The CPIs are based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected in 87 urban areas across the country from about 50,000 housing units and approximately 23,000 retail establishments-department stores, supermarkets, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of fuels and a few other items are obtained every month in all 87 locations. Prices of most other commodities and services are collected every month in the three largest geographic areas and every other month in other areas. Prices of most goods and services are obtained by personal visits or telephone calls of the Bureau's trained representatives.

In calculating the index, price changes for the various items in each location are averaged together with weights, which represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. For the CPI-U and CPI-W separate indexes are also published by size of city, by region of the country, for cross-classifications of regions and population-size classes, and for 27 local areas. Area indexes do not measure differences in the level of prices among cities; they only measure the average change in prices for each area since the base period. For the C-CPI-U data are issued only at the national level. It is important to note that the

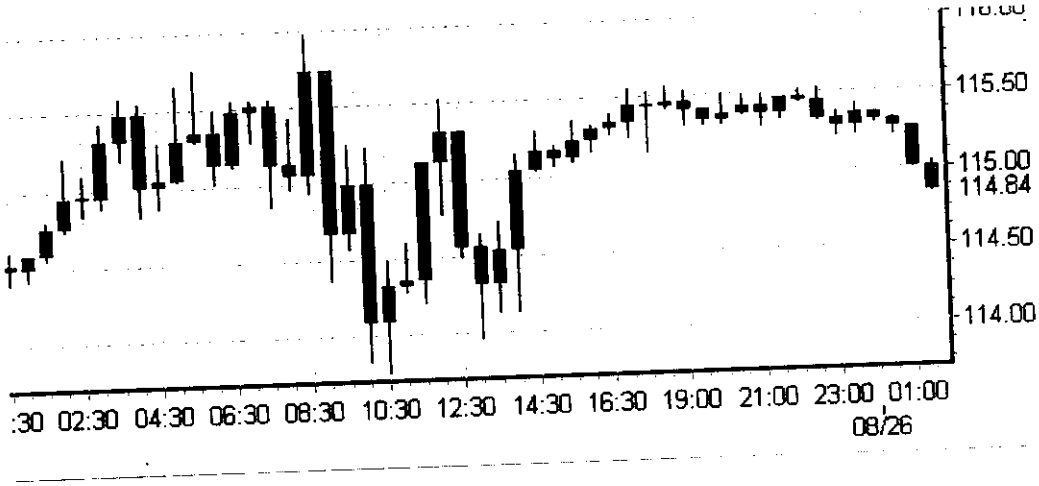
CPI-U and CPI-W are considered final when released, but the C-CPI-U is issued in preliminary form and subject to two annual revisions.

The index measures price change from a designed reference date. For the CPI-U and the CPI-W the reference base is 1982-84 equals 100.0. The reference base for the C-CPI-U is December 1999 equals 100. An increase of 16.5 percent from the reference base, for example, is shown as 116.5. This change can also be expressed in dollars as follows: the price of a base period market basket of goods and services in the CPI has risen from $10 in 1982-84 to $11.65.

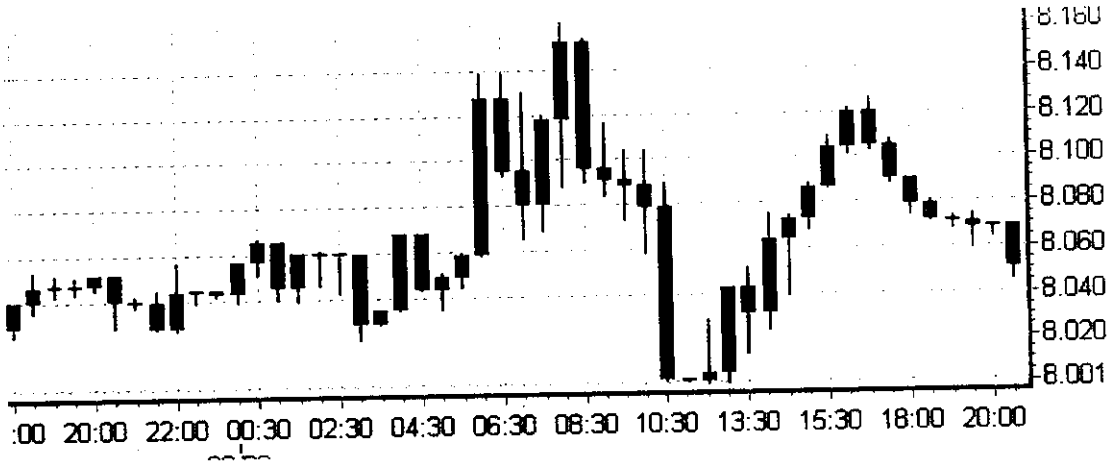
GRAPH-2



GOLD FLUCTUATIONS –ODIN CHART 5



NATURAL GAS –ODIN CHART 6



US CRUDE OIL INVENTORY

6.1 Crude palm oil

Annual edible oil trade in India is worth over Rs.440 billion, with the share of CPO being nearly 20% (Rs.80-90 billion). The country is over.dependent on CPO imports to the extent of over 50% of its annual vegetable oil imports. There is a close inter linkage between the various vegetable oils produced, traded and consumed across the world. The average monthly _uctuation in prices of imported CPO traded at Kandla (one of the major importing ports in Gujarat) has been at 9.7% during the past two and a half years, the maximum monthly _uctuation being as high as 25% during the period.

Palm oil is extracted from the mature fresh fruit bunches (FFBs) of oil palm plantations. One hectare of oil palm yields approximately 20 FFBs, which when crushed yields 6 tons of oil (including the kernel oil, which is used both for edible and industrial purposes). Crude palm oil (CPO), crude palmolein, RBD (re_ned, bleached, deodorized) palm oil, RBD palmolein and crude palm kernel oil (CPKO) are the various forms of palm oil traded in the market.

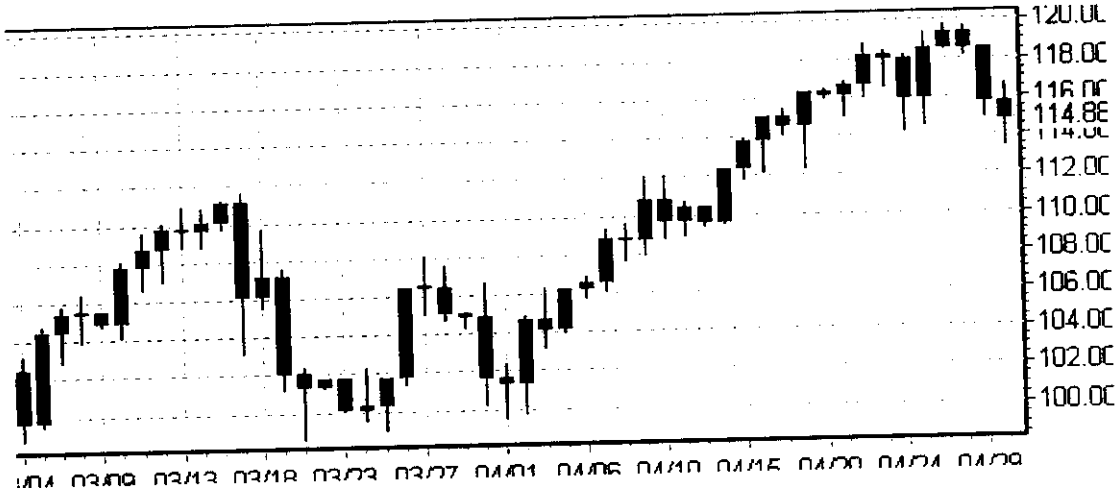
6.2 Cropping and growth patterns

Oil palm requires an average annual rainfall of 2000 mm or more distributed evenly throughout the year. Rainfall less than 100 mm for a period of more than three months is not suitable for oil palm cultivation. Oil palm thrives well at temperatures of 130C with at least 5 hours sunshine per day throughout the year. Oil palm can be grown on a wide range of soil. In general, the soil should be deep, well structured and well drained. However, in areas where rainfall is marginally suitable, the water.holding capacity of the soil is of greatest importance. Flat or gentle undulating land is preferred. Oil palm is sensitive to pH above 7.5 and stagnant water. Global and domestic demand.supply dynamics CPO is used for human consumption as well as for industrial purposes. The consumption of palm oil (both food and industrial consumption put together) in the world is growing at the rate of 7.37% compounded annually during the last 12 years period. While in the importing countries like

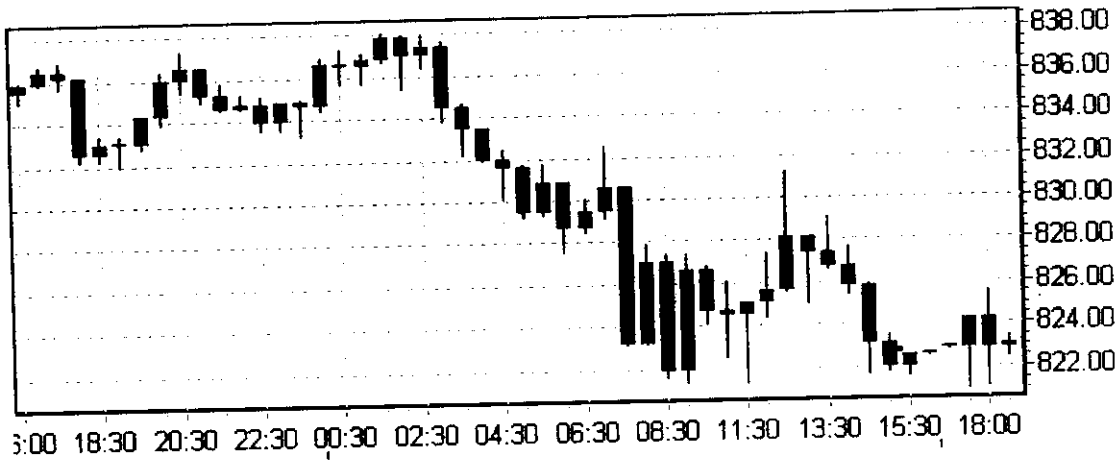
China and European Union, the consumption of palm oil is growing at the rate of 5.2% and 4.8% respectively, the consumption growth rate for the worlds leading palm oil importer.

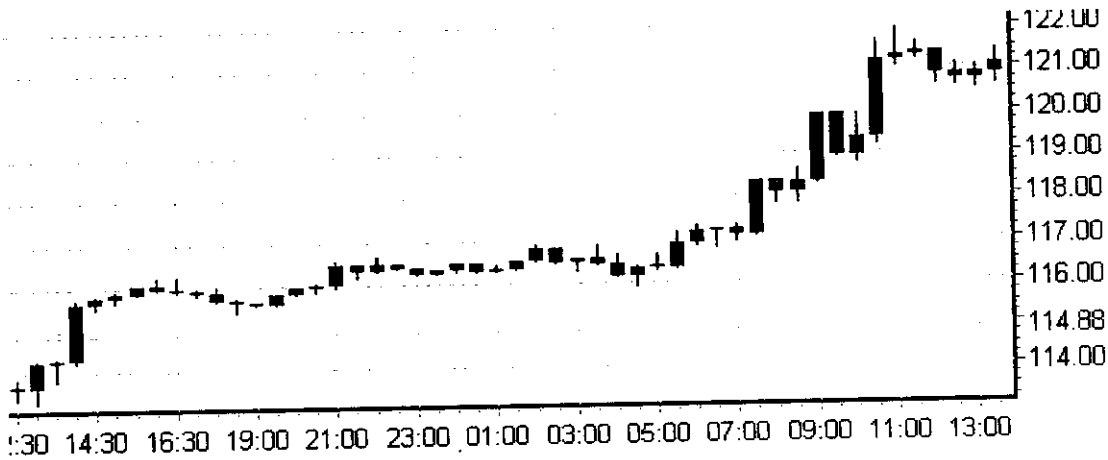
U.S. crude oil refinery inputs averaged nearly 15.3 million barrels per day during the week ending August 29, up 147 thousand barrels per day from the previous week's average. Refineries operated at 88.7 percent of their operable capacity last week. Gasoline production rose last week, averaging 9.4 million barrels per day. Distillate fuel production increased last week, averaging 4.5 million barrels per day.U.S. crude oil imports averaged 9.8 million barrels per day last week, down 149 thousand barrels per day from the previous week. Over the last four weeks, crude oil imports have averaged 10.1 million barrels per day, 0.2 million barrels per day below the same four-week period last year. Total motor gasoline imports including both finished gasoline and gasoline blending components) last week averaged 883 thousand barrels per day. Distillate fuel imports averaged 93 thousand barrels per day last week. U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) decreased by 1.9 million barrels from the previous week. At 303.9 million barrels, U.S. crude oil inventories are in the middle of the average range for this time of year. Total motor gasoline inventories decreased by 1.0 million barrels last week, and are near the lower boundary of the average range. Finished gasoline inventories increased last week while gasoline blending components inventories decreased during this same time. Distillate fuel inventories fell last week, and are in the upper half of the average range for this time of year. Propane/propylene inventories increased by 0.9 million barrels last week but remain below the lower limit of the average range. Total commercial petroleum inventories decreased by 3.6 million barrels last week, and are in the lower half of the average range for this time of year. Total products supplied over the last four-week period has averaged nearly 20.3 million barrels per day, down by 3.5 percent compared to the similar period last year. Over the last four weeks, motor gasoline demand has averaged 9.4 million barrels per day, down by 1.6 percent from the same period last year. Distillate fuel demand has averaged nearly 4.3 million barrels per day over the last four weeks, up by 2.7 percent from the same period last year. Jet fuel demand is 9.3 percent lower over the last four weeks compared to the same four-week period last year.

CRUDE OIL FLUCTUATIONS-ODIN CHART 7

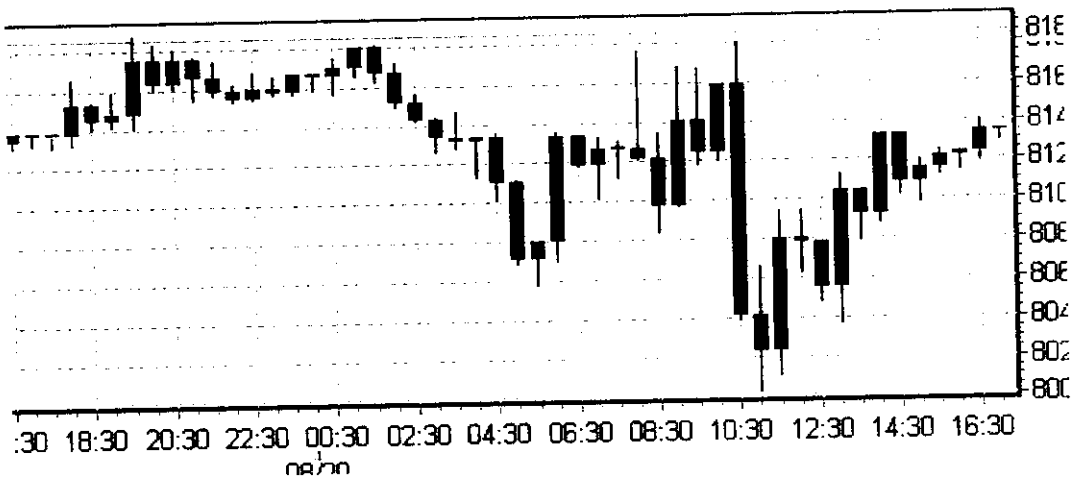


GOLD FLUCTUATIONS-ODIN CHART 8





GOLD FLUCTUATIONS-ODIN CHART 9



CONCLUSION

7.1 Results and discussions

The LME released the inventory data at 2.30 in the Indian timings. These data shows that demand and supply of metals. According to this data, the trade moves. If the value is negative ie demand increased the trade is in bullish, if the value is positive there is fluctuations are low. Aluminium, copper, nickel, zinc, lead fluctuations are depending on the LME data.

The ECB decide the European monitory system data. Those information effects the euro value the main factor is ECB balance of payment. This value decides the euro which is strong or not. If the euro strong the investment in the dollar value get reduced as well as investment in the gold value get increased. if the euro weakening happens vice versa.

In US the money spends on unemployment determines the US economic position in the world. The US employment, labour related data release affects the dollar value. So the unemployment increases the dollar gets weakened. At the same time gold gets increased. The impact on the graph is increase or decrease according to the graph. But the index determines fluctuations strongly at for a few hours.

By the crude oil inventory release, this data affects the crude price highly. Now the recent days surplus release makes high fluctuations. The increase of crude price leads to increase in the gold and other metals. The demand on the crude oil leads to high price.The consumer price index dealt with economic condition of the country.

The positive result of consumer price index shows the increase of economic position of the US government. The increase of usage of products shows the US economic position in positive mode. So can decide the economic of US is strong. So the value of dollar gets strong. The hope of profit on US dollar increases.

7.2 Considered recommendations

The fundamental analysis of commodity market is the easiest way to profit. Metal, oil , bullion, market movement change the market trend. For the gold market, the increase of price is moving along with the US dollar. The US dollar is moving against with the euro. The chain is continued. The silver market moves along with the gold market. In the technical analysis, the market fluctuation is based on the support and resistance. Buy the technical market analysis, can not predict the market trend exactly. But by fundamental analysis can predict the market analysis exactly. In the technical analysis risk is high, so the risk averse people can only speculate. In the fundamental analysis the risk is low. In the crude oil, the US market is the major for price fluctuation. This leads to fluctuation in gold market also. From this project we can predict the market trend exactly.

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