

Karvy Comtrade's Handbook on Economic Indicators and Their Impact on Bullion Prices



UNDERSTANDING THE BUSINESS CYCLES

There are certain times when the release of certain economic indicators is awaited with great anticipation. However, those same indicators barely get noticed at some other conditions. Why do these economic measures jump in and out of the limelight? The answer is that much depends on where the US economy stands in the business cycle.

During a recession, when there are lots of unemployed workers and idle manufacturing capacity, inflation was less of a concern. Thus, measures such as the consumer price index, which gauges inflation and the retail level, do not have the same impact on the financial markets as they would if the economy were operating at full speed. During recessionary periods, indicators that grab the headlines are housing starts, automobile sales, and the major stock indices because they often provide the earliest clues that an economic recovery is imminent. Once business activities is in full swing, inflation measures like the CPI take centre stage again while other indicators receive a bit to the background.

The business cycle itself has 5 phases. The first phase refers to the highest point of output the economy achieves just before it gets into trouble and turns down. After this peak comes phase two, which is the recession itself, at this stage the economy actually shrinks. It saps the confidence of households and causes financial distress for business. The third phase is reached when the economy actually reaches bottom, a point known as the recession trough. The fourth phase occurs after the economy actually stops shrinking and resumes its growth path. Finally, when the level of economic activity pushes past the previous high point, the business cycle marks the fifth and last phase, often referred to as expansion.

GROSS DOMESTIC PRODUCT

Market Importance: High

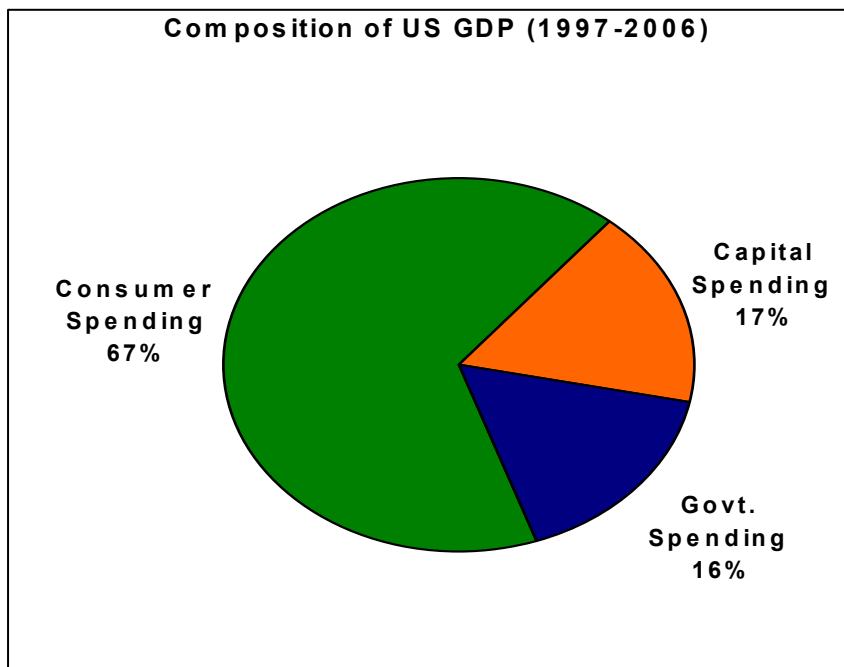
Frequency: Quarterly

Website: www.bea.doc.gov

The foremost report on the health of the economy, GDP measures how fast or slow the economy is growing. This report is released quarterly by the Bureau of Economic Analysis under the Commerce Department. This report is the mother

of all economic indicators and the most important statistic to come out in any given quarter.

Composition of GDP

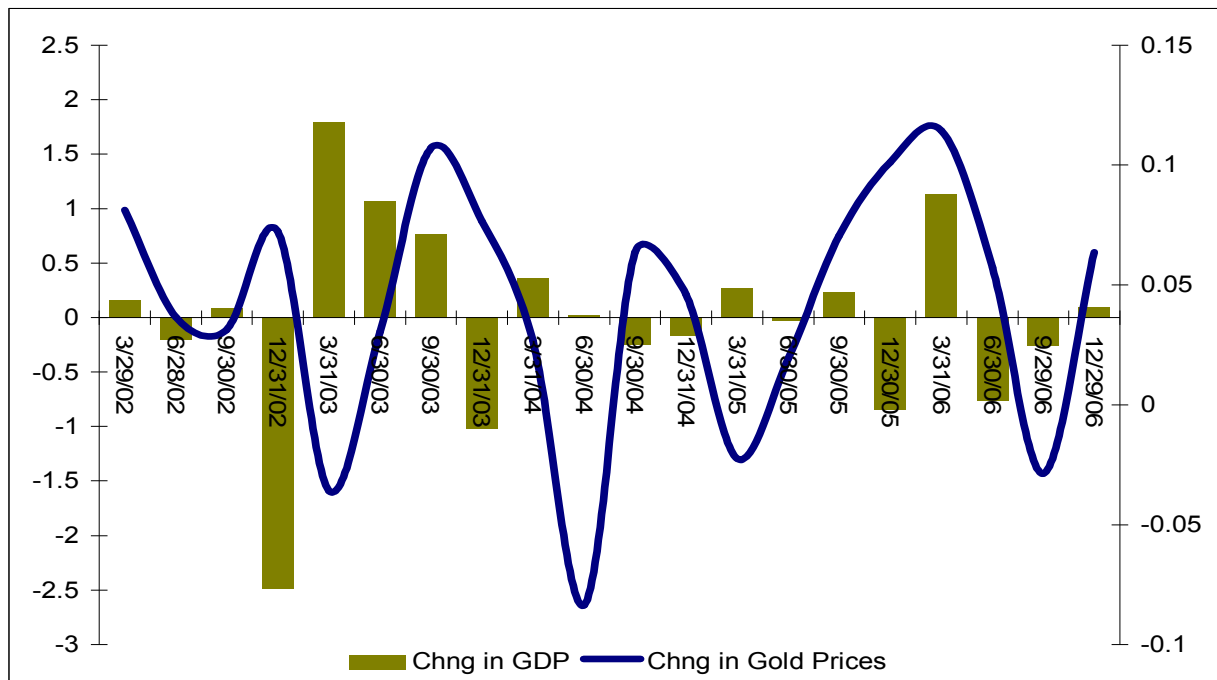


It is vital to realize that each of the major sectors of GDP -- consumer spending, capital spending, and government spending represents the ultimate value of the productive or service when it is purchased by the final user. Capital spending is another major sector of GDP that, like consumer spending, is subject to cyclical

influences. Capital spending consists of spending by businesses on factories and offices and in the treatment, as well as housing in addition to capital spending, there are two major economic sectors other than consumer spending that influence economic growth: government spending which represents around 13 to 17% of total GDP in recent years and net exports that is value of goods produced for non domestic consumption less the value of goods manufactured abroad and brought into the United States.

Impact on the markets:

To foreign investors, a strong American economy spurs corporate profits and firms up interest rates: thus foreign investors see opportunity to make money in the US stock market and US T Bills. All this will increase the demand for US dollars. However if this leads to an accelerated rate of inflation, it would lower US competitiveness in the world and worsen the country's foreign trade deficit.



EVERYTHING STARTS WITH THE CONSUMER

The central figure of the US economy is, without doubt, the consumer spending or personal consumption expenditure as it is labeled by the government bureaus that report it -- is comprised broadly of consumer expenditures on durable goods, non-durable goods, and services. It accounts for more than two thirds of the total US gross domestic product.

PERSONAL INCOME AND SPENDING

This report records the income Americans receive, how much they spend, and what they save. It is released monthly by the Bureau of Economic Analysis, under the Department of Commerce. The report is released generally four – five weeks after the end of the reported month.

The significance of this report lies in that consumers rule the economy. Without their active participation, business activity would come to a standstill. Consumer expenditures are the main driving force of sales, imports, factory output, business investments and job growth in the US. It has been historically seen that the average US household spends 95 percent of every dollar received, and it is this high level of consumption that fuels two thirds of US economic activity. It is for this reason that Personal Consumption Expenditure (PCE) grabs the headlines and is also regarded as the Fed's preferred measure of inflation. PCE is the most comprehensive measure of consumer spending and swings in the PCE can lead to major shifts in the business cycle.

Impact on the markets:

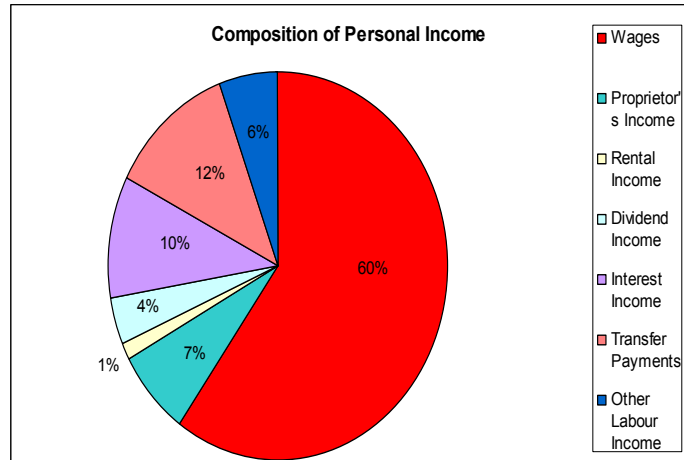
A healthy increase in the personal income and personal spending index augurs well for the US dollar. High consumer demand encourages more growth and puts upward pressure on the interest rates. This makes the dollar more attractive to foreign investors, particularly since it results in a greater rate of return on investment than other currencies. Conversely a weaker spending report spells bearish outlook for the US Dollar.

PERSONAL INCOME:

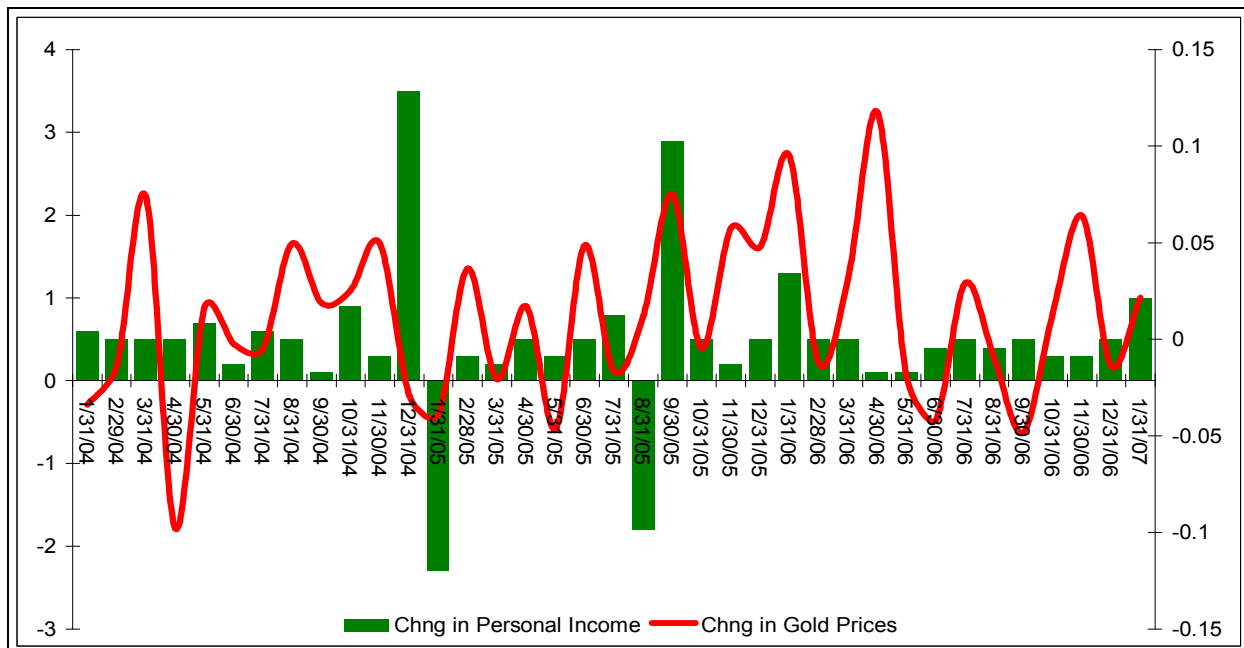
Market Importance: Medium
Frequency: Monthly
Website: www.bea.doc.gov

Personal income represents the money the consumers receive before deducting for taxes. As long as personal income continues to rise, it is logical that consumer spending will also increase.

The fallings at the usual sources for personal income: wages and salaries, proprietor’s income, rental income, dividend income, interest income, transfer payments and other Labor income.



The graph below represents the relationship that change in personal income has with change in gold prices.



PERSONAL CONSUMPTION EXPENDITURE

Market Importance: Medium

Frequency: Monthly

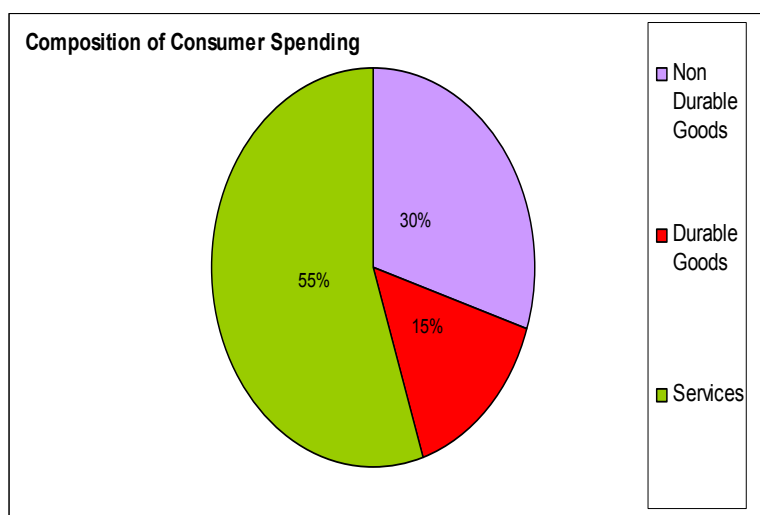
Website: www.bea.doc.gov

This represents all spending by the US consumers on goods and services and it nearly accounts for 70% of total US GDP. The importance of this data lies in the fact that if households are not in a spending mood, the economy is headed for serious trouble and recession does not seem to be a distant possibility.

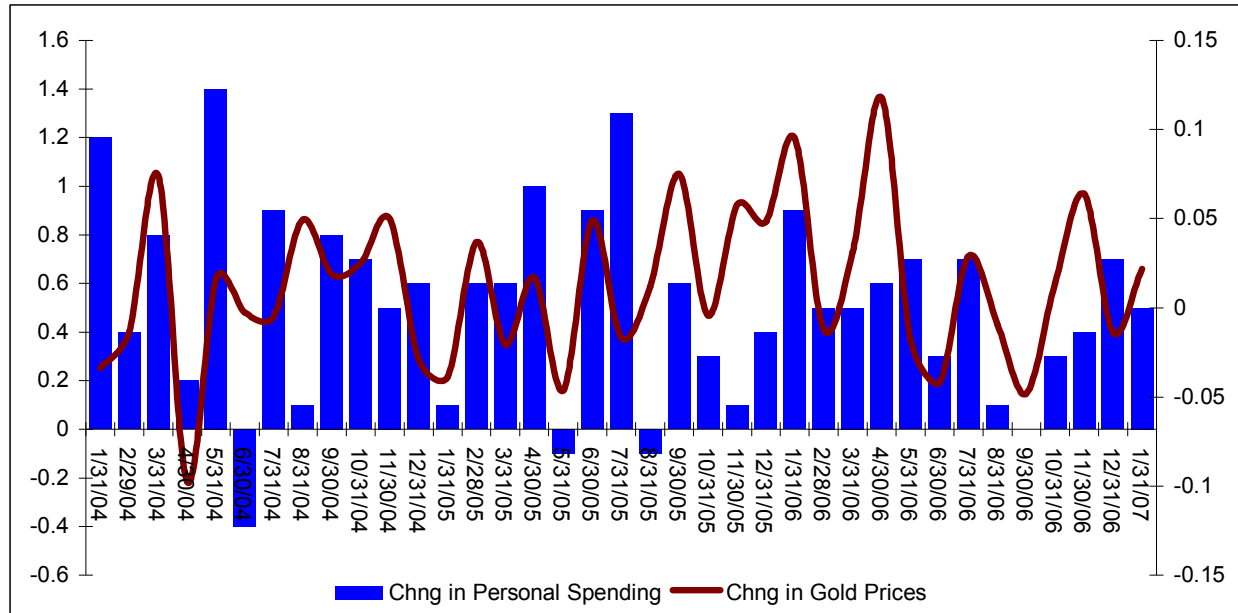
Components of personal consumption expenditure:

Durable Goods: These represent costly items such as televisions, cooling units that by definition last at least three years. Durable goods account for nearly 15% of total consumer spending. Spending on durable goods is highly sensitive to changes in consumer income and attitudes that there is, if income declines, consumers are likely to postpone the purchase of durable goods like a car or a cooling unit.

Nondurable Goods: Basically food items, items of clothing etc are accounted for in nondurable goods and this category makes up nearly 30% of all personal spending. Not much volatility is found in this category as it represents a part of daily living and hence considered essentials by most sections of the economy.



Services: More than half of total consumer spending goes to pay for services such as healthcare, insurance, transportation etc. A trend witnessed in recent years is that expenditure on services has been on the rise.



The above table shows the relationship between change in Personal Spending and change in gold prices.

RETAIL SALES

Market Importance: High

Frequency: Monthly

Website: www.census.gov

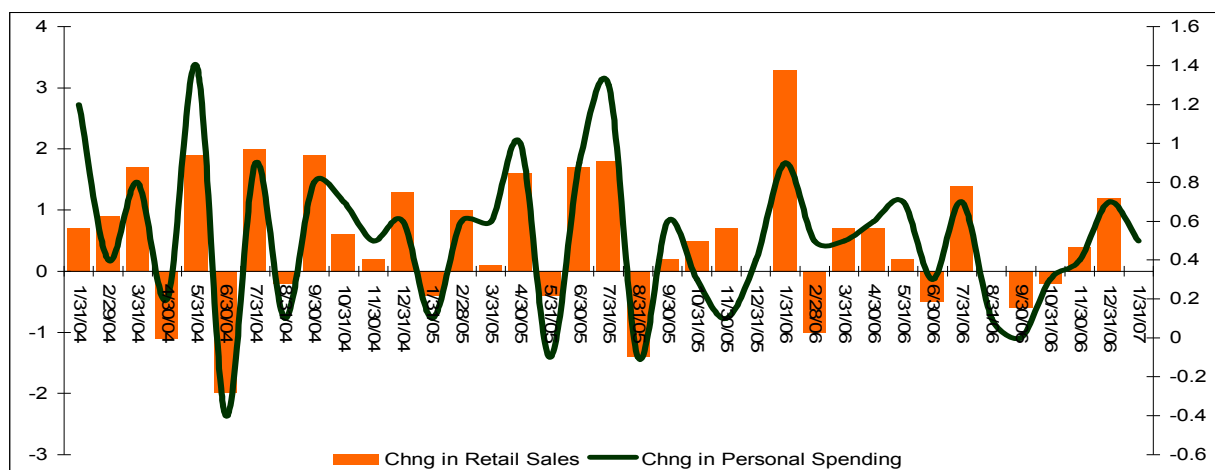
This monthly report released by the Bureau of Census, Department of Commerce is generally released two weeks after the end of the reported month. The significance of this report is 70 percent of all economic activity accounted for by consumer

spending, retail sales makes up for one third of that. If retail sales are high, it is a sign of overall economic growth and prosperity.

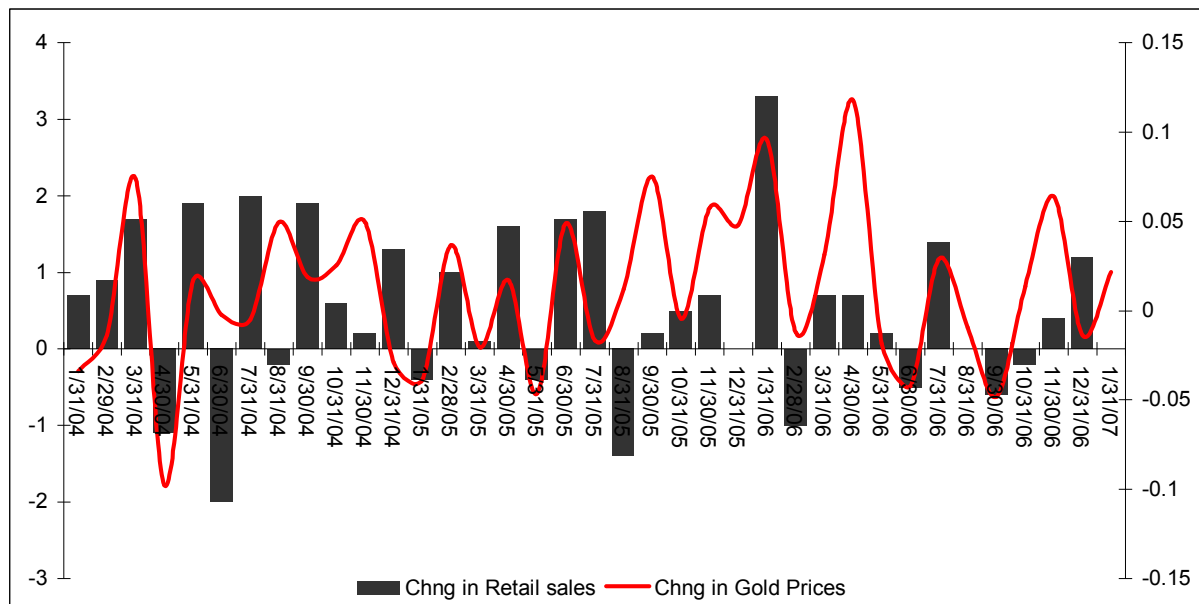
This report tells us how much consumers are spending on goods beat durable on nondurable but it does not tell us how much is being spent on services. Another factor of that should be kept in mind when looking at the retail sales figure is how much of those retail sales are being accounted for by gasoline prices. Since the geopolitical events and erratic climatic changes greatly influence gasoline prices, a jump in return cells is not necessarily indicative of healthy economic growth is that charm is caused majorly due to a rise in gasoline prices.

Relationship between Retail Sales and Personal Spending

The figure below represents the relationship that Retail Sales enjoy with Personal Spending. As can be expected there is a high degree of correlation between these two economic indicators.



The graph below indicates the relationship between change in the retail sales data and change in bullion prices.



Impact on the markets:

This is a tricky report to analyze. While a healthy sales report would firm up interest rates, which is bullish for the dollar, an overly strong retail sales number can also spell trouble for the US Dollar, as most of the retail sales would account for goods which are imported. Given the already massive US trade deficit, a jump in imports also increases demand for non dollar currencies to pay for these imports and that can potentially hurt the dollar.

CONSUMER CONFIDENCE INDEX

Market Importance: Medium

Frequency: Monthly

Website: www.coference-board.org

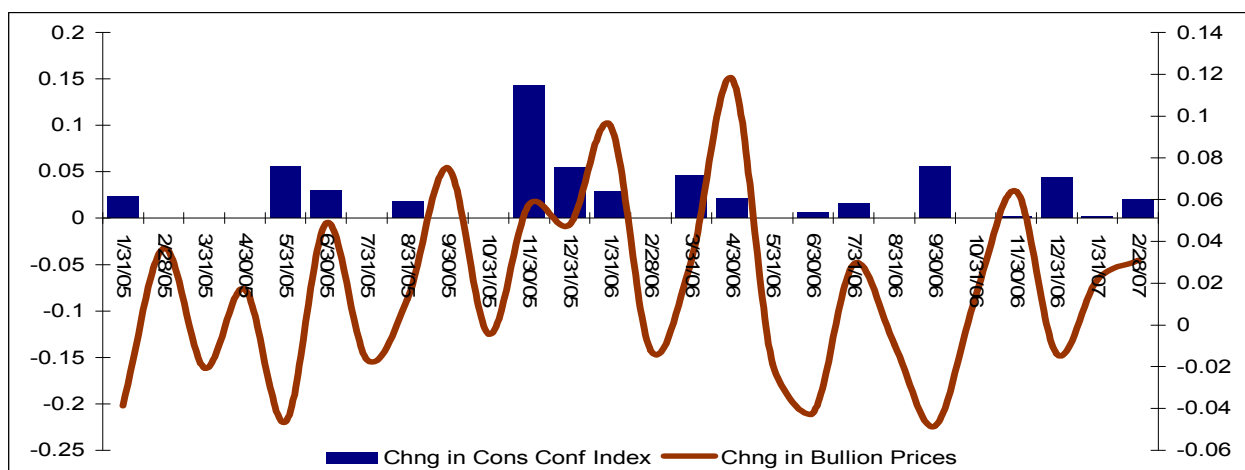
This report is released monthly by The Conference Board on the last Tuesday of the month being surveyed. This report examines how the consumers feel about jobs, the US economy and spending. Happy consumers are good for business. Thus any sign of falling confidence can immediately trigger alarm bells in the markets as the consumer spending accounts for nearly two thirds of the economy's total demand.

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An important thing to notice in the consumer confidence index report is its spillover effect. For example a rise in the consumer confidence index in one month will spill over to higher consumer spending in the following months.

The consumer confidence index is based on a survey that asks people questions like how they would rate the present general business conditions in their area?, what they feel about the available jobs in their area?, and what they estimate their family income would be six months down the line?

The following graph pictorially depicts the relationship between the change in the Consumer Confidence Index and change in the bullion prices.



Impact on the markets:

A depressed consumer raises the prospects of falling interest rates and a weakening business climate, both of which bode ill for the dollar's value. Foreign investors are likely to sell the US Dollar in search of better returns elsewhere. On the other hand an upbeat consumer can lift interest rates which increase the demand for US Dollars.

EMPLOYMENT SITUATION

The employment statistics are released by the Bureau of Labor Statistics under the Department of Labor. It is generally released on the first Friday of every month and covers the month just concluded. This report is rich in detail about the job market and household earnings, information that can help forecast future economic activity. The lesser the unemployment rate, the more workers earn, the more they buy and propel the economy forward. If fewer people are working, spending drops off and business suffers. Because household spending accounts for two thirds of the economy's total output, the investment community pays close attention to the employment report.

Impact on the markets:

A strong jobs report signifies accelerating inflation, as now more people have money to spend. However the impact of the report also depends at which phase of the business cycle the economy happens to be in. If the US economy has just managed to climb out of recession, a jump in employment report will only have modest effect on the commodity markets.

DURABLE GOODS ORDERS

Market Importance: High

Frequency: Monthly

Website: www.census.gov

This is a key indicator of future manufacturing activity. This report is released monthly by the Census Bureau under the Department of Commerce. It is released 3-4 weeks after the end of the reporting month. This report assumes significance since it is a forward looking report. When we are looking at “orders” for factory goods, it is about the production that will take place in the months ahead. A jump in orders is a positive sign because it suggests factories and employees will remain busy as they work to satisfy demand from consumers. Durable goods are by definition products that have a life expectancy of at least three years (such as automobiles, computers, appliances, aircraft, communication equipment), and they represent a crucial part of business investment spending.

Components of the durable goods orders report

The durable goods orders report usually has the following components

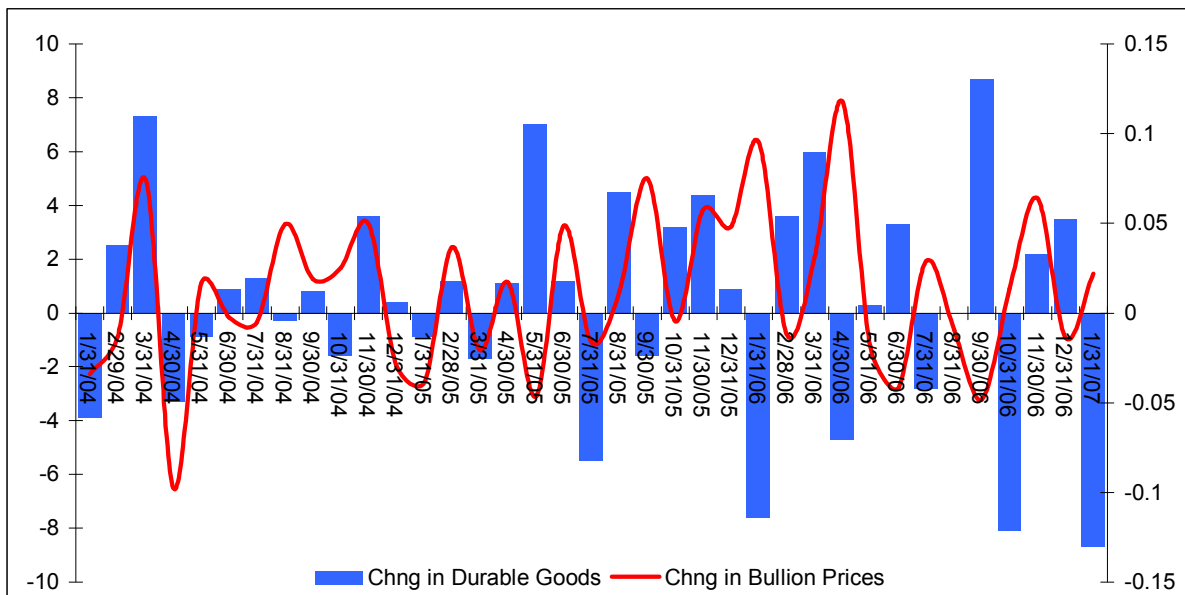
New orders: An increase in orders is expected to keep the factories busy in the future, making this piece of data a good leading indicator. However, this figure also includes orders for aircraft and defense orders. Hence, when analyzing this report, it is better to look at new orders less orders for the aircraft and orders from military goods because both of these orders are periodic in nature while at the same time are hugely expensive.

Shipments: Shipments represent products that have been ordered and add in the process of being delivered.

Unfilled orders: This is an important sub indicator because it foretells off global delays in the manufacturing process that can cause delays in finished goods production and may also lead to build up of inflationary pressures. Unfilled orders are an indication of low capital spending by the proprietors.

Inventories: An increasing inventories signals lower consumer spending leading to cut back in the production process, which may ultimately lead to plant shutdowns and increasing the unemployment.

The graph below represents the relationship that change in Durable Goods has with the change in bullion prices.



Impact on the markets:

The dollar frequently rallies on evidence of a strengthening US economy, especially if it exceeds that of other industrialized countries. However a very strong durable goods orders, combined with other positive indicators, might drive the dollar down, since it indicates that the economy is overheating.

FACTORY ORDERS

Market Importance: Low to Medium

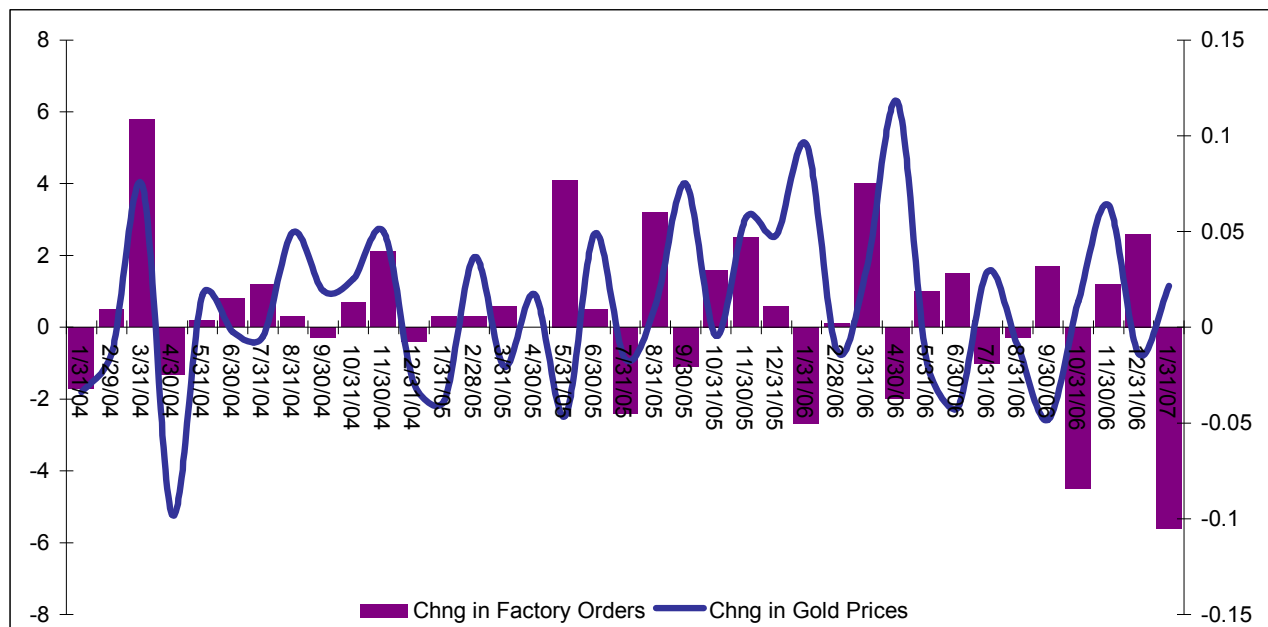
Frequency: Monthly

Website: www.census.gov

The factory orders report is a comprehensive measure of manufacturing orders and sales. It is released monthly by the Census Bureau, Department of Commerce. The factory orders is a

comprehensive report in the sense that, not only does it cover the durables goods data released one week earlier, it also covers non durables as well, such as food, clothing, and fuel. Non durable items make up for roughly 47% of all factory orders, with durables accounting for the rest.

The following graph depicts the relationship between the change in factory orders and the change in gold prices.



Impact on the markets:

Since this report is more of a lagged indicator, it does not appear to have much impact on the markets.

BUSINESS INVENTORIES

Market Importance: Medium

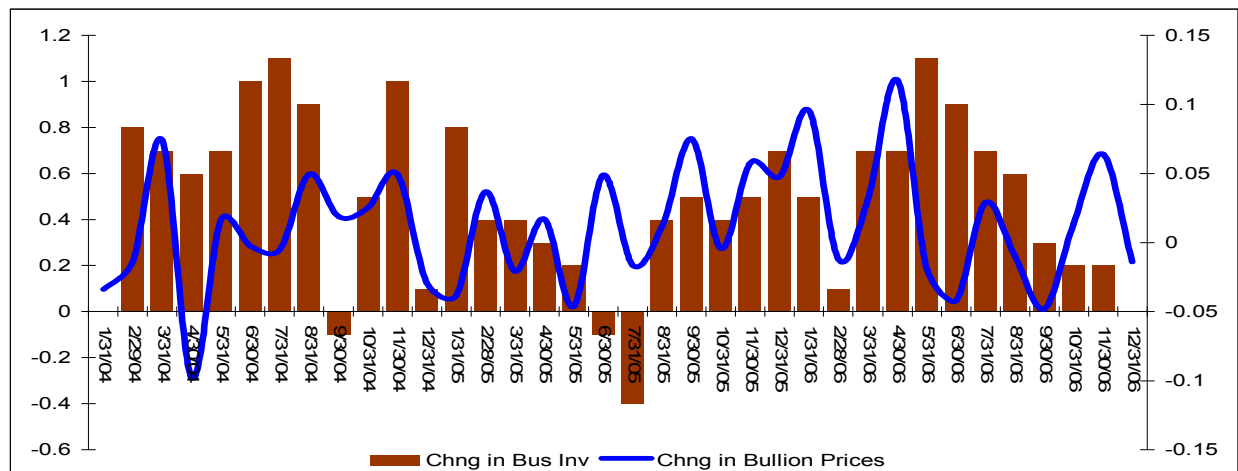
Frequency: Monthly

Website: www.census.gov

This indicator tracks the total US business sales and inventories. It is released by the Census Bureau, under the Department of Commerce. This is a monthly indicator and is released 6 weeks after the end of the relevant month.

This report is subdivided into three parts: total business sales, total inventories, and the inventory-sales ratio. Business inventories represent the amount of goods that manufacturers, wholesalers and retailers keep in their stock rooms. Although it is released very late, this is a very revealing piece of information, because it is at the retail level where the economy first runs into trouble. The Inventory Sales ratio comes in handy because it is popular yardstick for measuring whether inventory levels are too high or too low.

The graph below shows that with an increase in the level of business inventories, bullion prices are also on the rise.



Impact on the markets:

For the markets, a jump in the Inventory sales ratio signifies that the economy is slowing down. This translates into eventually lower interest rates and consequently higher bullion prices.

INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION

Market Importance: Medium

Frequency: Monthly

Website: www.federalreserve.gov

The IP index records the US industry's output and its spare capacity. This is released by the Federal Reserve Board on a monthly basis.

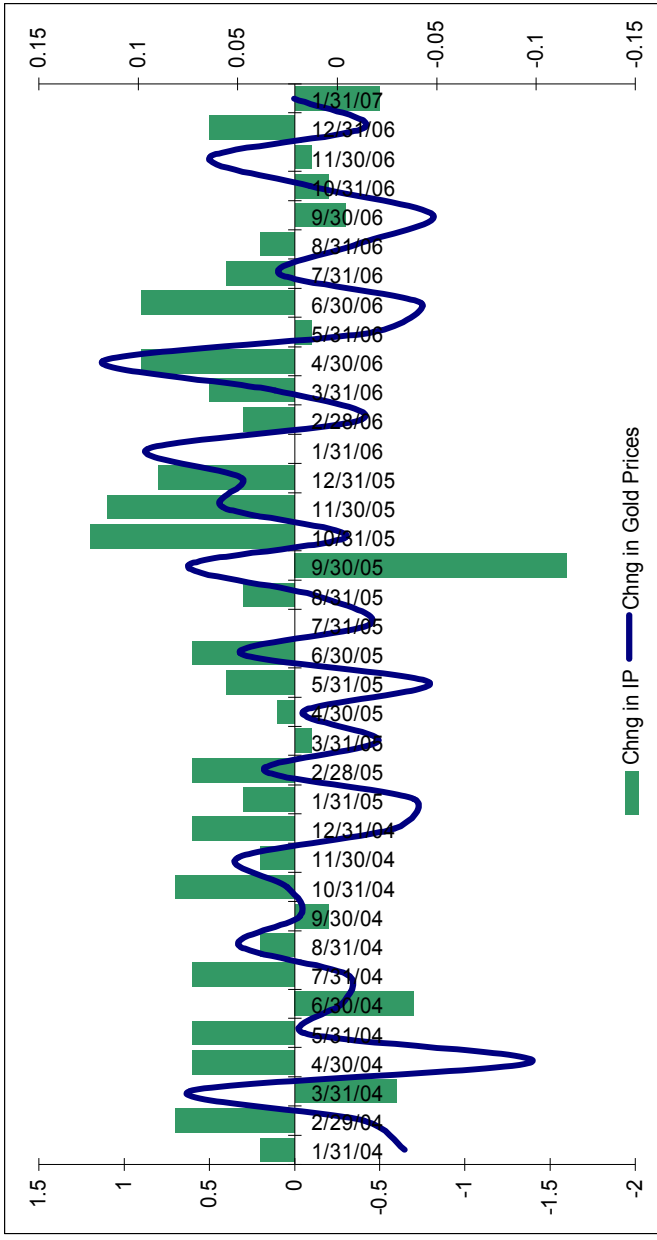
Industrial production covers nearly everything that is physically produced in the United States. The importance of this report lies in that it reacts quickly to the ups and downs of the business cycles. Although the industrial production figure accounts for the manufacturing sector which makes up roughly 20% of the US economy, as compared to the service sector which occupies nearly 70% of the year's GDP, the industrial production figure is highly sensitive to changes in interest rates and demand, so it closely mirrors the overall economy. As a result there is a close relationship between changes in industrial output and GDP growth.

Capacity utilization looks at what the industries in the US are currently producing and then compares that output with what they can potentially produce if all the industries were running at maximum capacity. The implication of this report is that as American Industries get closer to achieving full capacity utilization, inflationary pressures surface. Capacity utilization rate for manufacturing is generally high when the economy is vibrant and falls when demand softens.

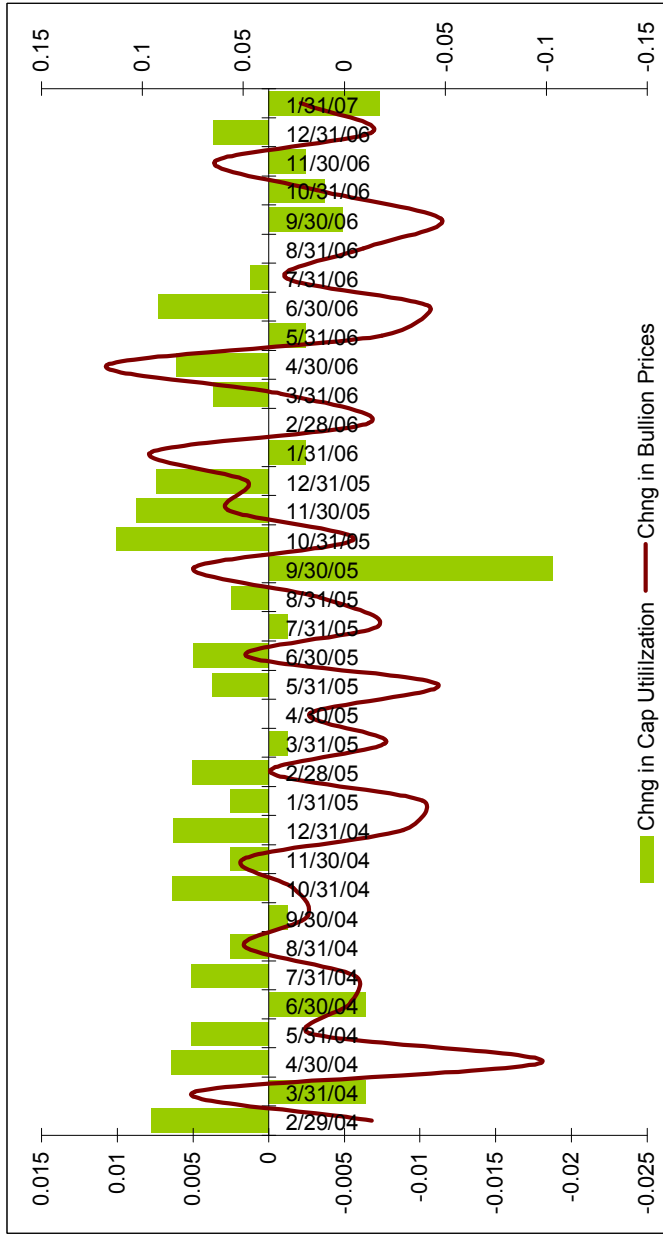
The following graph depicts the effect that a change in the Industrial Production Index has on the movement of gold prices.

Impact on the markets:

A significant jump in the industrial output suggests faster economic growth, which can increase the demand for dollar denominated assets. It signals higher inflation and the possibility of increasing interest rates.



This graph also supports the conventional logic that with every rise in the capacity utilization, bullion prices have taken a dip.



ISM MANUFACTURING SURVEY

Market Importance: High

Frequency: Monthly

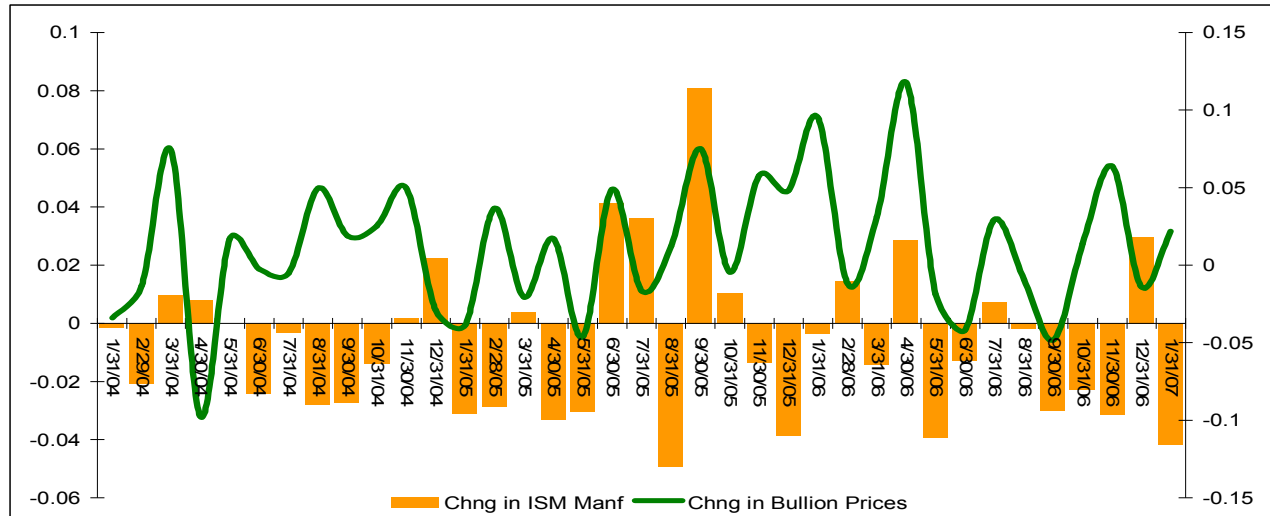
Website: www.ism.ws

The institute of Supply Management releases this report on a monthly basis. This is a timely report in the sense it is released on the first business day after the reporting month.

The significance of this report can be tracked by understanding what corporate purchasing managers do. Manufacturing companies need supplies to make products. Those in charge of procuring this material for their company are purchasing managers. If there is an increase in demand for manufactured products, purchasing managers respond by increasing orders for raw materials. Should economic activity slow, corporate buyers will cut back on industrial orders. Since this report comes out on the first business day of every month, it provides sufficient clues as to how the economy has fared in the previous four weeks.

A reading in the PMI above 50 signifies that the both the manufacturing sector and the economy are expanding. Any reading between 43 and 50 signifies that although manufacturing activity is contracting, the overall economy is still growing. A reading below 43 on a continuous basis signifies that both manufacturing and the economy are likely to be in recession. Such a circumstance raises the prospect that the Fed will lower rates to improve economic growth.

The graph below depicts the relationship between the change in the ISM Manufacturing Index and the change in bullion prices.



Impact on the markets:

Any reading in the PMI above 50 signifies that the fundamentals of the economy are strong and inflation is in check. Since the economy is basically strong, the US Dollar gains versus other currencies.

ISM NON MANUFACTURING BUSINESS SURVEY

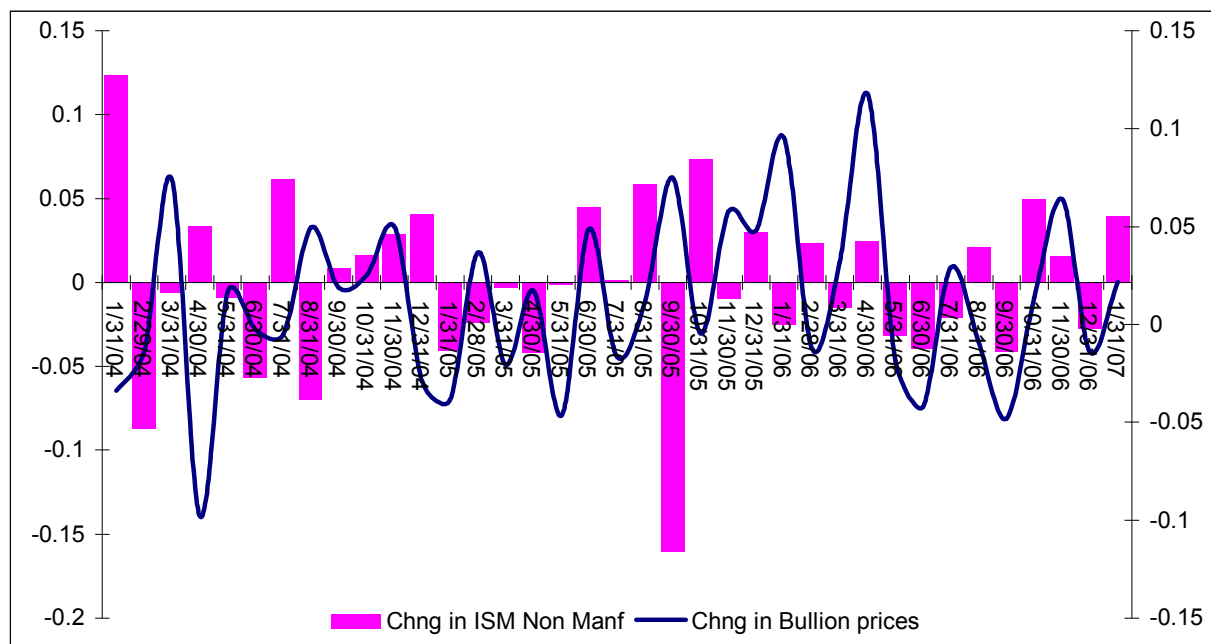
Market Importance: Low

Frequency: Monthly

Website: www.ism.ws

This monthly report looks at the conditions in the US service sector and is generally released on the third business day following the month being reported.

The importance of this report lies in the fact that this report tracks the services sector which represents nearly 70 per cent of the US economy and is also released on a timely basis. This report is not very much cyclical in nature as it represents essential services which are not much affected by the economic cycles.



Impact on the Prices

Given the growing importance of the services sector in the US economy, an improvement in the readings of this report generally indicates a bullish mood in the US economy leading to an appreciation of the US dollar versus other major currencies. In such a scenario one might expect bullion prices to decline.

HOUSING STARTS

Market Importance: Medium

Frequency: Monthly

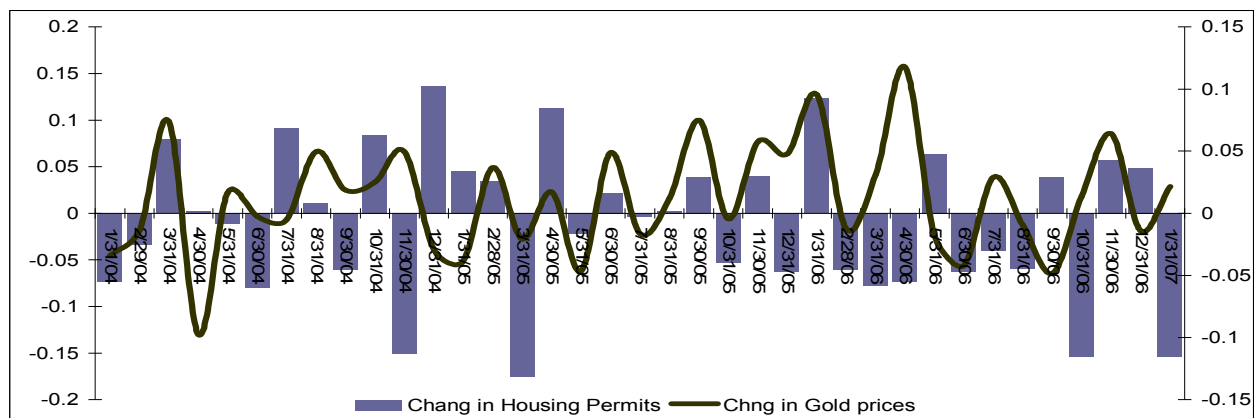
Website: www.census.gov

The Housing Starts figures are released monthly by the Department of Commerce within two to three weeks of the month being covered.

The significance of this report is very high as it is highly sensitive to interest rates. As mortgage rates climb, it depresses demand for homes and discourages further construction. Builders are less likely to seek home loans when interest rates are high. A critical aspect of the US housing sector is the ripple effect it has on other sectors. A jump in construction activity drives up demand for steel, wood, electricity, base metals like copper, zinc, etc. Moreover, the need for skilled workers also increases, thereby increasing personal income.

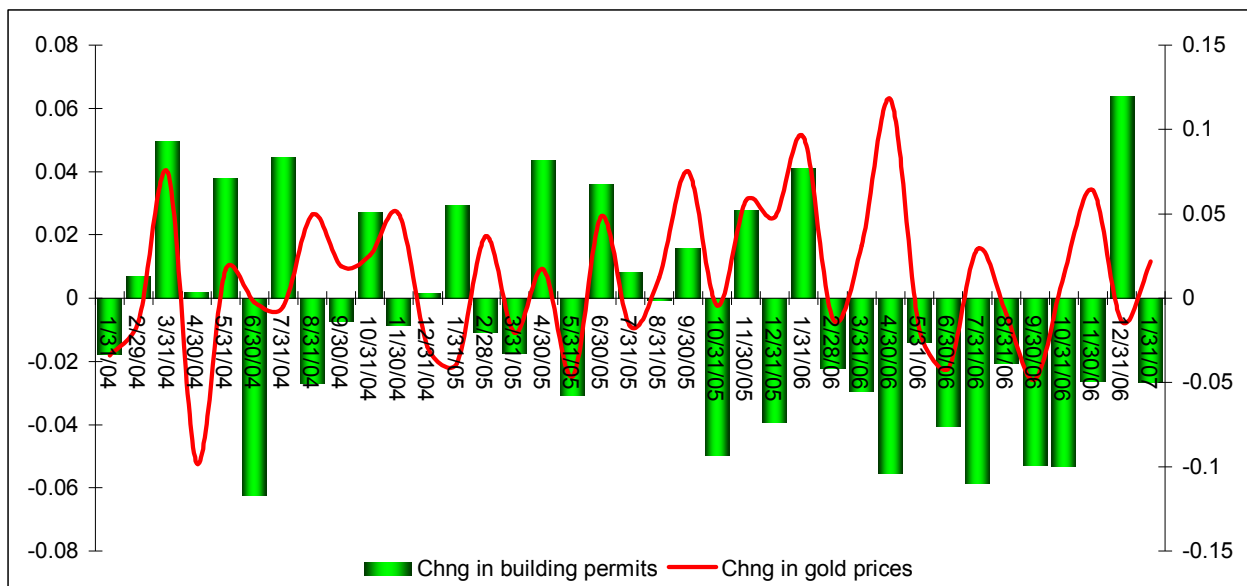
It has been estimated that for every 1000 homes under construction around 2600 full-time jobs are created which in turn generates nearly hundred million dollars in the wages. Hence the housing sector in the US is very crucial as it can affect so many diverse businesses.

The following graph depicts the relationship between change in Housing Starts and change in gold prices. As can be expected, a decline in the housing starts data signals gloominess in the US economy which in turn propels gold prices.



Along with the housing starts report, another report is released which refers to the building permits. In the US, builders planning to construct new homes usually have to fight for a permit in advance. This indicator is also a forward-looking indicator, as by tracking the number of permits issued one can gauge the level of construction activity in the future months.

In similar lines with the Housing Starts, the Building Permits also show an inverse relationship with bullion prices.



Impact on the markets

Foreign investors are attracted to the US Dollar denominated assets if they can earn a rate of return higher than what can be achieved in other markets. Thus a strong housing report is considered bullish for the Dollar because it usually supports higher interest rates. Conversely, the US Dollar's value can slip with weak housing data because it signals slower economic growth in the future and thus falling interest rates.

EXISTING HOME SALES

Market Importance: Medium

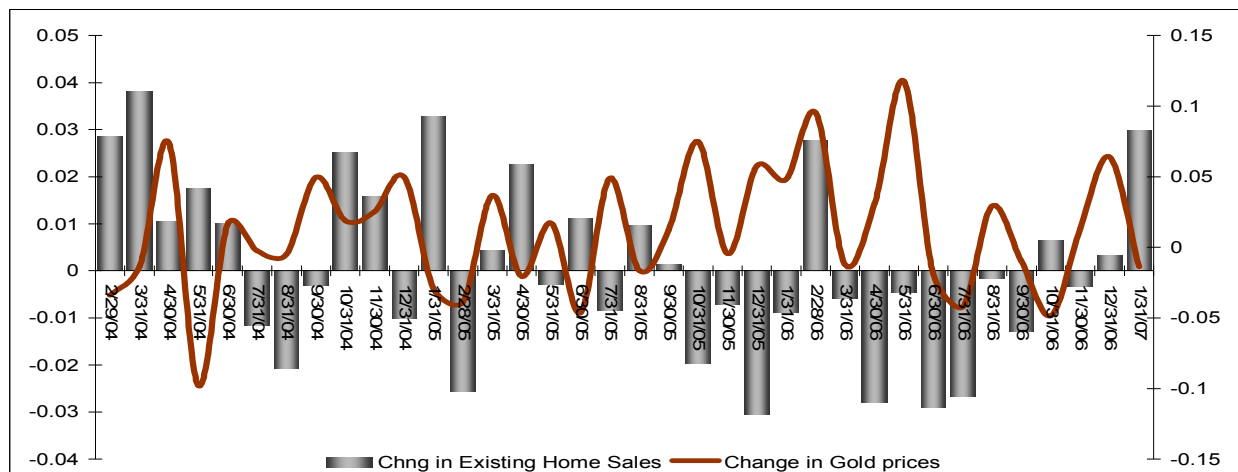
Frequency: Monthly

Website: www.realtor.org

This report is released by the National Association of Realtors and is published four weeks after the end of the reporting month.

This measures monthly sales of previously owned single family homes. Nearly 8 out of every 10 homes purchased in the United States are used homes, with the rest being sales of newly constructed houses.

The importance of this indicator lies in the fact that the sellers generally use the funds generated from the sale of their existing homes to buy our larger home in order to meet their extended needs. Logically, this would imply additional spending on housing needs thereby stimulating consumer spending.



Impact

Foreign investors usually look at existing home sales to have an understanding of the likely consumer spending in the coming months, which in turn has the potential to affect the interest rates. Normally the US dollar trades firm against other currencies as long as the existing home sales report do not show any abrupt decline. A sudden fall in the home sales report signals lower rates which in turn weaken the demand for the US dollar.

NEW HOME SALES

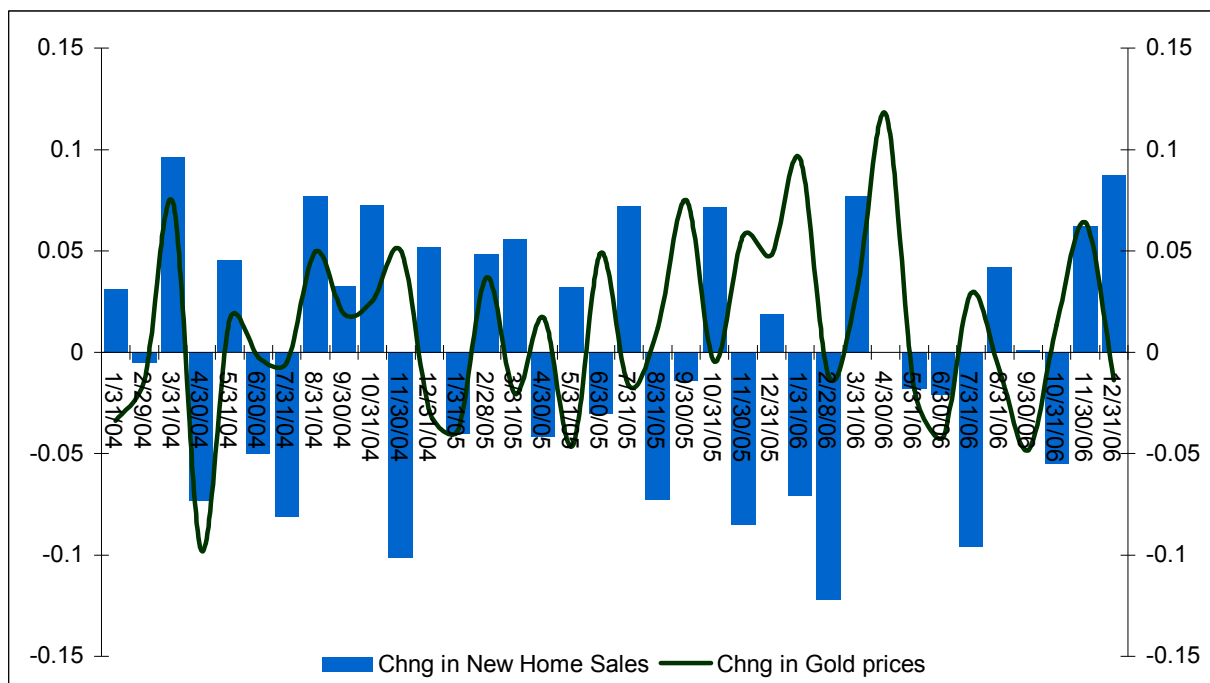
Market Importance: Medium

Frequency: Monthly

Website: www.census.gov

This monthly report tracks the sales of new single family homes and is released about four weeks after the reporting month ends.

The importance of this report is that new home sales generate lots of investment, the jobs, spending and production. Builders seek loans to purchase property, other construction materials and pay wages to the labourers. This report is also an important forecasting tool in the sense that if there is a sudden decline in the new home sales figure it implies that prospective buyers do not have sufficient disposable income. Such a scenario will depress the housing market which will in turn reduce the demand for construction materials and skilled labourers. This will finally lead to lower consumer spending which will have a negative ripple off effect in other sectors of the economy.



Impact on the markets

During periods of strong economic growth, a larger than expected jump in new home sales will swell inflationary pressures thereby raising the prospect of higher interest rates. However if the economic is on the path of recovery, an increase in the new home sales data will not have much impact on the inflation. Normally not much correlation is to be seen between the movement of the new home sales later and the US dollar's movement.

REGIONAL FEDERAL RESERVE BANK REPORTS

Every month reports are generated by the regional Federal Reserve Bank's around the United States, some of which have been recently seen to influence the currency markets. The following are the five Fed Bank reports which are released.

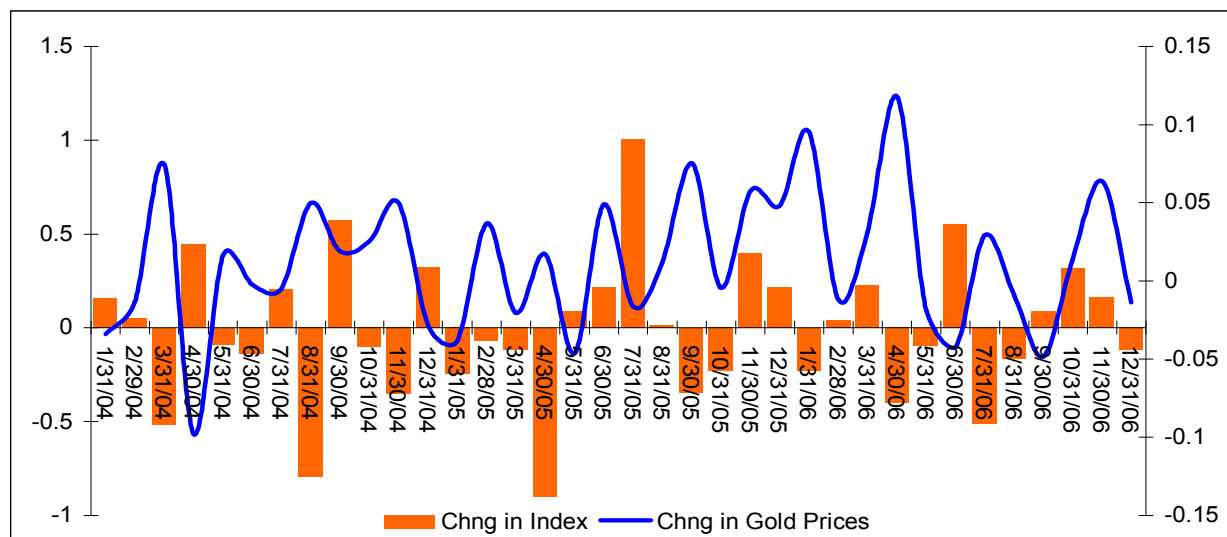
- Federal reserve bank of New York
- Fed reserve bank of Philadelphia
- Federal reserve bank of Kansas City
- Federal reserve bank of Richmond
- Federal reserve bank of Chicago

In this book we will discuss only the first two surveys as they had been found to have the maximum impact on the financial markets.

Federal Reserve Bank of New York: Empire State Manufacturing Survey

This monthly report is released by the Federal Reserve Bank of New York and is designed to track manufacturing activity in New York State.

This report is also known as the Empire state manufacturing survey and is designed to collect information about the current situation of New York's manufacturing industries and also their future prospects. This report sends out early signals of any weakness of strength in the manufacturing sector as well as guides the Fed on the inflationary pressures prevalent in the economy.



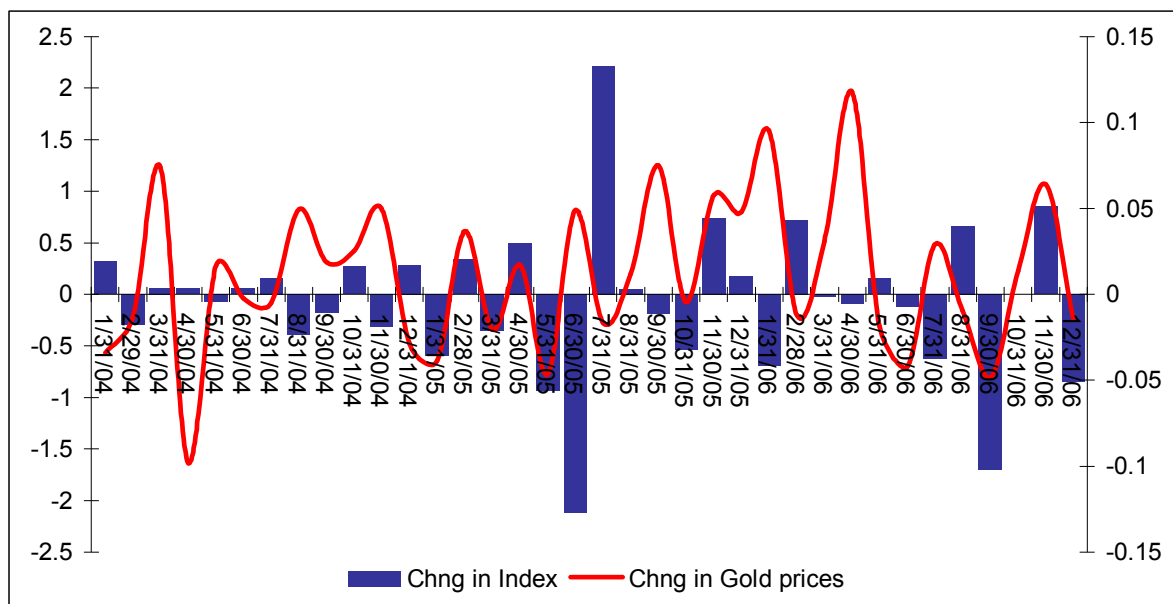
Impact on the market

There has not been much impact of this survey on the currency markets. However, this report will assume significance if this index continues to rise accompanied by a continuous rise in the prices. Such a scenario raises the prospects of higher inflation thereby leading to higher interest rates.

Federal Reserve Bank of Philadelphia: Business Outlook Survey

This monthly report is released by the Federal reserve bank of Philadelphia and covers manufacturing activity in Pennsylvania, New Jersey and the state of Delaware. This is a timely report in the sense that it is released in the same month it is supposed to cover.

The survey is carried out by sending questionnaires to top executives in the above-mentioned regions and asks questions like their evaluation of the level of general business activity, what they expect to the level of future activity, etc.



Impact on the market

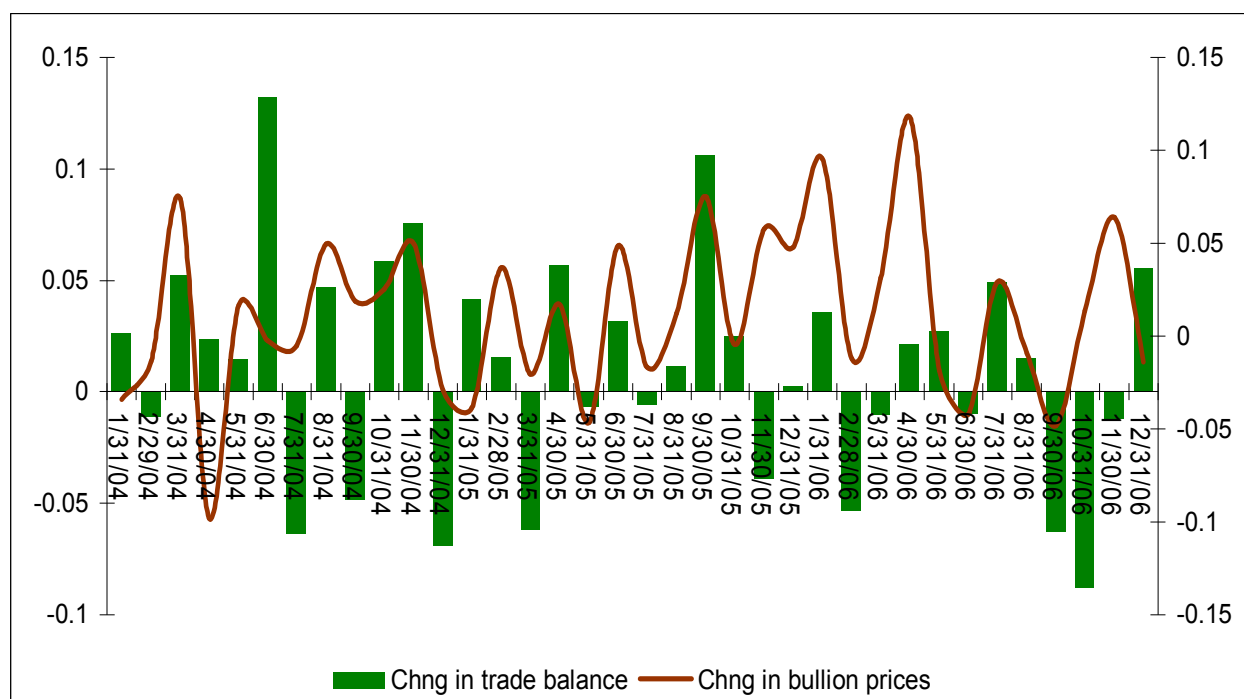
It has been traditionally seen that the currency markets, and in turn the bullion markets largely ignore this release.

TRADE BALANCE

This monthly report on the US exports and imports of goods and services is released by the Department of commerce.

Two factors affect the US trade balance. The first is the difference in the growth rates between the US and other countries. If the US is growing at a faster rate than most other countries, imports to the US will increase by a greater amount than exports, thereby increasing the trade deficit. This has been the trend in the in the US trade balance falls several years as it has been seen that the US tends to import much more than other countries.

The second factor affecting the trade balance is the exchange rates. A strong US dollar increases the trade deficit because it lowers the price of imports thereby making them comparably cheaper to the Americans. Simultaneously a strong dollar increases the cost of US manufactured goods, thereby making them expensive to the other countries. This will further decrease the US exports, thereby increasing the trade deficit.



Impact on the market

Normally, there is a marginal impact of the trade balance report on the financial markets as this report is backdated by two months. However if the trade balance figure significantly deviates from the normal expectations, that would have implications on the currency markets. If the trade deficit comes out to be smaller than the expected, it helps to reduce inflationary pressures in the US leading to a rally in the US dollar. Moreover a decline in the trade deficit signals increased exports of the US manufactured goods thereby leading to an increased demand of US dollars from countries who are importing such goods.

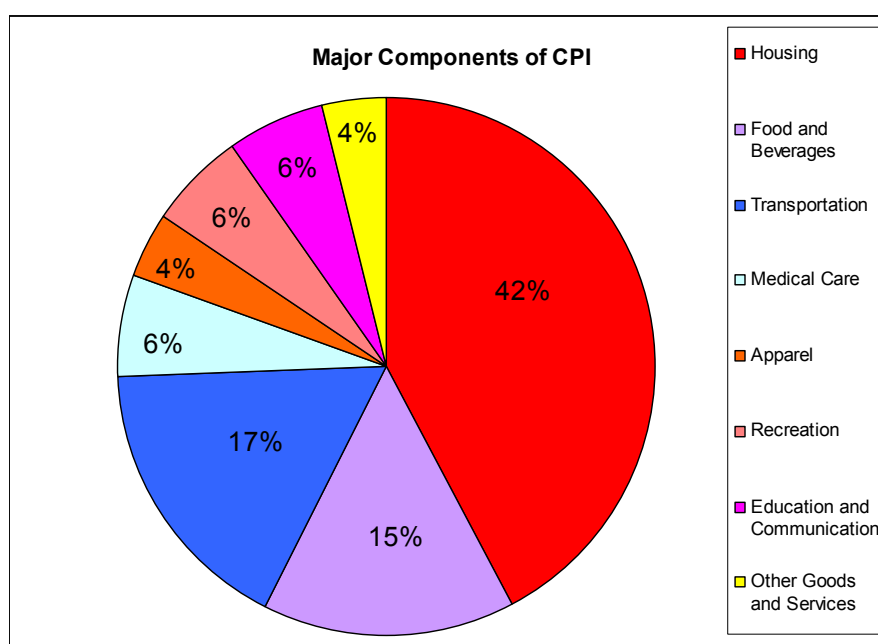
On the contrary, an increasing trade deficit will be appreciated the US dollar because in order to pay for increased imports, the US will have to sell dollars.

CONSUMER PRICE INDEX

This monthly report is released by the Department of Labour and is the most popular measure of price inflation in goods and services sectors.

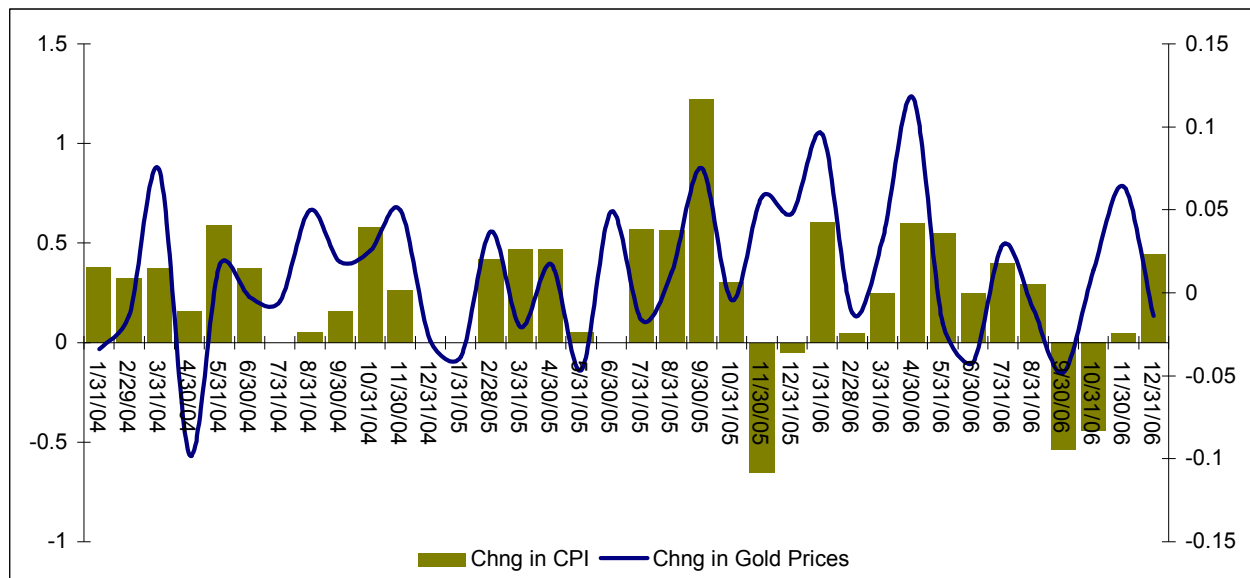
This report is an indicator of how much the consumers are paying for goods and services, what would be the likely interest rates in future and do what would ultimately be the real return on investments. More than half of the consumer price index consists of services which is the fastest-growing sector in the US economy and thereby lies the relevance of the CPI report.

The CPI measures the average change in brittle prices over time for a basket consisting of more than 200 categories of assorted goods and services. There are normally eight broad categories in the CPI the biggest single component in the CPI is housing followed by transportation and consumption on food and beverages.



and consumption on food and beverages.

The graph below depicts the relationship between change in the Consumer Price Index and change in bullion prices.



Impact on the market

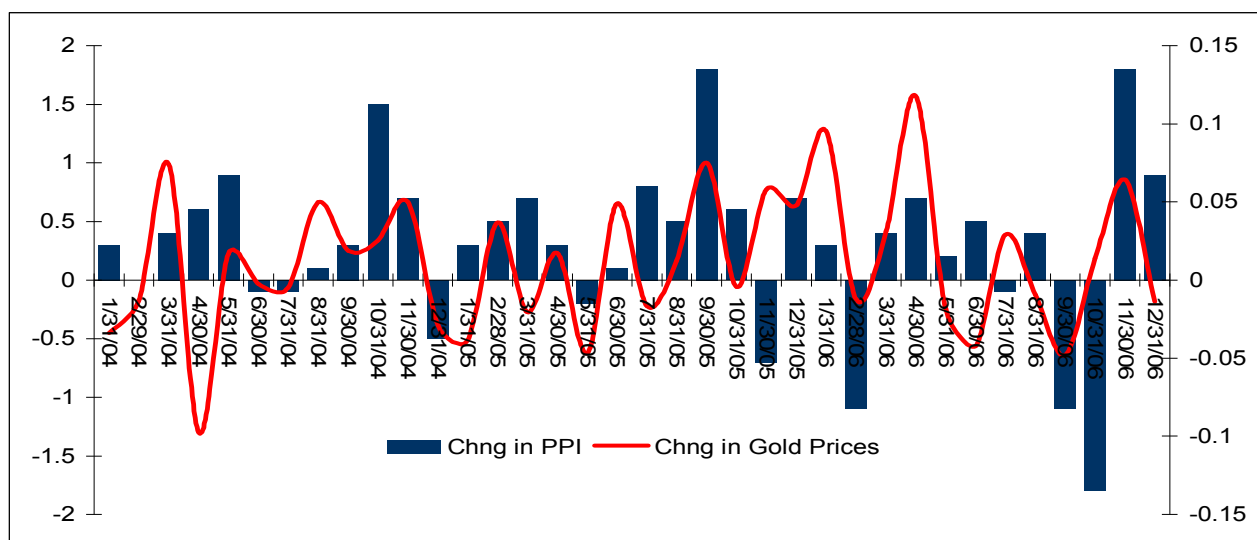
An unexpected jump in the CPI indicates higher inflationary pressures which in turn raises the possibility of higher interest rates. Rising US interest rates make the US dollar an attractive. It has been historically seen that an appreciation of the US dollar versus other major currencies usually leads to a reduction in bullion prices. However a continuous rise in inflation will over a period of time hurt the US dollar because higher inflation diminishes the value of dollar based investments held by foreigners.

PRODUCER PRICE INDEX

This monthly report is released by the Department of Labour and measures the changing prices paid by business houses. It is announced two weeks after the reporting month ends.

The producer price index measures the changes in prices that manufacturers and wholesalers pay for goods during various stages of production. It is but natural that higher prices paid by the manufacturers will get transmitted to the consumers which will in turn fuel inflationary pressures. Hence, the PPI report is a very good leading indicator of what consumers will have to pay for in the coming months. However, one shortcoming that the PPI report has is that it does not cover the cost of services.

The PPI for finished goods index and the CPI has over the long-term usually moved in tandem. Another subset of the PPI report is the core PPI report which excludes the volatile categories of food and energy. The core PPI report assumes significance because any abnormal climatic changes or geopolitical tensions can greatly influence crude oil prices and thereby distorts the PPI figures. Hence to get a better understanding of the inflationary currents prevailing in the economy, the core PPI report is looked into.



Impact on the market

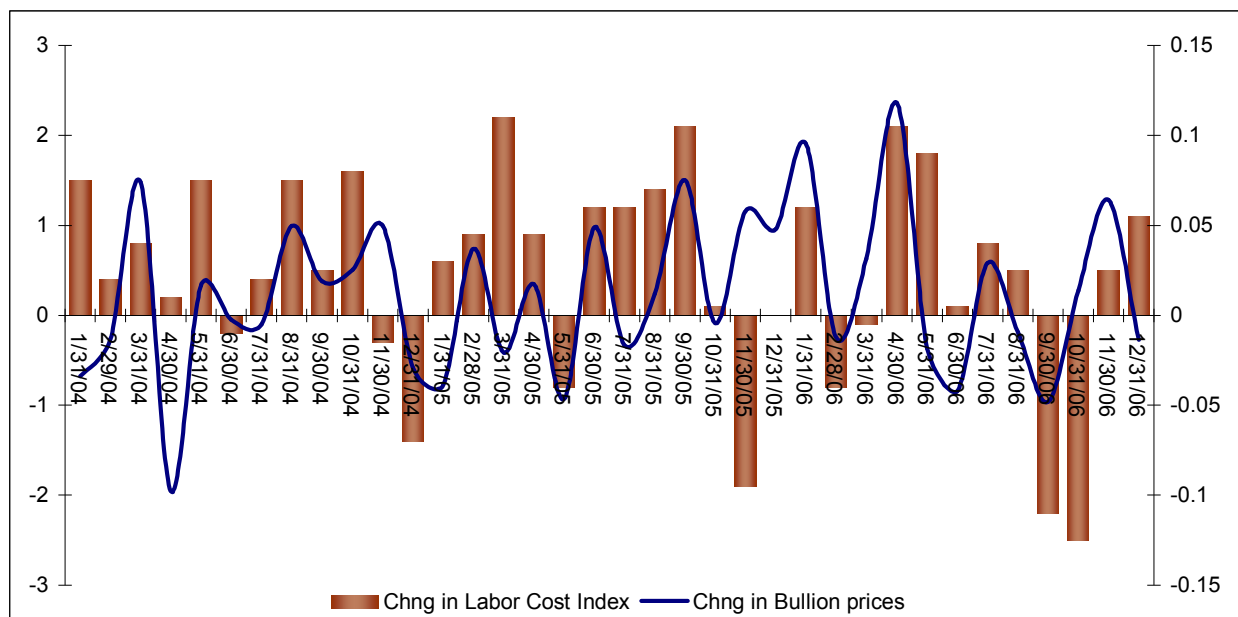
The PPI report is one of the hottest economic indicators released by the government because our higher than expected PPI data will be a wake-up call that consumer price inflation is going to be higher in the near future. Higher PPI detects increasing prices in the economy which will in turn lead to higher interest rates. In the short-term the US dollar usually benefit from higher interest rates but over the long-term, sustained inflationary pressures leading to continuous rate hikes by the Fed will depress the rate of economic growth. In such a scenario the US dollar will depreciate versus other currencies.

EMPLOYMENT COST INDEX

This is the quarterly report released by the Department of Labour and is the most comprehensive measure of labour costs.

The employment cost index tracks changes in the cost of labour which is the single biggest expense that companies tinker. Employees make up such a huge proportion of operating expenses that any significant acceleration in compensation benefits can quickly Into corporate profits and pressurize companies into passing these additional costs on to consumers in the form of a higher prices.

The following picture depicts the positive relationship that change in labour cost has with change in bullion prices. When labour costs go up, it usually leads to inflationary pressures in the US economy, which in turn will lead to gold prices going up as an inflation hedge.



Impact on the market

The employment cost index report, being another measure of inflation invokes similar reactions like the CPI and PPI report. An increasingly index with a sign that any is increasing productivity can fire up consumer price pressures in the economy which it ultimately forced the Fed to increase interest rates. On the short-term, if labour costs increase, it will propel US interest rates higher, which normally would attract foreign investors to the US dollar. However sustained increase in labour costs will also erode the competitiveness of US companies selling goods and services to foreign markets which in turn will increase the trade deficit. A higher trade deficit usually is bad news for the US dollar.

Important Economic Indicators Released Outside the United States

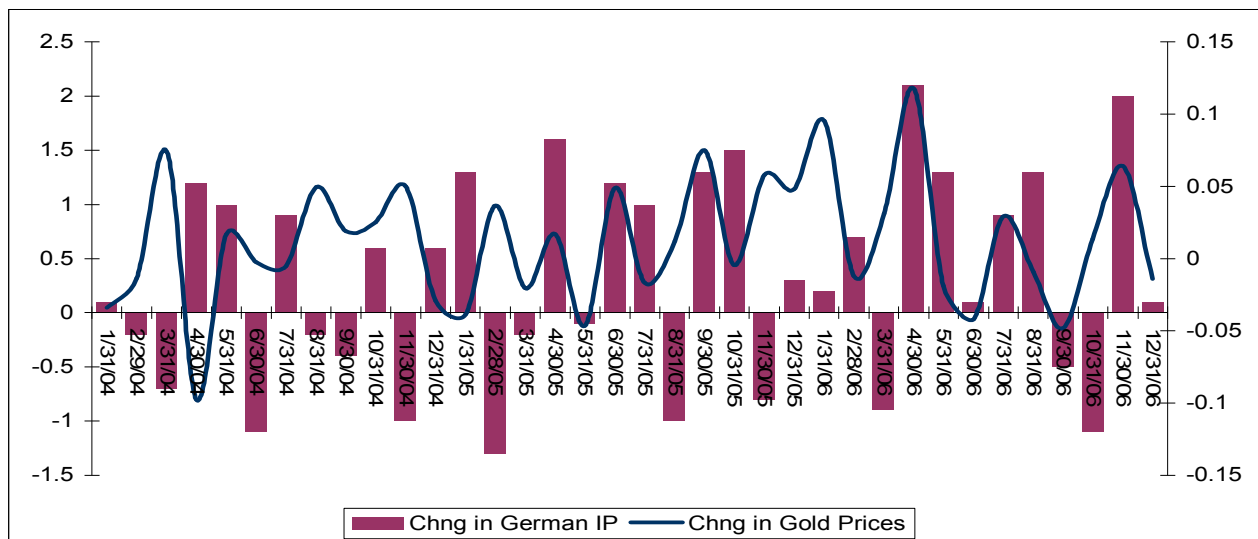
The US economic indicators normally give an indication as to what is likely to affect the US dollar. However in today's integrated financial markets, just looking in the US dollar would not be sufficient because there are other economic factors affecting currencies around the world which in turn indirectly affect the US dollar.

GERMAN INDUSTRIAL PRODUCTION

This is a monthly report released by the German Federal candlesticks office and measures the industrial output in Germany.

Germany is Europe's largest economy and its output alone accounts for nearly one third of everything produced in the euro zone. Hence Germany has a lot of influence over the performance of the euro zone countries and in turn the euro. The German industrial production index is a good leading indicator of signs off strength and weakness in Europe.

The graph below proves that any positive change in the German Industrial Production Index is good news for the Euro, which appreciates versus the US Dollar. The fall in the US Dollar usually leads to a decline in bullion prices.



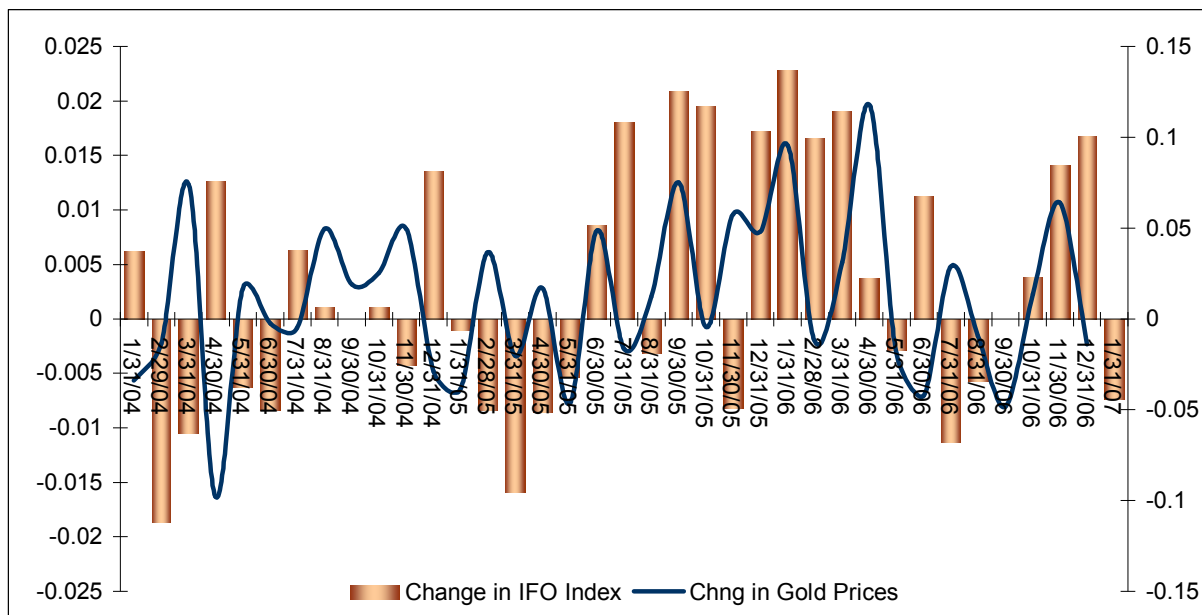
Impact on the market

Higher than expected increase in the German industrial production figures will boost the euro versus the US dollar which in turn normally leads to a rally in bullion prices.

GERMAN IFO BUSINESS SURVEY

This is a monthly report released by the IFO Institute for economic research and measures the current and future economic climate in Germany.

In line with the German Industrial Production Index, this graph also shows that any improvement in German Business conditions drive up the Euro, which in turn normally leads to an upside movement in gold prices.



This report has traditionally been a very good leading indicator of how the German economy, and in turn the European economy will perform in the months ahead..

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