Crude oil recovers marginally over supply constrains after price decline

- Oil prices recovers nearly 3.5 percent from recent low of 52.79 on hope of crimping US supply after drastic drop in prices though concerns about global economy continues to weigh.
- CFTC Report for week ended December 18th - NET LONG for crude oil futures climbed by 102 contracts to 309608 contracts for the week.
- US Output - U.S. shale oil producers to curtail drilling plans for next year. The boom in U.S. shale output has boosted the country into the top producer spot over traditional suppliers Saudi Arabia and Russia. The industry is at the center of U.S. President Donald Trump's calls to boost the country's energy independence.
- EIA Report - The EIA reported a 0.5 million barrel drop in U.S. crude oil inventories against a forecast of 3 million barrels decline. Gasoline supplies rose by 1.8 million barrels against a forecast of 2.6 million barrels.
- Growth Concerns – The Fed indicated US economy to slowdown in early 2019. China's economy has been losing momentum in recent quarters.
- Crude oil production – Persistent growth in U.S. shale output continues to weigh on oil prices, while some analysts doubted that planned supply cuts led by the Organization of the Petroleum Exporting Countries (OPEC) would be enough to rebalance markets. The Bank of Russia cut its crude price outlook for next year to $55 a barrel, down from $63 on higher supply risks, mainly related to "fast output increase" in America. Russian oil output is so far at a record 11.42 million bpd for this month. Libya's state oil company has declared force majeure at the country's largest oilfield.

Outlook

- Brent Oil entered in a negative territory after four weeks of consolidation between $58-$62 per barrel. The oil market is expected to remain over supplied during early 2019 due to higher production and demand may not pickup under the shadow of tariff war between US-China. Further weakness is seen below $57.50 till $54.10-$52.90 per barrel.

Copper recovers marginally over ICSG supply deficit report, bias still negative

- Shanghai metals prices remain in range, though ongoing concerns over global economic growth continue to weigh on prices. Copper recovered marginally after the ICSG report of widening supply deficit. Copper is down 17 percent so far in 2018 and is headed for its worst yearly performance since 2015 on fears of U.S.-China trade row hurting demand.
- Trade war -China and the United States held a vice ministerial-level call on Friday, the second such contact in a week, achieving a "deep exchange of views" on trade imbalances and the protection of intellectual property.
- ICSG Report- COPPER: The global world refined copper market showed a deficit of 168,000 tons in September, compared with a 43,000 tonnes deficit in August, the International Copper Study Group (ICSG) said in its latest monthly bulletin.
- China will support the economy in 2019 by cutting taxes and keeping sufficient liquidity
- China is expected to lower next year's growth target to 6.0-6.5 percent as headwinds, including a trade dispute with the United States, are likely to increase risks for the economy, according to government advisers.
- China Output - China's refined copper output rose by 7.6 percent year-on-year to 768,000 tonnes in November, its highest level since June, according to the National Bureau of Statistics.
- Inventory –LME Copper warehouse stock remained at 129725mt, with net change of nearly -56percent in last six months. SHFE Copper warehouse stock remained at 110702mt, with net change of nearly -59percent in last six months. Comex Copper warehouse stock remained at 112369mt, with net change of nearly -50percent in last six months.

Outlook

- LME Copper 3M contract has broken the key support of $6000 per ton on the expectations of Fed increasing interest rates. The Fed has also lowered the US economic growth forecast. We expect further decline below $6000 towards $5793 in the near term while below the key resistance level of $6229.

Gold up and equity down, US political risk is in focus

- US political risks are in focus, equity decline is supporting gold move. Gold continued positive move after the failure by the U.S. Congress and President Donald Trump to agree on a spending bill by midnight Saturday resulted in a partial U.S. government shutdown.
- President Trump suggested firing Federal Reserve Chair Jerome Powell, a move that could roil already volatile financial markets, will also be in focus.

- Dollar weakness is the key reason behind gold up move. Gold future prices tested a high of 1270.30 last week following a decline in Dow Jones Industrial Average (Dow30) and global equity market sell-off continued after the Fed meeting.
- The U.S. Federal Reserve raised its benchmark fund rate to 2.25-2.5% on Wednesday and projected a few rate increases in 2019 than it had at its September policy meeting.
- The interest-rate outlook for both 2020 and 2021 was lowered to 3.1% from 3.4%, which indicates one hike per year. The longer run interest rate was also cut to 2.8% from 3.0%.
- God ETF - holdings of the SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, rose 0.5 percent to 772.67 tonnes on Friday.
- CFTC - Hedge funds and money managers raised their net long positions in Comex gold to a six-month high in the week to Dec. 18, indicating improved interest in the metal.

Outlook

- Spot gold recovered after the dollar declined, key resistance level is seen near $1250 and a fresh bullish move can be seen if it sustains above this level; meanwhile, an immediate support is seen at $1232. The Fed meeting is in focus and further direction can be seen on either side of $1232-$1250 range. A break above 1250 may push gold higher towards 1259-1266 in the very short term.

Indian rupee lost consecutively for second day over equity decline and crude recovery

- Indian equities remained sideways to negative after a sharp decline on Friday; rupee lost ground consecutively for last two trading sessions following equity markets.
- Oil prices recovers nearly 3.5 percent from recent low of 52.79 on hope of crippling US supply after drastic drop in prices though concerns about global economy continue to weigh.
- FIIs and DIIs Data - Foreign funds (FII's) bought shares worth Rs. 134.14 crore, while Domestic Institutional Investors (DII's) sold shares to the tune of Rs 488.55 crore on December 21st. In December 2018, FIIs net is at Rs. -1891.99 crore, while DII's net is at Rs. -2698.44 crore.
- GST Council - The 28 per cent slab is now restricted to only luxury and sin goods apart from auto-parts and cement -- the tax rate on which could not be cut due to high revenue implications. The council reduced tax rates on goods and services including movie tickets, TV and monitor screens and power banks, and exempted frozen and preserved vegetables from the levy.
- In November, trade deficit was at $16.67 billion, up from $17.13 billion last month.

Outlook

- USD-INR may find a support base around 69.78 and fresh weakness towards 69-68.50 levels can be seen only if it breaks 69.78; meanwhile important resistance is seen near 71.20 and 72.60 levels.

China Steel Rebar fell on expected increase of output in January as demand is expected to decline

- Steel output is expected to rebound after mills resume operation in January. However, demand is highly likely to fall during that period, which will further rein in prices
- Chinese steel prices fell nearly 2 percent on Monday, curbed by weak market sentiment despite a pledge by Beijing to step up support for the economy in 2019.
- China will keep next year's economic growth within a "reasonable range" by cutting taxes and keeping liquidity ample, Steel prices are facing adjustment pressures as the expectation of favorable policies fell through.
- China's steel prices were marginally up last week on expectations of firmer demand as the government takes steps to support the economy and supply is limited due to winter production cut. Though prices are trading weak this month over lower demand and ample supply despite stringent winter production cut and this is keeping rebar prices low.
- Winter cut -Tangshan in the province of Hebei ordered steel makers to shut all their sintering machines from Dec 20 to Dec 31 and steel rolling plants and miners to close. At least three other cities in the province of Hebei, including provincial capital Shijiazhuang, have issued smog-alerts, asking industrial plants to reduce at least an average of 30 percent output this week.

Outlook

- China steel rebar future bounced over speculation of economic stimulus to the steel industry and winter production cut. Now, it may face a minor resistance around 3568-3598 levels; in case of a positive breakout, it may rise towards 50 DMA at 3843, while important support is seen near 3517-3496 levels.

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