
Tariffs on Mexico along with the US-China trade war could diminish global crude demand
Gold rallied on trade war tension and possibility of an interest rate cut by Federal Reserve
Copper remains negative on concerns over economic growth
Iron ore futures in China rebound after five days of losses
Selloff into equities pushed rupee marginally lower, eyes on RBI policy meeting

TARIFFS ON MEXICO ALONG WITH THE US-CHINA TRADE WAR COULD DIMINISH GLOBAL CRUDE DEMAND

- ▲ Concerns around U.S. tariffs on China and Mexico would hurt demand continue to linger and hurt sentiments. U.S.-China trade war and threats of tariffs on Mexico from the United States are expected to diminish global crude demand continue to weigh on oil prices.
- ▲ Crude futures fell with the stock market on Monday after data indicated a closely-watched gauge of U.S. manufacturing activity slumped to its lowest level in 2½ years in May.
- ▲ Saudi indicated that OPEC would extend supply cuts supported prices. Saudi Arabia signaled that OPEC, together with Russia, would continue managing global crude supplies to avoid a surplus.
- ▲ Saudi Arabia pumped 9.65 million barrels of oil per day in May, a deeper cut than its production target of OPEC pact.
- ▲ Crude inventories probably decreased 1.83m bbl to 474.7m bbl last week, according to the median estimate of 8 analysts surveyed by Bloomberg.
- ▲ According to Bloomberg, Saudi Arabia added 170,000 bpd in May, while Iran lost 230,000 bpd. Russian oil production declined by 76,000-bpd decline due to contamination.

Outlook

- ▲ Brent oil lost ground along with global equities as demand outlook fades over intensifying trade war between US and China and Mexico. Immediate support could be seen around \$60.40-59.10 per barrel meanwhile resistance is seen near \$63.50 and 64.30 per barrel.

GOLD RALLIED ON TRADE WAR TENSION AND POSSIBILITY OF AN INTEREST RATE CUT BY FEDERAL RESERVE

- ▲ Safe haven Gold rallied amid escalating U.S.-China trade war and its impact on global growth. Federal Reserve is expected to cut interest rates this year to contain the fallout.
- ▲ The dollar traded negatively after the ISM report, Institute for Supply Management's purchasing managers index declined to 52.1 from 52.8 against the market forecast of 53.0.
- ▲ Holdings in SPDR Gold Shares, the world's biggest exchange-traded fund backed by the metal, rose 16.44 metric tons on Monday, the most since July 2016.
- ▲ Global equity funds have seen outflows of \$10.3 billion in the past week
- ▲ The market anticipates U.S. Federal Reserve to cut interest rates sooner rather than later, seeing tariff war.
- ▲ Hedge funds and money managers increased their net long positions in Comex gold.
- ▲ Gold premiums in China rose last week as investors bought the metal as a safe-haven.

Outlook

- ▲ Gold rallied after president trump threatened tariffs on Mexico and rally was further supported by escalating trade tensions between US and China after a war of words on weekend. Geopolitical issues have increased volatility in equities and providing support to precious metals. Gold could find immediate resistance near \$1332 while important support remains near \$1306-1285.

COPPER REMAINS NEGATIVE ON CONCERNS OVER ECONOMIC GROWTH

- ▲ Copper came under pressure on concerns for economic growth and unresolved U.S.-China trade tensions.
- ▲ U.S. manufacturing activity fell in May to the lowest since October 2016, adding to a global factory slowdown that weighed on industrial metals this year.
- ▲ Shanghai Composite Index fell as direct effects of trade restrictions on the U.S. economy are relatively small, but effect through global financial markets may be larger.
- ▲ Federal Reserve President James Bullard says in remarks that suggest a need for rate cuts "soon"

aiming global growth concern.

- ▲ According to a Bloomberg report, world GDP would decline by 0.6% by mid of 2021 as US-China tariff war continues further. US and China are jointly affecting over \$600 worth of world trade by the tariff.
- ▲ U.S.-China trade war slumping automotive demand, manufacturing activity in the euro zone contracted for a fourth month in May and at a faster pace.

Outlook

- ▲ Trade tensions pushed copper lower and it could find support around 5778-5732 on Chinese stimulus hope. Short term trend continues to remain weak as world economic slowdown may decrease demand for industrial metals. The copper contract may receive minor support from product shortages and declining inventories, important resistance is seen near 5969-6200.

IRON ORE FUTURES IN CHINA REBOUND AFTER FIVE DAYS OF LOSSES

- ▲ Iron ore futures in China recovered marginally after five days of losses on inventory report, but export rises from Australia and Brazil.
- ▲ Australia's iron ore exports for May were up 3% y/y, according to UBS Group AG.
- ▲ The country's major miners shipped 76.8 million tons in May, the strongest month this year.
- ▲ Brazil's exports reached 29 million tons in May, compared with 18.34m tons a month earlier,
- ▲ Iron ore inventory at Chinese ports fell further last week to the lowest since February 2017 at 124.9 million tonnes, while Australian-ore inventory drops in longest streak since 2015.
- ▲ Iron ore prices remained weak in the previous week amid weaker short-term demand for steel. Hopes of government measures and stimulus to the economy could provide some support

SELLOFF INTO EQUITIES PUSHED RUPEE marginally LOWER, EYES ON RBI POLICY MEETING

- ▲ Rupee remains in range after yesterday's gain against dollar due fall in US bond yields and weakness in crude oil.
- ▲ Equity markets lost some gains but found support from declining crude oil prices, eyes on RBI meeting on Thursday.
- ▲ The RBI's Monetary Policy Committee (MPC) is scheduled to announce its bi-monthly policy on Thursday. We expect a 25 bps rate cut as a slowing economy after experiencing a poor GDP and jobs reports. We also see a change in stance to 'accommodative' from 'neutral'.

FII and DII Data

- ▲ Foreign Funds (FII's) bought shares worth Rs.3068.88 crores, while Domestic Institutional Investors (DII's) sold shares to the tune of Rs. 462.69 crore on June 3rd.
- ▲ In May'19, FII's net sold shares worth Rs.2135 crores, while DII's were net buyers to the tune of Rs. 5316.34 crores

Outlook

- ▲ The Indian rupee is receiving support from optimism over the new government and softer crude oil prices. Although GDP and employment data released last week limited some gains. USD-INR could find support near 68.80-68.40 levels, while important resistance is seen around 70.23 levels. US-China tariff war continues to exert pressure on global equities and emerging market currencies are expected to be negatively impacted.

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