DAILY ANALYSIS REPORT

Friday, October 4, 2019

RBI cuts repo rate by 25 bps to 5.15%, stance maintained to accommodative

Oil may trade down on expectation of slower global economic growth that will hurt fuel demand

Disappointing US economic data and trade war tension to keep Copper price lower

Softening US service sector lift gold prices, focus shifts to nonfarm payroll data later today

RBI cuts repo rate by 25 bps to 5.15%, stance maintained to accommodative

- RBI meeting outcome was dovish by maintaining an accommodative policy stance by cutting repo rate by 25bps largely in line with expectations. Committee revised the GDP target for FY20 to 6.1 per cent from 6.9 per cent, earlier. Liquidity conditions have improved but transmission remains slow because of various trust factors among NBFC.
- Weakness in crude oil prices is supporting the Indian rupee.
- India's Fiscal deficit stands at Rs.5.54 Lakh Crore till August, full year projection was for 7.03 Lakh Crore, which is 78.7% of the budgeted estimate for the current fiscal year. The Union budget estimated that the fiscal deficit for 2019-20 is likely to be Rs 7.03 lakh crore, or 3.3% of the gross domestic product (GDP).
- Recent steps by the government to boost economic activity after the growth slipped to a six-year low of 5.0% have led experts to estimate that the fiscal deficit is set to exceed the government target. Fitch credit rating agency has estimated that India's fiscal deficit for 2019-20 will be 3.7% of GDP.
- India's current account deficit narrowed to 2% of GDP in June quarter. India's current account deficit (CAD) for the first quarter ended June contracted to 2 per cent of the gross domestic product (GDP) on a year-on-year basis.

FII and DII Data

- Foreign Funds (FII's) sold shares worth Rs. 810.72 crores, while Domestic Institutional Investors (DII's) sold shares to the tune of Rs. 862.54 crores on October 3rd.
- In Sept'19, FII's net sold shares worth Rs. 6624.05 crores, while DII's were net buyers to the tune of Rs.12490.8 crores.

Outlook

- The Rupee may recover towards 70.40-70.00 levels against the US dollar in the short term following measures by the Government of India to stimulate the economy through tax cuts for corporates, optimism over the US-China trade war, an interest rate cut by the US Fed and dovish policy measures by other central banks. RBI sounded dovish by cutting rate by 25 bps and maintaining an accommodative stance.

Oil may trade down on expectation of slower global economic growth that will hurt fuel demand

- Oil prices are range bound today but the trend remains negative. Weak US services sector and jobs growth data increased worries about slowing global oil demand. Lack of an outcome in the upcoming US-China trade talk could push the global economy into a recession.
- Fears over the worsening global economic outlook have hit oil prices hard this week. US ADP data were worse than market expectation while new tariff imposed on EU are adding to the negative sentiment.
- Crude oil prices fell further after the EIA (Energy Information Administration) reported an inventory build of 3.1 million barrels for the week to September 27 against market expectation of 1.5 million build.
- In one of the quickest turn arounds, Saudi Aramco has restored full oil production and capacity to the levels they were at before attacks on its facilities on Sept. 14.

Outlook

- Weak economic data from US and Europe increased the gloomy outlook for oil demand, and this will keep oil prices under pressure. Fresh Trade war between EU and US has increased risk sentiment for slowdown into global economy. We can see selling near resistance levels, however rising tensions in the Middle East post the Aramco attack and any positive resolution to US-China trade war could provide support to oil prices. Brent oil could find support around 57.20-55.90 levels, while key resistance remains near 59.70-61.40 levels.

Disappointing US economic data and trade war tension to keep Copper price lower

- Copper prices declined to one-month low due to weak economic data from US and tariff on EU. Stronger dollar is also keeping prices lower. Factory activity is falling in the United States, China and the euro zone, data this week showed.
- Copper supply to remain higher as On-warrant stocks of copper in LME-registered warehouses jumped to 195,425 tonnes, the highest since September 20, after 39,750 tonnes of arrivals.
- The discount for cash copper versus 3M contract on the LME rose to $US35 this week, the most since August last year, pointing to plentiful availability.
- The Shanghai Futures Exchange is closed during Oct. 1-7 for the National Day holiday.
- Chile's production of copper jumped in August by 11% to 517,902 tonnes compared to the same month the previous year. Total mining production increased 5.3 percent in 12 months.
- The Chinese government is not looking to stimulate the economy further. China hopes to resolve trade disputes with a calm and rational attitude. Both nations are set to meet for a talk on October 10-11.

Outlook

- Poor demand outlook is keeping Copper prices under pressure, may find an important support around $5580-5516 per ton, while key resistance can be seen around $5770-$6,036. Trade talks between the US and China are set to resume Oct. 10-11 in Washington, which could provide further direction to Copper prices.

Softening US service sector lift gold prices, focus shifts to nonfarm payroll data later today

- Gold prices traded higher following weaker-than-expected Service sector and US jobs data reinforced global economic slowdown fears and raised expectations of further monetary policy easing by the U.S. Federal Reserve. U.S. services sector activity slowed to a three-year low in September amid rising concerns about tariffs on Chinese goods.
- Gold will take its next cue from Monthly nonfarm payroll data. According to a Reuters survey of economists, nonfarm payrolls probably increased by 145,000 jobs last month after rising by 130,000 in August.
- The ADP National Employment Report on Wednesday showed private payrolls growth in August which was below market expectations.
- US tariffs on the EU, post the WTO judgment have rattled the market sentiment for most assets classes and increased buying interest into gold. The Trump administration put 25% tariffs on various EU and Italian goods. The duties are set to take effect Oct. 18.
- Euro zone business growth stalled in September due to an ongoing contraction in manufacturing activity.
- Germany's leading economic institutes on Wednesday slashed their growth forecasts for this year and next. Weaker global demand for manufacturing goods is seen due to trade war which has increased business uncertainty.
- British Prime Minister Boris Johnson made a final Brexit offer to the EU, proposed a final last-minute exit deal that was cautiously welcomed by the EU.

Outlook

- Gold bounced on poor US service, jobs data and tariff on EU. Weak economic data reinforced global economic slowdown fears. Eyes on monthly nonfarm payroll data later today. CME Gold future contract could found support near $1492-1464 per ounce while key resistance could be seen around $1526-1544. Geopolitical issues across the globe and trade tension could provide support to gold prices.

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