RBI Moved to rescue Indian rupee, focus on rate decision

- The Reserve Bank of India moved to improve dollar supply, strengthen economy from rising crude oil prices and weakening rupee.
- Government has allowed oil market companies to borrow $10 billion for 3-5 years from overseas markets and fund their working capital requirement in three tranches of $4b-$3b-$3b. In addition to it, government relaxed OMC from compulsory hedging, earlier it was mandatory to hedge all kind of borrowing.
- Now focus shifts to monetary policy, 25bp hike in rates is priced in; hawkish tone from the reserve bank will set the rupee direction. Higher interest rates would attract foreign investment and increase demand for home currency.
- RBI can raise the repo rate, which leads to a rise in interest rates, bond yields and return on debt papers, drawing more investor money to chase better returns if the same is low in other markets. On the other hand, higher interest rates stem money circulation in the economy, leaving more money in the hands of RBI to manage the currency demand-supply situation.

Government cheers up domestic fuel consumer, Oil Market companies in Shock

- Immediate relief is provided by government on mounting petrol and diesel prices with a reduction in excise duty and compensating revenue of oil market companies.
- After a relief of Rs.2.5 per ltr from central, sate government of Gujarat and Maharashtra quickly announced similar reduction to make petrol and diesel cheaper by Rs. 5 per ltr.
- This announcement cheered up retail fuel consumers but was negatively received by OMC investors on reduced revenue and profitability concern.
- OMC’s share prices dropped swiftly in last twenty minutes of trading session yesterday.
- But this relief could be momentary as global crude prices surge towards $90 per barrel on the back of Iranian crude supply shock.
- Waiver in petrol and diesel prices announced by finance minister will put additional burden of Rs.105 billion on current account deficit in FY18-19.

Outlook

USD-INR future hovers around 74.00, minor correction from current high is possible though strong support base around 73.10 and 72.60 and further decline is possible on close below 72.60, remains positive and focus should shift towards Fibonacci extension level around 75.43 and 76.90 if it further consolidates above 73.96 in near term.

US Non Farm pay roll data

- The U.S. economy likely created more jobs in September, with the unemployment rate is expected to fall to an 18-year low of 3.8 percent, it will signal bigger boost in US labor market conditions.
- US Nonfarm payrolls are projected to increased by 185,000 jobs last month after surging 201,000 in August as per Reuters survey.
- Growth in job creation will strengthen US economy and high saving will boost consumer spending.
- Fed Chairman Jerome Powell quoted saying that US economy's outlook was "remarkably positive"

Brent oil back towards $85 on Iran supply crunch

- Brent oil price marginally dropped from four year high and move back above $85
- Initial drop was a result of Saudi Arabia and Russia talks of raising crude oil put, rising US crude inventory and increasing oil production by US.
- Goldman Sachs predicted that oil demand will be moderate in early 2019 as Iranian supply crunch will be resolved and higher fuel prices in emerging economies will decrease consumption.

Outlook: Crude oil is expected to rally above minor resistance level of $85.45 per barrel, towards $86.73 per barrel. We maintain our short term bullish view towards next level of $87.94 per barrel and more positive move above may push counter towards medium term target of $96.30 per barrel. Immediate support level is seen around $82.55 per barrel.

Gold safe haven for Indian investor after equity decline

- Gold which is underperforming in overseas markets due to rise in fed interest rate is now trading between a fixed range ($1180-$1210) after Italian budget fiasco, same has turned out to be a winning bullish trade for Indian investors on weakening rupee.
- Gold gained 7% in last three months. Further positive move is seen on upcoming festival and wedding season demand and increased minimum support price (MSP) for various crops by central government resulting in strong rural demand.
- Domestic traders are also finding safe haven in gold as equity market slid by 10% from its recent high on inflation worries due to rising crude prices and IL&FS payment defaults.
- We see a rise in gold imports by 10 percent in December quarter from a year ago of 257 tonnes, as Indian gold demand is expected to improve by 10% in later half of the year on seasonality.

Outlook: Gold is trading in range after sharp recovery from $1180 per ounce, facing stiff resistance near $1218 per ounce and any positive breakout above this level may push precious metal higher towards 100 DMA at $1235 per ounce and further till 200 DMA at $1281 per ounce, immediate support is seen at 20DMA ($1199 per ounce), though critical support remains near recent low of $1180 per ounce.

Zinc find selling at higher levels as demand might be hit due to trade war

- Dollar index rose to 96.13 on Wednesday – it was recently trading at 95.45. US monetary policy and stronger data suggests the dollar can climb further
- However what is supporting the Zinc & Aluminum prices is that they are likely to remain in a supply deficit
- Global average tariffs have spiked only 3.04% currently while tariffs peaked more than 20% in trade wars during 1930, indicating that the trade war fears might also be exaggeration
- Chinese data has also been weak off late which is being watched closely by the market participants, this could turn negative for base metals going forward if it gets conformation from other data points

Outlook: LME 3M Zinc is trading at $2605, it faced resistance near the 20-week SMA indicating selling at higher levels. There is no clear trend in zinc for the immediate term, indicating it could consolidate in the $2535-$2735 range for now.

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