DAILY ANALYSIS REPORT

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ABANS

Copper demand outlook improves after US & China announced further talks in October

Optimism over US-China trade talks lift oil prices, but increase in inventory capped the gains

Gold corrects marginally after US & China agreed to hold talks in October

Improved global sentiment prevented Rupee decline although rising crude oil prices poses a risk

COPPER DEMAND OUTLOOK IMPROVES AFTER US & CHINA ANNOUNCED FURTHER TALKS IN OCTOBER

- Copper bounced after China and the United States agreed to hold trade talks next month.
- China also announced that it would cut target rate in the country to stimulate the economy from a slowdown. China said it will implement both broad and targeted cuts in the Reserve Requirement ratio for banks in a timely manner.
- China Yangshan copper premium rose to the highest since November 2018. Rising copper premium indicates that copper demand is not much affected due to the trade war.
- Supply concerns remain after the Peru government suspended construction permits in August for Southern Copper's Tia Maria mine, a project that has triggered violent protests by nearby residents.
- The US ISM manufacturing index slid to 49.1 last month from 51.2 in July, which is the lowest level since January 2016.

Outlook

- LME 3M Copper contracts bounced from the support level near $5,520 following US-China trade talk optimism, tight supply in LME warehouse and improved demand in China over increasing import premium. The optimism over US-China trade talks could improve sentiments for metals prices; LME Copper may face resistance around 5,853-6,064 levels in the near term.

OPTIMISM OVER US-CHINA TRADE TALKS LIFT OIL PRICES, BUT INCREASE IN INVENTORY CAPPED THE GAINS

- Oil prices rose as the US confirmed trade talks with China to reach a trade agreement. Optimism over US-China trade talks improved as this gives hopes for a solution to tariff issues and reduces risks to the global economy.
- Crude inventories in the US rose by 401,000 barrels in the week ended Aug. 30 to 429.1 million against expectations of a decline of 2.5 million barrels (API Report). Crude stocks at the Cushing, Oklahoma, and delivery hub fell by 238,000 barrels.
- Oil prices may remain firm on optimism over US-China trade talks. Both countries planned to meet again in October to continue talks over tariffs.
- As the trade war between the United States and China has rumbled on into a second year, evidence has been mounting that economies worldwide are being hit, prompting downgrades of oil demand growth expectations.
- Oil supply looks to tighten; OPEC indicated that the countries remain committed to an agreement to rein in production to support prices.
- Russian oil production in August rose to 11.294 million barrels per day (bpd). Energy Minister Mr. Alexander Novak admitted last week that oil output in August was slightly higher than levels agreed under a global deal with OPEC members.

Outlook

- Brent oil bounced from support near 57.60 - 57.20 levels. An immediate resistance can be seen around 61 - 61.50 levels. Optimism over US-China tariff negotiations improved after both countries decided to meet further in October. Oil demand could improve if US-China settles tariff issues. China is also stimulating its economy from many preventive measures such as interest rate adjustments. The global economy could recover from a slowdown if US-China trade talks settle and major economies take preventive measures. A rise in crude oil inventory and higher Russian oil production in August prevented a further rally in crude oil. All eyes are on the Weekly Inventory Report from EIA later today.

GOLD CORRECTS MARGINALLY AFTER US & CHINA AGREED TO HOLD TALKS IN OCTOBER

- Gold prices dropped as the risk premium reduced after US & China agreed to talk again in October to discuss tariff issues.
- Uncertainty in UK still supports gold at lower levels. British PM Boris Johnson lost the majority yesterday before the EU summit scheduled for the next month. A crucial EU summit is scheduled on 17-18 October. The current situation could delay Brexit to January 31. Political turmoil in the UK has increased the risk premium for gold prices.
- Gold also found support from weakening manufacturing activity in the US. The world's largest economy may face recession if the trade war situation worsens further.
- There is a high possibility that the US Federal Reserve may cut interest rates by 25 bps in the September month's meeting, which will keep gold prices firm over the short term.

Outlook

- We expect gold to find a stiff resistance near $1,568-1,583 levels, while an immediate support level can be seen around $1,501-1,488 per ounce. Gold rallied on fears of a recession amidst uncertainties in the US-China trade dispute and Brexit delay over political turmoil in the UK. Sentiments changed later after the US & China agreed to talk again in October to discuss trade issues. There is a high possibility that the US Federal Reserve may cut interest rates by 25 bps in the September month's meeting, which will keep gold prices firm over the short term. Gold may correct further as optimism over US-China trade talks grows further.

IMPROVED GLOBAL SENTIMENT PREVENTED RUPEE DECLINE ALTHOUGH RISING CRUDE OIL PRICES POSES A RISK

- The Indian rupee is trading higher against the US dollar in line with other Emerging Market currencies after the US and China agreed to hold trade talks in October.
- However, rising crude oil prices may limit gains in the Rupee. Brent oil prices rallied more than 4% yesterday.
- Crisil lowers India's GDP growth forecast to 6.3%, and says that the slowdown is deeper than suspected. Crisil has also downgraded its GDP forecast for India for the 2020 fiscal year from 6.9% to 6.3%.
- India's Gross Domestic Product (GDP) grew 5 percent in April-June 2019; the GDP growth was 8 percent in the same quarter of 2018-19.

FII and DII Data

- Foreign Funds (FII's) sold shares worth Rs. 1,738.49 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 1,304.58 crores on September 4.
- In Aug'19, FII's net sold shares worth Rs. 14,828 crores, while DII's were net buyers to the tune of Rs. 20,933 crores. The outflow of foreign investors from Indian markets continued in the month of August.

Outlook

- The Indian rupee may trade in a wide range of 71.40-72.60 following mixed signals of rising crude oil prices and optimism over US-China trade talks. The rupee is under pressure due to a slowdown in the domestic economy. A recent release of GDP data indicates that the economy is not on the right path. Recently announced measures by the Finance Minister have failed to boost investors and FII flows have not improved since July'19. Rating agencies Moody's and Crisil have decreased their growth forecast for India. RBI is projected to announce more rate cuts in the coming months to prevent a slowdown and boost consumption. The Government is also taking necessary steps to increase demand but still more steps are needed further to improve sentiments.

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