DAILY ANALYSIS REPORT

Tuesday, August 6, 2019

The gold rally continued on safe-haven demand from escalating trade tensions between the US and China

Oil prices to remain weak on poor growth in demand as US-China trade war escalates further

Copper remains near 2-year low amid trade war concern

Rupee stabilize after Yuan shock, FIIs outflow continues to keep the domestic currency under pressure

Demand outlook pushed Chinese steel and Iron ore prices lower

THE GOLD RALLY CONTINUED ON SAFE-HAVEN DEMAND FROM ESCALATING TRADE TENSIONS BETWEEN THE US AND CHINA

- US Treasury Department had determined that China was manipulating its currency and that the US would engage the International Monetary Fund (IMF) to deal with China and its unfair currency competition.
- Gold to remain firm on escalating trade tensions between the United States and China. China said to retaliate against U.S. President Donald Trump's decision to impose an additional 10% tariff on $300 billion worth of Chinese imports.
- Gold also rallied as the tariffs may force the Federal Reserve to further cut interest rates to protect the U.S. economy from trade-policy risks. U.S. July employment numbers also showed a slowdown in hiring, which also supports the case for an interest rate cut.
- Holdings of SPDR Gold Trust fund rose 0.53% to 835.16 tonnes on Monday from 830.76 tonnes on Friday.
- Hedge funds and money managers raised their bullish positions in COMEX gold contracts in the week to July 30.
- Physical gold demand remains mixed in India as consumers cashed due to rally in prices to a lifetime high. Scrap gold supply may increase due to higher prices while import may drop this year.

Outlook

- Gold prices rallied after President Trump announced to put an additional tariff on Chinese goods worth of $300bn, and China said to retaliate over the tariff. Weak US employment number for July month have increased a possibility for a further interest rate cut of US federal reserve which may support gold prices further in near term along with US-China trade tension. CME gold may face minor resistance near $1497 per ounce while the key support level is seen around $1461 per ounce

OIL PRICES TO REMAIN WEAK ON POOR GROWTH IN DEMAND AS US-CHINA TRADE WAR ESCALATES FURTHER

- Oil remains weak; market awaits API and EIA weekly inventory report later this week and remains under pressure amid concerns about weaker demand after US President Donald Trump said that he would impose tariffs on more Chinese imports. China also responded that it will imply retaliatory tariff after the US implements these tariffs.
- Geopolitical tension kept on increasing after Iran claimed to seize a vessel in the Persian Gulf, the third time after US-Iran tension mounted.
- US crude oil exports surged by 260,000 barrels per day (bpd) in June to a monthly record of 3.16 million bpd, suggesting there is plenty of oil in the market.
- CFTC Report- Net long positions for crude oil futures declined -10560 contracts to 387291 for the week. Speculative long positions gained +2298 contracts and shorts jumped +12858 contracts.
- US oil rig count -The total number of active oil rigs fell by 6 reaching to 770 while the number of active gas rigs increased by 2 to reach 171.

Outlook

- ICE Brent oil is likely to trade with negative trend in the range of $62.50-64.70 per barrel this week after fed policy stance being 'neutral' and poor demand outlook over escalation in US-China trade war, although crude oil may receive minor support at lower levels from the US oil inventory report and increasing geopolitical tension in the Persian Gulf. Weekly inventory report will be released by API and EIA could provide further direction.

COPPER REMAINS NEAR 2-YEAR LOW AMID TRADE WAR CONCERN

- LME Copper 3M contract hits the lowest levels in more than two years after the trade war between the US and China escalated.
- Trade war will reduce copper demand as the US set to impose more tariffs on Chinese imports and China vowed to fight back.
- China Yuan tumbled beyond the key level of 7 Yuan per dollar for the first time in more than a decade which indicated that China wants the weaker currency to reduce the impact of US tariff.
- China's factory activity contracted in July, a private survey shows. The Caixin/Markit factory Purchasing Managers' Index (PMI) was 49.9 in July — slightly better than expected, but still in contradicting territory. Non-manufacturing PMI for July was 53.7 compared to 54.2 in June.
- US employment situation worsened in July, according to the monthly nonfarm payroll report released on Friday.

Outlook

- Copper could trade in a range of 5600-5740 with a negative trend after a setback from US-China tariff issue. Fed also diminished hoped for a further rate cut in September after a 'Neutral' commentary against the market's expectations of it to be 'dovish'.

RUPEE STABILIZE AFTER YUAN SHOCK, FIIS OUTFLOW CONTINUES TO KEEP THE DOMESTIC CURRENCY UNDER PRESSURE

- The rupee on Monday cracked as concerns over US-China trade war pushed Chinese Yuan below 7 and trade sold equities after Kashmir issues flared-up.
- Rupee may remain under pressure this week aimed at the absence of high-frequency economic data, and escalation in the foreign outflow. Eyes are on RBI monetary policy meeting outcome on Wednesday. Bond yields could drop further on the expectation of RBI interest rate cut in the next meeting. RBI meeting begins from 5th Aug

FII and DII Data

- Foreign Funds (FII's) sold shares worth Rs.2016.7 Crore, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs.1871.2 crore on August 5.
- In Aug'19, FII's net sold shares worth Rs. 5961.3 crores, while DII's were net buyers to the tune of Rs. 5245.2 crores.

Outlook

- FIIs outflow continued in August, FIIs sold Rs.16870 crore worth of equities in July while they sold Rs.5961.3 crore worth of equities in the first three days of August. Domestic institutional investors remained supportive and infused a total of Rs.25639 crore into domestic equities in July and August. Indian rupee may remain negative above 70 following a similar trend in other Asian currencies. Meanwhile, the drop in crude oil prices and strong PMI number will support Indian rupee in the near term. India's PMI rose to 52.5 in July against June 52.10. The RBI meeting begins from 5th Aug this week and will conclude on 7th Aug, we expect the central bank to cut interest rate by 25bp.

DEMAND OUTLOOK PUSHED CHINESE STEEL AND IRON ORE PRICES LOWER

- China iron ore futures outlook fell for its demand turned negative and steel inventory has piled up due to slower consumption.
- Steel futures were also under pressure anticipating weak global economic growth under high tariff scenario post-US-China trade war escalation.
- Washington has accused Beijing of manipulating its currency after China let the Yuan drop to its lowest point in more than a decade.

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