DAILY ANALYSIS REPORT

Wednesday, March 6, 2019

U.S. crude inventories rose by 7.3 million barrels in the week ending March 1 to 451.5 million-API Report

Gold cautious before ECB meeting and non-farm payroll data

LME and CME copper stocks have been shrinking

Nickel market has been in deficit for consecutive three years, expecting another deficit this year

Indian rupee weakens marginally on strength in dollar index post robust US economic data

U.S. CRUDE INVENTORIES ROSE BY 7.3 MILLION BARRELS IN THE WEEK ENDING MARCH 1ST TO 451.5 MILLION-API REPORT

- Oil prices slipped on Wednesday as bullish output forecasts by two big U.S. producers and a build in weekly U.S. crude stockpiles outweighed ongoing OPEC-led production cuts.
- U.S. crude inventories rose by 7.3 million barrels in the week ending March 1 to 451.5 million, compared with analysts' expectations for an increase of 1.2 million barrels. Distillate inventories decreased this week by 3.1 million barrels, compared to an expected draw of 975,000 barrels. Crude oil inventories at the Cushing, Oklahoma facility grew by 1.1 million barrels for the week.
- The U.S. Energy Information Administration report on crude oil inventories is due to be released today/
- The U.S. and China appear close to a deal that would roll back tariffs, easing fears that their stand-off will weigh on global growth and dent fuel demand.

Outlook

- Brent oil may recover after decline as OPEC+ production cut and US-China trade deal may support oil prices in short term. Immediate recovery can be seen towards the next level of resistance around $67.80 per barrel and $70.80. Meanwhile increasing US production levels and crude oil inventories may keep rally limited. Import support levels are seen around $64.10 per barrel and $62.80.

GOLD CAUTIOUS BEFORE ECB MEETING AND NON-FARM PAYROLL DATA

- Gold prices recover marginally as global equity decline but the rally was limited due to a rise in the dollar index. Asian stocks continue to trade in a tight range as investors await fresh directional cues from U.S.-China trade negotiations, meanwhile robust U.S. economic data supported the dollar.
- Precious metal traders are a bit cautious on the US-China trade negotiations and are awaiting further indications of development. U.S. Secretary of State Mike Pompeo said on Monday thought the United States and China were "on the cusp" of a deal to end their trade war.
- The focus is shifting towards European Central Bank's monetary policy meeting on Thursday and U.S. non-farm payrolls data on Friday.
- Holdings of SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, dropped 2.7 percent so far this year.

Outlook

- Comex gold broke key support level is around 1305, we may see further decline towards 1275-1266 in the near term on a positive US-China trade deal. Meanwhile gold may receive support from ongoing geopolitical tension such as Brexit deal, Venezuela crisis and a Terror attack on India. Important resistance remains near 1305 and 1335 in short to medium term.

INDIAN RUPEE WEAKENS MARGINALLY ON STRENGTH IN DOLLAR INDEX AFTER ROBUST US ECONOMIC DATA

- Robust U.S. economic data supported the dollar against rupee. FII's inflow and weakness in crude oil prices will support Indian rupee this week.
- Both international benchmark Brent and U.S. crude futures declined in US stocks build

FII and DII Data

- Foreign funds (FII's) bought shares worth Rs. 751.92 crore, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs 580.86 crore on 5th March.
- In February 2019 FIIs net bought shares worth Rs 13564.57 crore, while DII's were net sellers to the tune of Rs. 565.89 crore.

Outlook

- We can expect weakness in the dollar if the USD-INR pair breaks support level of around 70.96. USD-INR may decline towards 70.40-69.80 if it breaks 70.96. Meanwhile, the key resistance level is seen at 71.60, the counter may remain in the 71.6-70.40 range. FII's inflow may continue to support Indian rupee however any increase in crude prices from current levels may limit gains.

LME AND CME COPPER STOCKS HAVE BEEN SHRINKING

- LME and CME copper stocks have been shrinking; those in Shanghai have jumped by 108,363 tonnes to 227,049 tonnes since the start of January.
- Inventory drop is a result of strong imports from China. China imported a record 3.75 million tonnes of refined copper last year and January's tally of 336,680 tonnes was up 7 percent year-on-year.
- Copper prices may rise further as top consumer China unveiled economic stimulus measures including tax cuts for the manufacturing industry, bolstering the demand outlook.
- Production cuts at following copper mining companies creating supply deficit.
  - Vedanta is navigating the legal process of getting permission to restart the Tuticorin plant in the state of Tamil Nadu. The 400,000-tonne-per-year smelter has been closed since May last year.
  - In Zambia, Chambishi has closed and Vedanta's Nchanga has cut production in response to a new tax on copper concentrate coming from the Democratic Republic of Congo.
  - Chile's Codelco has two of its four smelters off-line for refits to comply with new emissions regulations. The work on the Chuquicamata and Potrerillos plants commenced on Dec. 13 and should reportedly take 75 and 45 days, respectively.
  - Codelco has scheduled maintenance at a third smelter in October and others taking downtime this year include Aurubis, Pan Pacific Copper, Mitsubishi Materials and Sumitomo Metal Mining.

Outlook

- Decreasing mine production and drying up inventories are keeping copper prices higher. Optimism over US-China trade talks could support copper prices further. Copper may find minor support around 6285, short-term trend remains positive above this level. Meanwhile, immediate resistance is seen near 6544-6702.

NICKEL MARKET HAS BEEN IN DEFICIT FOR CONSECUTIVE THREE YEARS, EXPECTING ANOTHER DEFICIT THIS YEAR

- Nickel prices climbed to a six-month peak as expectations of a fourth consecutive year of supply deficit were reinforced by signs of robust demand from steel mills in China.
- International Nickel Study Group shows the nickel market deficit at 46,000 tonnes in 2016, 115,000 tonnes in 2017 and 127,000 tonnes last year. Global nickel demand is estimated at about 2.4 million tonnes this year.
- Inventory- Nickel stocks in LME-registered warehouses, at 196,410, have nearly halved since the start of January last year. Nickel stocks at LME-registered warehouses have nearly halved since the start of January last year.
- Spread- The discount for the cash over the three-month contract is about $80 per tonne, is an incentive to buy nickel and sell it forward on the LME.

Outlook

- LME 3M contracts on LME may remain firm towards next 14270-15044 in the near term following inventory report and demand outlook. INSG report for a market deficit and positive outcome from US-China tariff deal may push counter higher, important support is seen around 13090-12864.

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Prepared by:
Mr. Kamlesh Jogi | Market Research Analyst
email: kamlesh.jogi@abans.co.in
Phone: +91 22 68354176 (Direct)

Abans Broking Services (P) Limited
36, 37, 38A, 3rd Floor, 227 Nariman Bhavan, Backbay Reclamation, Nariman Point, Mumbai-400 021
Phone +91 22 61790000 | Fax +91 22 61790000
Email: info@abans.co.in | Website: www.abans.co.in

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