DAILY ANALYSIS REPORT

Wednesday, August 7, 2019

Indian rupee extended losses for a fourth session, Eyes on RBI rate decision

Safe-haven demand keeps gold near 6yrs highest levels amid escalating trade tensions

EIA: US oil production could average around 12.3 mbpd and 13.30 mbpd in 2019 and 2020 respectively

Iron ore continued selling on China's weak demand outlook and its weak currency

Copper consolidates near 2-year low amid trade war concern and Yuan weakness

INDIAN RUPEE EXTENDED LOSSES FOR A FOURTH SESSION, EYES ON RBI RATE DECISION

- The Indian rupee extended losses against the US dollar ahead of the RBI's monetary policy decision.
- FII outflow continued in August which is consistent over the last three months.
- Concerns over US-China trade war pushed Chinese Yuan below 7 and having a larger impact on EM currencies.
- Eyes are on RBI monetary policy meeting outcome today. Bond yields could drop further on the expectation of RBI interest rate cut in the next meeting. We expect a 25bps rate cut in today's policy.

FII and DII Data

- Foreign Funds (FII's) sold shares worth Rs.2107.93 Crore, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs.2289.05 crore on August 6.
- In Aug'19, FII's net sold shares worth Rs. 8069.27 crores, while DII's were net buyers to the tune of Rs. 7534.26 crores.

Outlook

- Heavy FIIs outflow continued from July, FIIs sold Rs.16870 crore worth of equities in July while they sold Rs.8069.27 crore worth of equities in the first four days of August. Domestic institutional investors remained supportive and infused a total of Rs.27928 crore into domestic equities in July and August. Indian rupee may remain negative above 70 following the similar trend of other Asian currencies. Weakness in Crude oil prices may limit rupee losses for the short term.

SAFE-HAVEN DEMAND KEEPS GOLD NEAR 6YRS HIGHEST LEVELS AMID 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.
- Goldman Sachs doesn't expect a trade deal before the 2020 U.S. presidential election, while Morgan Stanley warned that there would be more tit-for-tat tariffs. The world economy might enter into a recession by the middle of next year.
- 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 0.21% to 836.92 tonnes on Tuesday from 835.16 tonnes on Monday.
- 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.

EIA: US OIL PRODUCTION COULD AVERAGE AROUND 12.3 MBPD AND 13.30 MBPD IN 2019 AND 2020 RESPECTIVELY

- U.S. crude oil production will reach record high in 2019 and 2020. According to the EIA's latest Short-Term Energy Outlook, U.S. crude oil production will average 12.3 million barrels per day (b/d) in 2019 and 13.3 million b/d in 2020, both of which would be at record levels.
- API Report- API reported a crude oil inventory draw of 3.4 million barrels against market expectation of 2.848 draws, for the week ending on Aug 1. Inventories at Cushing fell by 1.6-million barrels. EIA will release its weekly report later today.
- Oil may remain 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.

Outlook

- Brent oil is looking weak following US oil production expectation which will increase supply situation despite OPEC production cut, along with escalating tension between US-China will reduce oil demand. Brent oil may drop further towards $57-56 per barrel in the near term; eyes are on EIA weekly inventory report.

COPPER CONSOLIDATES NEAR 2-YEAR LOW AMID TRADE WAR CONCERN AND YUAN WEAKNESS

- 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.
- 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'.

IRON ORE CONTINUED SELLING ON CHINA'S WEAK DEMAND OUTLOOK AND ITS WEAK CURRENCY

- Demand outlook pushed Chinese steel and Iron ore prices lower, the Yuan's weakening added to market jitters.
- 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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