DAILY ANALYSIS REPORT

Thursday, August 8, 2019

Thai central bank, The Reserve Bank of New Zealand and the Reserve Bank of India cut interest rate unexpectedly
Safe-haven demand keeps gold above $1500 per ounce amid escalating trade tensions and the rate cut
RBI Meeting Highlights: RBI lowered Indian GDP forecast to 6.9% from 7% for FY20, cut interest rate by 35bps
Fear of global slowdown and built-in US oil inventory kept Brent oil prices under pressure
Copper found support on speculation about trade talk and unexpected rise in Chinese export

SAFE-HAVEN DEMAND KEEPS GOLD ABOVE $1500 PER OUNCE AMID ESCALATING TRADE TENSIONS AND THE RATE CUT

- Gold got a boost amid worries over the global economy, as U.S.-China trade war intensified and several central banks around the world cut interest rates.
- Central Bank rate cut - The Reserve Bank of New Zealand cut its interest rate by a half percentage point to a record low of 1%. The Reserve Bank of India ended up doing so by a larger-than-expected rate cut, that is 35 basis points. Thai central bank unexpectedly cuts key rate by 25bp, worried by baht strength.
- 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 might 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.

Outlook

- Gold prices rallied after China said to retaliate over the tariff and unexpected interest rate cut by many central banks around the globe. CME gold may face minor resistance near $1532 per ounce while the key support level is seen around $1497 per ounce. We expect gold to remain firm on various economic issues across the globe, although mild profit booking rallies may keep prices under pressure near key resistance levels.

RBI MEETING HIGHLIGHTS: RBI LOWERED INDIAN GDP FORECAST TO 6.9% FROM 7% FOR FY20, CUT INTEREST RATE BY 35BPS

- RBI has cut interest rates more aggressively than expected, which will give enough space for banks to cut home loan EMI and Auto loan costs, besides also providing the much-expected boost to these sectors.
- The Benchmark rates are now at their lowest levels since April 2010 after the RBI cut the repo rate by 35 bps today, against the forecast of 25 bps, which is the fourth cut in a row. The RBI rate cut is balanced between 25 bps and 50 bps, but we expect the Central bank to cut rates by another 25 bps in the current year and also expect interest rates to remain lower for a longer period going forward.
- The RBI sounded more dovish amidst the economic slowdown, low inflation, and geopolitical tensions.
- The Central Bank also lowered its GDP forecast for FY20 resulting from a slowdown in consumer demand, government spending and the lack of quality jobs. The RBI's lowering of the growth forecast to 6.9% from 7% with downside risk is an indication that the economy is not in good shape. The IMF also lowered India's GDP growth rate for FY20 to 7% from 7.3% on July 23, placing the blame on poor demand conditions.
- Inflation in India depends mainly on the monsoons as food prices contribute nearly 46% weight while calculating the CPI. Although sowing of Kharif crops has been delayed due to a delay in the monsoons than its actual timeline, yet RBI expects sowing to be only 6.6% lower than normal. The RBI has kept the inflation forecast lower (April-June 2020 Consumer Inflation (CPI) is projected at 3.6 percent, July-September CPI inflation is projected at 3.1 percent, while the October-March CPI inflation is projected between 3.5-3.7 percent)

- The RBI is giving high priority to boost demand and reduce the risk weight on consumer loans other than credit card bills.

FEAR OF GLOBAL SLOWDOWN AND BUILT-IN US OIL INVENTORY KEPT BRENT OIL PRICES UNDER PRESSURE

- EIA report showed a build of 2.4 million barrels in U.S. stockpiles against of the 2.8 million draw expectations. U.S. crude oil inventories are about 2% above the five-year average for this time of year.
- 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 its highest levels.
- 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 $55-54 per barrel in the near term, inventory built-up in US and demand worries will keep prices under pressure in the near term.

COPPER FOUND SUPPORT ON SPECULATION ABOUT TRADE TALK AND UNEXPECTED RISE IN CHINESE EXPORT

- Copper rose after a media report said that a senior U.S. official said the Donald Trump administration was still planning for talks with China.
- Copper also found support as China's exports unexpectedly returned to growth in July despite escalating US trade pressure. July exports rose fastest since March'19, to 3.3% against an expectation of a drop by 2% on a YOY basis. But imports remained weak, declining 5.6% and highlighting still sluggish domestic demand.
- German industrial output fell more than expected in June due to weaker production of intermediate and capital goods, a further sign that Europe's biggest economy contracted in the second quarter as exporters were hurt by trade disputes.
- China's rare earth association said it would support counter-measures in the escalating trade war with the United States.
- Copper stocks in LME-approved warehouses have more than doubled this year to 277,975 tonnes and those in warehouses monitored by the Shanghai Futures Exchange have risen 40% to 155,971 tonnes.
- 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 hopes for a further rate cut in September after a 'Neutral' commentary against the market's expectations of it to be 'dovish'. Copper is expected to consolidate near 2-year low due to trade war concerns and weakness in Yuan. Trade war will reduce copper demand as the US set to impose more tariffs on Chinese imports and China vowed to fight back.

DISCLOSURE & DISCLAIMER: ABANS BROKING SERVICES PVT. LTD. (ABSPL)

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

Membership Details:
MCX Member ID: 40385 / SEBI Reg. No. INZ000032733;
NCDEX: Member ID F00681 / SEBI Reg. No. INZ000032733

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations). ABans Broking Services Pvt. Ltd. (ABSPL) is a SEBI Registered Research Analyst having registration no. INH000006369. ABSPL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock Broking services. ABSPL is a subsidiary company of ABans Finance Pvt. Ltd. (AFPL). AFPL is an NBFC, registered with the RBI, in the category of non-acceptance of public deposits.
One of the group companies of ABSPL is ABans Securities Pvt. Ltd. (ASPL) which is a SEBI registered member with NSE, BSE and MSE stock exchanges. ASPL is also a Depository Participant of CDSL. ABans Commodities Pvt. Ltd. (ACIPL) is another group entity which is also a registered member with MCX in the Commodity segment. Further details are available on the group website www.abans.co.in Mandatory Disclosures as per the Regulations:

- Ownership & Material conflicts of interest –
  - Whether the Research Analyst or ABSPL, or his associate or his relative has any financial interest in the subject company and the nature of such financial interest – No
  - Whether the Research Analyst or ABSPL, or its associates or relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of this research report or date of the public appearance - No
  - Whether the Research Analyst or ABSPL, or his associate or his relative, has any other material conflict of interest at the time of publication of this research report or at the time of public appearance - No
- Receipt of Compensation –
  - Whether ABSPL, or its associates have received any compensation from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report – No
- Whether the Research Analyst has served as an officer, director or employee of the subject company – No
- Whether the Research Analyst or ABSPL has been engaged in market making activity for the subject company – No
- Other material disclosures, if any

Disclaimer:
The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Neither ABans Broking Pvt. Ltd. (ABSPL), nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information. The document is not, and should not be construed as an offer to sell or solicitation to buy any securities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from "ABans Broking Services Private Limited". Your feedback is appreciated on compliance@abans.co.in