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Gold to trade in range ahead of the ECB meeting today

The rupee appreciated against the dollar following recovery in Equities and a drop in Crude oil prices

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## Gold to trade in range ahead of the ECB meeting today

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- ▲ Gold remains negative as US-China trade talks have lifted risk factor and profit booking before the ECB meeting.
- ▲ The United States on Wednesday agreed to delay increasing tariffs on \$250 billion worth of Chinese imports to Oct. 15 from Oct. 1 "as a gesture of goodwill." US President Donald Trump is postponing additional tariffs on Chinese goods.
- ▲ Markets will now be awaiting cues from the ECB meeting.
- ▲ The European Central Bank meeting scheduled for today and the Fed meeting scheduled for the next week may give further clues on the central bank maintaining the dovish tone and stimulating the economy by reducing interest rates.
- ▲ ECB Chief Mario Draghi is expected to keep the interest rates lower for the longer-term to support the weak manufacturing sector, uncertainty surrounding Brexit and the ongoing global trade war.
- ▲ There is a high possibility that the US Federal Reserve may cut interest rates by 25 bps in the September month's meeting next week, which will keep gold prices supported at lower levels. Federal Reserve Chair Jerome Powell said that the US central bank would continue to act "as appropriate" to sustain the economic expansion. Lower interest rates reduce the opportunity cost of holding non-yielding gold.

## Outlook

- ▲ Gold corrected as optimism over US-China trade talks grows further. Gold has rallied in the last one month on fears of a recession amidst uncertainties in the US-China trade dispute and Brexit delay over political turmoil in the UK, but 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 along with the ECB keeping rates lower to stimulate the economy, and this will keep gold prices firm over the short term. We expect CME Gold future contract 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.

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## The rupee appreciated against the dollar following recovery in Equities and a drop in Crude oil prices

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- ▲ Trump delaying the increase in Chinese tariff by 15 days have supported global equities and Indian indices also traded higher along with gain in domestic currency.
- ▲ The rupee remained strong as Oil falls 2.9% following report Trump discussed easing sanctions on Iran.
- ▲ Now eyes are on Thursday's ECB meeting. The ECB is expected to reduce the interest rate and may keep rates lower for the longer-term.

## FII and DII Data

- ▲ FII's turned net buyer in equities after a long time with little quantity. Foreign Funds (FII's) bought shares worth Rs. 266.89 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 1132.4 crores on September 11<sup>th</sup>.
- ▲ In Sept'19, FII's net sold shares worth Rs. 5,194.1 crores, while DII's were net buyers to the tune of Rs. 6,281.3 crores. The outflow of foreign investors from Indian equities continued this month as well, and FII's have sold equities worth nearly Rs. 40,000 crores since May'19.

## Outlook

- ▲ Optimism over US-China trade talk, recovery in Yuan against dollar and correction in Crude oil prices could support rupee in the near term. Rupee may further recover till 71.10-70.80 against US dollar in the very short term but the overall trend is still looking weak following massive outflow by FII's and weakness in the economy. We can see rupee to trade in a broader range of 71-72.30 in the short to medium term.

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## Copper prices bounced on optimism over US-China trade talks despite the slowdown in auto sales in China

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- ▲ Optimism over US-China trade talks may support Copper prices in the short term. The US will delay increasing tariffs on \$250 billion worth of Chinese goods from Oct. 1 to Oct. 15 as a "gesture of goodwill" to China.
- ▲ China auto sales fell 6.9% in August from the same month a year earlier, following declines of 4.3% in July and 9.6% in June, as well as the first annual contraction last year since the 1990s against a backdrop of slowing economic growth.
- ▲ A private survey showed that refined copper cathode production by major Chinese smelters fell by 0.5 percent in August from a month earlier.
- ▲ China's August exports fell 1% from a year earlier against market expectations of a rise of 2% for the same period.
- ▲ China's unwrought copper imports also declined in August after a bounce in the previous month. China's August imports of unwrought copper, including anode, refined and semi-finished copper products, fell 3.8% year-on-year to 404,000 tonnes, while imports of copper concentrate rose 9.3% annually to 1.8 million tonnes.
- ▲ China's central bank is cutting the Reserve Requirement Ratio (RRR), releasing 900 billion Yuan (\$126.35 billion) in liquidity to shore up the flagging economy. More RRR cuts can be seen in China in the next quarter.

## Outlook

- ▲ LME 3M Copper contracts bounced from the support level near \$5,520 following US-China trade talks optimism, tight supply in LME warehouses and improved demand in China over increasing import premium. The optimism over US-China trade talks could improve sentiments for metal prices along with RRR cuts decision, which will improve the demand for base metals. We expect copper to remain firm in the near term, although LME Copper 3M prices could face minor resistance around 5,865-6,070 levels.

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## Oil prices dropped following a report that US President Trump may ease sanction on Iran

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- ▲ Oil prices corrected nearly 2.9% following a media report that President Donald Trump has discussed easing sanctions on Iran to reopen negotiations.
- ▲ On 8 May 2018, US President Donald Trump announced that the US would withdraw from the Iran nuclear deal and resulted in US sanctions on Iran that came into effect on November 2018.
- ▲ According to the report, President Trump entertained the idea of easing sanctions on Iran to arrange a meeting with Iranian President Hassan Rouhani later this month at the UN General Assembly.
- ▲ The 73rd session of the UN General Assembly (UNGA 73) will open on 18 September 2018. The first day of the high-level General Debate will be Tuesday, 25 September 2018, and is scheduled to last for nine working days.

- Oil prices traded higher this week following an industry report showing a drop in US Crude oil inventory, which was more than what was anticipated by a market survey. The American Petroleum Institute (API) data released late on Tuesday showed that U.S. crude and gasoline stocks fell last week, while distillate stocks built.
- Oil found support from a drop in US Crude oil inventory, Energy Information Administration reported a draw in crude oil inventories of 6.9 million barrels for the week to September 6. The API numbers also showed a drop by 7.2 million barrels in crude oil inventory the week ended Sept. 6 to 421.9 million against expectations of a drop of 2.7 million barrels.
- Oil prices dropped in the initial reaction after President Donald Trump removed John Bolton as the National Security Advisor. The surprise exit of Bolton increased speculations that the tensions between the US-Iran could ease.
- OPEC on Wednesday cut its forecast for growth in world oil demand in 2020 due to an economic slowdown. Oil demand worldwide would expand by 1.08 million barrels per day, 60,000 bpd less than previously estimated, and indicated the market would be in surplus.

## Outlook

- A sudden exit of US President Trump's advisor John Bolton has increased speculation that Iran-US ties may improve in the future and could result in higher oil supply in the world oil market. A media report of President Trump meeting Iranian President Hassan Rouhani later this month at UN general assembly, have improved sentiment and Iranian supply may hit the market in the near term which will keep oil prices under pressure for a longer-term than anticipated. OPEC report for a drop in oil demand could increase additional pressure on oil prices. We expect Brent oil to trade in a wider range of 60.10-63.70 in short term with negative trend following the latest development over US-Iran talks with the US. Although optimism over US-China tariff issue could improve sentiment later.

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Prepared by:

Mr. Kamlesh Jogi | Market Research Analyst

email: [kamlesh.jogi@abans.co.in](mailto: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](mailto:info@abans.co.in) | Website: [www.abans.co.in](http://www.abans.co.in)

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