DAILY ANALYSIS REPORT

Friday, August 16, 2019

ABANS

Government plans to support the Indian economy at the expense of higher fiscal slippage

Gold remains firm on falling bond yields, trade tension between US-China

Crude oil recovered as the rise in U.S. retail sales was cited as easing some concerns of a potential recession

Copper prices trade in a tight range amid conflicting messages about the ongoing trade discussions

China steel future may remain firm over stimulus hope and production halt by mills

GOVERNMENT PLAN TO SUPPORT THE ECONOMY BY FPI TAX SOPS AND BOOSTING INFRA SPENDING MAY INCREASE FISCAL SLIPPAGE

- The Indian rupee has become Asia's worst-performing currency in August amid pressure from China's yuan, the ongoing trade war, and a massive withdrawal of funds by FPI after a change in their tax structure.
- China's Yuan eased continues to weaken against the US Dollar and Beijing pledged to retaliate to the latest U.S. tariffs. The dollar further firmed after an upbeat U.S. retail sales data.
- The Indian government is believed to be planning to take measures to combat the slowdown. We believe that targeted tax sops and measures to drive infrastructure investments may support the economy. Weakness in Currencies and Sell-off in equities markets was mainly fears of fiscal slippage by the government. The fiscal deficit may increase by 50bp as tax collection remains below target.
- Rupee posted a small recovery along with the other Asian currencies after Trump decided to delay tariffs on some Chinese imports. A recovery in crude oil prices limited gains in rupee. Crude oil recovered in tandem with macro sentiment.

FII and DII Data

- Foreign Funds (FII's) bought shares worth Rs. 1614.6 Crore, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs.1619.82 crore on August 14th
- In Aug'19, FII's net sold shares worth Rs. 7710 crores, while DII's were net buyers to the tune of Rs.10785 crores.

Outlook

- Yuan weakness is keeping all Asian currencies under pressure; rupee has become the worst performing currency. The government planned measures such tax sops to FPI or infuse into infrastructure may increase fiscal slippage and may keep the rupee under pressure. Domestic institutional investors also remained supportive and infused a total of Rs 31179 crore into domestic equities in July and August. But rising crude oil and continuous FII's outflow may keep the domestic currency under pressure. USD-INR futures contract on NSE may find support around 70.40-69.80 while immediate resistance can be seen around 70.90-71.80

GOLD REMAINS FIRM ON FALLING BOND YIELDS, TRADE TENSION BETWEEN US-CHINA

- Gold prices remain firm as weakness continues in U.S. bond yields. US-China trade war increasing has boosted the metal's safe-haven appeal.
- Gold corrected marginally and the US dollar index remained firm after positive retail sales data, which helped to ease financial market fears that the economy was heading into recession
- Softening trade tensions and geopolitical risks have provided some sort of hope in the markets which pushed gold prices down but the move did not last long on Tuesday. The trade dispute is still not resolved. China on Thursday vowed to counter the latest $300 billion U.S. tariffs, but also called on the US to meet it halfway on a potential trade deal.
- Geopolitical risks in Hong Kong and political turmoil in Argentina may keep risks elevated.
- The market is expecting at least one more cut from the Federal Reserve, lower U.S. interest rates put pressure on the dollar and bond yields, increasing the appeal for bullion. Mexico's central bank cut its key lending rate for the first time since June 2014 on Thursday. The ECB is widely expected to cut interest rates by at least 10 basis points when it meets next month.

Outlook

- Gold bounced back above the key $1,500 per ounce after a sharp correction from multiyear high. The trade dispute is still not resolved. Geopolitical risks in Hong Kong and Argentina are to continue in the short order. All these factors are supportive of gold prices. 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.

CRUDE OIL RECOVERED AS THE RISE IN U.S. RETAIL SALES WAS CITED AS EASING SOME CONCERNS OF A POTENTIAL RECESSION

- Oil prices gained as recession fears eased following better-than-expected U.S. retail sales figures. U.S. retail sales rose 0.7% in July against the market expectation of a 0.3% rise.
- The news of easing trade tension between US-China provided support to the Crude oil prices.
- Crude may remain under pressure as the weekly report by the US EIA showed that commercial crude oil inventories increased by 1.6 million barrels in the week ending August 9 against to market expectation for a decline of 2.8 million barrels.
- Saudi Arabia leader of OPEC plans to maintain its crude oil exports below 7 million barrels per day in August and September to bring the market back to balance.

Outlook

- Brent oil may trade in a range of $57-61 in short term following mixed view of easing trade tension, higher US retails sales number and increasing US oil supply. Crude may receive some support from OPEC measure to keep the oil market in balance through production levels. Increasing in retails sales in the US and easing trade tension between US-China may support oil demand. OPEC and non-OPEC ministerial monitoring committee would meet in Abu Dhabi on Sept. 12 to review the oil market.

COPPER PRICES TRADE IN A TIGHT RANGE AMID CONFLICTING MESSAGES ABOUT THE ONGOING TRADE DISCUSSIONS

- Conflicting message about US-China trade talk is keeping Copper and other industrial metals in range. President Donald Trump is confident of holding "productive" trade talks and expects talks to resume in September. Meanwhile, China vowed to counter the latest US tariffs.
- Copper drops after China's industrial output data which came much below market expectations on Wednesday. Chinese Industrial output grew 4.8 percent in July from a year earlier; which was against the forecast of 5.8 percent and from 6.3 percent growth as compared to June. China's industrial output was lower than the most bearish forecast, resulting from weakened demand at home and abroad.
- China will need to deliver more economic stimulus to prevent a deeper downturn and to help stabilize growth. Copper may react positively if China announces economic stimulus to improve home demand.

Outlook

- LME Copper 3M expiry contract may remain in the range of 5710-5920 amid at conflicting messages about the ongoing trade discussions. Copper demand outlook in China is not yet improved much as its industrial output data came much below market expectation. China will need to deliver more economic stimulus to prevent a deeper downturn and to help stabilize growth. Copper may react positively if China announces economic stimulus to improve home demand.

China steel future may remain firm over stimulus hope and production halt by mills

- China steel future may remain firm over stimulus hope, China may roll out more measures to stimulate the slowing domestic economy amid fears about a global recession. US-China trade talk is also in focus which may provide further direction.
- Some steel firms in China halting production which is keeping steel prices higher after the recent drop.
- Although Steel prices may correct further as demand is expected to soften in the second half of this year and would be in line with the real estate market. According to Chinese industrial report, Property investment grew 10.6 percent in the first seven months of 2019 year-on-year, slowing from 10.9 percent in January-June. The sector has been one of the few bright spots in China's economy.

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