
Gold prices locked in the range above \$1500 ahead of Fed meeting tomorrow

Brent Oil marginally down after huge rally yesterday, the situation still tense after Attack on Saudi Aramco

Equities and Rupee drops as oil prices sustained gains

Copper may receive support from US-China trade talks starting from Thursday

GOLD PRICES LOCKED IN THE RANGE ABOVE \$1500 AHEAD OF FED MEETING TOMORROW

- Geopolitical tensions in the Middle East keeping gold prices afloat, as the focus shifts to the FED meeting this week on Wednesday, September 18th 2019. The market is pricing a high probability that the US Federal Reserve will cut interest rates by 25 bps, which will keep gold prices supported. 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.
- U.S. President Donald Trump on Monday said it looked like Iran was behind attacks on oil plants in Saudi Arabia but stressed he did not want to go to war.
- According to the CFTC Commitments of Traders report for the week ending September 10, net long for gold futures declined -30,822 contracts to 269,725. Speculative long positions fell -31,271 contracts, while shorts dropped -449.
- The European Central Bank cut the deposit rate to -0.5% from -0.4% and launched a new round of monthly bond purchases and is also taking other steps to stimulate a slowing Eurozone economy. Inflation remains below 2%, and this was the main driver for the decision. Global trade disputes and concerns about the prolonged UK exit from the European Union have added to the slowdown.
- Deputy-level US-China trade talks are scheduled to start in the US on Thursday, the US Trade Representative's office said on Monday. Optimism over US-China trade talks could push gold prices down.

Outlook

- Mounting tensions in the Middle East after the drone attack on Saudi Aramco have increased risk premium and improved safe-haven demand for gold. There is a high possibility that the US Federal Reserve may cut interest rates by 25 bps in the September month's meeting this week along with the ECB taking rates lower to stimulate the economy. The ECB's decision to start bond-buying will create more liquidity in the system, taking interest rates further negative which shall support gold in the medium term. We expect CME Gold futures contracts 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.

BRENT OIL marginally DOWN AFTER HUGE RALLY YESTERDAY, THE SITUATION STILL TENSE AFTER ATTACK ON SAUDI ARAMCO

- Oil fell more than 1% today, a marginal correction as Saudi Aramco announced it can restore one-third of the disrupted oil supply quickly. But the tension in the Middle East could spurt anytime soon and keeping oil prices supported at lower levels. Trump tweeted Monday that the U.S. is "locked and loaded," raising alarm after the attack on Saudi Aramco, but is not interested in waging a war.
- Oil prices jumped on Monday after the drone attack hit Saudi Aramco oil industry on Saturday, forcing Saudi Arabia to cut its oil output in half. An estimated 5.7 million barrels per day of oil production was affected, which is 5% of the world's daily supply.
- US President Trump said oil is to be released from strategic petroleum reserves after Saudi attacks to keep the market well supplied.
- The total number of active oil rigs in the US decreased by 5 reaching 733, according to a private survey report. Oil rigs have seen a loss of 134 rigs year-on-year. A significant loss in active oil rigs indicates tighter oil production in the US.
- According to the CFTC Commitments of Traders report for the week ended September 10, net long

for crude oil futures jumped +44,048 contracts to 428,205. For this week, speculative long positions soared +18,639 contracts and shorts plunged -25,409 contracts.

Outlook

- ▲ A sudden spike in Brent oil prices after the drone attack on Saudi Aramco has led to a decrease in the oil supply for the short term. Rising tensions in the Middle East post the Aramco attack may keep oil prices higher. However, supply assurance from the US and improved supply from Aramco may put some pressure on oil prices at higher levels. Brent oil could find support around 63.80-60.50 levels, while key resistance remains near 69.70-72.40- levels.

EQUITIES AND RUPEE DROPS AS OIL PRICES SUSTAINED GAINS

- ▲ A strong rally in crude oil pushed the rupee sharply lower as India relies heavily on crude imports to meet its energy needs. Oil prices rallied as Saudi halted half of its oil production after an attack. Saudi Arabia is the second-largest supplier of crude to India. Other Asian currencies were also trading lower.
- ▲ The ECB decision to cut interest rates and starting a new bond-buying program will support emerging markets as inflows could improve further. Eyes are now on the FED meeting this week. A dovish FED is seen as supporting the rupee from current levels.
- ▲ US President Trump's delaying of the increase in Chinese tariffs by 15 days have supported global equities and Indian indices also traded higher along with gains in the domestic currency.

FII and DII Data

- ▲ Foreign Funds (FII's) sold shares worth Rs. 751.2 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 308.5 crores on September 16th.
- ▲ In Sept'19, FII's net sold shares worth Rs. 5567.2 crores, while DII's were net buyers to the tune of Rs. 6672.6 crores.

Outlook

- ▲ The rupee lost heavily against the dollar following a sharp rally in crude oil prices. Eyes are now on the US FED meeting this week. The ECB's decision to cut interest rates and the starting of a new bond-buying program will support the economies of emerging markets as fund inflows will improve. The Rupee may further recover till 71.10-70.80 against the US dollar in the very short term; meanwhile, we can see the rupee trading in a broader range of 71-72.30 in the short to medium term.

COPPER MAY RECEIVE SUPPORT FROM US-CHINA TRADE TALKS STARTING FROM THURSDAY

- ▲ A strong dollar and weak Chinese economic data put pressure on copper prices. The US-China Deputy level talks to start this Thursday is lending some support. President Trump announced a delay in the tariff increase on \$250 billion worth of Chinese goods from Oct. 1 to Oct. 15 as a "gesture of goodwill" to China.
- ▲ China reciprocated this gesture, by renewing purchases of U.S. farm goods. The US and China are set to meet later in October. Progress on the trade front may revive some lost demand in copper.
- ▲ Copper prices corrected marginally following weaker Chinese economic data. China's industrial production increased by just 4.4% in August compared to a year earlier. This was worse than the

sector's performance in July when it grew by 4.8%, its weakest growth in 17 years.

- China's retail sales growth slowed to 7.5% in August, down from July's 7.6% year-on-year uptick.

Outlook

- LME 3M Copper contracts dropped from the recent high of \$5,979 per ton on poor Chinese economic data, but optimism over US-China trade talks could provide support at lower levels. Recent economic stimulus by the People's Bank of China through RRR cuts, ECB's decision to cut rates, bond-buying program by the ECB and a probable second rate cut by the US Federal Reserve could support demand at lower levels. Copper may find import support around \$5,849-5,767 per ton while key resistance can be seen near \$6,036 per ton.

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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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