DAILY ANALYSIS REPORT

Monday, August 19, 2019

ABANS

Rupee flat as equities rally
Gold slightly lower as china launches stimulus
Crude oil recovered on the back of Saudi oilfield attack

RUPEE FLAT AS EQUITIES RALLY

- 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, FII were again sellers on 16th of August.
- 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. However both sides have agreed to hold talks.
- Today the Rupee is trading more or less flat against the dollar, hopes of a sector specific stimulus by the government to seize a downfall in the economy.
- 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.

FII and DII Data

- Foreign Funds (FII's) sold shares worth Rs. 1339.27 Crore, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs.105.28 crore on August 16th
- In Aug'19, FII's net sold shares worth Rs. 9049.51 crores, while DII's were net buyers to the tune of Rs.11843.66 crores.

Outlook

- Yuan weakness is keeping all Asian currencies under pressure; rupee is currently the worst performing currency in Asia. Indian government has planned measures such as 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 SLIGHTLY LOWER AS CHINA LAUNCHES STIMULUS

- Gold corrected marginally as the US dollar index remained firm after PBOC hinted at more stimulus, easing fears about a sharp economic downturn
- 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 ON THE BACK OF SAUDI OILFIELD ATTACK

- Oil prices gained as Saudi oil fields were attacked by Yemeni separatists also crude oil was supported by China stimulus and hopes f talks between Us and China.
- 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.

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