DAILY ANALYSIS REPORT

Friday, September 20, 2019

Finance Minister announces big tax boost for the Indian economy by lowering the corporate tax
Dollar under pressure over caution on US-China trade talks, this has pushed gold prices higher
Oil prices are in a range with positive trend, eyes are on US-China trade talk now
Positive US home sales data support copper, eyes on US-China trade talks

FINANCE MINISTER ANNOUNCES BIG TAX BOOST FOR THE INDIAN ECONOMY BY LOWERING THE CORPORATE TAX

- The government has slashed the basic corporate tax rate to 22% from 30% while for new manufacturing companies it has been cut down to 15% from 25%. A domestic company can pay income tax at 22% if they don't seek any exemption or incentives. The effective tax rate is now 25.17%, inclusive of all surcharges and cess, for such domestic companies.
- For new manufacturing companies that start production before March 2023 and are incorporated on or after 1st October 2019, the corporate tax rate has been brought down to 15% from 25%.
- Indian equities responded positively and the biggest rally in 10 years was seen.
- Bond yields fall after the RBI governor hinted at more rooms for rate cuts, helping the rupee to gain strength. Reserve Bank of India Governor Shaktikanta Das has said that there was room for further interest rate cuts. The domestic currency gained strength as bond yields fall on speculation of an interest rate cut in the next RBI meeting.
- The GST Council meeting later today may provide more lead the GST regime.

FII and DII Data

- Foreign Funds (FII's) sold shares worth Rs. 892.52 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 645.7 crores on September 19th.
- In Sept'19, FII's net sold shares worth Rs. 8,227.1 crores, while DII's were net buyers to the tune of Rs. 8,184.5 crores. FII's have been investing in debt markets and selling equities from the last three months.

Outlook

- The Rupee may recover till 70.40-70.00 levels against the US dollar in the short term following measures by the Government of India to stimulate the economy through tax cuts for corporate, optimism over US-China trade war, an interest rate cut by the US Fed and dovish policy measures by other central banks such as BOJ, ECB, BOE and PBOC.

DOLLAR UNDER PRESSURE OVER CAUTION ON US-CHINA TRADE TALKS, THIS HAS PUSHED GOLD PRICES HIGHER

- Gold prices recovered some losses on a weaker dollar and caution about trade talks between US and China.
- Gold may find support from uncertainty over Brexit. The Bank of England has said that the Brexit uncertainty and slower world economic growth were increasingly causing Britain's economy to perform below its potential, and that a failure to reach a deal to leave the European Union by Oct. 31 would worsen the problem.
- The Federal Reserve cut interest rates by 25 bps as per market expectations, but the future path looks uncertain. The Federal Reserve kept the Fed funds rate at 1.75% to 2% through the end of the year. The Federal Reserve left the door open for additional cuts, but members were split over the September decision and the outlook for further reductions looks uncertain. It was the second rate cut this year.
- Positive economic data has supported the US dollar and this is keeping gold prices under pressure. US manufacturing output increased steadily in August, boosted by a surge in the production of machinery and other goods.
- Optimism on the US-China trade front is appearing negative for gold prices. US President Donald Trump is confident of sealing a deal on trade with China before the US presidential elections, or an agreement could be reached the day after US voters go to the polls.

Outlook

- A disappointment from the Fed put additional pressure on gold prices. Gold was also under pressure due to increasing optimism over US-China trade talks. However, mounting tensions in the Middle East after the drone attack on Saudi Aramco have increased the risk premium and improved the safe-haven demand for gold. The ECB's decision to start bond-buying will create additional 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.

Oil prices are in a range with positive trend, eyes are on US-China trade talk now

- Built-in US oil inventory and resumption of oil supply from Aramco kept prices lower. Oil prices are in a range now with a positive trend, keeping an eye on U.S.-China trade negotiations in Washington, as officials from both sides resumed face-to-face talks for the first time in nearly two months on Thursday.
- The Energy Information Administration reported a crude oil inventory build of 1.1 million barrels. This compares with a 6.9-million-barrel draw a week earlier. Gasoline stockpiles increased by 800,000 barrels and distillate fuel inventories rose by 400,000 barrels.
- Easing policy by Bank of Japan and a rate cut by the Fed alongwith ECB's push may increase short-term liquidity into the system. The U.S. Federal Reserve on Wednesday cut its overnight rate by 25 basis points to a range of 1.75% to 2%, however, Fed appeared divided on further action for the year. The Bank of Japan (BoJ) kept the monetary policy steady and maintained its short-term interest rate target at -0.1%; there was also a pledge to guide 10-year government bond yields around 0%.
- Oil prices slipped after Saudi Arabia's Energy Minister sounded confident that Aramco will restore lost oil production by the end of the month. Saudi Aramco has informed some Asian refiners that it will supply full allocated volumes of crude oil in October with some changes.
- President Trump tweeted on Monday that the U.S. is "locked and loaded," raising alarms after the attack on Saudi Aramco, but is not interested in waging a war. Still, there is a cause for caution about Middle East tensions after the US confirmed that the attacks originated in southwestern Iran. Iran has denied involvement in the strikes. Further escalation of conflict in the Middle East may halt oil production in the near future.

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. An increase in US oil inventory and uncertainty over future rate cuts by the Fed may keep oil prices under pressure. Brent oil could find support around 63.80-60.50 levels, while key resistance remains near 69.70-72.40- levels.

Positive US home sales data support copper, eyes on US-China trade talks

- London copper prices remained higher boosted by US home resales data, which were at 17-month highs and encouraging the jobs numbers.
- Peru expects its copper production to grow 27% and gold output to expand 12% in the next three years by 2022.
- US President Donald Trump has said on Tuesday that his administration could seal a deal on trade with China before the U.S. presidential elections, or an agreement could be reached the day after U.S. voters go to the polls.

- The US-China deputy level talks starting today may lend 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.
- The US Federal Reserve cut interest rates by 25 bps, but looked uncertain on future rate cuts.
- The slowdown in China's economy deepened in August, with growth in industrial production at its weakest in more than 17 years.

Outlook

- LME 3M Copper contracts dropped from the recent highs 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 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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