Crude plunges over 6% on expected slowdown in world economy and increased oil supply

- International energy agency warned of an uncertain oil market, difficult economic environment and political risk. The global economy is still going through a very difficult time and is very fragile
- U.S. crude oil production has jumped by almost a quarter this year, to a record 11.7 million bpd largely because of a surge in shale output.
- October U.S. petroleum inventory stands above the five-year average and the decline in Iranian oil exports has been less than anticipated. The market is also experiencing seasonally weak demand.
- Crude found some support from a report of an unexpected decline in U.S. commercial crude inventories as well as record Indian crude imports.
- The American Petroleum Institute reported a decline of 1.5 million barrel to 439.20 in the week of November 16th
- Record crude imports by India of almost 5 million barrels per day (bpd) also supported prices.
- OPEC Meeting on December 6th-7th: Oil output surging and the demand outlook deteriorating, OPEC is pushing for a supply cut of between 1 million and 1.4 million bpd to prevent a repeat of the 2014 glut.
- Change in Forward Curve: Despite an expectation of OPEC-led cuts, Brent and WTI prices have slumped by 28 and 30 percent respectively since early October, and the entire structure of the forward curve has changed. Brent forward curve was in steep backwardation in October, implying a tight market with prices for spot delivery higher than those for later dispatch. This makes it unattractive to store oil. Since then the curve has moved into contango for most of 2019, implying oversupply as higher prices further out make it attractive to store oil for later sale.

Outlook:

- After nearly a 7% decline yesterday, Brent oil may consolidate in the broader range of $60.50-$65.70 per barrel in the short term, outlook remains negative as Russia adopted a wait and watch approach for winter season demand on Saudi Arabia's suggestion of cutting oil production by 1 to 1.4 million barrels per day. Oil supply is expected to increase in near term while oil demand may be negatively impacted.

Safe haven demand for dollar continues to keep gold under pressure

- Gold futures declined pulling back from earlier highs as U.S. dollar index strengthened. Dollar found support as the euro and British pound continued to weaken over local political issues.
- U.S. housing starts rose by 1.5% to a seasonally adjusted annual rate of 1.228 million in October.
- Federal Reserve's commitment to a steady pace of rate increases in 2019 is under question following recent remarks by top policy makers.
- Gold has found support on geopolitical worries surrounding Britain's planned exit from the European Union as well as continued trade tensions between the U.S. and China and volatility in equity markets. We can expect gold to move lower if any of the current issues are resolved.
- Focus now shifts towards G-20 summit on November 30th and December 1st in Argentina where President Trump is expected to meet Chinese counterpart to discuss bilateral trade dispute.
- Meanwhile, holdings at SPDR Gold Trust (GLD), the world's largest gold-backed exchange-traded fund, rose 0.16 percent to 760.86 tonnes on Monday
- The dollar rallied from a two-week low and benchmark U.S. Treasury yields dipped to seven-week lows as stock market declined boosted global demand for safe-havens: U.S. Treasury debt and the dollar.
- A stronger dollar makes gold weaker, which offers no yield to investors and becomes in foreign currency terms.
- Equities markets across the globe have suffered in the past 2-3 months, due to worries of earnings growth, rising borrowing costs, slowing global economic momentum, and international trade tensions.

Outlook

- Gold is trading in the narrow range of $1217-$1227 per ounce from past two trading sessions with negative bias over strength in Dollar Index. Stiff resistance is seen near $1238 while important support remains near $1195, we may see further consolidation in the $1195-$1238 region.

Higher steel production and moderate demand during winter plunges rebar prices

- China's construction steel rebar plunged nearly 3 percent which is its worst daily percentage drop in eight months over concerns about slowing demand during winter season and global economic slowdown worries.
- High production at Chinese steel mills also pressured steel prices, although cities in the northern part of the country have started to enforce winter restrictions
- Construction work is typically halted in northern China in winter due to the frigid weather conditions.
- Last week, weekly utilization rate at steel mills across the country rose for a third straight week ahead of winter season pollution cuts

Outlook

- Rebar prices which dropped to lowest levels since Aug'18 on slow construction demand during winter season and increased supply. Further weakness is expected towards 3569-3525 below 3654

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Contact Details

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 +91-22-61790010
Email: info@abans.co.in Website : www.abans.co.in

Social Media

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Prepared By:
Mr. Kamlesh Jogi, Market Research Analyst
E-mail: kamlesh.jogi@abans.co.in
Phone: 022 – 6789 8621
Communication Address: Mittal Chambers, 2nd Floor, No. 25,
Backbay Reclamation, Nariman Point, Mumbai - 400021.

Membership Details:
MCX Member ID: 40385 / SEBI Reg. No. INZ000032733;
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