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Industrial metals trade downwards following a disappointment from the US Fed meeting minutes  
Gold prices trades in a range, eyes on ECB meeting minutes today and Jackson Hole seminar on Friday  
Oil prices corrects marginally over negative demand outlook and rise in fuel inventories  
Weakening growth is the highest priority for RBI which sounded more dovish in the Policy Minutes

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## INDUSTRIAL METALS TRADE DOWNWARDS FOLLOWING A DISAPPOINTMENT FROM THE US FEDERAL RESERVE POLICY MEETING MINUTES

- ▲ All base metals on the LME are trading negative after the US Federal Reserve signaled not to be on the preset path of more monetary policy easing. The last rate cut was only a mid cycle adjustment.
- ▲ The Minutes of Fed's last month meeting showed policymakers were deeply divided over whether to cut interest rates, but were united in wanting to signal that they were not on a preset path to more rates cuts.
- ▲ Different Study Group indicates a widening deficit for lead, narrowing deficit for copper and nickel while zinc entered into surplus production.
  - International Lead and Zinc Study Group - The global zinc market swung into a 10,900 tonne surplus in June from a revised deficit of 38,200 tonnes in May. The global lead market recorded a widening deficit of 65,000 tonnes in the first half of 2019, compared to a deficit of 37,000 tonnes during the same period last year.
  - International Copper Study Group - The global world refined copper market showed a 62,000 tonnes deficit in May, compared with a 124,000 tonnes deficit in April.
  - International Nickel Study Group - The global nickel market deficit narrowed to 45,100 tonnes in the first six months of this year, compared to a deficit of 85,200 tonnes in the same period of 2018.
- ▲ Uncertain talks over US-China trade war is keeping copper prices in a range; President Donald Trump on Tuesday is to confront China on trade issues even if it has caused short-term harm to the US economy because it had been cheating the US for decades.
- ▲ An economic stimulus announcement from the US, Germany and China may lead to a further improvement in the demand for industrial metals.
- ▲ Positive news on interest rates may push demand for base metals as China's central bank introduced a key interest rate reform to reduce borrowing costs for companies and support a slowing economy. The reform is equivalent to making a loan rate cut of 45 basis points.

### Outlook

- ▲ LME 3M Copper may find a critical support base around 5,700-5,665 levels, while important resistance could be seen around 5,820-5,855 levels. We expect copper to bounce from support levels over positive economic news such as stimulus by US & Germany and interest rate reforms in China aimed at boosting the economy. Uncertainty over US-China trade issues may keep prices in a range, while dovish statements coming from the Fed meeting minutes could provide support at lower levels.

## GOLD PRICES TRADES IN A RANGE, EYES ON ECB MEETING MINUTES TODAY AND JACKSON HOLE SEMINAR ON FRIDAY

- ▲ Minutes from the European Central Bank's last policy meeting are awaited and markets are looking for more details on exactly when and how aggressively it might ease policy. PMI numbers out of France, Germany and the Eurozone also waited for further direction.
- ▲ SPDR Gold Trust GLD, the world's largest gold-backed exchange-traded fund, said its holdings rose 0.80% to 851.91 tonnes on Wednesday. The holdings have increased about 3% or around 24 tonnes so far this month.
- ▲ US Federal Reserve's Jackson Hole seminar on Friday and a G-7 Seven summit this weekend may provide further clues about the steps that policymakers may take to boost global economic growth.

- We see a higher chance of a 25 basis-points cut in U.S. interest rates in September.

## Outlook

- Gold futures contracts on CME are facing stiff resistance around \$1,523-1,530 per ounce levels and remains under pressure on stimulus projections by several leading economies to counter a slowdown. We can expect gold to turn negative if it breaks below \$1,500 per ounce. Gold could move further down to \$1,483 if it breaks key support levels. The Fed meeting minutes have disappointed the markets; now all eyes are on the Federal Reserve Chairman Jerome Powell's speech on Friday at the central bank's annual Jackson Hole conference. Any dovish tone could provide support for gold at lower levels. The ECB will also release the minutes of its last meeting. PMI data from Germany, France and Euro zone may clear the rest of the path for gold prices today.

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## OIL PRICES CORRECTS MARGINALLY OVER NEGATIVE DEMAND OUTLOOK AND RISE IN FUEL INVENTORIES

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- Crude oil prices corrected marginally after the U.S. government data showed a drawdown in domestic crude stocks but a rise in refined product inventories.
- Crude oil prices also remained lower on worries about the global economy.
- Eyes are on ECB meeting minutes scheduled later for today along with PMI data from Euro zone, which may give fresh direction on demand outlook for the energy segment.
- Crude stockpiles decreased 2.7 million barrels, a bigger drawdown than the 1.9 million barrels that analysts had forecast, but gasoline stocks rose by 312,000 barrels, while distillate supplies grew by 2.6 million barrels.
- Tensions in the Middle East remained in focus and Crude oil prices may find some support from a possible supply threat from Iran. If Iran's oil exports are cut to zero, international waterways will not have the same security as before, said Hassan Rouhani, President of Iran.
- Crude prices may remain firm on lower exports data in June from Saudi Arabia. Saudi Arabia plans to keep its crude oil exports below 7 million bpd in August and September. It wants to bring the market back to balance by keeping production lower.
- Crude oil prices may receive support as major economies might enact stimulus measures to counter a possible global economic slowdown that could affect oil demand.

## Outlook

- Economic stimulus announcements from US, Germany and China may further improve oil demand but uncertainty over the global economic outlook amid the U.S.- China trade war may limit the gains in the oil markets. Brent oil may find support near 58.20 - 57.60 levels, while important resistance can be seen around 61- 61.50 levels. US oil inventory fell more than the forecasts but rise in fuel inventories kept oil prices under check. Saudi Arabian exports declined in June indicating a tighter supply condition in the coming months along with fresh threat to oil supplies from Iran. The OPEC and non-OPEC Ministerial Monitoring Committee would meet in Abu Dhabi on September 12 to review the oil market.

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## WEAKENING GROWTH IS THE HIGHEST PRIORITY FOR RBI WHICH SOUNDED MORE DOVISH IN THE POLICY MINUTES

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- RBI may cut interest rates more rapidly in the coming months to create demand in the economy. Significant moderation in retail inflation was resulting into softening of demand in the economy.
- Economic activity has shown signs of further weakness since the last policy review in June 2019 and

credit growth has slowed down in recent times. We believe that RBI may remain dovish over the longer term.

- ▲ Volatility continued in the domestic equities market as investors remained concerned over uncertainties on economic growth. Good progress in the monsoons and effective passing of interest rate cuts to the consumers could provide support to the market.
- ▲ The Indian rupee has become Asia's worst-performing currency in August amidst pressure from China's Yuan, the ongoing trade war, and a massive withdrawal of funds by FPI's after a change in their tax structure.
- ▲ 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 a sell-off in the equities markets were mainly on account of fears of fiscal slippage by the government. The fiscal deficit may increase by 50 bp as tax collections remain below the targets.

## FII and DII Data

- ▲ Foreign Funds (FII's) sold shares worth Rs. 770.8 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 353.9 crores on 21st August.
- ▲ In Aug'19, FII's net sold shares worth Rs. 9752.8 crores, while DII's were net buyers to the tune of Rs. 12,880 crores.

## Outlook

- ▲ Weakness in Asian currencies against the US dollar is keeping the Indian rupee under pressure. The rupee has become the worst-performing currency in Asia. Domestic Institutional Investors also remained supportive and infused a total of Rs. 33,274 crores into domestic equities in July and August. However, rising crude oil and continuous FII's outflow may keep the domestic currency under pressure. We expect the Indian rupee to remain under pressure and it may weaken further. USD-INR futures contracts on NSE may find support around 70.60-69.90 levels, while immediate resistance can be seen around 71.80-72.50 levels.

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