
Oil supply disruptions from elevated tensions in Middle East could support oil prices in the near term
Gold is up following weakness in the Dollar after Chinese negotiators wrapped up talks unexpectedly
Indian rupee remained strong on improved optimism over the Indian economy after the tax cut boost
Copper prices remains weak as US-China talks failed to send a positive signal for a breakthrough

OIL SUPPLY DISRUPTIONS FROM ELEVATED TENSIONS IN MIDDLE EAST COULD SUPPORT OIL PRICES IN THE NEAR TERM

- ▲ Oil prices rose amidst concerns about oil supply disruptions from Saudi Arabia and elevated tensions in Middle East. The US is to deploy additional troops in the Gulf region to strengthen Saudi Arabia's air and missile defenses following an attack on Saudi oil facilities.
- ▲ Aramco has switched crude grades and pushed back crude and oil products deliveries to customers by days following the attack. Despite efforts, it is looking difficult for oil facility to resume oil supply fully till the end of September.
- ▲ CFTC- Speculators lifted their bets on Nymex crude oil futures significantly for the week ending September 10, up 11.47% (w/w) to 428,205 contracts, the CFTC shows. Short positions were reduced to 99,374, while long positions increased to 524,579 contracts.
- ▲ Rig count - The total number of active oil rigs in the US decreased by 14 reaching 719. Oil rigs have seen a loss of 147 rigs year-on-year. A loss in the oil rig count indicates lower production levels during these periods and may affect oil supplies in the coming weeks.

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 after the US deployment of additional troops in the Middle East. However, a 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.

GOLD IS UP FOLLOWING WEAKNESS IN THE DOLLAR AFTER CHINESE NEGOTIATORS WRAPPED UP TALKS UNEXPECTEDLY

- ▲ US-China trade deal is found to be difficult as Chinese officials unexpectedly cancelled a visit to farms in Montana and Nebraska as deputy trade negotiators wrapped up two days of talks in Washington. Gold prices remained firmed following weakness in the Dollar arising out of US-China trade talks.
- ▲ Both sides later published positive statements, with the US Trade Representative's office describing the talks as "productive" and China's Commerce Ministry calling them "constructive." October's high-level talks remain on track.
- ▲ Saudi Arabia will seek to make concerted action to punish and deter Iran after strikes on Saudi oil plants. US President Donald Trump on Friday approved sending American troops to support Saudi Arabia's air and missile defenses after the attack Aramco.
- ▲ CFTC Report - Hedge funds and money managers increased bullish positions in COMEX gold and reduced bullish bets on silver contracts in the week ending Sept. 17.
- ▲ SPDR- Holdings at SPDR Gold Trust rose 1.19% to 894.15 tonnes on Friday
- ▲ 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. 31st 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.

Outlook

- Gold found support on worries over US-China trade negotiations although disappointment from the Fed is putting additional pressure on gold prices. 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. A rate cut by various central banks will create additional liquidity into the system; this could 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.

INDIAN RUPEE REMAINED STRONG ON IMPROVED OPTIMISM OVER THE INDIAN ECONOMY AFTER THE TAX CUT BOOST

- The Indian rupee remained firm despite weak Asian currencies against the US dollar supported by improved optimism over the economy after the big tax cut announced on Friday. The Finance Minister had announced a 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%.
- GST Council Meeting – The GST Council on Friday announced rate cuts for the hospitality industry, but didn't announce any major relief for auto and cement sectors. The GST Council, however, recommended a lower 12 per cent cess on 1,500cc diesel and 1,200cc petrol vehicles with capacity to carry up to 13 people.

FII and DII Data

- Foreign Funds (FII's) bought shares worth Rs. 35.78 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 3,001.3 crores on September 20th.
- In Sept'19, FII's net sold shares worth Rs. 8,191.38 crores, while DII's were net buyers to the tune of Rs.11,185.8 crores.

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 corporates, optimism over the 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.

COPPER PRICES REMAINS WEAK AS US-CHINA TALKS FAILED TO SEND A POSITIVE SIGNAL FOR A BREAKTHROUGH

- Copper prices lost momentum on uncertainty over US-China trade talks. The ongoing US-China talks failed to send a positive signal towards a trade-row breakthrough.
- Chinese officials unexpectedly cancelled a planned visit to US farms following two days of talks.

- Later, the U.S. Trade Representative's office issued a statement characterizing the talks with China as "productive" and said that a principal-level trade meeting in Washington would take place in October as planned. China's Commerce Ministry described the talks as "constructive."
- US home re-sales data were at a 17-month high and encouraging job numbers supported copper prices last week.
- The slowdown in the Chinese economy deepened in August, with the growth in industrial production at its weakest in more than 17 years.
- Japan's top copper smelter expects a global shortage in copper to be less acute next year following an output increase in China and poor demand growth following US-China trade talks.
- Peru expects its copper production to grow 27% and gold output to expand 12% in the next three years by 2022.

Outlook

- Recovering consumption and falling inventories in China could provide some support to copper prices. 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 \$5,767 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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