DAILY ANALYSIS REPORT

Tuesday, September 24, 2019

Weak global economic data and uncertain US-China trade talks are keeping copper prices lower

Gold prices remained firm over uncertainties surrounding global trade issues

Indian rupee lost marginally against dollar following selling into equities

Gloomy economic conditions to keep oil demand lower, eyes are on API report today

Weak global economic data and uncertain US-China trade talks are keeping copper prices lower

- Uncertainty over US-China trade talks is keeping copper prices in a range, but weak global economic data is putting pressure on prices.
- US President Donald Trump questioned a decision by his top trade negotiators to ask Chinese officials to delay a planned trip to US farming regions saying he wanted China to buy more American farm products. US-China trade talks are to resume in early October.
- US Treasury Secretary Steven Mnuchin said he would meet with Chinese Vice Premier Liu He for trade talks in two weeks.
- ICSG: The global refined copper market showed a 21,000 tonnes deficit in June, compared with a 70,000 tonnes deficit in May.
- A series of weak economic data are also keeping oil prices under pressure. Japan's Jibun Bank Flash Manufacturing Purchasing Managers' Index slipped to a seasonally adjusted 48.9 from a final 49.3 in the previous month.
- Manufacturing activity in Germany also fell to its lowest level since the financial crisis this month, data from IHS Markit showed.
- Germany's services sector also grew at its slowest pace in nine months. The weaker-than-expected data caused concerns that demand for oil might be affected.
- US home re-sales data released last week 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.

Outlook

- Weakening economic conditions in the global economy may keep copper prices lower although a recovery in consumption after an economic stimulus 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. The 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 an important support around $5,767 per ton, while key resistance can be seen near $6,036 per ton.

Gold prices remained firm over uncertainties surrounding global trade issues

- The gold prices jumped over strengthening safe-haven demand. Geopolitical tensions blowing up from the Middle East after the Saudi attacks and uncertainty over Brexit is also lending support to gold.
- Trade-related issues between the US and China are keeping precious metals supported. The US-China trade deal is found to be difficult as Chinese officials unexpectedly cancelled a visit to farms in Montana and Nebraska.
- 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."
- 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 Aramco attack.

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.

Gloomy economic conditions to keep oil demand lower, eyes are on API report today

- Weak economic data from Japan and Europe increased the gloomy outlook for oil demand. Japan's Jibun Bank Flash Manufacturing Purchasing Managers' Index slipped to a seasonally adjusted 48.9 from a final 49.3 in the previous month.
- Manufacturing activity in Germany also fell to its lowest level since the financial crisis this month, data from IHS Markit showed.
- Germany's services sector also grew at its slowest pace in nine months. The weaker-than-expected data caused concerns that demand for oil might be affected.
- Saudi has restored around 75% of output from the Abqaiq crude processing facility.
- Saudi Arabia is expected to restore as soon as next week the production which has been lost from the Sept. 14 attack on Aramco.
- API will release their Weekly Report today and EIA will release the official Inventory Report later on Wednesday, which could provide further direction to crude oil prices.

Outlook

- Weak economic data from Japan and Europe increased the gloomy outlook for oil demand, and this will keep oil prices under pressure. We can see selling near resistance levels, however rising tensions in the Middle East post the Aramco attack may provide support to oil prices. Brent oil could find support around 63.80-60.50 levels, while key resistance remains near 69.70-72.40- levels.

Indian rupee lost marginally against dollar following selling into equities

- The Indian rupee was marginally lower against the dollar as the equity rally halted after two days of aggressive moves.
- 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 the capacity to carry up to 13 people.

FII and DII Data

- Foreign Funds (FII's) bought shares worth Rs. 2,684.05 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 291.95 crores on September 23rd. FII buying resumed in equities after heavy declines since July. In Sept'19, FII's net sold shares worth Rs. 5,507.33 crores, while DII's were net buyers to the tune of Rs.11,477.8 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.

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