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Gold remains weak as the Dollar Index rallied after U.S. President turned hopeful on US-China trade talks

US CRUDE INVENTORIES UNEXPECTEDLY ROSE 2.4 MILLION BARRELS LAST WEEK

- Oil lost more than 1% on Wednesday, after U.S. crude inventories unexpectedly rose and as Saudi Arabia maintained a faster-than-expected recovery of its oil production.
- According to an EIA report, US crude inventories rose 2.4 million barrels last week against market expectations of a decline by 249,000 barrels.
- Saudi Arabia is projected to restore production capacity to 11.3 million barrels per day, a quicker recovery than expected after the Sept. 14 attacks. Aramco output will be fully back online by the end of September.
- 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.
- Saudi has restored around 75% of the 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.

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 60.50-58.80 levels, while key resistance remains near 64.40-69.70 levels.

Copper in a range, President Trump expects a deal with China to be sooner than people think

- Copper is in a range as Chinese markets will be closed from Oct. 1 for the National Day holidays. Some sort of recovery was seen in prices after a comment from President Trump. He expects the deal with China to be sooner than people think.
- Prior to this, President Trump has said not to accept a "bad deal" in the trade negotiations with China and has blamed China for failing to keep the promises of the WTO. Uncertainty over US-China trade talks is keeping copper prices lower along with weak global economic data.
- Copper also lost ground after China's Central Bank Governor said that there is no rush to significantly loosen the monetary policy to prop up the slowing economic growth. This comment reduces hopes for more economic stimulus to support the economy.
- US Treasury Secretary Steven Mnuchin said he would meet with Chinese Vice Premier Liu He for trade talks in two weeks.
- Chinese markets will be closed from Oct. 1 for the National Day holidays.

Outlook

- Uncertainty over US-China trade talks is keeping copper prices in a range, but weak global economic data is putting pressure on prices. Weakening economic conditions in the global economy may keep copper prices lower in the short term.
- Copper may find an important support around \$5,767 per ton, while key resistance can be seen near \$6,036 per ton. A disappointment from China's Central Bank Governor dismissed hopes for additional economic stimulus and a further decline could be seen on a break below \$5,767 till \$5,710-5,620 per ton in the near term.

Indian rupee is up following a drop in crude oil prices and strong Asian equities

- ▲ A drop in Crude oil prices and a positive move in equities supported the domestic currency. Foreign investors are not looking keen at entering the Indian markets, shows FII's data.
- ▲ Domestic equities rallied as the government is likely to carve out a special resolution window under Section 227 of the Insolvency and Bankruptcy Code (IBC) to deal with NBFC's.
- ▲ The focus is turning towards the RBI policy meet next month. Any dovish stance by the Central Bank could weigh down the rupee against the USD.
- ▲ On Friday, the government slashed the basic corporate tax rate to 22% from 30%, while for new manufacturing companies, it has been cut 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 the 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) sold shares worth Rs. 342.40 crores, while Domestic Institutional Investors (DII's) sold shares to the tune of Rs. 762.48 crores on September 25th.
- ▲ In Sept'19, FII's net sold shares worth Rs. 6,678.2 crores, while DII's were net buyers to the tune of Rs.11,188.16 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. Eyes are now turning towards the RBI policy meeting next week. We expect the RBI to remain dovish and a rate cut by 35 bps looks certain.

Gold remains weak as the Dollar Index rallied after U.S. President turned hopeful on US-China trade talks

- ▲ Gold prices dropped after U.S. President Donald Trump commented for a resolution to the China-US trade dispute that would come sooner than expected.
- ▲ An impeachment inquiry against President Donald Trump may provide support to gold prices in the near term.
- ▲ Geopolitical tensions blowing up from the Middle East after the Saudi attacks and uncertainty over Brexit could also lend support to gold.
- ▲ Bank of Japan policymakers discussed the need for the Central Bank to take a pre-emptive response to downside risks to the economy and prices, minutes of the Central Bank's July 29-30 meeting showed on Wednesday.

Outlook

- ▲ 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, although easing trade tensions between the US-China have weakened the bullish sentiment in gold.
- ▲ A rate cut by various central banks will create additional liquidity in the system and 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.

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