
Optimism over US-China trade supports oil prices at lower levels, all eyes now on US inventory report this week
Uncertainty over US-China trade war keeps gold in a volatile range
Copper under pressure as demand outlook remains weak
The rupee recovered as RBI approved the transfer of a much higher-than-expected dividend to the government

OPTIMISM OVER US-CHINA TRADE SUPPORTS OIL PRICES AT LOWER LEVELS, ALL EYES NOW ON US INVENTORY REPORT THIS WEEK

- ▲ Oil prices recovered from Friday's losses after optimism improved over US-China trade talks after President Trump's comments on negotiation.
- ▲ According to private survey reports, US crude inventories fell 4.7 million barrels to 433.08 million barrels for the week ended August 23.
- ▲ U.S. Federal Reserve Chairman Jerome Powell told an annual economic symposium in Jackson Hole that the U.S. economy is in a "favorable place" and the Federal Reserve will "act as appropriate" to keep the current economic expansion on track. The remarks gave few clues about whether the central bank will cut interest rates at its next meeting.
- ▲ U.S. manufacturing industries registered their first month of contraction in almost a decade; it has a significant impact on oil demand.
- ▲ Hedge funds and other money managers raised their bullish bets on U.S. crude for the week ended August 20; Net long for crude oil futures jumped +32,491 contracts to 414,635 for the week. Speculative long positions declined -18,071 contracts and shorts sank -50,562 contracts.
- ▲ US energy companies cut the oil rigs in about four months last week, with the rig count falling to the lowest since January 2018. The US oil and gas rig count fell sharply by 19. The total oil and gas rig count now stand at 916 or 128 down from this time last year. US production, however, is holding fast at 12.3 million bpd.
- ▲ Oil prices to remain up, supported by production cuts from OPEC+; US sanctions have reduced exports from Iran and Venezuela.
- ▲ 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

- ▲ Uncertainty over the global economic outlook amidst the US-China trade war and news of a slowdown in US industrial activity pushed oil prices down last week but President Trump's comments on US-China trade negotiations lifted the bullish sentiment and oil prices recovered from the losses of the last week. Brent oil may find support near 58.20 - 57.60 levels, while an important resistance can be seen around 61 - 61.50 levels. We expect oil to trade in a range of 57.60-61.50 with a positive trend; US oil inventory report scheduled later this week may provide fresh direction to the prices.

UNCERTAINTY OVER US-CHINA TRADE WAR KEEPS GOLD IN A VOLATILE RANGE

- ▲ Gold prices were trading in a volatile manner after a decline from six-year highs as U.S. President Donald Trump signaled a possible reconciliation with China.
- ▲ On Monday, U.S. President Donald Trump flagged off the possibility of a trade deal with China and said he believed Beijing was sincere in its desire to reach an agreement.
- ▲ On Friday, U.S. President Donald Trump announced a 5% additional duty on \$550 billion in targeted Chinese goods, hours after Beijing unveiled retaliatory tariffs on \$75 billion worth of U.S. products. Gold was the beneficiary of increased geopolitical tensions.
- ▲ At the annual Jackson Hole Summit, US Federal Reserve Chairman Jerome Powell has said that the global economic outlook has been deteriorating and that the Federal Reserve will act appropriately to sustain the expansion. Mr. Powell sounded concerned about the US trade war with China and the European slowdown but emphasized that the US economy is close to both its goals of achieving price stability and full employment.

- ▲ Hedge Funds and Money Managers increased their bullish stance in COMEX gold. According to the latest CFTC data for the week ending August 20, net long positions for gold futures rose by 9,903 contracts to 299,993. Speculative long positions gained +6,071 contracts, while shorts dropped -3,832.

Outlook

- ▲ Gold prices cooled off from the 6 years highs after the U.S. President said that China wants to negotiate over the trade war. We expect gold to find a stiff resistance near \$1,568 while an immediate support level can be seen around \$1,501-1,488 per ounce. Eyes are on President Trump's move to restart US-China trade talks, which will remove the risk premium from the market and equities may rally and put gold prices into a negative trend.

COPPER UNDER PRESSURE AS DEMAND OUTLOOK REMAINS WEAK

- ▲ Copper prices rose marginally as sentiment was boosted on progress in resolving the trade war between the US-China.
- ▲ US President Donald Trump predicted a trade deal with China, but gains in Copper were limited as demand outlook was not looking at improving till some conclusive talks take place.
- ▲ Germany's Wieland, one of the world's largest copper product makers, said on Monday it would reduce working hours at a German plant from next month because of the slowing global economy.
- ▲ Chinese legislators approved a law on Monday that will give the local government authority to tax as many as 164 different resources, including fossil fuels, minerals and eventually water, the Finance Ministry said on Monday.
- ▲ China's housing market is expected to slow down this year with sales forecast to drop, according to a Reuters report.
- ▲ China's refined copper cathode imports rose 37.6% in July from the previous month to 292,201 tonnes. China's imports of copper concentrate rose to an all-time high in July, exceeding 2 million mt for the first time. This was up 12.6% from July 2018 and over 40% from June as smelting capacity in China spiked.
- ▲ China wants to boost its infrastructure sector and plans to ease capital requirements for infrastructure projects in the second half of this year.

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 an infrastructure boost as well as interest rate reforms in China aimed at boosting the economy. Copper will find fresh support from the U.S. President's comments on the trade war front as China wants to negotiate over the trade war.

THE RUPEE RECOVERED AS RBI APPROVED THE TRANSFER OF A MUCH HIGHER-THAN-EXPECTED DIVIDEND TO THE GOVERNMENT

- ▲ RBI approved the transfer of a much higher-than-expected dividend to the government which erases concerns of fiscal slippage from the newly announced FPI tax sops along with infrastructure boost and recapitalization of banks.



- ▲ Finance Minister Nirmala Sitharaman proposed on Friday a series of measures to help the economy and financial markets although some economists said there was a need for an additional stimulus package.
- ▲ The amount of transfer this year is more than double the 680 billion rupees that have been provided in the previous year.
- ▲ Eyes are on India's GDP data, which is scheduled to be released on Friday.
- ▲ The RBI may cut interest rates more rapidly in the coming months to create demand in the economy. Significant moderation in retail inflation was resulting in softening of demand in the economy.
- ▲ Equity markets rallied along with the rupee after trade tensions between the US and China are looking to cool off. President Trump has said that China has asked to re-start trade talks, hours after Beijing's top negotiator called for calm in response to a weekend of tit-for-tat tariff increases.

FII and DII Data

- ▲ Foreign Funds (FII's) sold shares worth Rs. 752.9 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 1,272.2 crores on 26th August.
- ▲ In Aug'19, FII's net sold shares worth Rs. 13,145.9 crores, while DII's were net buyers to the tune of Rs. 17,420 crores.

Outlook

- ▲ The Rupee recovered from earlier losses following measures taken by the Finance Minister regarding the FPI's super-rich tax, RBI's approval to transfer dividend much higher than expected which has reduced worries over fiscal slippage and President Trump's comments on China and tariff talks. Domestic Institutional Investors remained supportive and infused a total of Rs. 37,814 crores into domestic equities in July and August. USD-INR futures on NSE could find stiff resistance near 72.14-72.58 levels, while key support can be seen around 71.40-70.80 levels. The Indian rupee may remain positive in support of government measures to revive economic growth and hopes of progress in US-China trade talks.

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