Wednesday, August 28, 2019



US crude oil inventory fell more than forecasts
Uncertainty over US-China trade war keeps gold in a volatile range
Copper under pressure seeing no clear moves to resolve US-China trade conflict
Weakness in the Chinese Yuan and higher crude prices has kept Asian currencies

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US CRUDE OIL INVENTORY FELL MORE THAN FORECASTS

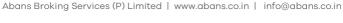
- Oil prices rallied after API reported a drop in inventory higher than forecasts.
- Oil inventories fell more than expected, which eased worries about a fall in demand as supply situation will remain tight due to OPEC production measures and low US oil inventories.
- According to a report by the American Petroleum Institute (API), US crude stockpiles fell sharply by 11.1 million barrels, compared with expectations of a 2 million-barrel drop. The U.S. government's weekly report is due on Wednesday for further confirmation of the same.
- Oil prices recovered this week after optimism improved over US-China trade talks after President Trump's comments on negotiation.
- 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.
- 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 following a drop in US oil inventories.

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

- Gold rallied nearly 1% on Tuesday following changes in the bond yield curve and disappointing economic data from US. The market feels fears of recession amidst uncertainties in the US-China trade dispute.
- 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.
- There is a high possibility that the US Federal Reserve may cut interest rates by 25 bps in next month's meeting.





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Outlook

■ We expect gold to find a stiff resistance near \$1,568-1583 levels, while an immediate support level can be seen around \$1,501-1,488 per ounce. Gold rallied on fears of recession amidst uncertainties in the US-China trade dispute. Eyes are now on President Trump's move to restart US-China trade talks, which will remove the risk premium from the market. There is a high possibility that the US Federal Reserve may cut interest rates by 25 bps in next month's meeting which will keep gold prices firm for the short term.

COPPER UNDER PRESSURE SEEING NO CLEAR MOVES TO RESOLVE US-CHINA TRADE CONFLICT

- Copper prices rose marginally as sentiment was boosted on progress in resolving the trade war between the US-China, but rattled later after seeing no clear moves to resolve US-China trade conflict.
- 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 the 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.

WEAKNESS IN THE CHINESE YUAN AND HIGHER CRUDE PRICES HAS KEPT ASIAN CURRENCIES, INCLUDING THE RUPEE, UNDER PRESSURE.

- Following a weakness overseas and weakness in the Chinese Yuan, Indian shares slipped as global growth and trade war concerns renewed while domestic investors awaited more cues from the government on a stimulus package. The Indian rupee also remained under pressure upon a recovery in crude oil prices.
- 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 an infrastructure boost and recapitalization of banks.

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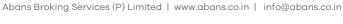
- Finance Minister Nirmala Sitharaman proposed on Friday a series of measures to help the economy and financial markets, although some economists said there was a need for an additional stimulus package.
- The amount of transfer this year is more than double the 680 billion rupees that have been provided 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.

FII and DII Data

- ▲ Foreign Funds (FII's) sold shares worth Rs. 923.9 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 1,162.6 crores on 27th August.
- ✓ In Aug'19, FII's net sold shares worth Rs. 14,069 crores, while DII's were net buyers to the tune of Rs. 18,582 crores.

Outlook

Following a weakness overseas and weakness in the Chinese Yuan, Indian shares and the currency slipped. The Indian rupee also remained under pressure upon a recovery in crude oil prices. 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. Measures taken by the Finance Minister regarding the FPI's super-rich tax, RBI's approval to transfer dividend much higher than expected have reduced worries over fiscal slippage, have supported rupee from further decline. Domestic Institutional Investors remained supportive and infused a total of Rs. 38,976 crores into domestic equities in July and August.





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