DAILY ANALYSIS REPORT

Friday, March 29, 2019

Gold corrects on rally in dollar index and equities
China cuts electric-car subsidies more than expected
Copper recover on optimism over us china trade talk
Crude prices supported by OPEC+ production cut
Indian rupee and equities strengthens on FII's inflow

GOLD CORRECTS ON RALLY IN DOLLAR INDEX AND EQUITIES WHICH REDUCED SAFE HAVEN DEMAND

- Gold headed for its worst month since August 2018 as the dollar and equities rose. Gold may receive some support from dovish U.S. Federal Reserve stance and concerns about the global economic slowdown in longer term.
- US-China trade negotiations which is scheduled to end today, is being watched closely.
- Brexit- British lawmakers are preparing to take control of the House of Commons agenda for two days in an unprecedented move that will test support for alternatives to Prime Minister Theresa May's deadlocked Brexit plan. Further May has also offered her resignation if her deal is passed.

Outlook

- Weakness Comex gold is mainly to due to strength in dollar index and equities, which may push gold towards immediate support levels of $1281 per ounce in near term. Counter may find some support from ongoing geopolitical issues in Venezuela and Brexit apart from poor economic data from Europe and US. Immediate resistance is seen around $1315-$1324 per ounce.

CHINA CUTS ELECTRIC-CAR SUBSIDIES MORE THAN EXPECTED, STEEL DEMAND MAY BE AFFECTED MARGINALLY

- China scaling back subsidies on electric vehicles as the industry matures and costs fall. The cuts were deeper than expected. The government also warned to scale back subsidies and phase them out completely after 2020
- Reduction of subsidies is mainly to encourage local manufacturers to rely on innovation rather than government assistance
- Steel demand may be affected marginally as government have supported industry via implementing VAT on many other products and demand may pick up from growth in other sectors of the economy. China's manufacturing sector will benefit most as the VAT rate for manufacturers will drop from 16 to 13 percent from April 1st. For transportation and construction, the rate will be cut from 10 to 9 percent.

COPPER RECOVER ON OPTIMISM OVER US CHINA TRADE TALK AND LME WAREHOUSE INVENTORIES

- LME 3M Copper bounced from recent low to end march on a positive note, optimism over US-China trade talk may support prices , slow down in global economies is a risk. LME warehouse inventories remained at 11 year low.
- Stockpiles of copper in LME warehouses are slipping back towards 11-year lows below 120,000 tonnes hit but inventories in Shanghai Futures Exchange warehouses were sharply higher. Copper weekly inventories in SHFE warehouse dipped slightly to 259,172 tonnes last week.
- The ongoing US-China trade negotiations, being held in Beijing, are likely to influence copper prices in the coming sessions. US and China have made progress in all areas under discussions in trade talks, with substantial progress on the touchy issue of forced technology transfers, however sticking points remain under talks.
- Force majeure declared at Las Bambas (one of Peru's biggest copper mines, with about 385,000 tonnes in output in 2018), reduction in production is expected to worsen the supply deficit for copper thus acting as a tail wind for copper prices.
- Dollar index has been trading strong in the past few trading sessions putting pressure on commodity prices including copper and other base metals.

Outlook

- LME Copper prices could find some support to bounce back from the lower end of the trading range and low inventory stocks, while concerns about a global economic slowdown due to trade tensions could act as a headwind. Mine disruptions along with drying up inventories are keeping copper prices higher. Copper may find minor support around 6285; short-term trend remains positive above this level, meanwhile, immediate resistance is seen near 6544-6702.

CRUDE PRICES SUPPORTED BY OPEC+ PRODUCTION CUT MEASURES BUT RISING INVENTORIES LIMITS THE GAINS

- Production cuts from the OPEC+ group of producers have been the main reason behind strength in crude oil prices in short term. Optimism about a U.S.-China trade deal, the OPEC cuts, and the U.S. sanctions on Iran and Venezuela continue to dominate oil prices in short term but increase in US oil inventories may keep gains limited.
- Crude oil prices are being supported by lower oil output from Russia, OPEC's biggest non-member ally, averaged 11.3 million barrels per day so far in March as compared with 11.34 million barrels a day with February. OPEC+ members including Russia and other major oil producers canceled a meeting planned for April, leaving the alliance's price-boosting production cuts in place at least until June
- Oil prices remain slightly lowers from the recent highs due to rise in U.S. inventories by 2.8 million barrels for the week ending March 22nd.

Outlook

- Optimism about a U.S.-China trade deal, the OPEC cuts, and the U.S. sanctions on Iran and Venezuela continue to support oil prices in short term. Brent oil found strong support base near 65.80, important resistance is seen around 68.50 per barrel. Brent may remain in range between 65.80-68.50 for short term as rising US oil production and inventories may cap the gains.

INDIAN RUPEE STRENGTHENS ON FII'S INFLOW AND COOLING CRUDE OIL PRICES

- The rupee remained higher as demotic equities rallied pushed dollar down. FII inflows and demand for rupee near to the end of financial year
- On global front, the strong demand for the dollar is pushing the dollar index highs on the back of negative sentiment from Brexit uncertainty and EUR-selling on poor flash German CPI
- Drop in Crude oil prices provided strength to Indian currency

FII and DII Data

- Foreign funds (FII's) bought shares worth Rs. 3594.5 crore, while Domestic Institutional Investors (DII's) also sold shares to the tune of Rs 2080.2 crore on 28th March
- In March 2019 FIIs net bought shares worth Rs 32457.6 crore, while DII's were net sellers to the tune of Rs.15654.6 crore

Outlook

- The current weakness in the dollar against Rupee may continue further, as USD/INR could decline further on the back of consistent FII inflows through Mar'19. USD-INR pair has broken key support around 69.30; we may witness a fresh decline towards 68.30-67.80. FII inflow could continue to support Indian rupee, crude weakness could further help the Rupee

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