
Gold drops as optimism over US-China trade talks reduce risk premium
Brent oil prices up following a drop in US oil inventory and looming hurricane in Florida
LME Nickel at multi-month highs over supply issues in Papua (Indonesia)
Copper prices rose marginally as sentiment was boosted on progress in resolving the trade war

Gold drops as optimism over US-China trade talks reduce risk premium

- Gold corrects marginally as the dollar index and stock markets rallied following positive development in the US-China trade deal. However, concerns over a slowdown in the global economy are keeping gold prices near multi-year highs.
- Gold prices may find support from dovish policies by several central banks. The US Federal Reserve, European Central Bank and Bank of Japan are projected to sound dovish seeing a troubled global economy and may take necessary steps to prevent a slowdown. There is a high possibility that the US Federal Reserve may cut interest rates by 25 bps in next month's meeting.
- 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.

Outlook

- We expect gold 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. Gold rallied on fears of a recession amidst uncertainties in the US-China trade dispute. 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 over the short term. On progress over US China trade talks, gold has corrected from the recent highs, which have reduced the risk premium from the market.

Brent oil prices up following a drop in US oil inventory, looming hurricane in Florida and US China trade talks

- A decline in US inventories and a looming hurricane in Florida are keeping oil prices firm along with optimism over US-China trade talks.
- Hurricane Dorian reaching towards Florida has increased fears that offshore US crude producers may slow output if the storm passes into the Gulf of Mexico over the weekend. It is forecast to strengthen and become a highly dangerous Category 4 hurricane on Sunday.
- EIA reported a drop in US oil inventories by 10 million barrels to their lowest levels since October. Inventories at the nation's main delivery hub in Cushing, Oklahoma fell nearly 2 million barrels, which is near the lowest level since December.
- Oil inventories fell more than expected, which eased worries about a fall in demand as the supply situation will remain tight due to OPEC production measures and low US oil inventories.
- US-China gave a sign to resume trade talks, and this optimism may support oil prices in the near term.
- 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

- 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. A possible production loss due to the hurricane in Florida and optimism over US-China trade talks may keep oil prices firm. Drop in US oil inventories is keeping oil prices supported at lower levels.

LME Nickel at multi-month highs over supply issues in Papua (Indonesia)

- Shanghai nickel prices hit an all-time high, while nickel prices on the LME are at multi-month highs following a waste spill at a nickel plant in Papua New Guinea, which sparked fears of supply shortage. This plant is facing compensation claims and possibly closure after it spilled waste into a local bay.
- This plant produces approximately 35,000 tonnes of nickel, equivalent to 23% of the metal held in London Metal Exchange inventories.
- The premium for cash nickel over the three-month contracts on the London Metal Exchange has spiked to a 10-year high of \$99 a tonne.
- On the LME, warehouse stock holds by single entity is 50%-80% of available LME inventories indicating tightening supplies further. Nickel inventories in LME-approved warehouses have increased in August, but are still hovering around a six-year low. LME nickel inventories are at 150,510 mt as on 28th Aug 2018.

Copper prices rose marginally as sentiment was boosted on progress in resolving the trade war between the US-China

- The United States and China gave signs on Thursday that they will resume trade talks as the two economic superpowers discussed the next round of in-person negotiations in September.
- Copper prices limited gains ahead of monthly PMI data. Factory activity in China is expected to drop for a fourth straight month in August. The PMI data for August month will provide more hints.
- 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.
- 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 due to progress in US-China trade talks. Such optimism may improve sentiments and a final solution to the trade dispute may lead to an increase in demand.

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