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Crude surged as U.S.-China trade talks eased and tensions in the Middle East climbed  
Copper recovers on rising optimism over US-China trade talk post president Trump tweet  
Shanghai steel futures recover after Chinese delegation decides to visit the US  
Gold trading in the 1278-1286 range, on the back of geopolitical issues  
Indian rupee under pressure near 69.59 as FIIs are turned net sellers in May'19

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## CRUDE SURGED AS U.S.-CHINA TRADE TALKS EASED AND TENSIONS IN THE MIDDLE EAST CLIMBED

- ▲ Military deployment- US has deployed a carrier strike group and a bomber task force to send a clear message to Iran that any attack on the U.S. will be met with "unrelenting force,"
- ▲ OPEC Production- Saudi Aramco reportedly lifted June crude prices for Asian and European customers but cut those to the U.S. It signals that Saudi Arabia is not to boost oil supply ahead of next month's OPEC meeting.
- ▲ Trade talks - Trump early on Monday appeared to defend his Sunday's statement, citing trade deficit between the United States and China. China's Foreign Ministry spokesman Geng Shuang quoted saying that Chinese delegation was still preparing to proceed to the United States for trade talks.
- ▲ Iran sanctions- India has requested the US for sanction waivers. China and Turkey are largely expected to continue purchasing Iranian crude oil despite US sanctions. According to estimates, Iranian oil production is projected to decline to 1.9 million barrels per day in 2Q19 from 3.6 million barrels per day in 3Q18.

### Outlook

- ▲ Crude oil rebounds on the news of US military deployment in the Middle East. Escalating tensions between the US, Iran, and Venezuela may push oil prices higher. Saudi has already signaled that it would not be increasing production; we can expect a further gain in the coming months. Although US Crude oil inventory pushed oil prices down from recent highs. Brent oil has rebounded above the key psychological level of \$70 per barrel; we see a further move towards 72.40 and \$73.20 per barrel in the near term if oil supply remains intact.

## COPPER RECOVERS ON RISING OPTIMISM OVER US-CHINA TRADE TALK POST PRESIDENT TRUMP TWEET

- ▲ Copper recovered from losses over expectations of trade talks between the US and China, prior to this, U.S. President Donald Trump's threatened to increase tariffs on Chinese goods.
- ▲ US President Trump said that tariffs which are currently at 10% on certain Chinese goods would be increased to 25% on Friday, and \$325 billion of untaxed goods could face 25% duties "shortly"
- ▲ Base-Metal prices rebounded on Tuesday with the market finding relief from the news that Chinese delegation will be traveling to the US this week for a meeting which is scheduled for 9<sup>th</sup>-10<sup>th</sup> May'19.
- ▲ Supply disruptions in Chile and Peru in the second half of this year will become more apparent according to a report. Tesla, a major minerals consumer, expects shortages of nickel, copper due to under-investment in the mining sector.
- ▲ The Chinese market resumed on Monday after three days of holiday but choppy trade continued in metals as the UK and European markets were closed yesterday.

### Outlook

- ▲ LME 3M Copper may remain in range above the critical support level of 6150 and below stiff resistance around 6466. Any positive outcome of the 11<sup>th</sup> round of trade talks between the US and China may provide fresh breakout above 6466 towards 6556-6606 in the near term. The supply situation in Chile and Peru may keep copper supported at lower levels. LME and SHFE warehouse stocks and China's economic conditions are expected to give the market further direction.

## SHANGHAI STEEL FUTURES RECOVER AFTER CHINESE DELEGATION DECIDES TO VISIT THE US

- ▲ Metals prices on the SHFE rebounded with the market finding relief from the news that a Chinese delegation will travel to Washington this week to continue trade talks with the United States.
- ▲ Steel futures dropped on Monday as worries re-emerged over trade war after U.S. President Donald Trump said he would hike U.S. tariffs on \$200 billion worth of Chinese goods.

- ▲ Tangshan Environmental measures- Tight environmental measures in Tangshan are expected to disturb steel supply and are offering some support to prices. Tangshan's government last week ordered steel mills in seven districts to halve production activity.
- ▲ According to private estimates around 29.2 percent of blast furnaces in Tangshan will be shut in the second quarter.

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## GOLD TRADING IN THE 1278-1286 RANGE, ON THE BACK OF GEOPOLITICAL ISSUES IN THE MIDDLE EAST AND US-CHINA TRADE TALKS

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- ▲ Trade talks -Gold found support yesterday after Asian markets declined sharply as U.S.-China trade deal appeared in jeopardy, however, according to the latest reports Chinese delegation is scheduled to meet US counterparts on 9<sup>th</sup> and 10<sup>th</sup> May'19 to continue trade talks which improved sentiments and push gold prices lower today.
- ▲ Geopolitical tensions increased after the US deployed fighter ships in the Middle East to control the situation with Iran. Gold prices found support and recovered from early losses.
- ▲ Positive US economic data pushed the dollar higher on Friday. The non-farm employment numbers improved to 263,000 from 189,000 in the previous month, while the unemployment rate dipped to 3.6% from 3.8% previously. The average hourly earnings month on month for the April period were flat at 0.2%, missing expectations of a rise to 0.3%.
- ▲ Fed meeting -Fed Chair Jerome Powell said last week that some inflation risks were flagged on the back of weaker than expected inflation numbers and there was no obligation to readjust interest rates any time soon. Federal Reserve held interest rates steady last week due to lack of inflationary pressures. The Fed's decision lifted U.S. Treasury yields to a one-week high.

### Outlook

- ▲ Gold is holding above four-month low, on US-China trade talks as president Trump warned to increase tariffs further, later situation normalized as China announced an 11<sup>th</sup> round of talk on 9<sup>th</sup> and 10<sup>th</sup> May. Gold is expected to find minor support near \$1270; however, a break below \$1,270 could take the precious metal towards \$1,260 & \$1,249. The immediate resistance level is seen around \$1297-1307.

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## INDIAN RUPEE UNDER PRESSURE NEAR 69.59 AS FIIS ARE TURNED NET SELLERS IN MAY'19 AFTER BEING NET BUYERS FOR FOUR CONSECUTIVE MONTHS

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- ▲ Tariff war between US-China is a key reason behind equity sell-off across the globe on Monday. Although the Situation is improving after China announced its next level of talks this week.
- ▲ Strength in Crude oil has dampened sentiments and it may push rupee lower from current levels
- ▲ FII and DII Data
- ▲ Foreign Funds (FII's) sold shares worth Rs.948.98 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 89.89 crore on 6th May 2019.
- ▲ In May 2019, FII's net sold shares worth Rs. 752.12 crores, while DII's were net sellers to the tune of Rs. 644.73 crores.

### Outlook

- ▲ Recent macro-economic data are pushing the Indian rupee lower, indicating slower growth expectations. The IMF has lowered the Indian growth forecast for 2019 and 2020. US-China tariff war is pushing global equities lower and emerging market currencies will be affected negatively. The Indian rupee is expected to weaken as crude oil prices are trading higher. USD-INR could find support near 68.80-68.40 levels, while important resistance is seen around 70.23 levels.

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