
Gold at a 6 year high on recession fears due to various geopolitical issues such as Brexit delay and trade war
The Indian rupee retraced back following marginal recovery in the Yuan, but the sentiment still remains weak
Copper demand outlook could improve after prices hit two year lows
Oil prices under pressure following weakness in US manufacturing activity in August

GOLD AT A 6 YEAR HIGH ON RECESSION FEARS DUE TO VARIOUS GEOPOLITICAL ISSUES SUCH AS BREXIT DELAY AND TRADE WAR

- British PM Boris Johnson lost the majority yesterday before the EU summit next month. A crucial EU summit is scheduled on 17-18 October. The current situation could delay Brexit to January 31. Political turmoil in UK has increased the risk premium for gold prices.
- According to private estimates, uncertainty around Brexit reduced investment by businesses by approximately 6% points and employment reduction by 1.5% points. BOE has forecast in its last report that the UK economy might grow at 1.3% for 2019, down from the 1.5% projection made in May. Eyes are now on the next BOE meeting on 19th September.
- Gold is also trading firm following the trade war. United States and China imposed new tariffs on each others' goods.
- Gold also found support from weakening manufacturing activity in US. The world's largest economy may face recession if the trade war situation worsens further.

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 and Brexit delay over political turmoil in UK. There is a high possibility that the US Federal Reserve may cut interest rates by 25 bps in the September month's meeting, which will keep gold prices firm over the short term. Gold may remain firm over the US-China trade dispute; US has implemented 15% on \$112 billion of Chinese imported goods.

THE INDIAN RUPEE RETRACED BACK FOLLOWING MARGINAL RECOVERY IN THE YUAN, BUT THE SENTIMENT STILL REMAINS WEAK

- A fresh drop in the Indian rupee pushed prices beyond the 72 mark following weakest GDP data in the last several quarters.
- India's Gross Domestic Product (GDP) grew 5 percent in April-June 2019; the GDP growth was 8 percent in the same quarter of 2018-19.
- Manufacturing activity in India slumped to a 15-month low in August as PMI shrunk to 51.40 from 52.50 in July following a drop in sales; this is forcing factories to cut back on production.
- The global economy is at the brink of a recession. Even the US economy slowed down a bit more than initially thought in the second quarter.
- Oil prices remain negative following a possible drop in demand as US and China added more tariffs in the ongoing trade war.

FII and DII Data

- Foreign Funds (FII's) sold shares worth Rs. 2,016.2 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 1,251.35 crores on September 3.
- In Aug'19, FII's net sold shares worth Rs. 14,828 crores, while DII's were net buyers to the tune of Rs. 20,933 crores. The outflow of foreign investors from Indian markets continued in the month of August.

Outlook

- The Indian rupee slipped beyond the 72 mark in fresh selling by investors over poor GDP and PMI data. FII's turned net sellers for the fourth consecutive month. The Chinese Yuan hit a record low against the dollar to 7.1841 Yuan per dollar yesterday. There was a marginal recovery in Chinese Yuan today which supported the Indian rupee to recover some losses. The Indian rupee may depreciate further towards 74 levels in the short term with key support levels of 71.80-71.40. Although weakness in Crude oil prices

and DII inflows limited the losses, oil prices are nearly 7% down in the last two months, while Domestic Institutional Investors remained supportive and infused a total of Rs. 41,327 crores into domestic equities in July and August.

COPPER DEMAND OUTLOOK COULD IMPROVE AFTER PRICES HIT TWO YEAR LOWS

- ▲ London copper prices bounced from two years supported by worries about supply disruption and better-than-expected demand.
- ▲ China Yangshan copper premium paid on top of LME copper prices to import metals into China, were at \$77 a tonne, at highest since November 2018. Rising copper premium indicates that copper demand is not much affected due to trade war.
- ▲ LME copper cancelled warrants surged to highest levels since September 2018 at 117,900 tonnes. Cancelled warrant increase indicates tighter supply in the short term and prices can bounce in the near term.
- ▲ Supply concerns remain after the Peru government suspended construction permit in August for Southern Copper's Tia Maria mine, a project that has triggered violent protests by nearby residents.
- ▲ The trade war will affect demand prospects as U.S. President Donald Trump on Tuesday warned he would be "tougher" in a second term if trade talks dragged on.
- ▲ Copper may remain negative in the short term following the US-China trade war. With new orders and hiring declining in the US, the ISM manufacturing index slid to 49.1 last month from 51.2 in July, which is the lowest level since January 2016.

Outlook

- ▲ LME 3M Copper contracts may find minor support near \$5,520 while critical support can be seen around \$5,450. We can expect recovery in Copper prices following a short of supply in LME due rise in cancelled warrant and rising import premium in Yangshan. The medium term outlook still remains negative aimed at the ongoing US-China trade war. Immediate resistance level can be seen around 5,757 and 5,853 levels.

OIL PRICES UNDER PRESSURE FOLLOWING WEAKNESS IN US MANUFACTURING ACTIVITY IN AUGUST

- ▲ U.S. manufacturing activity in August contracted for the first time in three years. Following the US-China trade war, new orders and hiring have declined in recent months. The ISM Manufacturing Index slid to 49.1 last month from 51.2 in July, which is the lowest level since January 2016.
- ▲ Oil prices remained weak after new import tariffs imposed by the United States and China came into force. Tariffs in both the countries will further hit global economic growth and demand for crude.
- ▲ China imposed 5% tariffs on the US crude market, which is the first time since the world's two largest economies started their trade war more than a year ago.
- ▲ Russian oil production in August rose to 11.294 million barrels per day (bpd). Energy Minister Mr. Alexander Novak admitted last week that oil output in August was slightly higher than levels agreed under a global deal with OPEC members.

Outlook

- ▲ Brent oil may find support near 57.60 - 57.20 levels, while an important resistance can be seen around 61 - 61.50 levels. Prospects of a slowdown in the world economy due to the US-China trade war and increasing oil production by Russia may limit the gains in oil prices. Russian oil production in August rose to 11.294 million barrels per day (bpd). We expect Brent oil to trade in wide range of 57.20-61.50 in the near term; all eyes are now on the Crude Oil Inventory Report later this week.

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