

Trading Calls

IGL Long/Buy **19th September 2018**

Indraprastha Gas Ltd. has come near its trendline support areas. Positive divergences were also witnessing both in MACD and stochastic. These all the indicators are giving indication of strong pullback rally from the current level. Therefore we recommend initiating fresh long position in IGL near 256 by keeping a stop loss at 247 and the upside targets are 280 and then 294.

DLF Long/Buy **7th September 2018**

Prices of DLF has seen a sharp rebound after hitting a low of 168 where its key support is seen. Emergence of Hammer on weekly chart giving the possibility of pullback at higher side in coming sessions. Moreover, Prices are sustaining above its Falling wedge pattern on longer time frame of chart and currently it is testing its downward trendline through shadow of Hammer. RSI also gave trendline breakout after bottoming out near oversold zone and weekly MACD in uptrend along with declining histogram in negative territory thus supports bullish bias in the stock.

CENTURYTEX Long/Buy **29th August 2018**

Price action is looking somewhat encouraging as the scrip closed and it has given breakout from its broad consolidation, which was acting as stiff resistance since long. Scrip has been seeing interest on declines and support are gradually shifting higher. Appearance of CUP and HANDLE on daily chart also showing bullish sentiment with strong support of 880 on lower side. Moreover, MACD is trading around "Zero" level. We are expecting to take a move on north side till it sustains above 880. Accumulate Centurytex around 950-955 and on dip towards 925-935 zone with stop loss of 878 on closing basis for target of 1100 and 1180 levels.

TATASTEEL Long/Buy **29th August 2018**

Formation of multi bullish candle above rising trend line showing that demand is going to generate from bulls side. Golden crossover is seen on daily chart where 50 DMA has crossed 100 DMA while going on upside. Both daily and weekly strength indicator RSI along with the momentum indicator Stochastic are in bullish territory and sustaining above their reference lines which signal strength and upward momentum in price. Thus, taking consideration the above factors, maximum upside can be expected to 700 and 750 marks.

ORIENT BABNK Long/Buy **27th August 2018**

Stock is awaiting for the breakout from its Inverse HEAD and SHOULDER pattern on weekly scale and CUP and Handle pattern on daily scale which indicate upside rally on chart which is about to emerge. Bargain hunting elevated from its intermediate low of 79, Bulls remained in charge from last few days. Monthly and weekly indicator has given positive crossover as well signal line and MACD histogram hold firm in the positive territory. RSI is also taking support from the base of 50 levels which is also augur well for taking long position in the stock with the mentioned stop loss and target.

FEDERALBNK Long/Buy **24th August 2018**

Scrip seems bottoming out at its lower levels of 75 marks from where it formed back to back two Bullish candle on weekly chart suggesting upsurge on higher side. Sustainability above downward sloping line along with positive crossover in MACD and divergence in RSI are giving cues that scrip can take a turn on northward side. Principal of polarity can provide strong support in coming sessions. Aforementioned rationale suggest buying in the scrip at 80-82 and on dip towards 75-77 for the target of 99 and 109 with the stop loss of 70 marks.

Market	Value	% Change
SGX Nifty	11046.00	0.17%

Nifty Key Levels

Support	S1 : 10925	S2 : 10865
Resistance	R1 : 11080	R2 : 11150

Market Outlook

Nifty has broken 11,000 level and forming Lower trough and lower crest formation which good is still visible on the chart.

As long as it trades below 11080, an immediate resistance, weakness could persist. On sustaining further below 10925 levels, it will slip towards the recent swing lows at 10,865 and 10,850 levels, which is the 50 % retracement of the entire upward swing from 9,952 to 11,760 levels.

Institutional Turnover

FII	Buy(cr.)	Sell(cr.)	Net(cr.)
24-Sep-18	7,589	8,113	(524)
Sep-18	85,669	91,949	(6,280)
DII	Buy(cr.)	Sell(cr.)	Net(cr.)
24-Sep-18	5,471	3,943	1,528
Sep-18	57,152	51,557	5,595

Sectoral Performance (%)

	1 Day	1 Week	1 Month	1 Year
Auto Components	(2.76)	(6.76)	(7.89)	(1.46)
Automobiles	(3.77)	(7.91)	(8.87)	(8.67)
Chemicals	(2.50)	(5.39)	(6.13)	2.90
Construction & Engineering	(2.12)	(5.58)	(6.41)	(3.59)
Construction Materials	(1.81)	(5.28)	(8.20)	(11.20)
Diversified Financial Services	(4.75)	(11.95)	(14.72)	(8.03)
Electrical Equipment	(2.16)	(6.40)	(8.21)	(5.22)
Energy	0.02	(0.12)	(1.67)	14.77
Financials	(3.42)	(9.97)	(12.50)	(4.21)
Health Care	(2.82)	(6.70)	(2.32)	10.38
Household Durables	(2.24)	(6.82)	(11.11)	0.07
Household & Personal Products	(2.07)	(4.11)	(9.98)	22.22
Information Technology	2.34	2.02	5.83	53.72
Metals/Mining/Minerals	(1.10)	(2.37)	1.67	4.04
Telecom	(3.37)	(5.69)	(5.38)	(20.39)
Utilities	(1.07)	(5.50)	(2.47)	(7.50)

Participant wise Open Interest In Equities Derivative (no. of contracts)

Long Position				
	DII	FII	Pro	Other
Future Index	35935	156500	19775	190313
Future Stock	25579	733757	197278	954816
Option Index Call	30578	254824	152743	707826
Option Index Put	93842	434288	129404	395221
Option Stock Call	471	36388	64511	412578
Option Stock Put	0	29340	72579	104402

Short Position				
	DII	FII	Pro	Other
Future Index	51110	164789	49644	136980
Future Stock	956350	546959	116445	291676
Option Index Call	0	186292	356299	603380
Option Index Put	0	177604	184154	690997
Option Stock Call	0	55904	186292	271752
Option Stock Put	0	21313	59550	125458

High ES & High PS Stock Maintaining Strength

BSE Code	NSE CODE	1 Month Return %
524735	HIKAL	24.8
523367	DCMSHRIRAM	18.8
507685	WIPRO	17.0
500228	JSWSTEEL	16.9
500002	ABB	13.4
524804	AUROPHARMA	10.7
532281	HCLTECH	10.6
505890	WIDIA	10.1
533229	BAJAJCORP	9.9
532540	TCS	9.4

High ES & Low PS Stock Showing Strength

BSE Code	NSE CODE	1 Month Return %
531500	RAJESHEXPO	20.7
532670	RENUKA	9.9
532798	NETWORK18	9.7
524742	CAPPL	9.4
534139	SCHNEIDER	8.4
532805	REDINGTON	8.0
500038	BALRAMCHIN	7.5
532343	TVSMOTOR	6.9
512529	SEQUENT	6.5
532898	POWERGRID	5.9

Low ES & Low PS Stock Maintaining Weakness

BSE Code	NSE CODE	1 Month Return %
532712	RCOM	(35.37)
511389	VIDEOIND	(33.90)
532915	RELIGARE	(27.88)
500185	HCC	(23.00)
523598	SCI	(21.78)
532822	IDEA	(21.07)
523204	ABAN	(19.97)
532430	BFUTILITIE	(19.64)
538562	SKIPPER	(19.60)
532800	TV18BRDCST	(19.40)

Low ES & High PS Stock Showing Weakness

BSE Code	NSE CODE	1 Month Return %
512599	ADANIENT	(36.90)
532885	CENTRALBK	(35.97)
533096	ADANIPOWER	(21.75)
500266	MAHSCOOTER	(20.23)
533150	GODREJPROP	(20.15)
530073	SANGHVIMOV	(18.85)
532483	CANBK	(18.84)
532720	M&MFIN	(18.32)
526521	SANGHIIND	(18.10)
535754	ORIENTCEM	(17.41)

* ES- Earning Score is average of EM (Earning Momentum defined as relative performance in terms of operating profit growth) and EQ (Earning Quality defined as relative balance sheet strength in terms of debt and working capital)

* PS- Price Score is of a company is relative price performance in multiple time-frame

Analysis shown here is only for companies with market cap more than Rs 1,000 Cr.

STDC / R25 Open Calls for 25-Sep-2018 (19)

R25 (4)

No	Date	Type	Buy/Sell	Stock	Entry1	Entry2	SL	Tgt 1	Tgt 2
1	16-Aug-18	R25	BUY	SBIN	292.5	272.5	255	340	380
2	16-Aug-18	R25	BUY	AXISBANK	617.5	587.5	554	720	780
3	08-Aug-18	R25	BUY	VEDL	222.5	207.5	179	260	275
4	15-May-18	R25	Buy	PETRONET	210	190	173	238	270

STDC (15)

No	Date	Type	Buy/Sell	Stock	Entry1	Entry2	SL	Tgt 1	Tgt 2
1	19-Sep-18	STDC	BUY	IGL	258		247	280	294
2	07-Sep-18	STDC	BUY	DLF	203	187.5	178	240	255
3	29-Aug-18	STDC	BUY	CENTURYTEX	952.5	930	878	110	1180
4	29-Aug-18	STDC	BUY	TATASTEEL	597.5	577.5	540	700	750
5	27-Aug-18	STDC	BUY	ORIENTBANK	80.5	75.5	69	95	105
6	24-Aug-18	STDC	BUY	FEDERALBNK	81	76	70	99	109
7	23-Aug-18	STDC	BUY	TVSMOTOR	537.5	517.5	495	610	650
8	21-Aug-18	STDC	BUY	INDIACEM	118	111	96	155	170
9	20-Aug-18	STDC	BUY	HINDALCO	223.5	210.5	190	275	300
10	17-Aug-18	STDC	BUY	PNB	82	76.5	73	100	110
11	12-Jul-18	STDC	BUY	JINDALSTEL	212.5	202.5	170	265	280
12	26-Jun-18	STDC	BUY	TATAMOTORS	286	266	249	335	377
13	19-Jun-18	STDC	BUY	POWERGRID	197	188	173	225	235
14	16-May-18	STDC	Buy	BHARTIARTL	371	360	337	435	489
15	11-May-18	STDC	Buy	NIITLTD	108	100	83.9	127	149

VIEW

Domestic market showed horror show on Friday as Bears completely vanquished out the Bulls in the jiffy on the back of weak domestic news. Nifty and Sensex were dragged down due to heavy selling that was witnessed in the NBFC sector as credit risk emerged post IL&FS CP's (Commercial Paper) sale and concern over its interest repayment. Yes bank added salt to this injury as RBI trimmed the CEO's terms while pointing to its loan book quality and NPA discrepancies. Indices moved against all our expectations and broke below all our key supports which led to change in the Bull trend for a while. A negative close now will add fuel to fire which can result into further weakness. Bulls can only take sigh of relief until they give decisive close above its previous swing high.

NIFTY-

- a) Nifty tanked the biggest loss of a day since January as it retraced around 50% (Fibonacci retracement) of the move from 9950 to 11760 marks.
- b) Sell off is seen as major stop losses were being triggered at lower levels but it recovered sharply and settled at 11143 levels.
- c) A breakdown is seen on the daily scale which looks similar to Head and Shoulder price pattern
- d) The zone of 11300-11350 will act as an inflection point and also a key resistance from where Bulls will be able to grab the ball from the hand of Bears.
- e) Intermediate support lies at 11090 level which is a 50% Fibonacci retracement level of earlier advance from 10417 to 11760.20 followed by 10950 marks.

CHART ANALYSIS



SUPPORT & RESISTANCE LEVELS

RESISTANCE/SUPPORT	NIFTY LEVEL	JUSTIFICATION
Resistance 2	11350	Near 5 DMA
Resistance 1	11300	Neckline of H&S
Close	11143	
Support 1	11090	50% Fibonacci retracement
Support 2	10950	50% Fibonacci retracement

VIEW

Banknifty has witnessed a sharp selling pressure throughout last week and after opening with a red session the index continuously fell to make a weekly low of 25053.35. At last Banknifty ended the week with a net loss of 5.77%.

OBSERVATIONS:

- 1) Banknifty has breached 50 DMA, 100 DMA and 200 DMA and closed below these levels. These DMAs act as short term and medium term crucial supports of the index and a breach of these levels are giving indication of reversal of its current uptrend.
 - 2) The leading indicators (like RSI & Stochastic) have reached at their oversold zone. Therefore some relief rally is likely to push the index higher from the current level in extreme short term.
- According to the above observations we conclude that the short term and medium term trend of Banknifty has been reversed to downward. However due to the oversold position of RSI & Stochastic some relief rally up to 26125 is likely to come in next few days.

CHART ANALYSIS



SUPPORT & RESISTANCE LEVELS

RESISTANCE/SUPPORT	BANKNIFTY LEVEL
Resistance 2	26125
Resistance 1	25850
Close	25597
Support 1	25370
Support 2	25010

VIEW

Despite all effort done by an Indian Govt for soaring Indian currency, It continuing to erode its value in steeper fashion. The rupee ended at 72.21 to a dollar, against a record-low close of 72.99 The session marked rupee's largest single-day gain since May 25. The Indian rupee posted its largest single-session gain in almost four months against the dollar, boosted by expectations that the federal government may announce measures to stem further depreciation in the currency.

TECHNICAL FACTORS-

- a) Pair touched our first target of 72.50 after breakout above 69.20 levels and cooled off from there
- b) It continues to form higher troughs and higher crests on weekly chart showing further strength
- c) Support is located at 71.50 followed by 71.30- 71.20 zone and as long as it sustains above these levels, the pair us positive
- d) A break down below 71.20 can see it drag down further till 70.80 levels where next support lies.
- e) On a decisive close above 73 levels, Pair will continue its northward journey and can move towards 75 levels.

CHART



STDC : Long / BUY

19-Sep-18

BSE Code	532927
NSE Symbol	IGL
52wk Range H/L	344.90/240.95
Mkt Capital (Rs Cr)	18,004.00
Av.Cash Volume(,000)	1098
Open Interest	8769750

Buy Price	256
Stop Loss	247
Target Price1	280
Target Price2	294
Upside in Tgt1	9%
Upside in Tgt2	15%

Technical Chart



STDC BUY IGL @ 256 SL-247 (CLOSING BASIS) TGT-280,294

Indraprastha Gas Ltd. has come near its trendline support areas. Positive divergences were also witnessing both in MACD and stochastic. These all the indicators are giving indication of strong pullback rally from the current level. Therefore we recommend initiating fresh long position in IGL near 256 by keeping a stop loss at 247 and the upside targets are 280 and then 294.

STDC : Long / BUY

7-Sep-18

BSE Code	532178	Buy Price	205
NSE Symbol	DLF	Stop Loss	178
52wk Range H/L	273/153	Target Price1	240
Mkt Capital (Rs Cr)	8184.51	Target Price2	255
Av.Cash Volume(,000)	6,391,615.00	Upside in Tgt1	17%
Open Interest		Upside in Tgt2	24%

Technical Chart



STDC- BUY DLF @ 201-205 AND ON DIP TOWARDS 185-190 SL-178 (CLOSING BASIS) TGT-240, 255

Prices of DLF has seen a sharp rebound after hitting a low of 168 where its key support is seen. Emergence of Hammer on weekly chart giving the possibility of pullback at higher side in coming sessions. Moreover, Prices are sustaining above its Falling wedge pattern on longer time frame of chart and currently it is testing its downward trendline through shadow of Hammer. RSI also gave trendline breakout after bottoming out near oversold zone and weekly MACD in uptrend along with declining histogram in negative territory thus supports bullish bias in the stock.

STDC : Long / BUY

29-Aug-18

BSE Code	500040
NSE Symbol	CENTURYTEX
52wk Range H/L	1471/843
Mkt Capital (Rs Cr)	10,777.00
Av.Cash Volume(,000)	1900482
Open Interest	

Buy Price	950
Stop Loss	878
Target Price1	1100
Target Price2	1180
Upside in Tgt1	16%
Upside in Tgt2	24%

Technical Chart



STDC BUY CENTURUTEX @ 950-955 AND ON DIP TOWARDS 925-935 SL- 878 TGT- 1100, 1180

Price action is looking somewhat encouraging as the scrip closed and it has given breakout from its broad consolidation, which was acting as stiff resistance since long. Scrip has been seeing interest on declines and support are gradually shifting higher. Appearance of CUP and HANDLE on daily chart also showing bullish sentiment with strong support of 880 on lower side. Moreover, MACD is trading around "Zero" level. We are expecting to take a move on north side till it sustains above 880. Accumulate Centurytex around 950-955 and on dip towards 925-935 zone with stop loss of 878 on closing basis for target of 1100 and 1180 levels.

STDC : Long / BUY

29-Aug-18

BSE Code	500470
NSE Symbol	TATASTEEL
52wk Range H/L	747/493
Mkt Capital (Rs Cr)	66,918.00
Av.Cash Volume(,000)	988532
Open Interest	

Buy Price	587.5
Stop Loss	540
Target Price1	700
Target Price2	750
Upside in Tgt1	19%
Upside in Tgt2	28%

Technical Chart



STDC- BUY TATASTEEL @ 595-600 AND ON DIP TOWARDS 575-580 SL-540 TGT- 700, 750

Formation of multi bullish candle above rising trend line showing that demand is going to generate from bulls side. Golden crossover is seen on daily chart where 50 DMA has crossed 100 DMA while going on upside. Both daily and weekly strength indicator RSI along with the momentum indicator Stochastic are in bullish territory and sustaining above their reference lines which signal strength and upward momentum in price. Thus, taking consideration the above factors, maximum upside can be expected to 700 and 750 marks.

R-25 : Long / BUY

16-Aug-18

BSE Code	500112
NSE Symbol	AXIS BANK
52wk Range H/L	635/447
Mkt Capital (Rs Cr)	106,335.00
Av.Cash Volume(,000)	18777302
Open Interest	

Buy Price	615
Stop Loss	554
Target Price1	720
Target Price2	780
Upside in Tgt1	17%
Upside in Tgt2	27%

Technical Chart



R-25:BUY AXIS BANK AROUND 615-620 AND AROUND 585-590 SL- 554 (CLOSING BASIS) TGT- 720, 780

Since long, Axis bank has been forming Ascending triangle pattern which suggest an upside movement. On weekly char it has already given Double bottom breakout and on daily chart it gave Flag breakout which indicate bullish momentum in the counter. Currently, stock is trading above its all significant moving averages which shows positive trend in the scrip. Monthly RSI gave trend line breakout which is also conducive for the price pattern. Based on the above technical structure, we are expecting an upside momentum in the stock in coming sessions.

R-25 : Long / BUY

16-Aug-18

BSE Code	500112
NSE Symbol	SBIN
52wk Range H/L	351/230
Mkt Capital (Rs Cr)	2,049,752.00
Av.Cash Volume(,000)	113967
Open Interest	

Buy Price	290
Stop Loss	255
Target Price1	340
Target Price2	380
Upside in Tgt1	17%
Upside in Tgt2	31%

Technical Chart



R-25:BUY SBIN AROUND 290-295 AND AROUND 270-275 SL- 255 (CLOSING BASIS) TGT- 340, 380

Stock bottomed out near the levels of 230-235 and has been forming cup and handle as being mother pattern on weekly chart. Emergence of Bullish engulfing showing upswing move towards channel resistance line from where stock can give breakout on upside . Scrip has respected the up trendline and prices has started running in the channel. Sustainability above 61.8% Fibonacci retracement of the fall from 351 to 230 marks also creating positive rhythm in the scrip. Declining MACD histogram and sustainability of RSI above 50 adds the conviction of going long for the target of 340 and 380 with SL of 255 marks.

R-25 : Long / BUY

8-Aug-18

BSE Code	500295
NSE Symbol	VEDL
52wk Range H/L	355/270
Mkt Capital (Rs Cr)	40,721.89
Av.Cash Volume(,000)	10712428
Open Interest	

Buy Price	211.5
Stop Loss	179
Target Price1	260
Target Price2	275
Upside in Tgt1	23%
Upside in Tgt2	30%

Technical Chart



R-25:BUY VEDL AROUND 220-225 AND AROUND 205-210 SL- 179 (CLOSING BASIS) TGT- 260, 275

Scrip has witnessed a decent correction from the peak of 355 to show signs of bottoming out at around 215-220 levels and currently It gave falling channel breakout on weekly chart to show strength and is poised for an upward move in coming days with bias improving and turning out to positive. Back to back white candles above falling channel breakout also giving cues for going north in the stock. RSI seems to be bottoming out near oversold zone and Positive crossover in MACD also conducive for its upmove. With decent volume participation , we recommend buy in this stock.

VIEW

15-May-18

BSE Code	532522
NSE Symbol	PETRONET
52wk Range H/L	275.65
Mkt Capital (Rs Cr)	198.2
Av.Cash Volume(,000)	1690759
Open Interest	NA

Buy Price	205
Stop Loss	173
Target Price1	238
Target Price2	270
Upside in Tgt1	16%
Upside in Tgt2	32%

Technical Chart



BUY PETRONET @ 205-210 SL-173 TGT-238, 270

After hitting high of 275 , scrip has seen correction till 61.8% Fibonacci retracement of the up move from 163 to 275 level which indicate halt in this fall.

Polarity due to falling red trendline suggest a support for the scrip

Demand zone is created due to its previous resistance which becomes its support at current juncture

Point of

PETRONET LNG LTD.

Industry Oil And Gas
 Bloomberg PLNG IN
 BSE Code 532522
 NSE Code PETRONET

30 July 2018

RATING	BUY
CMP	230
Price Target	286
Previous Target	286
Potential Upside	24%

Stock Info

52wk Range H/L	275/198
Mkt Capital (Rs Cr)	34,762
Free float (%)	50%
Avg. Vol 1M (,000)	3318
No. of Shares (Crore)	150
Promoters Pledged %	0%

Volume growth outlook remains robust

Key Highlights

- ☑ Higher demand from power and fertilizer plant led volume growth of 16% YoY coupled with improved margins put PLNG into sweet pot.
- ☑ BPCL Kochi refinery has now stabilized, and is currently started offtaking gas of around 2 MMSCMD. The management has guided for sequential improvement in utilization and current volume offtake trend will continue in accordance with the BPCL offtaking volumes.
- ☑ Ministry has allowed use of LNG gas in heavy transport vehicles. Company is now planning to open 20 new natural gas stations in our country and is trying to partner with OMC's to market natural gas to heavy vehicles in coming 2-3 years of timeframe.
- ☑ Company has taken 5% hike in realization in Jan 2018. Hike in realization has now reflected in the books by improved margins in the last quarter.
- ☑ Dahej capacity expansion to 17.5MMT is on track and is expected to come on stream in the month of March 2019.

1Q FY19 Result:

Petronet LNG has posted strong set of numbers with sales and PAT growth of 42% to Rs. 9169 Cr and 34% to Rs. 587 Cr. respectively in Q1 FY19. Higher volumes, improved realizations and better cost efficiencies techniques have helped PLNG to clock robust growth in the last quarter. Capacity utilization at Dahej terminal stands at 112% and Kochi at 10%. Capacity utilization at Kochi terminal remain subdued in last quarter due to no offtake from one client which was partially offset by the BPCL's Kochi refinery which is now stabilized and is taking around 2 MMSCMD gas from Petronet Kochi terminal.

View and Valuation

Considering volume growth to remain in the range of 9-11% in FY19 and improved margins at both terminals for next couple of years. We remain optimistic on this stock and expect revenue and PAT grow at 8% and 9% CAGR over FY18-20 respectively.

We value PETRONET at 16x FY20e EPS and maintain our previous target price of Rs.286 and recommend BUY.

Key Risks to our rating and target

- ◆ Weakness of rupee against dollar will make import of LNG costlier for the company
- ◆ Decline in the prices of the alternate fuel
- ◆ Any delay in supply of Gorgon Volume will lead to lower capacity utilization

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	27133	24616	30599	34209	35708
EBITDA	1586	2592	3312	3609	3776
EBIT	1265	2223	2901	3247	3408
PAT	913	1706	2078	2371	2560
EPS (Rs)	6	11	14	16	17
EPS growth (%)	1%	87%	22%	14%	8%
ROE (%)	14%	21%	21%	21%	19%
ROCE (%)	14%	23%	28%	27%	24%
BV	44	54	65	76	89
P/B (X)	3	4	4	3	2
P/E (x)	21	18	18	14	13

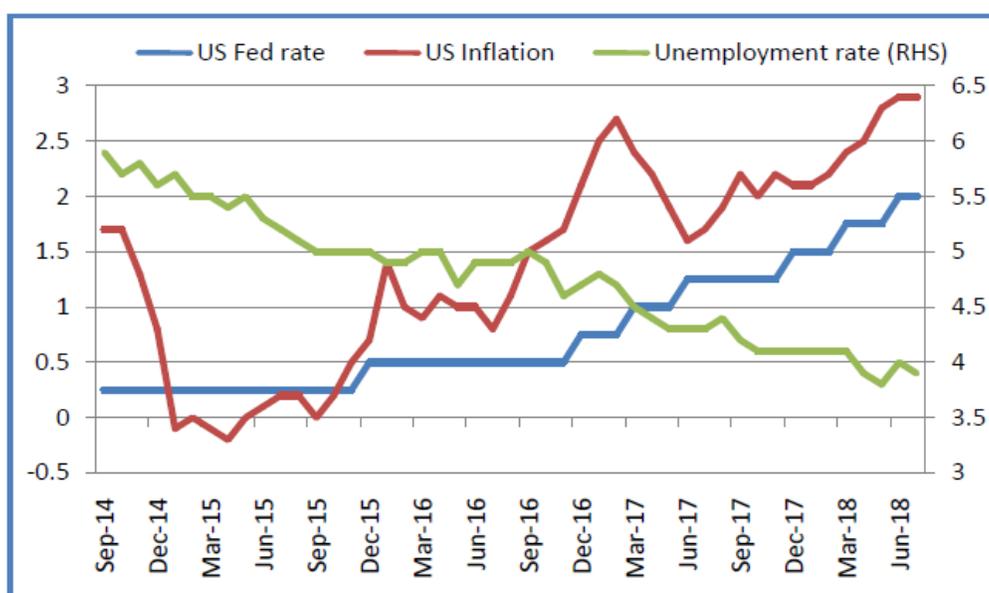
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The US Fed Chairman Powell emphasized the central bank's push to raise interest rates despite President Donald Trump's recent criticism of higher interest rates. The topic of Fed Powell speech at the symposium was "Monetary Policy in Changing Economy". US have gradually raised its interest rates from 0.25% at crisis level towards the new normal rate of 2.0% at present. Fed sees the current path of slowing raising rates to be the new normal policy as the unemployment rate has declined steadily, currently near 3.9% which is at a 20 year low while inflation has recently moved up near 2 percent suggest that there is no sign that the economy is overheating.



Source: Bloomberg, Narnolia Research

According to the Fed, US economy faces three of the real long term structural challenges – slow growth in real wages, decline in economic mobility, meeting the budget deficit and a decade long low productivity path. Fed reversed its monetary policy and increased rates seven times by 25 bps since December 2015 with no looking back on its course of action expressing confidence in the economy and further gives assurance that it can keep the inflation well under control. Fed said with strong economic outlook, inflation close to its targeted level and job market running satisfactorily well, my team of analyst are monitoring the economic data and setting up that the appropriate policy which could benefit the growth, strong labour market and keep inflation at appropriate levels. At the same time, Powell said that in case the economy faces any financial crisis or inflation rises beyond controllable level, "We will do whatever it takes."

With the US economy on a verge of new normalization, US Fed doesn't seem comfortable in viewing the changes in inflation as a single barometer to decide on future course of action over interest rate hikes as other

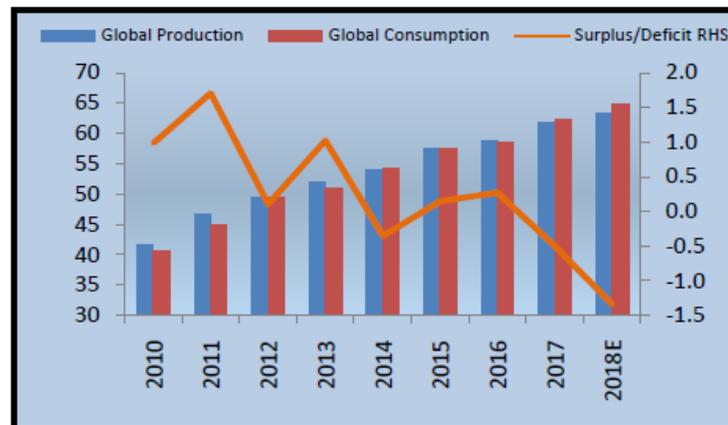
economic areas are performing strong with solid household, business and consumer confidence, continuous increase in job creation, slow and steady rise in income and employment.

Fed Powell's measured tone about the economy and the message he gave appeared to have reached the investors quite clearly with the stock markets closing in green and Dollar index reversing its uptrend. Fed Powell is on track for at least several more increases in the Fed's benchmark short-term interest rate which means September rate hike appears to be right on table. As of 2018, there have been two rate hikes and two more rate hikes are coming, one on next month and other in December.

LME Aluminium Prices have sunk by almost a fifth from their peak due to escalating trade tensions between the U.S. and China that threaten global growth. Easing sanctions on Rusal by the U.S. have erased supply concerns after it extended the deadline for winding down operations until October. All this news together made the aluminium prices to wipe out its previous quarter gains; providing an opportunity to initiate buy at the support levels.

Global Aluminium Demand Supply

Global aluminium market is expected to be in deficit of 1.5-1.2 million tonnes this year. Supply constraints in China during winter will keep the supply situation tight even as the new supply comes in. From the demand side, stable growth in China, strong infrastructure demand and rising demand from automobile sector and fiscal policies in China will keep prices supported and push the global aluminium market in deficit.

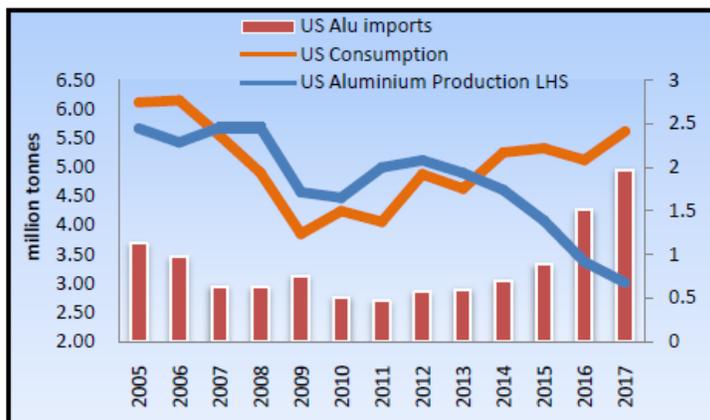


Source: Bloomberg, Narnolia Research

China Winter Curbs

Winter Curbs in China are aimed at reducing pollution levels in the country and worldwide as a whole. China's output curbs in winter starts from October this year and ends in March-19. During this period, the aluminium producers have to comply with 30 percent cut in output to maintain targeted level of pollution. Beijing has taken these steps to limit the use of coal for power generation as it leads to pollution. Aluminium smelters require large amount of electricity which is mostly generated from coal. Therefore, we expect a number of capacity closures in China during this period.

China Aluminium output has increased by just 0.2% on year on year basis in July while the output reduced by 2.2% during the first seven month of 2018 as compared to the same period last year. The fall in output has been due to delay in the start of new capacity as the old capacity shuts down. Higher aluminium exports from China in July are 519,000 tonnes, which is up by 18 percent as compared to last year. This rise has been ahead of US tariffs imposition on steel and aluminium products.



The U.S. imports started to rise since 2013 from 2.89 million tonnes to 4.9 million tonnes in 2017 to fill the demand-supply gap due to the nation’s drastic fall in production. Around 60% of aluminium is imported from Canada and rest from other countries like Russia, China, UAE etc. Strong US growth prospects will lead to increase in demand for aluminium as the nation will be unable to swiftly increase its production.

Demand Side

Aluminium demand is expected to remain in upward trajectory on strong pick-up in demand from world-wide. Global aluminium consumption growth is currently running at 4-5% every year. Aluminium consumption pattern in China will shift from infrastructure and power to automobiles and packaging on Chinese government policies following consumer driven growth approach. US demand is also on the rise for the next few years as the housing market recovers, car sales continue to show improvement and aluminium demand benefits from its new applications, particularly in the automotive sector.

Automakers are more and more turning to aluminum as they seek to reduce vehicle weights to meet stricter fuel-efficiency standards and thereby increasing the usage of aluminium in the automobile sector. Stringent regulation have been followed by United States and Europe which is now being followed by China as well encourages the producers to use light weighted aluminium in auto production.

Supply Curtailment to Support Prices

China – China’s policy to cut its aluminium output by 30% during the winter period will limit the supply from the world’s largest producer of aluminium. China accounts for more than 55% of global aluminium production. Therefore, any decline in output will affect the prices significantly.

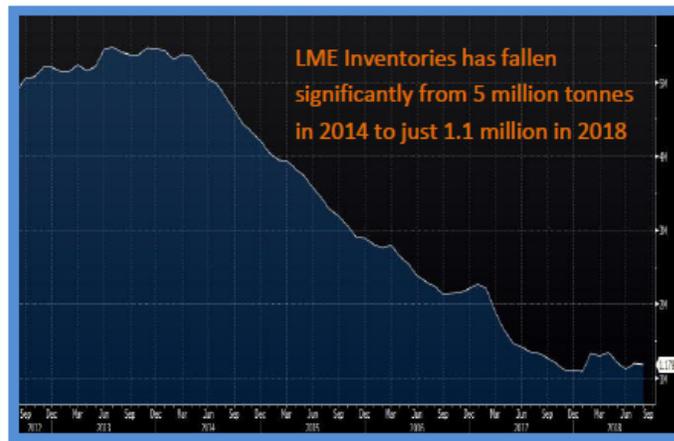
Rusal – Rusal, the world’s largest aluminium producer says if the US sanctions are not lifted, some of the production will be halted in September. Under the terms of the sanctions, U.S. customers are compelled to stop business with Rusal by Oct. 23. The company also planned to idle the Nadvoitsy aluminium smelter which produces 12000 tons of output in 2017.

Brazil Alumina Smelter – Supply disruption in Brazil’s alumina plant have inflated alumina prices (a raw material of aluminium) has increased the cost of production of aluminium. Brazil’s Alunorte smelter, the world’s largest alumina refinery has declared force majeure due to environmental concerns. Due to this, 50% of the Albras aluminium smelter in Brazil has planned to reduce its capacity by half on account of limited alumina supply. The smelter produces 460,000 tons of output annually.

Alcoa’s Alumina in Australia - An indefinite Strike at Alcoa's Australia Alumina refinery has taken place over an enterprise agreement dispute. It accounts for around 9.3 million tonnes of capacity or some 8 percent of the world's alumina supply. This further adds tightness to the ongoing supply concerns in alumina market. Since, alumina comprises of 40% of aluminium cost, therefore any spike in alumina prices will put upward pressure in aluminium prices.

Tight Inventories

LME aluminium stocks have fallen by 50 percent in 2017 and continue to remain near lows in 2018. Cancelled warrants have started to rise this month and currently stand at 28%. LME inventories have been trading lower since 2014 with just 1.7 million tonnes remaining, providing support to the prices. However, Shanghai aluminium stocks have rose to the record high standing at 900,000 tonnes till date.



Source: Bloomberg, Narnolia Research

Outlook

We believe prices will remain firm on stable demand for aluminium, rising costs of raw materials like alumina and power which will increase the cost of production, lower inventories at LME, smelter hits in Brazil and Australia and capacity curbs in China are supporting factors and will contribute towards price increase. The only reason likely to discourage prices will be US-China tariff conflict which will negatively impact overall economic demand. We expect Aluminium prices to remain positive and test the levels of Rs 153-157 per kg on MCX in the coming quarter of 2018.

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