DAILY ANALYSIS REPORT

Thursday, September 10, 2020

ABANS

Crude oil prices to remain weak on demand concerns and ample oil supplies

US-China tensions and weakness in the Dollar could keep Silver prices higher

Zinc: Near support zone

CRUDE OIL PRICES TO REMAIN WEAK ON DEMAND CONCERNS AND AMPLE OIL SUPPLIES

- Crude oil prices were trading firm on Wednesday, following a rally in US equities, and weakness in the Dollar Index against major currencies. Crude oil prices fell back, and found stiff resistance from increasing US crude oil inventory.
- The American Petroleum Institute (API) reported on Tuesday, a build in crude oil inventories of 2.970 million barrels, against a forecast of a drop of 1.335 million barrels, for the week ending September 4. The official inventory report will be released by EIA later today.
- In a monthly short-term energy outlook released for September, the EIA has cut the outlook for 2021 global oil demand growth by 500,000 b/d, from last month's forecast, to 6.5 million b/d. The EIA now expects the Chinese demand to grow by 1 million b/d next year, down from 1.5 million b/d in the last month's forecast. Global oil demand grew by 1 million b/d in August. US oil production is set to average 11.38 million b/d in 2020. It sees US oil output slipping to 11.08 million b/d in 2021. The EIA estimates US oil production jumped 400,000 b/d month-on-months, and has raised its 2020 crude price outlook by about 50 cents/b from last month, but trimmed its 2021 predictions by the same amount. WTI crude futures are expected to average $38.99/b in 2020 and $45.07/b in 2021
- Crude oil prices are likely to remain under pressure, following concerns over an economic recovery. Russian Deputy Energy Minister has said that global oil demand might not recover to pre-pandemic levels for another two to three years, as airlines gradually restore flights. Also, Bank of America/Merrill Lynch has said that until there is a vaccine for COVID, air travel is unlikely to recover much above 50% of pre-COVID levels.
- On the economic data front, the US Jul JOLTS job openings rose +617,000 to a 5-month high of 6.618 million, stronger than expectations of 6.000 million. Conversely, Japan's August machine tool orders fell -23.3% y/y, the twenty-third consecutive month that orders have declined, but the smallest drop in 1-1/2 years.

Outlook

- Crude oil prices would remain negative in the short-term, due to abundant supplies from the US and OPEC+ nations, along with diminishing demand from the US, due to end of the US driving season. WTI Crude oil on Nymex may trade towards the next levels of support towards $36.6, and $35.20. Meanwhile, a crucial resistance could be seen around the 10-days EMA at $39.46, and the 20 days- EMA at $40.48.

US-CHINA TENSIONS AND WEAKNESS IN THE DOLLAR INDEX COULD KEEP SILVER PRICES HIGHER

- Silver and gold prices on Wednesday moved higher, due to weakness in the Dollar Index against other currencies. Precious metals also found support from increasing US-China trade tensions, along with 'no-deal Brexit' talks.
- The markets are expected to get further direction from the ECB meeting, which will be held later today. According to a Bloomberg report, ECB economic projections would be broadly steady. ECB policymakers have become more confident in their forecasts for an economic recovery in the Eurozone, and may not need any additional stimulus measures.

- An increase in US-China tensions will be supporting bullion prices in the near term. President Trump has said that he intends to curb the US economic relationship with China. Besides, the US on Tuesday announced that it has banned imports from three companies in China's Xinjiang region over China's alleged repression of the Uighur Muslim minority group. The US Customs and Border Protection Agency has said that it would also ban imports from six other Chinese companies, which operate in the cotton, textile, and apparel industries, by the end of the year, for using "convict labour and forced labour to produce the garments it manufactures."
- Bullion prices have also been supported, due to the economic risk of a "no-deal Brexit". UK Prime Minister has threatened to walk away from the Brexit talks without a new trade deal.

Outlook

- Silver prices are likely to remain firm, while remaining above the key support level of the 50-days EMA of $25.45. Meanwhile, an immediate resistance could be seen around $27.75 and $28.18 levels.

ZINC: Near support zone

- China's refined zinc output for the month of August 2020 stood at 509,100 mt, rising by 16,300, or up 3.30% on a month-on-month basis, and up by 1.98%, on a year-on year-basis. Further, output in the first eight months of 2020, was also up by about 3.68%, compared to the same period in the last year.
- The major reasons for this increased production is not only the rebuilding of demand, but also the treatment charges for August, which increased by 50%, to 5,450 Yuan per mt, which is encouraging smelters to ramp up production.
- SHFE inventory for Zinc has declined in China, and inventory (on warrant) since 1st April has declined by 74%, from 87,713 mt, to 23,047 mt. On the other hand, inventory on the LME has increased by 343%. from 48,775 mt, to 216,025 mt. It is the drawdown in the Chinese inventory, which is supporting the zinc rally, along with the positive sentiment in the base metals space.
- Ample metal at the LME has ensured that cash zinc is trading at a discount of $26.5 over the three-month contract. The discount is near its highest point, since May, 2017.
- Zinc parity (price comparison between LME & SHFE in terms of Yuan adjusted for Vat and currency), is currently trading at 632 Yuan, which is above the zero level, indicating Chinese demand.

Outlook

- Zinc has corrected from the $2,580 levels, and is currently trading below the 20-days SMA. The medium-term trend remains positive, as this near term correction appears organic. Zinc could find support at $2,375 & $2,350 levels, from where a rebound could be experienced towards $2,460-$2,500 levels.

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