DAILY ANALYSIS REPORT

Friday, September 11, 2020

ABANS

Gold prices under pressure from strength in the Dollar Index

Natural Gas prices to remain under pressure on cooler US temperatures

Copper is near its support levels

GOLD PRICES UNDER PRESSURE FROM STRENGTH IN THE DOLLAR INDEX

- Gold prices dropped on Friday, following strength in the US Dollar against other currencies. Gold traded negative, following a revision in ECB's GDP forecast for the Eurozone. The ECB remained neutral, and revised the GDP forecast for the Eurozone to -8%, from the prior estimates of -8.7%. The Dollar Index bounced back on Friday, following a steep drop against the euro in the previous session.
- Uncertainty over stimulus continues: The US Senate blocked a Republican bill that would have provided around $300 billion in new coronavirus aid, as Democrats push for more funding.
- On the economic data front, US weekly initial unemployment claims were unchanged at 884,000, showing a weaker labour market than expectations of 850,000. U.S. producer price data was stronger than expected, and this is positive for gold demand, as a hedge against inflation. U.S. August PPI ex- food & energy rose +0.4% m/m, and +0.6% y/y, stronger than expectations of +0.2% m/m, and +0.3% y/y. Japan's July core machine orders rose +6.3% m/m, stronger than expectations of +2.0% m/m, and the biggest increase in 8 months. UK GDP numbers were disappointing at 6.6% this month, against the 8.7%, released in August 2020.

Outlook

- Gold prices are under pressure from strength in the Dollar Index, and a disappointing ECB meeting. Gold prices are likely to find support near the 50-days EMA at 1,924, while crucial resistance could be seen around 1,972 and 1,989 levels.

NATURAL GAS PRICES TO REMAIN UNDER PRESSURE ON COOLER US TEMPERATURES

- Natural Gas prices are under pressure, on the outlook for cooler US temperatures along with a bigger-than-expected increase in weekly EIA natural gas inventories.
- The Commodity Weather Group has today said that temperatures would be mostly seasonal in the eastern half of the United States, from September 15-24, which will curb NG demand from utility providers to power air conditioners.
- According to the EIA weekly report, the Natural Gas inventories have increased by 70 bcf last week, above expectations of 68 bcf, and above the 5-year average, for this time of the year, of 68 bcf.
- Meanwhile, Natural Gas export demand has increased, and it was at 6.8 bcf/day, which is the highest level since May 11th. Natural Gas operations are slowly returning to normal after Hurricane Laura disrupted the loading of LNG exports.
- As per the EIA Short-Term Energy Outlook for September, US 2021 dry Natural Gas production is estimated at 86.59 bcf/d, as compared to an August estimate of 84.02 bcf/which is negative for Natural Gas prices.

Outlook

- We expect Natural Gas prices to remain negative on account of the cooler weather forecast. Nymex Natural gas October expiry contract is likely to find a stiff resistance near the 10-days EMA at $2.43. Meanwhile, support could be seen at the 50-days EMA at 2.227, and the 100-days EMA at 2.072.

COPPER NEAR ITS SUPPORT LEVELS

- According to an official from China's Nonferrous Metals Industry Association's (CMRA), Chinese copper scrap imports are expected to drop around 50% this year. China, the world's top metals consumer, imported 1.49 million tonnes of copper scrap in 2019, however, the country has granted import quotas for 743,140 tonnes of copper scrap so far this year.
- Research group, Antaike, raised its 2020 forecast for China's refined copper imports for the second time this year. It has said that China's Nonferrous Metals Industry Association's research arm, has pegged refined copper imports at 3.8 million tonnes for 2020. The expected imports are up from the previous 2020 forecast of 3.5 million tonnes, and the 2019 imports of 3.55 million tonnes.
- On the inventory side, on warrant Inventory at SHFE declined by 71%, from 216,414 mt, on 1st April 2020, to 63,796 mt, on 10th September 2020, while at LME, the inventory declined by 72% from 177,250 mt, to 49,900 mt, during the same time period. A drawdown in the inventory in both exchanges is indicative of the fact that consumption has picked up in the ongoing Covid-19 unlock, and that demand is rising.
- Drawdown in the inventory at LME has ensured that copper cash is trading at a premium of $23.5 over the three-month contract, suggesting a tight physical supply situation at the LME, which, in turn, is an indication of robust demand.
- Copper parity (price comparison between LME & SHFE in terms of Yuan adjusted for Vat and currency), is currently trading at 31 Yuan, which is above the zero level, indicating Chinese demand.

Outlook

- Copper has corrected, and currently stands at the support of the 20-days SMA, and is likely to find support near current levels. The metal could rebound towards $6,750 & $6,820 levels, and can find support at $6,600 & $6,515 levels in the near term.

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