
Recovery in global bond yields likely to keep gold prices under pressure
OPEC raised its oil demand forecast and growth outlook

RECOVERY IN GLOBAL BOND YIELDS LIKELY TO KEEP GOLD PRICES UNDER PRESSURE

- ▲ Gold prices declined from a recent high of \$1,846.15 registered on Monday after global bond yields recovered from their losses. Gold prices were seen under pressure as the US 10 Year Treasury bond yield bounced from a recent low of 1.469 registered on May 7th. The 10-year T-note yield is currently trading near 1.622 at a 1-week high and the 10-year German bund yield is currently trading near -0.16% which is the highest level seen since March 2020. The dollar index is currently trading near 90.35 which is sharply lower from a recent high of 93.47 registered on March 31, however, prices have recovered from a recent low of 89.995 registered yesterday. Strength in the dollar index is likely to keep gold prices under pressure.
- ▲ On the global economic data front, US Mar JOLTS job openings rose +597,000 to a record 8.123 million (data from 2000), against expectations of 7.500 million. US jobs data is indicating a strong labour market. German May ZEW survey expectations of economic growth index rose +13.7 to a 21 year high of 84.4, against 72.0. Also, Japan's Mar household spending rose +6.2% y/y, against expectations of +1.5% y/y which is the biggest increase in the last one and half year. Positive economic data were negative for gold prices.
- ▲ However, gold is likely to find support from increasing inflation expectations. China's Apr PPI rose +6.8% y/y, the largest increase in 3-1/2 years. Also, the German Apr wholesale price index rose +7.2% y/y, the largest increase in 10 years.
- ▲ Gold is receiving continuous support from the dovish central bank comments due to the rising covid-19 situation in Asia and other parts of the world. Fed Governor Brainard said, "The economic outlook is bright, but uncertainty remains as jobs and inflation are far from the Fed's goals." Also, Atlanta Fed President Bostic said the US labour market is 8 million jobs short of the pre-pandemic level, and it is appropriate for Fed policy to stay in accommodative mode. In addition, Philadelphia Fed President Harker said that "while the economic situation is improving, the recovery is still a work in progress, and there's no reason to withdraw support yet."
- ▲ Gold prices found support after ECB policymaker Klaas Knot said that The European Central Bank will continue to provide copious support to a recession-hit economy even when its 1.85 trillion euro emergency bond purchase scheme ends.
- ▲ Gold also has underlying support from the Covid-19 pandemic, the overall global Covid-19 caseload has topped 159.3 million, while the deaths have surged to more than 3.31 million, according to Johns Hopkins University.

Outlook

- ▲ Gold prices which were unable to sustain the recent rally is likely to face stiff resistance near \$1,846-\$1,857 while immediate support level is seen around 20 days EMA at \$1,796 and 50 days EMA at \$1,783.

OPEC RAISED ITS OIL DEMAND FORECAST AND GROWTH OUTLOOK

- ▲ WTI Crude oil is currently trading near \$65.41 per barrel which is sharply higher from yesterday low of \$63.68; prices are trading higher on dollar weakness and revised OPEC demand forecast.
- ▲ However crude oil prices were under pressure on an easing of supply concerns after Colonial Pipeline said late Monday that it plans to reopen its shuttered pipeline by the end of this week. Gasoline prices soared to a 3-year high early Monday due to supply concerns after the Colonial Pipeline was shut down late last Friday. The pipeline from Texas to the Northeast carries 2.5 million BPD of fuel or 45% of gasoline, diesel, and jet fuel consumed by the East Coast.
- ▲ Meanwhile, OPEC raised the 2021 demand estimate for its crude oil. In a monthly report, the Organization of the Petroleum Exporting Countries said demand will rise by 5.95 million barrels per day (BPD) this year, or 6.6%. The forecast was unchanged from last month. OPEC now sees 2021 world economic growth at 5.5%, up from 5.4% last month, assuming the impact of the pandemic will have been "largely contained" by the beginning of the second half.
- ▲ Positive economic data is supportive for crude oil prices. US Mar JOLTS job openings data is showing a stronger labour market, similarly, positive data from Germany and Japan have indicted a strong recovery in growth.
- ▲ However Crude oil is negatively affected as China's Customs General Administration reported last Friday that China Apr crude imports fell -18% m/m to 40.36 MMT, the lowest level since December. Also, Fuel demand in India has plunged as the recent surge in new Covid infections, India gasoline sales in April fell to 2.14 MMT, the lowest in 8 months.
- ▲ API reported late Tuesday afternoon that US crude supplies fell -2.53 million bbl and gasoline stockpiles rose +5.64 million bbl last week. However official US inventory data will be released later today to provide fresh direction to the oil market. It is expected that EIA crude inventories may fall by -2.0 million bbl. Last Wednesday's weekly EIA data showed that US crude oil inventories as of April 30 were -1.7% below the seasonal 5-year average, gasoline inventories were -1.9% below the 5-year average, and distillate inventories were -2.5% below the 5-year average.
- ▲ Baker Hughes reported last Friday that active U.S. oil rigs rose by +2 rigs in the week ended May 7th, rigcount number is indicative of oil production in the US.

Outlook

- ▲ Crude oil prices are likely to trade firm while above the key support level of 20 days EMA of \$63.78 per barrel and 50 days EMA of \$61.94 per barrel. Meanwhile, it may face stiff resistance around \$67.78 per barrel.

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