DAILY ANALYSIS REPORT

Thursday, August 13, 2020

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Silver could find support near $25.12 level

Zinc – uptrend intact

Natural Gas prices to trade rangebound

SILVER COULD FIND SUPPORT NEAR $25.12 LEVEL

- Silver prices corrected nearly 13% from the recent highs of 29.915, and are holding near $26. Selling in silver and gold was triggered by Russia's claim over the first vaccine to cure coronavirus, and this was further intensified, after the US failed to reach an agreement over the new stimulus plan. Unprecedented money-printing by central banks, and Interest rates near-zero levels, have helped bullion prices rally this month.
- On the economic data front, The US labor department reported an increase in the Consumer Price Index (0.6% in July), due to surging gasoline prices. The uptick was much higher than market expectations for this month. However, inflation remains in check. Consumer prices are up just 1% over the past year.
- Britain's economy shrank by a record 20.4% in the second quarter. Precious metals are likely to find safe-haven demand in such situations.
- The COVID-19 pandemic is still not under control in the US, and cases are rising globally. More than 20.16 million people have been infected by the coronavirus, and 0.76 million deaths have been reported globally.
- The US Dollar is trading weak, following a large US debt issuance. Weekly jobless claims and the ongoing fiscal impasse in Washington may provide a further direction to precious metals.

Outlook

- Silver could trade lower in the short term; it may face a stiff resistance around the 10-days EMA at 26.41, and the 5-days EMA at 26.54. Meanwhile, critical support could be seen around the 20-days EMA at 25.12, and the 50-days EMA at 22.37.

ZINC – UPTREND INTACT

- Zinc continues to trade higher, extending its gains; it has made a high near $2,420, and the trend remains firmly positive for the metal, as it continues to rise, and has hit the highest level since January 2020. Weakness in the Dollar Index, along with expectations of the US stimulus, is also helping the metals space remain buoyant.
- China's refined output in July increased by 5.9%, on a month-on-month basis to 492,800 mt; output for the first seven months of 2020 stands at 3.36 million mt.
- SHFE inventory for Zinc has declined in China. Inventory (on warrant), since 1st April, has declined by 62%, from 87,713 mt, to 32,954 mt. On the other hand, inventory on the LME has increased by 302%, from 48,775 mt to 196,125 mt. It is the drawdown in the Chinese inventory, which is keeping the Zinc rally going, along with the positive sentiment in the base metals space.
- Zinc parity (price comparison between LME & SHFE in terms of Yuan adjusted for Vat and currency), is currently trading at 635 Yuan, which is above the zero-level, indicating Chinese demand.

Outlook

- Zinc is trading above the 20-day SMA, with RSI in positive territory. The uptrend looks to be intact for Zinc. It looks set to rise further towards $2,440 & $2,470 levels, while support is seen at $2,300 & $2,260.

NATURAL GAS PRICES TO TRADE RANGEBOUND

- Natural Gas prices are trading in a thin range between $2.086-$2.27 this week. Prices have rallied nearly 31% from the March'20 lows of $1.64. Price rise was seen on expectations that energy demand may rise, as the economy rebounds, when state governments lift coronavirus-linked lockdowns. Currently, prices are holding in a tight range, as the hottest part of the summer is getting passed.
- US Natural Gas exports in August are set to rise for the first time in six months. Pipeline gas flowing to the plants, climbed to 4.2 bcfd in August, from a 21-month low of 3.3 bcfd in July.
- Refinitiv has projected that U.S. demand, including exports, will slip from an average of 89.3 bcfd this week, to 88.8 bcfd next week, as the hot weather moderates.
- US NG output could fall about 2.2 bcfd to a near one-month low of 87.4 bcfd over the past two days due to maintenance work this week on TC Energy Corp's Mountaineer Xpress pipeline in West Virginia. (Refinitiv Report)
- According to the latest EIA report, U.S. natural gas production, and demand is expected to drop in 2020 and 2021 from the record highs last year, as coronavirus lockdowns reduced economic activity, and energy prices. EIA's Short-Term Energy Outlook (STEO) has projected that dry gas production will drop to 88.65 billion cubic feet per day (bcfd) in 2020, and 84.02 bcfd in 2021, from the all-time highs of 92.21 bcfd in 2019. It has also projected that the gas consumption would fall to 82.42 bcfd in 2020 and 78.71 bcfd in 2021, from a record 84.97 bcfd in 2019. This would be the first annual decline in consumption since 2017, and the first time, that demand has fallen for two consecutive years since 2006.
- Meanwhile, EIA's gas supply projection for 2020 in August was lower than its July forecast of 89.24 bcfd, while its latest demand outlook for 2020 was higher than its July forecast of 82.35 bcfd. US liquefied natural gas exports would reach 5.54 bcfd in 2020 and 7.28 bcfd in 2021, up from a record 4.98 bcfd in 2019. This is higher than its July forecasts of 5.35 bcfd in 2020 and 7.28 bcfd in 2021.

Outlook

- Natural Gas prices are expected to trade in a tight range, and the peak summer season is going to pass. Natural Gas prices may find an immediate resistance near $2.246 and $2.33 levels, while key support levels are seen around the 10-Days EMA at $2.105, and the 20-Days EMA at $2.002

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