DAILY ANALYSIS REPORT

Tuesday, October 13, 2020

ABANS

Aluminium prices are up due to closure of smelter in Spain

Gold prices to trade in a range of 1,909-1,944

Crude output from Libya is likely to keep oil prices under pressure

ALUMINIUM PRICES ARE UP DUE TO CLOSURE OF SMELTER IN SPAIN

- Aluminium prices rallied, following a closure of Alcoa's San Ciprian smelter in Spain. Shanghai Aluminium prices have rallied to their highest level since April 2018. The smelter annual capacity is 228,000 metric tonnes, and curtailment is expected to be complete in the first quarter of 2021. Year to date, the aluminium plant incurred a net loss of approximately USD 45 million through September 30. In 2018 and 2019, the aluminium plant had combined net losses of $126 million.
- However, weakness in demand is likely to keep a cap on Aluminium prices.
- U.S. stimulus hopes and winter curbs on Chinese production are also likely to support Aluminium prices from current levels.
- Meanwhile, LME aluminium inventories hovered around their five-month low at 1.4 million tonnes, while stockpiles in SHFE warehouses were still lower than half of the 2020 peak of 533,994 tonnes hit in March.
- China exported 426,469 tonnes of unwrought aluminium and aluminium products, including primary, alloy, and semi-finished aluminium products, in September, up from August's 395,424 tonnes. These monthly levels are the highest since April, as orders continue to recover, after the coronavirus shock hit demand earlier this year. January-September exports however were still down 18%, from a year earlier.

Outlook

- LME 3M Aluminium prices are likely to remain firm, while above the key support level of the 20-days EMA at 1,784, and the 50-days EMA at 1,753. It may face critical resistance around 1,910 levels.

GOLD PRICES TO TRADE IN A RANGE OF $1,909-$1,944

- Gold prices were trading higher on Monday, due to weakness in the Dollar Index, and optimism over US stimulus hopes. US lawmakers will eventually agree to additional debt-fueled fiscal stimulus. House Speaker, Pelosi, and Treasury Secretary, Mnuchin, will continue stimulus talks this week.
- Comments on Monday from ECB Chief Economist, Lane, were supportive for gold prices. As per the comments, ECB isn't happy with the inflation outlook as "the current level remains far away from our goal," and we will decide "meeting by meeting" whether more stimulus will be needed.
- Dovish comments from Minneapolis Fed President, Kashkari, also provided support for gold. He has said that the U.S. economic recovery has "flattened out", and is in vital need of additional support from fiscal policy.
- JPMorgan Chase has said in a research that gold prices could spike up as much as +5% if Joe Biden wins the presidency, and the Democrats secure a Senate majority in next month's elections.
- According to the CFTC Commitments of Traders report for the week ended October 6, Gold

futures' net long positions rose +4,928 contracts to 248,587. Speculative long positions gained +4,816 contracts, while shorts slipped -112.

Outlook

- Safe-haven demand, and dovish central bank expectations, is likely to provide support to gold prices. However, strength in the Dollar Index is likely to keep a lid on prices. We expect gold prices to trade in a tight range of $1,909-$1,944 for the very short term. Gold prices are likely to find support near the 100-days EMA at 1,878, while critical resistance is seen near $1,946-$1,953 levels.

CRUDE OUTPUT FROM LIBYA IS LIKELY TO KEEP OIL PRICES UNDER PRESSURE

- Weakness in demand and rising output from OPEC+ members is likely to keep oil prices under pressure. On Sunday, Libya's National Oil Corp. lifted force majeure on its Sharara crude field, the country's biggest, and said it would initially pump 40,000 bpd, before reaching its capacity of almost 300,000 bpd next week. The restarting of the Sharara oil field will boost the total Libyan crude production, to almost 600,000 bpd. Libya is an OPEC+ member, but is currently exempt from the OPEC+ production cuts.
- Last Friday's data from Baker Hughes showed that active U.S. oil rigs rose by +4 rigs in the week ended October 9, to 193 rigs, and moderately above the 15-year low of 172 rigs posted in the week ended August 14.
- According to the CFTC Commitments of Traders report for the week ended October 6, net long for crude oil futures gained +9,625 contracts to 471,536 for the week. Speculative long positions jumped +9,165 contracts, while shorts dropped -460 contracts.
- According the International Energy Agency report on October 13, global oil demand is expected to grow by 5 million b/d in 2021, and return to pre-crisis levels by around 2023, under the best-case scenario. Peak oil demand is already a reality in advanced economies, but this is offset by growth in emerging markets and developing economies. As per the IEA, India continues to drive demand growth in the coming decade, while the outlook for China has been revised down from the last year's outlook.

Outlook

- Demand concerns due to the covid pandemic, and increasing supply from OPEC nations, is likely to keep oil prices under pressure. WTI crude oil prices are likely to find support around $38.45-37.80 per barrel. Meanwhile, stiff resistance could be seen around $41.97-43.08 per barrel.

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