DAILY ANALYSIS REPORT

Monday, September 14, 2020

ABANS

Oil prices are marginally up on the news of tropical storm Sally

Gold prices firm due to weakness in the Dollar Index

Lead - near its support zone

OIL PRICES ARE MARGINALLY UP ON THE NEWS OF TROPICAL STORM SALLY

- Oil prices rose on Monday, as a tropical storm in the Gulf of Mexico, forced companies to evacuate rigs and halt production. Tropical storm Sally gained in strength in the Gulf of Mexico, west of Florida, on Sunday, and was poised to become a Category 2 hurricane. The storm is disrupting oil production for the second time in less than a month, after hurricane Laura swept through the region.
- Baker Hughes reported on Friday that the number of oil rigs in the United States fell by 1, to 180. The total number of active oil and gas rigs decreased for the week by 2, with oil rigs falling by 1, and gas rigs falling by 1. Total oil and gas rigs in the United States are now down by 632, compared to this time last year.
- According to the CFTC Commitments of Traders report for the week ended September 8, net long for crude oil futures slumped by 41,549 contracts, to 449,366, for the week. Speculative long positions declined by 28,235 contracts, but shorts rose by 13,314 contracts.
- Crude oil prices are likely to remain under pressure, following concerns over the economic recovery. Russian Deputy Energy Minister, Sorokin, has said that the 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 have said that until there is a vaccine for COVID, air travel is unlikely to recover much above the 50% of pre-COVID levels.

Outlook

- Crude oil prices are expected to remain negative for the short-term, due to abundant supplies from the US and OPEC+ nations, along with diminishing demand from the US, due to the 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 $38.5, and the 20-days EMA at $40.53.

GOLD PRICES FIRM DUE TO WEAKNESS IN THE DOLLAR INDEX

- Gold prices are trading firm in early Asian trading, due to slight weakness in the US Dollar Index.
- Covid-19 pandemic is likely to provide support to gold prices, due to the safe-haven appeal of Gold. The World Health Organization reported a record one-day increase in global coronavirus cases on Sunday, with the total rising by 307,930, in 24 hours.
- According to ECB President, Christine Lagarde's statement, Eurozone governments must keep spending heavily to aid the bloc's recovery from its historic pandemic-induced recession, complementing an already super-easy monetary policy. Bullion prices are likely to find support from this statement.
- All eyes are on the U.S. central bank's two-day policy meeting, which is scheduled to be held on September 15-16. The FOMC's upcoming meeting is just weeks after the annual economic policy symposium. The Fed is in favour of allowing a moderate overshoot of their 2% inflationary target.
- Physical gold dealers in India are offering discounts, due to muted demand. As on Friday, discounts eased to $30 an ounce over official domestic prices, inclusive of 12.5% import, and 3% sales levies, from last week's $40.
- Speculators increased their net long positions in gold, in the week ended September 8. According to the CFTC Commitments of Traders report, Gold futures' net long gained +5,677 contracts to 236,473. Speculative long positions gained +7,055 contracts, while shorts added +1,378.
- On the economic data front, China's August aggregate financing rose +3.58 trillion Yuan, stronger than

expectations of +2.585 trillion Yuan, and the biggest increase in 5 months. Also, Japan's Q3 BSI large all-industry business conditions rose +49.6 to 2.0, which were stronger than expectations of +7.6, to -40.0, and the highest since the Q4 of 2018.

Outlook

- Gold prices are trading higher, following weakness in the Dollar Index. Meanwhile the upside looks capped, after a disappointing ECB meeting last week. The focus is now shifting towards the Fed meeting this week, to get further direction. Gold prices are likely to find support near the 50-days EMA at 1,926, while key resistance could be seen around 1,972 and 1,989 levels.

LEAD – NEAR ITS SUPPORT ZONE

- Operating rates for primary lead smelters in major lead producing provinces remained unchanged at 59.3% for the week ended 11th September, from the previous week. The operating rates for secondary lead smelters increased by 0.60%, to 59%, from the previous week. Secondary lead smelters recycle used lead, including those found in car batteries. Decent operating rates at the secondary lead smelters indicate that the recycle industry is picking up, which in turn, is dependent on the automobile industry, suggesting better traction there too.
- On warrant Inventory at SHFE increased by 260%, from 6,245 mt on 1st April, 2020, to 22,505 mt, on 11th September, 2020, while at the LME, the inventory increased by 116%, from 52,675 mt, to 113,850 mt, during the same time period. The inventory has increased, due to a lower base in April, 2020, especially at the SHFE. Lead prices continue to rally due to an increase in demand, along with the positive sentiment for base metals.
- However, considering from mid-July, the inventory at the SHFE has declined from 38,749 mt, to 22,505 mt, this is likely on account of the fact that the arbitrage between SHFE and LME has come down from around 1200 Yuan, to 331 Yuan. This has reduced the price incentive advantage for China to import lead.
- Parity, which is the difference between the SHFE and the LME, after calculating for the VAT and the currency, is currently trading at 262 Yuan, indicating a strong trend for Chinese lead, driven by fundamental demand for the metal.
- Ample inventory at LME has ensured that lead cash is trading at a premium of $30.5 over the three-month contract, which is suggesting decent inventory at the LME. The metal can flow into SHFE the way it did earlier this year, only when the parity goes up.

Outlook

- Lead has declined sharply from $2,000 odd levels in the past week to $1,886; the medium-term trend remains positive, and we can expect the metal to rebound from its support zone. The metal could rise towards $1,915 & 1,935 levels, while support is seen near $1,875 & $1,845 levels.

DISCLOSURE & DISCLAIMER: ABANS BROKING SERVICES PVT. LTD. (ABSPL)

Prepared by:
Mr. Kamlesh Jogi | Market Research Analyst
email: kamlesh.jogi@abans.co.in
Phone: +91 22 68354176 (Direct)

Abans Broking Services (P) Limited
36, 37, 38A, 3rd Floor, 227 Nariman Bhavan, Backbay Reclamation, Nariman Point, Mumbai-400 021
Phone +91 22 61790000 | Fax +91 22 61790000
Email: info@abans.co.in | Website: www.abans.co.in

Membership Details:
MCX Member ID: 40385 / SEBI Reg. No. INZ000032733;
NCDEX: Member ID F00681 / SEBI Reg. No. INZ000032733

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations). ABans Broking Services Pvt. Ltd. (ABSPL) is a SEBI Registered Research Analyst having registration no. INH000006369. ABSPL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock Broking services. ABSPL is a subsidiary company of ABans Finance Pvt. Ltd. (AFPL). AFPL is an NBFC, registered with the RBI, in the category of non-acceptance of public deposits.
One of the group companies of ABSPL is ABans Securities Pvt. Ltd. (ASPL) which is a SEBI registered member with NSE, BSE and MSE stock exchanges. ASPL is also a Depository Participant of CDSL. ABans Commodities Pvt. Ltd. (ACIPL) is another group entity which is also a registered member with MCX in the Commodity segment. Further details are available on the group website www.abans.co.in Mandatory Disclosures as per the Regulations:

- Ownership & Material conflicts of interest –
  - Whether the Research Analyst or ABSPL, or his associate or his relative has any financial interest in the subject company and the nature of such financial interest – No
  - Whether the Research Analyst or ABSPL, or its associates or relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of this research report or date of the public appearance - No
  - Whether the Research Analyst or ABSPL, or his associate or his relative, has any other material conflict of interest at the time of publication of this research report or at the time of public appearance - No
- Receipt of Compensation –
  - Whether ABSPL, or its associates have received any compensation from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report – No
- Whether the Research Analyst has served as an officer, director or employee of the subject company – No
- Whether the Research Analyst or ABSPL has been engaged in market making activity for the subject company – No
- Other material disclosures, if any