
Gold to find support from expansionary monetary policy
Positive demand outlook and supply concern to support crude prices

GOLD TO FIND SUPPORT FROM EXPANSIONARY MONETARY POLICY

- ▲ Gold prices are holding near \$1,823, US stimulus hopes and marginal weakness in dollar index is likely to provide support to bullion prices. However positive move gold is capped due to rising US bond yield.
- ▲ Benchmark U.S. Treasury yields rose to their highest levels since March on expectations for massive U.S. fiscal stimulus. The yield curve between two-year and 10-year notes steepened on expectation that The Federal Reserve is likely to keep policy rates near zero for years to come.
- ▲ Also, Last week Fed Chair Jerome Powell expressed the need for “patiently accommodative monetary policy” to get the U.S. back to full employment. However market is likely to get fresh direction from Fed meeting minutes for January which is due to be published on Wednesday.
- ▲ Reserve Bank of Australia Board meeting minutes released today. At the February 2, 2021 RBA policymakers announced the extension of the government bond-buying program (‘Quantitative Easing’) by a further \$100 billion from mid-April. Board members also signaled that interest rates probably won’t lift until 2024 “at the earliest”. Gold has ongoing support from expansionary monetary policy.
- ▲ On economic data front, Japan's real gross domestic product contracted 0.4% in December from the previous month. However, Japans industrial production declined less than estimated in December. Industrial production declined a seasonally adjusted -1% month-on-month in December against estimate of production -1.6%. On a yearly basis, industrial production decreased -2.6% in December versus a -3.2% fall in the initial estimate. Also, the capacity utilization grew 0.8% monthly in December and declined 0.1% from a year ago. Eurozone December trade balance reported at €27.5 billion against forecast of €25.0 billion. Eurozone exports grew by 1.2% while imports fell by 0.3%, leading to the larger trade surplus at the end of last year. Eurozone exports have recovered to pre-crisis levels and this supports the 1Q GDP outlook. Eurozone industrial production dropped by 1.6% in December; however, the general manufacturing environment remains robust.
- ▲ According to the CFTC Commitments of Traders report for the week ended February 9, net long for crude oil futures dropped by 5,719 contracts to 2,51,407 for the week. Speculative long position dropped by 5,026 contracts, while shorts added 693 contracts.

Outlook

- ▲ Gold prices are likely to find support near \$1,802 and \$1,789 meanwhile immediate resistance is seen near \$1,832 and \$1,850.

POSITIVE DEMAND OUTLOOK AND SUPPLY CONCERN TO SUPPORT CRUDE PRICES

- WTI Crude oil prices are holding firms near \$60.00 per barrel and have ongoing support from increased demand outlook and supply concern in Middle East. Also expectations of an upcoming stimulus package from the US is also supporting current rally in the prices.
- Global drive for vaccination to combat the coronavirus pandemic is supporting strong outlook for economic recovery.
- Also, oil prices have additional support from Saudi Arabia which is reducing its production voluntarily by an additional 1 million b/d till March. US shale oil companies also not able increase production despite current rise in oil prices due to bad weather conditions.
- According to the CFTC Commitments of Traders report for the week ended February 9, net long for crude oil futures jumped 15,084 contracts to 514,258 for the week. Speculative long position rose 19,381 contracts, while shorts added 4,297 contracts.
- Increasing jet fuel demand is likely to support oil prices. Dubai International Airport (DXB) is seeing a recovery in airline traffic in 2021 after passenger numbers plummet 70% year on year in 2020. Jet fuel demand in the UAE, about 25% of the Middle East's total demand, is forecast to rise around 40% in 2021 to 110,000 b/d from 79,000 b/d in 2020 as per report from S&P Global Platts Analytics. However Jet fuel demand levels will still be lower than the 172,000 b/d reached in 2019.
- US Oil rig count was 306 for the week through Feb 12 compared with 299 in the week ended Feb 5. (Baker Hughes Rig count report)

Outlook

- WTI crude oil prices are likely to continue its current positive move while above critical support levels of 20 days EMA at \$56.59 and important resistance level is seen around \$61.58 and \$63.34 per barrel.

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