DAILY ANALYSIS REPORT

Friday 17 July, 2020

Lead experiences some correction

Gold prices corrected after ECB meeting comments

OPEC and Russia agree to ease record supply curbs from August

LEAD EXPERIENCES SOME CORRECTION

- Lead, after rising sharply from $1,580 to $1,885, which is a rise of about 19.30%, has corrected in the last few trading sessions. Prices rose quite swiftly in the past three months, due to which such a correction looks organic.
- There has also been a significant change in the inventory at SHFE, which was running very low, along with positive import arbitrage, thus attracting a lot of metal from the LME (and from other sources also). Inventory (on warrant) at SHFE has increased by 520%, from 6,245 mt to 38,749 mt, from 1st April, while during the same time, on warrant LME inventory has decreased by 10%. Undoubtedly the low base on the SHFE side has also contributed towards this significant percentage rise in the inventory. Also, the point to note is that the SHFE Lead inventory has increased from 16,887 mt to 38,749, from 1st July to 16th July, which has resulted in this current price dip. During the lockdown in China, the secondary production of lead took a strong hit, which is now coming back to the market and things are evening out.

Outlook

- Lead has corrected for three consecutive days, and is approaching its 20-day SMA, which is its immediate support; however, the medium-term trend remains positive for lead. Immediate support is seen at $1,820 & $1,800 levels; if this holds, we can expect lead to rebound towards $1,860 & $1,885 levels.

GOLD PRICES CORRECTED AFTER ECB MEETING COMMENTS

- Gold prices corrected from a near nine-year peak, following ECB meeting comments. However, concerns over rising coronavirus cases, and US-China tensions are likely to keep supporting gold prices in the near term.
- ECB Meeting details – ECB President Christine Lagarde has said that the central bank will use its stimulus firepower fully, even as the euro zone economy shows some signs of rebounding from its pandemic-induced recession. The ECB opts to wait and see, and leaves rates and stimulus program unchanged. It would continue with its massive stimulus program announced in March, to mitigate the economic shock from the pandemic. Last month, it expanded its Pandemic Emergency Purchase Program by 600 billion euros, bringing the size of the stimulus program to 1.35 trillion euros ($1.54 trillion) to be deployed until June 2021. ECB have pointed to an 8.7% contraction (IMF Projected 10.2% contraction) in GDP for the euro zone this year.
- Coronavirus cases continue to rise in the US, with many states temporarily halting the reopening of their economies to stem the outbreak, which has infected more than 13 million people worldwide so far. Fears of a second wave of cases of COVID-19 - led by the United States - are keeping the gold prices supported at lower levels.
- Fed officials warned on Tuesday that the U.S. economy faces a longer recovery from the pandemic, and economic pain could still worsen as cases mount.
- Simmering tensions between Washington and Beijing also loom large, after U.S. President Donald Trump signed an executive order, ending preferential treatment for Hong Kong, and also shut the door on "Phase 2" trade negotiations with China.

Outlook

- BOJ and ECB are keeping policy measures steady, adopting a wait and watch approach. These policy decisions could halt the gold rally. However, a rise in U.S. - China tensions, and an uptick in coronavirus infections in some major economies is likely to keep gold fundamentally supported. Important support levels could be seen around $1,766 per ounce, while key resistance level is seen near $1,825-1,832 per ounce range.

OPEC AND RUSSIA AGREE TO EASE RECORD SUPPLY CURBS FROM AUGUST

- OPEC Meeting highlights- The Organization of the Petroleum Exporting Countries (OPEC) and its allies, known as OPEC+, agreed on Wednesday, to scale back oil production cuts from August, as the global economy slowly recovers from the coronavirus pandemic. OPEC+ has been cutting the output since May by 9.7 million barrels per day, or 10% of global supply, but from August, cuts will officially taper to 7.7 million bpd until December. Saudi Arabian Energy Minister, Prince Abdulaziz bin Salman, has said that the production cuts in August and September would end up amounting to about 8.1 million-8.3 million bpd, more than the headline number. That's because countries in the grouping, which over-produced earlier this year, would compensate by making extra August-September cuts.
- EIA Crude inventory report- U.S. crude inventories fell 7.5 million barrels last week, against market forecasts of 2.1 million-barrel drop.
- US oil production- Oil production in the United States has now fallen from 13.1 million bpd on March 13 to 11 million bpd for July 3, according to the Energy Information Administration, for the third week in a row. Production has rebounded somewhat from the week ending June 12, which saw an average of 10.5 million bpd produced.
- Venezuela's oil production- Venezuela's production was 393,000 barrels per day (bpd) in June, down from 573,000 bpd in May, and down 52 per cent, from an average of 821,000 bpd in the first quarter of the year. This was the lowest monthly total since February 1943, when Venezuela's nascent oil industry produced 353,000 bpd. The drop in exports, to a 77-year low of 379,000 bpd in June, was spurred by escalating US sanctions.
- China Crude imports- China's June imports of crude oil hit their highest levels on monthly and daily bases, according to Reuters calculations, based on customs data released on Tuesday. June imports reached 53.18 million tonnes, or 12.9 million barrels per day (bpd), the data from the General Administration of Customs showed, surpassing a previous record of 11.3 million bpd in May.
- The International Energy Agency has said that global oil markets are rebalancing, with prices of about $40 per barrel expected in coming months.
- In a sign of recovery, China's refinery daily crude oil throughput in June climbed 9% from a year earlier, reaching its highest level on record due to rising consumption.

Outlook

- The OPEC members' decision to ease supply could compensate from rising demand, as world economies are moving from the lockdown measures. WTI Crude oil prices could find support around $38.5 per barrel, while critical resistance could be seen around $43.70. A drop in US oil production, and inventory, is likely to keep oil prices firm in the short term.

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