DAILY ANALYSIS REPORT

Thursday, March 18, 2021

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Gold found support from the dovish fed statement

Reduced heating demand to keep NG prices lower

GOLD FOUND SUPPORT FROM THE DOVISH FED STATEMENT

- Gold prices rallied overnight and are now trading near $1,748 which is up more than 4% from the $1,673.30 low registered in the first week of March. Fed has pledged to keep its benchmark overnight interest rate near zero despite a surge in inflation expectations.
- Fed expects inflation to rise to 2.4% in 2021 which is much higher than the target inflation rate of 2%, however expects it to slow to 2% in 2022.
- The Fed also raised its forecast on GDP growth this year to a 6.5% annualized rate, from 4.2% which will be the strongest growth in nearly 40 years. Also, the unemployment rate is now seen falling to 4.5% by the end of this year, compared to the projection in June of 6.4%. It also expects more drop in unemployment next year. Fed projections are indicating a speedy economic recovery post covid19.
- Fed sounded significantly dovish in the statement which was supportive for gold prices along with other riskier assets. However, in yesterday's meeting announcement, the Fed officials made no mention of recent rises in bond yields, or any effort to combat those movements. Gold price movement is likely to be capped by strength in government bond yields.
- On the global economic data front, US Feb housing starts fell 10.3% m/m to a 6-month low of 1.421 million, against expectations of a decline to 1.560 million. Also, U.S. Feb building permits fell 10.8% m/m to 1.682 million, against expectations of a decline to 1.750 million. Besides, European Feb new car registrations fell -20.3% y/y to 850,170 and Japan Feb exports fell -4.5% y/y, against -0.2% y/y and the biggest decline in 5 months. Global economic data are indicating slower growth projection and are likely to support gold prices.

Outlook

- Gold which bounced from the recent low of $1,673.3 is likely to face stiff resistance near 50 days EMA at $1,781 while it may find support levels around $1,715 and $1,687.

REDUCED HEATING DEMAND TO KEEP NG PRICES LOWER

- A mixed US weather forecast is likely to reduce heating demand for natural gas and will keep prices lower. Natural gas prices are currently trading near $2.511 which has dropped significantly from the recent high registered on 17 Feb'21 at $3.396 which is nearly a 24% drop in one month.
- The Commodity Weather Group has said the eastern half of the US should see warmer-than-normal temperatures next week, while cooler temperatures are expected in the West.
- Natural gas prices are under pressure due to lower domestic demand. As per Bloomberg data, US domestic demand for Natural gas on Wednesday fell 10% y/y to 74.5 bcf.

- However, export demand, electricity consumption and gas production are likely to provide support to the prices. Gas flows to US LNG export terminals on Wednesday rose to a record 11.7 bcf, up +43% y/y and US electricity output in the week ended March 13 rose +0.3% y/y to 69,318 GWh (gigawatt hours). Also, US dry gas production on Wednesday fell -2.0% y/y to 92.056 bcf/d.
- Meanwhile, EIA will release official inventory data later today; the market expects a drop in inventory by 20 bcf. Last Thursday's weekly EIA report showed that inventories the week of March 5 fell -52 bcf to 1,793 bcf. US NG Inventories are down 12.2% y/y, which is 7.3% below the 5-year average.

Outlook

- Natural Gas prices are likely to trade negatively while below the key resistance level of 20 days EMA of $2.683 and 50 days EMA at $2.746, it may find immediate support around $2.451 and $2.393

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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

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