
Crude prices firm after the API inventory report
Positive economic data to keep gold prices under pressure
Robust uptrend seen in Aluminium

CRUDE PRICES FIRM AFTER THE API INVENTORY REPORT

- ▲ Crude oil futures were trading firm, after the API reported a more-than-expected drop in US crude stockpiles, and robust US factory data, which have increased optimism for a speedy economic recovery from COVID-19 losses.
- ▲ According to the API report, crude inventories fell by 6.4 million barrels in the week upto August 28, to about 501.2 million barrels, which was much higher than market expectations for a draw of 1.9 million barrels. Gasoline stocks also fell by 5.8 million barrels, against a market forecast of a drop of 3.0 million barrels. The market will get further direction from the official EIA weekly inventory report, which will be released later today.
- ▲ US Gulf of Mexico offshore oil output, which was affected by the hurricane, was still down by 525,099 barrels per day, or 28.4%, till Tuesday. Still, 71 of the US Gulf of Mexico's 643 manned platforms remained evacuated, down from 117 production platforms, on Monday.
- ▲ On the production side, the US Energy Information Administration said in a monthly report on Monday that US oil production remained far below the April levels of 11.99 million BPD. US oil output had fallen sharply in the previous month. Crude oil prices rally was capped by OPEC production news. The Organization of the Petroleum Exporting Countries' (OPEC) output rose by about 1 million barrels per day (BPD) in August.
- ▲ Crude oil also found support from a Goldman Sachs forecast for Q4 Brent crude oil prices at \$48 per bbl, from a previous estimate of \$43 a bbl.
- ▲ Crude oil prices will face some challenges on the demand side, due to weakness in economic activity in India. Data on Tuesday showed diesel sales at India's three biggest fuel retailers fell -12% m/m, and -22% y/y, in August, to 4.3 MMT.
- ▲ Meanwhile, China's economic activity is supporting oil demand; Chinese manufacturing activity in August is expanding at the fastest pace in nearly a decade, with the Caixin/Markit Manufacturing Purchasing Managers' Index coming in at 53.1 for the month. The Purchasing Managers' Index (PMI) for services rose to 55.2, from 54.2 in July, according to the National Bureau of Statistics.

Outlook

- ▲ Supply worries from OPEC+ members, rising US oil exports, and weakness in the oil demand, due to the coronavirus pandemic, will keep a lid on oil prices. WTI Crude oil on Nymex is likely to find key resistance levels around \$43.90 and \$44.60 levels; meanwhile, strong support is seen around the 20-days EMA at \$42.52, and the 50-days EMA at 40.15.

POSITIVE ECONOMIC DATA TO KEEP GOLD PRICES UNDER PRESSURE

- ▲ Gold prices traded negative, due to strength in the US dollar, on strong US Manufacturing data. Positive economic data is supporting the dollar, as hopes for an economic recovery is seen clearly.
- ▲ US manufacturing activity accelerated to a nearly two-year high in August, amid a surge in new orders. The Institute for Supply Management (ISM) said on Tuesday that its index of national factory activity increased to a reading of 56.0 last month, from 54.2 in July. This was the highest level since November 2018, and marked three straight months of growth.
- ▲ ADP payroll data is projected to add 950,000 new employees in August, far more than the 167,000 reported in July. Meanwhile, US Non-farm payrolls are forecast to rise to 1.4 million in August, down from 1.763 million in July, and the smallest gain, since the recovery began in May. ADP payroll data will be released later today, and Non-Farm payroll data, will be released on Friday.
- ▲ Gold prices could find support from Fed Governor Brainard's comments, which were dovish. She has said that the US economy faces "considerable uncertainty" in the months ahead, and "it will be important for monetary policy to pivot from stabilization to accommodation."

- ▲ Gold is likely to receive support from deflation concerns in Europe, which are dovish for ECB policy. Eurozone Aug CPI fell -0.2% y/y, weaker than expectations of +0.2% y/y, and the most significant decline in over four years. Also, ECB Vice President Guindos has said on Tuesday that "we expect the evolution of inflation in the coming months to continue and to even fall before a rebound in 2021."

Outlook

- ▲ Safe-haven demand and dovish central bank expectations are likely to keep gold prices higher. The market will get additional direction from important jobs data, which is scheduled to be released on Friday. Gold prices are likely to remain firm, while above the support level of the 20-days EMA at \$1,958, and the 50-days EMA at \$1,917. The next levels of resistance are placed at \$2,023 and \$2,059.

ROBUST UPTREND SEEN IN ALUMINIUM

- ▲ According to the International Aluminium Institute, global aluminum production in July 2020, was 5.45 million metric tons. July's total marked a 2.8% increase, from the 5.30 million metric tons produced in June; production totalled 5.41 million metric tons in July 2019.
- ▲ It is estimated that Chinese production reached 3.13 million metric tons, up 3.3%, from the 3.03 million metric tons produced in June. Production in July 2019 was 3.06 million metric tons.
- ▲ Inventory (on warrant) at SHFE has shrunk by 58%, from 305,203 to 128,028 mt, while LME inventory has increased by almost 32%, from 1,014,425 to 1,321,575 mt, since April 1, 2020; this has given rise to the prices in China, being at a premium to that in London. Parity, which is the difference between the SHFE and the LME, after calculating for the VAT and the currency, is currently trading at 378 Yuan, indicating a strong trend for Chinese aluminum, driven by fundamental demand for the metal.

Outlook

- ▲ Aluminium is trading above the 20-days SMA in a higher high, higher low formation, indicating the trend to be positive. Further, it has also breached the upper Bollinger band on the weekly charts, supporting the above view. Aluminium could rise further towards \$1,840 & \$1,855 levels, while support is seen at \$1,790 & \$1,765 levels.

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