DAILY ANALYSIS REPORT

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Crude oil prices steady following optimism on US-China trade talk and economic stimulus

The US Treasury yield curve is no longer flashing signs of a recession, keeping gold prices under pressure

Iron ore supply to improve in China, keeping prices under pressure

Low inventory and supply disruptions keep Aluminium prices firm in China

CRUDE OIL PRICES STEADY FOLLOWING OPTIMISM ON US-CHINA TRADE TALK AND ECONOMIC STIMULUS

- Trade tensions between the US and China are cooling off as the US looks to extend allowing Huawei Technologies to buy components from US companies. A softening of the trade conflict may improve oil demand.
- Crude oil prices also remained firmed as major economies might enact stimulus measures to counter a possible global economic slowdown that could affect oil demand.
- Crude oil inventories in the United States are projected to fall by 1.9 million barrels in the week ending August 16, according to a Reuter's Survey Report. The API is scheduled to release its data on Tuesday.
- Tensions in the Middle East may keep oil prices firm. Gibraltar's government has said on Sunday that it could not comply with the US request because of European laws. Iran on Monday warned the US against any fresh attempts to seize the tanker in the open seas.

Outlook

- Brent oil prices remained firm as US-China trade talks led to further optimism after the US allowed Huawei Technologies to buy products from US suppliers. An economic stimulus announcement from US, Germany and China may lead to a further improvement in the oil demand. Brent oil may find support near 58.20 - 57.60 levels, while important resistance can be seen around 61-61.50 levels. We expect Brent oil to remain firm following optimism over demand, tightening supply in the US and production limits by OPEC members. Oil producing countries, including Saudi Arabia, plan to restrict oil production, which will keep oil prices supported at lower levels. The OPEC and non-OPEC Ministerial Monitoring Committee would meet in Abu Dhabi on September 12 to review the oil market.

THE US TREASURY YIELD CURVE IS NO LONGER FLASHING SIGNS OF A RECESSION, KEEPING GOLD PRICES UNDER PRESSURE

- Gold prices lost momentum this week as the US Treasury yield curve is no longer flashing signs of a recession. Asian equities rallied and kept gold prices under pressure following Monday's trade.
- The focus now shifts to the US Federal Reserve meeting minutes, which are due on Wednesday. There is an approximately 86% chance of a 25 basis-points cut in September by the US Federal Reserve.
- In an important event after FOME minutes, Federal Reserve Chairman Jerome Powell will deliver a key speech on Friday at the central bank's annual Jackson Hole conference.
- A temporary payroll tax cut will provide a boost to the US economy and improve sales numbers in the near future. The Trump administration is considering a tax cut for millions of workers to boost the economy and stave off fears of a recession.
- Hopes for additional or further economic stimulus across the globe are rising and keeping the dollar index firm. Germany is prepared to increase fiscal spending. China's central bank unveiled a key interest rate reform to lower corporate borrowing costs.

Outlook

- Gold prices are facing stiff resistance around $1,523-1,530 per ounce, while remaining under pressure on stimulus projections by several leading economies to counter the slowdown. The US treasury yield curve also moves out of a recessional signal and this is keeping precious metals under pressure. We expect gold to move towards $1,483 per ounce if it breaks below $1,500 per ounce.

Eyes are now on the US Federal Reserve meeting minutes, which are due on Wednesday, for further clues. In an important event after FOME minutes, Federal Reserve Chairman Jerome Powell will deliver a key speech on Friday at the Central Bank's annual Jackson Hole conference. Any dovish tone could provide support for gold at lower levels.

IRON ORE SUPPLY TO IMPROVE IN CHINA, KEEPING PRICES UNDER PRESSURE

- The inventory of imported iron ore at Chinese ports was estimated at 123.15 million tonnes for the week ending August, which is near the highest levels since May, according to a private survey report.
- Iron ore demand may slow from production curbs in the top steel-making city of Tangshan as the four days' production restrictions begin from August 18.
- China's iron ore imports surged 21% in July from the month before to their highest levels since January, as supplies surged from miners in Australia and Brazil.
- Positive news on interest rates may push demand later on as China's Central Bank introduced a key interest rate reform to reduce borrowing costs for companies and support a slowing economy. The reform is equivalent to making a loan rate cut of 45 basis points.

LOW INVENTORY AND SUPPLY DISRUPTIONS KEEP ALUMINIUM PRICES FIRM IN CHINA

- A power disruption at a northwest Chinese aluminium smelter caused 500,000-tonnes-per-year of production to be completely halted.
- Prices were also supported by China announcing interest rate reforms to boost the economy, which also fuelled hopes of interest rate cuts.
- There is a potential supply disruption at China's Hongqiao Group after its facility was flooded last week. Hongqiao is currently the largest aluminum producer in the world.
- Open interest of SHFE most active aluminium contracts surged to the highest in 17 months, indicating solid liquidity of the contracts.
- Aluminium inventories in warehouses tracked by the SHFE fell to their lowest since April 2017 at 387,663 tonnes, while LME inventories fell to their lowest since July 23.
- China produced 35.8 million tonnes of aluminium last year, while output was 20.49 million tonnes in the first seven months of 2019, up 1.6% from the same period a year earlier.

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