DAILY ANALYSIS REPORT

Tuesday, 21 July, 2020

Lead rebounds after taking support at 20-day SMA

Higher inflation expectations and trade tensions between the US & China are lending support to Gold

A rise in coronavirus infections could derail a recovery in fuel demand

Lead rebounds after taking support at 20-day SMA

- Lead has bounced, after taking support at 20-day SMA, and looks set to rise further, supported by optimistic sentiments and higher demand for the metal as well. Supply disruptions, as the Covid-19 pandemic continues to spread around the world, is increasing the possibility of further mine disruptions, while a rebound in automobile sales, and increased demand for replacement batteries, could increase the demand for lead, supporting the price.
- Operating rates for primary lead smelters in top lead producing smelters decreased by 0.60% to 51.9%, for the week ended July 17th, from the previous week. Crude lead supply is relatively tight, due to which some smelters have cut production, which could have a positive impact on the price. Also, the operating rate for secondary lead smelters was up by 0.50% to 53.2% from the previous week; secondary lead smelters recycle used lead, including those found in car batteries. Better operating rates at the secondary smelters indicate that the recycle industry has picked up, after the initial slump in China during its lockdown.

Outlook

- Lead has found support at the 20-day SMA, from which it has bounced swiftly. The metal looks set to rise further towards $1,865 & $1,885 levels, while support is seen at $1,810 & $1,795 levels.

Higher inflation expectations and trade tensions between the US & China are lending support to Gold

- Expectations of higher inflation from increased stimulus are providing support to gold prices. Gold is trading firm near nine-year highs on the CME. Concerns over rising coronavirus cases, and US-China tensions are likely to keep supporting gold prices in the near term. However, central banks have disappointed gold investors by keeping the policy stance unchanged, and holding rates steady in expectations of an economic recovery.
- European Union leaders have reached a deal on a massive 750 billion euro recovery fund stimulus plan for their coronavirus-blighted economies.
- Central banks have disappointed gold investors by keeping the policy stance unchanged, the ECB and the BOJ held key rates and maintained status quo on the policy stance in their July meeting. The PBoC, China's central bank, has also kept the policy interest rates on hold.
- Escalating tensions between the US and China is another tailwind for gold prices. The United States is considering banning travel for all members of the Chinese Communist Party to the US.
- Worries over a surge in coronavirus cases, and its impact on the global economy, are likely to keep gold prices supported from lower levels. So far, coronavirus has infected more than 14 million people worldwide.
- On the economic data front, Japan's exports plunged 26.2% in June, from a year earlier, Ministry of Finance data showed on Monday.

Outlook

- Global central banks, such as PBOC, 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. Gold also found support from a massive 750 billion euro recovery fund stimulus plan.

A RISE IN CORONAVIRUS INFECTIONS COULD DERAIL A RECOVERY IN FUEL DEMAND

- Oil prices dipped on Monday, on the prospect that a rise in the pace of coronavirus infections could derail a recovery in fuel demand. Fuel demand has recovered from a 30% drop in April, after countries around the world imposed strict lockdowns; usage is still below pre-pandemic levels, and a rising number in coronavirus cases, is posing a threat to oil demand.
- Oil prices are likely to get support from hopes for a vaccine. An experimental coronavirus vaccine, being developed by AstraZeneca, and Britain's University of Oxford, was safe, and produced an immune response in early-stage clinical trial.
- Oil demand could pick up, after European leaders finalized a stimulus deal worth a massive 750 billion euro recovery fund, in order to revive economic growth.
- US Oil Rig count- Seeing a drop in demand in the US, the energy drillers cut the number of oil and natural gas rigs. Baker Hughes reported that the number of oil and gas rigs in the US fell again last week, by 5, to 253, marking the nineteenth straight loss in the number of active rigs. The number of oil rigs decreased for the week by 1 rig, according to Baker Hughes data, bringing the total to 180, compared to 779 active rigs, this time last year. The total oil and gas rigs are now sitting at 701, fewer than this time last year.
- China's oil Imports- After two consecutive months of heightened purchases, Chinese imports of crude oil slowed in June. Customs data from 27 producer countries shows that exporters loaded 2.55 million barrels a day, or 22%, less of crude from May.
- The Organization of the Petroleum Exporting Countries (OPEC), and its allies, known as OPEC+, agreed to scale back oil production cuts from August. 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.

Outlook

- Crude oil prices found initial support from increased optimism over a Coronavirus vaccine and stimulus measures from European leaders. Still, the demand outlook remains uncertain, and increased oil supplies from OPEC nations are likely to keep a lid. Increasing oil inventories in the US could also keep oil prices under pressure. WTI Crude oil prices could find support around $38.5 per barrel, while critical resistance could be seen around $43.70.

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