DAILY ANALYSIS REPORT

Monday, September 21, 2020

ABANS

Dovish central bank comments to support gold prices

Lead – could trade sideways

Crude oil prices under pressure on potential supply resumption from Libya

Dovish central bank comments to support gold prices

- Gold prices are hovering around $1960; the positive movement is supported by dovish comments by ECB members. Gold is likely to get further direction from Fed Chairman, Jerome Powell, who will appear before the US Congressional committees later this week. Precious metals prices on Friday closed moderately higher, following a drop in the stock market, and a weakness in the Dollar Index. Dovish comments on Friday from the Fed and ECB members are positive for gold prices. The ECB Governing Council member, de Cos, has said that removing stimulus has greater risks than keeping it, and the need for additional ECB stimulus "can't be ruled out."
- According to the CFTC Commitments of Traders report for the week ended September 15, Gold futures' net long increased by 4,504 contracts to 240,977. Speculative long positions gained +11,339 contracts, while shorts added +3,835.
- On the economic data front, the University of Michigan US September consumer sentiment rose +4.8, to a 6-month high of 78.9 and stronger than expectations of +0.9, to 75.0. Conversely, August leading indicators rose +1.2% m/m, weaker than expectations of +1.3% m/m, although July was revised upwards to +2.0% m/m, from the initially reported +1.4% m/m. Japan's August National CPI ex-fresh food and energy fell -0.1% y/y, right on expectations, and the first decline in more than 3-1/4 years.
- A resurgence of the Covid pandemic in India, France, Germany, and the UK may prompt the re-imposition of lockdown measures. Safe-haven demand is likely to keep gold prices supported.
- Gold prices are also likely to find support from safe-haven demand, due to trade tensions, Brexit risks to UK economy, and global geopolitical risks involving Iran, North Korea, and Venezuela.

Outlook

- Gold prices are likely to receive support from highly simulative monetary policies by the world's key central banks, low global bond yields, low global inflation for dovish central bank policies, and geopolitical tensions. Gold prices are likely to find support near the 50-days EMA at $1,932, while crucial resistance could be seen around $1,994 and $2,007 per ounce.

Lead – could trade sideways

- Operating rates for primary lead smelters in major lead producing provinces remained unchanged at 59.3%, for the week ended 18th September, from the previous week. The operating rates for secondary lead smelters decreased by 3%, to 56%, from the previous week. Secondary lead smelters recycle used lead, including those found in car batteries. Decent operating rates at the secondary lead smelters indicate that the recycle industry is picking up, which in turn, is dependent on the automobile industry, suggesting better traction there too. Operating rates across lead-acid battery producers averaged 72.51% for the week ended 18th September, which was flat, compared to the previous week.

- On warrant inventory at SHFE increased by 234%, from 6,245 mt, on 1st April, 2020 to 20,877 mt, on 18th September, 2020, while at the LME, the inventory increased by 129%, from 52,675 mt, to 120,750 mt, during the same time period. The inventory has increased due to a lower base in April, 2020, especially at the SHFE. Lead prices continue to rally due to an increase in demand along with positive sentiment for base metals.
- However, considering from mid-July, the inventory at the SHFE has declined from 38,749 mt, to 20,877 mt, this is probably due to the arbitrage between the SHFE and LME having come down from around 1,200 Yuan to 436 Yuan. This has reduced the price incentive for China to import lead.
- Parity, which is the difference between the SHFE and the LME after calculating for the VAT and the currency, is currently trading at 436 Yuan, indicating a strong trend for Chinese lead, driven by fundamental demand for the metal.
- Ample inventory at LME has ensured that lead cash is trading at a discount of $26.5 over the three-month contract, suggesting decent inventory at the LME. The metal can flow into the SHFE the way it did earlier this year, only when the parity goes up.

Outlook

- Lead has declined sharply from $2,000 odd levels in the past couple of weeks, and is trading sideways; the medium term trend remains positive, but lead could trade range bound in the $1,950-$1,860 zone in the near term.

Crude oil prices under pressure on potential supply resumption from Libya

- WTI Crude oil prices are trading near $41.20; prices are under pressure following the resumption of oil producers in the Gulf of Mexico. Oil and gas producers had been restarting their offshore operations over the weekend, after being disrupted by hurricane Sally. Some 17% of U.S. Gulf of Mexico offshore oil production and nearly 13% of natural gas output went offline on Saturday in the face of Hurricane Sally's waves and winds.
- Crude oil prices are likely to remain under pressure, following the potential resumption of oil supply from Libya. Libyan General, Haftar, has said on Friday that he would end the blockade on Libyan crude oil exports. Before the blockade, Libya's crude production was 1.1 million BPD.
- U.S. crude oil inventories stand +13.3% above the seasonal 5-year average. Goldman Sachs has said that global crude oil inventories should draw down this month, and that the worldwide oil market is likely to see a deficit of -3.0 million BPD in Q4.

- According to the CFTC Commitments of Traders report for the week ended September 15, net long for crude oil futures increased by 378 contracts to 449,744 for the week. Speculative long positions increased by 11,868 contracts, while shorts also increased by 11,490 contracts.
- Baker Hughes reported on Friday that the number of oil rigs in the United States fell by 1, to 179.
- The EIA's estimate for oil production in the United States rose for the week ending September 11—the last week for which there is data, to 10.9 million barrels of oil per day, up from 10.0 million BPD in the week prior, and 9.7 million BPD the week before that. While production has recovered in the last couple of weeks, U.S. oil production is still down 2.2 million BPD from its all-time high reached earlier this year.

Outlook

- We expect crude oil prices to remain under pressure due to weak global energy demand, due to the coronavirus pandemic and increasing oil supplies from the U.S. and OPEC+ members. WTI crude oil could find support near the 10-days EMA at $40.18 per barrel, and critical resistance level could be seen around $43.46-$43.68 per barrel.

DISCLOSURE & DISCLAIMER: ABANS BROKING SERVICES PVT. LTD. (ABSPL)

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

Membership Details:
MCX Member ID: 40385 / SEBI Reg. No. INZ000032733;
NCDEX: Member ID F00681 / SEBI Reg. No. INZ000032733

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations). ABans Broking Services Pvt. Ltd. (ABSPL) is a SEBI Registered Research Analyst having registration no. INH000006369. ABSPL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock Broking services. ABSPL is a subsidiary company of ABans Finance Pvt. Ltd. (AFPL). AFPL is an NBFC, registered with the RBI, in the category of non-acceptance of public deposits.
One of the group companies of ABSPL is ABans Securities Pvt. Ltd. (ASPL) which is a SEBI registered member with NSE, BSE and MSE stock exchanges. ASPL is also a Depository Participant of CDSL. ABans Commodities Pvt. Ltd. (ACIPL) is another group entity which is also a registered member with MCX in the Commodity segment. Further details are available on the group website www.abans.co.in Mandatory Disclosures as per the Regulations:

- Ownership & Material conflicts of interest –
  - Whether the Research Analyst or ABSPL, or his associate or his relative has any financial interest in the subject company and the nature of such financial interest – No
  - Whether the Research Analyst or ABSPL, or its associates or relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of this research report or date of the public appearance - No
  - Whether the Research Analyst or ABSPL, or his associate or his relative, has any other material conflict of interest at the time of publication of this research report or at the time of public appearance - No
- Receipt of Compensation –
  - Whether ABSPL, or its associates have received any compensation from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months – No
  - Whether ABSPL, or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report – No
- Whether the Research Analyst has served as an officer, director or employee of the subject company – No
- Whether the Research Analyst or ABSPL has been engaged in market making activity for the subject company – No
- Other material disclosures, if any

Disclaimer:
The information and opinions contained in the document have been compiled from sources believed to be reliable. The company does not warrant its accuracy, completeness and correctness. Neither ABans Broking Pvt. Ltd. (ABSPL), nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information. The document is not, and should not be construed as an offer to sell or solicitation to buy any securities. This document may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose without prior permission from "ABans Broking Services Private Limited". Your feedback is appreciated on compliance@abans.co.in