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Gold prices firm due to US-China tensions and expectations of rising inflation  
US crude and distillate inventories rose unexpectedly, keeping a lid on oil prices  
Zinc ended lower, but trades relatively stronger

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## GOLD PRICES FIRM DUE TO US-CHINA TENSIONS AND EXPECTATIONS OF RISING INFLATION

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- Gold prices on the CME are trading to a near nine-year high, due to US-China tensions, and expectations of rising inflation, due to global stimulus. US bond yields are continuing to edge lower, and a weakness in the dollar is keeping gold prices higher. A hope for another round of U.S. stimulus measures have helped gold prices, as it may increase inflation, and gold will provide a hedge against inflation.
- Gold prices in India also hit a record high, tracking a global rally, but the price rise has dampened retail jewellery demand. India's gold imports in the June quarter plunged 96% from a year earlier, to 13 tonnes, after shipments virtually grounded to a halt in April and May, due to the coronavirus pandemic, and the lockdowns in major cities.
- On the US economic data front, the National Association of Realtors released existing home sales data on Wednesday. Existing home sales jumped 20.7% to a seasonally adjusted annual rate of 4.72 million units last month. Data for May was at a 3.91 million unit paces, which were the lowest levels since October 2010.
- Coronavirus cases continued to surge in the United States. More than 15.01 million people have been infected by the virus globally.

### Outlook

- Gold prices are likely to continue the bullish moves, as gold stays above the key support levels around \$1,849-\$1,833 per ounce, on the backdrop of stimulus hopes from the US, trade war with China, and rising covid cases globally.

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## US CRUDE AND DISTILLATE INVENTORIES ROSE UNEXPECTEDLY, KEEPING A LID ON OIL PRICES

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- The Energy Information Administration (EIA) reported a crude oil inventory build of 4.9 million barrels, against a market expectation of a drop of 1.95 million barrels, for the week ending July 17. Crude inventories rose to 536.6 million barrels. US production rose to 11.1 million barrels per day, up by 100,000 barrels per day. The EIA has said that inventories were 19 percent above the seasonal average, as demand for fuels remains subdued.
- The EIA also reported a 1.8-million-barrels decline in gasoline stockpiles, and an average of 9.1 million bpd in gasoline production for the last week. This suggests that the demand for the fuel is indeed improving, despite the improvement being an uneven one.
- In distillate fuels, the EIA reported a 1.1-million-barrels inventory build, compared with a modest decline of 453,000 bpd, a week earlier. Distillate fuel production averaged 4.8 million bpd last week, compared with 4.9 million bpd, a week earlier.
- President Donald Trump has said that the outbreak would probably worsen, before it got better, a shift from his previously robust emphasis on reopening the economy.
- A fresh dispute between Washington and Beijing put further pressure on oil prices. The growing divide between China and the US is expected to accelerate, disrupting long-running economic ties, and forcing investors to reassess their view of the global markets. Tensions escalated this week, after the U.S. claimed two Chinese hackers were targeting American companies. The U.S. ordered the shutdown of China's Houston consulate, claiming it was a necessary step to protect intellectual property, and the data of private citizens.

## Outlook

- WTI Crude oil prices are trading firm, on the hopes of a fresh stimulus from the US, and the EU stimulus, which was announced last week. These stimulus measures could revive economic conditions, and will infuse fresh demand. However, an increase in US oil production and inventory is keeping a lid on oil prices. Crude oil prices are likely to find resistance around \$44.14-\$45.65 levels, while key support is seen near \$39.07-\$37.80 per barrel.

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## ZINC ENDED LOWER BUT TRADES RELATIVELY STRONGER

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- Zinc ended lower on Wednesday, as tensions between the US & China increased, as President Trump closed the Chinese consulate in Houston, and indicated that other consulates can also be closed if required. The market anticipates the Chinese side to retaliate, which has dampened the sentiments.
- It is estimated that until now, about 744,000 mt of zinc production has been lost due to Covid-19 around the globe. SHFE inventory for Zinc has declined in China, inventory (on warrant) since 1st April has declined by 57.00%, from 87,713 mt, to 37,586 mt, helping prices stay buoyant. This has helped Zinc rise significantly, and has also helped zinc stay relatively stronger, after Wednesday's fresh US-China escalations.
- Zinc parity (price comparison between the LME & the SHFE in terms of Yuan after adjusting for tax) currently stands at 367 Yuan, which is trading range-bound, but is currently above the zero level, indicating Chinese demand.

## Outlook

- Zinc has declined yesterday, but currently looks to be near a support zone of \$2,200-\$2,180 levels. The metal looks set to rise further towards \$2,250 & \$2,290 levels, while support is seen at \$2,200-\$2,180 levels.

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