
Positive demand outlook supportive for crude oil prices
Weakness in the dollar to support gold prices

POSITIVE DEMAND OUTLOOK SUPPORTIVE FOR CRUDE OIL PRICES

- Crude oil prices are currently trading near \$64.56, sharply up from last week's low of \$61.56 registered on Friday. Positive economic data has increased economic optimism and is likely to support energy demand in major countries. However, the crude oil rally is likely to be capped due to the possible easing of sanctions on Iran which will add supply to the global oil market once negotiation between the US and Iran takes final shape.
- On Thursday, Iranian President Hassan Rouhani said that world powers had taken a "major step" to restore the 2015 nuclear deal and accept that sanctions on Iran would be lifted. However, the future of talks to bring the US back into the Iran nuclear deal is under threat after the UN nuclear watchdog was unable to reach an expected agreement on how to continue to inspect Iran's nuclear sites.
- Crude oil prices found support on the back of positive economic data released last week. The U.S. May Markit manufacturing PMI unexpectedly rose +1.0 to 61.5, stronger than expectations of a decline to 60.2 and the fastest pace of expansion since the data series began in 2018. Also, the Eurozone May Markit manufacturing PMI fell -0.1 to 62.8, stronger than expectations of 62.5. In addition, the UK May Markit manufacturing PMI unexpectedly rose +5.2 to 66.1, stronger than expectations of a decline to 60.8. The increase of manufacturing activity in the US, UK, and Eurozone is supportive of energy demand.
- However, Crude oil prices are likely to face demand losses in India due to rising Covid-19 cases and many prominent cities are extending lockdown till the first week of June. The overall global Covid-19 caseload has topped 166.9 million, while the deaths have surged to more than 3.45 million, according to the Johns Hopkins University. Sales of road transport fuels in India during May 1-15 dropped -20% m/m and -28% from the same period in 2019. Average gasoline sales in India during May 1-15 fell to 52,300 MT, the lowest in a year, and sales of diesel in India dropped to a 7-month low of 147,300 MT a day during May 1-15.
- Meanwhile, energy demand losses of India are getting compensated due to recovery in Covid-19 condition in the US. As per Bloomberg and John Hopkins University data report, The US reported just over 18,700 new cases on Saturday much are lower than the daily average.
- Also, the strength in crude oil demand in China is bullish for prices. China processed a record 232 MMT of crude from Jan-April, up +12% from the same period in 2019 prior to the pandemic.
- Baker Hughes reported Friday that active US oil rigs rose by +4 rigs in the week ended May 21 which is well above August's 15-year low of 172 rigs. An increase in Oil rigs is an early indication of future oil supply in the US.
- CFTC Commitments of Traders report in the week ended May 18 suggests that net long for crude oil futures sank by 20,614 contracts to 475,947 for the week. Speculative long positions fell by 37,588 contracts, while shorts were down by 16,974 contracts.

Outlook

- WTI Crude oil prices are likely to trade firm while above the key support level of 50 days EMA of \$62.66 and 100 days EMA \$59.29 while it may face stiff resistance near \$66.54 and \$69.50

WEAKNESS IN THE DOLLAR TO SUPPORT GOLD PRICES

- Gold prices are hovering near four month high, a weakness in US dollar and US bond yield is supportive for gold. The dollar stood near its lowest levels in three months against positive move in Euro and other currencies. Also US 10 year bond yields corrected from recent high and supported precious metal. Gold prices are currently trading near \$1,877.95 which is sharply higher from recent low of \$1,673.30 registered on March 8th. Dollar index future is currently trading below 90 sharply lower from March's high of 93.47 also US 10 year bond yield is trading near 1.625 which is sharply lower from March's high of 1.776.
- Weakness in inflation numbers in US and Japan are likely to weigh on gold prices. US 10-year breakeven inflation rate on Friday fell to a 2-week low of 2.443% and Japan's Apr national CPI ex-fresh food & energy fell -0.2% y/y, weaker than expectations of -0.1% y/y.
- Gold prices are likely to be negative due to strong global PMI data, manufacturing activity is expanding in US, UK and Eurozone.
- Hawkish comments from Dallas Fed President Kaplan are likely to keep gold prices under pressure. He said that Fed should discuss the unintended effects of its emergency tools, and he would rather talk about taper of asset purchases sooner rather than later. Also, Philadelphia Fed President Harker said the Fed should discuss tapering its bond-purchase program "sooner rather than later."
- However dovish ECB comment likely to provide support to precious metals, ECB President Lagarde said the ECB is "committed" to preserving favourable financing conditions to the Eurozone throughout the whole pandemic period, and policymakers should see through a temporary acceleration in price gains because underlying factors for sustained growth "are certainly not there." Also, ECB Governing Council member Rehn said, "as the inflation outlook in the Eurozone remains muted, economic growth still needs to be supported by a strong monetary stimulus."
- According to the CFTC Commitments of Traders report for the week ended May 18, net long for gold futures increased by 6,634 contracts to 198,889 for the week. Speculative long position increased by 8,106 contracts, while shorts were up by 1,472 contracts.

Outlook

- Gold prices are likely to find support from dollar weakness and it may trade firm while above key support level of 10 days EMA of \$1,864 and 20 days EMA of \$1,842, it may find stiff resistance around \$1,920

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