DAILY ANALYSIS REPORT

Thursday, September 24, 2020

ABANS

Natural Gas futures rebounded on weather-driven demand outlook

Silver drops due to strength in the Dollar Index

Zinc: near a support zone

NATURAL GAS FUTURES REBOUNDED ON WEATHER-DRIVEN DEMAND OUTLOOK

- Natural Gas futures on Wednesday rallied, following a positive demand outlook, due to weather forecast, and new storage estimates.
- This price movement reflects the anticipation of a winter rally, where December contracts traded above $3.0. Cold temperatures are likely to move into the US states later this month, which could boost heating demand for Natural Gas. Cold weather is anticipated to be entering half of the US, during September 28 – October 7.
- EIA weekly inventory report will be released today, for the week ending September 18. Bloomberg survey estimates are ranging from 68 Bcf to 82 Bcf, with a median of 77 Bcf. Current inventories of natural gas in US are up +16.5% y/y, and are +13.2% above the 5-year average.
- Increased export demand also supported the upside move in natural gas. The natural gas flows to US LNG export terminals were at 4.0 bcf on Wednesday, which are up +2.7%, from Tuesday.
- Meanwhile, US natural gas production continues to be weak and was down -10.8% y/y, at 83.387 bcf/d, according to Bloomberg data.

Outlook

- Natural Gas prices are likely to find support from the change in weather conditions, from September 28 to October 7. Nymex Natural Gas October expiry contract is likely to find key support levels around the 20-days EMA at $2.231, and the 10-days EMA at $2.16. Meanwhile, significant resistance could be seen at $2.441-$2.675 levels.

SILVER DROPS DUE TO STRENGTH IN THE DOLLAR INDEX

- A rally in the Dollar Index to a 1-3/4 month high on Wednesday has pushed precious metals down. Silver prices are now trading near 22.125, and are down nearly 26% from the August month high of 29.915. Due to significant weakness in Silver, the Gold to Silver ratio is currently trading near the 83.88 mark, which is 21% higher from this month's low of 68.87.
- Global manufacturing data was supportive for industrial metals demand. The U.S. September Markit Manufacturing PMI rose +0.4, to 53.5, which was as per expectations, and also the fastest pace of expansion in 20 months. Also, the Eurozone September Markit Manufacturing PMI rose +2.0, to 53.7, stronger than expectations of +0.2, to 51.9, and the fastest pace of expansion in 2 years. In addition, the Japan September Jibun Bank Manufacturing PMI rose +0.1, to a 7-month high of 47.3.
- Precious metals are likely to find support from dovish Fed comments. Fed officials signalled on Wednesday that they favoured an additional debt-fuelled fiscal stimulus measures. Cleveland Fed President, Mester, has said that the U.S. economy "is still in a deep hole," and more fiscal support will be needed for recovery. Also, Fed Vice Chair, Clarida, has said, "additional fiscal support will likely be needed" to support the economy, and the Fed "won't consider" an interest rate increase, until it achieves 2% inflation, for at least a few months, as

well as full employment.

Outlook

- Weakness in silver could continue further, while remaining below the critical resistance level of the 50- days EMA of $25.47. Significant support levels could be seen around the 200-days EMA of $21.191.

ZINC: NEAR A SUPPORT ZONE

- Treatment charges (TC) of domestic zinc concentrate stood at 5,300 Yuan per metric tonne, which is 200 Yuan lower than the treatment charges in early September. Further, TCs are declining since the previous month, suggesting tight supply of zinc ore.
- The active Zinc contracts on the Shanghai Futures exchange is trading near 19,645 Yuan, and the spot premiums are trading at a premium of 150-180 Yuan/mt. Zinc smelters in China have started to increase inventory and stockpile raw material before the winter, and a few mines could suspend production in October, which could further tighten the supply of both zinc ore and refined metals.
- SHFE inventory for Zinc has declined in China. Inventory (on warrant), since 1st April, has declined by 80%, from 87,713 mt, to 17,722 mt. On the other hand, inventory on the LME has increased by 327%, from 48,775 mt, to 204,275 mt. It is the drawdown in the Chinese inventory, which is supporting the Zinc rally.
- Ample metal at the LME has ensured that cash zinc is trading at a discount of $20 over the three-month contract; however, this discount has reduced from $33.50, which was seen in the first week of September, signifying tighter near term supply.
- Zinc parity (price comparison between LME & SHFE in terms of Yuan adjusted for Vat and currency), is currently trading at 483 Yuan, which is above the zero level, indicating Chinese demand.

Outlook

- Zinc has declined this week, and is trading near the support zone. The correction experienced is organic, and it appears that a rebound could be witnessed from just below the current levels. The medium-term trend remains positive, and we could see zinc rebounding from the $2,385-$2,355 levels towards $2,440 & $2,485 levels.

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