DAILY ANALYSIS REPORT

Friday, September 25, 2020

Gold prices found support from hopes for stimulus measures in the US

Global demand concerns are bearish for oil prices

Copper – Rebound likely

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- Gold found support from stimulus hopes in the US. The Democrats in the US House of Representatives are working on a $2.2 trillion coronavirus stimulus package, which could be voted upon, as soon as next week, a key lawmaker said on Thursday. US Federal Reserve policymakers, including Chairman, Jerome Powell, made multiple public appearances this week, calling upon the US government to provide more fiscal support.
- Meanwhile, on the economic data front, US weekly initial unemployment claims report unexpectedly rose +4,000 to 870,000, showing a weaker labour market, than expectations for a decline to 840,000. The US August new home sales report showed a +4.8% m/m increase, to a 14-year high of 1.011 million, which was stronger than expectations of a decline to 890,000.
- Dovish ECB actions also have provided support to gold prices. The ECB provided Eurozone banks with 174.5 billion euros ($203 billion) of targeted loans (TLTRO) in ultra-cheap funding, in an attempt to spur bank lending.

Outlook

- Gold prices are holding firm on stimulus hopes from US, and dovish actions by the ECB. Gold may find a strong support base around the 100-days EMA at $1,869; meanwhile crucial resistance could be seen near the 20-days EMA at $1,931.

Global demand concerns are bearish for oil prices

- Crude oil prices are trading in a range, with a negative bias, as global crude demand concerns are bearish for oil prices. The IEA said on Thursday that it is more likely to downgrade its oil demand forecasts, rather than upgrade them. The IEA also noted that risks to demand are a cause for concern for 2021 as well, and that crude stockpile draws are still not steep enough, as they are starting from a very high base.
- Crude oil prices found some support from a recovery in U.S. equities on Thursday. Meanwhile, mixed U.S. economic data did not provide any further direction to the oil prices.
- Weak fuel demand in India is also keeping oil prices under pressure. Indian refineries processed 16.2 MMT of crude in Aug, down -8.7% m/m, and -26% y/y.
- The rising number of COVID cases globally has reduced oil demand. Infections have risen above 32.150 million around the world, with deaths exceeding 983,000.
- Meanwhile, weekly EIA data showed that U.S. crude oil inventories, as of September 18, were +13.3% above the seasonal 5-year average. Gasoline inventories were +0.9% above the 5-year average, and distillate inventories were +21.1% above the 5-year average.
- As per the EIA report, U.S. crude production in the week ended September 18 fell -1.8% w/w, to 10.7 million BPD, and is down by -2.4 million BPD (-18.3%), from February's record-high of 13.1 million BPD.

- 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.
- Bank of America Global Research predicted that crude prices will remain range-bound in the mid-$40 per bbl area, until jet fuel demand recovers, and that a substantial rally in crude may not even be seen until 2021, when summer gasoline demand comes back.

Outlook

- We expect crude oil prices to remain under pressure, on account of weakness in world energy demand, due to the coronavirus pandemic, and increasing oil supplies from U.S. and OPEC+ members. WTI crude oil could trade toward next support levels of $38.90-37.50, and critical resistance levels around $40.70-41.90.

Copper – Rebound likely

- Yangshan premium Bill of Lading has declined to $35.50; it broke the $40 low seen in June, 2016, this suggests that China's thrust for copper might be stalling, indicating lukewarm imports in the near term.
- According to a website data from earthi.space, the SAVANT platform, a product focused on global copper smelting activity, showed a significant improvement in August, as the sector recovered. North American copper smelting activity has also rebounded.
- North America, which had recorded seven consecutive monthly readings below 35, rebounded to 58.7, the highest reading since September 2019. This was due to restarting of off-line smelters.
- On the inventory side, on warrant Inventory at SHFE declined by 72%, from 216,414 mt. on 1st April 2020, to 61,522 mt. on 24th September. 2020, while at LME, the inventory declined by 84%, from 177,250 mt, to 28,825 mt, during the same time period. A drawdown in the inventory in both exchanges indicates robust consumption and manufacturing demand.
- Drawdown in the inventory at LME has ensured that copper cash is trading at a premium of $2 over the three-month contract.
- Copper parity (price comparison between LME & SHFE in terms of Yuan adjusted for Vat and currency), is currently at -284 Yuan, which is below the zero level, indicating the London prices to be stronger.

Outlook

- Copper continues to trade in a higher top, higher bottom formation, signifying the trend to be bullish for the industrial metal. The correction experienced seems to be generic, and this dip is likely to find buyers. Copper could rise towards $6,700 & $6,800 levels, and can find support at $6,520 & $6,470 levels in the near term.

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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

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