
Oil prices up after US energy companies cut oil production at the US Gulf Coast
Gold prices trading lower on optimism over US-China trade talks
Aluminum – uptrend persists

OIL PRICES UP AFTER US ENERGY COMPANIES CUT OIL PRODUCTION AT THE US GULF COAST

- Crude oil is trading higher, on the possibility of a rare double storm at the US Gulf Coast. Tropical Storm Laura is moving towards the Gulf of Mexico, and has recently turned into a hurricane. The U.S. National Hurricane Center has projected that Hurricane Laura would strengthen into a major Category 3 storm over the next couple of days. Meanwhile, storm Marco has weakened on a positive note. As per the report from Reuters, producers reduced the output by 1.5 million barrels per day, nearly 14% of the total US output.
- Crude oil prices also found support, as US-China resumed talks. US Trade Representative, Robert Lighthizer, US Treasury Secretary, Steven Mnuchin, and the Chinese Vice Premier, held a phone call on Monday. Both sides agreed to continue pushing forward the implementation of the phase-one trade deal.
- Focus would shift towards the crude oil inventory report. EIA will release its weekly inventory report later today. Meanwhile, the American Petroleum Institute (API) reported a draw in inventory of 4.524 million barrels for the week ending August 21, against the market forecast of a drop of 3.694 million barrels.
- The rally in crude oil was limited by rising coronavirus cases across the globe. An early stage of a second wave of coronavirus could be seen in Europe, which is seeing a rise in Covid-19 cases, including re-infection.
- IHS Markit expects a drop in global oil demand, and predicts that global crude demand will stay below pre-Covid levels through Q1 of 2021, and that global oil demand won't fully return, until there is a containment of Covid with effective vaccines. Global oil demand is currently at 89% of prior-year levels, although it is showing an improvement from 78% in April.

Outlook

- Crude oil prices found initial support due to expected tropical storm on the US Gulf Coast, but supply worries from OPEC+ members, and weakness in the world economy, due to the coronavirus pandemic will keep a lid on prices rally. WTI Crude oil futures contract may find key resistance levels around \$43.90 and \$44.70, and support around the 20-days EMA at \$40.09.

GOLD PRICES TRADING LOWER ON OPTIMISM OVER US-CHINA TRADE TALKS

- Gold prices fell this week, due to increasing optimism over US-China trade talks, although losses in gold were limited, due to weakness in the US Dollar Index against major currencies. Gold prices are holding near the \$1,925 level, and now we await a speech by Federal Reserve Chair, Jerome Powell this week for further direction. US Federal Reserve Chairman, Jerome Powell's speech on the opening day of the annual Jackson Hole conference on Thursday will be closely watched for further direction. The speech at the Jackson Hole conference signals important shifts in monetary policy or the economic outlook by the central bank.

- On the economic data front, US July new home sales jumped +13.9%, to a 13-1/2 year high of 901,000, and stronger than expectations of +1.8%, to 790,000. Also, the Aug Richmond Fed manufacturing survey unexpectedly rose +8, to a 13-year high of 18, and stronger than expectations of unchanged at 10. Gold dropped due to German GDP data, the German economy contracted by 11.3%, against a market forecast of a drop of 11.7% in the second quarter. It dropped by 9.7%, on a quarter-on-quarter basis.
- Albeit gold prices could find support over the ongoing Covid-19 pandemic, which has reduced global growth prospects. The Covid-19 virus has now infected 23.842 million persons globally, with deaths exceeding 817,000.

Outlook

- Gold prices were under pressure, due to increased optimism over US-China trade talks, and positive economic data, but the rising number of coronavirus cases globally, and a weakness in the Dollar Index against other currencies is likely to limit the losses. The next level of support is seen around the 50-days EMA at \$1,905, and the 100-days EMA at \$1,828; meanwhile, an immediate resistance could be seen around \$1,961-\$1,986 levels.

ALUMINUM – UPTREND PERSISTS

- Aluminum continues to trade higher, and is near the highest price since January 2020. China's July imports of Aluminium increased 570%, YoY, in July 2020, to 391,297 mt; this was the highest monthly import since April 2009, when it imported around 440,000 mt. Wide disparities between China, where demand had started to recover, and the LME price, that were lower, made imports cheaper. China's imports of unwrought aluminium in July exceeded exports for the first time since 2009.
- The sentiment for base metals is likely to get a boost, as the United States and China had a review call over the US-China trade deal, which had been previously postponed for unknown reasons.
- Inventory (on warrant) at SHFE has shrunk by 55%, from 305,203, to 138,022 mt, while LME inventory has increased by almost 32%, from 1,014,425 to 1,342,775 mt, since 1st April 2020; this has given rise to the prices in China, being at a premium to that in London. Parity, which is the difference between the SHFE and the LME, after calculating for the VAT and the currency, is currently trading at 612 Yuan, indicating a strong trend for Chinese aluminum, driven by fundamental demand for the metal.

Outlook

- Aluminum is trading above the 20-days SMA, in a higher high, higher low formation, indicating the trend to be positive; further, it has also breached the upper Bollinger Band on the weekly charts, supporting the above view. Aluminium could rise further towards \$1,815 & \$1,835 levels, while support is seen at \$1,750 & \$1,730 levels.

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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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