DAILY ANALYSIS REPORT

Thursday, January 28, 2021

ABANS

US Federal Reserve pledged to keep supporting economy until there is full rebound

Copper is likely to trade negative while below $8,120

Crude oil is likely to trade firm

US FEDERAL RESERVE PLEDGED TO KEEP SUPPORTING THE ECONOMY UNTIL THERE IS A FULL REBOUND

- Gold prices are trading with losses from the last six sessions, over strength in the Dollar Index. However, dovish comments from global central banks are likely to provide support to the precious metal prices.
- The Fed left its key overnight interest rate near zero, and made no change to its monthly bond purchases. However, the Federal Reserve pledged again to keep supporting the economy, until there is a full rebound from the pandemic-triggered recession. The Fed statement says that "the pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic."
- Gold prices are likely to recover on dovish comments from ECB officials, when they said that markets were too complacent about the chances for additional ECB interest rate cuts.
- Also, comments on Wednesday from BOJ Governor, Kuroda, were bullish for gold, when he said that the BOJ must continue with large-scale monetary easing and that it is "premature" to talk about a policy exit.
- On the economic data front, the U.S. December capital goods new orders (nondefense ex-aircraft), a proxy for capital spending, rose +0.6% m/m, slightly stronger than expectations of +0.5% m/m.
- Gold is likely to find support after the German government cut its 2021 GDP estimate to 3.0%, from an October estimate of 4.4%, and said that the German economy would return to pre-pandemic levels in mid-2022, six months later than an October projection.

Outlook

- Gold prices are likely to find support at the 200-days EMA at $1,832 per ounce, while key resistance is likely to be seen around the 50-days EMA at $1,867.

COPPER IS LIKELY TO TRADE NEGATIVE WHILE BELOW $8,120

- LME Copper prices are trading negative from the last one week, on the back of strength in the Dollar Index, and loss of demand in China, after the fresh breakout of Covid cases.
- Meanwhile, as per a Reuter's survey, China is likely to gradually withdraw the stimulus, and trim its debt levels, as China's economy is back to pre-crisis levels.
- As per an ICSG report, the global copper market posted an apparent deficit of 480,000 metric tons through the first 10 months of 2020 and global copper mine production fell by 0.5%, during the aforementioned period. In Peru, the world's second-largest copper producer, copper mine production fell by 14% during the first 10 months of 2019. Furthermore, from April-May, production fell 38%, year-over-year. Meanwhile, Chile, the top producer, saw output fall 3% from July-October, leaving output unchanged, year-over-year for the 10-month period.
- However, refined copper production rose by 1.5% during the 10-month period. Chile's refined output rose by 5%. In Africa, refined output in the Democratic Republic of the Congo and Zambia

rose by 5% and 25%, respectively.

- Copper stock at LME has dropped nearly 99,900 mt in the last three months, and now stands at 77,175 mt, as on 27th January, 2021. Also, the stock at SHFE has dropped nearly 43,632 mt in the last three months, and now stands at 20,635 mt, as on 27th January, 2021. Copper is likely to find support from the drop in inventory.

Outlook

- Copper prices are likely to trade firm, while remaining above the key support level of the 50-days EMA of $7,717 per mt, and the 100-days EMA of $7,325 per mt. Meanwhile, key resistance is seen near the $8,120 level.

CRUDE OIL IS LIKELY TO TRADE FIRM

- WTI Crude oil prices are hovering around $52.5 per barrel. Economic growth concerns are likely to keep oil prices under pressure, after Germany cut its growth estimate for this year. US Crude oil inventory built-up is also likely to keep oil prices under pressure.
- OPEC Secretary-General Barkindo has said that they are cautiously optimistic for the global economic rebound in 2021, and for significant oil demand growth. However, the pandemic situation remains "delicate," and OPEC+ "stands ready to take any necessary actions" through the OPEC+ alliance.
- Meanwhile, Iraq pledged to cut its crude output in January and February to make up for overproducing relative to its OPEC+ quota last year. Iraqi crude production could drop to 3.6 million bpd for January and February, which will be the lowest Iraqi crude output in six years.
- Crude oil prices are likely to find support from increasing US Gasoline demand, which rose +1.2% in the week ending January 22, to 8.48 million bpd, the third consecutive weekly increase.
- However, concerns about Chinese energy demand is negative for crude prices. The Chinese government is discouraging travel during the upcoming Lunar New Year holidays, due to the resurgence of Covid.
- On the US inventory front, the EIA reported that crude inventories unexpectedly fell -9.9 million bbl, to a 9-3/4 month low, versus expectations of a +1.5 million bbl build. However, EIA gasoline stockpiles rose by +2.47 million bbl, to a 5-1/2 month high, against the expectations of an increase of +1.30 million bbl.
- U.S. crude oil inventories, as of January 22, were +5.7% above the seasonal 5-year average, gasoline inventories were -2.2% below the 5-year average, and distillate inventories were +7.8% above the 5-year average.

Outlook

- WTI Crude oil prices for the March expiry contract are likely to find support near the 20-days EMA at $51.80 per barrel. Meanwhile, critical resistance is seen around $54.85 per barrel, and $56.13 per barrel.

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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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