
Precious metals rally before the US Federal Reserve meeting
US Natural Gas prices to get support from air cooling demand
Aluminum continues to trade higher

PRECIOUS METALS RALLY BEFORE THE US FEDERAL RESERVE MEETING

- Silver hit a seven-year peak, and gold prices jumped to their highest level since September 2011. Precious metals were trading higher, as a spike in COVID-19 infections, and hopes for increased stimulus measures, and tensions between US-China supported the safe-haven demand.
- The markets will get additional direction in the next two days; the US Federal Reserve meeting begins from today. The Fed's reserve measures, such as infusing liquidity on a massive scale, bringing interest rates down to zero, buying more than US\$2 trillion worth of Treasuries and Mortgage Backed Securities, along with many such credit easing programs, helped a 'V' shaped recovery in the US.
- Despite optimism about a vaccine, the timing and its efficacy is still unknown. We expect the Fed to leave the Fed funds target rate unchanged at 0-0.25% with no change to their QE stance. The Fed may signal a future path, and could keep the policy stance unchanged. Gold is set to get benefits from stimulus measures from central banks, because it is widely viewed as a hedge against inflation and currency debasement.

Outlook

- Silver prices corrected marginally after a 54% rally in the less than seven weeks; the \$22.80 level would provide a massive support. A pull back towards the \$23.60 level could be fresh technical levels to enter long; we can expect a recovery from these levels. A weakness in the US Dollar, tensions with China, and rising coronavirus cases, is likely to keep supporting precious metals. The markets now eye the Fed meeting outcome later this week on Wednesday. Silver prices could get additional support from industrial demand, along with low mining production.

NATURAL GAS PRICES TO GET SUPPORT FROM AIR COOLING DEMAND DURING SUMMER

- Natural Gas prices corrected marginally after the tropical storm Hanna, and Gonzalo faded, but air cooling demand is likely to support the prices.
- On the demand front, total U.S. consumption of natural gas rose by 1.0%, compared with the previous report week, according to data from the EIA. Natural Gas consumed for power generation climbed by 0.8% week over the week.
- Industrial sector consumption remained unchanged, averaging 20.4 Bcf per day. In the residential and commercial sectors, consumption increased by 4.1%, but remains relatively low. Natural Gas exports to Mexico decreased 0.7%.

Outlook

- Natural Gas prices declined on Monday, and are facing a stiff resistance near 1.81, and a break above this may result in trading higher towards 1.89 and 1.93 levels. Key support level is seen near 10 DMA at 1.73. We expect prices to bounce from the key support level on the back of strong seasonal summer cooling demand. The markets may trade negative, if it breaks and sustains below 1.73.

ALUMINIUM CONTINUES TO TRADE HIGHER

- According to China's customs data, prebaked anode, which is a raw material for aluminium smelting, saw its exports from China increase by 23.4% on a YoY basis, to 796,500 in the H1 of 2020.
- Aluminum continues to rise as the three-month LME aluminum touched the highest levels since the first week of March 2020. Liquidity has shifted from August to September on the SHFE; firm spot premiums indicate ample physical demand, pushing the prices higher.
- Inventory (on warrant) at SHFE has shrunk by 68% from 305,203 to 98,821 mt, while LME inventory has increased by almost 37.00% from 1,014,425 to 1,388,025 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 714 Yuan, indicating a strong trend for Chinese aluminum, driven by fundamental demand for the metal.

Outlook

- Aluminum is trading above the 20-day SMA in a higher high, higher low formation indicating the trend to be positive. Aluminum could rise further towards \$1,730 & \$1,760 levels, while support is seen at \$1,660 & \$1,635 levels.

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