DAILY ANALYSIS REPORT

Monday, September 28, 2020

Gold prices to trade in a range of $1,845-$1,883

Lead – likely to trade sideways before rebounding

Global energy demand concerns are negative for crude prices

GOLD PRICES TO TRADE IN A RANGE OF $1,845-$1,883

- A rally in the Dollar Index to a 2-month high, has kept gold prices under pressure. Gold prices are expected to trade in a tight range of $1,845-$1,883. .
- US economic data, which was released on Friday, was mixed for bullion. US August durable goods orders rose +0.4% m/m, weaker than expectations of +1.5% m/m. Also, April durables ex-transportation rose +0.4% m/m, weaker than expectations of +1.0% m/m. Meanwhile, US August capital goods orders non-defense ex-aircraft, a proxy for capital spending, rose +1.8% m/m, stronger than expectations of +1.0% m/m.
- A surge in Asian and European Covid infections may force governments to implement a second round of shutdown in parts of their countries. Covid cases are increasing to new records in France, UK, Germany, and India. The overall number of global coronavirus cases was nearing the 33 million mark, while the deaths have increased to more than 996,000.
- ECB Governing Council member, Villeroy de Galhau's comments, provided some support to gold prices, when he said that inflation is not yet where the ECB wants it, and the central bank is "determined" to act, if needed, to push up prices.
- Speculators have reduced their bullish positions in COMEX gold. According to the CFTC Commitments of Traders report for the week ended September 22, Gold futures' net long slumped by 21917 contracts to 219,060. Speculative long positions declined by 15497 contracts, while shorts added by 6,420.

Outlook

- Safe-haven demand and dovish central bank expectations are providing support to gold prices. However, the strength in the Dollar Index is keeping the gains limited. We expect gold to trade in a range of $1,845-$1,883. Meanwhile, key resistance is seen near the 20-days EMA of 1,917, and key support is seen around $1,845.

LEAD – LIKELY TO TRADE SIDEWAYS BEFORE REBOUNDING

- Operating rates for primary lead smelters in major lead producing provinces remained unchanged at 59.3%, for the week ended 25th September, from the previous week. The operating rates for secondary lead smelters increased by 0.3%, to 55.8%, from the previous week. Secondary lead smelters recycle used lead, including those found in car batteries. Decent operating rates at the secondary lead smelters indicate that the recycle industry is picking up, which in turn is dependent on the automobile industry, suggesting better traction there too. Operating rates across lead-acid battery producers averaged 72.72% for the week ended 25th September, which was up 0.21%, as compared to the previous week.
- On warrant inventory at SHFE decreased by 67%, from 38,493 mt, on 15th July, 2020, to 12,703 mt, on 25th September 2020, while at the LME, the inventory increased by 153%, from 47,375 mt, to 120,050 mt, during the same time period. The inventory has increased in the LME, due to a lower base in July, and the drawdown in SHFE suggests strong consumption.
- Parity, which is the difference between the SHFE and the LME, after calculating for the VAT and the currency, is currently trading at 522 Yuan, indicating a strong trend for Chinese lead, driven by fundamental demand for the metal.

- Sufficient inventory at LME, along with ample near term supply has ensured that lead cash is trading at a discount of $22.5 over the three-month contract.

Outlook

- Lead has declined sharply from $2,000 odd levels, to $1,843 in September; the medium-term trend remains positive, but lead could trade range bound in the $1,815-$1,865 zone in the near term before rebounding.

GLOBAL ENERGY DEMAND CONCERNS ARE NEGATIVE FOR CRUDE 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 has 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.
- JPMorgan Chase, on Friday, cut its U.S. Q4 GDP estimate to 2.5% (q/q annualized) from a prior estimate of 3.5% (q/q annualized). Also, Goldman Sachs, on Thursday, cut its U.S. Q4 GDP estimate to 3.0% (q/q annualized), from a prior estimate of 6.0%. Meanwhile, 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.
- Friday's data from Baker Hughes showed that active U.S. oil rigs rose by +4 rigs in the week ended September 25, to 183 rigs.
- According to the CFTC Commitments of Traders report for the week ended September 22, net long for crude oil futures increased by 23,025 contracts, to 472,769 for the week. Speculative long positions dropped by 1,159 contracts, while shorts also plunged 24184 contracts.

Outlook

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

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