
Crude oil prices likely to trade firm on increasing demand optimism
Strength in global bond yield pushed gold prices down

CRUDE OIL PRICES LIKELY TO TRADE FIRM ON INCREASING DEMAND OPTIMISM

- ▲ Crude prices are trading firm on increasing optimism over demand outlook and anticipation that global crude surplus is likely to be diminished by the middle of this year. U.S. economic recovery will support energy demand as 7-day average of new U.S. Covid infections on Wednesday fell to a 2-1/2 low of 136,963. Aggressive measure for global coronavirus vaccination is likely to provide further boost to positive sentiments.
- ▲ On economic data front, US weekly initial unemployment claims fell -33,000 to a 2-month low of 779,000, showing a stronger labor market than expectations of 830,000 and Dec factory orders rose +1.1% m/m, stronger than expectations of +0.7% m/m. Also, Eurozone Dec retail sales rose +2.0% m/m, weaker than expectations of +2.8% m/m and the German Jan Markit construction PMI fell -0.5 to 46.6, the eleventh consecutive month the index has remained below 50.0 and in contraction.
- ▲ UBS said it expects the global oil market to be undersupplied by -1.5 million bpd this year as OPEC+ reduces crude production and world energy demand climbs. As per Joint Technical Committee of OPEC+ (JTC) global crude inventories will fall by -1.1 million bpd on average this year and that global oil stockpiles will fall back below their 5-year average by June of this year. Also OPEC Secretary-General Mohammad Barkindo said that "OPEC is hopeful that 2021 will be a good year for overall demand."
- ▲ However, setback from China oil demand is likely to keep a lid on oil prices. The Chinese government is discouraging travel during the upcoming Lunar New Year holidays due to the resurgence of Covid. China State Railway Group cut its estimate for the number of travelers over the holiday period to 296 million from 407 million, citing low train ticket bookings.

Outlook

- ▲ WTI Crude oil prices for the March expiry contract are likely to find support near the 20-days EMA at \$53.22 per barrel. Meanwhile, critical resistance is seen around \$57.40 per barrel, and \$58.10 per barrel.

STRENGTH IN GLOBAL BOND YIELD PUSHED GOLD PRICES DOWN

- ▲ Gold prices are trading below \$1,800 after heavy sell off yesterday. Gold prices came under pressure as global government bond yield soared. The UK 10-year gilt yield soared to a 10-1/4 month high of 0.468% after rate guidance from Thursday's BOE policy meeting. German bund yields followed gilt yields higher as the 10-year German bund yield on Thursday climbed to a 4-3/4 month high of -0.444%. The 10-year T-note yield on Thursday also rose to a 3-week high of 1.160%.

- ▲ Gold prices also came under pressure as rally in the dollar index to a 2-month high and positive move in equities reduced safe haven demand for precious metals. US economic data which was released on Thursday were also negative for gold prices. However monthly non-farm payroll which are scheduled to release later today, will provide further direction. US Economy is likely to add back 100,000 payrolls in January as jobless rate held steady at 6.7%. ADP reported that private payrolls jumped by 174,000 in January which was more than double then market expectations and new weekly jobless claims improved to a two-month low at the end of January.
- ▲ BOE policy meeting increased the market's expectation that the BOE will not use negative interest rates. The BOE made the announcement to hold its key rate at a record low of 0.1% and left the size of its total asset purchase programme at 895 billion pounds (\$1.22 trillion).

Outlook

- ▲ Gold prices are likely to find support around \$1,772 while key resistance is level is seen near \$1,823-\$1,854.

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