DAILY ANALYSIS REPORT

Friday, August 7, 2020

Medium-term trend for Copper remains positive

Safe-haven demand and weakness in the US Dollar is keeping Gold at record highs

Concerns over demand growth to keep oil prices lower

MEDIUM-TERM TREND FOR COPPER REMAINS POSITIVE

- Copper has experienced a sharp rally since March 2020, from $4,400 levels to make a high near $6,632 in mid-July, post which it has experienced a correction, which is likely to be bought into, considering the trend to be bullish for the metal in the medium term.
- According to SMM, most of the large-scale copper mines in the world saw a year-on-year decline in output in the first half of 2020. Among the 13 mines surveyed by SMM, only four saw a year-on-year rise in copper output. Also, output by Peru shrank in the H1 of 2020, and fear of supply constraints have also helped copper rise significantly.
- On the inventory side, On warrant Inventory at SHFE declined by 71%, from 216,414 mt, on 1st April 2020, to 63,756 mt, on 7th August 2020, while at LME, the inventory declined by 72.40%, from 177,250 mt, to 48,925 mt, during the same time period. Such a draw down on the inventory front suggests that the consumption has picked up pace, indicating an optimistic price outlook.

Outlook

- Copper has consolidated, and corrected in the past few trading sessions, but the medium-term trend continues to be positive; we can expect it to find support at 6,270 & 6,230 levels, and it could rise further towards 6,510 & 6,550 levels, after taking support at the mentioned levels,

SAFE-HAVEN DEMAND AND WEAKNESS IN THE US DOLLAR IS KEEPING GOLD AT RECORD HIGHS

- Gold is trading at an all-time peak, as demand was supported by weakness in the US Dollar against other currencies, and worries over the global economic slowdown, due to rising COVID-19 cases. On Thursday, the Dollar Index, which measures the greenback against six major currencies, dropped to its lowest since May 2018.
- Coronavirus cases continue to rise across the globe. More than 18.94 million people have been infected by the coronavirus globally.
- On the monetary policy front, The Bank of England (BOE) central bank's main lending rate was kept at 0.1%, after it cut rates twice from 0.75%, since the beginning of the coronavirus pandemic. The Monetary Policy Committee opted against extending its bond buying program, having announced a £100 billion ($131.4 billion) expansion in June, which took the total Asset Purchase Facility to £745 billion. The central bank warned that UK unemployment will spike at 2.5m by the end of the year, as firms cut jobs due to the shock of Covid-19. In its latest forecasts, the Bank predicts the jobless rate will almost double to 7.5%, and only fall slowly in 2021.
- On the economic data front, the number of Americans seeking jobless claims fell last week, but still 31.3 million people were receiving unemployment checks in mid-July. The focus is shifting towards US nonfarm payroll data, due later in the day, which could provide a further direction to gold prices.

Outlook

- Gold prices are likely to remain to remain firm on expectations of a stimulus in the US, and safe-haven demand, due to the coronavirus pandemic. Gold could find immediate support near the 5-Days EMA at $2,031, and the 10- Days EMA at $1,990; meanwhile key resistance levels could be seen at $2,088 and $2,106.

CONCERNS OVER DEMAND GROWTH TO KEEP OIL PRICES LOWER

- Oil prices are trading with minor losses today on worries over fuel demand growth. A rising number of corona cases across the globe are likely to limit the fuel demand. The virus stimulus package remains the hope to boost fuel demand in the US.
- On the inventory front, the EIA reported a drop of 7.4 million barrels in the US official crude oil inventory during the week ending July 31. Meanwhile, US crude oil imports averaged 6.0 million barrels per day (b/d) last week, up by 864,000 b/d from the previous week, while crude oil exports averaged about 2.8 million b/d, down by about 392,000 b/d from the previous week. Over the past four weeks, crude oil imports averaged about 5.7 million b/d, down by 1.2 million b/d, year-on-year, while crude oil exports averaged about 2.9 million b/d, up by about 326,000 b/d year-on-year. The United States has been the world's important oil producer in the past years, with the help of its shale oil production growth. Meanwhile, China is one of the biggest oil importers.
- OPEC's decision to reduce production cuts from August could backfire, due to the rising number of coronavirus cases. The Organization of Petroleum Exporting Countries (OPEC), and its allies agreed to lower their current crude oil production cut level to 7.7 million barrels per day (bpd), starting in August, from the existing 9.7 million bpd.

Outlook

- Crude oil prices are likely to face a stiff resistance near $43.57 level, as the demand outlook remains uncertain, and OPEC supplies may create a demand-supply imbalance. Meanwhile, support levels could be seen around the 50-days SMA at 39.77, and the 100-days SMA at 31.33 level.

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