# DAILY ANALYSIS REPORT

Monday, September 7, 2020



Crude oil drops after Saudi Arabia cut the October official selling price to Asia

Lead rebounds from its support levels

Gold prices to trade in the range of 1,930-1,950

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## CRUDE OIL DROPS AFTER SAUDI ARABIA CUTS THE OCTOBER OFFICIAL SELLING PRICE TO ASIA

- Oil prices dropped to their lowest level since July, after Saudi Arabia cut the October official selling price to Asia, on expectations that demand is not going to recover sooner than anticipated. Asia is Saudi Arabia's largest market by region.
- Saudi Arabia's state oil producer, Aramco, has reduced the OSP for its Arab Light crude grade to Asia by \$1.40 a barrel, setting it at - \$0.50 per barrel, versus the Oman / Dubai average, and OSP to North-Western Europe at a discount of \$2.00 a barrel, over ICE Brent, down \$0.20, from September.
- Oil is also under pressure, as US companies increased their drilling for new supplies, after the recent recovery in oil prices. US energy firms last week added oil and natural gas rigs for the second time in the past three weeks. Baker Hughes reported that the number of oil rigs in the United States rose by 1, to 181. The total number of active oil and gas rigs increased for the week by 2, with oil rigs rising by 1, and gas rigs holding steady.
- Russian Energy Minister, Alexander Valentinovich Novak, on Friday said that oil demand has returned to 90% of the pre-COVID pandemic levels. Still, limited travel, and "work from home", is slowing down the recovery in fuel demand.
- ▲ According to the CFTC Commitments of Traders report for the week ended September 1, net long for crude oil futures declined further, by 9,784 contracts to, 490,915 for the week. The speculative long positions fell -6,429 contracts, but shorts rose +3,355 contracts.
- China's imports have been supporting the prices. China's crude oil imports in August climbed 13% from a year earlier. Imports were 47.48 million tonnes last month, which is 11.18 million BPD, against 10.11 million BPD, in the same month, for the previous year.

# Outlook

Crude oil prices would remain negative for the short term, due to abundant supply from the US and OPEC+ nations, along with diminishing demand from the US, due to end of the US driving season. WTI Crude oil on Nymex may trade towards its next levels of support towards \$38.1, and \$37.4. Meanwhile, crucial resistance could be seen around the 10-days EMA at \$40.8, and the 20-days EMA at \$41.4.

## LEAD - REBOUNDS FROM ITS SUPPORT LEVELS

- Operating rates for primary lead smelters in major lead producing provinces increased by 0.90%, to 59.3%, for the week ended 4<sup>st</sup> September, from the previous week. The operating rates for secondary lead smelters increased by 1.30%, to 60.5% 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 in dependent on the automobile industry, suggesting better traction, there too.
- On warrant Inventory at SHFE increased by 267%, from 6,245 mt, on 1st April, 2020, to 22,920 mt on 4<sup>th</sup> September 2020, while at LME, the inventory increased by 110%, from 52,675 mt, to 110,800 mt, during the same time period. The inventory has increased due to a lower base in

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April, 2020, especially at the SHFE. Lead prices continue to rally, due to an increase in demand, along with the positive sentiment for base metals.

- However, considering the fact that, from mid-July onwards, the inventory at the SHFE has declined from 38,749 mt, to 22,920 mt, this is likely on account of the arbitrage between SHFE and LME, which has come down from around 1,200 Yuan to 262 Yuan. This has reduced the price incentive for China to import lead.
- Parity, which is the difference between the SHFE and the LME, after calculating for the VAT and the currency, is currently trading at 262 Yuan, indicating strong trend for Chinese lead, driven by fundamental demand for the metal.

## Outlook

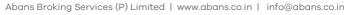
▲ Lead is trading in a higher top, higher bottom formation, suggesting the trend to be positive for the metal. Momentum indicators in a buy mode support the above view on the metal, and it could rise towards \$2,000 & 2,025 levels, while support is seen near \$1,955 & \$1,935 levels.

## GOLD PRICES TO TRADE IN THE RANGE OF 1,930-1,950

- Gold prices are trading in a tight range. Losses in gold prices were limited, as a sharp sell-off in Asian stocks continued from the last week, and gold is likely to find additional support from US data, which raised concerns over a quick economic rebound from setback due to coronavirus. However, a recovery in the Dollar Index is likely to keep metal prices under pressure. No significant US data is scheduled to be released today, due to the Labour Day holiday.
- According to the CFTC Commitments of Traders report for the week ended September 1, gold net-long soared by 9,758 contracts to 230,796. Speculative long positions gained by 4,559 contracts, while shorts fell by 5,199.
- On the economic data front from China, exports in August rose by 9.5%, from a year earlier. Imports, however, slumped by 2.1%. China posted a trade surplus of \$58.93 billion last month, against a \$62.33 billion surplus in July.
- European economic data on Friday was weaker-than-expected. German July factory orders rose +2.8% m/m, weaker than expectations of +5.0% m/m. Also, the German Aug Markit Construction PMI fell -1.7 to 48.0, the sixth consecutive month that the index has remained in contraction below 50.0. Even Germany's PPI data, which released today, has disappointed the markets.
- The US jobs report showed that the recovery is continuing to slow. US August non-farm payrolls rose 1.371 million, stronger than expectations of 1.350 million. Meanwhile, the August unemployment rate fell by 1.8 points, to a 5-month low of 8.4%, than the expectations of 9.8%, indicating a stronger labour market,

# Outlook

■ We expect gold prices to trade in a tight range of 1,930-1,950 for the short-term, Gold may find support near the 50-days EMA at 1,919, while crucial resistance could be seen around the 20-days EMA at 1,951.





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