DAILY ANALYSIS REPORT

Thursday, 9 July, 2020

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Safe-haven demand and stimulus hopes are keeping gold prices firm

Fresh breakout takes Zinc higher

Safe-haven demand and stimulus hopes are keeping gold prices firm

- Gold is holding onto gains above $1,800 and trading near its highest level since September 2011, as investors are shifting to the safe-haven precious metals against safety from the novel coronavirus, and central banks implemented powerful stimulus packages to cushion its economic impact. Weakness in the Dollar is also supporting gold prices.
- The United States has exceeded 3 million infections. The U.S. Fed officials expressed concerns that the surge threatened to pinch consumer spending, and job gains. The European Commission also forecast that the Euro zone would drop deeper into a recession this year. Gold is holding onto gains this year, as the global economy is feared to grapple with the impact of the pandemic. The coronavirus has infected more than 11.89 million people worldwide.
- According to the World Gold Council, investment demand in gold is picking up through ETF's. Gold-backed exchange traded funds added 734 tonnes to their holdings in the first half of 2020 - more than in any previous full year.
- Gold has been benefiting from lower interest rates around the world, and widespread stimulus measures from major central banks, as it is widely viewed as a hedge against inflation, and currency debasement.
- Global stimulus measures may cushion economies from the fallout of coronavirus-induced lockdowns. While the Federal Reserve's balance-sheet is continuing to grow due to newly imposed lockdowns in the US, the Fed is also stated to keep interest rates lower till 2022, and this will provide additional support to gold prices.
- U.S. services sector activity - The Institute for Supply Management (ISM) has said on Monday that its non-manufacturing activity index jumped to a reading of 57.1 last month, the highest since February, from 45.4 in May. It has bounced back from a reading of 41.8 in April, which was the lowest since March 2009.
- Worsening of U.S. - China trade relations may provide some buying momentum into Gold.

Outlook

- Gold prices could find strong support near $1,766 per ounce, and could rally towards an immediate high of $1,807 on fundamental support of rising covid cases across the globe. Gold prices are likely to continue their rally on the back of easing monetary policy by central banks. An immediate resistance is seen near 1,807 & 1,850 levels, while critical support is seen around $1,706 levels.

A surprise build in U.S. inventories have put pressure on oil prices marginally

- The U.S. Energy Information Administration has said on Wednesday, that for the week ending July 3, U.S. stockpiles rose by 5.7 million barrels, against market expectations of a drop of 3.2 million barrels. However, gasoline and distillate inventories fell more than expected.
- Crude oil is expected to trade higher, supported by tighter supplies from OPEC and the US; meanwhile, concerns over the coronavirus are likely to keep a lid on the rally. Seeing a recovery in demand, Saudi Arabia has raised its August crude official selling prices this week. Saudi raised the price to the United States to a premium of $1.65 per barrel over ASCI (Argus Sour Crude Index), up $0.30 from July, and it also raised the August price to Asia to plus $1.20 a barrel, versus Oman/Dubai average, up $1 from July.

- Supply concerns in the US are also likely to keep oil prices firm. The U.S. crude market faces some uncertainties from a court decision on Monday, ordering the shutdown of the Dakota Access pipeline, the biggest artery, transporting crude oil from North Dakota's Bakken shale basin to the Midwest and Gulf Coast regions, due to environmental concerns.
- U.S. crude oil production is expected to fall by 600,000 barrels per day (bpd) in 2020, a smaller decline than the 670,000 bpd it forecast previously, according to an EIA report.
- Ministers of OPEC+ countries will be having talks next week about the future of their record output cut deal, which is due to expire next month.
- The Organization of the Petroleum Exporting Countries (OPEC) production levels fell to its lowest in decades, with Russian output dropping to near targeted cuts. OPEC and allies, including Russia, collectively known as OPEC+, have pledged to slash production by a record 9.7 million barrels per day (bpd) for a third month in July. After July, the cuts are due to taper to 7.7 million bpd until December. However, the current record production cuts of 9.7 million b/d, which is set to expire at the end of July, and ease into curbs of 7.7 million b/d in August, are likely keep traders cautious. The next OPEC+ Joint Ministerial Monitoring Committee (or JMMC) meeting is scheduled for July 15.
- Libya's National Oil Corporation has said that a forced shutdown in production since January was expected to result in output dropping to 650,000 bpd in 2022, from about 1.2 million bpd achieved at the start of 2020.
- Abu Dhabi National Oil Co (ADNOC) plans to boost oil exports in August, the first signal that OPEC+ countries are preparing to ease output cuts.

Outlook

- WTI Crude oil prices on Nymex are likely to remain firm on the back of a drop in US production levels, and OPEC production cuts. Crude oil prices could rally towards $43.86 per barrel from current levels. Meanwhile, important support could be seen around $37.20 per barrel.

Fresh breakout takes Zinc higher

- Zinc experienced a strong breakout on Wednesday as it closed at a four month high; all base metals ended with handsome gains. According to a private survey, China's refined zinc output declined for a second straight month in June, as smelters in some of the provinces (Hunan, Shaanxi and Anhui) conducted planned maintenance. About 465,400 mt of zinc was produced in China in June 2020, which is 1.85% or 8,800 mt lower from May 2020, and 5.77% lower as compared to June 2019, which indicates moderate supply.
- SHFE inventory for Zinc has also declined sharply, as consumption in China increased; inventory (on warrant) since 1st April has declined by 57.85% from 87,713 mt to 36,970 mt, helping prices stay buoyant.
- Zinc parity (price comparison between LME & SHFE in terms of Yuan) currently stands at 325 Yuan, which bounced back from near zero levels, that were seen in the last week of March, indicating optimistic consumption outlook for the metal.

Outlook

- Zinc has risen sharply; it is trading above the 20-day SMA, and has broken the upper Bollinger band, indicating an upward breakout. The metal looks set to rise further towards $2,160 & $2,200 levels, while support is seen at $2,100 & $2,040 levels.

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