DAILY ANALYSIS REPORT

Thursday, June 17, 2021

Fed outlook on rate hike pushed gold prices down

Above normal weather forecast to keep NG prices supported

FED OUTLOOK ON RATE HIKE PUSHED GOLD PRICES DOWN

- Gold prices dropped sharply after the US Federal reserve projected rate hikes into 2023. Gold is currently trading near $1809 which is sharply lower than the recent high of $1919.20 registered on 1st June. The FOMC had signaled two interest rate hikes by the end of 2023 even as officials in their statement pledged to keep policy supportive for now to encourage an ongoing jobs recovery. Fed announced to continue to buy $120 billion in bonds each month to fuel the economic recovery.
- Fed Chair Jerome Powell said in a press conference that Fed policy would continue to deliver "powerful" support to the economy and flagged concerns over the economic recovery. He also said inflation could turn out to be higher and more persistent than expected.
- On the economic data front, US May housing starts rose +3.6% m/m to 1.572 million, against expectations of 1.630 million. US May building permits fell -3.0% m/m to a 7-month low of 1.681 million, against expectations of 1.730 million. The US May import price index rose +11.3% y/y, against expectations of +10.9% y/y and the fastest pace of increase in 9-1/2 years. China's May industrial production rose +8.8% y/y, against expectations of +9.2% y/y.
- However gold prices found some support from dovish comments from ECB Vice President de Guindos. He said the winding down of ECB pandemic stimulus "will have to be done gradually and with prudence, because we can't cut short the economic recovery that is underway."
- According to the CFTC Commitments of Traders report for the week ended June 8, net long for gold futures slipped by 4314 contracts to 209387 for the week. Speculative long position dropped by 45 contracts, while shorts were added by 4269 contracts.

Outlook

- Gold prices are likely to trade negatively while below the key resistance level of 50 days EMA at $1846 and 100 days EMA at $1833 while immediate support level could be seen around $1790 and $1763

ABOVE NORMAL WEATHER FORECAST TO KEEP NG PRICES SUPPORTED

- Natural Gas prices are holding near $3.244 after a sharp decline yesterday to $3.187 from the recent high of $3.369 registered on June 15th. An increasing air cooling demand in the US due to warmer weather forecast is likely to increase domestic gas consumption by electricity providers. Weather forecasting agency Maxar on Wednesday said that above-normal temperatures are expected in the West, and below-normal temperatures are expected in the Midwest from June 21-25. Maxar expects record heat on in the US West through June 20.
- As per Bloomberg data, US domestic natural gas demand Wednesday was 63.4 bcf, up +6.1% y/y. Also, increasing export demand is providing additional support to the prices. As per Bloomberg data Gas flows to U.S LNG export terminals on Wednesday were 9.9 bcf, up +10% w/w.

- US electricity output in the week ended June 12 rose +8.6% y/y to 87,138 GWh, it is likely to increase in the coming week due to warmer weather forecast, which is supportive for Natural Gas prices.
- Bloomberg data showed US gas production on Wednesday was up +2.5% y/y at 89.981 bcf/d.
- Natural Gas prices are likely to get fresh direction from the weekly inventory report later today. The consensus is for an increase of +70 bcf in weekly gas inventory. Inventories in the week ended Jun 4 rose +98 bcf to 2,411 bcf, right on expectations but above the 5-year average for this time of year at +92 bcf. However gas inventories still down -14.1% y/y and -2.2% below their 5-year average.
- According to the CFTC Commitments of Traders report for the week ended June 8, net short for natural gas futures increased by 15077 contracts to 102508 for the week. Speculative long position increased by 23130 contracts, while shorts added by 38207 contracts.
- Baker Hughes reported last Friday that the number of active US natural gas drilling rigs in the week ended June 11 fell by -1 rig to 96 rigs, which is still well above the record low of 68 rigs posted in July 2020.

Outlook

- Natural Gas July month expiry contract is likely to trade firm while above the key support level of 20 days EMA of $3.135 and 50 days EMA of $3.001 while it may find stiff resistance around $3.324-$3.470

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