DAILY ANALYSIS REPORT

Thursday, February 18, 2021

ABANS

Oil rally continued on reduced production and refining capacity in US

Bond Yield rally pushed non yielding Gold prices lower

OIL RALLY CONTINUED ON REDUCED PRODUCTION AND REFINING CAPACITY IN US

- Oil rally continued as weather conditions have affected US production and refining capacity and positive economic data have increased optimism about US economy.
- As per Bloomberg data, US total crude oil production has been cut by as much as 4 million bpd or 40% due to current arctic temperatures in US. Temperatures in Midland, Texas, the center of crude production in the Permian Basin, plunged to -2 degrees Fahrenheit (-19 Celsius) on Monday, the lowest since 1989. Many refineries in Texas have declared force majeure as rolling blackouts in the southern US have cut power to many refineries. The closure of refineries in the Gulf Coast has cut more than 3 million bpd of oil-processing capacity which supplies more than 60% of the gasoline for the U.S. East Coast.
- Meanwhile economic data released yesterday - retails sales, manufacturing production and NAHB housing market index - are supportive of crude oil prices.
- The increase in the crack spread to a 9-1/2 month high on Wednesday is bullish for crude prices as it gives incentive to refiners to purchase crude oil to refine it into gasoline.
- Meanwhile, Saudi Arabia is planning to increase its crude output in the coming months. Saudi Arabia cut its crude output by 1 million bpd for February and March and said it would announce a reversal of those cuts when OPEC+ meets next month. However, The increase in Saudi production would not begin until April, given the Saudis have already committed to stick to its production cuts through March. Also, Libya will export 1.21 million bpd of crude and condensate in February which is highest since October when Libya resumed oil production. Increasing oil production is likely to keep a cap on oil prices which have rallied significantly in drastic drop of April'20.
- API reported that U.S. crude stockpiles fell -5.8 million bbl last week. Official weekly inventory data will be released later today, market consensus is for a drop of 2.0 million bbl. As per latest report, US crude oil inventories as of Feb 5 were +1.8% above the seasonal 5-year average, gasoline inventories were -0.1% below the 5-year average, and distillate inventories were +6.9% above the 5-year average.

Outlook

- WTI Crude oi may continue positive move while above 20 days EMA of $57.50 and 50 days EMA of $53.21 per barrel meanwhile immediate resistance is seen near $63.07 and $64.41 per barrel.

BOND YIELD RALLY PUSHED NON YIELDING GOLD PRICES LOWER

- Gold prices are currently trading near $1,780 which fell down to a 2-1/2 month low yesterday due to strength in dollar index and rally into US Bond yields. However gold losses were limited after selling into Equities which supported safe haven appeal for precious metal.
- Global government bond yields rose to their highs. The 10-year US T-note yield on Wednesday initially rose to an 11-1/2 month high of 1.331% before falling back. The 10-year UK gilt yield rose to a 10-3/4 month high of 0.643% Wednesday, and the 10-year German bund yield climbed to an 8-1/4 month high of -0.330%.
- On economic data front, U.S. Jan retail sales rose +5.3% m/m and +5.9% m/m ex-autos, against expectations of +1.1% m/m , Jan manufacturing production rose +1.0% m/m, against expectations of +0.7% m/m and the Feb NAHB housing market index unexpectedly rose +1 to 84 against expectations of unchanged at 83. US Jan PPI ex-food & energy rose +2.0% y/y, stronger than expectations of +1.1% y/y and the largest increase in 16 months.
- Meanwhile, Fed minutes are positive for gold prices. Fed officials did not see the conditions for reducing their asset-purchase program being met for "some time.” It likely to support lower interest for longer term and liquidity conditions are not likely to change in near future.

Outlook

- Gold prices may find support near $1,762-$1,752 while key resistance level is seen around $1,804 and $1,823

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