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Dovish central bank comments to support gold prices

Lead – could trade sideways

Crude oil prices under pressure on potential supply resumption from Libya



# Dovish central bank comments to support gold prices

- Gold prices are hovering around \$1960; the positive movement is supported by dovish comments by ECB members. Gold is likely to get further direction from Fed Chairman, Jerome Powell, who will appear before the US Congressional committees later this week. Precious metals prices on Friday closed moderately higher, following a drop in the stock market, and a weakness in the Dollar Index. Dovish comments on Friday from the Fed and ECB members are positive for gold prices. The ECB Governing Council member, de Cos, has said that removing stimulus has greater risks than keeping it, and the need for additional ECB stimulus "can't be ruled out."
- ▲ According to the CFTC Commitments of Traders report for the week ended September 15, Gold futures' net long increased by 4,504 contracts to 240,977. Speculative long positions gained +11,339 contracts, while shorts added +3,835.
- On the economic data front, the University of Michigan US September consumer sentiment rose +4.8, to a 6-month high of 78.9 and stronger than expectations of +0.9, to 75.0. Conversely, August leading indicators rose +1.2% m/m, weaker than expectations of +1.3% m/m, although July was revised upwards to +2.0% m/m, from the initially reported +1.4% m/m. Japan's August National CPI ex-fresh food and energy fell -0.1% y/y, right on expectations, and the first decline in more than 3-1/4 years.
- ▲ A resurgence of the Covid pandemic in India, France, Germany, and the UK may prompt the re-imposition of lockdown measures. Safe-haven demand is likely to keep gold prices supported.
- Gold prices are also likely to find support from safe-haven demand, due to trade tensions, Brexit risks to UK economy, and global geopolitical risks involving Iran, North Korea, and Venezuela.

#### Outlook

■ Gold prices are likely to receive support from highly simulative monetary policies by the world's key central banks, low global bond yields, low global inflation for dovish central bank policies, and geopolitical tensions. Gold prices are likely to find support near the 50-days EMA at \$1,932, while crucial resistance could be seen around \$1,994 and \$2,007 per ounce.

# Lead – could trade sideways

■ Operating rates for primary lead smelters in major lead producing provinces remained unchanged at 59.3%, for the week ended 18<sup>th</sup> September, from the previous week. The operating rates for secondary lead smelters decreased by 3%, to 56%, from the previous



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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, is dependent on the automobile industry, suggesting better traction there too. Operating rates across lead-acid battery producers averaged 72.51% for the week ended 18<sup>th</sup> September, which was flat, compared to the previous week.

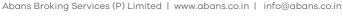
- On warrant inventory at SHFE increased by 234%, from 6,245 mt, on 1st April, 2020 to 20,877 mt, on 18th September, 2020, while at the LME, the inventory increased by 129%, from 52,675 mt, to 120,750 mt, during the same time period. The inventory has increased due to a lower base in April, 2020, especially at the SHFE. Lead prices continue to rally due to an increase in demand along with positive sentiment for base metals.
- However, considering from mid-July, the inventory at the SHFE has declined from 38,749 mt, to 20,877 mt, this is probably due to the arbitrage between the SHFE and LME having come down from around 1,200 Yuan to 436 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 436 Yuan, indicating a strong trend for Chinese lead, driven by fundamental demand for the metal.
- Ample inventory at LME has ensured that lead cash is trading at a discount of \$26.5 over the three-month contract, suggesting decent inventory at the LME. The metal can flow into the SHFE the way it did earlier this year, only when the parity goes up.

### Outlook

■ Lead has declined sharply from \$2,000 odd levels in the past couple of weeks, and is trading sideways; the medium term trend remains positive, but lead could trade range bound in the \$1,950-\$1,860 zone in the near term.

### Crude oil prices under pressure on potential supply resumption from Libya

- WTI Crude oil prices are trading near \$41.20; prices are under pressure following the resumption of oil producers in the Gulf of Mexico. Oil and gas producers had been restarting their offshore operations over the weekend, after being disrupted by hurricane Sally. Some 17% of U.S. Gulf of Mexico offshore oil production and nearly 13% of natural gas output went offline on Saturday in the face of Hurricane Sally's waves and winds.
- Crude oil prices are likely to remain under pressure, following the potential resumption of oil supply from Libya. Libyan General, Haftar, has said on Friday that he would end the blockade on Libyan crude oil exports. Before the blockade, Libya's crude production was 1.1 million BPD.
- U.S. crude oil inventories stand +13.3% above the seasonal 5-year average. Goldman Sachs has said that global crude oil inventories should draw down this month, and that the worldwide oil market is likely to see a deficit of -3.0 million BPD in Q4.





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- ▲ According to the CFTC Commitments of Traders report for the week ended September 15, net long for crude oil futures increased by 378 contracts to 449,744 for the week. Speculative long positions increased by 11,868 contracts, while shorts also increased by 11,490 contracts.
- Baker Hughes reported on Friday that the number of oil rigs in the United States fell by 1, to 179.
- The EIA's estimate for oil production in the United States rose for the week ending September 11—the last week for which there is data, to 10.9 million barrels of oil per day, up from 10.0 million BPD in the week prior, and 9.7 million BPD the week before that. While production has recovered in the last couple of weeks, U.S. oil production is still down 2.2 million BPD from its all-time high reached earlier this year.

### Outlook

■ We expect crude oil prices to remain under pressure due to weak global energy demand, due to the coronavirus pandemic and increasing oil supplies from the U.S. and OPEC+ members. WTI crude oil could find support near the 10-days EMA at \$40.18 per barrel, and critical resistance level could be seen around \$43.46-\$43.68 per barrel.

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