
Weakness in the Dollar is supporting gold prices

Positive trend to continue in Copper

Crude oil rallied on Saudi announcement for a voluntary cut

WEAKNESS IN THE DOLLAR IS SUPPORTING GOLD PRICES

- Gold prices are trading higher, due to weakness in the US Dollar Index against other currencies. Rising inflation and US political uncertainty due to the Georgia run-off election is also keeping gold prices firm.
- The 10-year break-even inflation expectation rate on Tuesday climbed to a new 2-year high of 2.046%, moving further above the Fed's +2.0% inflation target. The break-even rate measures the difference between the nominal 10-year T-note yield and the 10-year inflation-adjusted TIPS yield. Gold is finding support from increasing inflation expectations, as gold is a hedge against inflation.
- The Senate seat run-off elections in Georgia are creating uncertainty. The result will determine political control of the Senate. If the Democrats win both seats, they would take control of the Senate, and it will allow them to pass new debt-fueled stimulus programs.
- The worsening pandemic is curbing global economic growth, and is likely to keep gold prices firm. A mutated strain of Covid is spreading throughout the UK, which has prompted the British government to impose a full lockdown in the UK, and many other countries are also taking strict measures to control its spread. The overall number of global coronavirus cases has topped 86.37 million, while the deaths have surged to more than 1.87 million, according to the Johns Hopkins University.

Outlook

- Gold prices are likely to find support at the 10-days EMA at \$1,913 per ounce, while key resistance is likely to be seen around \$1,968-1,995 levels.

POSITIVE TREND TO CONTINUE IN COPPER

- Weakness in the Dollar Index and stimulus hopes in the US are likely to keep industrial metals prices firm, as the stimulus is likely to increase prospects for growth in the world's largest economy.
- On the economic data front, the U.S. December ISM Manufacturing Index unexpectedly rose +3.2, to a 2-1/4 year high of 60.7, stronger than expectations of -0.7, to 56.8. Also, German November retail sales unexpectedly rose +1.9% m/m, stronger than expectations of -2.0% m/m. In addition, German December unemployment unexpectedly fell -37,000, showing a stronger labour market than expectations of an increase of +10,000. Global economic data was positive for industrial metals demand and copper prices.
- Chile's state-owned copper miner, Codelco, approved a \$1.383-billion budget for the overhaul of its ageing Salvador mine.
- Copper stocks in LME registered warehouses stood at 105,425 mt, as on 5th January, 2020. In the last three months, LME inventory dropped nearly 55,450 mt, which is 52.6% of the current stock.

Copper stocks in SHFE registered warehouses stood at 31,954 mt, as on 5th January, 2020. In the last three months, SHFE inventory dropped nearly 24,204 mt, which is 75% of the current stock.

Outlook

- ▲ Copper prices are likely to trade firm, while remaining above the key support level of the 20-days EMA of \$7,790 per mt, and the 50-days EMA of \$7,495 per mt; meanwhile key resistance is seen near \$8,145-\$8,243 per mt.

CRUDE OIL RALLIED ON SAUDI ANNOUNCEMENT FOR A VOLUNTARY CUT

- ▲ Crude oil prices rallied after Saudi Arabia announced that it will voluntarily cut its crude output next month and in March. Crude oil also prices also found support from positive US economic data and weakness in the Dollar Index.
- ▲ Saudi Arabia has said that it will cut its crude output by 1.0 million bpd in February and March. This will more than offset the combined 75,000 bpd increase, which Russia and Kazakhstan will be allowed to make in each of those months. The remaining members of OPEC+ will hold their crude production steady.
- ▲ Geopolitical tensions are also likely to keep oil prices firm. Iran, on late Monday, has said that it seized a South Korean oil tanker in the Strait of Hormuz. Following this, the U.S. has said that it will keep the aircraft carrier, USS Nimitz, in the Persian Gulf, because of "recent threats" from Iran.
- ▲ Meanwhile, API reported that U.S. crude inventories fell -1.66 million bbl, while gasoline stockpiles jumped +5.47 million bbl last week. The consensus is for Wednesday's weekly EIA crude inventories to fall by -2.5 million bbl. The EIA will release its official inventory report later today.

Outlook

- ▲ WTI Crude oil prices for the February expiry contract are likely to find support near the 10-days EMA at \$48.59 per barrel, and the 20-days EMA at \$47.60 per barrel. Meanwhile, critical resistance is seen around \$52.60 per barrel and \$55.92 per barrel.

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