

# Commodity Outlook

Tuesday, March 22, 2016



## Gold

### Technical

Gold markets fell initially during the day on Monday, testing the \$1240 level. The gold market bounced enough to form a bit of a hammer like candle, and this suggests to investors that the buyers are waiting below to pick up value as it appears. With this, the market players are looking for supportive candles in order to start going long, and have absolutely no interest whatsoever in selling gold. We believe that there is a massive floor in the market near the \$1200 level presently. We believe also that we will reach out towards the \$1300 level fairly soon.

|            |       |       |       |
|------------|-------|-------|-------|
| Pivot:     | 1,246 |       |       |
| Support    | 1,235 | 1,225 | 1,215 |
| Resistance | 1,255 | 1,266 | 1,271 |

### Recommendation

Sell positions below 1255.00 with targets at 1235.00 and 1225.00 in extension

### Highlights

- Gold fell yesterday, extending losses for a third day as the dollar arrested three weeks of falls
- The Yellow metal was underpinned by expectations that the ultra-low interest rate environment will persist
- U.S. Federal Reserve policymakers revised down the number of times they expect to raise interest rates this year to two from four
- Gold has risen 17 percent this year as expectations for fresh rate hikes faded
- Holdings of gold-backed exchange-traded funds, continued to rise

### Gold - Technical Indicators

|         |          |
|---------|----------|
| RSI 14  | 56.98    |
| SMA 20  | 1,250.88 |
| SMA 50  | 1,201.07 |
| SMA 100 | 1,138.50 |
| SMA 200 | 1,133.95 |

### Gold Daily Graph



Source: Meta Trader, IGI Research

### Fundamentals

- Gold fell yesterday for a third day, with demand for bullion hurt as the dollar arrested three weeks of declines after hawkish comments from US Federal Reserve officials renewed expectations of US interest rate hikes.
- The U.S Dollar rose 0.2 percent against a basket of currencies, as two central bank officials, San Francisco Fed President John Williams and Atlanta Fed President Dennis Lockhart, raised the possibility of a rate hike as soon as April. Spot gold was down 0.9 percent at \$1,244.50 an ounce, while US gold futures for April settled down \$10.10 an ounce at \$1,244.20.
- The metal has risen nearly 17 percent this year on fading expectations for rate hikes. It rallied on Wednesday after Fed policymakers revised down the number of times they expect to raise interest rates this year to two from four, but it failed to revisit the previous week's 13-month high, and it slid as the dollar rebounded.
- The Easter holidays at the end of the week will cost gold some momentum. Market indicators are signaling that investors see stronger risks of inflation, which has been almost non-existent since the credit crisis, despite scepticism from the Fed.
- Some economists fear that ultra-low interest rates around the world will eventually stoke inflationary pressures. Gold has benefited from low rates, which cut the opportunity cost of holding non-yielding assets like gold.
- Holdings of gold-backed exchange-traded funds, which issue securities backed by physical metal, continued to rise. The largest, New York-listed SPDR Gold Shares, reported an 11.9-tonne inflow on Friday, bringing its total inflow for the year to 176.6 tonnes, up from 40.8 tonnes in the same period of last year.
- Some economists fear that ultra-low interest rates around the world will eventually stoke inflationary pressures. Gold has benefited from low rates, which cut the opportunity cost of holding non-yielding assets like gold.

### US Commodity Futures Trading Commission (CFTC) Data

| Date      | Large Speculators |         |         | Commercial |         |         | Small Speculators |        |         | Open Interest |
|-----------|-------------------|---------|---------|------------|---------|---------|-------------------|--------|---------|---------------|
|           | Long              | Short   | Bullish | Long       | Short   | Bullish | Long              | Short  | Bullish |               |
| 26-Jan-16 | 135,390           | 108,051 | 56%     | 188,511    | 215,209 | 47%     | 36,847            | 37,668 | 49%     | 384,974       |
| 02-Feb-16 | 137,182           | 104,959 | 57%     | 182,101    | 215,122 | 46%     | 37,617            | 36,819 | 51%     | 379,550       |
| 09-Feb-16 | 139,124           | 100,357 | 58%     | 179,334    | 221,218 | 45%     | 38,246            | 35,249 | 52%     | 383,201       |
| 16-Feb-16 | 145,857           | 101,844 | 59%     | 199,650    | 244,905 | 45%     | 37,217            | 35,975 | 51%     | 415,426       |
| 23-Feb-16 | 146,018           | 99,435  | 59%     | 200,101    | 246,192 | 45%     | 36,635            | 37,127 | 50%     | 410,959       |

Source: CFTC, IGI Research

# Commodity Outlook

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## Crude Oil

### Technical

The WTI Crude Oil market continued to show strength during the day on Monday, as we are reaching towards the \$42 level again. However, there is the specter of US shale producers entering the market and trying to lock in prices at \$40 a barrel. So then the question becomes whether or not they can break above there, and with that it's likely that there will be a lot of volatility. There has been a massive rally in this market lately, and one has to believe now that we are starting to look The currency issue as opposed to supply. After all, the US dollar continues to fall, and that of course is good for commodities in general.

|            |       |       |       |
|------------|-------|-------|-------|
| Pivot:     | 39.91 |       |       |
| Support    | 38.60 | 37.73 | 37.10 |
| Resistance | 41.20 | 42.15 | 42.95 |

### Recommendation

Buy positions above 38.60 with targets at 41.20 and 42.15 in extension

### Highlights

- Oil prices rose on Monday as data showed a drawdown at the Cushing, Oklahoma delivery hub for U.S. crude
- U.S crude futures for April, settled at \$39.91 a barrel, up 47 cents, or 1.19 percent
- The market's upside was limited by concern that U.S oil drillers could ramp up output again after a two-month long recovery in prices
- Baker Hughes, showed U.S energy companies added one oil rig last week after 12 weeks of cuts
- Data from the U.S. CFTC showed that money managers had raised bullish bets on U.S crude

### Crude - Technical Indicators

|         |       |
|---------|-------|
| RSI 14  | 68.92 |
| SMA 20  | 37.38 |
| SMA 50  | 33.60 |
| SMA 100 | 35.03 |
| SMA 200 | 40.27 |

### Crude Oil Daily Graph



Source: Meta Trader, IGI Research

### Fundamentals

- Oil prices rose about 1 percent on Monday after data showed crude inventories at the Cushing, Oklahoma delivery hub for U.S. futures fell for the first time since January, and ahead of the expiration of the U.S. front-month contract.
- Oil's upside, however, was limited by concerns that U.S. energy companies could ramp up drilling again after a two-month long recovery in crude prices. Brent crude futures for May delivery, the front-month, settled up 34 cents, or 0.8 percent, at \$41.54 a barrel. Brent has risen 53 percent from 12-year lows of \$27.10 hit on Jan. 20.
- U.S. crude's futures for April gained 47 cents, or 1.2 percent, to settle at \$39.91, expiring as the front-month. The more-active May contract, which is now front-month from today, finished up 38 cents at \$41.52.
- Crude stockpiles in Cushing fell 570,574 barrels to 69.05 million in the week to March 18, traders said, citing data from market intelligence firm Genscape. Cushing inventories had previously risen toward 70 million barrels, causing market participants to fear they could hit capacity.
- Genscape's Cushing data, however, contrasts with a Reuters poll of analysts showing U.S. crude inventories as a whole likely rose 3 million barrels in the week to March 18, rewriting a previous record high. Government data showed Cushing crude stocks rose to a peak of 67.5 million barrels in the week to March 11.
- Stockpile worries aside, some analysts fear U.S. oil production is creeping higher. On Friday, data from energy service firm Baker Hughes, showed U.S. drillers added one oil rig last week after 12 weeks of cuts.
- The higher prices go in the current recovery rally, the higher the likelihood that U.S producers are going to build their hedge portfolios, which could then result in oil production not declining as much what the current forecasts are showing,

### US Commodity Futures Trading Commission (CFTC) Data

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|-----------|-------------------|---------|---------|------------|---------|---------|-------------------|--------|---------|---------------|
|           | Long              | Short   | Bullish | Long       | Short   | Bullish | Long              | Short  | Bullish |               |
| 26-Jan-16 | 458,206           | 105,441 | 81%     | 560,983    | 925,531 | 38%     | 82,700            | 70,917 | 54%     | 1,598,935     |
| 02-Feb-16 | 462,028           | 106,739 | 81%     | 557,217    | 927,085 | 38%     | 85,279            | 70,700 | 55%     | 1,615,844     |
| 09-Feb-16 | 454,829           | 123,816 | 79%     | 571,328    | 916,651 | 38%     | 87,594            | 73,282 | 54%     | 1,619,796     |
| 16-Feb-16 | 463,186           | 135,835 | 77%     | 560,029    | 897,400 | 38%     | 87,590            | 77,633 | 53%     | 1,623,027     |
| 23-Feb-16 | 473,506           | 133,457 | 78%     | 558,910    | 898,363 | 38%     | 79,121            | 79,717 | 50%     | 1,613,293     |

Source: CFTC, IGI Research

# Commodity Outlook

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## Silver

### Technical

Silver markets went back and forth yesterday, as we continue to try to build up momentum to break out above the \$16 level. This is an area that should cause quite a bit of resistance, so with that being said we believe that a move above the top of the shooting star from the Friday session would be a huge buy signal. Ultimately though, we do think that happens but we may have to pullback first in order to find enough momentum to finally do that. At this point, we believe that pullbacks to show signs of support all the way down to the \$15.20 level should be buying opportunities.

|            |       |       |       |
|------------|-------|-------|-------|
| Pivot:     | 15.79 |       |       |
| Support    | 15.50 | 15.31 | 15.16 |
| Resistance | 15.95 | 16.14 | 16.35 |

### Recommendation

Sell positions below 15.95 with targets at 15.50 and 15.31 in extension

### Highlights

- As producers react to weak Chinese demand by slashing output of copper, zinc and lead, a side effect is silver prices getting a boost
- U.S home resales fell sharply in February in a potentially troubling sign for America's economy
- A stronger dollar makes precious metals more expensive for investors paying with other currencies
- Market indicators are signaling that investors see stronger risks of inflation
- Silver was up 0.2 percent at \$15.82 an ounce in yesterday's session

### Silver - Technical Indicators

|         |       |
|---------|-------|
| RSI 14  | 53.58 |
| SMA 20  | 15.23 |
| SMA 50  | 14.84 |
| SMA 100 | 14.48 |
| SMA 200 | 14.84 |

### Silver Daily Graph



Source: Meta Trader, IGI Research

### Fundamentals

- Silver had edged down by 0.1 percent at \$15.811 an ounce and looked at risk of further weakness as the dollar edged up on comments by a Federal Reserve official that the next U.S. rate rise could come as soon as next month.
- The United States may be in line for an interest rate hike as soon as April, Atlanta Fed President Dennis Lockhart said on Monday, another sign that policymakers are comfortable allowing U.S. monetary policy to diverge from other major economies.
- Prospects for higher interest rates were already helping the dollar revive from five-months lows touched last week. A stronger dollar makes silver more expensive for investors paying with other currencies.
- U.S. home resales fell sharply in February in a potentially troubling sign for America's economy, which has otherwise looked resilient to the global economic slowdown.
- Market clues seem to indicate that investors now see stronger risks of inflation, which has been almost non-existent since the credit crisis, despite scepticism from the Fed and the fairly slow pace of U.S. economic growth.
- Silver prices declined for two straight days leading up to the Fed's announcement on Wednesday last week. On Monday, March 18, the price of silver opened at \$15.58 and fell 1.6% to close at \$15.33. It was mostly flat on Tuesday, falling just 0.3% to \$15.25.
- The gold-to-silver ratio – a tool used to determine how many ounces of silver can be bought with one ounce of gold – has dialed back a bit, indicating that silver's gains are just getting started. As producers react to weak Chinese demand by slashing output of copper, zinc and lead, a side effect is silver prices are getting a boost as less of the precious metal is unearthed.

### US Commodity Futures Trading Commission (CFTC) Data

| Date      | Large Speculators |        |         | Commercial |        |         | Small Speculators |        |         | Open Interest |
|-----------|-------------------|--------|---------|------------|--------|---------|-------------------|--------|---------|---------------|
|           | Long              | Short  | Bullish | Long       | Short  | Bullish | Long              | Short  | Bullish |               |
| 26-Jan-16 | 42,097            | 29,999 | 58%     | 56,157     | 75,843 | 43%     | 23,121            | 15,533 | 60%     | 132,501       |
| 02-Feb-16 | 42,083            | 27,402 | 61%     | 54,280     | 79,052 | 41%     | 24,963            | 14,872 | 63%     | 132,475       |
| 09-Feb-16 | 41,285            | 23,950 | 63%     | 53,875     | 79,404 | 40%     | 23,378            | 15,184 | 61%     | 131,294       |
| 16-Feb-16 | 41,287            | 24,798 | 62%     | 58,869     | 83,678 | 41%     | 21,523            | 13,203 | 62%     | 136,158       |
| 23-Feb-16 | 41,334            | 26,466 | 62%     | 60,600     | 84,551 | 42%     | 21,666            | 13,583 | 61%     | 139,468       |

Source: CFTC, IGI Research

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## Data Calendar

### Economic Data

| Date       | Time  | Event   | Importance | Actual | Forecast | Previous |
|------------|-------|---|------------|--------|----------|----------|
| Tue Mar 22 | 05:30 | Australia House Price Index (YoY) (4Q)          | medium     | 8.7%   | 8.5%     | 10.7%    |
| Tue Mar 22 | 09:30 | Japan All Industry Activity Index (MoM) (JAN)   | medium     | 2.0%   |          | -0.9%    |
| Tue Mar 22 | 12:00 | Switzerland Trade Balance (Swiss franc) (FEB)   | medium     | 4.07b  |          | 3.51b    |
| Tue Mar 22 | 14:00 | German IFO - Current Assessment (MAR)           | medium     |        |          | 112.9    |
| Tue Mar 22 | 14:00 | German IFO - Expectations (MAR)                 | medium     |        | 99.8     | 98.8     |
| Tue Mar 22 | 14:30 | U.K Consumer Price Index (YoY) (FEB)            | high       |        | 0.4%     | 0.3%     |
| Tue Mar 22 | 15:00 | Euro-Zone ZEW Survey (Economic Sentiment) (MAR) | medium     |        |          | 13.6     |
| Tue Mar 22 | 18:00 | U.S House Price Index (MoM) (JAN)               | medium     |        | 0.5%     | 0.4%     |
| Tue Mar 22 | 18:45 | Markit US Manufacturing PMI (MAR)               | medium     |        | 51.5     | 51.3     |

Source: Forex Factory, IGI Research

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