



Energy

Weekly

Monday, October 16, 2023

Oil prices ended last week on a slightly positive note after a volatile session as fears remain about the Israel-Hamas war to destabilize the Middle East and crimp the global supply amid increasing sanctions against Russia and chances of potential sanctions for Iran. U.S. is tightening its sanctions on Russian crude exports, raising concerns about supply in an already tight market, especially at a time when global inventories are expected to be reduced by the end of the year. Reports suggest that U.S. has imposed sanctions on owners of tankers carrying Russian oil priced above the G7 price cap of \$60, trying to close the gaps in the mechanism aimed at penalizing Russia for Ukraine invasion. The most surprising fact remains that the Dollar index and oil continue to trade positive, moving in the same direction for over a month, an unusual pattern considering the typical inverse relationship between the commodity and dollar. This can be short-lived as concerns about the health of the economy would eventually bring back the inverse link between oil prices and the dollar.

The spilling over of conflict into the broader Middle East region is the main catalyst for prices to remain. The chances of Iran joining the conflict have been in close focus, given that the country is the world's fifth-largest producer of oil. Any further disruption or sanctions if Iran joins the war could push prices upward. Traders are trying to price in the potential for the war to draw in Iran, a supplier of arms and money to Hamas. The Biden administration is probing Tehran's potential involvement in the attack and has reached an informal understanding with Qatar to hold off distributing \$6 billion in oil revenue that Iran was allowed to access. The Islamic Republic has repeatedly denied any involvement in the assault.

On macro front, US Treasury yields are higher again after their recent declines, following the higher-than-forecast US CPI inflation figures yesterday. 2Y yields rose 8.7bp to 5.069%, and 10Y yields moved a whopping 13.9bp to 4.697%. Rate hike expectations have risen, but are still not even halfway to pricing in another rate hike.

| Crude Oil | | | |
|-------------|-------|-----------|-----------|
| Exchange | MCX | NYMEX-WTI | ICE-Brent |
| Open | 6968 | 83.51 | 86.35 |
| Close | 7259 | 87.69 | 90.89 |
| 1 Week Chg. | 291 | 4.18 | 4.54 |
| %change | 5.59% | 5.92% | 7.46% |
| OI | 5356 | 131564 | 476514 |
| OI change | 6527 | -109091 | -43958 |
| Pivot | 7166 | 86.29 | 89.39 |
| Resistance | 7371 | 89.23 | 92.50 |
| Support | 7055 | 84.75 | 87.78 |

| Natural Gas | | |
|-------------|--------|----------|
| Exchange | MCX | NYMEX-NG |
| Open | 277.8 | 3.346 |
| Close | 270.8 | 3.24 |
| 1 Week Chg. | -7 | -0.11 |
| %change | -2.52% | -3.29% |
| OI | 20959 | 116375 |
| OI change | 18.77% | -48.52% |
| Pivot | 272.2 | 3.26 |
| Resistance | 276.4 | 3.32 |
| Support | 266.6 | 3.18 |

| Front Month Calendar Spread | | |
|-----------------------------|-----|-----------|
| Exchange | MCX | NYMEX(\$) |
| 1st month | -97 | -2.61 |
| 2nd month | -79 | -1.19 |

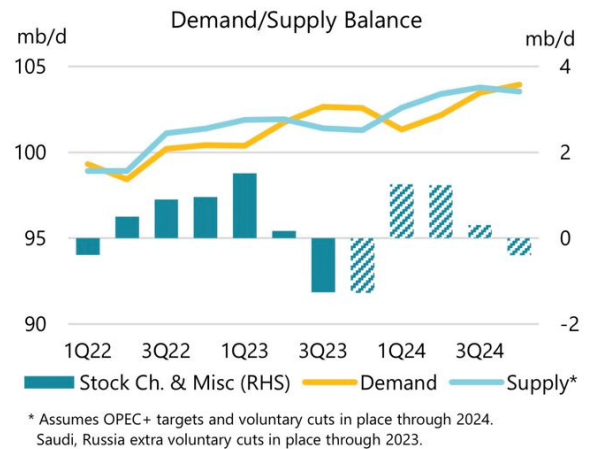
| WTI-Brent spread\$ | |
|--------------------|-------|
| 1st month | -1.55 |
| 2nd month | -1.10 |

For December 2023 and January 2024, the implied yield is pricing in about a 39% probability of a hike, but it eases off after that.

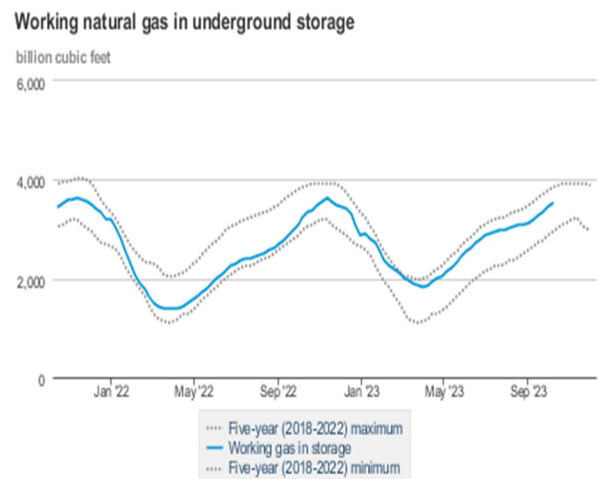
Last week, there were also a number of monthly outlook reports with OPEC maintaining its forecast for growth in global oil demand, citing signs of a resilient world economy this year and anticipating further demand increases in China. The report indicated a record oil supply deficit this quarter, indicating that global inventories will decline by 3 Mbpd this quarter. IEA on other hand, lowered its oil demand growth forecast for 2024, suggesting harsher global economic conditions and progress on energy efficiency will weigh on consumption. It lowered its 2024 demand growth forecast to 880,000 Bpd from its previous forecast of 1 Mbpd. However, it raised its 2023 demand forecast to 2.3Mbpd from a forecast of 2.2Mbpd. IEA even warned that there are fears emerging of slower demand growth, eclipsing supply concerns and there are chances of unwinding of voluntary cuts in Jan, shifting the balance of supply and demand to surplus, which can help in some way to replenish depleted inventories and reduce the supply deficit risk. It showed that oil's recent retreat from near \$100 a barrel showed prices had climbed high enough to start eroding demand, although it still sees record world consumption this year.

All this supply risk positive momentum, however, saw some pressure from flagging demand in U.S. given the huge US inventory builds reported mid-week. Prices gave up some of those early gains after EIA's weekly report showed US commercial crude oil stockpiles rose by 10.2mbbl last week. Even so, inventories at Cushing, a price point for the WTI contracts, fell to its lowest levels since July 2022. The demand outlook looks muddled as decline in gasoline and distillate inventories was also associated with a decline in refinery utilization. Data from EIA showed a build of 10.2 Mbs, the biggest increase since February, with demand for gasoline hovering near 2008 lows, pushing gasoline futures to settle at about \$2.17 a gallon, the lowest since Dec 2022.

Natural gas saw a volatile month with prices kicking off the week at an eight-month high, fuelled by rising exports and cooler weather forecasts, but prices failed to sustain as data showed a record-high monthly gas output in the Lower 48 with weather forecasts showing signs of warmer weather ahead along with dwindling exports to Mexico an leading to ease off in prices. Warmer trends indicated by the GFS and EC models are likely to further suppress heating demand. With LSEG projecting a modest rise in U.S. gas demand for the coming week, the bearish sentiment is likely to persist. Investors and traders should keep a close eye on weather patterns and supply metrics as they navigate the choppy waters of the natural gas market.



Source: IEA



Source: EIA

Outlook:

Oil prices are expected to trade sideways with traders keeping a close eye on developments in Israel ahead of an expected ground assault into the Gaza Strip. Markets were also awaiting more cues on economic conditions in the world's largest oil importer, China, with third-quarter gross domestic product data due later this week. Growth is expected to have deteriorated further through the quarter, pointing to a weak outlook for fuel demand in the country. An interest rate decision from the People's Bank of China is also due this week, with focus remaining on any signs of more stimulus in the country. Inflation data from Japan is on tap this week, and is expected to offer more insight into the Bank of Japan's plans to begin tightening monetary policy. In the U.S., more insight into crude stockpiles is awaited this week, after the country logged a sharp increase in oil inventories and production in the first week of October.

Technical Levels:

Crude oil:

Crude oil prices surged by over 380 rupees, marking a substantial gain of 5.59%. However, the week prior witnessed a significant and abrupt decline of approximately 9%. Currently, both bullish and bearish forces are evenly matched in the market, with the bulls requiring a breakthrough of the 7540 level to gain the upper hand. Should this breakout occur, prices could potentially rise to a range between 7900 and 8200. The immediate support level now stands at Rs. 7150, with a more substantial support level of 6860 following closely behind.



Natural gas:

In the week that just passed, natural gas experienced a decline of 5 rupees, equal to a 1.85% decrease. This marked the initial decline after two consecutive weeks of gains. Examining the daily chart, we observed a prior breakout above the neckline of a cup and handle formation. Currently, prices are in the process of retesting this neckline at Rs. 250. This level presents an attractive buying opportunity, with an initial support and stop loss at 236. If all goes well, we might witness natural gas testing the range of 285 to 310 levels.



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