



Energy

Weekly

Monday, October 23, 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 Oil prices ended last week on positive note, rising by 1% overall on Israel-Hamas concerns. However, news of the Islamist group Hamas releasing two US hostages from Gaza, leading to hopes the Israeli-Palestinian crisis could de-escalate without engulfing the rest of the Middle East region and disrupting oil supplies, kept pressure on the prices. After initially resisting a delay in what officials said would be a massive military operation to eradicate Hamas, Israel agreed under US pressure to hold off on its attack. Publicly, Israel has shifted its tone on plans for the operation in recent days, suggesting a more limited approach that may reduce civilian casualties.

However, Geo political risks still remain as concerns remain that the conflict could spread further in the volatile region, especially after the Pentagon said U.S. forces intercepted three cruise missiles and several drones launched by the Houthi movement in Yemen, potentially toward Israel. The Houthi, like Hamas in Gaza and Lebanon's Hezbollah, are backed by Iran.

Prices did get some support from comments by Federal Reserve Chair Jerome Powell after he reported that the U.S. economy remained resilient, spurring bets that fuel consumption in the country will remain strong. Along with this, an unexpected larger than draw in EIA data showing a drawdown of 4.5Mbpd as exports accelerated from inroads made by US oil into overseas markets, while supply cuts by OPEC+ resulted in lower imports, provided support to the prices. Another surprising factor was declines in product stock inventory – Gasoline and Distillate, which saw a drawdown at a time when, typically at this time of the year, demand for fuels is softer in the United States as fewer families do road trips, with children back in school or college.

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	7388	90.28	93.23
Close	7366	88.75	92.16
1 Week Chg.	-22	-1.53	-1.07
%change	2.85%	1.21%	1.40%
OI	3721	8925	371296
OI change	2125	-121699	-81477
Pivot	7386	89.29	92.54
Resistance	7454	90.24	93.41
Support	7297	87.79	91.28

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	246	2.959
Close	242	2.90
1 Week Chg.	-4	-0.06
%change	-1.63%	-2.03%
OI	32066	53447
OI change	52.99%	-54.03%
Pivot	243.0	2.92
Resistance	246.3	2.96
Support	238.6	2.86

Front Month Calendar Spread		
Exchange	MCX	NYMEX(\$)
1st month	-81	-1.93
2nd month	-166	-1.25

WTI-Brent spread\$	
1st month	-1.27
2nd month	-1.12

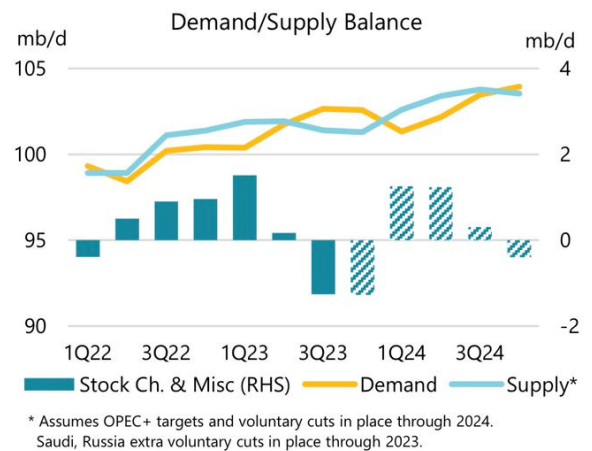
But with the refinery industry on seasonal maintenance, larger-than-usual declines in fuel stocks also occur at times, due to limited replenishment. Elsewhere, aside from the headline number for crude, Cushing inventory declined by 0.758M barrel decline at the Cushing, on top of the previous week's draw of 0.547M, the lowest for Cushing storage levels since October 2014.

However, despite all these developments, the ease in oil supply pressures pressurized prices after the U.S. suspended sanctions on OPEC member Venezuela after the Venezuelan government dealt with the opposition. Currently, there are anticipations for a gradual recovery in production by 2,00,000 -3,00,000 Bpd, thus continuing their aim of keeping global oil supply tight amid concerns about a challenging global economic scenario and rising demand.

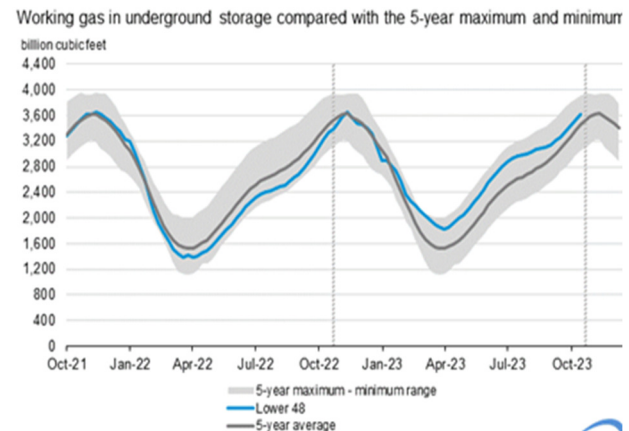
Volatility also increased after the U.S. Department of Energy reported buying 6 Mbs of crude oil for the strategic petroleum reserve as part of efforts to refill it after a massive release last year of close to 200 million barrels. The main motive of this release was a partial successful attempt to bring down retail gasoline prices which are hitting the citizens of the U.S. This year, the Department of Energy has repeatedly said it wanted to start refilling the SPR but the price never seemed right, after the department set itself a range of between \$68 and \$72 per barrel for the refill push. The main question remains is whether it could decline to \$79 over the next two months is anyone's guess, but given that OPEC, and more specifically Saudi Arabia, remains determined to keep a lid on production, chances for that are slim, even with higher Venezuelan oil production now that Washington lifted the oil sanctions for six months.

On CFTC front, Money managers cut their net long U.S. crude futures and options positions in the week to October 17. The speculator group cut its combined futures and options position in New York and London by 56,850 contracts to 183,351 during the period.

Natural gas prices continue to remain weak, driven in part by comfortable weather seen in the U.S., hinting a lackluster winter season in coming weeks. Despite the potential uptick in heating demand and rising LNG export levels, the excess supply, record output, and lower spot prices are dominating the market narrative. Supply risk eased off after a significant development came from Australia, where an alliance of unions reached agreements on pay and conditions at Chevron's LNG facilities, averting a strike that threatened to disrupt operations. Additionally, the US EIA reported a substantial increase in natural gas storage by 97 bcfd, surpassing the average forecast of 83 Bcft. This increase in storage suggests a significant supply build, positioning the market with ample supply.



Source: IEA



Source: EIA

Outlook:

To conclude, markets are in wait and watch situation where there are no concrete events that could point to as the main risk driver next week and trigger one side rally or sell off. There are rather a lot of ifs/buts when it comes to the geopolitical and fundamental risks heading into the week ahead. For next week, there are a bunch of high impact data events from a host of countries, starting with the US GDP data that will be key, as well as interest rate decisions from the Bank of Canada (BoC) and some inflation data from among others Australia. A positive GDP reading from the US should keep Oil bulls interested. Market participants had feared a global slowdown in Q4 this year and in the US as well which could have seen demand fears rise and thus pushing oil prices lower. So far there are signs that certain countries are experiencing a slowdown but that hasn't been enough to deter Oil bulls as the extension of the OPEC production cuts were also extended.

Technical Levels:

Crude oil:

In the previous week, Crude Oil prices witnessed volatile sessions. Prices recorded the high of Rs. 7528 and low of Rs. 7132 to settle with weekly gains of nearly 1%. Crude Oil prices have taken support at upward sloping trendline on daily chart. The key support is now placed at Rs. 7030 mark. However, key resistance is observed at Rs. 7530 mark. A decisive break above this level is likely to push prices towards Rs. 7700 and Rs. 7900 levels in the medium term. The 14-period RSI on daily chart is hovering above the mid-point of 50 mark which signals strength in momentum on the higher side. Buy on dips is suggested in the counter as long as immediate support of Rs. 7030 is not breached on closing basis.



Natural gas:

During the previous week, there was a decrease of approximately 25 rupees, or 9%, in the price of natural gas. Prices recorded the high of Rs. 270.80 and low of Rs. 239.60 throughout the week. The key immediate support is now placed at Rs. 232 level after which Rs. 220 will act as critical support. Prices are sustaining below 20-day moving average which signals short term bearishness in the counter. However, key immediate resistance is observed at Rs. 252 level. A break above this level could push prices towards Rs. 265 and extend further towards Rs. 275 level. The 14-period RSI has fallen near 45 mark which signals that counter has lost momentum on the higher side. Sell on rise is suggested in the counter as long as prices sustain below Rs. 252 level on closing basis.



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