Monday, November 13, 2023

Oil prices tumbled for a third straight week on growing concerns for demand slowdown and the easing of geo political unwinding of the Israel-Hamas war's risk premium. Demand concerns on bearish consumption from China, the U.S. and Europe are main triggers for prices to fall by 4% last week. On product front, Diesel, a key fuel powering the economy, is becoming the latest drag on oil, indicating the delay in demand recovery in Europe, where declines in industrial and economic activity in Germany, France and Spain have driven a sharper withdrawal in fuel cons

Data from China suggest that manufacturing in China, the world's biggest oil importer, fell back into contraction last month, indicating a disinflationary territory in October as both consumer and producer inflation contracted despite repeated efforts from China to improve economic growth. Refining margins are also shrinking and oil stockpiles are growing as air travel is yet to recover completely. Although China's crude oil imports in October displayed robust growth, the country's overall exports of goods and services contracted more rapidly than anticipated leading to assumption that Chinese economic outlook is being impacted by declining demand in Western markets, which are the country's primary export destinations. Meanwhile, global oil head BP Plc reported for an ease in product inventory stock with said global gasoline and diesel markets are oversupplied.

Data from EIA suggested that U.S. citizens will each consume 402 gallons of fuel next year. This is the lowest in two decades, at 15% below the 2004 level. Total US oil demand is also expected to contract this year to 20.15mb/d. In China, Supply side issues are in focus. Meanwhile, tightness in oil is easing after data showed that Russia is shipping crude oil near its highest rate in over four months. Ship tracking data show about 3.48mb/d exported in the four weeks to 5 November.

Prices however got some support from news of FED Governor Powell comments about officials not hesitating to tighten policy more with investor's passing over a soft reading on US consumer sentiment showing that long-term inflation expectations reached a 12-year high.

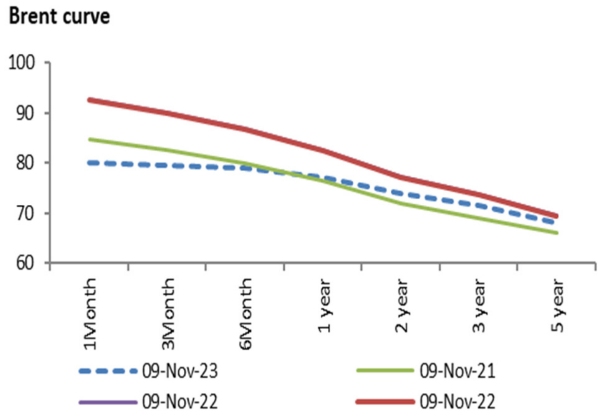
Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	7031	83.53	87.48
Close	7128	85.54	89.20
1 Week Chg.	97	2.01	1.72
%change	-3.23%	-2.88%	-1.86%
OI	4013	317186	0
OI change	292	-3256	0
Pivot	7071	84.85	88.48
Resistance	7211	86.59	90.15
Support	6989	83.79	87.54

Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	293	3.511
Close	295.4	3.48
1 Week Chg.	2.4	-0.03
%change	0.82%	-0.80%
OI	13594	162965
OI change	43.79%	0.46%
Pivot	297.5	3.52
Resistance	301.9	3.61
Support	290.9	3.40

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	-44	-1.70
2nd month	-213	-0.79

WTI-Brent spread$	
1st month	-0.87
2nd month	-0.76

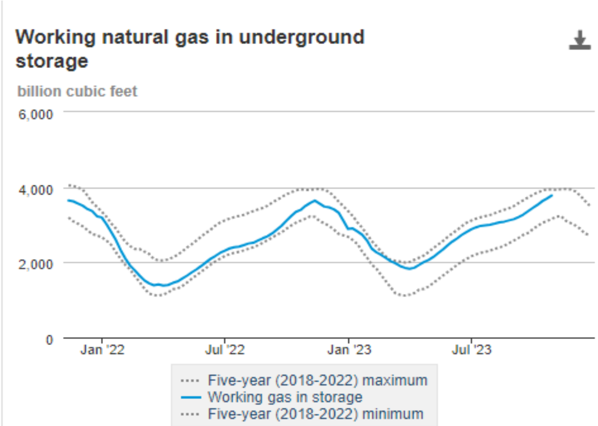
On Spread front, in the span of a month, the oil market went from very tight to loose in the blink of an eye. As expressed below by the Brent 1-2 time spread, the market suggests no tightness going forward. Currently, it looks like OPEC+ cut is not much of a cut. While the Saudis are doing all the heavy lifting, higher crude exports from Russia and Iran are offsetting. The end result is OPEC+ crude exports being flat y-o-y.



Source: Reuters

A contributing factor to the downward pressure on oil prices was a noticeable recovery in oil exports OPEC. OPEC's crude exports have risen by approximately 1 Mbpd since their August low. This increase in supply has raised questions about whether oil-consuming nations can absorb the excess. On position front, net long speculative positioning in oil (crude products, options delta futures) is fast approaching the lowest since this data exists (2011). The managed money category in the COT (representing hedge funds) sold about 400 barrels in the last 6 weeks. This shows sustained weakness in oil markets.

For natural gas, prices remain lower as the weather forecast have turned mild which is keeping heat demand down with Mild weather forecasts through late November are putting a damper on natgas demand. Expectations of lower heating needs have driven futures down to a two-week low. The last two storage reports have shown a more robust injection than the five year average, which is pressurizing prices. November saw a surge in gas production, reaching a high of 107.2 bcfd in the Lower 48 states. This increase, along with the mild weather forecast, is influencing the price movements. The only support for oil prices are the LNG exports with U.S. poising to become the world's largest LNG supplier in 2023.



Source: Reuters

Outlook:

To conclude, the oil market swing in mood has gone from pricing in the biggest threat to global oil supply since the Arab oil embargo 50 years ago to almost a record short position in the history of the oil futures markets. Prices can see some relief rally as prices have correction quite a bite last week but the overall sentiments remain weak and can lead to more prices correction in oil prices. For this week, India CPI, U.S. CPI and U.S. Retail sales will be closed watched for to gauge the demand recovery in economies. The release of several oil market reports this week will be the focus. Any signs of tightness may shift sentiment that has been weakened by easing geopolitical tensions.

Technical Levels:

Crude oil:

In the previous week, Crude Oil prices witnessed volatile sessions. Prices recorded the high of Rs. 6849 and low of Rs. 6263 to settle with weekly losses of nearly 4%. Crude Oil prices had breached below the neckline support of head and shoulder pattern on daily chart which triggered sharp sell-off in the counter. The key immediate support is now placed at Rs. 6270 mark. A decisive break below this level is likely to drag prices near Rs. 6130 and extend the fall towards Rs. 6000 level which is the measured target after breakdown of the head and shoulder pattern. However, key immediate resistance is observed at Rs. 6550 level after which Rs. 6730 will act as critical resistance. The 14-period RSI on daily chart has fallen near 37 mark which signals bearishness in the counter for short term. Sell on rise is suggested in the counter as long as immediate resistance of Rs.6550 is not breached on closing basis.

Natural gas:

During the previous week, Natural Gas prices settled with weekly losses of more than 12%. Prices recorded the high of Rs. 284.30 and low of Rs. 250.50 throughout the week. The key immediate support is now placed at Rs. 252 level after which Rs. 243 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. 270 level. The 14-period RSI is consolidating near 50 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. 278 level on closing basis.

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