Monday, November 20, 2023

Oil prices ended last week on overall negative note, but saw a relief rally on Friday on expectations of OPEC+ deepening supply cuts to shore up prices, which have fallen for four weeks on easing concern of Mid-East supply disruption brought about by the Israel-Hamas conflict. Traders priced in a smaller risk premium from the conflict after it proved to have little impact on Middle Eastern supplies. Along with this, growing global oil supply and cooling demand worries kept pressure on oil prices.

Demand concerns are back on front run with weak economic data from several major economies ramped up concerns that global oil demand will slow in the coming months. Data suggested that U.S. unemployment benefits rose to the highest level in almost two years, signalling a slowdown in the world's biggest crude consumer. Along with this, Retail sales data from the U.S. saw its first monthly decline in sales since spring, thus bringing back concerns for a slowdown in U.S. Economy.

Data from China indicated that China's oil refinery throughput eased in October from the previous month's highs even though that was neither surprising nor mysterious. Refiners simply ran out of fuel export quotas. Still, its economic activity perked up in October as industrial output increased at a faster pace and retail sales growth beat expectations. Japan's economy contracted in July-September, snapping two straight quarters of expansion on soft consumption and exports. Meanwhile, inflation in the euro zone appears to be thawing after EU's statistics office confirmed annual inflation slowed sharply to reach its lowest level in more than two years with data showing that the annual inflation rate fell to 2.9% from 4.3% in September.

Prices however got supported on potential disruption in Russian crude oil trade after U.S. Imposed sanctions on three ships that have sent Sokol crude to India. Along with this, rumours of EU planning for a fresh set of sanctions on Russia supported prices, with Europe potential end to the exemption for Russian oil imports adds further

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	6113	72.97	77.55
Close	6319	75.89	80.61
1 Week Chg.	206	2.92	3.06
%change	-2.33%	-1.66%	-1.01%
OI	2126	19064	0
OI change	6758	-186275	0
Pivot	6232	74.88	79.57
Resistance	6394	77.00	81.85
Support	6157	73.76	78.32

Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	255.9	3.055
Close	244.5	2.96
1 Week Chg.	-11.4	-0.10
%change	-4.45%	-3.11%
OI	41389	74388
OI change	11.44%	-48.02%
Pivot	248.3	2.99
Resistance	255.8	3.08
Support	236.9	2.86

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	27	0.22
2nd month	38	-0.03

WTI-Brent spread$	
1st month	-0.11
2nd month	-0.15

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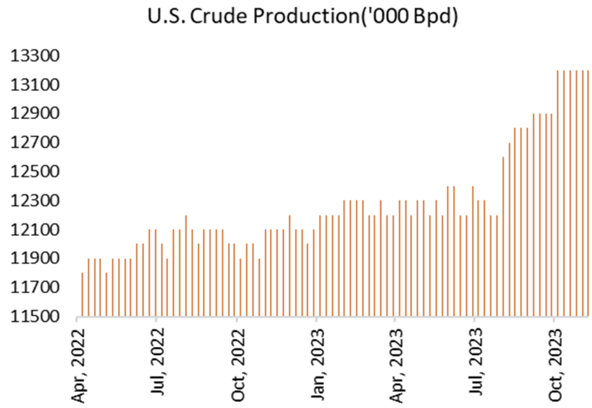
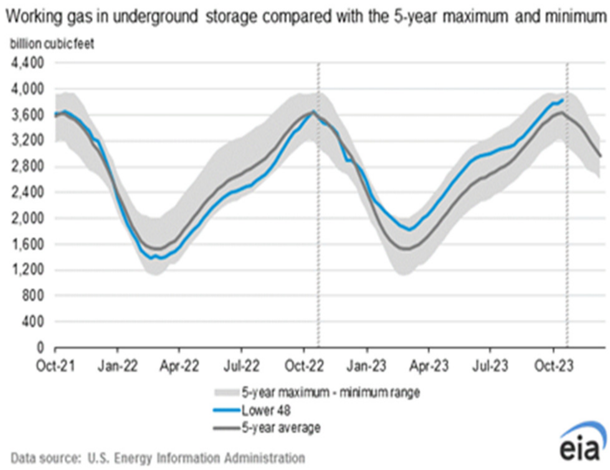
pressure on Russian oil, potentially escalating oil prices as the market strives to fill the Russia gap.

On EIA front, data reported clearly indicated that oil balance for the remainder of this year is not as tight as previously expected as the higher as expected supply as eroded all enthusiasm for a large amount of expected deficit over Q4 2023. Two weeks' worth of EIA stock data shows rising crude oil stocks, both nationwide (+17.5m bbl) and at Cushing (+3.5m) while fuel stocks continue to decline with gasoline -7.9m and distillates -4.7m. Refinery demand picking up after maintenance while implied gasoline demand (4-wk avg.) hits 9 mbpd, highest seasonal level since 2021 but still below the 5-yr avg. On Rigs front. U.S. energy firms added oil and gas rigs 6 rigs to 500—the highest one-week increase in 9 months. Oil rigs are now down by 121 so far in 2023. The number of gas rigs fell by 4 this week to 114, a loss of 42 active gas rigs from the start of the year.



Source: Reuters

On Forecast front, oil market prices are under pressure on differing views on supply and demand by IEA and OPEC. The International Energy Agency reported that global oil markets won't be as tight as expected this quarter, with production growth in the US and Brazil beating forecasts. IEA is strongly of the view that global oil demand growth is slowing down. And that by 2030, at the latest, global energy consumption would begin to go down. That came after a more upbeat assessment from OPEC that highlighted robust growth trends and healthy fundamentals. OPEC reiterated its bullish view on oil, brushing aside fears of recession with demand growth in 2024 at 2.25 million b/d, only slightly lower than this year's 2.46 million b/d, saying the market was exaggerating negative sentiments amidst robust demand.



Source: EIA

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On CFTC front, Speculators remain net sellers with money manager's short positions rose week on week by 31.7 Million barrels to 209.5 Million barrels with managed long positions seeing liquidation by 16.0 Million barrels to 465 Million barrels. This is the largest six week move of speculators gathering positions on short side.

Natural gas prices continued to trade lower amid record production, reduced exports to Mexico and reduced demand. Prices failed to get support by the EIA reporting a higher-than-expected build of 60 Bcf in storage. Working natural gas in storage in the U.S. lower 48 states totalled 3,776 Bcf, representing the second-highest end-of-refill-season inventory during the past five years. Total inventory was 5% (178 Bcf) more than the five-year (2018–22) end-of-October average and 6.8% more than last year at this time.

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Natural gas production is back at record levels. U.S. dry natural gas production increased 3% to average 103.8 Bcf/d during the 2023 refill season compared with 100.4 Bcf/d during the 2022 refill season. That rise in gas output is due primarily to increased interest in oil drilling in shale basins that also produce a lot of associated gas like the Permian in West Texas and eastern New Mexico.

Outlook:

Focus is now squarely on an upcoming OPEC meeting on Nov. 26, where traders will be looking to see if Saudi Arabia and Russia roll over their voluntary supply cuts into 2024. Currently, the chances of deeper cuts should not be ruled out given the fall in speculative positioning and in time spreads, and higher-than-expected inventories. Prices can move higher this week on the back of the possibility that OPEC+ does announce deeper cuts at their upcoming meeting.

Technical Levels:

Crude oil:

In the previous week, Crude Oil prices witnessed volatile sessions. Prices recorded the high of Rs. 6629 and low of Rs. 6056 to settle with weekly losses of nearly 2%. 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. Prices managed to hold the psychological support level of Rs. 6000 on closing basis with a sharp rebound towards Rs. 6300 level at the end of the week. On daily chart, prices have formed a "Bullish Harami" candlestick pattern which is considered as potential bullish reversal. A decisive close above Rs. 6450 could confirm the bullish reversal in the counter. Immediate support is placed at Rs. 6280 level on closing basis. However, immediate resistance is placed at Rs. 6500 level. A decisive break above this level is likely to push prices towards Rs. 6670 and Rs. 6850 levels. Buy on dips is suggested in the counter as long as recent low of Rs. 6056 is not breached on closing basis.

Natural gas:

During the previous week, Natural Gas prices settled with weekly losses of more than 3%. Prices recorded the high of Rs. 272.50 and low of Rs. 240.70 throughout the week. The key immediate support is now placed at Rs. 238 level after which Rs. 222 will act as critical support. Prices are sustaining below 20-day moving average which signals short term bearishness in the counter. However, prices have also breached below the 100 EMA (Exponential Moving Average) on daily chart which further confirms the weakness in the counter. The 14-period RSI on daily chart has fallen below 40 mark which signals bearishness for medium term. Sell on rise is suggested in the counter as long as key resistance of Rs. 265 is not breached on closing basis.

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