Tuesday, December 26, 2023

Oil prices ended last week on a positive note, posting the largest weekly climb in more than two months, with shipping disruptions in the Red Sea in focus after a spate of Houthi attacks against vessels in the vital waterway. Prices got further support because news of Russia scaling back its export reductions in January undercut some of the Red Sea risks. Attacks by the Iran-backed Houthi militant group forced more ships to take extensive detours to avoid the vital waterway, with disruptions seen lasting through Feb.

Disruptions in supply are supporting oil prices with ships being forced to reroute following the strikes, prompting the formation of a multinational maritime task force to help protect commercial vessels. The attacks have caused disruptions along the Suez Canal, which handles about 12% of world trade. Container giant A.P. Moller-Maersk A/S now says it's preparing to resume using the route, which links to the Suez Canal. So far this week, only about 30 tankers, including crude oil and fuel carriers, have entered the Bab al-Mandab Strait at the southern end of the Red Sea, according to vessel-tracking data compiled by Bloomberg. That's a drop of more than 40% versus the daily average over the previous three weeks as the Houthis target merchant ships in a show of support of Hamas in its war with Israel.

Brent time spreads have strengthened over recent sessions with difference between its two nearest contracts — has swung to 18 cents a barrel in backwardation, a bullish near-term pricing pattern, versus 16 cents a barrel in the opposite contango structure a week ago.

However, many concerns remain for the oil market with Angola leaving OPEC amidst the Quota spat, leaving a huge political blow to the oil group, saying that membership currently provides the African country with no gains and no longer serves its interests, following in the footsteps of Ecuador and Qatar. Angola's departure will shrink OPEC's membership to 12 nations. The government in Luanda had rejected a reduced output limit that leaders of the group had imposed on it as a reflection of the country's dwindling production

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	6156	73.91	79.35
Close	6163	73.56	79.07
1 Week Chg.	7	-0.35	-0.28
%change	2.55%	-1.66%	3.29%
OI	11552	288837	0
OI change	1117	-186275	0
Pivot	6179	73.98	79.44
Resistance	6231	74.56	80.00
Support	6110	72.97	78.51

Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	207.7	2.584
Close	215.6	2.61
1 Week Chg.	7.9	0.03
%change	3.80%	1.01%
OI	11938	17782
OI change	48.88%	-83.13%
Pivot	213.9	2.59
Resistance	220.0	2.64
Support	209.4	2.55

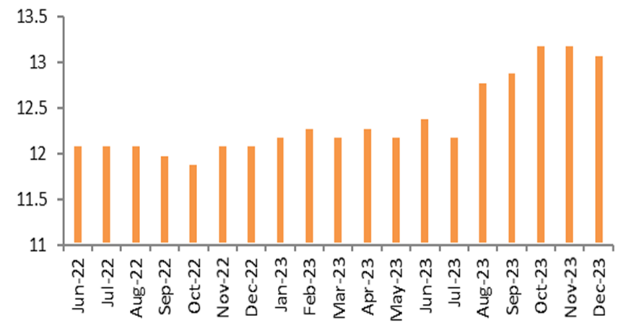
Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	42	0.17
2nd month	-9	-0.03

WTI-Brent spread$	
1st month	-0.27
2nd month	-0.15

capacity. There are emerging signs that supply remains ample as US crude output hit a record of 13.3 Mbpd last week. Meanwhile, demand concerns still remain in the market with U.S. diesel consumption less than a 5-year average 83% of the second half of 2023. That's a bad signal for the economy. Along with this, the outlook for demand is also fragile, with the International Energy Agency forecasting that growth will slow sharply next year.

Along with this, the U.S. EIA reported an estimated inventory increase of 2.9 Mbs, following a weekly inventory decline of 4.3 Mbs for the previous week. In fuels, the EIA estimated inventory builds. Gasoline inventories added 2.7 Mbs during the reporting period, with production averaging 10Mbpd. This compared with an inventory increase of a modest 400,000 Bpd, when production stood at an average of 9.5 Mbpd. Middle distillate stocks, meanwhile, rose by 1.5 Mbpd daily last week, with production averaging 4.9 Mbpd. Currently, there are signs of slower economic growth in large consumers such as the U.S., leading to lower energy consumption from massive diesel guzzlers in manufacturing and construction, which has minimized the threat. That contradicts the threat of a shortage in middle distillates, especially diesel, earlier this year.

US Crude Oil Production (mbpd)



Source: Reuters

Natural gas prices ended last week on a positive note, amid cold weather forecasts in Jan and heightened heating demand, coupled with record gas flows to U.S. LNG export facilities. Traders overlooked the record gas output, allowing utilities to draw less gas from storage as any news of a cold forecast provided relief to prices. Average gas output in the lower 48 U.S. states reached 108.6 bcfd in Dec, up from the previous record of 108.3 bcfd in Nov. Meanwhile, gas flows to major U.S. LNG export plants increased to an average of 14.6 bcfd in December, surpassing the previous record of 14.3 bcfd in November. EIA report showed a net decrease of 87 Bcf. Working gas in storage was 3,577 Bcf, representing a net decrease of 87 Bcf from the previous week. Stocks were 240Bcf higher than last year at this time and 280 Bcf above the five-year average of 3:297Bcf. At 3,577 Bcf, total working gas is within the five-year historical range.

<u>Outlook:</u>

Geopolitical events provide a buffer to oil’s decline, but fundamental weakness continues to be the predominant concern. This week between the Christmas and New Year holidays is likely to see lackluster liquidity, with combined aggregate open interest across the main oil contracts tracking lower since about the middle of this month.

Technical Levels:

Crude oil:

In the previous week, there was an increase of more than 300 rupees, which accounted for a rise of more than 3.55%, in the price of crude oil. These weekly gains came after the losing streak of 8 consecutive weeks. Prices have found support near the upward sloping trendline on weekly chart which was placed around Rs. 5600 level. The 14-period RSI is showing the signs of bullish reversal as it has taken support near the 40 mark. The key immediate resistance is observed at Rs. 6350 level which is 100 EMA (Exponential Moving Average) on weekly chart. A break above this level is likely to push prices further higher towards Rs. 6750 level. Key support is observed at Rs. 5800 level. Buy on dips is suggested as long as this level is not breached on closing basis.

Natural gas:

During the previous week, there was an increase of approximately 5 rupees, or 2.50%, in the price of natural gas. However, prices have been experiencing high fluctuations and traded within a broad range of Rs. 198 to Rs. 218 throughout the week. If the price breaks below Rs. 198, it may move towards the second support level at Rs. 186. The major support level is located at Rs. 177. However, key resistance is observed at Rs. 222 level on closing basis. The 14-period RSI on daily chart is hovering near 40 mark which signals consolidation in the counter on lower side. Sell on rise is suggested in the counter as long as key resistance of Rs. 222 is not breached on the higher side.

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