Tuesday, January 23, 2024

Crude Oil prices ended the week almost 1% higher citing support from the ongoing escalating tensions in the Middle East. The US and UK militaries launched strikes against Houthi targets in Houthi-controlled areas of Yemen, marking a significant response after the Biden administration and its allies warned that the Iran-backed militant group would face the consequences of its attacks on commercial shipping in the Red Sea. Since late last year, Houthi rebels have been targeting commercial vessels in attacks they claim are in support of the Palestinian group Hamas in its conflict with Israel in the Gaza Strip.

Almost six more oil tankers were staying clear of the southern Red Sea, as delays to the critical energy shipping route increased following the strikes. Growing number of ships avoid the Red Sea as it is disruptive to trade flows. Rerouting shipments around the Cape of Good Hope adds around 10 days to the duration of the trade trip which may result in some tightness in oil and products while the market adjusts. It would also restrict tanker availability and increase costs. Following the US and British strikes, the US-led Combined Maritime Forces (CMF) stationed in Bahrain ordered all ships to avoid the Bab al-Mandab Strait in the Red Sea's southern end for several days.

Both the IEA and OPEC released their monthly outlook reports and prices also found cushioning as the IEA raised its oil demand growth forecast for 2024 by 180k bpd. It also stated that excluding major disruptions to flows, the market has been pretty well supplied in 2024. OPEC maintained its demand growth prediction for 2024 at 2.25 million barrels per day, while demand is expected to increase by 1.85 million barrels per day in 2025.

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	6162	74.08	79.1
Close	6106	73.41	78.56
1 Week Chg.	-56	-0.67	-0.54
%change	2.55%	-1.66%	3.29%
OI	11656	23764	0
OI change	1117	-186275	0
Pivot	6134	73.84	78.87
Resistance	6185	74.48	79.42
Support	6056	72.77	78.01

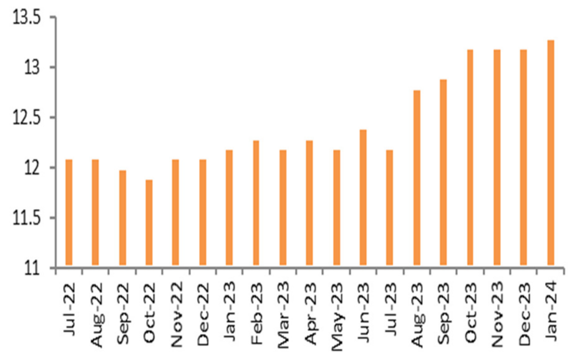
Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	224.3	2.712
Close	210.9	2.52
1 Week Chg.	-13.4	-0.19
%change	-5.97%	-7.12%
OI	16699	64779
OI change	12.76%	-83%
Pivot	214.9	2.58
Resistance	220.4	2.65
Support	205.3	2.45

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	30	-0.29
2nd month	32	-0.13

WTI-Brent spread$	
1st month	-0.48
2nd month	-0.29

The API reported bearish US oil inventory statistics and data showed US crude oil inventories grew by a modest 0.483M barrels. However, products saw big gains once again, with gasoline and distillate stocks increasing by 4.86 million and 5.21 million barrels, respectively. EIA report showed US commercial crude oil decreased by 2.5 million barrels from the previous week. At 429.9 million barrels, U.S. crude oil inventories are about 3% below the five-year average for this time of year. Total gasoline inventories increased by 3.1 million barrels from last week and are slightly above the five-year average for this time of year.

US Crude Oil Production (mbpd)



Source: Reuters

Natural Gas prices dropped almost 24% on forecasts for demand to drop and output to rise as meteorologists forecast warmer than normal temperatures in late January and early February, weighing on demand prospects. This drop came despite the fact that the volume of gas flowing to U.S. liquefied natural gas (LNG) export plants was increasing after falling to a one-year low during this week's Arctic freeze, which also increased daily gas consumption to a record high while freezing wells. Government data showed US utilities pulled 154 billion cubic feet of natural gas from storage in the second week of January, less than market expectations of a 164 bcf decrease. This larger than expected draw continued to weigh on prices.

Outlook:

In this week, concerns over the growth of recovery of China is likely to raise worries about global oil demand. Policymakers have rolled out a raft of measures to shore up the economy but domestic consumption remains tepid. Also conflict in the Middle East displayed no signs of easing and the drone strikes by Iran-aligned Houthis continue on commercial vessels in the Red Sea. We expect crude to remain supported at lower levels and could extend gains in the latter half of the week after the release of inventory numbers.

Technical Levels:

Crude oil:

In the previous week, there was an increase of more than 70 rupees, which accounted for a rise of more than 1.20%, in the price of crude oil. Prices have found support near the upward sloping trend line on weekly chart which was placed around Rs. 5700 level. The 14-period RSI is showing the signs of bullish reversal as it has taken support near the 40 mark AND climbed near 60 mark. The key immediate resistance is observed at Rs. 6350 level which is 100 EMA (Exponential Moving Average) on daily chart. A break above this level is likely to push prices further higher towards Rs. 6620 level. Key support is observed at Rs. 5840 level. Buy on dips is suggested as long as this level is not breached on closing basis.

Natural gas:

During the recent week, natural gas witnessed a decline of 63 rupees, reflecting a 23% decrease. While the overall trend for natural gas remains negative, there are indications of a potential retracement in prices, with a possibility of testing the range of Rs. 210 to Rs. 220 in the upcoming week. The initial key support level is now observed at Rs. 185, followed by a robust support at Rs. 178. It is recommended to sell on rise in the counter in the range of Rs. 205 to Rs. 210. The bearish view will negate if prices break above Rs. 228 level on closing basis.

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