Tuesday, March 26, 2024

Oil prices moved in a range as prices gained support upwards on increased demand from US refineries completing planned overhauls as well as reduction in exports from Iraq and Saudi Arabia. On the other hand, prices faced pressure from the key FOMC interest rate decisions and newer developments in the Gaza ceasefire chatter.

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	6715	80.84	85.12
Close	6746	80.63	84.83
1 Week Chg.	31	-0.21	-0.29
%change	0.99%	0.06%	0.09%
OI	2883	347082	0
OI change	1095	15198	0
Pivot	6751	80.83	85.00
Resistance	6798	81.25	85.41
Support	6700	80.22	84.41

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	141.6	1.684
Close	139.4	1.66
1 Week Chg.	-2.2	-0.02
%change	-1.55%	-1.48%
OI	22148	29376
OI change	64.86%	-75.75%
Pivot	139.7	1.67
Resistance	141.7	1.70
Support	137.3	1.63

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	-30	-1.02
2nd month	-11	-0.66

WTI-Brent spread$	
1st month	-0.68
2nd month	-0.69

Market tightness and OPEC+ voluntary cuts

Market tightening has been the main theme as it is prevalent with future contracts moving further into backwardation. The continuation of OPEC+ supply cutbacks means that oil market will transition from a surplus to a deficit condition in the second quarter of the year. Following the supply cuts by producer group OPEC+ into the second quarter of 2024, along with Ukrainian attacks on Russian refining capacity and expectations of disruptions to oil flows through the Red Sea have provided a boost to the overall sentiment. The majority of OPEC+ nations who announced extra voluntary cutbacks for the first quarter of this year have mostly implemented these supply reductions. However, two manufacturers have exceeded their target levels so far this year. Iraq's production target is 4 million b/d, although output averaged slightly more than 4.2 million b/d in the first two months of 2024. Similarly, Kazakhstan's production in January and February was about 150k barrels per day more than its objective of 1.47 million barrels. Both countries stated that they will compensate for the overproduction, with Iraq pledging to reduce export supply and Kazakhstan promising to pump less in the coming months; which may create further market tightness.

Russian Refinery Disruptions

Ukraine has launched an increasing number of strikes on refinery facilities. According to sources, at least nine refineries had been impacted from the drone strikes. These interruptions have helped to keep oil prices up. However, it is more favorable to refined goods than crude oil.

Red Sea flows still under pressure

The potential of Houthi strikes continues to have an impact on oil shipments across the Red Sea. Daily average transit calls at the Bab el-Mandeb Strait remain much lower than usual, as tankers detour and take the longer route around the Cape of Good Hope. The interruptions have had a greater impact on the refined product markets, with longer voyage durations causing some tightness in regional markets.

Fed's move widely eyed on

The Fed bolstered expectations of a June rate cut, while keeping rates unchanged this meeting. The dot plots still showed 75 bps of rate cuts this year and Powell rounded that off with a more dovish stance overall, oil prices felt some pressure as the dollar had a later upward reaction to revision of forecasts made to growth and inflation figures. The GDP for 2024 was revised upwards to 2.1% from December's projection of 1.4% while core PCE is projected to tick higher to 2.6% from earlier projection of 2.4%. The highlight was that the interest rate projections for this year saw median rate unchanged at 4.6%.

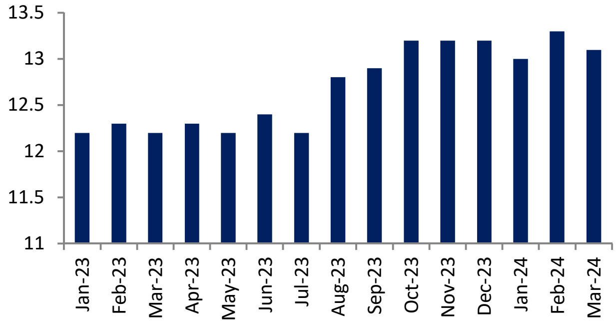
Mixed Inventory draws

EIA data showed U.S. crude oil inventories had shed 2 million barrels in the week to March 15, with gasoline stocks also declining. The crude oil inventory change compared with a draw of 1.5 million barrels, which also featured a significant inventory decline in gasoline inventories. Gasoline inventories fell by 3.3 million barrels in the week to March 15, with production averaging 9.6 barrels daily. This compared with a draw of 5.7 million barrels and production of 9.9 million barrels daily a week earlier. On the other hand, distillate inventories added 600,000 barrels, with production standing at an average daily of 4.7 million barrels. These figures compared with an inventory build of 900,000 barrels for the previous week. This created a lackluster move for prices and failed to trigger any upside move.

Outlook

Crude oil prices continue to be supported by voluntary cuts and uncertainty of a ceasefire, while a stronger dollar may keep prices slightly pressurized. Overall there are lot of moving part on the oil markets currently and with a backdrop of reasonable run up already, further up move will require some more triggers than what's at play.

US Crude Oil Production (mbpd)



Source: Reuters

Technical Levels:

Crude oil:

In the previous week, there was an increase of more than 25 rupees, which accounted for a rise of nearly 0.40%, in the price of crude oil. Prices have rallied more than 13% since February after finding support near upward sloping trend line which was placed near Rs. 6000 level. The 14-period RSI on daily chart is hovering above 60 mark which signals that counter is poised for a decent upside in the medium term. The key immediate resistance is observed at Rs. 6950 level. A decisive break above this level is likely to push prices further higher towards Rs. 7100 and Rs. 7300 level. Buy on dips is suggested in the counter. However, our view will negate if prices break below Rs. 6650 level on closing basis which is a key support for the medium term.

Natural gas:

Natural Gas prices are trading in a broader range since last few trading sessions. The key immediate support is observed at Rs. 135 level. A decisive break below this level is likely to drag prices further lower towards Rs. 120 level in the medium term. However, key resistance is observed at Rs. 164 level. A decisive break above this level is likely to push prices towards Rs. 188 level in the medium term. We recommend to enter on either side after breakout confirmation.

Navneet Damani	**Research-Head**	**navneetdamani@motilaloswal.com**
Shweta Shah	**Analyst- Energy**	**shweta.vshah@motilaloswal.com**

For any details contact:
Commodities Advisory Desk - +91 22 3958 3600
commoditiesresearch@motilaloswal.com