Tuesday, May 21, 2024

Crude oil prices settled ~2% higher amidst a mixed demand scenario and inflation numbers from China as well as the US. Prices have been range bound as traders find more direction in the OPEC+ meeting on June 1, following unchanged demand forecasts from the OPEC whereas in contrast lowered forecasts from the IEA. Geopolitical unrest in the Middle East was still an ongoing picture in the background as Israel launched its invasion of Rafah amid fading hopes for a Gaza ceasefire.

China reported a third consecutive rise in inflation coming in at 0.3%. The closely watched numbers follow better-than-expected imports data for April, suggesting boom in policy support measures over the past several months may be helping consumer confidence. Sentiment was also boosted after China's finance ministry announced it may raise 1 trillion yuan through a long-awaited bond offering this week to support sluggish economy, and will include the sale of special government bonds with tenors ranging from 20 to 50 years. On the US front, inflation came in line with expectations at 3.4% down from the previous 3.5% which dented the dollar and boosted rate cut expectations amongst traders.

Prices gave up gains earned after worries about supply disruptions had emerged after major wildfires raged throughout Western Canada, threatening to disrupt Canadian oil and gas supply, particularly as they approached a critical oil center. But, were offset as no operational disruptions were reported as firefighters raced to contain one blaze in British Columbia and two in Alberta.

Major support to prices were borrowed by a surprise decrease in inventories as headlines as well as by product inventories decreased for the week ending May 10. US commercial crude oil inventories decreased by 2.5 million barrels from the previous week. At 457.0 million barrels, U.S. crude oil inventories are about 4% below the five-year average for this time of year. Total motor gasoline

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	6616	79.38	83.43
Close	6662	80.06	83.98
1 Week Chg.	46	0.68	0.55
%change	1.69%	2.30%	1.44%
OI	5354	64368	0
OI change	2090	-174906	0
Pivot	6641	79.73	83.70
Resistance	6696	80.47	84.32
Support	6607	79.33	83.36

	Natural Gas	
Exchange	MCX	NYMEX-NG
Open	209.2	2.487
Close	216.8	2.63
1 Week Chg.	7.6	0.14
%change	3.63%	5.59%
OI	21509	107638
OI change	6.33%	-36.46%
Pivot	214.2	2.59
Resistance	220.6	2.69
Support	210.5	2.52

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	-35	-0.94
2nd month	-23	-0.54

WTI-Brent spread$	
1st month	-0.35
2nd month	-0.49

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inventories decreased by 0.2 million barrels from last week and are about 1% below the five-year average for this time of year.

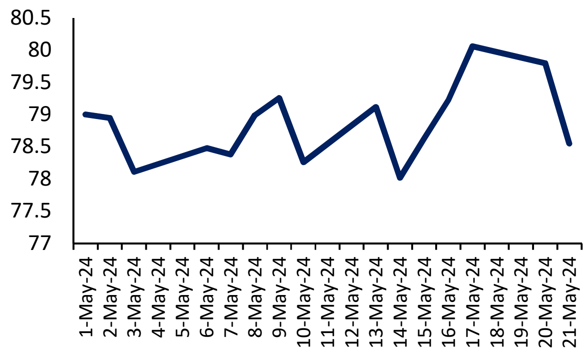
In its monthly report, OPEC maintained its forecast for world oil demand to rise by 225 million barrels per day in 2024 and 1.85M bpd in 2025, though signal firmer demand may in the offing as the group said it expected stronger global economic growth this year. The unchanged forecast came weeks ahead of the next meeting of OPEC. While OPEC on sounded an upbeat tone on the global economic outlook, the IEA was more cautious.

The IEA trimmed its forecast for 2024 oil demand growth in its monthly report, widening the gap with producer group OPEC in terms of expectations for this year's global demand outlook. Global oil demand this year will grow by 1.1 mbpd, down 140,000 bpd from the previous forecast, largely citing weak demand in developed OECD nations. The agency said the lower 2024 forecast was linked to poor industrial activity and a mild winter sapping gas oil consumption, particularly in Europe, where a declining share of diesel cars was already undercutting consumption. Supply forecasts were also trimmed down for 2024, citing heavy outages in Brazil and logistical constraints in the U.S. It stated that US world supply will rise by 580,000 bpd this year to a record 102.7 million bpd.

The death of Iranian President Raisi and Finance Minister over the weekend initially spooked markets on the possibility of foul play and political instability in the major oil producing nation but gains were quickly given up after the causew of death was deemed to be a system failure in the helicopter.

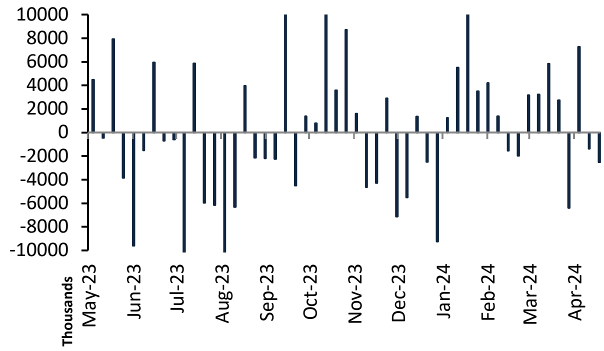
Natural gas prices soared ~15% driven by lower production and rising demand. Gas flows to major LNG export plants climbed from April to May, with the resumption of the Freeport plant in Texas helping to drive the increase. Warmer than expected weather forecasts also helped boost prices. On supply side, US Gas production has seen a decline since the beginning of this year due to various energy companies, such as EQT and Chesapeake Energy, delaying well completions and scaling back drilling operations. US utilities added 70 bcf of gas into storage last week, below market expectations of a 76 bcf increase which further helped the uptrend.

WTI Crude Oil



Source: Reuters

EIA US Crude stock weekly Change



Source: Reuters

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Outlook:

Demand-supply pull scenario continues to keep prices in a clutch while sentiment is gaining some support from the revival of China which may boost demand and growth. OPEC+ is to meet on June 1, and markets are awaiting whether they will over their production cuts or not and discuss over quota compliance issues and any developments before the meeting may provide an outlook for prices. We maintain a cautious approach and sell on rise view.

<u>Technical Levels:</u>

Crude oil:

In the previous week, Crude Oil prices gained by more than 100 rupees or 1.70% on weekly closing basis. Prices recorded the low of Rs. 6415 and high of Rs. 6675 throughout the week. Crude prices are facing resistance near the 20 days moving average which is observed at Rs. 6700 level. The 14-period RSI on daily chart is hovering near 40 mark which signals consolidation in the counter on the lower side. The key immediate support is observed at Rs. 6500 level below which Rs. 6370 will act as critical support. Sell on rise is suggested in the counter for the medium term. If prices break above Rs. 6820 on closing basis, our view will be invalidated.

Natural gas:

During the previous week, there was an increase of approximately 27 rupees, or 14.50%, in the price of natural gas. Prices recorded the high of Rs. 218 and low of Rs. 186.20 throughout the week. Prices have breached above the key resistance on daily chart which was observed at Rs. 214 mark. The 14-period RSI on daily chart has climbed above 75 mark which signals strength in momentum on the higher side. The trend is likely to continue with further robust momentum in the medium term which is likely to push prices towards Rs. 260 level in coming sessions. Key immediate support is now placed at Rs. 214 level. Buy on dips is suggested in the counter as long as this level is not breached on the lower side on closing basis.

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