Tuesday, June 18, 2024

Oil prices traded almost 4% higher this past week, after falling consecutively for three weeks earlier. The week began on a cautious note after the decision of gradual phasing out of voluntary output cuts from eight OPEC+ members, but prices remained buoyed by expectations of rising fuel demand this summer. The monthly reports from OPEC, EIA and IEA outlook was released in this week which helped boost sentiments and provide further outlook for prices.

Oil demand growth predictions for 2024 and 2025 from energy forecasting groups such as the IEA and OPEC continue to vary significantly. OPEC is the clear outlier in terms of consensus projections, predicting that oil demand will rise by 2.25 million barrels per day this year to 104.5 million barrels per day and by 1.85 million barrels per day to 106.3 million barrels per day in 2025. For this year's forecast, downward adjustments to demand in OECD countries, Latin America and Africa in the first and second quarters were offset by better-than-expected consumption in China, the Middle East and India. The unchanged supply and demand projections leave the call on OPEC+ crude at 43.2mn b/d this year, rising to 44mn b/d in 2025.
On the supply side, key OPEC+ members such as Russia and Iraq reaffirmed their adherence to production quotas. Saudi Arabia also indicated a willingness to adjust output in response to market conditions.

In contrast, the IEA expects demand to grow by 1.1 mbd in 2024, the second downgrade in a row, owing to persistent weakness in OECD consumption, particularly in Europe, where gasoil/diesel consumption has been hard affected by sluggish industrial activity and expanding EV use. The IEA predicts that oil demand would rise marginally to 1.2 million barrels per day by 2025, mainly by non-OECD expansion.

Crude production in the US continued to range at near record levels of 13.1 mbd, just a little below the US EIA forecast of 13.2 mbd (avg.) for this year. For 2025, the EIA expects output to increase by a further 500 kbd to 13.7 mbd, though this figure could be ambitious given expectations of a likely slowdown in oil investment from US firms amid high labor and equipment costs.

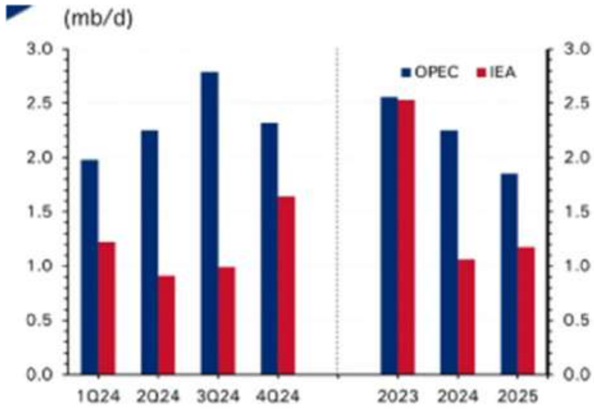
Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	6542	77.96	82.05
Close	6574	78.45	82.62
1 Week Chg.	32	0.49	0.57
%change	3.97%	3.87%	3.77%
OI	5594	95233	0
OI change	2933	-174093	0
Pivot	6565	78.44	82.64
Resistance	6618	79.16	83.37
Support	6520	77.74	81.90

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	246.1	2.921
Close	241.9	2.88
1 Week Chg.	-4.2	-0.04
%change	-1.71%	-1.37%
OI	16454	98178
OI change	0.06%	-58.59%
Pivot	244.4	2.92
Resistance	247.9	2.96
Support	238.5	2.83

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	0	-0.40
2nd month	-23	-0.50

WTI-Brent spread$	
1st month	0.00
2nd month	-0.54

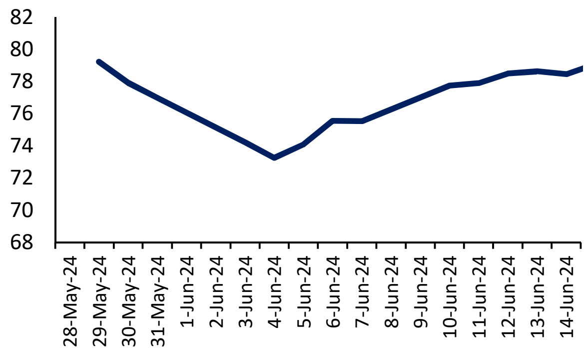
Inventories presented a mixed picture. U.S. commercial crude oil inventories increased by 3.7 million barrels from the previous week. At 459.7 million barrels, U.S. crude oil inventories are about 4% below the five-year average for this time of year. Total gasoline inventories increased by 2.6 million barrels from last week and are slightly below the five-year average for this time of year. Distillate fuel inventories increased by 0.9 million barrels last week and are about 7% below the five-year average for this time of year.



Source: IEA, OPEC

A key measure of inflation cooled down in May, a pleasant surprise for U.S. Federal Reserve officials looking for signs that they can start to lower interest rates. Although, data like the PPI data came in at a 0.2% drop for final demand in May, contrary to the expected 0.1% increase. Additionally, weekly initial jobless claims hit a 10-month high. The Federal Reserve kept interest rates steady at the FOMC meeting scheduled for this month, delaying potential rate cuts until at least end of this year which supported the dollar index. Fed Chair Powell noted that inflation had decreased without severely impacting the economy, but higher borrowing costs could still suppress oil demand by dampening economic growth.

WTI Crude Oil



Source: Reuters

Natural gas prices slightly retraced from its highs on expectations of increased production outweighing the surge in demand. The Mountain Valley Pipeline's recent start of operations on June 11 is expected to add to the increase in supplies, as the pipeline allows for the transportation of up to 2bcf per day of natural gas from West Virginia to Virginia. In addition, EQT, a major gas producer in the country, has increased production in response to rising pricing in May. Although, the forecast for hotter weather until the end of June is expected to increase natural gas usage by power generators for air conditioning purposes.

EIA mentioned in its short term energy outlook that natural gas production to increase by 2% in 2025, with production rising in most regions in the Lower 48 states. The increase in U.S. natural gas production in 2025 is the result of a combination of higher natural gas prices, which will incentivize more drilling in the natural gas producing Appalachia and Haynesville regions, and more associated natural gas production in the Permian region. Pipeline takeaway capacity additions in the Northeast and Permian regions will support increased production.

Outlook:

Improving global demand outlook, robust oil demand growth forecasts and pickup in demand for peak driving season is expected to keep prices supported. Geopolitical risk is again building onto prices, after caution elevated as the Israeli military said over the weekend that intensified cross-border fire from Lebanon's Hezbollah movement into Israel could trigger serious escalation. Any further developments will be important to watch for.

<u>Technical Levels:</u>

Crude oil:

In the previous week, the crude oil market experienced significant volatility and closed on a positive note with a gain of ₹251, representing a 3.97% rise. Throughout the week, prices recorded a low of ₹6,294 and a high of ₹6,622. On the daily chart, crude oil has formed a harmonic bullish Gartley formation, which indicates a further bullish move in the counter. The technical indicator, the 14-period RSI on the daily chart, is trading above the 50 mark, signaling strength in the counter. The key immediate resistance is observed at the ₹6,800 level. However, a buy-on-dip strategy is suggested in the counter as long as the key support level of ₹6,300 is not breached on the lower side.

Natural gas:

In the last week, the natural gas market closed on a negative note, declining by ₹4.6 or 1.87% fall. During the same week, prices reached a high of ₹261. Some profit booking was observed in the market, and it is trading within a parallel channel close to the support line. A break below this support line will indicate further selling pressure in the counter. The overall trend remains range-bound, with a recommendation to sell on the rise in the counter, targeting ₹215-₹210. Key resistance levels are identified at ₹244 and ₹250, respectively.

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

Commodity Disclosure & Disclaimer: