



Oil prices halted its four-week consecutive rally by stepping down 1% lower last week impacted by lesser than expected disruptions to supply from Hurricane Beryl and increasing negotiation talks in Middle East, lowering the geopolitical risk premium factored into oil prices for a long time as the region's stability directly impacts global oil supply and transportation routes.

Hurricane Beryl Impact

Tropical Storm Beryl, which approached the United States Gulf Coast caused initial anxiety in oil markets. Key Texas ports, including as Corpus Christi, Houston, and Galveston, were closed in anticipation for the storm's arrival. It made landfall in Texas knocking out power over much of the state and while the storm had risen to a category 1 hurricane when it arrived, it quickly dropped to a tropical storm and was projected to deteriorate more as it moves up the coast. However, the storm's impact was less severe than expected, with major refineries along the United States Gulf Coast reporting minor outages. This reduction in supply disruption worries failed to support prices, adding to downward pressure.

Middle East developments

There was some renewed chatter around ceasefire negotiations in the Middle East which eased oil prices. The de-escalation reduced the geopolitical risk premium included into oil prices, as the region's stability has a direct impact on global oil supply and transportation routes. However, major gaps persisted between the parties involved in the negotiations, adding to market anxiety.

China worries

China's crude oil imports fell 11% in June from a record high in the same month of 2023, owing to weak gasoline demand and decreased run rates at independent refiners. Crude arrivals fell 2.3% in the first half of 2024 compared to the same period last year, according to data from China's General Administration of Customs. The world's largest oil importer imported approximately 11.3 mbpd last month.

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	6920	81.55	85.69
Close	6890	81.02	85.03
1 Week Chg.	-30	-0.53	-0.66
%change	2.98%	3.43%	3.17%
OI	5233	317212	0
OI change	2057	1883	0
Pivot	6919	81.41	85.44
Resistance	6959	81.90	85.94
Support	6851	80.52	84.54

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	190.2	2.267
Close	196	2.33
1 Week Chg.	5.8	0.06
%change	3.05%	2.73%
OI	33254	159857
OI change	68.99%	-75.39%
Pivot	193.6	2.31
Resistance	198.9	2.37
Support	190.7	2.27

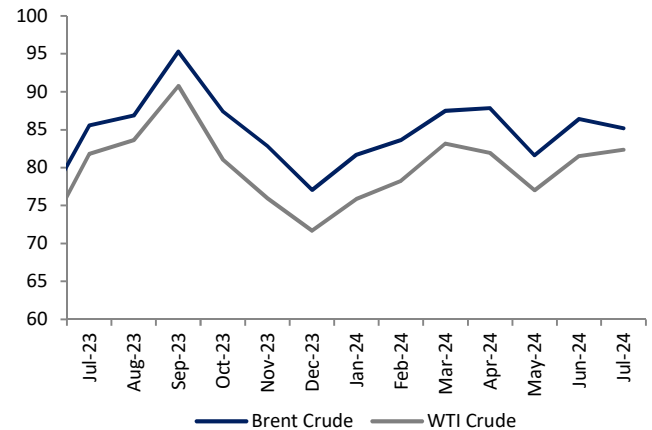
Front Month Calendar Spread		
Exchange	MCX	NYMEX(\$)
1st month	-93	-1.06
2nd month	-8	-0.86

WTI-Brent spread\$	
1st month	-0.93
2nd month	-0.78

While this was somewhat better than May's imports of 11.06 million bpd, it was still 1.3 million bpd below than the all-time high of 12.67 million bpd reached in June 2023. The property crisis in China and weaker-than-expected fuel demand have weighed on refining margins in recent months, which has prompted independent Chinese refiners to reduce crude throughput.

Inventories stay supportive

Prices were supported by inventory draws reported by the EIA. U.S. commercial crude oil inventories decreased by 3.4 million barrels from the previous week. At 445.1 million barrels, U.S. crude oil inventories are about 4% below the five-year average for this time of year. Total motor gasoline inventories decreased by 2.0 million barrels from last week and are 1% below the five-year average for this time of year. Distillate fuel inventories increased by 4.9 million barrels last week indicating somewhat mixed demand for fuel and heating oil, amid sporadic weather conditions. The US Department of Energy has released a notice to buy a further 4.5m barrels of US-produced sour crude oil for the Strategic Petroleum Reserve. Delivery will be for October, November and December at a price no higher than US\$79.99/bbl.



Source: Reuters

OPEC vs IEA

OPEC continues to keep its demand forecasts unchanged, expecting demand to grow by 2.25m b/d YoY in 2024 and then by a further 1.85mbd in 2025. Non-OPEC+ supply growth was also left unchanged at 1.23m b/d for 2024 and 1.1mbd for 2025. The group had agreed in June to extend the latest cut of 2.2 million bpd until the end of September and gradually phase it out from October. OPEC crude oil output averaged 26.57mbd in June, down 80k bd MoM. This decline was driven largely by Saudi Arabia and Iraq. OPEC also raised its forecast for world economic growth this year to 2.9% from 2.8%, and said there was potential upside to that number, citing momentum outside developed countries in the Organization for Economic Cooperation and Development.

The difference in opinion and variation in forecasts continued as IEA said it expects demand growth for the 2024 to be around 970,000 barrels per day, with a projection of 980,000 barrels per day for 2025, lowered from a previous projection of 1 million barrels per day. Supply will likely continue to outpace demand next year, as the IEA said it expects 2025 production growth averages of 1.8 million barrels per day, owing to rising production from the U.S., Canada, Brazil, and Guyana.

Natural gas prices were flat amidst easing concerns over the impact of Hurricane Beryl on US liquefied natural gas facilities and from increased production and oversupply in markets. Inventories of natural gas saw a notable increase, with U.S. utilities injecting 65 billion cubic feet into storage during the week ending July 5, 2024, surpassing market expectations. There are forecasts of warmer-than-usual weather over the coming weeks, which is expected to drive higher air conditioning demand. EIA projected a decline in natural gas production for 2024, anticipating output to ease slightly from 103.8 bcf/d in 2023 to 103.5 bcf/d in 2024.

Outlook:

Recent economic data from China has shown a slowdown in growth which dampened demand sentiment in the world's top importer of crude. Further implications of ceasefire negotiations solidifying will be important to watch for as it may continue to erode risk premium from prices. On the other hand, rate cut cheer in the US has been supportive of prices and further data from the US will help gauge a further view and impact on oil prices ahead.

Technical Levels:

Crude oil:

In the previous week, crude oil closed down by 87 rupees or 1.25%. Over the past couple of weeks, prices have been trading in a broad range between 7,060 and 6,700. The MCX Crude Oil daily chart indicates that a breakout above the 7,100 level is crucial for the existing uptrend to continue. If this breakout occurs, it could push prices further higher towards the resistance levels of 7,300 to 7,400. On the downside, key support levels are identified at 6,750, 6,666, and 6,540. A breakout above 7,100 could signal a strong bullish continuation, while failure to break this level might keep the prices range-bound.



Natural gas:

During the recent week, natural gas experienced sideways movement, closing up by 0.20%. However, it has been declining for the past four weeks. Currently, prices are near a major support level at Rs. 180. For the upcoming week, prices might either remain range-bound or potentially see a reversal. The major resistance level is now at Rs. 205. A daily close above this level could propel the price towards the 212 to 218 range.



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