Monday, July 15, 2024

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

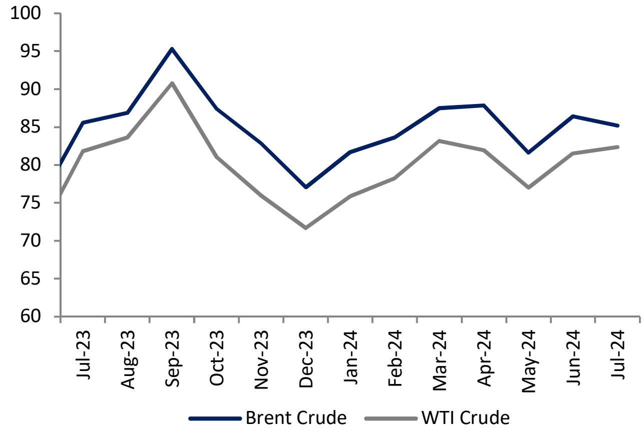
Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	-93	-1.06
2nd month	-8	-0.86

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 throughout.

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.

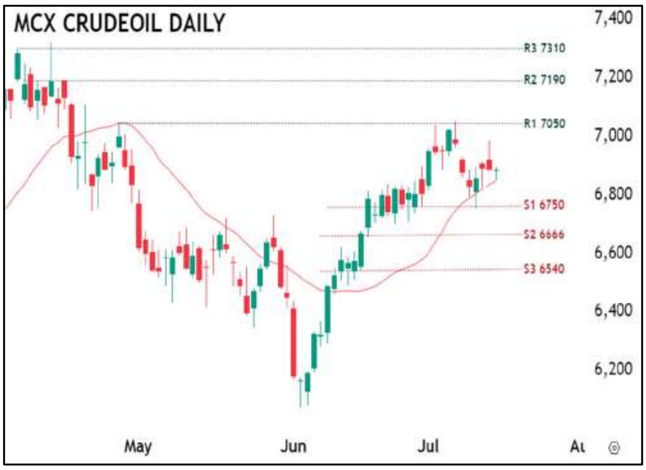
Natural gas prices were flat amidst easing concerns over the impact of Hurricane Beryl on US liquefied natural gas facilities and from increased production and oversupply in markets. Inventories of natural gas saw a notable increase, with U.S. utilities injecting 65 billion cubic feet into storage during 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 bcfd in 2023 to 103.5 bcfd 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.

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:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Ltd. are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf

Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

Terms & Conditions:

1. This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.
2. This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it.
3. This report is not to be construed as an offer to sell or solicitation of an offer to buy any commodity or commodity derivative to any person in any jurisdiction where such an offer or solicitation would be illegal.
4. It is for the general information of clients of MOFSL. It doesn't constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.
5. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL.
6. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate.
7. All such information and opinions are subject to change without notice.
8. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.
9. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed.
10. Neither MOFSL, nor any person connected with it, accepts any liability arising from the use of this document.
11. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the commodity referred to in this material may go up or down. Past performance is not a guide for future performance.
12. Certain transactions including those involving commodity derivatives involve substantial risk and are not suitable for all investors.
13. Reports based on technical analysis centers on studying charts of a commodity's price movement and trading volume as opposed to focusing on a commodity's fundamentals and as such may not match with a report on a commodity's fundamentals.
14. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to subject commodity for which Research Team have expressed their views.
15. MOFSL or its associates or Research Analyst or his relatives may have Open Position in subject commodity.
16. A graph of daily closing prices of commodities is available at http://www.moneyline.co.in/
17. Opinions expressed are our current opinions as of the date appearing on this material only. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.
18. The commodities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.
19. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment.
20. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the commodities mentioned in this document.
21. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein.
22. The commodities described herein may or may not be eligible for trade in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.
23. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors.
24. MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may (a) from time to time, have long or short positions in, and buy or sell the commodities mentioned herein or (b) be engaged in any other transaction involving such commodities and earn brokerage or other compensation or act as a market maker in the commodity/ (ies) discussed herein or have other potential conflict of interest with respect to any recommendation and related information and opinions. However the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the commodities mentioned in the research report.
25. MOFSL and it's associates and Research Analyst have not received any compensation or other benefits in connection with the research report. Compensation of Research Analysts is not based on any brokerage transactions generated by broking activities under Motilal Oswal group.

This report is meant for the clients of Motilal Oswal only.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 - 71934200 / 71934263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	**Contact No.**	**Email ID**
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412 . AMFI: ARN .: 146822. IRDA Corporate Agent – CA0579. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.