Monday, July 22, 2024

Oil prices ended last week on a negative note as China's future outlook disappointed investors after the country unexpectedly lowered borrowing costs. China's economy expanded at a slower than expected rate of 4/7% in Q2 2024, raising concerns about the demand side need for China.

The Third Plenum of China's Central Committee barely saw any tangible pledges, with the lack of constructive takeaways reverberating across commodities. Optimism grew around a potential ceasefire in Gaza, with U.S. Secretary of State Antony Blinken suggesting negotiations were close to completion.

This development threatened to erode the geopolitical risk premium that had been supporting oil prices. The dollar Index strengthened and gave further pressure to prices following stronger than expected news on the U.S. Job market and Manufacturing data last week. Prices did get some support after EIA data reported a larger than expected weekly drop in crude inventory.

Oil inventories saw a drawdown of 4.9 MBpd with gasoline inventories increasing by 3.3 Mbpd, slightly above the 5 year average for this time of year. Distillate fuel inventories increased by 3.5 million bbl last week and are about 7% below the 5-year average for this time of year.

At 440.2 Mbs, US crude oil inventories are about 5% below the 5-year average for this time of year. Despite the positive inventory data, concerns still remain as broader inventory trends remain more pessimistic amid a slower than usual rate of withdrawal for this time of year.

Wildfires in Canada threatening oil sands production also acted as a firmer floor for prices. Oil sands producers Canadian Natural Resources, Imperial Oil, and MEG Energy are closely monitoring the current situation in Alberta as wildfires are currently raging within 6-7 miles of some of their production sites.

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	6779	80.88	84.72
Close	6612	78.64	82.63
1 Week Chg.	-167	-2.24	-2.09
%change	-2.72%	-2.94%	3.17%
OI	4699	421868	0
OI change	3040	104697	0
Pivot	6675	79.52	85.44
Resistance	6750	80.46	85.94
Support	6537	77.71	84.54

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	180.4	2.128
Close	181.5	2.17
1 Week Chg.	1.1	0.04
%change	0.61%	1.74%
OI	24076	353227
OI change	64.88%	12.33%
Pivot	180.1	2.15
Resistance	183.4	2.20
Support	178.1	2.11

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	-59	-1.16
2nd month	34	-0.88

WTI-Brent spread$	
1st month	-1.07
2nd month	-0.82

Estimates suggest that about 500,000 bpd of marketable oil sands production could be within 10 kilometers (6.2 miles) of an out-of-control blaze, roughly 10% of the total oil output in the province. However, the disruption could be quickly brought back online.

For natural gas, prices remain subdued as the market continues to grapple with bearish factors including robust production levels and ample storage supplies. The mixed weather outlook also failed to provide sufficient support, leading to a continuation of the downward trend. Freeport LNG gradual restart offered a potential bright spot for the market.

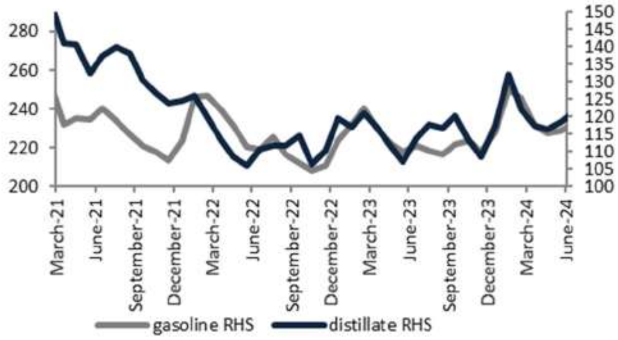
However, investors are keeping cautious as signs of strengthening demand and stable export levels still remain uncertain. EIA report revealed a net increase of 10 Bcf, a significantly lower build than expectations and the five-year average. Looking ahead to this week, natural gas looks predominantly bearish, but any change in factors like Freeport restart could offer a short-term relief rally to the market.

Currently, Freeport LNG export terminal has canceled the planned loadings the third quarter of July as damage from Hurricane Beryl seems to be more impactful than initially thought, with incoming feedgas flows still a fifth of their usual level of 2 Bcfd. On CFTC front, after a +26,652 contract increase this week, CFTC reported gas short exposure has increased by 63% in the last 3 weeks to 283,913 contracts, up 30% vs 2023.

Meanwhile, on the U.S. election front, investors are digesting the news of President Joe Biden's decision to no longer seek reelection. Biden endorsed Vice President Kamala Harris, who will run against Republican frontrunner Donald Trump. Sentiment towards China was further dented by reports earlier this week suggesting that the U.S. was planning stricter trade restrictions on the country's technology sector- a move that stands to attract retaliatory measures from Beijing.

Speculation over a Donald Trump presidency also further soured sentiment towards China, given that Trump has maintained largely protectionist policies. Trump also said that he will push for increasing U.S. oil production - a move that could herald higher supply in the coming years. Focus is also on U.S. interest rate cuts, as soft inflation data and dovish signals from the Federal Reserve saw markets positioning for a September rate cut.

US Product Stock(million barrels)



Source: Reuters

Outlook:

Oil prices are expected to trade lower with investors facing several competing forces that can create volatility in the market. The potential for a Gaza ceasefire remains a central focus, with any progress likely to exert downward pressure on prices. Economic indicators will remain crucial, particularly those from China and the U.S., as they shape expectations for global oil demand. The strength of the U.S. dollar will continue to play a significant role, with its movements closely tied to oil price changes. Focus also remains on any signals from OPEC+ members. While no immediate policy changes are expected, any hints of future adjustments could sway market sentiment.

Technical Levels:

Crude oil:

In the previous week, the crude oil market experienced significant volatility and closed on a negative note by 165 rupees, representing a 2.39% decline. Throughout the week prices oscillated between a low of Rs. 6,712 and a high of Rs. 7,006. On the daily chart, crude oil has formed a harmonic bearish cypher pattern, which signals the potential for further bearish movement in the counter. The technical indicator, the 14-period Relative Strength Index (RSI) on the daily chart, is trading below the 50 mark, indicating underlying weakness in the counter. Immediate key support is identified at the Rs. 6,540 level. However, a sell-on-rise strategy is recommended for this counter as long as the key resistance level of Rs. Rs. 6,560 remains unbroken on the upside.

Natural gas:

In the last week, the natural gas market closed on a negative note, registering a decline by more than 18 rupees or 9.44%. During this period, prices peaked at Rs. 191 and reached a low of Rs. 169.6. Profit booking was observed, and the market is currently trading close to the support line at Rs. 165. A breach below this support line would suggest further selloff in the counter. However, prices hold this support and possibility of testing Rs. 190 to 195 would be high. Key resistance levels are identified at Rs. 188 and Rs. 196 and support are now at Rs. 168 and Rs. 165 levels.

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