MOTILAL OSWAL
WEALTH MANAGEMENT

Energy Weekly

Monday, August 26, 2024

Oil prices ended last week on a positive note, as sentiment improved following the U.S. Federal Reserve's July meeting notes, which solidified expectations for a rate cut at the central bank's next meeting in September. Lower interest rates are anticipated to spur economic growth, thereby increasing crude demand and supporting oil prices. However, the war premium on oil prices remains intact due to the ongoing challenges in ceasefire negotiations. Reports indicate that Israel's demand to keep troops in Gaza after the ceasefire is the latest obstacle to concluding these talks.

The Federal Reserve released the minutes of the July FOMC meeting on August 21, providing insights into the views of Fed officials on current economic conditions and the outlook. Inflation has moderated from last year's levels, with core PCE increasing by 2.6% year-over-year in June. While this remains above the Fed's 2% target, recent data have given Fed officials confidence that inflation is trending in the right direction. Factors such as slowing economic growth, reduced pricing power for businesses, and lower household savings are supporting this trend. Officials also noted that the rebalancing of the labor market has led to slower wage growth, which is expected to help reduce core non-housing services inflation. Additionally, some officials highlighted that the decline in new tenant rents may have a delayed effect on housing services inflation, contributing to further easing in this category.

The current scenario in the oil market presents a mixed picture. Brent's six-month calendar spread shows moderate backwardation, indicating a tightening market, but other indicators, such as refinery margins, have weakened, reflecting growing uncertainty about future demand and potential for further economic slowdown. On the positioning front, hedge funds have significantly reduced their positions in crude and fuel futures, reflecting a cautious stance amid heightened uncertainty.

In the U.S., crude inventories have been declining for several weeks, with significant drops observed in July and August. According to the U.S. EIA, crude stocks fell by 34.6 Mbs over the eight weeks leading

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	6140	72.96	76.56
Close	6293	74.83	78.15
1 Week Chg.	153	1.87	1.59
%change	-0.98%	-0.94%	-0.91%
OI	9169	346042	0
OI change	4060	-8714	0
Pivot	6243	74.24	77.63
Resistance	6352	75.66	78.89
Support	6184	73.42	76.90

	Natural Gas	
Exchange	**MCX**	**NYMEX-NG**
Open	173.1	2.061
Close	168.9	2.02
1 Week Chg.	-4.2	-0.04
%change	-2.43%	-1.89%
OI	19204	28179
OI change	51.67%	-77.55%
Pivot	170.2	2.03
Resistance	172.1	2.06
Support	167.0	1.99

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	-45	-1.58
2nd month	-68	-0.51

WTI-Brent spread$	
1st month	-0.61
2nd month	-0.48

up to August 16, marking the second-largest seasonal decline in the past decade.

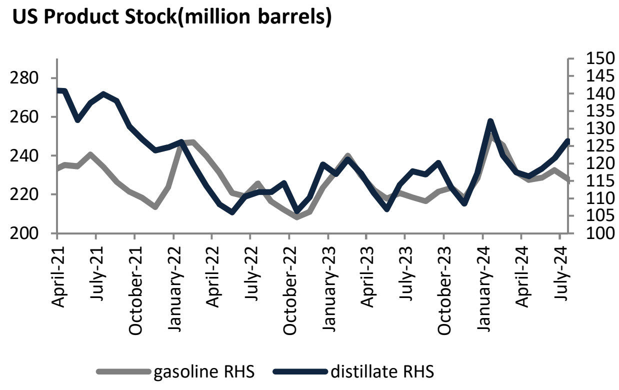
The EIA report was quite bullish, with U.S. commercial crude oil inventories dropping by 4.65 Mbs, much more than the anticipated 2.2 Mbs decline, bringing crude inventories down to 426 Mbs, the lowest since January.

This larger-than-expected draw was due to increased crude export volumes, which rose by 289,000 bpd Wow, and higher refinery run rates, with crude inputs up by 222,000 Bpd. Refined products also saw inventory declines; gasoline stocks fell by 1.61 million barrels, and distillate stocks by 3.31 Mbs. The gasoline draw was likely supported by stronger implied demand, which increased by 148,000 Bpd week-on-week, while the decline in distillate stocks was driven by a 313,000 Bpd increase in export volumes. Notably, distillate exports reached a record high of 1.85 Mbpd over the week.

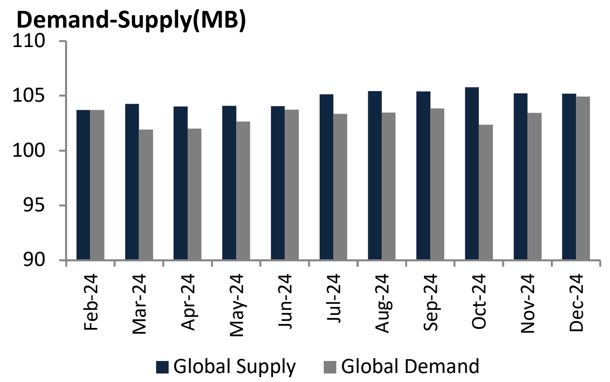
Currently, OPEC+ supply cuts have been overshadowed by weak economic outlook data from major economies, with both the U.S. and China showing signs of weakness. U.S. manufacturing data slowed at the fastest pace this year, and there is also softness in the labor market in Europe. As OPEC+ prepares for its upcoming meeting, the group faces a pivotal decision that could significantly impact global oil markets. With autumn approaching, OPEC+ must choose between proceeding with planned production increases or keeping output levels unchanged. This decision comes amid a volatile mix of uncertain global economic conditions, shifting oil demand forecasts, and tightening oil inventories, particularly in the U.S.

Despite tightening inventories, demand forecasts remain a major concern. The IEA recently lowered its global oil demand growth forecast for 2025, citing a weaker-than-expected recovery in global manufacturing and freight activity. This adjustment reflects broader worries about the health of the global economy, with many forecasts pointing to a slowdown in economic activity since April, resulting in a more cautious outlook for oil consumption in the coming months.

In the natural gas market, prices extended gains last week but slid to a two-week low, weighed down by negative carryover from inventory data showing a rise of +35 Bcf, significantly above expectations of a +25 Bcf build, keeping inventories well above their five-year average by +12.6%. Natural gas inventories are currently up +7% year-over-year and are +12% above their five-year seasonal average, indicating ample gas supplies. Prices did receive some support from forecasts of above-normal temperatures across much of the U.S. next week, which will



Source: Platts



Source: Reuters, EIA, internal

Outlook:

Crude oil prices are expected to see some recovery this week, supported by geopolitical developments and enthusiasm over a potential Fed rate cut. However, upside potential is limited as ongoing demand concerns continue to overshadow geopolitical tensions. Upcoming data, including crude oil inventories, U.S. GDP, U.S. Core PCE, and Chinese Manufacturing PMIs, will provide more definitive insights into oil demand, moving beyond speculative projections.

Technical Levels:

Crude oil:

In the previous week, MCX Crude Oil recorded the multi-week low of Rs. 6020 but quickly recovered and settled with a weekly loss of 2.21% at Rs. 6293 level towards the end of the week. Prices have taken strong support near the upwards sloping trendline along with 14-period RSI showing the signs of shift in momentum. Buy on dips is suggested in the counter targeting Rs. 6700 on the higher side. If prices close below Rs. 6080, our view will be invalidated.

Natural gas:

During the recent week, Natural Gas lost by more than 4% after recording the high of Rs. 201.80 throughout the week. Natural Gas is trading below 20-days moving average which is observed at Rs. 188 level. The 14-period RSI on daily chart has dropped near 43 level which signals that counter is likely to consolidate on the lower side in medium term. Sell on rise is suggested in the counter targeting Rs. 167 level in coming sessions. If prices trade above Rs. 200 level on closing basis, our view will be invalidated.

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

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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

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