MOTILAL OSWAL
WEALTH MANAGEMENT

Energy Weekly

Monday, September 16, 2024

Oil prices ended last week on positive note, bolstered by expectations of interest rate cuts by the U.S. Federal Reserve, a softer U.S. dollar and supply disruption news from Hurricane Francine, logging its first weekly gain after almost one month. The hurricane had prompted the shut-in of as much as 42% of Gulf production, equal to about 730,000 Bpd, supporting prices.

However, supply concerns eased as producers ramped up production following the disappearance of Storm Francine, which had temporarily disrupted oil output in the Gulf of Mexico. Despite the recovery, the disruptions provided support to crude prices earlier in the week, helping the market avoid further overselling

Monthly Forecast: Demand concerns still played a dominant role as 3 forecast agencies, namely EIA, IEA and OPEC in totality showed a downgrade to the demand growth forecast, highlighting the worries of demand pickup from major consumers. Global oil demand growth continues to slacken, with a 1H24 increase of 800 kb/d y-o-y the lowest since 2020.

One of the major reasons for this downturn is a rapidly decelerating China, where consumption contracted y-o-y for a fourth straight month in July, by 280 kb/d. Global refinery throughputs are forecast to increase by 440 kb/d to 83 Mbpd in 2024, and by 630 kb/d to 83.7 Mbpd next year.

Much weaker-than-expected Chinese runs in July and a further deterioration in margins continue to weigh on the forecast. Cracking margins briefly turned negative in Europe and Singapore. On the supply front, the IEA stated that with non-OPEC+ supply rising faster than overall demand, barring a prolonged stand-off in Libya, OPEC+ may be staring at a substantial surplus, even if its extra curbs were to remain in place. In the context of a rapidly evolving market, reliable energy data and unbiased market analysis will become more important than ever

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	5779	68.35	72.3
Close	5721	67.75	71.61
1 Week Chg.	-58	-0.6	-0.69
%change	0.76%	1.15%	0.77%
OI	11186	307969	0
OI change	1879	82470	0
Pivot	5760	68.23	72.10
Resistance	5805	68.87	72.75
Support	5676	67.10	70.97

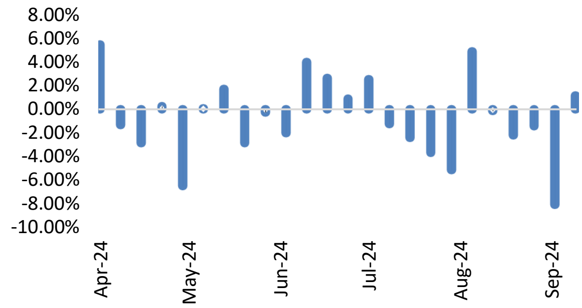
Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	198.8	2.363
Close	193.9	2.31
1 Week Chg.	-4.9	-0.06
%change	-2.46%	-2.45%
OI	33668	151753
OI change	2.81%	-41.36%
Pivot	196.5	2.34
Resistance	199.8	2.38
Support	190.5	2.26

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	-13	-0.66
2nd month	-23	-0.41

WTI-Brent spread$	
1st month	-0.56
2nd month	-0.41

Inventories: Oil prices pared some losses after an EIA reported U.S. oil inventories increased 833,000 barrels against expectations for an increase of 900,000. Gasoline inventories, meanwhile, increased by 2.3 MBs confounding expectations for a draw of 400,000 barrels. While distillate stocks increased by 2.3Mbs, well above the 300,000 barrel build expected.

WTI Weekly Change(%)



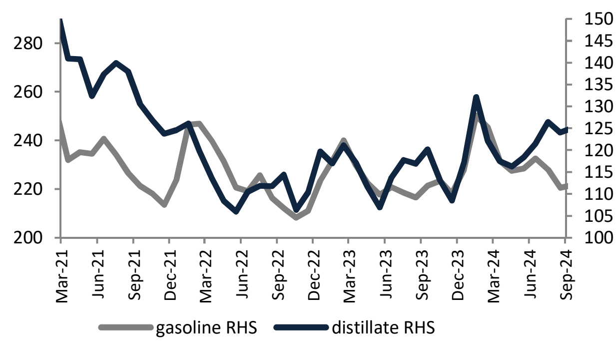
Source:RTRS

The latest data from Baker Hughes shows that the US oil rig count increased by 5 over the last week to 588, the highest level since June. However, it is unlikely that this momentum will be maintained given the recent weakness in the market.

Federal Reserve Rate Expectations: Anticipation of a U.S. interest rate cut drove market sentiment throughout the week. Traders positioned for the Federal Reserve to announce a potential 50-basis-point rate reduction at their upcoming meeting. Lower borrowing costs could boost economic activity, enhance energy demand and support crude oil prices. This sentiment was further reinforced by weaker U.S. labor market data, pointing to an economic slowdown and creating room for policy easing.

China economic data: The industrial output growth slowed to a five-month low in August, while retail sales and new home prices weakened further. Oil refinery output also fell for a fifth month, as disappointing fuel demand and weak export margins curbed production. Meanwhile, China boosted crude oil inventories in August by the biggest amount in 14 months, confirming that the rebound in imports was driven by stockpiling and not by any recovery in fuel consumption.

US Product Stock(million barrels)



Source:RTRS

These are the biggest flows since July 2023 when 2.1 Mbpd was added to stockpiles, and was also a sharp increase from the 280,000 bpd added in July. Currently, China has added 1.85 Mbpd to either commercial or strategic storages.

Traders Position: For Brent, in the paper market, for the first time ever, market participants are seeing a “net short” position, which is a rare scenario to see such pessimism, especially when physical global oil inventories are falling at a rate of about 1Mbpd. This contrarian situation indicates that tension between the financial and physical sides of the oil market will bring more volatility and price swings on the horizon.

Natural Gas: Natural gas futures trade volatile with prices ending last week on a negative note, falling for the first time in four sessions as long liquidation emerged on reports of US gas production and deliveries coming back online along the Gulf Coast after tropical storm Francine dissipated. Prices were supported after EIA data showed a build, lower than expectations, which pushed prices to a 3-week-high. The EIA reported that weekly gas inventories rose +40 bcf, below expectations of +48 bcf. Prices also saw support from forecasts for warmer US weather that will boost gas demand from electricity providers to run air conditioning.

Outlook:

Oil fundamentals remain weak, and concerns surrounding the oil demand outlook could limit the upside in oil. There is little on the energy calendar for this week. Instead, broader markets, including commodity markets, will be focused on the upcoming FOMC meeting this week.

Technical Levels:

Crude oil:

MCX Crude Oil prices have decisively breached below the upward sloping trend line of the Symmetrical Triangle pattern on weekly chart and at the same time, trading in lower highs and lower lows formation which indicates bearish trend. The Ichimoku cloud analysis indicates a bearish momentum as Crude Oil prices are trading below the conversion and base line. The 14-period RSI on daily chart has fallen below 50 mark which signals bearishness in the counter. Sell on rise is suggested in the counter targeting Rs. 5350 on the lower side. If prices close below Rs. 6150, our view will be invalidated.

Natural gas:

During the recent week, Natural Gas gained by more than 1.50% after recording the high of Rs. 202.40 throughout the week, trading within a narrow range between 179 and 202, with the closing price near 193.90 levels. The Ichimoku Cloud indicator indicates a bullish trend, with the price is trading above the conversion line, situated around 180 level. In terms of short-term outlook, the sentiment remains positive. It's advisable to consider buying on significant pullbacks towards the immediate support band, with targets set at 205-212, followed by the 220 level. On the downside, support levels are expected around 180, with further support around 170 levels.

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