



Energy Weekly

Monday, October 14, 2024

Oil prices experienced a volatile week, swinging in response to developments in the Middle East, where talks of ceasefire alternated with escalations in conflict. However, the week ended on a positive note for the market, with prices posting consecutive weekly gains as concerns over potential supply disruptions continued to dominate the crude oil sector.

A key factor fueling this anxiety is the risk of attacks on energy infrastructure. While U.S. President Joe Biden has advised against targeting energy facilities in Iran, one of the largest OPEC producers, the threat remains, creating unease among investors. Iran's backing of various militant groups fighting Israel, including Hezbollah in Lebanon, Hamas in Gaza, and the Houthis in Yemen, raises concerns about the conflict spreading. Gulf States, fearing retaliatory strikes on their own oil infrastructure, are lobbying the U.S. to prevent any attacks on Iran's oil sites. Given that the Middle East supplies roughly a third of the world's crude oil, any escalation in the region could severely impact global oil flows, especially through chokepoints like the Strait of Hormuz.

On supply front, Libya's National Oil Corporation (NOC) reported that it had restored production to pre-crisis levels, reaching 1.25 Mbd following the resolution of a central bank crisis. This development has added some stability to the supply side.

Another contributor to the recent price surge has been the unwinding of short positions by hedge funds. In early September, these funds held the first-ever net short position in Brent crude futures, but a rally driven by supply risks has forced many of them to cover their positions. Currently, long positions betting on higher oil prices have surged by an equivalent of 139 million barrels. Despite the bullish sentiment, some market players remain cautious due to concerns over global demand, especially from China.

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	6323	75.74	79.14
Close	6323	75.56	79.04
1 Week Chg.	0	-0.18	-0.1
%change	0.56%	1.59%	1.27%
OI	2298	169629	0
OI change	157	-96050	0
Pivot	6302	75.38	78.86
Resistance	6373	76.22	79.68
Support	6253	74.71	78.22

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	226.2	2.687
Close	222.3	2.63
1 Week Chg.	-3.9	-0.05
%change	-1.72%	-2.05%
OI	33572	151901
OI change	32.31%	-48.53%
Pivot	224.2	2.66
Resistance	227.9	2.70
Support	218.7	2.59

Front Month Calendar Spread		
Exchange	MCX	NYMEX(\$)
1st month	3	-1.25
2nd month	-90	-0.47

WTI-Brent spread\$	
1st month	-0.44
2nd month	-0.45



Disappointment over China’s economic data has also been weighing on sentiment. The country’s fiscal stimulus plans fell short of expectations, with Minister of Finance Lan Foan promising to increase debt without specifying the size, leaving investors uncertain about the long-term outlook. In addition, China’s consumer inflation eased unexpectedly in September, while producer price deflation deepened, adding to the economic gloom.

In the U.S., oil inventories have been a mixed signal. The Energy Information Administration (EIA) reported a 6-million-barrel weekly build in crude oil inventories. Gasoline inventories, however, dropped by 6.3 million barrels, with production averaging 10.2 Mbpd, while middle distillate inventories fell by 3.1 million barrels, with production at 5 Mbpd.

Geopolitical tensions aren’t the only factors affecting the market. Hurricane Milton has compounded the uncertainty by disrupting fuel supplies and consumption in Florida. The storm caused widespread fuel shortages and power outages, with nearly 25% of the state’s gas stations running out of fuel and 3.4 million homes losing power. Although the storm has moved offshore, the full impact on U.S. oil demand remains unclear.

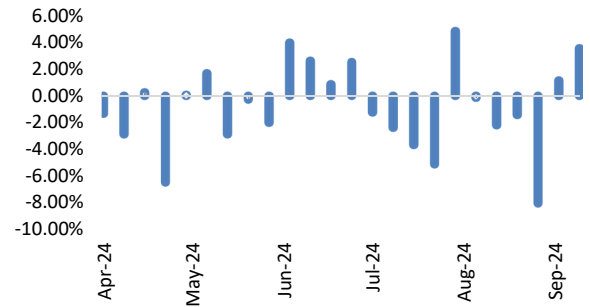
In addition to these developments, traders are closely watching U.S. economic data for clues about the Federal Reserve’s next move on interest rates. Rising inflation and an increase in jobless claims could influence the Fed’s decision, and a slower pace of rate cuts could further dampen oil demand by curbing economic growth.

Natural gas markets also saw turbulence, with prices dropping nearly 8% over the week as Hurricane Milton reduced demand from electricity providers. Although colder temperatures initially boosted expectations for higher gas consumption, the EIA’s inventory data showing a rise of +82 Bcf tempered the rally. U.S. gas inventories are now 2.8% higher than a year ago and 5.1% above the 5-year seasonal average, indicating ample supplies. European gas storage is similarly well-stocked, at 95% capacity.

Outlook:

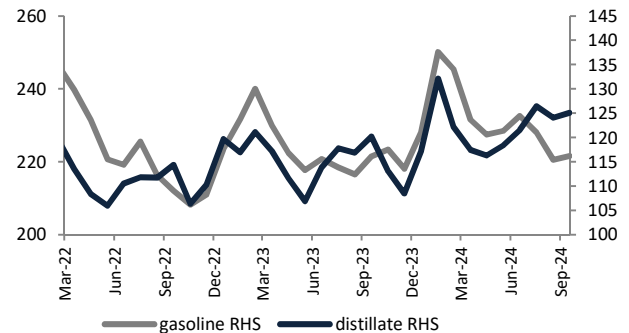
Oil prices will remain highly sensitive to developments in the Middle East and China’s economic policies in the near term. The market’s immediate focus will be on potential supply disruptions in one of the world’s most crucial oil-producing regions, while demand-side factors, particularly from China and the U.S., will continue to shape price movements.

WTI Weekly Change(%)



Source:RTRS

US Product Stock(million barrels)



Source:RTRS

Technical Levels:

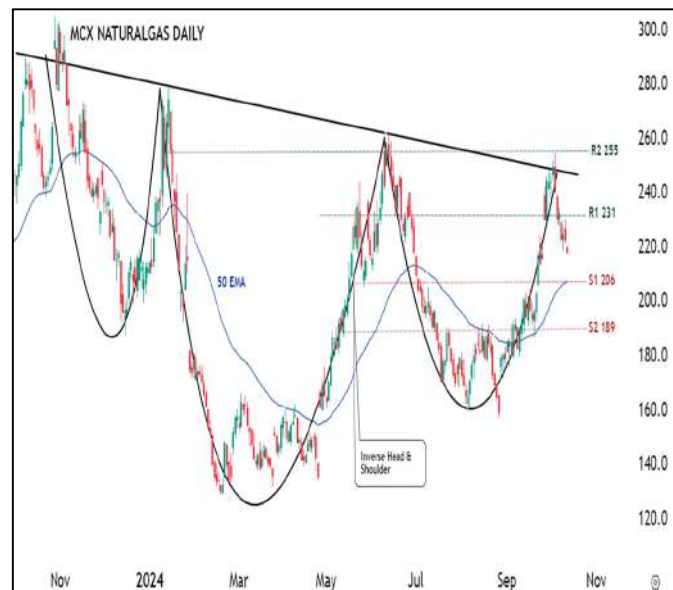
Crude oil:

Crude oil has surged over 11% in the past two weeks, marking a significant recovery from its earlier decline. The daily chart of MCX Crude Oil shows a robust upward movement, supported by the 50-period exponential moving average (EMA). After testing the support level near 6,000 (S1), prices bounced back strongly, pushing towards the resistance zone of 6,400 (R1). The recent pullback appears to be a healthy correction, which could be followed by another leg higher towards the 6,530 (R2) and potentially even 6,670 (R3) levels. The overall trend suggests a bullish structure, with higher highs and higher lows forming, reinforcing the potential for continued strength in the coming sessions. The key support remains near the 6,000 level, while on the upside, a breakout above 6,400 could trigger further gains.



Natural gas:

Natural gas prices have fallen by more than 7% over the past week, reflecting a pullback after testing the resistance zone near ₹255. The broader trend shows natural gas trading within a range, with key support near ₹206 (S1) and resistance at ₹231 (R1). The chart reveals an inverse head-and-shoulders pattern that played out earlier, pushing prices upward. However, the failure to break above the descending trendline indicates that the price action remains range-bound. With the 50-period exponential moving average (EMA) providing dynamic support, the market may continue to consolidate between ₹231 and ₹206 in the near term. A decisive breakout above ₹231 could lead to an attempt to retest the ₹255 (R2) resistance, while a breakdown below ₹206 might trigger further downside toward ₹189 (S2). For now, the broader outlook suggests sideways movement within the established range.





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