Monday, October 21, 2024

Oil prices faced steep weekly losses, sliding over 7%, as the geopolitical risk premium eroded after U.S. President Joe Biden indicated on Friday that there may be an opportunity to address tensions between Israel and Iran, potentially easing their conflict in the Middle East. Despite this, Israel continues to prepare for retaliation in response to the early-October attacks, and hostilities with Hamas and Hezbollah persist.

Positive U.S. economic data helped to alleviate some concerns about growth, though market participants remain focused on the potential recovery of demand in China following its recent stimulus measures. However, traders' confidence in these measures has been lukewarm due to a lack of clarity on their scale and timing. The People's Bank of China (PBOC) made a slightly larger-than-expected cut to its benchmark loan prime rate, but this move did little to boost market sentiment.

Furthermore, data showed that China's economy grew at its slowest rate since early 2023 during the third quarter, raising concerns about a potential demand slowdown. China's refinery output also declined for the third consecutive month, as weak fuel consumption and thin refining margins limited processing.

In the U.S., economic data exceeded expectations, providing a bullish outlook for energy demand and crude prices. September retail sales increased by 0.4% month-on-month, surpassing the anticipated 0.3%. Additionally, weekly initial unemployment claims unexpectedly dropped by 19,000 to 241,000, reflecting a stronger labor market compared to the forecast of 259,000.

The October Philadelphia Fed business outlook survey also rose by 8.6 points to 10.3, beating expectations of 3.0. However, on the downside, September manufacturing production fell by 0.4% month-on-month, falling short of the expected 0.1%.

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	5926	70.75	74.59
Close	5839	69.22	73.06
1 Week Chg.	-87	-1.53	-1.53
%change	-7.65%	-8.39%	-7.57%
OI	14381	61107	0
OI change	12083	-108330	0
Pivot	5853	69.71	73.50
Resistance	5950	70.74	74.51
Support	5743	68.20	72.06

	Natural Gas	
Exchange	**MCX**	**NYMEX-NG**
Open	197.8	2.349
Close	190.9	2.26
1 Week Chg.	-6.9	-0.09
%change	-3.49%	-3.87%
OI	44220	107421
OI change	31.72%	-29.27%
Pivot	193.5	2.29
Resistance	196.9	2.34
Support	187.4	2.21

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	0	-0.93
2nd month	-3	-0.29

WTI-Brent spread$	
1st month	-0.38
2nd month	-0.34

The EIA's crude oil inventory report helped limit the decline in oil prices, as nationwide U.S. petroleum inventories fell for the fourth consecutive week. Crude inventories unexpectedly decreased by 2.19 million barrels, versus expectations of a 1.5 Mbs build. Gasoline supplies also dropped by 2.2 Mbs, reaching a 1.75-year low, a larger draw than the expected 2.0 Mbs.

Additionally, distillate stockpiles fell by 3.5 Mbs to a 10-month low, surpassing the expected draw of 2.5 Mbs. On the negative side, crude supplies at Cushing, the WTI delivery point, rose by 108,000 barrels. U.S. crude production in the week ending October 11 increased by 0.7% week-on-week, reaching a record high of 13.5Mbpd.

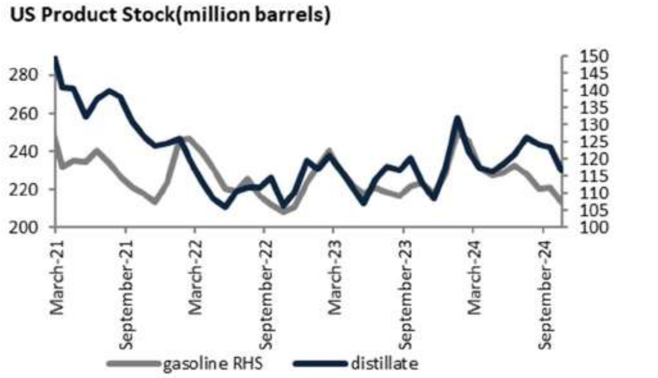
On the forecasting front, major agencies, including the EIA, IEA, and OPEC, have all reduced their demand growth projections in their latest reports. OPEC+ notably revised its world oil demand growth forecast for 2024 to 1.93Mbpd, down from the 2.03Mbpd forecasted last month, with China accounting for the bulk of this downgrade. OPEC trimmed its forecast for Chinese oil demand growth in 2024 to 580,000 bpd from 650,000 bpd.

While government stimulus measures are expected to support demand in the fourth quarter, oil consumption faces headwinds from economic challenges and the transition to cleaner fuels. Diesel consumption remains subdued due to slowing economic activity, particularly in construction, and the shift from petroleum diesel to LNG in heavy-duty trucks. OPEC also lowered its forecast for global oil demand growth in 2025 by 102,000 bpd to 1.6Mbpd.

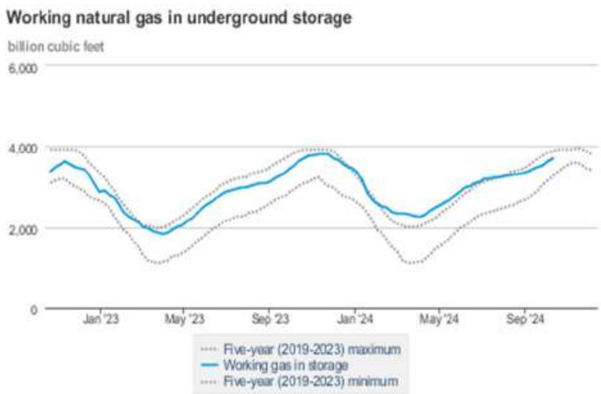
Natural gas prices dropped by 3.39%, settling at 190.9, driven by forecasts of mild weather over the next two weeks, which is expected to reduce heating demand below seasonal norms. Despite the decline, there are indications that demand could strengthen next week compared to earlier forecasts. The recent storage build was smaller than expected, aligning with market projections.

Weekly EIA report had a neutral effect on natural gas prices, as inventories for the week ending October 11 rose by 76 bcf, meeting expectations but below the 5-year average build of 96 bcf for this period. As of October 11, natural gas inventories were up 2.2% year-over-year and 4.6% above the 5-year seasonal average, indicating ample supply.

In Europe, gas storage levels were 95% full as of October 13, exceeding the 5-year seasonal average of 92%. U.S. gas production in the Lower 48 states has averaged 101.4bcfd so far in Oct, down from 101.8bcfd in Sept and significantly lower than the record high of 105.5bcfd set in December 2023.



Source:RTRS



Source:EIA

Technical Levels:

Crude oil:

Crude Oil prices on MCX witnessed heightened volatility last week, culminating in a sharp decline of ₹484, marking a 7.65% loss. The market structure currently exhibits a clear pattern of lower highs and lower lows, reinforcing a bearish outlook. From an Ichimoku perspective, Crude Oil remains under bearish pressure, with prices trading decisively below both the conversion and base lines. Additionally, the 14-period RSI has dropped below the crucial 50 level on the daily chart, which strengthens the bearish outlook. Based on these technical indicators, a "sell on rise" strategy is advised, with a downside target of ₹5350. However, a close above ₹6150 would invalidate this bearish view.

Natural gas:

Natural Gas prices have declined over 14% in the past week, forming three consecutive bearish candles, marking a nearly 25% fall from recent highs. The Ichimoku Cloud indicator signals a clear bearish trend, with prices trading below the conversion line, currently around the ₹210 level. This indicates continued downside pressure. In the short term, the sentiment remains negative, and a "sell on rise" strategy is recommended. The downside target is ₹165, while any close above ₹210 would invalidate the bearish outlook, potentially signaling a reversal.

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