Monday, November 18, 2024

Oil prices ended last week on a lower note, weighed down by the prospect of a supply glut next year, as collectively forecasted by the IEA, EIA, and OPEC. This was compounded by a bleak demand outlook from China, which further pressured prices. Adding to the bearish sentiment, a rebound in the U.S. dollar index following President-elect Donald Trump's election victory also weighed on crude prices. Moreover, prompt time spreads for Brent and WTI collapsed recently, moving closer to contango, signaling a better-supplied physical market.

In China, oil refining data revealed that refiners processed 4.6% less crude in October compared to the same period last year, marking the seventh consecutive YoY decline. This drop was attributed to plant closures and reduced operating rates among smaller independent refiners. The primary trigger for declining run rates was slowdown in factory output growth and persistent demand woes in the property sector, even as consumer spending showed some resilience.

Middle East Tensions Ease, Adding to Bearish Sentiment

Geopolitical developments in the Middle East further added to downward pressure on oil prices. Signs of cooling tensions between Russia and Ukraine hinted at a potentially oversupplied market in the coming months. Market participants reacted to Ukraine's call for action to push Russia toward peace, despite Ukrainian President Zelenskyy expressing skepticism about the progress of peace talks facilitated by Germany. If peace negotiations were to succeed and the war ended, shipping costs could drop, potentially reducing crude prices, particularly if Europe resumed accepting Russian oil barrels.

Monthly Reports Signal Weak Demand and Supply Surplus

Last week, three major monthly reports were released, collectively projecting slower demand growth and a potential surplus in 2025.

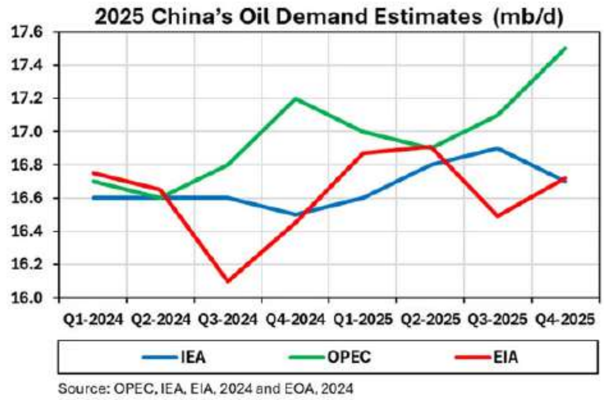
Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	5741	68.62	72.28
Close	5669	67.02	71.04
1 Week Chg.	-72	-1.6	-1.24
%change	-4.82%	-4.77%	-3.83%
OI	9081	83666	0
OI change	3185	-137513	0
Pivot	5708	67.51	71.45
Resistance	5760	68.20	72.08
Support	5617	66.33	70.42

Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	236	2.765
Close	237.5	2.82
1 Week Chg.	1.5	0.06
%change	0.64%	2.10%
OI	15847	115529
OI change	29.88%	-47.65%
Pivot	234.6	2.78
Resistance	241.9	2.88
Support	230.1	2.73

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	10	-0.30
2nd month	15	-0.17

WTI-Brent spread$	
1st month	-0.26
2nd month	-0.21

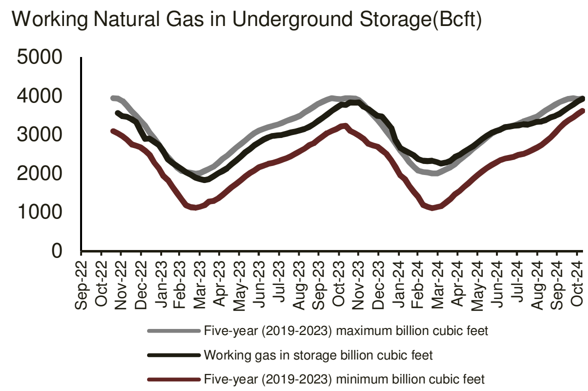
The IEA forecasted that global oil supply will exceed demand in 2025, even if OPEC production cuts remain in place, as rising output from the U.S. and other non-OPEC producers outpaces sluggish demand growth. The IEA also projected a surplus of more than 1 million barrels per day in 2025, fueled by robust U.S. production, which is discouraging news for oil bulls. The agency raised its 2024 demand growth forecast by just 60,000 barrels per day (bpd) to 920,000 bpd and left its 2025 demand growth forecast relatively unchanged at 990,000 bpd.



Source:X platform

Similarly, OPEC lowered its global oil demand growth forecasts for both 2024 and 2025, citing weakness in key regions such as China and India. This marked group's fourth consecutive downward revision of its 2024 outlook. OPEC now projects China's oil demand to grow by just 450,000 bpd in 2024, down from last month's estimate of 580,000 bpd, with 2025 demand growth further reduced to 310,000 bpd, a cut of 100,000 bpd from previous projections. Overall, OPEC lowered its 2025 global oil demand growth forecast by 103,000 bpd to 1.54 million bpd YoY.

Adding to the bearish narrative, EIA inventory data revealed a crude oil build of 2.1 million barrels, significantly higher than the forecasted 750,000-barrel increase. However, product stock data offered some relief, with gasoline inventories falling by 4.4 million barrels—the lowest since November 2022—against expectations of a 600,000-barrel build. Distillate stockpiles also unexpectedly declined by 1.4 Mbs.



Source:EIA

Natural Gas Prices Rally on Cold Weather and Supply Concerns

Natural gas prices rallied on the hells of lower production and sustainable cold weather forecast. Prices got additional support from European TTF natural gas market where prices rose to the highest since November 2023 as Austria's OMV warned of a potential halt to Russian pipeline gas supply and as colder weather drives stronger demand for heating and electricity. Gas demand and gas-powered electricity demand have jumped in recent days amid the dark wind lull, which resulted in low wind speeds and low levels of wind power generation.

The natural gas from EU storage sites is now being drawn down at the fastest clip in more than five years. European storage is 92% full at the sites, down from 95% two weeks ago. The threat of an imminent cut to supply comes as the strain of the heating season emerges. U.S. Natural gas prices also got supported from news of Hurricane Rafael in the Gulf of Mexico that was downgraded to a post-tropical cyclone. However, data shows that almost 483k b/d of crude oil production has been shut in, which is equivalent to almost 28% of total US Gulf of Mexico production.

Meanwhile, 310mcf/day of natural gas production is also shut equivalent to almost 17% of US Gulf of Mexico gas production.

However, U.S. EIA natural gas inventory is still not showing a signs for withdrawal season to begin with Net injections into storage totaled 42 Bcf, compared with the five-year (2019–2023) average net injections of 29 Bcf and last year's net injections of 41 Bcf during the same week. Working natural gas stocks totalled 3,974 Bcf, which is 228 Bcf (6%) more than the 5yr average and 158 Bcf (4%) more than last year at this time. Total U.S. consumption rose by 4.9% (3.7 Bcf/d) compared with previous report week. Natural gas consumption in residential and commercial sector increased by 23.8% (4.3 Bcf/d) WoW

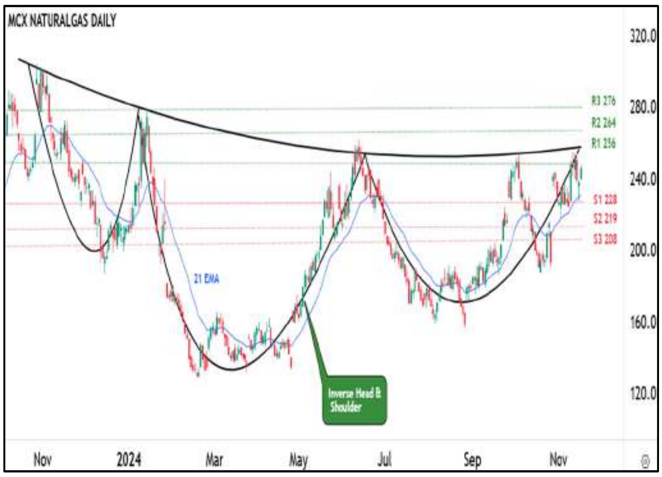
Outlook

Oil prices are expected to remain under pressure as absence of strong bullish catalyst limits the likelihood of a significant recovery. Prices are likely to trade within range, with bearish bias this week. Conversely, natural gas prices are expected to rally, supported by positive weather forecasts and technical indicators pointing to upward trend.

Technical Levels:

Crude Oil prices on MCX experienced significant volatility last week, closing with a decline of ₹268, or 4.51%. On the daily chart, the formation of a Head and Shoulders pattern is evident, with prices rebounding from the right shoulder resistance but failing to breach the critical resistance zone, leading to a downward trajectory. The potential neckline breakdown appears imminent, which could intensify the bearish momentum. From an Ichimoku perspective, the prevailing downtrend remains intact as prices trade well below the Base Line, signaling persistent downside pressure. Moreover, the 14-period RSI on the daily timeframe has slipped below the critical 50 mark, further affirming the bearish bias. A decisive break down below ₹5600 could trigger an extended sell-off, with targets near ₹5350. Resistance is firmly placed at ₹5880, and selling on rallies is recommended as long as prices remain below this level on a closing basis.

Natural Gas on the MCX ended the previous week on a strong positive note, gaining 5.65% and forming four consecutive bullish candlesticks, signaling a robust bullish sentiment. The Ichimoku Cloud indicator confirms this trend, with prices consistently trading above the Kijun-sen (Base Line), which is currently positioned near the ₹220 level. This technical alignment underscores sustained upward momentum, supporting a "buy on dips" approach. The immediate upside target is projected at ₹272, while a decisive daily close below the ₹220 support level would negate the bullish bias, signaling a potential trend reversal and a shift towards bearish market sentiment.



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