Monday, January 13, 2025

Crude Oil Market Overview

Crude oil prices traded positively last week, driven by concerns over supply disruptions amid tightening sanctions, low stockpiles, freezing temperatures in the U.S. and Europe, speculation about stricter sanctions against Iranian oil, and optimism surrounding China's economic stimulus measures. The U.S. imposed its most ambitious sanctions yet on Russia’s oil industry, targeting two major exporters, insurance companies, and over 150 tankers. These measures, introduced less than two weeks before President-elect Donald Trump assumes office, underscore the importance of key markets in India and China. Refiners in these countries may need to secure alternative supply sources. India has become a significant importer of Russian crude since Moscow’s 2022 invasion of Ukraine, while China remains the world’s largest oil importer.

The vessels affected by new sanctions carried 1.7Mbpd of oil in 2024, or 25% of Russia's exports, most of which were crude oil. However, the impact of these sanctions on oil prices is expected to be limited, as Russia may sell oil at a steeper discount to attract price-sensitive buyers. Additionally, the incoming U.S. administration is unlikely to support sustained declines in Russian supply, given its focus on maintaining lower energy prices domestically

Market Dynamics and Technical Indicators

As price volatility grows, certain segments of paper market are flashing warning signals. Oil options have shown bullish bias, with implied volatility rising and skews favoring call options. Time spreads have also surged, reflecting concerns over near-term supply availability.

Further signs of tightening supply emerged as Russian oil production fell below its OPEC+ target last month, with seaborne exports hitting their lowest level since Aug 2023. U.S. crude stockpiles fell by 959,000 barrels last week, seventh consecutive drawdown, marking the longest streak in three years. Meanwhile, U.S. gasoline stocks rose by 6.3Mbs

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	6367	74.29	77.26
Close	6576	76.57	79.76
1 Week Chg.	209	2.28	2.5
%change	3.19%	3.53%	4.25%
OI	15373	203603	0
OI change	984	-107310	0
Pivot	6549	76.15	79.18
Resistance	6736	78.28	81.33
Support	6390	74.44	77.61

	Natural Gas	
Exchange	MCX	NYMEX-NG
Open	321.2	3.709
Close	342.7	3.99
1 Week Chg.	21.5	0.28
%change	6.69%	7.55%
OI	14424	120208
OI change	11.05%	-19.04%
Pivot	336.1	3.90
Resistance	353.0	4.11
Support	325.9	3.78

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	-60	-1.57
2nd month	-24	-0.67

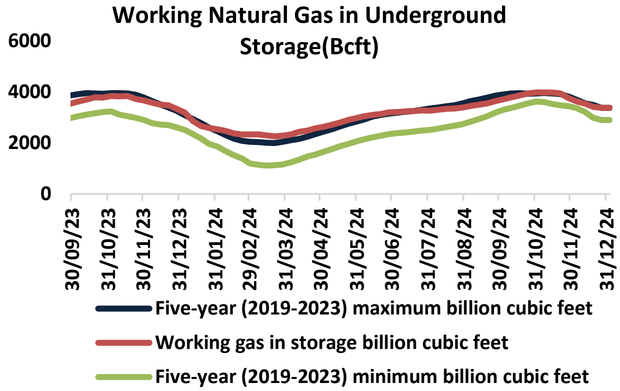
WTI-Brent spread$	
1st month	-0.91
2nd month	-0.79

to 237.7 million barrels, exceeding expectations for 1.5Mbs. Distillate stockpiles also increased by 6.1Mbs, compared to forecasted rise of 600,000 barrels.

Natural Gas Overview

Natural gas prices reached a 24-month high due to forecasts of colder weather and higher heating demand over next two weeks, exceeding expectation in market. The surge was also supported by strong demand driven by record gas flows to LNG export plants. Reports indicated that widespread low temperatures persist across Midwest and East, with temperatures from Jan 18-22 expected to be colder than previously anticipated in Midwest. Additionally, Europe is experiencing extreme cold, likely continuing colder-than-usual start to year.

Natural gas production from the Lower 48 states fell to 102.6Bcfd in January, down from 103.8 Bcfd in December, contributing to the rally in natural gas prices. However, freeze-offs cutting gas output remain somewhat disappointing, with data showing output at 16.5 Bcfd from January 8-16, 2024, compared to 19.4 Bcfd from December 21-24, 2022, and 20.4 Bcfd from February 8-17, 2021—significantly lower than in previous winters.

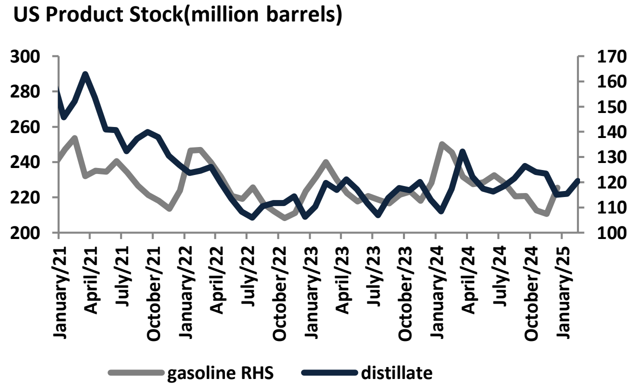


Source: - Reuters

For the coming weeks, participants anticipate that storage reports for the weeks ending January 10, 17, and 24 may show withdrawals of over 200 Bcfd from inventories to meet surging heating demand. Total withdrawals for Jan could surpass the record high of 994 Bcfd set in Jan 2022. On export demand front, U.S. LNG export plants averaged 15.0 Bcfd in January, up from 14.4 Bcfd in December, driven by increased flows to new Plaquemines LNG plant in Texas. This surpasses the previous record of 14.7 Bcfd set in Dec 2023.

Outlook:

Oil prices are expected to remain positive this week as markets react to potential for significant supply disruptions stemming from stringent U.S. sanctions on Russian oil exports. Additional support comes from colder weather across U.S. and Europe, which is driving higher demand for heating fuels. Joe Biden administration's latest sanctions package, targeting major Russian oil producers and transport vessels, is likely to exacerbate supply disruptions, forcing key importers like China and India to seek alternatives.



Natural gas prices are also expected to remain elevated due to lower production and sustained cold weather. The EIA's recent inventory report showed surprise drawdown, further supporting bullish sentiment. In Europe, gas prices have surged to 1-yr high as storage levels decline rapidly amid intensifying conflict in Ukraine and increased heating demand.

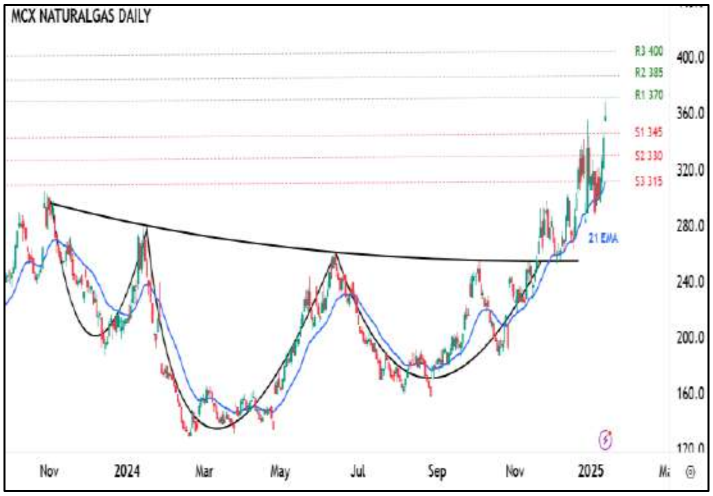
Technical Levels:

Crude Oil:

Crude oil prices on MCX exhibited strong bullish momentum last week, closing with a gain of ₹203 (+3.19%). On the daily chart, prices have breached a downward-sloping trendline and simultaneously confirmed a breakout from an ascending triangle pattern, signaling a continuation of the uptrend. The price action remains above the conversion line (Tenkan-sen) and the base line (Kijun-sen), reinforcing the bullish bias. Furthermore, the 14-period RSI has crossed above the critical 60 level, confirming the strengthening upward momentum. Based on these technical indicators, a "buy-on-dips" strategy is advised, with an upside target of ₹7050. Conversely, a decisive close below ₹6470 would negate the bullish outlook, suggesting a potential shift in market sentiment.

Natural Gas:

Natural Gas on MCX closed the previous week with a robust gain of 18.25%, indicating renewed bullish momentum. The bounce from the 21 EMA highlights strength within the prevailing uptrend. The Ichimoku Cloud indicator supports this bullish sentiment, with price action sustained above the Conversion Line (Tenkan-sen), currently positioned at ₹330. Additionally, the 14-period RSI has broken above the critical 60 level on the daily chart, further validating the building bullish momentum. This technical setup suggests a continuation of the uptrend, favoring a "buy-on-dips" strategy. Immediate resistance is identified in the ₹380-₹390 zone, presenting a near-term upside potential. However, a decisive daily close below the key support range of ₹335-₹330 would negate the bullish structure and signal a potential trend reversal, shifting the outlook to bearish.



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