



Energy Weekly

Monday, June 15, 2020

Market Commentary

Crude prices ended the week on lower note, marking its first weekly fall since April as new U.S. coronavirus cases spiked, stoking fears of a second wave of the virus hitting fuel demand. The combination of the Fed forecasts and a second call for restrictions could trigger another plunge in crude oil prices. Markets are once again worried that pandemic may be far from over and has brought the rally to a halt, with about half a dozen U.S. states reporting spikes in new infections, leading to less people driving, less demand for gasoline.

Concerns over future demand rose to the forefront after the U.S. Federal Reserve said U.S. unemployment was set to reach 9.3% at the end of 2020 and said it would take years to fall back, while interest rates were expected to stay near zero at least through next year.

A reported spike in cases across half of the U.S. weighs on sentiment, rekindling fears that potential slower easing of lockdowns could stall the oil demand recovery. Nashville, Tennessee, delayed its phase three re-opening, while Houston, Texas, is seeing signs of a second wave.

Markets saw a steep sell off after getting confirmation that OPEC+ would extend current cuts through until the end of July as the markets got disappointed that OPEC+ has no way to enforce better compliance from those members who are lagging along with reports of Saudi Arabia, Kuwait and UAE to go for additional voluntary cuts of 1MMbbls/d will only be for this month which was enough to put downward pressure on the market.

Meanwhile, an indicator of future supply, Baker Hughes reported that the number of active U.S. rigs drilling for oil edged down by 7 to 199 this week. The number of oil rigs has seen much larger weekly declines in recent weeks, but have been falling on a weekly basis since mid-March. The total active U.S. rig count, meanwhile, also fell by five to 279. In Venezuela, the country with the world's largest oil reserves has only one rig left, due to collapse in oil prices and the tightening U.S. sanctions.

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	2908	39.09	40.95
Close	2782	36.34	38.55
1 Week Chg.	-126	-2.75	-2.4
%change	-6.96%	-8.12%	-8.87%
OI	2500	176347	263495
OI change	658	49763	-120058
Pivot	2806	36.95	39.13
Resistance	2910	38.48	40.43
Support	2678	34.80	37.24

Natural Gas		
Exchange	MCX	NYMEX-NG
Open		
Close	136	1.877
1 Week Chg.	138.4	1.90
%change	2.4	0.02
OI	1.76%	1.23%
OI change	9316	172362
Pivot	2.84%	59.35%
Resistance	137.5	1.89
Support	140.8	1.93

Front Month Calendar Spread		
Exchange	MCX	NYMEX(\$)
1st month	36	0.47
2nd month	208	0.19

WTI-Brent spread\$	
1st month	0.33
2nd month	0.30

Statistics:

EIA data showed that US commercial crude oil inventories grew by 5.72MMbbls, while less than what API reported, it was very different from the small stock drawdown the market was expecting. This increase now sees total US commercial crude oil inventories stand at 538MMbbls, surpassing the levels seen back in early 2017, and in fact the highest level going as far back as 1982.

While refiners increased their run rates to the highest levels since early April, at 73.1%, it is still well below the 5-year average of around 94% for this stage of the year. The main reason for increase in imports was shipments booked during Saudi-Russia price war from March and April, when the kingdom ramped up exports sending US prices to negative-\$40 a barrel and have been arriving in the United States. Refiners' imports of Saudi barrels have averaged more than 1.5 Mbpd for three consecutive weeks, which has not happened since 2013.

Crude oil exports fell by 355Mbbls/d, to average 2.44MMbbls/d over the week, the lowest weekly export number since November. On the Product front, Gasoline inventories rose 866,000 barrels, compared with expectations for a 71,000-barrel rise. Distillate stockpiles increased by 1.6 MB, showing a slow recovery for product stocks.

Product supplied, a proxy for demand, showed gasoline consumption rebounded to 7.9 Mbpd, still roughly 20% below year-ago period, but an improvement from recent weeks. Overall gasoline demand is down 16% from a year ago.

Data from India shows fuel consumption in the country continued to recover. The latest data for May show that fuel consumption increased by an impressive 47% MoM, with the government relaxing some aspects of nationwide lockdown over the month. However, consumption still remains well below normal, down 23% YoY for the month and largest declines were seen in jet fuel, gasoline and diesel.

Forecast:

U.S. Energy Information Administration raised its 2020 forecast for WTI and Brent crude oil prices and lowered its expectations for U.S. crude-oil production. The EIA pegged its 2020 WTI oil price forecast at \$35.14 a barrel, up 16.7% from its May forecast. It also lifted its Brent crude price forecast by 11.4% to \$38.02 for 2020. EIA expects U.S. crude production of 11.56 million barrels a day this year, down 1% from the previous view. Demand for global petroleum and liquid fuels, meanwhile, will average 92.5 Mbpd this year, down 8.3 MBpd from 2019.

For refiners, they are faced with a crisis with thin margins with Abu Dhabi increasing OSP for its crude, following the boost in OSP by Saudi Arabia. Singapore refining margins sank lower last week ahead of stronger China crude demand. Because margins remain weak the world over, many refiners have looked to inventories as a proxy for any recovery in demand.

Looking at refinery weakness, a bullish argument can still be made as production continues to decline with demand still showing improvement, the down trend in output will begin slowing noticeably while demand recovery could be downsized if the coronavirus continues to ramp up. This market is at a crossroads. If demand continues to improve, the oil markets have a lot more to go on the upside.

Outlook:

Price action suggests traders are waiting for a catalyst to trigger the next major move and looking at the second wave triggers, markets will remain to the downside with WTI trading to the weak sides of levels of \$36-35. Total US coronavirus cases topped 2 million, with new infections rising slightly after five weeks of declines. If we get into a situation where we start to take steps back with the coronavirus, the market is going to go down.

Markets were already overbought with bulls running out of steam. U.S. jobless claims remained high; underscoring longer-term macroeconomic challenges a day after the Federal Reserve provided a grim outlook for the economy.

On the Supply side, levels of \$40 have pushed producers to turn on the taps, and thus putting additional pressure on OPEC+ efforts to stabilize the markets. In a more positive sign, data showed that oil demand in the U.K. has been steadily recovering in recent weeks. Still, there's still a massive glut to be cleared globally, including more than 180 million barrels of crude stored at sea.

Technical Views

Crude Oil

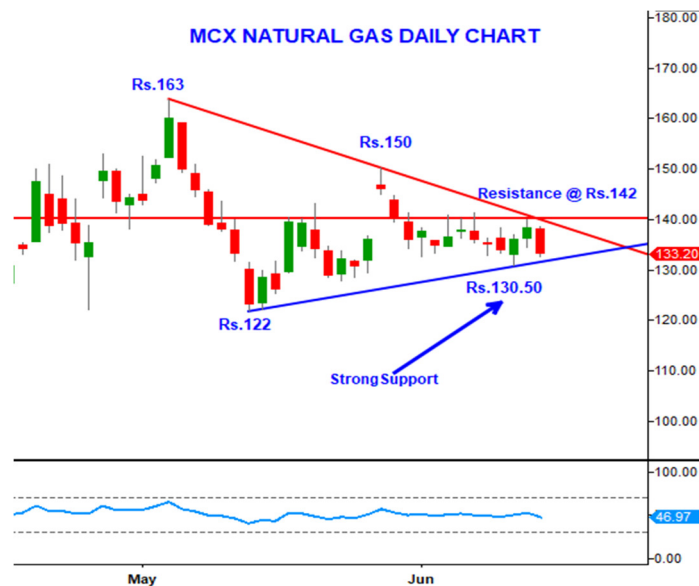
MCX Crude Oil traded on a negative note last week and closed lower by approximately 8.40% at Rs.2738 level. Going ahead the commodity has got strong short resistance in the range of Rs.2980 - 3000 levels and short-term trend is likely to remain bearish as long as it is trading below the resistance zone. On the lower side crude oil is likely to test Rs.2600 - 2400 level. The counter has got good intermediate resistance in the range of Rs.2850-2870 level



and any rise towards the same should be used as an opportunity to sell the commodity. On the lower side the Crude oil is likely to test Rs.2620 - 2450 level. Selling on rise towards intermediate resistance zone is thus advised. Major Support for Nymex crude oil is placed at \$32.50 level whereas critical resistance is placed at \$40 level.

Natural Gas

Natural gas traded in narrow range last week and closed almost unchanged from previous week at Rs.133.20 level. The commodity has been making lower tops and lower bottoms since past few days on daily chart which indicates that short term trend remains bearish. However, at present commodity has been consolidating within range and breakdown of same is likely to occur once it manages to give daily close below Rs.130.50 level. Once breakdown happens, the commodity is likely to gain further bearish momentum and is likely to test Rs.117 - 110 levels on lower side. Post breakout, Rs.142 level is likely to act as strong resistance for commodity. Till breakdown happens, the commodity is likely to continue to trade in consolidation zone ranging from Rs.130 and Rs.142 level.



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