MOTILAL OSWAL
Investment Services

Energy Weekly

Monday, August 24, 2020

Market Commentary

Crude prices ended the week on the back foot with prices not rallying in response the latest demonstration of OPEC+ which to be supportive for prices as the coalition continued to put a strong focus on compliance and compensation cuts as global economy continues to falter due to renewed COVID restrictions in some vital economic hubs around the world along with strength in Dollar Index which kept the pressure on prices.

The worries escalated after America's most recent economic data showed that the country's initial jobless claims rose higher than earlier projected. The implication is that the path to economic recovery is not as quick as earlier anticipated with disconcerting data out of Europe and Japan.

Prices remained subdued after European PMI data confirmed the V-shaped recovery was not happening, as many regions lost momentum. US initial jobless claims for the week was reported at 1.11 million, higher than expectations of a 925,000 gain and the 971,000 figure reported in the previous week.

Still, China is signaling demand for U.S. crude with American oil exports to China are set to reach a record next month in a sign that Beijing is stepping up purchases to meet its commitments under a trade deal. About 19 tankers have signed provisional booking to load U.S. crude for China in September.

On the other hand, Libya's NOC welcomed the country's new cease fire agreement and with that, the nation should be able to resume exports when all its facilities are freed from military operations, threatening to unleash supply at a time when OPEC+ alliance is easing output curbs.

Prices got some support after EIA data showed a third straight of shrinking domestic crude and gasoline supplies. EIA data showed an inventory draw of 1.6 MB which sent oil prices higher with EIA

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	3220	42.75	45.03
Close	3155	42.34	44.35
1 Week Chg.	-65	-0.41	-0.68
%change	-0.47%	0.07%	-1.00%
OI	1678	376791	263495
OI change	1498	38505	-120058
Pivot	3167	42.25	44.34
Resistance	3217	43.05	45.09
Support	3104	41.55	43.60

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	176.9	2.355
Close	180.6	2.45
1 Week Chg.	3.7	0.09
%change	2.09%	3.95%
OI	4087	44493
OI change	21.45%	66.08%
Pivot	177.7	2.40
Resistance	184.2	2.52
Support	174.1	2.33

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	21	0.28
2nd month	106	0.31

WTI-Brent spread$	
1st month	0.58
2nd month	0.46

reporting a fall in gasoline inventories and a modest build in distillate fuel inventories. Oil inventories are slowly normalizing, but progress has been slower than expected at the end of the second quarter, principally because of the lingering impact of the COVID-19 pandemic on consumption.

For the next week, Forecast from HFI suggests that implied U.S. production is heading lower with U.S. crude draw to come in mid single digits for this week. US crude production is down from nearly 13 million b/d before the pandemic to about 10.7 million b/d in August.

As for Rigs count, with crude stabilizing above $40, explorers in Shale are slowly recovering with data indicating an additional 10 rigs to work this week , the biggest jump in activity since a price crash triggered an unprecedented collapse in drilling. Frack activity reached a bottom in the Q2020, and forecast suggests that drilling activities will see a modest recovery by Q42020.

Meanwhile, Operators are beginning to prepare for storms that are on course to reach the Gulf of Mexico next week, strengthening WTI prices in case there is a major disruption. The double threat of Tropical Storm Marco and Storm Laura have caused some evacuations on offshore energy platforms and about 13% of oil and 4% of natural gas production has been shut in. The biggest threat the storms pose to energy markets is flooding once they come onshore next week. More than 45% of U.S. Fuel refining capacity is located along the Gulf Coast.

The message from this week’s OPEC+ meeting was that the market remained fragile and the demand outlook remained uncertain with fresh pressure exerted on quota cheats to deliver on promised output curbs. Data suggested that OPEC+ members oversupplied in May and July, thus requiring compensatory cuts this month and next to rectify the oversupply. At the end, it looks like even when there’s a vaccine available, OPEC+ may be required to step up to deal with supply glut due to uncertain demand.

Meanwhile, although Iraq has made progress but remains above quota, Nigeria is still significantly over-producing. It has been given until Aug 28th to deliver detailed plans for coming into compliance and over-compensating for their failure to cut production so far. Industry reports estimate that 1.2mb/d of additional cuts through Aug and Sep are needed to offset oversupply to date, implying OPEC+ cuts fall to 8.9mb/d in the current phase instead of the 7.7mb/d target.

But with enforcement tactics reduced to merely public smearing of laggards or a very unlikely disbanding of the agreement, the proof will need to be in the pudding as it remains critical that non-compliant members toe the line to bring the markets close to equilibrium. If consumption continues to recover more slowly than originally projected, OPEC+ will eventually have to revise its production schedule to cut output deeper for longer.

For demand, worries are still hanging in the markets with lower refining runs in the US as the market is defined by weakness not only in the shale sector but also across the medium sour crude grades that are produced in the US Gulf coast.

US refining utilization is 80%, which is the weakest seasonally adjusted figure in decades, after refiners shut down crude distillation units following the collapse in demand. In India, crude oil imports fell in July to their lowest since March 2010 amid renewed lockdowns and refinery maintenance, as one signal of the sluggish nature of recovery.

Softening market indicators have coincided with the upsurge in reported Covid cases in the United States since the middle of June, hindering efforts to return the economy to normal. The falling US dollar and OPEC production cuts continue to boost oil markets in general, but lack of demand is a major problem.

Natural gas went back and forth during the course of the week. Markets are ready to switch over to even colder months along with reports of a bunch of bankruptcies and massive amounts of demand that has picked up due to the heat wave in western part of the U.S. as well as we continue to get tropical storms disrupting natural gas at times. Tropical storm has formed into the Atlantic and is expected to move into the Gulf of Mexico. This could be a one-two punch that disrupts natural gas production for a considerable period. The weather is expected to remain warmer than normal in the U.S., generating additional cooling demand. The natural gas rigs declined by 1 account to report by Baker Hughes.

Outlook

Crude remain stuck in its current trading range. Another sign of the weakness in demand is the contango market structure which signals concerns about oversupply and describes a situation where the price of oil for future delivery is lower than for the current month. Virus cases continue to surge around the world and cautionary signals are emerging over the state of global economic recovery. On the health front, there is no question that traders are still peering into a cloudy viewfinder as even with new COVID cases declining across the US, which can change on a dime as evidenced by recent second wave breakouts around the world. And it is going to take some time for people to feel safe to move freely and possibly only when a vaccine is in hand.

Technical Views

Crude Oil

MCX Crude Oil traded in a narrow range last week and managed to close lower by 0.47% at Rs.3155 level. Going ahead the commodity has got strong short term support at Rs.2950 level and short-term trend is likely to remain bullish as long as the it is trading above the support zone. On the higher side crude oil is likely to face stiff resistance at Rs.3250 level and daily close above the same is likely to result in further bullish momentum in the commodity. If it manages to give daily close above Rs.3250 level then it is likely to test higher resistance of Rs.3400 - 3550 levels. The counter has got good intermediate support in the range of Rs.3080-3100 levels and any dips towards the same should be used as an opportunity to buy the commodity. However if crude oil manages to break the support level of Rs.2950, then there is high probability that it may give further downfall till Rs.2820 - 2700 level. However 14-period RSI is sustaining above 50 mark which is signalling strength in the prices of the commodity. Thus Buying on dips towards intermediate support zone is thus advised. Major Support for Nymex crude oil is placed at $39.50 level whereas critical resistance is placed at $44 level.

Natural Gas

MCX Natural gas traded on a positive note last week and closed higher by approximately 2.26% at Rs.180.60 level. MCX natural gas has broken out of the consolidation zone recently which indicates strength in the prices of the commodity. Going ahead, on the lower side Rs.162 remains very strong short-term support for the commodity and intermediate support for the commodity is placed in the range of Rs.170 - 172 levels. Any price correction towards the intermediate support zone remains good buying opportunity. On the higher side natural gas is likely to face stiff short term resistance at Rs.194 level and daily close above the same is likely to result in further bullish momentum in the commodity. If it manages to give daily close above Rs.194 level then it is likely to test higher resistance of Rs.201 levels. Also 14-period RSI has been sustaining strongly above 50 mark which is signalling strength in the prices of the commodity. Buying on dips towards intermediate support zone is thus advised.

Navneet Damani	**Research-Head**	**navneetdamani@motilaloswal.com**
Shweta Shah	**Analyst- Energy**	**shweta.vshah@motilaloswal.com**

For any details contact:
Commodities Advisory Desk - +91 22 3958 3600
commoditiesresearch@motilaloswal.com

Commodity Disclosure&Disclaimer:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).
MotilalOswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of MotilalOswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com.
MotilalOswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile MotilalOswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products.Details of associate entities of MotilalOswal Financial Services Ltd. are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf

Details of pending Enquiry Proceedings of MotilalOswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

Terms & Conditions:

1. This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.
2. This material is for the personal information of the authorized recipient and we are not soliciting any action based upon it.
3. This report is not to be construed as an offer to sell or solicitation of an offer to buy any commodity or commodity derivative to any person in any jurisdiction where such an offer or solicitation would be illegal.
4. It is for the general information of clients of MOFSL and MOCBPL. It doesn't constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.
5. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL.
6. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate.
7. All such information and opinions are subject to change without notice.
8. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.
9. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed.
10. Neither MOFSL, nor any person connected with it, accepts any liability arising from the use of this document.
11. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the commodity referred to in this material may go up or down. Past performance is not a guide for future performance.
12. Certain transactions including those involving commodity derivatives involve substantial risk and are not suitable for all investors.
13. Reports based on technical analysis centers on studying charts of a commodity's price movement and trading volume as opposed to focusing on a commodity's fundamentals and as such may not match with a report on a commodity's fundamentals.
14. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to subject commodity for which Research Team have expressed their views.
15. MOFSL or its associates or Research Analyst or his relatives may have Open Position in subject commodity.
16. A graph of daily closing prices of commodities is available at http://www.moneyline.co.in/
17. Opinions expressed are our current opinions as of the date appearing on this material only. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.
18. The commodities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.
19. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment.
20. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the commodities mentioned in this document.
21. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein.
22. The commodities described herein may or may not be eligible for trade in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.
23. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors.
24. MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may (a) from time to time, have long or short positions in, and buy or sell the commodities mentioned herein or (b) be engaged in any other transaction involving such commodities and earn brokerage or other compensation or act as a market maker in the commodity/ (ies) discussed herein or have other potential conflict of interest with respect to any recommendation and related information and opinions. However the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the commodities mentioned in the research report.
25. MOFSL and it's associates and Research Analyst have not received any compensation or other benefits in connection with the research report. Compensation of Research Analysts is not based on any brokerage transactions generated by broking activities under MotilalOswal group.

Registered Office Address: MotilalOswal Tower, RahimtullahSayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 22 71934200/022-71934263; Website www.motilaloswal.com.

Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 7188 1000.

Registration Nos.: MotilalOswal Financial Services Limited (MOFSL)*: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579, PMS: INP000006712. MotilalOswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. MotilalOswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. MotilalOswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs,

Insurance Products and IPOs. ●Real Estate is offered through MotilalOswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. ●Private Equity is offered through MotilalOswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. ●Research & Advisory services are backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

* MOSL has been amalgamated with MotilalOswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench. Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for Securities Broking write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com