Energy Weekly

Monday, September 07, 2020

Market Commentary

Oil prices hit a rough patch last week, falling back in line with broader financial markets. Prices did try to inch higher, but experienced selling pressure at highs. Crude prices lost more than 4% last week as the passing of Hurricane Laura returned the focus to an uncertain demand outlook amid the ongoing pandemic.

The demand rebound is also sputtering. Prices got dented by lower refinery runs and the upcoming refinery maintenance season which is expected to dent demand for crude oil.

Along with that some strength in the dollar, also weighed on the prices. Better than expected monthly U.S. employment data revealed a drop to 8.4% in the August unemployment rate from 10.2%. The hopes for more stimulus are going out of the window and the U.S. needs more economic activity back up to get demand flowing.

In recent weeks, the Contango has deepened to more than $2 a barrel between November 2020 and May 2021 compared to $0.48 a barrel as of the middle of June. This shows that oversupply fears are still there in the market.

Elsewhere, Saudi Arabia cut pricing for oil sales to Asia and the U.S. for October shipments, a signs that the world's biggest exporter may see fuel demand wavering amid flare-ups in the Covid. State oil producer Saudi Aramco is cutting its Arab light Crude more than expected and lowering the grade to a discount for the first time since June for Buyers in Asia.

It's the second consecutive month of cuts for barrels to Asia. Saudi's had previously supported the rally by rising pricing each month from June to August. However, demand from refineries has softened due to weak profits from turning crude into gasoline and other fuels.

Supply:

EIA reported a crude oil inventory draw of 9.4MB drive by Hurricane

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	3016	41.25	43.76
Close	2903	39.77	42.66
1 Week Chg.	-113	-1.48	-1.1
%change	-7.81%	-7.45%	-6.88%
OI	2302	309287	263495
OI change	666	53018	-120058
Pivot	2953	40.33	43.17
Resistance	3019	41.31	44.03
Support	2837	38.79	41.79

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	182.6	2.483
Close	187.5	2.59
1 Week Chg.	4.9	0.11
%change	2.68%	4.23%
OI	5347	211662
OI change	0.15%	7.07%
Pivot	185.0	2.54
Resistance	191.1	2.65
Support	181.3	2.48

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	53	0.82
2nd month	144	0.43

WTI-Brent spread$	
1st month	0.52
2nd month	0.47

Laura. Gasoline demand had recovered to 90% of last year's demand numbers by the end of June. However, consumption has been hovering around those levels in July and August, the EIA said, suggesting that demand is struggling to return to pre-pandemic levels. However, Middle distillates inventories at Asia's oil hub Singapore have soared above a nine-year high which is still a major concern for the markets.

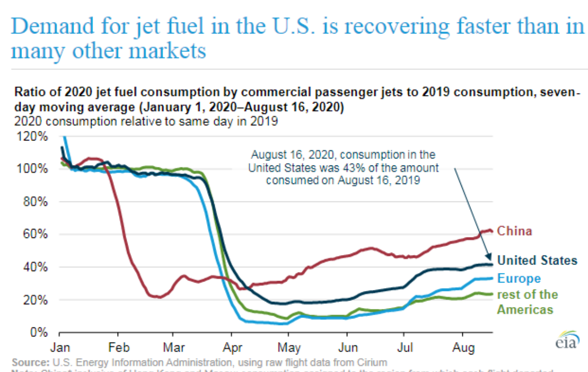
While inventories saw a drawdown in recent weeks, including the world's most visible market, the United States, demand is struggling to recover as much as estimations two months ago. Data Friday from Baker Hughes meanwhile showed that the number of active U.S. rigs drilling for oil rose by 1 to 181 this week, following a decline of 3 rigs last week.

Iraq on the other hand is seeking an exemption from OPEC+ deal curbing oil production during the first quarter of 2021 but will adhere to the cuts over the next three months. Later, he clarified his comments to indicate that he would only ask OPEC to allow Iraq additional time to make up for its earlier over-production.

It seems that despite significant pressure, Iraq is simply unable to comply with its quota restrictions and will continue to a major issue for OPEC when the group's technical committee meets in September. The OPEC club of oil-exporters has revived crude from its historic drop this year, but $40 is still too low. The Covid pandemic and shift toward renewable energy threaten to keep prices depressed.

Demand outlook:

U.S. jet fuel consumption has been particularly affected by responses to the 2019 novel Covid. However, analysis of flight-level data estimates suggests that demand for jet fuel in the United States has, so far, recovered faster than in many other major aviation markets. EIA estimates that as of August 16, 2020, consumption of jet fuel by U.S. commercial passenger flights was approximately 612,000 Bpd, 43% of the estimated amount consumed on the same date one year earlier.



Refinery maintenance in the fall typically leads to reduced demand for crude and profit margins for refiners at the weakest seasonally in about a decade does not provide much incentive for plants to continue to operate. At the end of the first half of 2020 in June, estimates predict that the global oil supply-demand balance would be in a sharp supply deficit in the third and fourth quarters this year.

Still, a number of factors are now testing prices, including the approaching decline in China's crude imports in September and

October which are set to fall for the first time in five months as oil buyers struggle to find room to store record volumes of crude. Chinese refiners have reduced their runs, while floating storage remains around 80MB.The sudden weakening of China crude oil imports will adversely affect purchasing for October-loading barrels and will leave some spot barrels still available and unsold in the market.

Natural Gas:

Natural gas maintained a volatile session and ended the week up sharply after snapping a 3-day skid following a historically bullish weekly injection report of only +35 Bcf, driven by strong power generation demand. The weather in the US is expected to be cooler than normal throughout the midwest generating higher heating demand.

There are two disturbances in the Atlantic that are headed toward Caribbean that have a 20% chance of turning into a tropical cyclone. Temperatures are going to be dropping in the European Union and the United States, to the biggest consumers of natural gas. The closer we get to the $2 level the more interested, it would provide an opportunity to buy once again in buying natural gas as seasonality should come into play.

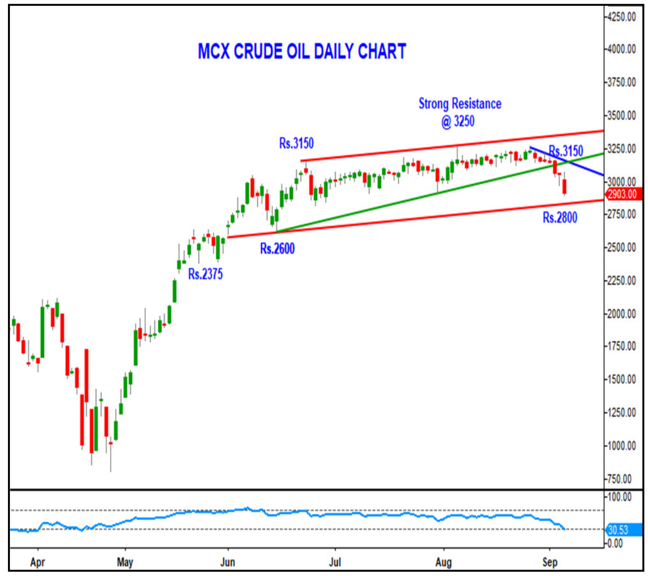
Outlook

Crude market already reflects the market’s view that rebalancing is still some time away. The contango market structure signals concerns about oversupply and describes a situation where the price of oil for future delivery is lower than for the current month. Russia's statement for OPEC+ to react to oil demand recovery by increasing supply looks like he might push for the group to increase production as early as JPMC meet scheduled for September 17. Given the ongoing weakness indicators in the U.S., which is the world's largest oil consumer-, plans to increase production could send oil prices crater if OPEC+ isn’t careful.

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 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



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