MOTILAL OSWAL
Investment Services

Energy
Weekly

Monday, March 22, 2021

Highlights:

- Oil price rally got a halt last week after prices fell by 7%, the worst single-day loss since April 2020
- Markets are now focusing on the fundamental numbers as Jet fuel demand is still a major concern
- India demand seen to be plateauing
- Natural gas prices were lower last week as a less-than-expected storage withdrawal is coupled with moderating temperatures for most of the U.S.
- Market will be keenly watching the OPEC+ meeting next week for any change to its output policy in May, especially after the slide in oil and comments from IEA that supply is plentiful.
- The outlook in oil markets remains clouded by strengthening the US dollar and uncertainty about speedy crude oil demand recovery

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	4321	60.2	63.3
Close	4304	59.24	62.91
1 Week Chg.	-17	-0.96	-0.39
%change	-0.72%	-0.39%	0.77%
OI	2517	30145	263495
OI change	2170	147303	-120058
Pivot	4325	59.37	62.98
Resistance	4369	60.16	63.87
Support	4261	58.46	62.02

Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	221.2	3.067
Close	222	3.07
1 Week Chg.	0.8	0.00
%change	0.36%	0.07%
OI	6309	25607
OI change	17.35%	74.91%
Pivot	223.0	3.07
Resistance	227.3	3.15
Support	217.7	2.99

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	16	-0.18
2nd month	105	-0.40

WTI-Brent spread$	
1st month	-0.77
2nd month	-0.63

Perspective:

After months of successive gains, oil price rally got a halt last week after prices fell by 7%, the worst single-day loss since April 2020, shattering the myth of oil's indestructible rally since October, indicating more downside and higher volatility going forth.

The impact of the rising U.S. dollar following another increase in U.S. Treasury yields pressured the energy complex, after the Federal Reserve rate decision. But the good side to this scenario is lower crude oil prices have eased the inflation fears which were expected in H2 2021.

Reports of countries like Germany, France, Italy and Poland going back to lockdowns is adding to further pressure as a lengthier vaccine campaign in Europe – due to delays and increased hesitancy – could delay the recovery of 1 mb/d of oil demand this year.

Forecasts suggest that global oil demand in 2021 is at 95.2 MBpd but under a slow vaccination scenario, caused by the AstraZeneca debacle and other possible future setbacks; oil demand in 2021 could only average at as low as 94.2 Mbpd. A complete ban of the AstraZeneca vaccine could delay reaching the 50% threshold by two months, but this scenario is a bit extreme.

The extent of the recovery loss will depend on the duration of the delays and consequently on how quickly vaccination campaigns progress. Markets are now focusing on the fundamental numbers as Jet fuel demand is still a major concern for investors as lockdown measures in many countries have bought back concerns about speedy recovery of global demand.

The oncoming U.S. refinery maintenance season that could raise crude stockpiles in the country and the possibility of higher crude production out of Libya and a still-sanctioned Iran could also offset some of the bullish sentiment delivered for months by OPEC+ cuts.

On the supply front, Saudi Arabia's crude exports added to bearish sentiment, as the country increased outflows in January for a seventh straight month to the highest since April 2020. Meanwhile, EIA data shows a rise in US crude inventories by 2.4 Mbpd in a week, where on contrast, a forecast for the same by a separate industry report was a decline by 1 MB.

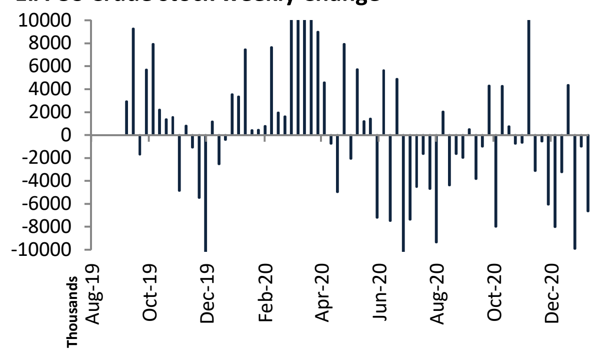
Making the outlook even gloomier, the stocks of gasoline and diesel rose as well defying the expectations to the contrary. The airline industry is still on its knees, however, the increased activity on the roads; yet, an increase in inventories clearly shows that anxieties are palpable despite the collective successes achieved against the pandemic. Refineries continue to bring back capacity after the freezing conditions in Feb.

The Geopolitical premium is taking a backseat as markets are getting attacked at Saudi oil facility near the capital Riyadh by Houthi rebels of Yemen. Reports from Saudi Arabia showed that the attack didn't bring any disruption and the situation was under control; they went on to say that the damage was negligible.

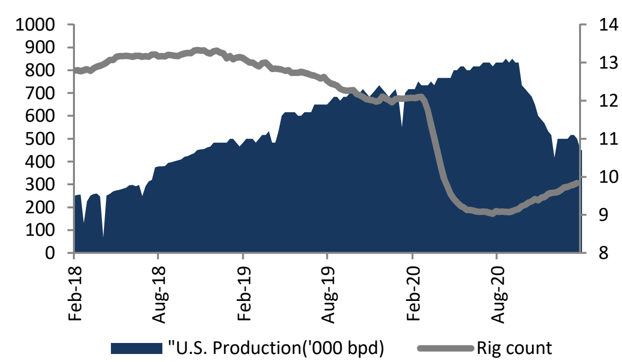
The subdued, short-lived impact on the markets just reflects it. Moreover, on OPEC+ deal. prices got further pressure as there were signs that the other key players of the global crude oil might start their production like the interest shown by companies to reinvesting in Venezuela, the oil boom in Libya and the less-hardened position of Iran lately, when it comes to the Nuclear Deal clearly can create a cushioning effect on the supply side of the crude oil.

Natural gas prices were lower last week as a less-than-expected storage withdrawal is coupled with moderating temperatures for most of the U.S. The EIA's Weekly Natural Gas Storage Report showed a withdrawal

EIA US Crude stock weekly Change

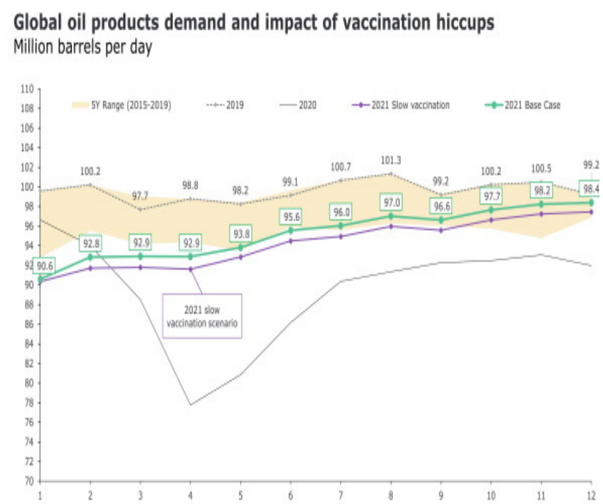


US oil Rig count vs. Production



Reports from CFTC suggest that Net long vs net short positions are at nearly the same level, indicating that optimism about crude oil isn't as strong as what the investors are portraying.

of just 11 billion cubic feet (Bcf) vs. expectations for a drop of 22 Bcf while the five-year average was a draw of 59 Bcf. Total demand last week was 100 Bcfd, down from 103 Bcfd the prior week with residential usage falling the most.

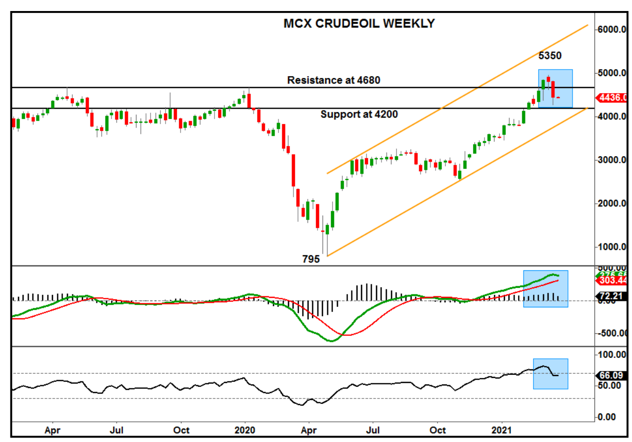


Outlook:

Looking ahead, the increase in US oil stocks, decline in China's oil imports, India's pertinent problem with the current oil price and the latest warning from the US to China over buying Iranian oil can keep pressure on prices. OPEC+ production cuts after April still remains a major uncertainty for the markets on the supply side, especially because increasing crude oil prices will encourage OPEC+ participants to agree to production increases in later meetings or to relax compliance with the existing agreement.

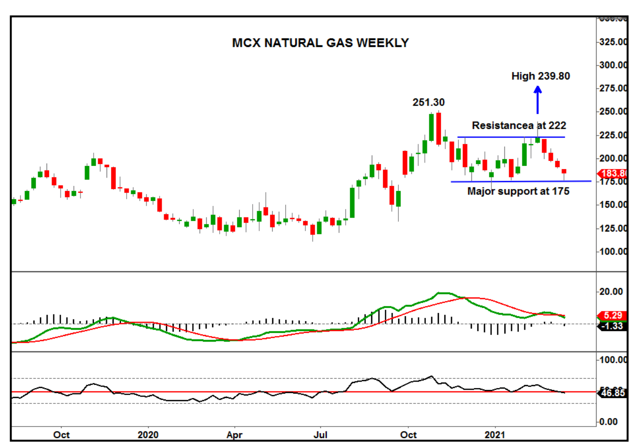
Markets are once again worried about speedy demand recovery as delay in COVID vaccine can be a major problem for the travel industry aka Jet fuel which is struggling for a speedy recovery. The market will be keenly watching the OPEC+ meeting next week for any change to its output policy in May, especially after the slide in oil and comments from the IEA that supply is plentiful. The outlook in oil markets remains clouded by strengthening the US dollar and uncertainty about speedy crude oil demand recovery.

Crude oil:



MCX Crude oil breached below the key support of Rs.4680 and closed the previous week well below the same. The 14-periopd RSI has reversed from its overbought zone and RSI is about to give a give a negative crossover. Previous support Rs.4680 will now act as strong resistance and bias looks weak below the same. However, downside will be limited around Rs.4200 as it will act as support of rising channel. So, selling is recommended as long as price holds below the resistance mark.

Natural Gas:



MCX Natural gas traded with negative bias for the fourth straight week as seen on the weekly chart. The 14-period RSI inched marginally below the mid-level of 50 which indicates weakness and MACD has given a negative crossover. Immediate support is at 175 and price sustained break below the same will confirm further weakness towards Rs.165 – 158 area. Resistance is at Rs.193 – 205 levels. For short-term, selling below support is recommended targeting Rs.158.

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