MOTILAL OSWAL
Investment Services

Energy Weekly

Monday, September 13, 2021

Perspective:

Crude oil markets breathed a sigh of relief and made a strong recovery the previous week amid slow return of the US oil production and refinery operations as more refineries have resumed operations nearly two weeks after Hurricane Ida tore through the region. More than 1Mbpd of U.S. offshore crude production remains shut in after Ida swept through the area nearly two weeks ago. More Louisiana refineries are resuming operations, raising demand for crude oil. The market is now laser focused on the supply situation in the U.S.

Meanwhile, the phone call between President Biden and President Xi of China, after a lull of seven months since the first of that kind was made. China's complete control over the latest outbreaks of the Delta variant cheered the investors as it now expects a significant growth in demand for crude oil from China as the transport sector and traffic slowly return to normalcy.

However, China’s bold but vague declaration to release oil reserves from its massive strategic stockpiles has some traders questioning the lasting impact of such a move by the world’s biggest crude importer. Currently, China has built up a 220 MB reserve of the commodity over the past decade. As the largest importer of crude, China’s purchases are closely watched as an indicator of demand. If it buys more, the price will rise and if it buys less, it will drop.

Chinese customs data shows that Chinese buyers have ramped up imports over the last month, bringing in 10.5mbpd of crude, up 8% month-on-month. With teapot refiners still constrained by unavailable import quotas, state-owned companies did most of the buying. The Asian country’s overall imports also rose, with crude purchases climbing to a five-month high, pointing to a revival in the region’s biggest economy following a recent wave of COVID infections.

For India, the post Delta-recovery in India is taking its time, with total oil demand in August down -6.6% vs August 2019. India is the world's

Crude Oil			
Exchange	**MCX**	**NYMEX-WTI**	**ICE-Brent**
Open	5096	67.97	71.37
Close	5127	69.72	72.92
1 Week Chg.	31	1.75	1.55
%change	1.28%	0.62%	0.43%
OI	5396	242140	263495
OI change	1363	77149	-120058
Pivot	5117	69.12	72.34
Resistance	5148	70.56	73.73
Support	5097	68.28	71.52

Natural Gas		
Exchange	**MCX**	**NYMEX-NG**
Open	368.3	5.002
Close	365.1	4.94
1 Week Chg.	-3.2	-0.06
%change	-0.87%	-1.28%
OI	11652	177779
OI change	24.61%	24.64%
Pivot	367.2	4.97
Resistance	372.9	5.03
Support	359.4	4.88

Front Month Calendar Spread		
Exchange	**MCX**	**NYMEX($)**
1st month	-3	-0.59
2nd month	-74	-0.41

WTI-Brent spread$	
1st month	-0.43
2nd month	-0.47

3rd largest oil consumer, behind the US and China, and ahead of Japan. India has also announced that its SPR will be more active in the market, although its relatively small size compared to China's means any impact may be more muted.

Elsewhere, Disruptions are rising in Libya, where the oil ministry is trying to wrest control of the industry from Mustafa Sanalla, the chair of the National Oil Corp. This could see more than 1.2mb/d disrupted.

Saudi Arabia's drastic cuts to its October 2021 OSPs have sparked fears of a potential slower-than-anticipated demand recovery in Asia as OPEC+ continues to gradually bring part of its idled production back online.

On the supply front, Prices got supported after EIA showed an inventory decline of 1.5 MB, with sizable draws in fuel inventories as well. In gasoline, the EIA reported an inventory draw of 7.2 MB for the period, which compared with a draw of 1.3 Mbpd for the previous week.

Distillates saw a drawdown of 3.1 MB, a larger decline compared to the 1.7 MB draw for the previous week. Robust demand coupled with low inventories will continue to support oil prices through the rest of the year. U.S. driller's added oil and natural gas 7 to 401 rigs for a fifth time in six weeks as offshore oil units in the Gulf of Mexico slowly started to return after Hurricane Ida slammed into the coast.

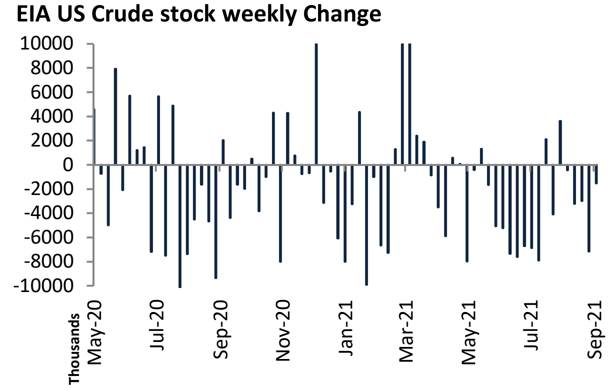
Natural gas skyrocketed, to reach the $5.00 level as traders mulled ongoing production outages in the Gulf of Mexico (GOM), robust domestic demand and intensifying competition for U.S. exports of liquefied natural gas.

On the weather forecast front, there is an increased cooling degree days, adding to already robust demand, which looks as summer-like heat is intensifying. European demand for U.S. exports of LNG has been strong for months as supplies on the continent remain low after bitter conditions last winter and a hot summer. Europe is also competing with Asia for U.S. supplies of the super-chilled fuel, supporting higher prices and export volumes.

Outlook:

Investors seem concerned over the speed of the production recovery in the Gulf of Mexico. These concerns will continue to support prices this week while conditions could improve rapidly next week as long as the weather cooperates, but crude oil is at the peak of hurricane season so anything can happen. In focus this week will be revisions to the oil demand outlook for 2022 from OPEC and the International Energy Agency. OPEC will likely revise down its forecast which will impact the market.

EIA US Crude stock weekly Change



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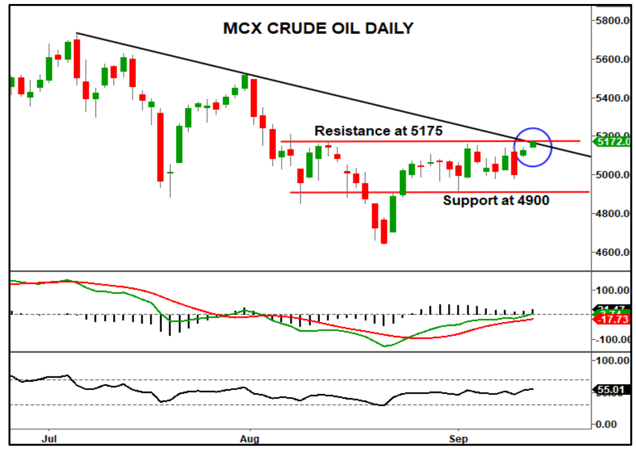
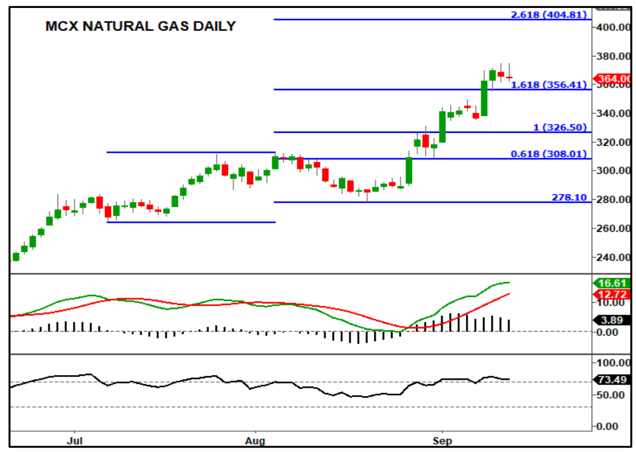
Crude oil:

MCX Crude Oil is trading close to immediate strong resistance at Rs.5175 and price sustained close above the same will confirm further strength in price towards Rs.5300 – 5370 levels. The 14-period RSI sustaining above the mid-level of 50 is indicating further strength in price and MACD above the zero line is confirming the same. Strong supports are placed at Rs.5035 – 4900 levels. So, buying above the resistance is advised for short-term.



Natural Gas:

MCX Natural gas is trading close to the neckline support and sustained trade below the same will confirm further weakness. Also it is sustaining well below the rising trend line which is also confirming weakness. Both the momentum indicators the 14-period RSI and MACD are both indicating further weakness in price. Short-term resistance is capped at Rs.294. So, selling is advised but our bias will negate above Rs.294.



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