Energy Weekly

MOTILAL OSWAL
Investment Services

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Market Commentary

Oil rallied by 10% for the week, ending their downward trajectory that started early September and recorded their biggest weekly gain in three months. The main triggers were the OPEC+ meet where Saudi Arabia's warned OPEC+ cheaters and short-sellers that helped oil prices stage their biggest weekly rally since June accompanied by supply disruptions in the Gulf Coast due to Hurricane Sally. Adding on, the announcement by Chinese policymakers that they would aim to replenish commodity inventories in 2021 is a new bullish catalyst.

Markets overlooked the plenty of bearish monthly reports from IEA and OPEC and emphasized on OPEC+ ability to balance the markets. On U.S.-China trade war front, worries are back in the markets which can keep a lid on gains after China has reported that it has launched a mechanism enabling it to restrict foreign entities, a much-expected move seen as retaliation to US penalties against Chinese companies such as telecom giant Huawei.

It spelled out the factors that could trigger punitive measures, which may include fines, restrictions on import export business or investment in China, and the entry of personnel or equipment into the country. The announcement also came a day after the United States ordered a ban on downloads of popular video app TikTok and effectively blocked the use of the Chinese super-app WeChat on similar grounds, which prompted a threat by China to strike back.

Market sentiment also faced some pressure following the latest Fed meeting, which was the first since Chairman Jerome Powell announced a greater tolerance for inflation. While the FOMC said interest rates could stay anchored to the zero-bound through 2023, Powell kept asset purchases at current levels and sounded some alarm bells. More fiscal support is likely to be needed, he declared, signaling the Fed can't rescue the highly uncertain economy alone and Congress needs to act quickly on another Covid relief package.

On the other hand, in a strange turn of events, The Saudi's hinted

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	3035	40.97	43.22
Close	2993	41.11	43.15
1 Week Chg.	-42	0.14	-0.07
%change	9.11%	10.13%	8.34%
OI	1277	207127	263495
OI change	664	102160	-120058
Pivot	3000	40.97	43.16
Resistance	3035	41.63	43.79
Support	2959	40.44	42.52

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	148.2	1.999
Close	150.5	2.05
1 Week Chg.	2.3	0.05
%change	1.55%	2.45%
OI	12483	143053
OI change	8.41%	32.41%
Pivot	148.3	2.02
Resistance	153.6	2.11
Support	145.2	1.96

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	24	0.50
2nd month	77	0.32

WTI-Brent spread$	
1st month	0.53
2nd month	0.42

they're prepared for new production cuts, and lambasted OPEC+ members that have cheated on production quotas. He urged OPEC and its allies, OPEC+, to do a better job on compliance with the production cuts. OPEC+ also noted that there was the potential for an EGM in October if they feel the market needs more stability. Saudi Arabia's unambiguous comments gave market participants the confidence they can rely on OPEC to keep the taps turned off for a bit longer.

Yet, the enthusiasm meet some oversupply concerns as Libya's oil blockade will officially be lifted for one month and Libya was pumping as much 1.1 Mbpd before a blockade imposed by forces loyal to Haftar. It does remain to be seen how long it will take to ramp up production.

It looks like if prices move markedly lower, the sovereign producers would step in to safeguard their domestic finances. Current prices remain well below the fiscal break-even levels of the vast majority of OPEC+ producers and another extended stay in the $40s/barrel could imperil the political stability of several key petrostates. It looks like OPEC+, at a minimum can put a hold on plans to reduce the cut to 5.8 million barrels a day, which would effectively put an additional 2 Mbpd the market, when the entire group meets again in December.

On a positive note, the spread between WTI's nearest contracts strengthened to its narrowest contango structure in roughly a month. A narrowing contango signals easing concerns of oversupply and it indicates that the owners of crude oil are going to be less likely to stuff barrels into storage.

Monthly Report:

IEA monthly report described a fragile market with pandemic refusing to loosen its grip on economies. It highlighted such unfavorable fundamentals as well as poor refining margins and a continued increase in OECD global oil stocks to record levels. It also pointed to a growing overhang of unsold barrels that triggered a steady fall in prices into September while reports of floating storage also weighed on market sentiment and decreased the likelihood of any short term recovery in demand.

OPEC in its monthly report published Monday, OPEC revised down its outlook for global oil demand to an average of 90.2 Mbpd in 2020. That's down 400,000 bpd from the previous month's estimate and reflects a contraction of 9.5 Mbpd Y-o-Y.

Inventory and Rigs:

On supply side, EIA showed a withdrawal of 4.4Mbpd compared to expectations for a 1.3Mbpd. Yet, the inventories remain above the five year average as demand recovery is stalling. Weighing on sentiments is the lacklustre product demand after EIA showed that distillates registered a sizeable build of 3.5 MB, far outpacing the 600,000 barrels expected. The EIA also reported that crude stocks at the Cushing storage hub edged down by about 100,000 barrels for the week. Total oil production, however, climbed by 900,000 barrels to 10.9 Mbpd last week.

On rigs front, rigs count came in at 179 for the week ending September 18, down from 180 in the previous week. This is the second consecutive week of the number of crude oil rigs falling. This is also the first time in more than a month that the oil rig count was below 180.

Natural Gas:

Natural gas ended the week on negative note after a 9.9% loss seen as U.S. government data revealed a larger than expected weekly rise in domestic supplies of the fuel. National Oceanic and Atmospheric Administration released an update to their three-month temperature outlook, which now predicts above-normal temperatures for the months of October, November, and December. It is the first indication of a possible mild winter, which would be bearish for natural gas prices.

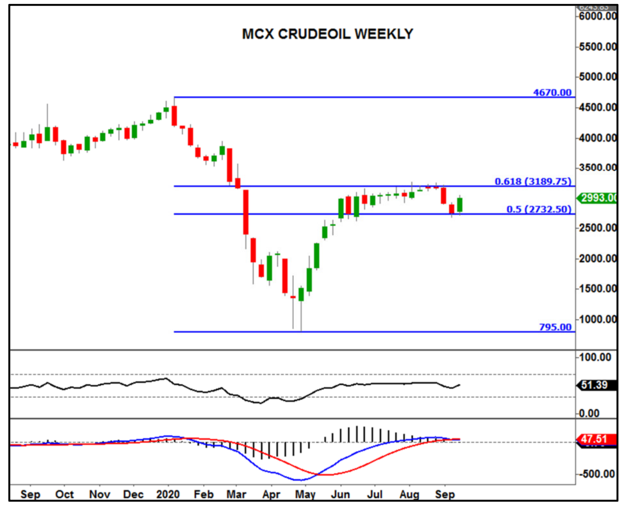
Outlook

Crude market are showing signs of stress as the whole rally was just due to OPEC+ meet enthusiasm and as it fades off, the worries will strike back in the market. The whole impact of Hurricane can be short lived if companies start to see offshore output resumptions soon. Contributing to concerns about the potential for weaker energy demand, the Organization for Economic Cooperation and Development on Wednesday forecast global domestic product will contract 4.5% this year, and rise 5% next year. That compares with a direr picture pained by the OECD in June, when it projected a 6% contraction this year, followed by 5.2% growth in 2021.

But crude may not be out of the woods just yet, with distillate supplies at record highs and refining margins for the fuel deteriorating in the U.S. and Europe. Meanwhile, rising coronavirus infections in Europe raise the specter of a return to tighter restrictions that have crippled consumption.

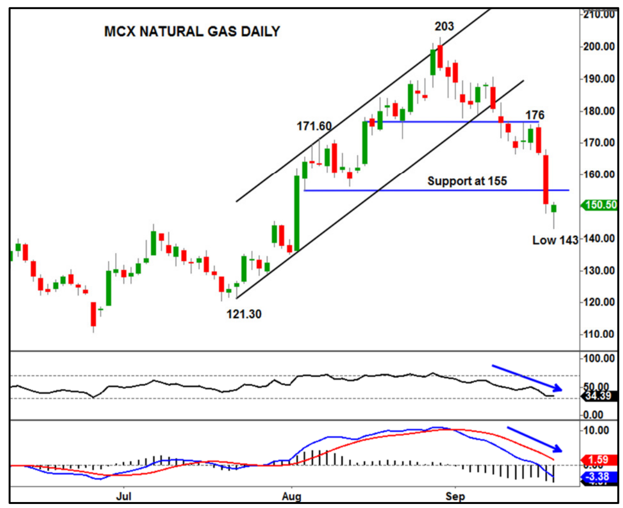
Technical Levels:

Crude Oil



As seen on the weekly chart, MCX Crude oil failed to break below the strong support of Rs.2740 and turned bias positive in the previous week closing at Rs.2993.The 14-period RSI has reversed marginally and MACD is close to zero line. Going ahead strong resistance remains at Rs.3190 – 3220 whereas support is placed at Rs.2740. Major bias for the counter remains weak below resistance and selling on rise is advised. Price sustained break below support will confirm further weakness towards Rs.2500 – 2400 levels.

Natural Gas:



MCX Natural gas continued its weakness in the preceding week and marked a low of Rs.143. However the counter reversed strongly from its low and formed a hammer candle stick formation closing at Rs.150.50. going ahead any reversal on the momentum indicator along with price sustained break above Rs.155 will signify signs of trend reversal and it could test Rs.175 levels. So, buying on sustained trade above resistance is recommended. Recent low Rs.143 will now act as strong support area.

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