MOTILAL OSWAL
Investment Services

# Energy Weekly

Monday, October 12, 2020

**Market Commentary**

Oil ended the week on strong note, with a near double digit weekly gains of 10% all thanks to the supply disruptions propping the market back in the green lane after two weeks in the red. Government showed that nearly 92% of oil production facilities and almost 62% of gas output capability in the U.S. Gulf Coast of Mexico had been shut ahead of Hurricane Delta. Lost in all the news was OPEC's optimism that global oil demand will return to pre-pandemic levels in 2022. OPEC Secretary Barkindo reported that OPEC is going to continue its oil market management and said the worst is over.

The comments came as OPEC unveiled its annual World Oil Outlook. OPEC sees oil use rising to 107.2Mbpd in 2030 from 90.7 Mbpd in 2020. It forecast oil use to jump to 97.7Mbpd next year, reaching 99.8 Mbpd in 2022, above 2019 level and grows to 102.6 Mbpd by 2024. Nonetheless, OPEC still hopes to boost production in coming decades as rival output declines. Elsewhere, Norway bullish supply disruption due to strike seems like it's out of the market with NOC union reportedly reaching an agreement on Friday that had brought output down nearly 25% this week.

On demand front, Government data showed that India's fuel demand in Sept rose for first time since June as easing restrictions supported economic activity and travel, but consumption remained weaker than a year earlier. Consumption of refined fuels, a proxy for oil demand, rose 7.2% in Sept from prior month to 15.47 million tonnes, the first monthly increase since June when demand rose to 16.09 million tonnes. India's daily number of infections has slowed since hitting a single-day high of 97,894 new cases on Sept. 17, a sign that infections were peaking for now. This can be good news for crude as demand recovery is slowly happening.

Fiscal stimulus headlines were all over the place for this week with reports that Treasury Secretary Mnuchin was going to present House Speaker Pelosi with a $1.8 trillion counteroffer. The airlines need support and it seems something will get done to make sure

| Crude Oil | | | |
|---|---|---|---|
| Exchange | MCX | NYMEX-WTI | ICE-Brent |
| Open | 3007 | 41.31 | 43.36 |
| Close | 2960 | 40.60 | 42.85 |
| 1 Week Chg. | -47 | -0.71 | -0.51 |
| %change | 4.34% | 4.86% | 4.69% |
| OI | 926 | 198972 | 263495 |
| OI change | 518 | 146995 | -120058 |
| Pivot | 2980 | 40.82 | 43.01 |
| Resistance | 3012 | 41.25 | 43.41 |
| Support | 2927 | 40.16 | 42.45 |

| Natural Gas | | |
|---|---|---|
| Exchange | MCX | NYMEX-NG |
| Open | 193.9 | 2.632 |
| Close | 201.8 | 2.74 |
| 1 Week Chg. | 7.9 | 0.11 |
| %change | 4.07% | 4.14% |
| OI | 5085 | 185396 |
| OI change | 2.25% | 36.84% |
| Pivot | 199.8 | 2.73 |
| Resistance | 207.1 | 2.84 |
| Support | 194.6 | 2.63 |

| Front Month Calendar Spread | | |
|---|---|---|
| Exchange | MCX | NYMEX($) |
| 1st month | 48 | 0.67 |
| 2nd month | 94 | 0.33 |

| WTI-Brent spread$ | |
|---|---|
| 1st month | 0.47 |
| 2nd month | 0.36 |

that happens. It is unclear if Democrats will accept the latest $1.8 trillion offer, but it seems White House is determined to get something done.

The Democrats will require they get everything they want before handing Trump a big victory right before the election. The failure to get a major stimulus deal through Congress will put more pressure on Powell and the Fed to keep the recovery going. Powell has expressed a willingness to do more if needed, the Fed has already promised to keep rates near zero for a long time, gobbled up trillions of dollars of bonds and even purchased corporate debt for the first time ever.

Meanwhile, COVID cases in the US continue to rise, with 41 states seeing increases and 23 states experiencing a 10% or greater surge with hospitalizations. Europe is not faring any better with COVI. The Spanish government declared a 15-day state of emergency in the capital, after a court overturned the partial lockdown announced at the beginning of the month. European cases are now rising exponentially, and it seems only a matter of time before the rest of Western Europe follows Spain's restrictive measures. Switzerland added German and Italian regions to its quarantine list. At the end, it looks like virus is not going anywhere and that will slow the recovery in the reopening of the economy for the rest of the year.

**Inventories Data:**

The uptick in oil prices came despite data from EIA showing that, due to increased US production and a slowdown in exports, US commercial crude inventories jumped 500,000 barrels to 492.93 Mb. The impact of the crude inventory build was cushioned by indications of improved downstream demand, as the EIA data also showed that, US distillate inventories fell 960,000 barrels to 171.8 MB and US gasoline inventories fell 1.44 Mb to 226.75 Mb, 0.4% lower than the five-year average gasoline inventory.

**Natural Gas:**

Natural gas prices surged to 11-month nearest-futures high on concern about reduced nat-gas output due to Hurricane Delta. Hurricane Delta shut down 62% of U.S. nat-gas production in the Gulf of Mexico. However, LNG exports have declined from 4.6 Bcf/d to 3.5 Bcf/d and part of the reason is the storm path of Delta, which runs straight through two major liquefaction terminals. Demand also looks to be doused by the storm Delta more than offsetting the loss of supply, pushing storage volumes in the Gulf region to near capacity.

U.S nat-gas demand is weak, which is bearish for prices. Total U.S. nat-gas consumption Friday was 60.5 bcf, down -6.4% y/y. Decreased

export demand for U.S. nat-gas supplies is bearish for prices as gas flows to U.S LNG export terminals were 6.9bcf, down 1.4% w/w. With a stronger-than-expected injection reported by the EIA in the South Central region pushing above five-year maximums, the downside risk to demand from Hurricane Delta could reverse the rally seen at Henry Hub in the previous week.

**Outlook**

Crude bull investors need to find a bigger price catalyst in the week ahead to keep up the positive momentum as all the supply disruption are resolved which supported prices for prices. This week's gains are not caused by permanent factors and are only sustainable for a short period of time. Hurricanes that curb production in the U.S. will subside and output will rise again. The next uncertainty for crude oil hangs over the outcome of the November 3 U.S. election where Republican President Trump faces a Democrat candidate Joe Biden.

The best hope for fundamental support arguably lies in output discipline from OPEC+ and it looks like slowing global oil demand outlook this winter would likely prompt OPEC to reverse a planned easing of oil cuts in 2021, with Saudi Arabia offering deeper cuts below its current quota which can exponentially kick out the glut fears. However, a report by S&P Global Platts showed that Russia had not kept strictly to its production quota under the current OPEC+ deal in August, a development that may complicate any fresh deal to extend the current output restraint.

Looking at this, it seems like market will continues to hang around WTI $37 level for this week but a trigger remains, if stimulus bill is passed for this week, markets are can break levels of WTI $41 and move to levels to levels of $44.

**Technical Levels:**

**Crude Oil**

As seen on the weekly chart, MCX Crude oil continued to trade in a sideways range for the fifth straight week and is not indicating any trend direction. The 14-period RSI remains flat around the mid-level of 50 and MACD is also at zero are not signifying any trend direction. Short-term support for the counter remains at Rs.2730 of 50% retracement whereas resistance is at Rs.3190 of 61.8% retracement. Sideways consolidation within the given range is likely to continue and price break on either side of Rs.2730 – 3190 will give further trend direction.

## Natural Gas

MCX Natural gas traded with positive bias in the preceding week but failed to close above the strong resistance of Rs.208 - 210 levels. Short-term support is placed at Rs.150. The 14-period RSI is indicating some strength and MACD is also confirming the same. However, positive move is likely to be confirmed only if price break and sustain above the resistance mark and will lead the rally towards Rs.245. So buying above resistance is recommended.




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