



# Energy Weekly

Monday, October 19, 2020

## Market Commentary

Oil ended the week on modest gain on signs that demand is slowly picking up despite the new wave of COVID cases which casts a shadow for prices to move higher. The news of the week that sent price tumbling was as a second wave of the virus in Europe triggered stronger distancing measures. Mobility data suggests that travel has only recovered to 60% of its pre-pandemic levels in Europe, and it's about to get a new hit as several European countries restrict gatherings again.

Prices however got some support by shrinking U.S. crude stockpiles and signs of improving demand in China and India. There were also concerns about rise in output which could restart after getting distorted by shutdowns forced by Hurricane Delta. Nearly 92% of all oil production in the U.S. Gulf of Mexico was shuttered by Delta.

Meanwhile, markets got some reassurance from OPEC+ that it remains committed to production cuts. OPEC+ seem to have comforted markets that they are leading the oil market to balance. Saudi Arabia and Russia reportedly reiterated their commitment to the OPEC+ production cut agreement. This raised the expectations that the alliance might take further action to either address some of its members under compliance or re-evaluate its plan to boost production again from January.

OPEC+ see a risk of an oil surplus next year if Libya's production revival might complicate the supply side narrative. Libya's output has climbed to around 500,000 Bpd and some forecasts say it could rise to 700,000 b/d or more by year end after the reopening of facilities last month that had been shutdown since January due to a blockade related to the civil war.

## Monthly Report:

EIA remains the most hopeful, despite small downward revision. The EIA estimates world oil consumption at 95.3 Mbbbl/day, up from 93.9

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	2968	40.88	43.1
Close	2995	40.88	42.93
1 Week Chg.	27	0	-0.17
%change	1.18%	0.69%	0.19%
OI	705	55797	263495
OI change	221	142968	-120058
Pivot	2986	40.67	42.80
Resistance	3034	41.26	43.34
Support	2947	40.29	42.40

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	203.2	2.778
Close	206.2	2.77
1 Week Chg.	3	0.00
%change	1.48%	-0.18%
OI	4232	87229
OI change	16.77%	52.93%
Pivot	205.8	2.77
Resistance	209.7	2.86
Support	202.4	2.68

Front Month Calendar Spread		
Exchange	MCX	NYMEX(\$)
1st month	27	0.54
2nd month	11	0.28

WTI-Brent spread\$	
1st month	0.34
2nd month	0.30

Mbbl/day in August. Full-year 2020 demand is expected to average 92.8 Mbbl/day, rising to 99.1 Mbbl/day 2021. Both forecasts were revised slightly lower from the September outlook. IEA strikes a more sour note. While world oil demand rose 3.4 million bbl/day in July (versus June), the IEA warned a second wave of lockdowns will dampen demand growth through the end of this year. The agency left their 2020 demand forecast unchanged at 91.7 Mbbl/day, rising to 97.2 Mbbl/day in 2021.

### **Demand: Finally a hope of revival!**

The Chinese purchase is good news for the oil market rebalancing as resurging cases and new restrictions in many countries point to more slowing oil demand recovery through the rest of the year. China's oil imports in September increased by 2.1% MoM to 11.8 Mbpd, the first monthly rise in three months as cargoes delayed because of port congestion cleared customs last month. Chinese refiners went on a buying spree this spring, taking advantage of the lowest crude oil prices in decades in April to snap up cargoes for delivery in the summer months. Between January and September, China's crude oil imports increased by 12.7% on the year, in the latest positive sign for demand in the world's top oil importer

New refinery start-ups in China are helping to absorb some of the crude oil from the Middle East amid an otherwise depressed market with stalled demand recovery. Large private Chinese refiner Zhejiang Petrochemical has been buying millions of barrels of crude from the United Arab Emirates, Qatar, and Iraq in recent days, for delivery in December and January. Rongsheng Petrochemical, the trading arm of Zhejiang Petrochemical, has bought at least 7MB of UAE's Upper Zakum crude and Qatar's al-Shaheen crude in a tender this week.

### **Inventory, Rig Data:**

Crude bounced after weekly data from EIA showing a larger larger-than-expected fall in U.S. crude supplies as inventories have fallen in all but two of last 12 weeks, and last week's declines were considerably sharper than expected. Gasoline inventories declines and a much larger than expected drop in distillate stocks was a major support for markets. U.S. crude stockpiles tumbled 3.8MB with distillates inventories plunging by 7.2MB. It looks like markets are not worrying for global inventory glut which ballooned in the second quarter as fuel demand collapsed, are currently falling at a clip of around 3 Mbpd. US output averaged 11.2 Mbbl/day in Sept, up from a 2½ year low of 10 Mbbl/day in May. U.S. energy firms this week added the most oil and natural gas rigs by 13 to 282 for this week, highest

since January as higher oil prices holding around \$40 encouraged some energy firms to start drilling again.

### **Natural Gas:**

Natural gas saw a choppy week with prices opening gap higher on at beginning in reaction to the damage to platforms from Hurricane Delta but saw prices retreating as the hope by traders for a prolonged production shutdowns wasn't the case. EIA reported inventories rising by 46 Bcf. Total stocks now stand at 3.877 Tcf, up 388 Bcf from a year ago, and 353 Bcf above the five-year average. With the near-term gas-weighted degree day outlook trending lower over the weekend, daily production topping 89BCF/d, & LNG exports stalling out under 8 BCF/d, natgas is likely looking at a bearish opening seen tomorrow.

The direction of the market this week is likely to be determined by weather and LNG export demand. If both come in on the high side then look for prices to rally as this news would help alleviate some of the concerns over storage containment.

Another price driver will be the forecast for October 28 – November 1. If the forecasts call for cold temperatures at this time and beyond then look for prices to pop higher. If the forecasts continue to conflict, then look for a sideways to lower trade.

### **Outlook**

Crude bull investors got some bright spots but the outlook remains challenged in terms of speedy recovery in crude oil and the resurgence of COVID cases and further lockdown measures. All eyes are now on a second wave of lockdowns being imposed in parts of the world, particularly in the US, UK, India, and Europe, where product consumption is still well below pre-pandemic levels.

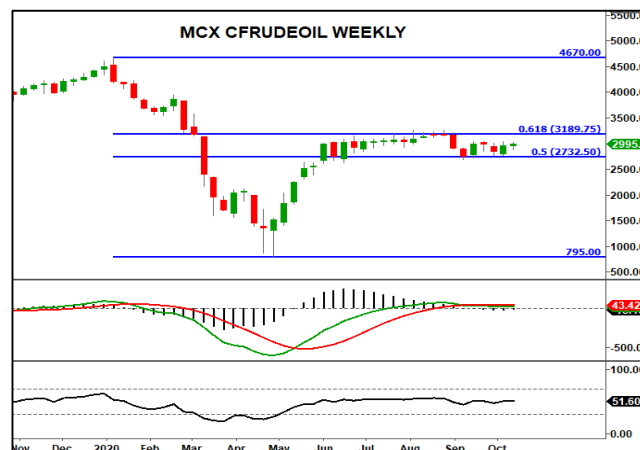
The Joint OPEC-Non-OPEC Ministerial Monitoring Committee (JMMC) which monitors compliance with production cuts, is scheduled to meet on Monday. Markets are expecting some strong words on compensating for under compliance by some oil producers and it's a wait and watch scenario as to if there will be any action against the laggards this time or if the bashing will stay at a verbal level. Risk remains as if these hopes of extending production cut goes futile, then prices may be in danger again next week after the OPEC+ meeting, pushing prices to touch levels of \$36-37. However, if OPEC+ shows a strong need for compliance and brings a balance in the market, markets can break levels of WTI \$41 and move to levels of \$44.

### **Technical Levels:**

#### **Crude Oil**

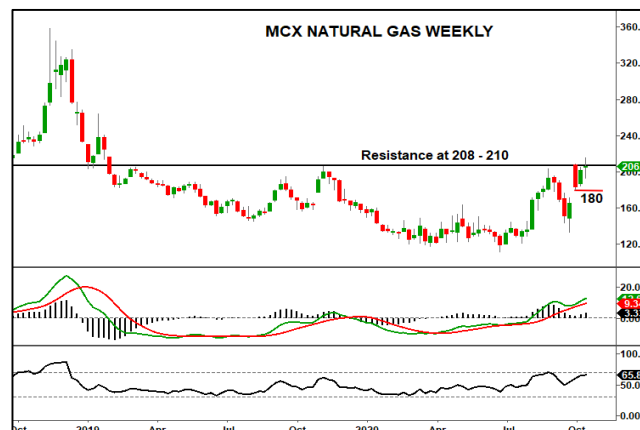
## Crude oil:

As seen on the weekly chart, MCX Crude oil continued to trade in a sideways range for the sixth 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.180. 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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