MOTILAL OSWAL
Investment Services

Energy Weekly

Monday, December 21, 2020

Market Commentary

Oil prices settled up for a seventh straight week, the longest winning streak in 20 months, as bets for economic recovery in 2021 were turbocharged by expectations that a new stimulus relief plan despite surging cases in parts of the US and Europe. Meanwhile, a 3.1 Mbbl drop in US crude inventories this week and the addition of only 500,000 bpd of OPEC+ supply during January was also lending some support to the supply/demand balance.

Talks on a relief package have made some headway, with Senate Majority Leader Mitch McConnell saying he's even more optimistic now that an agreement is near. Recent progress in rolling out a Covid-19 vaccine has also buoyed the outlook for consumption.

Concerns over a new highly infectious strain of COVID called B.1.1.7. raised fears of tightening lockdown and travel restrictions. The strain emerged in UK, with the country enacting tougher restrictions to cope with new strain, sapping oil demand. Meanwhile, there was more evidence that U.S. recovery from the pandemic recession was faltering as data showed the number of U.S. filing first-time claims for jobless benefits unexpectedly rose last week.

Underlying the climb in headline crude prices, premiums on nearer-dated contracts relative to later ones are indicating improving demand. The bullish backwardation has strengthened at the back end of oil's forward curve. WTI nearest Dec contract trades more than a $1 a barrel higher than that for December 2022, compared to trading at a discount less than a month before.

EIA's weekly report showed that crude oil inventories dropped by 3.14MMbbls over the last week, higher than the 1.16MMbbls of inventory withdrawal that the market was expecting, according to a Bloomberg survey. The draw was mainly driven by the decline in net imports of crude oil into the country. Crude oil imports dropped by 1.06MMbbls/d over the week whilst exports recovered by 0.79MMbbls/d resulting in net imports falling by 1.85MMbbls/d over the week. Domestic crude oil production also softened by

Crude Oil			
Exchange	MCX	NYMEX-WTI	ICE-Brent
Open	3556	48.43	51.43
Close	3596	49.10	52.26
1 Week Chg.	40	0.67	0.83
%change	4.57%	5.43%	4.58%
OI	175	21671	263495
OI change	1346	191214	-120058
Pivot	3580	48.83	51.96
Resistance	3632	49.55	52.78
Support	3545	48.37	51.43

Natural Gas		
Exchange	MCX	NYMEX-NG
Open	195.8	2.658
Close	197.8	2.70
1 Week Chg.	2	0.04
%change	1.02%	1.58%
OI	8016	63158
OI change	0.23%	50.38%
Pivot	197.7	2.69
Resistance	200.4	2.73
Support	195.2	2.66

Front Month Calendar Spread		
Exchange	MCX	NYMEX($)
1st month	22	0.24
2nd month	-28	0.06

WTI-Brent spread$	
1st month	0.00
2nd month	-0.01

100Mbbls/d over the week to 11MMbbls/d, the first drop since late October and helping to tighten local oil supplies.

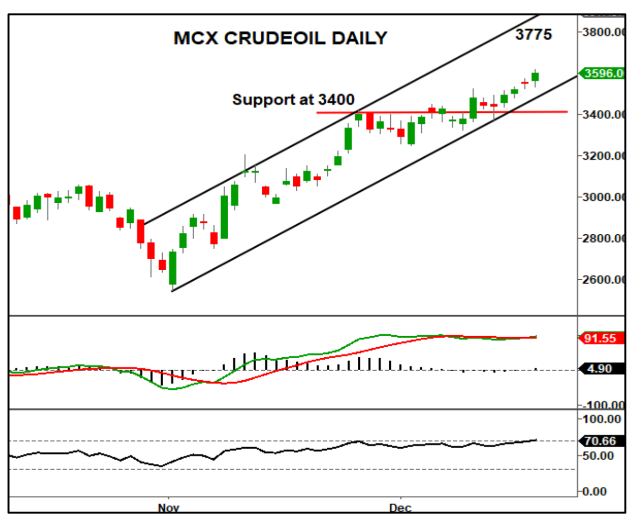
Turning to refined products and US gasoline inventory increased by 1MMbbls over the last week, the fifth consecutive week of inventory build-up despite some improvement in gasoline demand. Gasoline demand was up 375Mbbls/d over the week to 7.98MMbbls/d, while distillate inventory was largely flat and increased marginally by 0.2MMbbls to 151.3MMbbls. Refinery operating rates in the US dropped by 0.8% over the week to 79.1%. The oil and gas rig count, an early indicator of future output, rose by eight to 346 in the week to Dec. 18, the highest since May, energy services firm Baker Hughes

Natural Gas:

Natural gas finished higher amid increasing LNG demand and a bullish EIA report. Helping to generate a small spike to the upside during the session were forecasts calling for freezing temperatures. The catalyst driving the price action was the passing of a major snowstorm that hit the Northeast early in the week, but dissipated by Friday. Demand rises, reaching a daily high for the heating season. According to data from The EIA total U.S. consumption of natural gas rose by 0.4% compared with the previous report week. On December 16, total demand reached a daily high of 124.8 Bcf/d, the highest level for this heating season. Natural gas consumption in the residential and commercial sectors increased by 3.9% and power generation consumption declined by 4.4% week over week.

Outlook

Crude gains still look questionable as spreading virus and lockdowns are weighing on demand, but the hit is much smaller than earlier in the year and is likely only a speed bump to rebalancing the market. This will leave the oil market range-bound and choppy in coming weeks as vaccine enthusiasm is followed by headlines on tighten pandemic restrictions. Next week is going to be a bit irrelevant, and due to a major lack of liquidity is Christmas is at the end of the week. Although optimism is certainly justified as the vaccine has removed uncertainty for the market in the mid-term, the short-term crude demand remains lower with winter fast-approaching and govt. warn of a third wave of cases in the northern hemisphere, while we are still handling the consequences of the second-wave. The upside looks limited and correction looks possible as sentiments have gone farfetched without any fundamental support.

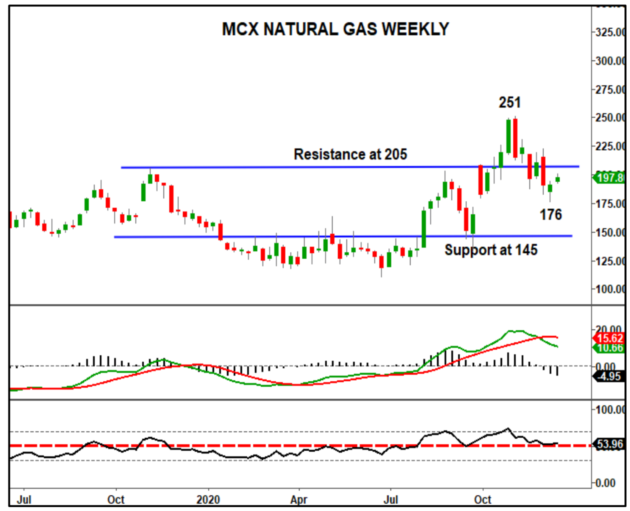


Crude oil:

MCX Crude oil traded with positive bias for the sixth straight week and is not signifying any trend reversal as of now. The 14-period RIS has reversed from its overbought zone but still above the mid-level of 50 and MACD is also above the zero line which indicates strength inprice. Short-term support is at As recommended, MCX Crude oil traded with positive bias in the preceding week and is likely continue the same in the upcoming trading session. The 14-period RSI is at overbought zone but not indicating any trend reversal as of now and MACD is also confirming strength in price for the medium term. Immediate support for the counter is at Rs.3520 whereas short-term support is at Rs.3400 area. Dip buying is advised targeting Rs.3750 – 3775 area. Trend reversal will turn only if price break and sustains below support.

Natural Gas:

MCX Natural gas continued its strength for the second straight week and is likely to continue the same in the upcoming trading sessions. The 14-period RSI is also sustaining well above the mid-level of 50 which indicates strength in price. Strong support is at Rs.176 and bias remains positive above the same. Price sustained break above the recent high of Rs.205 will lead the rally towards Rs.240 – 251 levels. So, dip buying is recommended for short-term.



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